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**March 2019**

# **FY2018 Earnings Expectations Note**

## **Sector: Banking**

## **Equity Group Holdings**

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## Equity Group Holdings PLC

- We recommend a **HOLD** on Equity Group Holdings PLC based on our fair value estimate of **KES 45.25**, an upside of 1.3% from the current price of KES 42.00.
- The bank operates on a forward P/E of 7.5x, and a forward P/B of 1.5x, both of which are above the industry average of 7.3x and 1.3x respectively.
- We expect the bank's holdings of government securities to increase by 25% as a result of the decline in the CBR rate that limited the bank's loan margins, resulting in a decline in lending to the private sector, which carries higher risk.
- Regional subsidiaries have been a key driver of growth, growing by 37% in Q3 – 2018 and we expect this to contribute to a growth of **11.9% in PAT FY2018**.
- We anticipate a 10% increase in the **final dividend to KES 2.20** from KES 2.00, based on the current dividend payout ratio.

### Key Financial Summary

	2017	2018P	% Change
<b>Balance Sheet (KES.Bn)</b>			
Loans & Advances	279.09	293.40	5.1%
Government Securities	128.00	160.00	25.0%
Total Assets	524.47	578.81	10.4%
Customer Deposits	373.14	406.73	9.0%
<b>Income Statement (KES.Bn)</b>			
Interest income (Loans & Advances)	33.88	34.35	1.4%
Interest income (Gov't Securities)	13.39	17.28	29.0%
Total Interest Income	48.41	52.77	9.0%
Non-Interest Income	27.59	30.87	11.9%
Total Income	65.16	73.04	12.1%
Total Operating Expenses	34.35	39.34	12.9%
PBT	26.88	30.22	12.4%
PAT	18.87	21.11	11.9%
<b>Ratios</b>			
Cost to Income Ratio (%)	48.0%	49.1%	1.1
Loan to Deposit Ratio (%)	74.8%	72.1%	1.9
NPL Ratio (%)	6.1%	8.0%	1.9
NFI/Total Income	42.3%	42.3%	0.0
Cost of Funds	2.9%	2.6%	0.3
Government Securities/ Total Assets	24.4%	27.6%	3.2

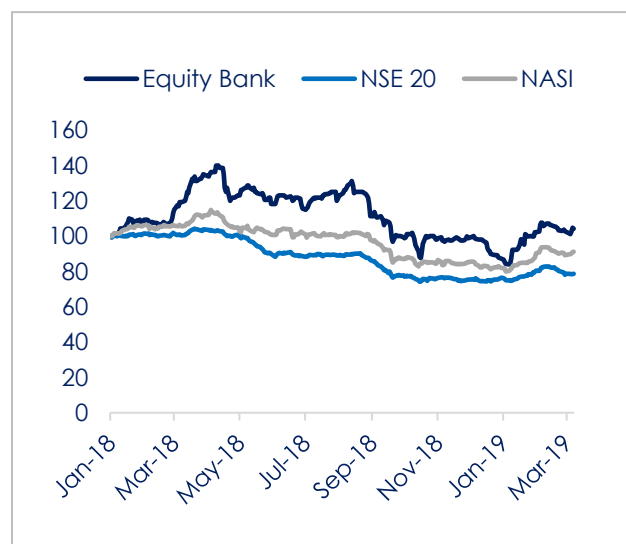
Source: Bank Filings & Sterling Capital Research

### Share Summary

<b>Fair Value Estimate (KES)</b>	<b>45.25</b>
<b>Recommendation</b>	<b>HOLD</b>
Current price (KES)	42.00
Upside (%)	1.3%
Price Change YoY (%)	↑4.3%
Price Change YTD (%)	↑20.4%
Dividend yield (%)	5.3%
P/E	7.5x
P/B	1.5x
Issued shares (m)	3,774
Market cap (KES. Bn)	155.10
NSE Code	EQTY
Bloomberg Code	EQBKN : KN

Source: Nairobi Securities Exchange & Sterling Capital Research

### Share Price Performance



Source: Nairobi Securities Exchange

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**Buy:** FV above 10% of CSP

**Hold:** FV between -10% and 10% around CSP

**Sell:** FV more than 10% below CSP

**NB: The recommendation guide may change depending on the risk free rate.**