

Housing Finance Group Plc Growth on Retail

Housing Finance Group plc continues to make remarkable growths on its shareholder returns after years of loss making. In an aim to boost its capital ratios for business growth, the company announced a rights issue of three new shares for every share held. The new 1,538,456,672 shares at an offer price of KES 4.00 per share, inclusive of a 30% green shoe options in case of oversubscription. The issue is also geared towards improving the stock's liquidity in the market by giving its investors an opportunity to purchase new shares.

The rights offer opens on 1st November and closes on 9th December 2024 for investors on the shareholders' register as of 1st November 2024, 3.00pm East African Time.

On its half year 2024 (H1-2024) financials, Housing Finance Group herein referred to as HFCK, recorded a 41.7% rise in profits before tax (PBT) from KES 199.75Mn in H1-2023 to KES 282.96Mn in H1-2024. The growth was mainly supported by interest income lines which hit KES 3.04Bn in the period.

We issue a LONG-TERM BUY RECOMMENDATION on the counter's share price at the offer price of KES 4.00 with a fair value of KES 4.85, a 15.8% upside from the current price of KES 4.22 per share.

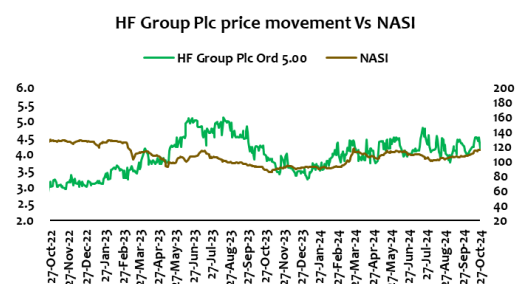
Banking Industry Performance

- The banking sector loan book shrunk 4.0% in the first six months of 2024 from KES 4,222.4Bn in January to KES 4,041.3Bn by end of June held down by low disbursements that failed to offset the loan repayments. This was as elevated cost of borrowing kept many businesses and individuals shy off from loans even as others could not even qualify for credit. As a result, non-performing loans (NPLs) ratio rose from 15.1% in January 2024 to 16.3% by end of June 2024. By end of August 2024, industry NPLs ratio rose to 16.7% forcing many banks to provide more for their books.
- Private sector credit grew at the lowest pace in the second quarter and third quarter of 2024 on low bank loan disbursements to various sectors of the economy. Consequently, private sector growth grew at 4.0% in June 2024, 3.7% in August 2024 and only 1.3% in August 2024. As a result of this, the Central Bank relaxed its monetary stance with a 75.0bps (0.75%) cut in the base lending rate to support market liquidity.
- As interest rate cuts continue, we anticipate disbursements to grow and result in business expansions and consequently an improvement in the NPLs ratios. This will also impact equities investing with prices anticipated to pick up. So far, the first two rate cuts have had implications on the interbank market and the government securities investment returns for the

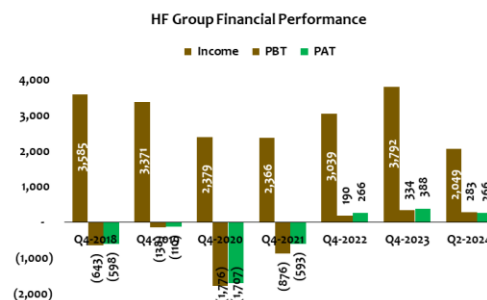
Considering this, we view the HFC Bank and Group to be positioning itself for better growth banking on an expected rise in disbursements in 2025 and 2026 when the Central Bank Rate (CBR) is forecasted to come below 10%.

| | |
|-------------------|---------------|
| Recommendation: | Long-Term BUY |
| Bloomberg Ticker: | HFCL KN |
| Share Stats | |

| | |
|------------------------|-------------|
| Implied Value | 4.84 |
| Current Price | 4.22 |
| Upside/Downside | 14.7% |
| 3-Month Avg (KES) | 4.20 |
| 6 Month Avg (KES) | 4.20 |
| 52 Week Avg (KES) | 4.01 |
| 52 Week High - Low | 4.79 - 3.25 |
| Issued shares Mn | 384.61 |
| Expected Issued Shares | 1,538 |
| Market Cap (KES Mn) | 1,623.07 |
| Market Cap (USD Mn) | 12.56 |
| P/E (annualized) | 1.53 |
| BVPS | 24.22 |
| PB | 0.17 |
| EPS (Annualized) | 2.76 |



| Return Performance | | |
|--------------------|----------|-------|
| Periods | HF Group | NASI |
| 3-Months %Δ | -7.9% | 11.4% |
| 6-Months %Δ | 0.2% | 2.7% |
| Y-T-D %Δ | 22.3% | 26.3% |
| Y-Y %Δ | 5.5% | 29.9% |



