KINGDOM SECURITIES

Equity Group Holdings Plc

Earnings Update – H1-2022

Equity Group Holdings Plc (EGH) posted KES 30.92Bn in H1-22 profits before tax (PBT), a 29.7% y-y increase from KES 23.83Bn in H1-21. This was achieved through top line enhancements coupled with cost management. The Group reported a 35.3% y-y rise in profits after tax (PAT) of KES 23.75Bn from KES 17.55Bn over the same period. Growth in PAT was supported by a lower effective tax rate (ETR) of 21.0% against 24.7% in H1-21.

The Group has increased risk appetite as seen from the 28.9% aggressive growth in loan book that pushed advances to deposits to 67.0% from 61.6% in H1-21.

The lender has an annualized EPS of 12.58 with a PE of 3.9x and PB of 1.2x compared to market PE of 4.7x.

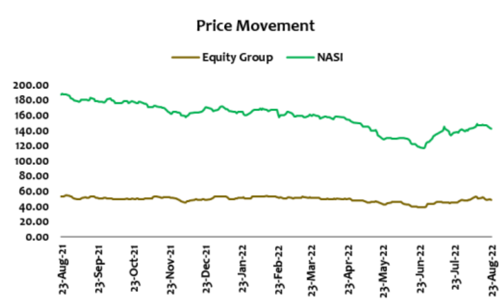
We upgrade our recommendation to a BUY from a HOLD with a valuation of KES 54.04, which is 11.8% higher compared to KES 48.35 as of close of business Tuesday August 23, 2022. Including projected dividend of KES 3.00, for a dividend yield of 6.3%, total return is 18.0%.

- EGH reported net interest income (NII) of KES 39.80Bn, a 27.8% y-y rise from KES 31.15Bn in H1-21. The amount was driven by a 28.6% y-y rise in interest income, which increased at a lower rate than interest expense growth of 30.9% y-y. On quarterly basis, NII increased by 5.7% on y-y basis. NII contributions to total income was flat at 60.6%.

- Interest income was up 28.6% y-y to KES 54.97Bn from KES 42.75Bn. The gain was supported by 20.8% rise in interest from loans and advances and 50.4% y-y jump on returns from government securities. The return on loans was supported by net loan book growth of 28.9% y-y despite yields on loans declining by 50bps to 11.4% while income on government securities benefited from 15.7% expansion on investment book and a 20bps betterment in yields at 10.0%.
- Interest expenses were up by 30.9% y-y at KES 15.17Bn from KES 11.59Bn. The rise was due to a 72.1% y-y increase in other interest expenses which encompasses cost of borrowing, with borrowing increasing by 22.2% y-y. Interest cost on customer deposit was up by 13.3%, affected by 18.5% y-y jump on customer deposits while cost of deposits remained flat at 2.3%. The expense line was up 7.2% q-q with interest on customer deposits increasing by 11.3% q-q.
- Non-funded income (NFI) was up 24.4% y-y to KES 25.84Bn from KES 20.78Bn with the growth on net loan book and e-credit income seeing net fees and commission from loans and advances up 28.5%. Foreign exchange trading income bettered by 23.3% y-y on improved international trade and weakening shilling. The income segment grew by 16.9% q-q supported heavily by a 45.6% q-q growth in foreign exchange trading income. NFI contributed 39.4% to total income in H1-22.

Recommendation:	BUY
Bloomberg Ticker:	EQBL KN
Share Stats	
Valuation	54.04
Current Price	48.35
Upside/Downside	11.8%
3-Month Av	44.91
6 Month Av	47.13
52 Week Av	49.03
52 Week High – Low	54.25 - 39.00
Issued shares Mn	3,773.67
Free Float	88.00%
Market Cap (KES Mn)	182,457.18
Market Cap (USD Mn)	1,524.02
EPS Annualized	12.58
P/E	3.8
PB	1.2
Dividend	3.00
Dividend Yield	6.2%
Dividend Payout	23.8%
Total Return	18.0%

Price Performance		
Period	EGH	NASI
23-Aug-22	48.35	142.37
W-W	-7.5%	-3.3%
M-M	7.4%	4.2%
Y-T-D	-8.3%	-14.8%
Y-Y	-8.8%	-24.2%



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- Operating expenses were up 23.6% y-y to KES 34.73Bn from KES 28.09Bn, elevated by a 40.3% rise in loan loss provisions due to growth in loan book, 27.0% y-y jump in staff cost while other expenses increased by 25.5%. Cost to income (CTI) eased to 52.9% from 54.1%. Excluding loan loss provisions, expenses were up 21.7% to KES 30.64Bn from KES 25.18Bn CTI excluding provisions was at 46.7, lower than 48.5% in H1-21.
- Quarterly basis, operating expenses were up 17.3% with loan loss provisions increasing by 26.3% q-q matched by growth in loan book. Staff costs were up 16.8% q-q.

