

Equity Group Profits Jump 13.1% on Higher Interest Income

Equity Group Holdings reported KES 51.02Bn profit before tax (PBT) for Q3-2023, representing an 11.1% year-on-year rise from KES 45.91Bn announced a similar period in 2023. The performance was largely supported by higher interest incomes from the prevailed higher lending rates witnesses in the period.

The Group's profit after tax (PAT) jumped 13.1% up from KES 36.20Bn in Q3-2024 to KES 40.94Bn by the end of September 2024 on a lower effective tax of 19.8% in relation to that of 21.1% same period in 2023.

We revise our recommendation on the Lender's share price from to ACCUMULATION with a price target price of KES 54.00, a 10.7% upside from the current price of KES 48.10. The Group has a book value per share (BVPS) of 60.16 with annualized earnings per share (EPS) of 13.88.

Income Statement

Net interest income (NII) jumped 11.0% y-y up from KES 72.60Bn to KES 80.59Bn strongly supported by a faster growth in interest income from both loans and government securities compared to the interest expense. Total interest income was up 13.3% year on year (y-y) from KES 111.13Bn to KES 125.93Bn compared to a 17.7% rise in interest expense from KES 38.53Bn to KES 45.35Bn.

NII contribution to total income declined from 44.3% in Q3-2023 to 43.1% in Q3-2024 despite the interest income rising faster than non-funded income lines. Non-funded income lines went up 5.8% y-y from KES 57.80Bn to 61.15Bn.

Interest income from loans and advances grew at a lower-than-expected rate at 12.5% y-y up from KES 70.57Bn to KES 79.39Bn, slowed down by low disbursements from the bank on higher lending rate that kept clients shy from loans while others could not qualify, especially from its Kenyan Unit. As a result, yields on loans and advances rose marginally from 12.1% to 12.5% on low new loan contracts with higher returns.

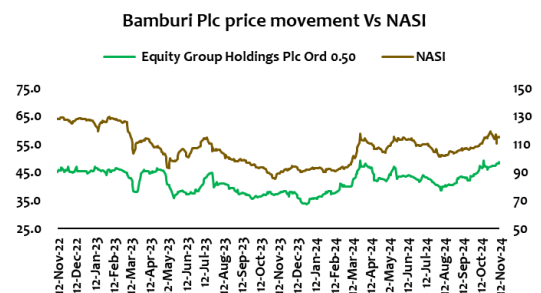
Interest income from government securities expanded 16.8% y-y from KES 36.47Bn in Q3-2023 to KES 42.58Bn in Q3-2024 as the bank took advantage of the higher returns from government papers especially infrastructure papers, whose returns went as high as 18.46% tax free. The yield on government securities, however, grew marginally from 11.6% to 11.7% year on year.

Interest expense climbed 17.7% y-y from KES 38.52Bn to KES 45.35Mn strained higher cost of customer deposits to support the asset books. This was as customers demanded more to avoid investing the same in government securities. As a result, cost on customer deposits shoot up 29.0% from KES 26.10Bn to KES 33.69Bn.

Operating expenses were contained at a 7.4% y-y rise from KES 84.50Bn to KES 90.71Bn supported by low loan loss provisions and a slow growth in staff costs.

Recommendation:	ACCUMULATE
Bloomberg Ticker:	EQTY KN
Share Stats	
Implied Value	54.00
Current Price	48.80
Upside/Downside	10.7%
3-Month Av	42.53
6 Month Av	39.70
12 Month Av	43.90
52 Week Av	43.43
52 Week High - Low	41.55
Issued shares Mn	3,773.67
Market Cap (KES Mn)	184,155.33
Market Cap (USD Mn)	1,425.20
P/E	3.52
BVPS	60.16
PB	0.81
EPS (Annualized)	13.88

Return Performance		
Periods	EQUITY Group	NASI
3mtd PriceΔ(%ge)	22.2%	12.9%
6mtd PriceΔ(%ge)	3.9%	4.5%



NNI +11.0% Y/Y
Provisions -33.2% Y/Y
Opex. +7.4% Y/Y
Opex. Excl Provisions +19.1% Y/Y
PBT + 11.1 Y/Y
PAT +13.1% Y/Y
Govt. Securities +5.2% Y/Y
Loans -5.4% Y/Y
Deposits +9.0% Y/Y
Shareholder's Funds + 17.5% Y/Y

KINGDOM SECURITIES

Loan loss provisions dipped 33.2% y-y from KES 18.99Bn to KES 12.68Bn after loan book shrunk 5.4% y-y from KES 845.92Bn to KES 800.14Bn. Quarter on quarter, loans disbursed fell 24.1% from 11.89Bn in Q2-2024 to KES 9.02Bn in Q3-2024.

Excluding loan loss provisions, operating expenses expanded 19.1% year on year on from KES 65.51Mn to KES 78.03Bn on elevated other operating expenses which ballooned 29.4% up from KES 36.48Bn to KES

Staff costs were contained at a 3.8% rise from KES 23.07Bn to KES 23.95Bn.

Balance Sheet

Equity Group's total assets remained relatively stable with a 0.7% y-y growth from KES 1,691.15Mn to KES 1,703.11Mn supported by government securities.

This was as the bank focused on managing non-performing loans risk by growing its government securities book by 5.2% y-y from KES 445.18Bn to KES 468.14Bn.

Loans and advances book shrunk 5.4% y-y from KES 845.92Bn to KES 800.14Bn on low disbursements that were offset by loan repayments. The low disbursements emanated from higher interest rates that touched above 20% as some businesses could not qualify.