H1-2024 Performance

| | |
|-----------------|-------|
| PBT | 41.7% |
| PAT | 46.3% |
| Loan Book | 0.4% |
| Securities Book | 24.4% |

Note: Please find the rights issue timetable and statistics on the last page

Housing Finance Group

Traditionally known for mortgage financing, Housing Finance Group has evolved towards full-service offering as follows:

- ✓ Banking services to both retail and corporate institutions. The bank's services in the sector have so far acquired new heights to acquire a net promoter score of +57 while being accoladed with various awards, a clear indication of its focus on growth. In the retail space, the bank has developed products tailored to both individuals and small businesses while in corporate banking a focus is given to treasury services, custodial and institutional services for the larger corporate clients, institutions and government entities.
- ✓ Offering bancassurance solutions through its HF Bancassurance Intermediary Agency, to HF customer base and the public by partnering with different insurances in underwriting both general and life insurances.
- ✓ Property development, management and property advisory and sales services and partnerships in affordable housing solutions through its property subsidiary HFDI. The model focuses on strategic partnerships for development of affordable housing and user house financing, and landowner wealth management. This is geared to also manage the high NPLs and idle assets brought about by its old strategy.

Under the new business model, HF Group Management forecasts dividend payout as from end of

It's at the back of this that the Group needs additional financing via a rights issue to grow its Banking business.

| Top Shareholders | | | |
|------------------|--|------------------|-----------|
| | Shareholder Name | Number of shares | % holding |
| 1 | Britam Holdings | 74,666,146 | 19.4% |
| 2 | Equity Nominee | 48,828,477 | 12.7% |
| 3 | Britam Life Assurance | 35,891,083 | 9.3% |
| 4 | Britam Life Assurance | 25,597,000 | 6.7% |
| 5 | National Treasury | 9,265,135 | 2.4% |
| 6 | Kerai, Ramila Harj Mavji and Harji Mavji | 7,202,000 | 1.9% |
| 7 | Musangi Andrew Mukite | 6,400,000 | 1.7% |
| 8 | Mwangi Peter Kingori | 6,094,289 | 1.6% |
| 9 | Bid Management Consultancy | 5,298,500 | 1.4% |
| 10 | Kibuwa Enterprices | 5,012,575 | 1.3% |
| 11 | Others | 160,358,963 | 41.7% |
| | Total | 38461416800.0% | 100.0% |

HF Group Financial Performance & Rights Issue Background

HF Group turned to profitability in 2022 when it recorded its first profits before tax (PBT) of KES 190.40Mn since 2018. The return to profits was mainly supported by growths in interest incomes and reductions in the operating expenses.

The Group has since maintained an upward performance trajectory to quadruple the performance within two years from KES 62.27Mn in half year 2022 (H1-2022) to a PBT of KES 282.96Mn in H1-2024.

Much of the Group's revenue comes from its lending business to account for 87.9% of its total revenue for FY-2023 from that of 96.3% same period in FY-2024.

HFC Bank's old loan book that focused only on mortgage loans and commercial houses had seen the bank's revenue contribution shrink over time from over 90% of the total revenue in 2022 to below 40% at 35.9% by close of H1-2024.

By end of 2022, interest income had dipped 29.4% between 2018 and 2022 from KES 6.05Bn to KES 4.27B. This was occasioned by a shrinking that thinned by 16.4% from KES 43.44Bn to KES 36.30Bn, same period.

The situation, however, changed in 2022 when the Group reported its first profits in five years in 2022, immediately after a capital injection by Britam Holdings plc of KES 1 billion in 2021.

In H1-2024, HF Group recorded a further 41.7% rise in PBT from KES 199.75Mn in H1-2023 to KES 282.96Mn, strongly supported by a 23.8% spike in interest income from KES 2,456.66Mn to KES 3,041.62Mn.

