

Equity Group 1QFY19 update:

Loan Book turns yield saviour.

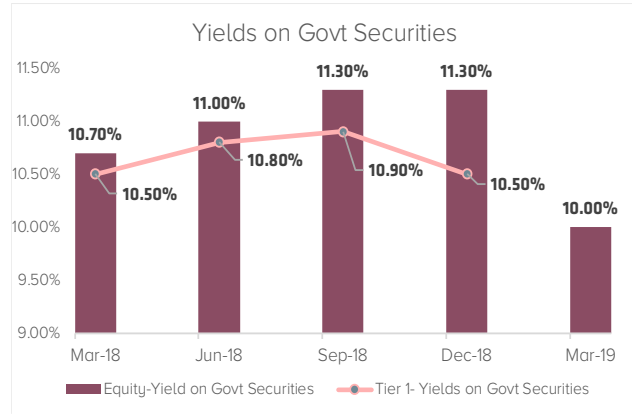
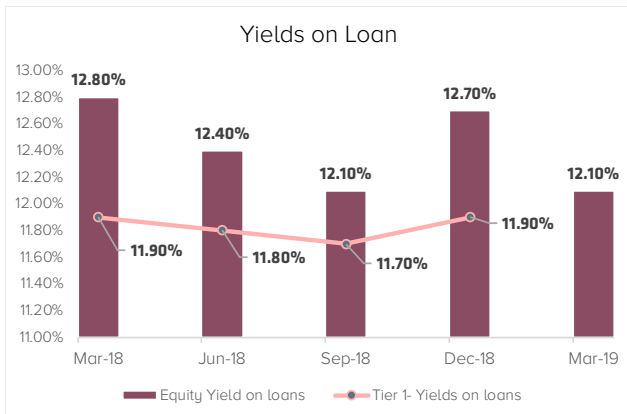
- » **Equity Group Holdings grew its Loan Book by 13%:** Accommodative monetary policies adopted in the region continue to challenge yields created from government securities. The recent steepening of the Kenyan NSE yield curve especially towards the shorter end has forced Equity Group's yield on government securities to **10%** in **1QFY19**, below the group's **1QFY19** Yield on Loans of **12.1%**. Equity group's management took the opportunity to reduce the group's opportunity costs by increasing the loan book by **13%** to **KES 305.5Bn** in **1QFY19** from **KES 271.1Bn** achieved in **1QFY18**. Facing no end to the high liquidity currently prevalent in the money market the group will likely to continue embracing yield enhancement by growing its Loan Book gradually over the FY19 period. The successful growth of the loan book will help offset declining interest income from the Group's treasury function.
- » **Equity's Interest Income firmed 6.3% in 1QFY19:** Interest income in **1QFY19** grew by **6.30%** to settle on **KES 13.5Bn** from **KES 12.7Bn**, inspired by the resurgence in both **1QFY19** Loan Interest Income and **1QFY19** Treasury Interest Income. The growth in both Loan Interest Income and Treasury Interest Income in **1QFY19** was mainly driven by increased investments into the Loan Book and Government Securities. The increased investments into yield earning assets were funded by the **12%** increase in the **1QFY19** Customer Deposits to **KES 428.5Bn** from the **KES 382.4Bn** achieved in **1QFY18**. Interest Income is likely to continue to grow into the medium term as Equity Bank continues to lend in Kenya and the group consolidates interest income from its new subsidiaries acquired from Atlas Mara.
- » **The Net interest margin for the group, however, fell in 1QFY19 to 8.2% from 8.5% achieved in the same period last year.** The decline in Net Interest Margin (NIM) was mainly caused by the decline in yields on Interest Earnings Assets that fell to **10.7%** over the **1QFY19** from **11.2%** in 1QFY18. The NIM decline in **1QFY19** was cushioned by the decline in Cost of funds to **2.6%** from 2.7% registered in **1QFY18**.
- » **Equity's Non-Funded Income contribution was up to 41% in 1QFY19:** Non-Funded Income firmed up by **7.46%** to **KES 7.2Bn** in **1QFY19** from **KES 6.7Bn**. The acceleration of NFI growth outstripped the growth of Interest Income over **1QFY19** to settle its contribution to **41%** of Total Income from the **38%** achieved over the FY18. The increase in **1QFY19** NFI was driven by a broad increase in fees and commissions from: the SWIFT/RTGS Income (**+13%**), Diaspora banking (**+5%**), Bond Trading Income (**+92%**), FX Trading Income (**+22%**) and Merchant Commission (**+15%**).
- » **Equity's PAT was up to 5% in 1QFY19 to KES 6.2Bn from KES 5.9Bn achieved in 1QFY18:** The group's Profit After Tax increased slightly over the 1QFY19 period driven by the 7% increase in Total Income amid flat staff costs. The 1QFY19 PBT also firmed up by about 6% as the KES 1.1Bn increase of Total Income in 1QFY19 was offset by a KES 0.6Bn increase in Total Costs. In terms of the region split, Equity Bank Kenya Limited contributed the lion share of the Profit After Tax, contributing in 1QFY19 to KES 5.0Bn of the Group's KES 6.2Bn.

