HY2020 Kenya Banks Earnings Update - Equity Group Holdings PLC

- Equity Group reported KES.9.0Bn in **Profit after Tax** HY2020, a 24% dip compared to KES.11.9Bn HY2019 attributable to 31.1% increase in operating expenses, caused by 773.4% surge in loan loss provision to KES.8.0Bn.
- **Asset Quality –** The group reported a deterioration in the NPL ratio to 10.7% from 8.4% HY2019. The NPL ratio remains well below the industry average of 13%
- **Total Assets** grew by 16.8% from KES.638.7Bn to KES.746.5Bn mainly supported by 22% growth in the **loan book** to KES.391.6Bn, as well as 20.5% growth in **holdings of government securities** to KES.216.4Bn. Quarter on quarter, loan book and holdings of government securities grew 3.3% and 14% respectively, highlighting the group's efforts to prevent further deterioration of the asset quality.
- **Customer deposits** increased 18.6% to KES.543.9Bn compared to KES.458.6BHY2019.
- **Total Interest Income** grew 18.5% to KES.32.8Bn on the back of 20.8% growth in income from loans and advances to KES.22.5Bn coupled with 14.8% increase in interest income from government securities to KES.9.8Bn.
- **Interest expense** increased to KES.8.2Bn (+23.6%) compared to KES.6.6Bn HY2019, driven by 17.7% growth in interest costs on customer deposits.
- **Non-funded income** declined by 13% from KES.16.5Bn to KES.14.4Bn on the back of an 8.0% y o y decline in fees and commissions to KES.9.2Bn and a 36.7% decline in other operating income to KES.2.9Bn.

FY2020 Outlook

- The group's profitability has taken a hit from the effects on the COVID-19 pandemic and we expect the group to record an overall decline FY2020 due to declining interest income as a result of selective lending and declining yields on government securities
- The bank is likely to continue with its strategy to invest in government securities in the wake of increased credit risk despite a decline in yields on government papers.
- Equity Group completed its acquisition of 66.53% of Banque Commerciale Du Congo (BCDC) the second largest bank in the Democratic Republic of Congo (DRC) to increase its size and infrastructure within the country. We expect this to result in an increase in the subsidiaries' regional contribution
- We anticipate slow single digit quarter on quarter loan book growth as the bank continues the trend of selective lending and more aggressive investment in government securities.
- Non-funded income has been a key contributor to the group's revenues in previous years. We expect NFI growth to slow down FY2020 due to lower transactional activity given weak economic activity.

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