

Below is a summary of Equity Group FY'2023 performance:

Balance Sheet Items	FY'2022	FY'2023	y/y change
Government Securities	219.2	246.7	12.5%
Net Loans and Advances	706.6	887.4	25.6%
Total Assets	1447.0	1821.4	25.9%
Customer Deposits	1052.2	1358.2	29.1%
Deposits per branch	3.1	3.8	22.9%
Total Liabilities	1264.8	1603.3	26.8%
Shareholders' Funds	176.2	207.8	17.9%

Balance Sheet Ratios	FY'2022	FY'2023	% points change
Loan to Deposit Ratio	67.2%	65.3%	(1.8%)
Government securities to deposit ratio	20.8%	18.2%	(2.6%)
Return on average equity	26.7%	22.8%	(3.9%)
Return on average assets	3.4%	2.7%	(0.7%)
Dividend Yield	8.7%	8.5%	(0.2%)
Dividend Payout Ratio	33.6%	35.9%	2.3%

Income Statement	FY'2022	FY'2023	y/y change
Net Interest Income	86.0	104.2	21.2%
Net non-Interest Income	59.9	78.3	30.7%
Total Operating income	145.9	182.5	25.1%
Loan Loss provision	(15.4)	(35.3)	128.7%
Total Operating expenses	(86.1)	(130.6)	51.7%
Profit before tax	59.8	51.9	(13.3%)
Profit after tax	46.1	43.7	(5.1%)
Core EPS	12.2	11.6	(5.1%)

Income Statement Ratios	FY'2022	FY'2023	% points change
Yield from interest-earning assets	10.0%	11.0%	1.0%
Cost of funding	2.9%	3.8%	0.9%
Cost of risk	10.6%	19.3%	8.8%
Net Interest Margin	7.2%	7.4%	0.2%
Net Interest Income as % of operating income	58.9%	57.1%	(1.8%)
Non-Funded Income as a % of operating income	41.1%	42.9%	1.8%
Cost to Income Ratio	59.0%	71.6%	12.6%
CIR without LLP	48.4%	52.3%	3.8%
Cost to Assets	5.1%	5.8%	0.7%

Capital Adequacy Ratios	FY'2022	FY'2023	% Points Change
Core Capital/Total Liabilities	16.9%	16.2%	(0.7%)
Minimum Statutory ratio	8.0%	8.0%	0.0%
Excess	8.9%	8.2%	(0.7%)
Core Capital/Total Risk Weighted Assets	15.6%	14.3%	(1.3%)
Minimum Statutory ratio	10.5%	10.5%	0.0%
Excess	5.1%	3.8%	(1.3%)
Total Capital/Total Risk Weighted Assets	20.2%	18.1%	(2.1%)
Minimum Statutory ratio	14.5%	14.5%	0.0%
Excess	5.7%	3.6%	(2.1%)
Liquidity Ratio	52.1%	53.4%	1.3%
Minimum Statutory ratio	20.0%	20.0%	0.0%
Excess	32.1%	33.4%	1.3%