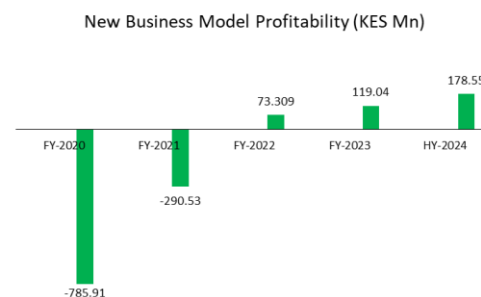
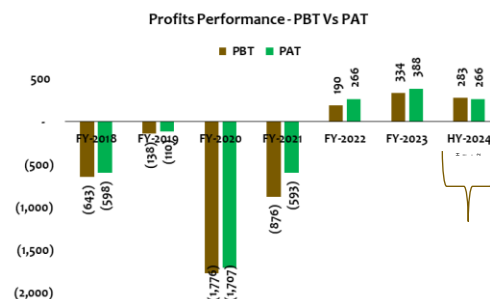
These profits were however slowed down by the high cost of financing through expensive deposits and borrowings currently witnessed in the market. This emanates from better returns on investment witnessed from government paper and thereby causing many investors to divert deposits to both treasury bills and treasury bonds.

As a result, the net interest income (NII) grew at a lower base of 4.7% from KES 1,273.58Mn to KES 1,332.85Mn as the interest expense expanded 44.4% year on year (y-y) up from KES 1,183.07Mn to KES 1,708.78Mn. Costs on customer deposits escalated 86.8% to KES 1,325.98Mn in H1-2024 from KES 709.73Mn as that of placements from other banks accelerated 66.7% to KES 200.81Mn on an elevated interbank as pegged on the Central Bank monetary policy.

It's on this basis that the HF Group needs additional financing to support especially its lending business which we view will result in higher shareholders' return.

Balance Sheet Performance

In a similar situation, HF Group's balance sheet performed as the profit and loss statement, recording consisted declines in assets between 2018 and end of 2021 from KES 60.55Bn in 2018 to KES 52.90Bn by end of 2021. The assets began uphill



right from the last quarter of 2021 when the capital was boosted and grew even faster in 2023.

By close of H1-2024, total assets hit KES 63.75Bn, a 5.0% y-y growth from KES 60.72BN recorded in H1-2023, supported by a 24.2% jump in government securities. This was mainly attracted by the better rates which hit 18% for a tax-free paper in February 2024.

We view the focus on government papers as a tactical move to reap from the high returns as well as manage the bank's non-performing loans (NPLs) book which hit 17.4% by end of Q2-2024.

Key Ratios

The Group's net interest margin has marginally gone down in the last one year from 5.3% in H1-2023 to 5.1% in H1-2024 despite its asset yield maintaining an upward trajectory, right from 9.6% in H1-2022 to 10.5% in H1-2023 and to 12.2% in H1-2024. The rise was however neutralized by a faster rise in the cost of funds which has so far risen from 4.8% to 5.0% and to 7.1% in the similar period.

Return on assets on assets has improved over time from 0.5% in 2022, to 0.7% in 2023 and to the current level of 0.9% in 2023. We expect this to surpass 2.0% by end of FY-2024 on the ongoing faster growths in revenues compared to assets. Return on average equity is geared towards the 10% mark from the current levels of 5.9% as of H1-2024.

| P&L (KES Mn) | 2021A | 2022A | 2023A | H1-2024A | 2024F | 2025F | 2026F |
|----------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Interest Income | 3,923 | 4,270 | 5,204 | 3,042 | 5,829 | 6,544 | 7,270 |
| Interest Expense | 2,095 | 2,110 | 2,655 | 1,709 | 2,948 | 3,276 | 3,642 |
| NII | 1,828 | 2,160 | 2,550 | 1,333 | 2,881 | 3,268 | 3,628 |
| NFI | 538 | 880 | 1,243 | 716 | 1,397 | 1,504 | 1,628 |
| Total Income | 2,366 | 3,039 | 3,792 | 2,049 | 4,278 | 4,772 | 5,256 |
| Loan Loss Provisions | 281 | 194 | 309 | 167 | 331 | 341 | 354 |
| Operating Expense | 3,226 | 2,843 | 3,490 | 1,766 | 3,606 | 3,789 | 4,000 |
| Opex excl Provision | 2,945 | 2,649 | 3,181 | 1,599 | 3,274 | 3,448 | 3,645 |
| PBT | -876 | 190 | 334 | 283 | 704 | 1,015 | 1,289 |
| PAT | -593 | 266 | 388 | 266 | 493 | 710 | 902 |
| EPS | (1.54) | 0.69 | 1.01 | 1.38 | 1.28 | 1.85 | 2.35 |
| Expected Diluted EPS | | | | | 0.32 | 0.46 | 0.59 |

