

Recommendation:

HOLD

Price Target: **KES 54.40**

Price on 17th March 2018:
KES 50.00

Potential Upside/Downside:
8.80% 

52-week Trading Range:
KES 31.00 to KES 57.00

EPS:
KES 1.55

P/E
32.26x

P/B
2.30x

ROaE
27.0%

ROaA
4.5%

Dividend Yield:
3.8%

Market cap:
KES 188.7Bn

Estimated Free float:
70.8%

Shares Outstanding:
3,773.6 Million

Latest Full Year Results:
Quarter 1 2018

Analyst

Willis Nalwenge

+254711047133

nalwenge@aibcapital.com

Equity Group Holdings Plc

The transformation from a place you go to; to something you do

Equity Group Holdings have just published their Q1 2018 (Q1-18) results posting a **20.67% growth** in Profit Before Tax (PBT) to **KES 8.33Bn** compared to **KES 6.90Bn** in Q1-17, attributable to the improving macroeconomic environment and growth of capital inflows from tourism and diaspora remittances. The Q1-18 Profit after Tax (PAT) came in at **KES 5.90Bn**, an upswing of **KES 1.05Bn** from the **KES 4.85Bn** penned in Q1 2017. Subsequently, the twelve-month trailing Earnings Per Share (EPS) grew by **23.4%** (YoY) to **KES 5.27** in Q1-18 compared to the twelve months trailing **KES 4.27** achieved in Q1-17.

Quarter 1 Financials: The regional lender oversaw a **7.24%** growth in Total Assets in Q1-18 to **KES 527.78Bn** from the **KES 492.15Bn** noted in Q1-17. The growth was partially driven by the management's focus on Treasury Income that resulted in **32.92%** (YoY) increase in investment in government securities. This was financed by the **10.04%** growth in the group's Q1-18 customer deposit from the **KES 347.51Bn** in Q1-17 to **KES 382.42Bn**. Shareholders' funds also firmed up **3.38%** from **KES 79.44Bn** in Q1-17 to **KES 82.12Bn** in Q1-18 boosted by retained earnings growth. Equity group's regional deposits and regional Loan Book mix is still heavily concentrated in Kenya despite double-digit growth in deposits in Equity's other subsidiaries. The Kenyan subsidiary (EBKL) saw a **5%** increase in deposits stand at **KES 301.60Bn** in Q1-18, to form **78.87%** of the group's customer deposits. The Ugandan subsidiary (EBUL), however, experienced the largest growth in Deposits which increased by **52%** in Q1-18 to **KES 20.30Bn**.

The group has consistently stayed below the market average of **9.34%** in Non-Performing Loans (NPL) prevailing at **6.6%** in Q1-18 relative to **7.0%** in Q1-17. NPL's slid **7.18%** from **KES 19.51Bn** in Q1-17 to **KES 18.11Bn** in Q1-18. Consequently, loan provisions declined by **12.32%** from **KES 7.07Bn** to **KES 6.20Bn** over the same period. The Return on Average Equity (ROaE) and the Return On average Assets both went up in Q1-18 to stand at **27.0%** and **4.50%** respectively, up from **24.0%** and **4.0%** respectively.

The Group witnessed a **10.50%** upswing in the Q1-18 total interest income from **KES 11.47Bn** in Q1-17 to stand at **KES 12.67Bn**. The increase in interest income during the period was perpetuated by an increase in loans and government securities, which grew by **3.50%** and **32.92%** (respectively) over the period. In-line with the norm in the Banking industry, Equity Group Holdings grew their Non-Funded Income (NFI) by **6.04%** to **KES 6.7Bn** in Q1-18 from **KES 6.3Bn** penned in Q1-17. The upswing of NFI in Q1-18 was driven by increased by Equity's strategic focus on fees and commission to diversify away from their dependence on revenues from interest income.

Outlook and Forecast 2018: The group remains in a relatively robust financial position. Diaspora remittances surged **183%** from Q1-17 to Q1-18, indicating a significant inflow of foreign currency into the bank's treasury department. Further, the group posted a liquidity ratio of **55.2%** in Q1-18, up 460 basis points from **50.6%** noted in Q1-17. The liquidity ratio is sufficient to absorb changes in the working environment and any abnormal events that may occur over the financial year.

We project a price of **KES 54.40** compared to current **KES 50.00** based on three assumptions: (i)with trepid macroeconomic conditions easing, Equity Group has more room this year to grow PAT;(ii) consistent investment in innovation will drive growth and (iii) possible revenue windfall from the proposed amendment of the interest cap law this year. We anticipate Earnings Per Share (EPS) to grow to **KES 5.93** in FY18. We see **FY18** Non-Performing Loans (NPL) potentially improving to fall within an improved **5.0%** to **6.0%** from the current FY17 NPL of **6.6%**.