Income Statement

- Core earnings per share decreased by 5.1% to Kshs 11.6 from Kshs 12.2 in FY'2022, mainly driven by the 51.7% growth in total operating expenses to Kshs 130.6 bn, from Kshs 86.1 bn in FY'2022. However, the performance was supported by a 25.1% growth in total operating income to Kshs 182.5 bn, from Kshs 145.9 bn in FY'2022,
- The 25.1% growth in total operating income was mainly driven by a 21.2% growth in Net Interest Income to Kshs 104.2 bn, from Kshs 86.0 bn in FY'2022, coupled with a 30.7% growth in Non funded Income (NFI) to Kshs 78.3 bn, from Kshs 59.9 bn in FY'2022,
- Interest income grew by 30.1% to Kshs 155.6 bn from Kshs 119.6 bn in FY'2022, mainly driven by a 29.9% growth in interest income from loans and advances to Kshs 101.6 bn from Kshs 78.2 bn in FY'2022. As such, the Yield on Interest-Earning Assets (YIEA) increased to 11.0% from 10.0% recorded in FY'2022, mainly attributable to the faster 30.1% growth in interest income compared to a 17.9% increase in average interest earning assets to Kshs 1412.4 bn, from Kshs 1197.8 bn in FY'2022,
- Interest expense increased by 52.9% to Kshs 51.4 bn in FY'2023 from Kshs 33.6 bn in FY'2022, largely due to a 50.3% increase in interest expense on customer deposits to Kshs 33.7 bn from Kshs 22.4 bn in FY'2022, coupled with 106.3% increase in interest expenses on placements to Kshs 6.0 bn from Kshs 2.9 bn in FY'2022. Consequently, Cost of funds (COF) increased by 0.9% points to 3.8% from 2.9% recorded in FY'2022, owing to a faster 52.9% increase in Trailing interest expense to Kshs 51.4 bn, from Kshs 33.6 bn recorded in FY'2022, compared to an 18.4% increase in average interest bearing liabilities to Kshs 1359.3 bn from Kshs 1148.5 bn in FY'2022. Trailing interest expense refers to the performance of the interest expense for the past 12 consecutive months. On the other hand, Net Interest Margin (NIM) increased marginally to 7.4% from 7.2% in FY'2022, attributable to the 21.2% increase in trailing Net Interest Income (NII) to Kshs 104.2 bn from Kshs 86.0 bn in FY'2022 relative to the 17.9% growth in average interest-earning assets,
- Non-Funded Income (NFI) increased by 30.7% to Kshs 78.3 bn from Kshs 59.9 bn in FY'2022, mainly driven by a 34.1% increase in the foreign exchange trading income to Kshs 17.4 bn from Kshs 13.0 bn in FY'2022. Total other fees and commissions increased by 36.2% to Kshs 50.4 bn, from Kshs 37.0 bn in FY'2022. The revenue mix shifted to 57:43 from 59:41 for the funded to Non-funded income owing to the 30.7% growth in Non Funded Income which outpaced the 21.2% growth in the Funded Income,
- Total operating expenses increased by 51.7% to Kshs 130.6 bn from Kshs 86.1 bn in FY'2022, driven by a significant 128.7% increase in loan loss provisions to Kshs 35.3 bn from Kshs 15.4 bn recorded in FY'2022, coupled with a 28.3% increase in staff costs to Kshs 31.8 bn from Kshs 24.8 bn in FY'2022. The increase in provisioning is partly attributable to rising credit risk as a result of deteriorated economic environment as evidenced by the December 2023 Purchasing Managers Index (PMI) of 48.8, down from an average of 51.6 in December 2022,
- Cost to Income Ratio (CIR) increased to 71.6% from 59.0% in FY'2022, owing to the 51.7% increase in total operating expense, which outpaced the 25.1% increase in total operating income. Notably, CIR without LLP increased by 3.8% points to 52.3% from 48.4% recorded in FY'2022, and,
- Profit before tax decreased by 13.3% to Kshs 51.9 bn from Kshs 59.8 bn in FY'2022, with the effective tax rate declining to 15.7% in FY'2023 from 23.0% in FY'2022. As such, profit after tax decreased by 5.1% to Kshs 43.7 bn in FY'2023, from Kshs 46.1 bn in FY'2022.

Balance Sheet

- The balance sheet recorded an expansion as total assets increased by 25.9% to Kshs 1821.4 bn, from Kshs 1447.0 bn in FY'2022, , mainly attributable to the 25.6% growth in net loans and advances to Kshs 887.4 bn in

FY'2023 from Kshs 706.6 bn in FY'2022, coupled with 12.5% increase in investment in government securities to Kshs 246.7 bn, from Kshs 219.2 bn recorded in FY'2022,

