



STERLING INVESTMENT BANK

Members of the Nairobi Stock Exchange

Q3 Corporate Actions: Equity Bank Results

October 27 2009

Equity Bank's Q309 results are now out. The bank appears to be keen to keep up with its tradition of being one of the first to make known its financial performance after the end-period thus far. Going by the various questions asked at the investor briefing presentation, it is instructive that investors are yearning for more information and indications as to the possible impact of the just-ending drought spell on the banking sector and the wider economy. Below, we present our view about the Bank's performance and prospects.

Results Summary

Interest income: (mainly from loans and advances to customers) was up 34.38% yoy – Interest income from loans and advances makes up about 80% of total interest income for EBL.

Net Fee and commission income: was down 13.32% yoy, on the strength of a one-off income from the Safaricom IPO transaction in 2008 in which EBL processed up to 45% of all the applications for the IPO.

Other operating income: increased by 20.16% yoy (rental income makes up 0.04% of other operating income whereas the remainder is classified as other) and accounted for 26% of the total operating income.

Overall Operating income increase: The overall effect of the improvements in interest income and other operating income was a 16.40% rise in total operating income.

Personnel expenses: seem to be the foremost overheads that the company incurs and accounted for 43.76% of the total expenses. They rose by 38.26% yoy. Other significant expenses are under 'other, expenses, accounting for 31.76% of the total expenses rose by 21.34%.

Profit before tax (PBT): registered a 0.16% drop (after accounting for income from associates), while the profit after tax (PAT) recorded a 0.44% drop.

Balance Sheet: The bank's balance sheet grew by 21.42%, majorly due to a 26.37% loans and advances to customers and a 40.28% increase in property and equipment. Together these assets accounted for about 66.16% of the total assets. Customer deposits accounted for 87.56% (2008 – 83%) and registered a 27.60% growth. The bank's retained earnings registered a 36.59% growth, setting it up for a possible increase in dividend payment in FY09. Non-Performing Loans as a ratio of gross loans dropped to 4.8% from 6.9%.

Other Information

Returns on recent investments: These are yet to be realized. The bank has put up 35 branches in Kenya and continued to invest in Southern Sudan and Uganda. So far, a loss of Kshs. 500m and the new investments are yet to break-even. We opine that given the on-going slump, it will take a while before these ventures are on a firm profitability path.

The EBL investment Banking Business: So far EBL has incurred a loss of about Kshs. 60m. Given the current state of the economy and competition in the market, we are seeing the subsidiary taking time to acquaint itself with the operations in this sector before it can also be a profitable venture.

Income from other sources: EBL has a 25% shareholding in HFCK. The mortgage firm's Contribution to EBL's income is in the region of Kshs 30m. EBL is keen on increasing its stake in HF but Kenya's shareholding rules cannot allow. We see the bank consolidating its stake in HF at sometime in future to firm up its strategy in the mortgage business.

Purchase of a stake in National Bank: EBL is keen on buying a stake in National Bank of Kenya if and when the government of Kenya puts its offer on the table. The bank believes that NBK will complement its operations because it is heavy on fairly liquid assets (government securities), while equity bank is heavy on the loan book.

Farmers' tea bonus: It was indicated in the investor presentation that EBL will be getting some 20% out of the Kshs. 17bn tea bonus paid to farmers in 2009. There however are challenges of up-to-speed loan re-payments for the bank's customers not only in other farming activities like the coffee sector, but also other SMEs that faced power rationing and hydrology supply challenges in FY09.

Looking ahead

Just like a number of other banks, in FY09, EBL is unlikely to register an earnings growth similar to the 106.86% registered in FY08. In fact, management is looking at a 20% growth. We are looking at an EPS of about Kshs. 1.10, about 3.77% above the Kshs.1.06 per share EPS recorded in FY08.

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Equity Bank Limited (EBL's) Financial Statements for Q3 of 2009.

	Sept. 2009	Sept. 2008	
	Shs. Millions	Shs. Millions	%Δ
Income			
Interest Income	7840	5834	34.38%
Interest Expense	997	1029	(3.11%)
Net Interest Income	6710	4837	38.72%
Fee and Commission Income	1471	1697	(13.32%)
Net Fee and Commission Income	1471	1697	(13.32%)
Net trading income	150	700	(78.57%)
Other operating income	2939	2446	20.16%
Total Operating Income	11269	9681	16.40%
Expenses			
Net Impairment on Financial Assets	452	544	(16.91%)
Personnel Expenses	3086	2232	38.26%
Operating Lease Expenses	447	288	55.21%
Depreciation and Amortization	827	531	55.74%
Other Expenses	2240	1846	21.34%
Total Expenses	7052	5441	29.61%
Profit Before Tax	4217	4240	(0.54%)
Share of Associate Profit	37	21	76.19%
Profit Before Tax	4254	4261	(0.16%)
Taxation	-870	-862	0.93%
Profit After Tax	3,384	3,399	(0.44%)
Basic & Diluted EPS	0.914	0.917	(0.32%)

Source: EBL

	Sept. 2009	Sept. 2008	
	Shs. Millions	Shs. Millions	%Δ
ASSETS			
Cash and Cash equivalents	12,414	11,954	3.71%
Investment in Associates	1,192	1,142	4.19%
Investment in Subsidiary	1	-	100.00%
Loans and Advances to customers	58,144	42,811	26.37%
Investment Securities	12,395	12,350	0.36%
Property and Equipment	6,316	3,772	40.28%
Intangible Assets	1,853	1,474	20.45%
Other Assets	5,107	3,050	40.28%
TOTAL ASSETS	97,422	76,553	21.42%
LIABILITIES			
Customer Deposits	65,661	47,536	27.60%
Other Liabilities	1,785	2,438	(36.58%)
Tax Payable	3	443	(14,667%)
Deferred Tax	93	45	51.61%
Borrowings	7,444	6,800	8.65%
TOTAL LIABILITIES	74,986	57,262	23.64%
CAPITAL & RESERVES			
EQUITY			
Share Capital	12,157	12,164	(0.06%)
Share Premium	120	(105)	187.50%
Fair Value Reserve	308	308	0.00%
Statutory Reserve	8,000	5,073	36.59%
Retained Earnings	22,436	19,291	14.02%
TOTAL LIABILITIES & EQUITY	97,422	76,553	21.42%

Source: EBL

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