

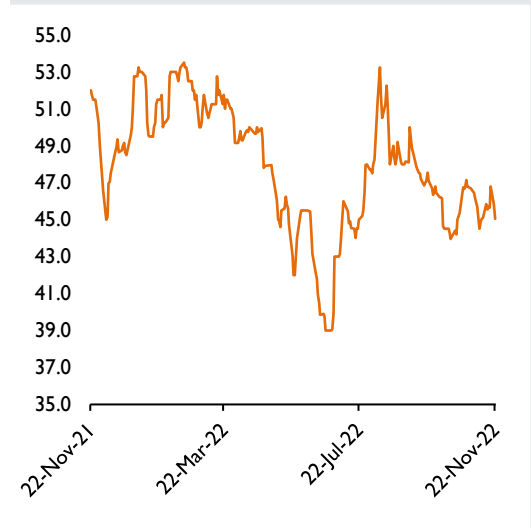


Company details

Bloomberg Ticker	EQTY:KN
NSE Code:	EQT
Issued Shares (Bn)	3.77
Market Cap (Bn)	172.83
52-week high:	53.50
52-week Low	39:00

As at 22nd November 2022

Price chart – Last 12 Months



AIB-AXYS Research, NSE

Historical Price Performance

	1m	3m	6m	12m
Absolute	-0.66%	-8.06%	0.78%	-13.37%

AIB-AXYS Research, NSE

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Equity Group Earnings Note		
Recomm: BUY	Current Price: KES 45.05	Target Price: KES 62.12

Summary

- Equity Group released their Q3'22 earnings results where PAT and EPS were above our expectations** by edging up 26.62% y/y and 26.65% to KES 33.35Bn and KES 8.84 respectively. Bottom-line growth was driven by a 23.43% increase in net interest income and a 32.04% growth in non-interest income outpacing an 87.94% growth in impairment provisioning and a 31.72% growth in operating expenses. Trailing ROaE & ROaA improved to 29.98% & 3.73% respectively in 3Q22. Factoring in the growth from previous quarters, we foresee the lender closing the year with a PAT of between KES 45.00 -48.00 Bn.
- Loan book grew 20.55% y/y to KES 673.91Bn faster than the 15.51% growth in customer deposits y/y to KES 1.01T.** Subsequently, the loan to deposit ratio shifted to 66.90%. Allocation to government securities increased 57.15% to KES 366.45Bn in 3Q22 vis-à-vis KES 233.192Bn recorded in the same period a year earlier.
- Rising yield curve continues to weigh down on the bottom line** as the Fair value loss as a percentage of government securities shot up to 12.28% from a minimal 0.90% in Q3'21. The lender remains largely exposed to Kenya Eurobonds whose yields have risen in 2022 largely driven by increased risk perception by foreign investors on the back of just concluded elections and a negative outlook on emerging and frontier markets. However, we expect a correction in the long run as the lender's concentration is in the 2032 and above papers.

Key Highlights

- Non-Funded Income grows faster than Net Interest Income:** Non-Funded Income grew 32.04% y/y to 42.22Bn against a 23.43% y/y driven by a 28.59% y/y increased income from fees and commissions on loans and advances. The ongoing dollar shortfall on the forex market has created market inefficiencies for the lenders, as seen by the growth of forex trading income of 57.48% year over year. Net interest income grew 23.43% to 59.84Bn taking the revenue mix to 59:41 for NII:NFI from 58:42 in Q3'21. Yield on assets increased to 10.14% as income from government papers grew faster than interest-earning assets. Subsequently, margins remained upbeat as Net interest margin (NIM) increased to 6.14% q/q to 7.29% after Cost of funds rose to 2.93%.
- Staff costs weighs down on efficiency:** The Cost to Income ratio improved 98bps y/y to 47.11% mainly attributed to faster-operating income growth (+26.85% y/y) compared to a 10.22% y/y increase in staff costs to 17.34Bn. Against the industry trend, Loan loss provisions grew 87.94% y/y to KES 9.66 Bn indicating increased lending risk.
- Asset quality still a concern:** Gross NPLs increased 20.78% y/y to KES 67.86Bn which was in tandem with the loan book leading the NPL ratio to maintain at 9.47% below the latest industry average of 14.20%. NPL coverage further improved by 234bps to 62.95% from 60.61% in Q3'21. We expect the loan collection efforts coupled with the implementation of the risk-based lending model to continue boosting asset quality. However, the prevailing tough economic operating environment, more so in the Kenyan market will weigh down on loan book performance.