Balance Sheet

- Total assets expanded by 19.1% y-y to KES 1,33.86Bn from KES 1,119.74Bn in H1-21. Growth in assets benefited from a 15.7% growth in investment in securities to KES 365.02Bn from KES 315.50Bn in H1-21. The asset line thinned by KES 24.39Bn as the bank opted to increase its risk appetite which saw the liquidity ease to 53.2% from 62.9% in H1-21. This led to proportion of investment in securities to assets to ease to 27.4% from 28.2% a year before. The Kenyan subsidiary continues to support the group with 85.6% of the holding on investment in securities.
- Net loan book grew by 28.9% y-y from KES 504.85bn to KES 650.56Bn. Regional subsidiaries saw loan book grow by 35.5% y-y to contribute 35.8% of the loan book compared to 34.1% in H1-21. Loan to total assets grew to 48.85 from 45.1% in H1-21.
- Mobilization saw customer deposits increase by 18.5% y-y to KES 970.94Bn from KES 819.68Bn a year before. This benefited by a KES 70.02Bn mobilization in Q2-22. The Group is seen to increase its risk appetite from the aggressive in loan book growth 28.9% y-y with advances to deposits rising to 67.0% from 61.6% in H1-21.
- Borrowing increased to KES 120.52Bn, a 22.2% y-y rise from KES 98.60Bn. The fast rise in debt is to assist with managing liquidity levels as the lender continues to grow total risk weighted assets which were up 15.8% y-y. debt to equity ratio jumped to 80.1% from 63.6% in H1-21.
- Shareholders' funds thinned by 3.3% y-y compressed by revaluation reserves which increased by 640.5% y-y. retained earnings boosted by shareholders' funds up by 24.6% y-y.

Key Ratios

- Net interest margins (NIMs) bettered by 30bps to 6.9% from 6.6% in H1-21 with yields on interest earning assets up 50bps from 9.2% to 98.7% while lower cost of funds was up to 2.8% from 2.6%.
- Return on average assets (ROaA) was at 3.8% from 2.3% while return on average equity (ROaE) was up to 28.9% from 25.0% in H1-21.
- Non-performing loans (NPLs) declined to 8.5% from 10.7%. This is lower than industry NPL levels of 14.7% seen in H1-22. The decline was seen as an improvement on credit management as gross and total NPLs were down 1.9% and 8.3% year on year basis.
- Cost of risk was 1.3% from 1.1% as the loan loss provisions increased at a faster rate of 40.3% y-y compared to a 28.9% growth in net loan book. This is a clear indication of aggressive levels of the Group.

Outlook

- The turnaround on risk appetite will see the lender improve on its competitive edge. However, there is a growth challenge with the CBK reporting a faster growth in gross NPLs which will tend to tame down the loan book growth.
- Regional contributions remained curtailed. However, the Group has benefited from forex trading income which will continue to grown in double digit levels in the near future.

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Earnings Update – H1-2022

Profit and Loss (KES Mn)	H1-2021	H1-2022	%Δ Y-Y	Q1-2021	Q2-2022	%Δ Q-Q
Interest Income	42,747	54,973	28.6%	26,674	28,299	6.1%
Interest Expense	11,592	15,169	30.9%	7,322	7,847	7.2%
NII	31,155	39,804	27.8%	19,352	20,452	5.7%
NFI	20,767	25,844	24.4%	11,914	13,931	16.9%
Total Income	51,922	65,648	26.4%	31,266	34,383	10.0%
Loan Loss Provision	2,912	4,087	40.3%	1,806	2,281	26.3%
Expenses	28,091	34,730	23.6%	15,982	18,749	17.3%
Expense excl Provisions	25,178	30,643	21.7%	14,176	16,468	16.2%
PBT	23,831	30,918	29.7%	15,284	15,634	2.3%
PAT	17,549	23,745	35.3%	11,544	12,202	5.7%
EPS	4.65	6.29	35.3%	3.06	3.23	5.6%

Balance Sheet (KES Mn)	H1-2021	H1-2022	%Δ Y-Y
Investment Securities	315,497	365,023	15.7%
Loans and Advances	504,849	650,556	28.9%
Total Assets	1,119,737	1,333,861	19.1%
Customer Deposits	819,684	970,943	18.5%
Borrowings	98,603	120,523	22.2%
Shareholders' Equity	155,073	150,387	-3.0%

NPLs KES Mn	H1-2021	H1-2022	%Δ Y-Y
Gross NPLs	62,196	61,029	-1.9%
Total NPL	53,913	49,456	-8.3%

Key Ratios	H1-2021	H1-2022
NII Contribution	60.0%	60.6%
NFI Contribution	40.0%	39.4%
CTI	54.1%	52.9%
CTI ex Provisions	48.5%	46.7%
Yields on Loans	11.9%	11.4%
Yield on Government Security	9.8%	10.0%
Cost of Deposit	2.3%	2.3%
Cost of Funds	2.6%	2.8%
Net Interest Margin	6.6%	6.9%
ROaA	3.3%	3.8%
ROaE	25.0%	28.9%
Cost of Risk	1.2%	1.3%
Gross NPL: Gross Loans	10.7%	8.5%
NPL Coverage	92.0%	93.7%
AD	61.6%	67.0%
Investment to Assets	28.2%	27.4%
Loans to Assets	45.1%	48.8%
Debt to Equity	63.6%	80.1%

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Recommendation Guide:

Analysts' stock ratings are defined as follows:

- **Buy** – A buy rating reflects 1) An analyst has a bullish conviction on a stock 2) A 30% or greater expected return.
- **Accumulate** – An accumulate rating reflects 1) An analyst has a lesser bullish conviction on a stock 2) Expected return falls between 10% and 30%.
- **Hold** – A hold rating reflects 1) An analyst has a neutral conviction (lack of bullish or bearish conviction) on a stock 2) Expected return falls within the range of 5% to 10%.
- **Speculative Buy** – A speculative buy rating reflects 1) An analyst has a bullish conviction accompanied by a substantially higher than normal risk 2) Expected return falls above 10%.
- **Sell** – A sell rating reflects 1) An analyst has a bearish conviction on a stock 2) Expected return falls below 5%.

*Expected Return (ER) represents the sum total of both capital appreciation and the dividend yield.

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