

### Equity Group Profits Rise 25.2% in Q1-2024 on Fast Subsidiary Growths

Equity Group plc reported KES 20.41Bn profits before tax (PBT) in the first quarter of 2024 financials (Q1-2024), a 20.9% rise from that of KES 16.88Bn reported same time last year. The performance was supported by a 32.7% rise in interest income occasioned by growth in its loan book better utilization of its non-funded income channels. Profit after tax soared by a quarter or 25.1% from KES 12.80Bn in Q1-2023 to KES 16.03Bn in Q1-2024, benefitting from a lower effective tax rate of 21.5% compared to an effective tax rate of 24.2% in Q1-2022.

The Group's Board did not recommend an interim dividend even as the lender's earnings per share moved 25.2% up from 3.26 to 4.08, giving an annualized price to earnings ratio of 2.65X. The better returns saw the book value per share (BVPS) up 14.7% to 57.97.

We retain a BUY recommendation on the stocks share price with a price implied valuation price of KES 54.00, a 24.9% upside from the current price of KES 43.25 as of 13<sup>th</sup> May 2024. The Group's FY-2024 KES 4.00 final dividend book closure is scheduled for 24<sup>th</sup> May for a payment on 28<sup>th</sup> June 2024.

### Income Statement

Net interest income (NII) for the lender climbed 28.4% year-on-year (y-y) up from KES 21.68Bn to KES 27.84Bn on a faster rise in the interest income on full realization of its risk-based pricing model and the elevated government securities rates that touched a high of 18.46% in February 2024. As a result, NII contribution to total income escalated from 54.1% in Q1-2023 to 55.6%, compounded by a better management of the Bank's cost of funding.

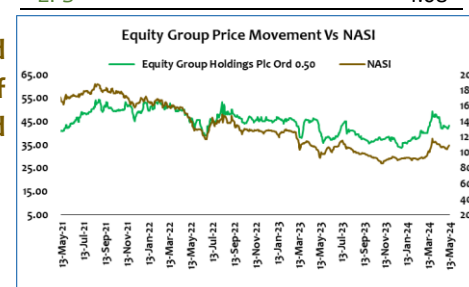
Total interest income expanded 32.7% from KES 32.44Bn to KES 40.04Bn further benefitting from Central Bank of Kenya rate hikes which raised the Central Bank Rate (CBR) from 12.5% to a high 13.0% pushing returns on loans and government securities higher in comparison to a base rate 8.75% in January & February 2023 and that of 9.5% of March 2023.

Interest income from loan and advances went up 31.9% y-y from KES 20.72Bn to KES 27.32Bn emanating from the above surge in interest rates. This was as the loan book rose 3.00% from KES 756.33Bn to KES 779.23Bn on stringent lending measures to cap bad loans.

Interest income from government securities accelerated 36.5% y-y up from KES 10.867Bn to KES 14.56Bn mainly benefitting from more investments in government paper and the above rate hikes. This was as investments in government papers soared 20.6% up from KES 392.47Bn to KES 473.24Bn on what we view as a skeptical withdrawal high-risk loan book in the retail lending space. Despite this, the bank's loan book remained well distributed, 40% corporate, 28% retail and consumer, 26% micro, small and medium enterprises and 6% public service institutions.

As a result of the above upward rate reviews, yield on loans & advances improved from 11.3% in Q1-2023 and 12.7% in Q4-2024 to close Q1-2024 at 12.7%. Yield on government securities also improved from 10.8% in Q1-2023 and 11.5% in Q4-2023 to 12.0% by close of March 2024.

Recommendation:	HOLD
Bloomberg Ticker:	EQTY KN
Share Stats	
Implied Value	54.00
Current Price	43.25
Upside/Downside	24.9%
3-Month Av	42.50
6 Month Av	39.66
52 Week Av	39.19
52 Week High - Low	33.65 - 49.20
Issued shares Mn	3,773.67
Market Cap (KES Mn)	163,211.44
Market Cap (USD Mn)	1,243.86
P/E (annualized)	2.65
BVPS	57.97
PB	0.75
EPS	4.08



Equity Group Price Vs NASI Index Movement		
Period	Equity Group	NASI
m-t-d %Δ	1.53%	3.92%
m-m %Δ	-6.89%	-1.46%
3m-t-d %Δ	15.33%	19.14%
6m-t-d %Δ	15.03%	22.00%
y-t-d %Δ	26.46%	18.53%
y-o-y %Δ	6.00%	16.49%

- NII + 28.4% y-y
- Provisions +74.5% y-y
- Opex. +27.9% y-y
- PBT +20.9% y-y
- PAT +25.2% y-y
- Loan Book +3.0% y-y
- Govt. Securities +20.6% y-y
- Deposits +11.3% y-y
- Shareholder's Funds +14.7% y-y

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# KINGDOM SECURITIES

Interest expense shot up 41.8% from KES 10.75Bn to KES 15.20Bn pushed up by expensive customer deposits and deposit placements from other banking institutions. This was as these two groups sought more compensation to maintain their deposits in the banks to avoid channeling the funds to other well-paying investments, especially government papers.

Expense on customer deposits expanded by almost a half from KES 7.42Bnm to KES 11.08Bn as that on placements from banking institutions surged 80.4% to KES 1.76Bn.

Non-funded income rose 21.0% y-y from KES 18.38Bn to KES 22.24Bn in Q1-2024 supported from digital revenue channels. During the period, Equity's Equity Life Assurance Kenya regained a market share of 8.7% to take the fourth position in the life assurance business.

