

KINGDOM SECURITIES

Equity Group Profits Slows Down on Higher Expenses

Equity Group reported KES 16.88Bn profits before tax (PBT) for Q1-2023, a 10.5% year-on-year rise compared to KES 15.28Bn of Q1-2022. The growth slowed down was on a higher operating expense in Q1 2023 that strained a stellar growth on its operating income. Total operating income was 28.2% up to KES 40.07Bn as total operating expenses ballooned by 45.1% to KES 23.19Bn. Kenyan and Regional contribution to total income was at a 50:50 with Net income contribution standing at 53:43

Profits after tax (PAT) improved 7.9% y-y from KES 11.86Bn to KES 12.80Bn, pushing the earnings per share (EPS) from 3.06 to 3.26.

Income Statement

Net interest income went up 12.1% y-y from KES 19.35Bn to KES 21.68Bn being supported by 21.6% growth in interest income from KES 26.67Bn to KES 32.44Bn in Q1-2023 but suppressed by a 46.9% growth in interest expense from KES 7.32Bn to KES 10.75Bn.

Income from loans and advances remained steady, recording a 21.0% increase from KES 17.12bn to KES 20.72Bn, coinciding with a 21.3% expansion in loan book from KES 623.56Bn to KES 756.33Bn. Yield on loans and advances remains relatively stable y-y at 11.3%. The lender boasted of a better digitization of its loan book with 87% of all its loan transactions being processed on mobile channels. Branch lending dropped to 65% as mobile lending enlarged from 13.0% in Q1-2022 to 35.0% in Q1-2023.

Interest from government securities increased by 14.4% from KES 9.33Bn to KES 10.67Bn even as the government securities book grew by only 0.8% y-y to KES 392.47Bn. Yield on government securities improved from 9.6% to 10.8% riding on the general rise in the market yield rates.

Interest expense escalated to KES 10.75Bn in Q1-2023 compared to KES 7.32Bn of Q1-2022 on what we attribute to expensive deposits and a global rate hikes which affected its external borrowings. The Bank's borrowings shrunk 8.1% from KES 124.13Bn to KES 114.11Bn. This saw the cost of funds rise to 3.5% from 2.7% in Q1-2022.

Non-funded income jumped 54.3% from KES 11.91Bn in Q1-2022 to KES 18.38Bn in Q1-2023 rallied by spikes in forex and other fees and commissions. Forex income grew by KES 3.12Bn benefitting from a weak local currency that shed 15.1% y-y and 7.3% Q-Q against the US dollar

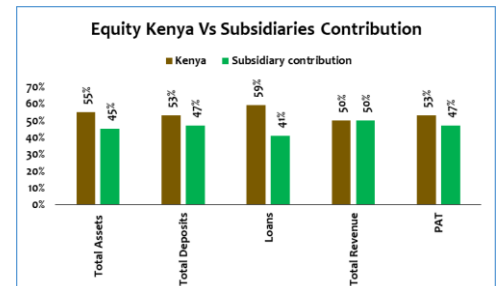
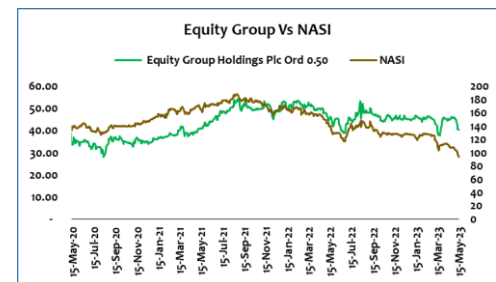
Other fees and commissions rose from KES 6.04Bn to 9.12Bn counting on the above digital loans and transactions that stood at 87% and 98% respectively.

Overall operating expenses surged 45.1% from KES 15.98Bn to KES 23.19Bn constrained by 33.0% and 92.5% spikes in staff costs and loan loss provisions. Staff costs moved from KES 4.98Bn in Q1-2022 to KES 6.63Bn new expertise acquisitions to drive its innovation and digitization agenda, and general salary adjustments.