- Total liabilities grew by 26.8% to Kshs 1603.3 bn, from Kshs 1264.8 bn in FY'2022, largely attributable to a 29.1% growth in customer deposits to Kshs 1358.2 bn in FY'2023, from Kshs 1052.2 bn in FY'2022,
- The faster 29.1% growth in customer deposits as compared to the 25.6% growth in net loans and advances led to a decrease in the loan to deposits ratio to 65.3%, from 67.2% in FY'2022,
- Gross Non-Performing Loans (NPLs) increased by 81.5% to Kshs 114.6 bn in FY'2023 from Kshs 63.1 bn in FY'2022, while Gross Loans increased by 26.1% to Kshs 947.5 bn from Kshs 751.1 bn in FY'2022. Consequently, the asset quality deteriorated with the NPL ratio rising to 12.1% in FY'2023 from 8.4% in FY'2022,
- General Provisions (LLP) increased by 35.4% to Kshs 42.7 bn in FY'2023 from Kshs 31.5 bn in FY'2022. The NPL coverage decreased to 52.4% in FY'2023, from 70.5% in FY'2022, attributable to the 35.4% increase in provisions coupled with a 33.8% increase in interest in suspense to Kshs 17.4 bn from 13.0 bn recorded in FY'2022, against the 81.5% increase in gross non-performing loans,
- Shareholders' funds increased by 17.9% to Kshs 207.8 bn in FY'2023, from Kshs 176.2 bn in FY'2022, supported by a 7.0% increase in retained earnings to Kshs 202.9 bn, from Kshs 189.6 bn in FY'2022,
- Equity Group remained capitalized with a core capital to risk-weighted assets ratio of 15.2%, 4.7% points above the statutory requirement of 10.5%. In addition, the total capital to risk-weighted assets ratio came in at 19.2%, exceeding the statutory requirement of 14.5% by 4.7% points, and,
- The bank currently has a Return on Average Assets (ROaA) of 2.7%, and a Return on Average Equity (ROaE) of 22.8%.

Key Take-Outs:

1. **Decline in Earnings** - Core earnings per share (EPS) decreased by 5.1% to Kshs 11.6, from Kshs 12.2 in FY'2022, mainly driven by the 51.7% growth in total operating expenses to Kshs 130.6 bn, from Kshs 86.1 bn in FY'2022. However, the performance was supported by a 25.1% growth in total operating income to Kshs 182.5 bn, from Kshs 145.9 bn in FY'2022,
2. **Increased Provisioning** – On the back of high credit risk occasioned by the deteriorated business environment, the bank increased its provisions holdings to cover for the anticipated losses in the future, with its loan loss provisions increasing significantly by 128.7% to Kshs 35.3 bn from Kshs 15.4 bn recorded in FY'2022, and,
3. **Revenue Diversification** – The Group's Non-Funded income increased by 30.7% to Kshs 78.3 bn in FY'2023, from Kshs 59.9 bn in FY'2022, which resulted to a shift in revenue mix to 57:43 in FY'2023 from 59:41 in FY'2022:

Going forward, the factors that would drive the bank's growth would be:

- **Geographical Diversification** – The bank has been aggressively expanding into other regions, namely DRC, Rwanda, Tanzania, Uganda and Ethiopia. On 14 June 2023, the bank announced that it had entered into a binding agreement with Government of Rwanda, Rwanda Social Security Board and other investors of Compagnie Generale De Banque (Cogebanque) Plc Limited to acquire a 91.9% stake in the Rwanda based lender. Since completion of the acquisition, EGHM merged the business of the Cogebanque with its Rwandan Subsidiary, Equity Bank Rwanda Plc which then saw an expansion in its balance sheet, recording a 92.6% increase in total assets to Kshs 127.7 bn from Kshs 66.3 bn in FY'2022. Notably, in FY'2023, EquityBCDC – a subsidiary in Congo recorded a substantial growth in profit before tax by 95.0% to Kshs 18.6 bn from Kshs 4.9 bn recorded in FY'2021, and,
- **Digital diversification** – Equity Group's technology platform provides coordinated, agile, and extensive services to its customers. Through this digital platforms, the Group's total disbursements increased by 65.0% to Kshs 284.6 bn from Kshs 172.1 bn recorded in FY'2022. In addition, cashless transactions increased to 85.0% in FY'2023 from 82.0% in FY'2022.

Valuation Summary

- We are of the view that Equity Group is a "Buy" with a target price of Kshs 61.6 representing an upside of

- 30.6%, from the current price of Kshs 47.2 as of 28th March 2024, inclusive of a dividend yield of 8.5%.
- Equity Group is currently trading at a P/TBV of 0.6x and a P/E of 3.7x vs an industry average of 0.8x and 4.0x respectively.