KINGDOM SECURITIES

Equity Group Holdings Earnings Update – FY 2023

Equity Retains KES 4.00 Dividend as Profits Dip 13.3%

Equity Group reported KES 51.88Bn profits before tax (PBT), a 13.3% decline from KES 59.84Bn to KES 51.88Bn in full year (FY) 2023. The performance was depressed by a faster rise in loan loss provisions which went up 128.7% year-on-year (y-Y) from KES 15.41Bn in 2022 to KES 35.25Bn in 2023. Profits after tax (PAT) were down 5.3% from KES 46.10Bn to KES 43.74Bn on a lower effective tax of 15.7% of 15.7% compared to 23.0% recorded in 2022.

Subsidiaries' regional revenue contribution improved to 51.2% or KES 93.44Bn of the total Group revenue, up from a 44.0% or KES 64.21Bn contribution reported in FY 2022. PBT before provisions from subsidiaries stood at KES 43.8Bn, representing 48.1% of the Group PBT.

The Group's Board maintained a KES 4.00 dividend per share (DPS) for FY 2023, representing a dividend payout ratio of 36.0% against an Earnings per share of 11.12. The dividend book closure and payments dates are set for 24th May and 28th June respectively.

We issue a HOLD recommendation on the stock with a target of exiting for clients who purchased at levels of below 42.00, a return of above 14.0% from the current price of KES 49.15.

Income Statement

Net interest income (NII) went up 21.2% in the year suppressed by a faster rise in interest expense that rose at 52.9% y-y compared to the 30.1% rise in total interest income. NII contribution to total income fell for a third-year consecutive, on account of higher cost of borrowing from both customer deposits and the bank's overall borrowings.

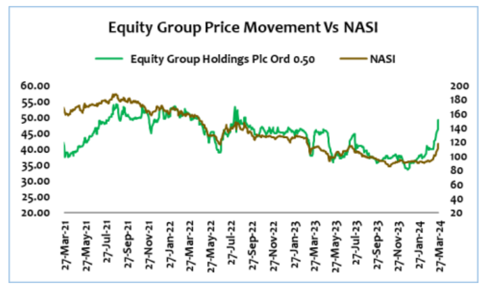
Interest income was 30.0% up y-y from KES 119.63Bn to KES 155.64% supported by both interest income from loans and advances and that from government securities.

Income from loans and advances remained steady, gaining 29.9% further to KES 101.60Bn as the Group's loan book expanded by 25.6% or KES 180.79Bn. Yield on loans and advances, however, rose marginally from 12.1% to 12.7% on what the management attributed to a deliberate stabilization 13.0% interest rate for loans disbursed before its current risk based rate of between 20% and 24.0%.

Interest income from government securities grew at 28.4% from KES 40.02Bn in FY-2022 to KES 51.41Bn rallied up by 27.0% additional investments in government papers that saw, the securities book surpassed the KES 500Bn mark to KES 500.54Bn. This was as returns on investment in the sector flourished to hit above 15.0% by the close of the year.

Yield on government securities rose 133.7bps from 10.2% to 11.5% benefiting from the above rate hikes.

Recommendation:	HOLD
Bloomberg Ticker:	EQTY KN
Share Statistics	
Implied Value	**54.00**
Current Price	49.15
Upside/Downside	9.9%
3-Month Av	36.60
6 Month Av	37.77
52 Week Av	39.26
52 Week High - Low	**33.65 - 49.20**
Issued shares Mn	3,773.67
Market Cap (KES Mn)	185,476.12
Market Cap (USD Mn)	1,352.82
P/E	1.10
BVPS	57.80
PB	0.85
EPS	11.12
Dividend Per share	4.00
EPS	36.0%



Co-op Price Movement Vs NASI Index		
Period	**Equity Group**	**NASI**
m-t-d %Δ	22.90%	26.30%
m-m %Δ	23.30%	26.20%
3m-t-d %Δ	32.50%	29.1.%
6m-t-d %Δ	35.80%	23.00%
y-o-y %Δ	17.20%	5.30%
y-t-d %Δ	43.70%	28.10%

NII + 21.2% Y/Y
Provisions +128.7% Y/Y
Opex. + 51.7% Y/Y
PBT – 13.3% Y/Y
PAT – 5.1% Y/Y
Govt. Securities + 27.0% Y/Y
Loan Book + 25.6% Y/Y
Deposits + +29.1% y/y
Shareholder's Funds + 19.7% Y/Y

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Total interest expense accelerated 52.9% up to KES 51.44Bn in FY 2023 from KES

33.64Bn in FY 2022, as the bank went aggressive to fund its growing loan book. Costs on customer deposits were up 50.3% to KES 33.71Bn as customers demanded better rates informed by higher returns in the government securities sector as highlighted above.

Non-funded income for the lender rose 30.7% from KES 59.94Bn to KES 78.31Bn, majorly benefiting from other fees and commissions which we attribute to the company's digital transactions. According to management, the company's digital transactions accounted for 85.1% of all banking transactions. Agency banking was second at 8.9% followed by ATM and branch and merchant banking transactions of below 3% each.

The Bank's forex income jumped 34.1% y-y up from KES 12.97Bn to KES 17.40Bn taking advance of the by then weakening local currency and scarcity of US dollar currency.