Valuation - At the Current Market Price, the stock is trading at 4.14x P/E above the industry median of 3.60x and a P/TB multiple of 1.22x. The growth in non-funded income, increased subsidiary contribution and increased interest income from government securities all attributed to the bank's performance. We expect the bank's performance to be driven further by the increased use of digital channels coupled with the sustained growth in Equity BCDC of DR Congo. However, Deteriorating local & global macroeconomic conditions, currency depreciation & the lack of an interim dividend is likely to provide minimal upside potential. Nevertheless, we maintain a **BUY** recommendation with a revised price target of **KES 62.12**

Financial Statement Summary

I. Statement of Profit and Loss

	FY18	FY19	FY20	Q3'21	FY21	Q3'22	Y/Y Change (%)
Net Interest Income	41,422.19	44,982.36	19,351.66	48,484.58	68,810.97	59,843.76	23.43%
Net non-Interest Income	25,861.37	30,780.05	38,508.08	31,974.59	44,575.42	42,220.12	32.04%
Total Operating income	67,283.56	75,762.41	93,656.87	80,459.17	113,386.39	102,063.89	26.85%
Provision for Impairment	(3,713.52)	(5,302.57)	(26,631.27)	(5,140.13)	(5,844.71)	(9,660.50)	87.94%
Total Operating expenses	(38,820.61)	(44,284.98)	(72,664.47)	(43,834.66)	(61,505.37)	(57,738.91)	31.72%
Profit before tax	28,462.95	31,477.43	22,169.79	36,624.51	51,881.02	44,324.98	21.03%
Profit after tax	19,823.93	22,385.98	19,789.40	26,339.73	40,968.80	33,350.90	26.62%
Core EPS	5.25	5.98	5.24	6.98	10.86	8.84	26.65%

2. Statement of Financial Position

	FY18	FY19	FY20	Q3'21	FY21	Q3'22	Y/Y Change (%)
Government Securities	130,436.25	138,572.96	217,407.89	233,192.76	394,341.75	366,454.88	57.15%
Loans and Advances	297,226.92	366,440.46	477,847.19	559,012.96	587,775.07	673,913.40	20.55%
Total Assets	573,384.73	673,682.54	1,015,093.32	1,184,271.60	1,304,913.82	1,363,747.50	15.15%
Customer Deposits	422,758.49	482,752.13	740,800.78	875,113.45	958,977.00	1,007,337.88	15.11%
Total Liabilities	478,427.01	561,905.88	876,452.52	1,020,934.07	1,128,722.45	1,209,671.28	18.49%
Shareholder's Funds	94,957.73	111,776.67	138,640.80	163,337.53	176,191.37	154,076.22	-5.67%

3. Key Metrics

	Q1'21	Q2'21	Q3'21	FY'21	Q1'22	Q2'22	Q3'22
Growth Metrics (y/y)							
Loan book Growth	28.62%	28.91%	23.16%	23.00%	27.85%	28.86%	20.55%
Customer Deposits Growth	58.20%	50.71%	26.64%	29.45%	14.05%	18.45%	15.11%
PAT Growth	63.83%	97.67%	78.65%	99.37%	35.98%	36.16%	27.91%
Spreads Analysis							
Yield on Assets	10.26%	9.61%	9.64%	9.30%	9.88%	9.53%	10.14%
Cost of Funds	2.83%	2.89%	2.80%	2.65%	2.84%	2.83%	2.93%
Net Interest Margin	7.62%	7.08%	6.99%	6.78%	7.20%	6.92%	7.29%
ROaE	18.86%	20.89%	21.72%	25.99%	28.05%	30.48%	29.98%
ROaA	2.67%	3.10%	3.01%	3.45%	3.70%	3.80%	3.73%
Profit Margin	33.97%	34.56%	33.40%	35.34%	37.94%	37.21%	33.68%
Operating Efficiency							
Cost of Income Less LLP	49.48%	48.49%	48.09%	49.09%	45.34%	46.68%	47.11%
Cost of Assets	1.44%	2.70%	3.65%	4.80%	1.21%	2.50%	3.77%
Loan to Deposit	61.74%	61.59%	63.88%	61.29%	69.21%	67.00%	66.90%
Asset Quality							
NPL	12.14%	11.43%	9.47%	8.62%	8.96%	8.85%	9.47%
NPL Coverage	55.50%	63.16%	60.61%	68.73%	66.03%	64.07%	62.95%
Cost of Risk	4.94%	5.61%	6.39%	5.15%	5.78%	6.23%	9.47%
Capital Adequacy							
Core Capital/TRWA	14.20%	14.00%	13.50%	12.90%	13.90%	15.50%	16.10%
Total Capital /TRWA	18.00%	17.50%	16.80%	17.70%	18.70%	20.20%	20.70%
Liquidity	51.60%	55.70%	59.30%	63.40%	56.90%	53.20%	51.80%



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