| Balance Sheet (KES Mn) | 2021A | 2022A | 2023A | H1-2024A | 2024F | 2025F | 2026F |
|------------------------|--------|--------|--------|----------|--------|--------|--------|
| Investments | 6,530 | 8,540 | 9,682 | 12,194 | 13,414 | 14,755 | 15,936 |
| Loans and Advances | 34,693 | 36,299 | 38,788 | 37,917 | 39,757 | 40,950 | 42,486 |
| Total Asset | 52,904 | 56,996 | 61,550 | 63,745 | 66,769 | 69,746 | 72,949 |
| Customer Deposit | 37,715 | 39,797 | 43,848 | 45,028 | 48,232 | 52,091 | 55,998 |
| Borrowing | 4,351 | 4,371 | 3,793 | 3,078 | 3,793 | 3,793 | 3,793 |
| Shareholders' Fund | 7,968 | 8,770 | 8,865 | 9,316 | 9,345 | 9,586 | 10,001 |

| Ratios | 2021A | 2022A | 2023A |
|---------------------------------|--------|-------|-------|
| NII % of Total Income | 77.3% | 71.1% | 67.2% |
| NFI % of Total Income | 22.7% | 28.9% | 32.8% |
| CTI | 136.3% | 93.5% | 92.0% |
| CTI exc Provision | 124.5% | 87.1% | 83.9% |
| Cost of Funds | 4.8% | 4.9% | 5.8% |
| Net Interest Margins | 4.1% | 5.0% | 5.3% |
| Yield on Advances | 8.8% | 9.4% | 10.7% |
| Yield on Govt Securities | 9.7% | 12.4% | 12.6% |
| ROaA | -1.1% | 0.5% | 0.7% |
| ROaE | -7.2% | 3.2% | 4.4% |
| Cost of Risk | 0.8% | 0.5% | 0.8% |
| AD Ratio | 92.0% | 91.2% | 88.5% |
| Investment Securiteis to Assets | 12.3% | 15.0% | 15.7% |
| Advances to Assets | 65.6% | 63.7% | 63.0% |
| Debt to Equity | 54.6% | 49.8% | 42.8% |
| NPL Ratio | 14.2% | 13.3% | 16.8% |

Rights Issue Statistics

| Data | Statistic |
|--|--------------------|
| Par value | KES 5.00 each |
| Offer Price | KES 4.00 per share |
| Number of issued and paid-up shares prior to the Rights Issue | 384,614,168 |
| Number of Entitlement Shares | 769,228,336 |
| Number of Additional Shares | 384,614,168 |
| Number of New Shares | 1,153,842,504 |
| Number of Green Shoe Option Shares | 346,152,751 |
| Number of New Shares plus Green Shoe Option shares | 1,499,995,255 |
| Number of issued and fully paid-up shares post-Rights Issue assuming fullsubscription | 1,538,456,672 |
| Number of issued and fully paid-up shares post-Rights Issue assuming fullsubscription and 100% uptake of the green shoe option | 1,884,609,423 |
| Gross proceeds of Rights Issue assuming full subscription | KES 4,615,370,016 |
| Gross proceeds of Rights Issue assuming full subscription and 100% uptake ofthe green shoe option | KES 5,999,981,020 |

Rights Issue Time Tabel

| Action | Date |
|--|-------------------------------------|
| Shareholder Approval for the Rights Issue at the Extra-Ordinary GeneralMeeting | 4 th September 2024 |
| CMA approval of the Information Memorandum | 25 th October 2024 |
| Record Date | 1 st November 2024, 3pm |
| Upload of entitlement to CDS accounts | 12 th November 2024 |
| Rights Issue Opens | 12 th November 2024, 9am |
| Commencement of trading of Rights on the NSE | 12 th November 2024 |
| Last day of renunciation by way of private transfer/Last day for splitting(Private Transfer Renunciation Date) | 2 nd December 2024, 3pm |
| Last day for trading of nil paid Rights on the NSE | 2 nd December 2024, 3pm |
| Offer Close | 9 th December 2024, 5pm |
| Allocation | 18 th December 2024 |
| Last date of payment of irrevocable bank guarantees | 20 th December 2024 |
| Announcement of results | 20 th December 2024 |
| Electronic crediting of CDS accounts with the New Shares | 23 rd December 2024 |
| Dispatch of payment of refunds | 23 rd December 2024 |
| Listing date and commencement of trading of New Shares on the NSE | 24 th December 2024 |

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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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