Operating expenses were 51.7% higher in the year from KES 86.09Bn to KES 130.63Bn, largely on account of higher loan loss provisions that ballooned at 128.7% from KES 15.41Bn to KES 35.25Bn. Staff costs were up 28.3% from KES 24.78Bn to KES 31.80B partly on the annual pay rise and new acquisitions.

Excluding loan loss provisions, operating expenses rose 34.9% from KES 70.68Bn to KES 95.37Bn.

PBT Subsidiary Contribution (KES Bn)

Subsidiary	FY 2022	FY 2023	%Δ
Equity Kenya	49.00	47.30	-3.5%
Congo	11.40	24.90	118.4%
Uganda	4.80	6.10	27.1%
Rwanda	4.60	5.80	26.1%
Tanzania	1.80	1.80	0.0%
South Sudan	3.10	3.00	-3.2%
EBIL	0.70	0.80	14.3%
EIB	0.10	0.20	100.0%
Finserve	0.70	0.30	-57.1%
ELAK	0.70	0.90	28.6%

Balance Sheet

The Bank's total assets expanded 25.9% from KES 1,447.01Bn to KES 1,821.44Bn, pushed up by its loan book and the government securities book. The loan book was up 25.6% from KES 706.59Bn to KES 887.86Bn as the government securities book gathered 27.0% from KES 393.98Bn to KES 500.54Bn.

To support the growing loan book, the bank grew its borrowings by 11.6% from KES 113.69Bn to KES 126.91Bn while utilizing well its customer deposits. Customer deposits were 29.1% y-y from KES 1,052.16Bn to KES 1,358.18Bn.

Shareholders' funds added KES 35.92Bn to grow by 19.7% from KES 182.21Bn to KES 218.14Bn, on effect from the rising retained earnings the continue to benefit from a rising net revenues.

Key Ratios

Return on average assets slowed down to 2.7% in FY 2023, from 3.4% in FY 2022, on a decline in net revenue and a faster rise in the bank's total assets. Decline in revenues also saw the return on average Equity also drop from 25.5% to KES 21.8%.

Expensive deposits saw the lender's cost of funds rise from 2.9% to 3.8%. As a result of this, the company's net interest margins rose marginally from 7.1% to 7.2%.

Heavy provisions of FY 2024, saw the Group's cost of risk soar from 2.4% to 4.4%.

Outlook

The Group remains very promising especially regarding returns from its regional business which appear to have been a good move. This is as the local unit seems to grow at a lower rate with provisions being a great challenge.

The adoption of a risk-based pricing model by the bank is expected to see its overall interest income soar higher to cushion the expected rise in provisions. If thorough due diligence is done for loans disbursed under the new pricing, the Group's return on equity is expected to better up.

P&L (KES Mn)	FY-2021	FY-2022	FY-2023	Y-Y %Δ
Interest Income	94,345	119,634	155,639	30.1%
Interest Expense	25,534	33,635	51,445	52.9%
NII	**68,811**	**85,999**	**104,194**	21.2%
NFI	44,575	59,936	78,312	30.7%
Total Income	**113,386**	**145,935**	**182,506**	25.1%
Loan Loss Provisions	5,845	15,414	35,254	128.7%
Operating Expense	61,505	86,091	130,627	51.7%
Opex excl Provision	55,661	70,677	95,373	34.9%
PBT	**51,881**	**59,844**	**51,879**	-13.3%
PAT	40,072	46,103	43,737	-5.1%
EPS	10.38	11.90	11.12	-6.6%
Dividend	3.00	4.00	4.00	0.0%

Balance Sheet (KES Mn)	FY-2021	FY-2022	FY-2023	Y-Y %Δ
Investments	394,101	393,984	500,542	27.0%
Loans and Advances	**587,775**	**706,588**	**887,380**	**25.6%**
Total Asset	**1,304,914**	**1,447,011**	**1,821,435**	**25.9%**
Customer Deposit	958,977	1,052,162	1,358,183	29.1%
Borrowing	**123,912**	**113,692**	**126,914**	**11.6%**
Shareholders' Fund	176,191	182,211	218,135	19.7%

Ratios	FY-2021	FY-2022	FY-2023
NII % of Total Income	60.7%	58.9%	57.1%
NFI % of Total Income	39.3%	41.1%	42.9%
CTI	54.2%	59.0%	71.6%
CTI exc Provision	49.1%	48.4%	52.3%
Cost of Funds	2.7%	2.9%	3.8%
Net Interest Margins	6.6%	7.1%	7.2%
Yield on Advances	12.0%	12.1%	12.7%
Yield on Govt Securities	9.6%	10.2%	11.5%
ROaA	3.5%	3.4%	2.7%
ROaE	25.5%	25.7%	21.8%
Cost of Risk	1.1%	2.4%	4.4%
AD Ratio	61.3%	67.2%	65.3%
Investment Securiteis to Assets	30.2%	27.2%	27.5%
Advances to Assets	45.0%	48.8%	48.7%
Debt to Equity	70.3%	62.4%	58.2%
NPL Ratio	8.5%	8.3%	12.0%

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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 fallsbetween 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 substantiallyhigher 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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