Forex exchange income however, shrunk 25.6% from KES 5.16Bn to KES 3.84Bn on what we view as the effect a weak US dollar demand witnessed in the quarter. This was further impacted by a weakening US dollar currency experienced as from 7<sup>th</sup> Feb 2024, when the government announced issuance of a Eurobond to repurchase the USD 1.5Bn US dollar that happened in February 2024.

Operating expenses were 27.9% higher from KES 23.19Bn in Q1-2023 to KES 29.67Bn in Q1-2024 raised by a 74.5% growth on the Banks' loan loss provisions that moved from KES 3.48Bn to KES 6.07Bn, to cushion the rising non-performing loans.

Operating expenses excluding loan loss provisions were up 19.7% y-y up to KES 23.60Bn elevated by staff costs which jumped 18.4% up from KES 6.63Bn to KES 7.85Bn. We attribute the sharp rise in staff costs to bonuses and some new staff acquisitions upon the consolidation of its operations from subsidiaries.

## Balance Sheet

Overall Equity Group plc balance sheet grew 9.6% from KES 1,537.68Bn to KES 1,685.88Bn, emanating mainly from the Group's growths in government securities which moved 20.6% up to KS 473.24Bn. This saw the securities asset contribution improve from 25.5% in Q1-2023 to 28.1% of total assets by close of Q1-2024.

Loans/advances to asset ratio however, shrunk from 49.2% of KES 756.33Bn to 46.2% of KES 779.23Bn as the as the bank went aggressive on government securities to manage its bad loan. The slow growth on the asset book follows stringent appraisal measures placed on loan facilities.

Shareholders' funds enlarged 14.7% y-y from KES 190.68Bn to KES 218.88Bn on the above fast rise in the Group's net profits that saw retained earnings 17.7% y-y up from KES 186.78Bn to KES 219.89Bn surpassing the total shareholders' funds. Revaluation reserves however sunk 12.1% to a loss of KES 41.36BN.

## Key Ratios

The Lender's asset yield on interest earning assets rose from 10.2% in Q1-2023 to 11.6% by end of Q1-2024 on rises in returns across its assets. However, this 1.4% addition to the

### Loan Book Composition

Total Loan Book	779.23Bn
Corporates & Large Enterprises	40%
MSME	26%
Retain & Consumer	28%
Public Service Institutions	6%

### Subsidiary Contribution

	Q1-2023	Q1-2024
Revenue	51.2%	59.0%
PBT	55.6%	63.0%
PAT	44.4%	65.6%

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bank did not reflect fully on the on the bank's net interest margin (NIM) which rose marginally from 6.7% in Q1-2023 to 7.3% in Q1-2024.

This was as the cost of funds rolled upwards from 3.5% in Q1-2023 to 4.2% by end of Q1-2024.

The Bank's cost of risk grew marginally from 1.9% in Q1-2023 to 2.9% in Q1-2024 on prudent management of its loan book.

## Outlook

Equity Group Holdings plc remains in a strategic position, especially in the region which we view will see more returns to its shareholders in the long run.

The bank continues to match its commercial and operational capabilities to match global standards through product bundling and offerings of a one stop shop for its clientele.

P&L (KES Mn)	Q1-2023	FY-2023	Q1-2024	%Δ Y-Y
Interest Income	32,440	155,639	43,044	32.7%
Interest Expense	10,755	51,445	15,205	41.4%
<b>NII</b>	<b>21,685</b>	<b>104,194</b>	<b>27,839</b>	<b>28.4%</b>
NFI	18,384	78,312	22,242	21.0%
<b>Total Income</b>	<b>40,069</b>	<b>182,506</b>	<b>50,081</b>	<b>25.0%</b>
Loan Loss Provisions	3,477	35,254	6,066	74.5%
Operating Expense	23,188	130,627	29,668	27.9%
Opex excl Provision	19,711	95,373	23,602	19.7%
<b>PBT</b>	<b>16,881</b>	<b>51,879</b>	<b>20,414</b>	<b>20.9%</b>
PAT	12,800	43,737	16,027	25.2%
EPS	3.26	11.12	4.08	25.2%
Balance Sheet (KES Mn)	Q1-2023	FY-2023	Q1-2024	%Δ Y-Y
Investments	392,469	500,542	473,239	20.6%
Loans and Advances	756,334	887,380	779,229	3.0%
Total Asset	1,537,677	1,821,435	1,685,877	9.6%
Customer Deposit	1,111,169	1,358,183	1,236,345	11.3%
Borrowing	114,113	126,914	109,615	-3.9%
Shareholders' Fund	190,684	218,135	218,779	14.7%
Ratios+A4	Q1-2023	FY-2023	Q1-2024	
NII % of Total Income	54.1%	57.1%	55.6%	
NFI % of Total Income	45.9%	42.9%	44.1%	
CTI	57.9%	71.6%	59.2%	
CTI exc Provision	49.2%	52.3%	47.1%	
Cost of Funds	3.5%	3.8%	4.2%	
Net Interest Margins	6.7%	7.2%	7.3%	
Yield on Advances	11.3%	12.7%	13.1%	
Yield on Govt Securities	10.8%	11.5%	12.0%	
ROaA	3.4%	2.7%	3.7%	
ROaE	27.5%	21.8%	29.3%	
Cost of Risk	1.9%	4.4%	2.9%	
AD Ratio	68.1%	65.3%	63.0%	
Investment Securities to Assets	25.5%	27.5%	28.1%	
Advances to Assets	49.2%	48.7%	46.2%	
Debt to Equity	59.8%	58.2%	50.1%	
NPL Ratio	8.5%	12.0%	14.1%	

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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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