Low disbursements saw Equity Group reduce its borrowings by 38.3% y-y from KES 121.78Bn in Q3-2024 to KES 75.13Bn by close of September 2024. As rates edge down, we expect this to change as disbursements improve.

Shareholders' funds jumped 17.5% y-y up from KES 193.21Bn to KES 227.04Bn supported by higher retained earnings which escalated 12.9% up from KES 209.07Bn to KES 236.13Bn in Q3-2024.

Key Ratios

The Group's net interest margin dropped from 7.4% in Q3-2023 to 7.1% held down higher cost of funding which saw the cost of funds move up from 3.9% in Q3-2023 to 4.2% in Q3-2024.

Faster rise in the Group's shareholders funds in relation to net income saw the return on average equity (ROaE) drop from 25.7% in Q3-2023 to 24.5% in Q3-2024. Return on average assets (RoA) however remained stable at 3.1% on impact from an elevated asset book.

Cost of risk however, declined from 3.3% to 2.0% on low loan loss provision which fell from KES 18.99Bn to KES 12.68Bn.

Subsidiary Contribution

Line	Q3-2023	Q3-2024
Revenue	48%	53%
PBT	53%	51%
PAT	49%	47%
Deposits	49%	49%
Loan Book	46%	47%
Assets	46%	48%

KINGDOM SECURITIES

P&L (KES Mn)	Q3-2024	Q2-2024	Q3-2024	%Δ Q-Q	%Δ Y-Y
Interest Income	111,128	84,813	125,931	-0.5%	13.3%
Interest Expense	38,524	30,458	45,345	-1.5%	17.7%
NII	72,605	54,356	80,586	0.1%	11.0%
NFI	57,801	42,784	61,152	-13.8%	5.8%
Total Income	130,405	97,140	141,737	-6.2%	8.7%
Loan Loss Provisions	18,990	10,520	12,683	-81.8%	-33.2%
Operating Expense	84,498	59,968	90,715	-16.4%	7.4%
Opex excl Provision	65,508	49,448	78,032	14.9%	19.1%
PBT	45,907	37,172	51,022	28.9%	11.1%
PAT	36,204	29,618	40,942	14.7%	13.1%
EPS	9.17	7.56	10.41	17.8%	13.5%

Balance Sheet (KES Mn)	Q3-2024	Q2-2024	Q3-2024	%Δ Q-Q	%Δ Y-Y
Investments	445,177	459,220	468,136	1.9%	5.2%
Loans and Advances	845,919	791,117	800,140	1.1%	-5.4%
Total Asset	1,691,154	1,746,030	1,703,114	-2.5%	0.7%
Customer Deposit	1,207,698	1,299,484	1,316,829	1.3%	9.0%
Borrowing	121,774	103,313	75,126	-27.3%	-38.3%
Shareholders' Fund	193,209	220,515	227,040	3.0%	17.5%

Ratios+A4	Q3-2024	Q2-2024	Q3-2024
NII % of Total Income	55.7%	56.0%	56.9%
NFI % of Total Income	44.3%	44.0%	43.1%
CTI	64.8%	61.7%	64.0%
CTI exc Provision	50.2%	50.9%	55.1%
Cost of Funds	3.9%	4.2%	4.2%
Net Interest Margins	7.4%	7.2%	7.1%
Yield on Advances	12.1%	12.8%	12.5%
Yield on Govt Securities	11.6%	11.8%	11.7%
ROaA	3.1%	3.3%	3.1%
ROaE	25.7%	27.0%	24.5%
Cost of Risk	3.3%	2.5%	2.0%
AD Ratio	70.0%	60.9%	60.8%
Investment Securities to Assets	26.3%	26.3%	27.5%
Advances to Assets	50.0%	45.3%	47.0%
Debt to Equity	63.0%	46.9%	33.1%
NPL Ratio	13.6%	13.8%	14.4%

KINGDOM SECURITIES

Research analyst certification:

The research analyst(s) primarily responsible for the preparation and content of all or any identified portion of this research report hereby certifies that all the views expressed herein accurately reflect their personal views. Each research analyst(s) also certify that no part of their compensation was, is, or will be, directly or indirectly, related to the view(s) expressed by that research analyst in this research report.

Terms of use – Disclaimer:

This research report has been prepared by Kingdom Securities Limited and is for information purposes only. This research report should not be construed as an offer or solicitation to sell or buy any investment or product. Any opinions expressed herein reflect the analyst's judgment at the date of publication and neither Kingdom Securities Limited, nor any of its affiliates or employees accepts any responsibility in respect of the information or recommendations contained herein. Unless otherwise stated, the opinions contained in this material are as of the date indicated and are subject to change at any time without prior notice. Past performance is not a guarantee or indication of future results.

The information and opinions contained in this Material have been derived from sources believed to be reliable and in good faith or constitute Kingdom Securities' judgement as at the date of this research but no warranty is made as to their accuracy and any opinions are subject to change and may be superseded without notice. In no circumstances will Kingdom Securities or its employees be liable to you for any errors or omissions in this report or for any losses you may incur in following any recommendations in the report. Kingdom Securities is a Subsidiary of Co-operative Bank of Kenya.

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.

Kingdom Securities Ltd – A subsidiary of Co-operative Bank Limited. Co-operative Bank House- 5th Floor, P.O Box 48231 - 00100 Nairobi, Kenya

Office: 0711049039

Email: kingdomresearch@co-opbank.co.ke

Research Department

Equities Trading

Shadrack Manyinsa smanyinsa@co-opbank.co.ke

Alfred Too atoo@co-opbank.co.ke

Dennis Langat dlangat@co-opbank.co.ke

Asena Moffat amoffat@co-opbank.co.ke