



Equity Group FY20 Earnings Note

Equity Group's FY20 PAT fell 11.6% y/y to KES 19.8B driven by a 402.2% y/y surge in loan loss provisions to KES 26.2B and a 18.1% y/y growth in operating expenses to KES 46.0B. For the second year in a row, in a bid to improve the group's capital buffers, the board of directors do not recommend payment of a dividend.

KES IT Balance Sheet

The group's total assets grew 50.7% y/y to KES 1.0T with the acquisition of Banque Commercial Du Congo (BCDC) bank in Congo for KES 10.3B in FY20. The merger of BCDC and Equity Bank Congo (EBC) saw Equity become the second largest bank in Congo with an asset base of USD 2.1B. The banking business in Congo comprises of lending to corporates and personal consumer lending on an 50-50 basis. Equity is looking to grow business by leveraging on its strength in lending to SMEs who form part of the mining and trade business in the country while expanding its reach to the corporates.

Asset book quality deteriorates, NPL ratio worsens to 12.4%

A general slowdown in business activity occasioned by the prevailing pandemic has seen a rise in the risk profile of customers. Despite the gradual reopening of the economy, cash in circulation has been slow reflecting a fall in household income hence reduced consumer demand. Fueled by this, loan loss provisions galloped 402.2% y/y to KES 26.6B in line with a 63.7% y/y rise in gross NPLs to KES 59.4B. Cost of risk rose to 6.1% higher than our estimate of 3.2%.

Reduced Net Interest Margin (NIM)

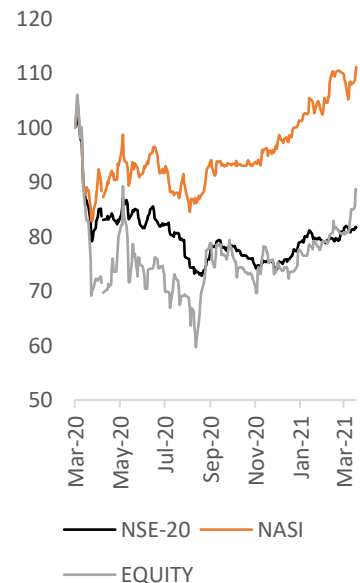
NIM reduced 100 bps y/y to 7.2% driven by a decline in yields on interest earning assets to 10.0% with decline on yield on government securities driven by increased liquidity on slowed lending occasioned by the pandemic causing supply by banks to outweigh demand by government. Despite the repeal of the rate cap, yield on loans remained low with CBK yet to approve pricing models by banks.

Outlook

The Group's FY20 performance was in line with expectation of a drop in earnings due to loan provisioning given the group's high exposure to the SME sector. We laud the strong growth in the balance sheet to KES 1T especially with the stability in cost of funds. The onset of the third wave of the pandemic continues to raise uncertainty with containment measures expected to see the tough business environment persist which may further expose the groups book.

DATE:	29 th March 2021
Target Price:	KES 41.82
Current Price:	KES 41.00
Upside:	2.0%
52 Week Low:	KES 28.00
52 Week High:	KES 55.50

EQUITY VS INDICES



Source: AIB-AXYS Research

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Financial Statements

	FY19	FY20	chg y/y
Income Statement	KES M	KES M	
Interest Income	59,723	73,765	23.5%
Interest Expense	14,740	18,616	26.3%
Net Interest Income	44,982	55,149	22.6%
Non Interest Income	30,780	38,508	25.1%
Total Operating Income	75,762	93,657	23.6%
Total Operating Expenses	38,982	46,033	18.1%
Loan Loss Provision Expense	5,303	26,631	402.2%
Operating Profit	36,780	47,624	29.5%
Profit Before Tax	31,477	22,170	-29.6%
Current Tax	8,917	2,070	-76.8%
Profit After Tax	22,386	19,789	-11.6%
EPS (KES)	5.93	5.24	-11.6%

Balance Sheet			
Total Shareholders' Equity	111,777	138,641	24.0%
Customer Deposits	482,742	740,801	53.5%
Total Liabilities	561,906	876,453	56.0%
Total Equity and Liabilities	673,683	1,015,093	50.7%
Government and Other Securities	172,208	217,408	26.2%
Net Loans and Advances	366,440	477,847	30.4%
Total Assets	673,683	1,015,093	50.7%

Key Ratios			
Gross NPL (KES M)	36,274	59,393	63.7%
GrossNPL Ratio	9.9%	12.4%	
Cost of Risk	1.3%	6.1%	
Loan to Deposits	75.9%	64.5%	
Yield on Interest Earning Assets	11.0%	10.0%	
Cost of Funds	2.8%	2.8%	
NIM	8.2%	7.2%	
Non Funded/Total Income	40.6%	41.1%	
Cost to Income Ratio	51.5%	49.2%	
ROE	20.0%	14.3%	
ROA	3.3%	1.9%	
Core Capital/TRWA	18.2%	14.8%	
Total Capital/TRWA	21.7%	19.0%	
Liquidity Ratio	52.1%	59.3%	
P/E (x)		7.8	
P/B (x)		1.1	

Source: AIB-AXYS Research, company fillings

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