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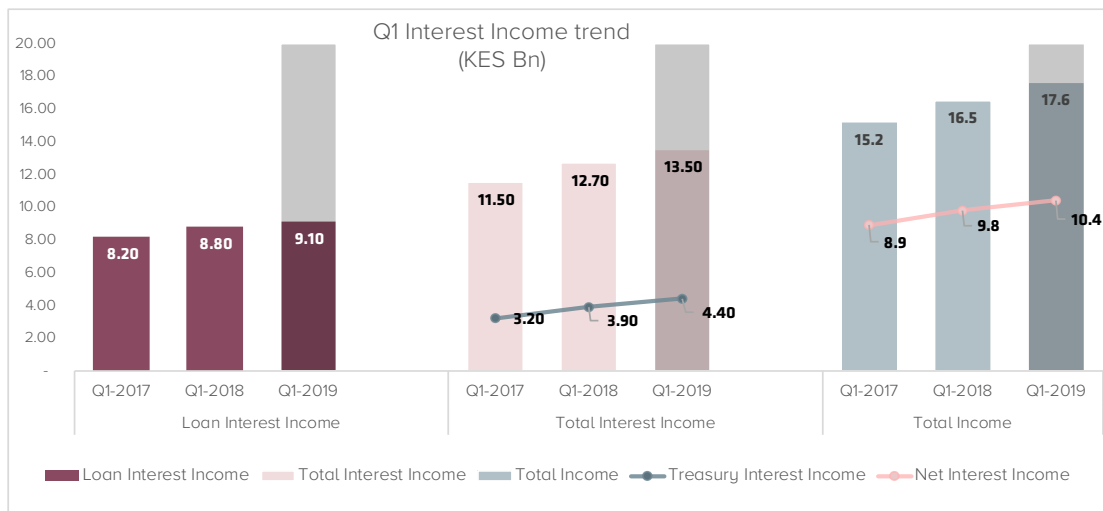
Rating:	BUY
Target Price	46.69
Current Price	41.65
Upside	12%
Dividend Yield(ntm)	5%
Forecast Total Return	17%
52- Week trading range	33.4 to 53.5

Analyst
Victor Koech

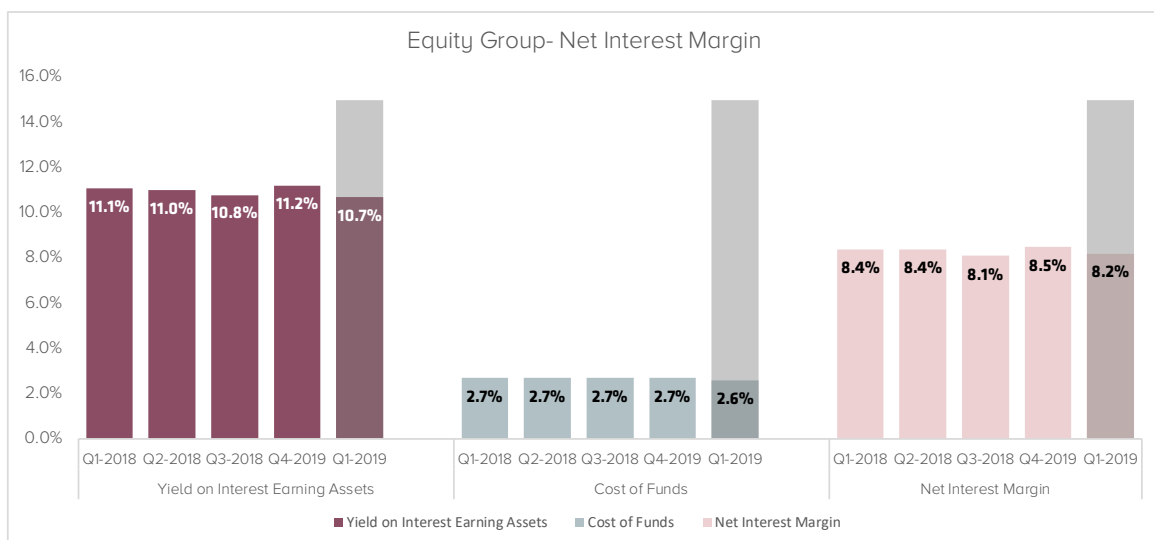
Yield Metrics



Interest Income



Equity Group's Efficiency metrics



Income Statement

Income Statement (KES 000)	Mar-18	Mar-19	% Change
Interest income	12,668,551	13,497,025	6.5%
interest expense	2,850,960	3,061,403	7.4%
Net interest income	9,817,591	10,435,622	6.3%
Non-funded income	6,715,645	7,181,799	6.9%
Total operating income	16,533,236	17,617,422	6.6%
Loan loss provision	358,588	409,892	14.3%
Staff Costs	2,608,924	2,629,583	0.8%
Other Operating expenses	5,238,857	5,741,681	9.6%
Total Operating expenses	8,206,369	8,781,156	7.0%
Profit before tax	8,326,868	8,836,266	6.1%
Tax	(2,422,132)	(2,640,823)	9.0%
Profit After tax	5,904,736	6,195,443	4.9%

Balance sheet

Balance Sheet (KES 000)	Mar-18	Mar-19	% Change
Cash & balance with CBK	30,749,835	43,304,489	40.8%
Government securities	122,358,157	137,927,678	12.7%
Loans and advances to customers	271,075,482	305,535,628	12.7%
Property and equipment	10,798,446	11,692,358	8.3%
Other Assets	92,798,818	107,207,182	15.5%
Total assets	527,780,738	605,667,335	14.8%
Customer deposits	382,422,176	428,509,100	12.1%
Borrowings	45,309,531	50,969,457	12.5%
Other Liabilities	17,926,179	30,752,052	71.5%
Total liabilities	445,657,886	510,230,609	14.5%
Shareholders' funds	82,122,852	95,436,726	16.2%
Total Liabilities & Shareholders' funds	527,780,738	605,667,335	14.8%

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