Equity Group Holdings plc

Earnings Update – Q1 2023

Recommendation:	HOLD
Bloomberg Ticker:	EQTY KN
Share Stats	
Implied Value	42.55
Current Price	40.50
Upside/Downside	5.1%
3-Month Av	43.98
6 Month Av	44.61
52 Week Av	45.23
52 Week High - Low	53.25 - 37.90
Issued shares Mn	3,773.67
Market Cap (KES Mn)	152,833.83
Market Cap (USD Mn)	1,114.74
P/E	3.11
BVPS	50.53
PB	0.80
EPS	3.26



NNI + 12.1% Y/Y

Provisions + 92.5% Y/Y

Opex. + 45.1% Y/Y

PBT + 10.5% Y/Y

PAT + 7.9% Y/Y

Govt. Securities + 0.8% Y/Y

Loans + 21.3% Y/Y

Deposits + 23.3% Y/Y

Shareholder's Funds + 9.5% Y/Y

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Loan loss provisions nearly doubled from KES 1.81Bn in Q1-2022 to close Q1-2023 at KES 3.48Bn to cover for the growing loan book even as the overall Non-performing Loans (NPLs) ration deteriorated to 9.9% in Q1-2023 from that of 8.9% same time in 2022.

Balance Sheet

The lender's total assets accelerated 21.1% from KES 1,269.46Bn to KES 1,537.68Bn benefitting from a 21.3% rise in loan book. The local subsidiary book increased by 11.5% from KES 402.57Bn to KES 448.93Bn giving a total contribution of 59.4% of the Group's loan book.

Customer deposits grew by KES 220.25Bn (with approximately 70.0 % coming from its subsidiaries) from KES 900.92Bn in Q1-2022 to KES 1,346.99Bn in Q1-2023.

Shareholder's funds went up 9.5% y-y to KES 190.68Bn on 18.4% gains in retained earnings from KES 157.82Bn in Q1-2022 to KES 186.78Bn in Q1-2023.

Key Ratios

Return on average equity stabilized at 3.4% while return on average assets grew from 25.5% to 27.5% on a faster rise in net income compared to assets.

Cost to income ratio excluding loan loss provisions deteriorated to 49.2% from 45.3% same period in 2022 being affected by the above rise in operating expenses.

Cost of risk remained contained at 1.1% on a faster growth in the overall loan book when compared to the loan loss provisions.

P&L (KES Mn)	Q1-2021	Q1-2022	Q1-2023	Y-Y %Δ
Interest Income	20,341	26,674	32,440	21.6%
Interest Expense	5,523	7,322	10,755	46.9%
NII	14,818	19,352	21,685	12.1%
NFI	10,863	11,914	18,384	54.3%
Total Income	25,681	31,266	40,069	28.2%
Loan Loss Provisions	1,268	1,806	3,477	92.5%
Operating Expense	13,976	15,982	23,188	45.1%
Opex excl Provision	12,708	14,176	19,711	39.0%
PBT	11,705	15,284	16,881	10.5%
PAT	8,724	11,863	12,800	7.9%
EPS	2.29	3.06	3.26	6.5%

Balance Sheet (KES Mn)	Q1-2021	Q1-2022	Q1-2023	Y-Y %Δ
Investments	258,948	389,414	392,469	0.8%
Loans and Advances	487,736	623,561	756,334	21.3%
Total Asset	1,066,442	1,269,458	1,537,677	21.1%
Customer Deposit	789,943	900,924	1,111,169	23.3%
Borrowing	88,449	124,131	114,113	-8.1%
Shareholders' Fund	140,438	174,207	190,684	9.5%

Ratios	Q1-2021	Q1-2022	Q1-2023
NII % of Total Income	57.7%	61.9%	54.1%
NFI % of Total Income	42.3%	38.1%	45.9%
CTI	54.4%	51.1%	57.9%
CTI exc Provision	49.5%	45.3%	49.2%
Cost of Funds	2.6%	2.7%	3.5%
Net Interest Margins	6.4%	6.7%	6.7%
Yield on Advances	11.7%	11.3%	11.3%
Yield on Govt Securities	9.9%	9.5%	10.8%
ROaA	3.4%	3.7%	3.4%
ROaE	25.0%	27.1%	27.5%
Cost of Risk	1.4%	1.3%	1.1%
AD Ratio	61.7%	69.2%	68.1%
Investment Securiteis to Assets	24.3%	30.7%	25.5%
Advances to Assets	45.7%	49.1%	49.2%
Debt to Equity	63.0%	71.3%	59.8%
NPL Ratio	12.0%	8.9%	9.9%

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Equity Group Holdings plc Earnings Update – Q1 2023

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