

## Equity Group Plc. Earnings Update

Equity Bank announced a 10% increase in PBT which was slightly above our 9% forecast. This is mainly due to a 17% and 16% growth in their loan and deposit books which were above our forecast of a 15% and 13% growth respectively. We maintain our **BUY** recommendation with a target price of KES 46.7.

- Profit after tax (PAT) was up 9% to 12Bn from 11Bn registered previously. This was attributed to 9% rise in the interest income to KES 28 billion from KES 25 billion and 25% increase in Non funded income to KES 17 billion from KES 13 billion.
- Non-funded income grew faster than we had anticipated recording a 25% growth versus our forecast of 18%. The growth in non-funded income was mainly driven by an 80% growth in other income. Despite a 17% surge in the customer loans and advances (L&A) commissions on L&A were down 1% indicating that the group significantly reduced its commissions.
- The Net interest income was up 8% to KES 21 billion from KES 20 billion. As we had expected, the bank reduced its holdings of government securities due to the decline in yields. The shift to the private sector fueled the growth in interest income. Meanwhile, its interest expense was up 14% as the bank sought to grow its deposits. The cost of deposits remained increased to 2.7% in 2Q19 from 2.6% in 1Q19, this is in line with our outlook and is a trend that we expect to continue as depositors demand higher returns.
- The loan loss provision rose 16% to KES 0.92 million from KES 0.78 million. This is with the gross non performing loans rising by 20% to KES 29 million from KES 24 million recorded previously.

**Date: 2<sup>nd</sup> August 2019**

Target Price: **KES 46.69**

52 week range: KES 31.00 to KES 57.00

Latest Results: 2Q2019, KES 12Bn



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| <b>Income Statement 'KES Billions'</b>   | <b>Jun-18</b> | <b>Jun-19</b> | <b>% Change</b> |
|--|---------------|---------------|-----------------|
| Interest income                          | 25.35         | 28.68         | 13%             |
| interest expense                         | 5.77          | 6.60          | 14%             |
| <b>Net interest income</b>               | <b>19.58</b>  | <b>21.08</b>  | <b>8%</b>       |
| Fees and commissions on loans & advances | 2.78          | 2.75          | -1%             |
| Other fee & commissions                  | 6.27          | 7.28          | 16%             |
| Forex                                    | 1.55          | 1.86          | 20%             |
| Dividend Income                          | -             | -             | 0%              |
| Other Income                             | 2.58          | 4.65          | 80%             |
| <b>Non-funded income</b>                 | <b>13.17</b>  | <b>16.54</b>  | <b>26%</b>      |
| Total operating income                   | 32.76         | 37.62         | 15%             |
| Loan Loss provision                      | 0.79          | 0.91          | 15%             |
| Staff Costs                              | 5.22          | 5.95          | 14%             |
| Directors Emoluments                     | 0.04          | 0.10          | 150%            |
| Rental Charges                           | 1.26          | 1.36          | 8%              |
| Depreciation on PPE                      | 1.64          | 1.57          | -4%             |
| Armotization Charges                     | 0.57          | 0.66          | 16%             |
| Other operating expenses                 | 7.75          | 10.07         | 30%             |
| Operating expenses                       | 17.28         | 20.63         | 19%             |
| <b>Profit Before tax</b>                 | <b>15.47</b>  | <b>16.99</b>  | <b>10%</b>      |
| Taxation                                 | 4.46          | 4.98          | 12%             |
| <b>Profit After tax</b>                  | <b>11.01</b>  | <b>12.01</b>  | <b>9%</b>       |
| EPS                                      | 2.9           | 3.18          | 10%             |

| <b>Balance sheet 'KES Billions'</b>  | <b>Jun-18</b> | <b>Jun-19</b> | <b>% Change</b> |
|--------------------------------------|---------------|---------------|-----------------|
| Cash & balance with CBK              | 39.78         | 45.52         | 14%             |
| Government securities (HTM)          | 20.48         | 20.19         | -1%             |
| Loans and advances to customers(net) | 275.04        | 320.89        | 17%             |
| Property and equipment               | 10.49         | 10.17         | -3%             |
| <b>Total assets</b>                  | <b>542.02</b> | <b>638.66</b> | <b>18%</b>      |
| Deposits due to other banks          | 3.51          | 4.46          | 27%             |
| Customer deposits                    | 393.69        | 458.6         | 16%             |
| Borrowings                           | 49.14         | 51.42         | 5%              |
| Other Liabilities                    | 8.55          | 20.47         | 139%            |
| <b>Total liabilities</b>             | <b>455.7</b>  | <b>535.92</b> | <b>18%</b>      |
| Shareholders' funds                  | 86.31         | 102.74        | 19%             |

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