AIB Capital Research

Research Analysts, *AIB Capital Research*

Willis Nalwenge

nalwengew@aibcapital.com
(+254) 711047105

Victor Koech

koechv@aibcapital.com
(+254) 711047133

Equity Dealing Desk

Chief Dealer, *AIB Capital Equities*

Bernard Kung'u

kungub@aibcapital.com
(+254) 711047108

Head of Institutional Trading, *AIB Capital Equities*

Bernard Gichuru

gichurub@aibcapital.com
(+254) 711047111

Equities and Derivatives trader, *AIB Capital Equities*

Brian Tanui

tanuib@aibcapital.com
(+254) 711047124

Research Disclosure

Though utmost care has been taken in the preparation of this report, we do not guarantee the accuracy or completeness of the information contained herein nor will AIB Capital Ltd be held liable for the information contained herein.

The views expressed in this report are solely those of the Research Department and are subject to change without notice.

The information in this report is not an offer for the sale or purchase of any security. This document should only be considered a single factor used by investors in making their investment decisions.

This publication may not be distributed to the public media or quoted or used by the public media without prior and express written consent of AIB Capital Ltd.

NOTICE TO US INVESTORS

This report was prepared, approved, published and distributed by AIB Capital Limited Company located outside of the United States (a non-US Group Company"). This report is distributed in the U.S. by LXM LLP USA, a U.S. registered broker-dealer, on behalf of AIB Capital Limited only to major U.S. institutional investors (as defined in Rule 15a-6 under the

U.S. Securities Exchange Act of 1934 (the "Exchange Act")) pursuant to the exemption in Rule 15a-6 and any transaction effected by a U.S. customer in the securities described in this report must be effected through LXM LLP USA.

Neither the report nor any analyst who prepared or approved the report is subject to U.S. legal requirements or the Financial Industry Regulatory Authority, Inc. ("FINRA") or other regulatory requirements pertaining to research reports or research analysts. No non-US Group Company is registered as a broker-dealer under the Exchange Act or is a member of the Financial Industry Regulatory Authority, Inc. or any other U.S. self-regulatory organization.

Analyst Certification. Each of the analysts identified in this report certifies, with respect to the companies or securities that the individual analyses, that (1) the views expressed in this report reflect his or her personal views about all of the subject companies and securities and (2) no part of his or her compensation was, is or will be directly or indirectly dependent on the specific recommendations or views expressed in this report. Please bear in mind that (i) AIB Capital Limited is the employer of the research analysts responsible for the content of this report and (ii) research analysts preparing this report are resident outside the United States and are not associated persons of any US regulated broker-dealer and that therefore the analysts are not subject to supervision by a US broker-dealer, and are not required to satisfy the regulatory licensing requirements of FINRA or required to otherwise comply with US rules or regulations regarding, among other things, communications with a subject company, public appearances and trading securities held by a research analyst account.

Important US Regulatory Disclosures on Subject Companies. This material was produced by Analysis AIB Capital Limited solely for information purposes and for the use of the recipient. It is not to be reproduced under any circumstances and is not to be copied or made available to any person other than the recipient. It is distributed in the United States of America by LXM LLP USA and elsewhere in the world by AIB Capital Limited or an authorized affiliate of AIB Capital Limited. This document does not constitute an offer of, or an invitation by or on behalf of AIB Capital or its affiliates or any other company to any person, to buy or sell any security. The information contained herein has been obtained from published information and other sources, which AIB Capital Limited or its Affiliates consider to be reliable. None of AIB Capital Limited accepts any liability or responsibility whatsoever for the accuracy or completeness of any such information.

All estimates, expressions of opinion and other subjective judgments contained herein are made as of the date of this document. Emerging securities markets may be subject to risks significantly higher than more established markets. In particular, the political and economic environment, company practices and market prices and volumes may be subject to significant variations. The ability to assess such risks may also be limited due to significantly lower information quantity and quality. By accepting this document, you agree to be bound by all the foregoing provisions.

LXM LLP USA assumes responsibility for the research reports content in regards to research distributed in the U.S. LXM LLP USA or its affiliates has not managed or co-managed a public offering of securities for the subject company in the past 12 months, has not received compensation for investment banking services from the subject company in the past 12 months, does not expect to receive and does not intend to seek compensation for investment banking services from the subject company in the next 3 months. LXM LLP USA has never owned any class of equity securities of the subject company. There are not any other actual, material conflicts of interest of LXM LLP USA at the time of the publication of this research report. As of the publication of this report LXM LLP USA, does not make a market in the subject securities.