

Below is a summary of Equity Group's FY'2024 performance:

Balance Sheet Items	FY'2023	FY'2024f	y/y change
Government Securities	246.7	300.9	22.0%
Net Loans and Advances	887.4	819.2	(7.7%)
Total Assets	1821.4	1804.6	(0.9%)
Customer Deposits	1358.2	1399.6	3.1%
Deposits/Branch	3.8	3.5	(13.0%)
Total Liabilities	1603.3	1557.8	(2.8%)
Shareholders' Funds	207.8	234.0	12.6%

Balance Sheet Ratios	FY'2023	FY'2024f	% y/y change
Loan to Deposit Ratio	65.3%	58.5%	(6.8%)
Government Securities to Deposit Ratio	27.8%	36.7%	8.9%
Return on average equity	22.8%	22.1%	(0.7%)
Return on average assets	2.7%	2.7%	0.0%

Income Statement (Kshs Bn)	FY'2023	FY'2024f	y/y change
Net Interest Income	104.8	108.7	3.7%
Net non-Interest Income	76.9	85.1	10.7%
Total Operating income	181.7	193.8	6.7%
Loan Loss provision	(35.6)	(20.2)	(43.3%)
Total Operating expenses	(129.8)	(133.0)	2.5%
Profit before tax	51.9	60.7	17.1%
Profit after tax	43.7	48.8	11.6%
Core EPS	11.1	12.3	11.0%
Dividend Per Share	4.0	4.55	6.3%
Dividend Payout Ratio	36.0%	34.5%	(1.5%)
Dividend Yield	8.5%	9.0%	1.0%

Income Statement Ratios	FY'2023	FY'2024f	y/y change
Yield from interest-earning assets	11.0%	10.9%	(0.2%)
Cost of funding	3.8%	4.1%	0.4%
Cost of risk	19.6%	10.4%	(9.2%)
Net Interest Margin	7.4%	5.8%	(1.7%)
Net Interest Income as % of operating income	57.7%	56.1%	(1.6%)
Non-Funded Income as a % of operating income	42.3%	43.9%	1.6%
Cost to Income Ratio	71.4%	68.7%	(2.8%)
CIR without LLP	51.9%	58.2%	6.4%

Cost to Assets	5.8%	6.2%	0.5%
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Capital Adequacy Ratios	FY'2023	FY'2024f	% points change
Core Capital/Total Liabilities	16.2%	18.0%	1.8%
Minimum Statutory ratio	8.0%	8.0%	0.0%
Excess	8.2%	10.0%	1.8%
Core Capital/Total Risk Weighted Assets	14.3%	17.3%	3.0%
Minimum Statutory ratio	10.5%	10.5%	0.0%
Excess	3.8%	6.8%	3.0%
Total Capital/Total Risk Weighted Assets	18.1%	19.0%	0.9%
Minimum Statutory ratio	14.5%	14.5%	0.0%
Excess	3.6%	4.5%	0.9%
Liquidity Ratio	53.4%	57.4%	4.0%
Minimum Statutory ratio	20.0%	20.0%	0.0%
Excess	33.4%	37.4%	4.0%

Income Statement

- Core earnings per share grew by 11.0% to Kshs 12.3, from Kshs 11.1 in FY'2023, driven by the 6.7% increase in total operating income to Kshs 193.8 bn, from Kshs 181.7 bn in FY'2023, which outpaced the 2.5% increase in total operating expenses to Kshs 133.0 bn from Kshs 129.8 bn in FY'2023,
- The 6.7% increase in total operating income was mainly driven by a 10.7% increase in Non- Interest Income (NFI) to Kshs 85.1 bn from Kshs 76.9 bn in FY'2023 coupled with a 3.7% growth in Net Interest Income (NII) to Kshs 108.7 bn, from Kshs 104.8 bn in FY'2023,
- Interest income grew by 9.2% to Kshs 170.3 bn from Kshs 156.0 bn in FY'2023, mainly driven by a 194.7% growth in interest income from deposits and placements to Kshs 5.5 bn, from Kshs 1.9 bn in FY'2023, coupled with a 9.9% increase in interest income from government securities to Kshs 56.5 bn from Kshs 51.4 bn in FY'2023, and a 5.3% increase in interest income from net loans to Kshs 107.7 bn from Kshs 102.3 bn in FY'2023. The Yield on Interest-Earning Assets (YIEA) decreased by 0.2% points to 10.9% from 11.0% recorded in FY'2023, attributable to the slower 9.2% growth in trailing interest income to Kshs 170.3 bn, from Kshs 10.7 bn in FY'2023, compared to a faster 10.7% Increase in average interest earning assets to Kshs 1,563.1 bn, from Kshs 1,412.4 bn in FY'2023,
- Interest expenses rose by 20.3% to Kshs 61.6 bn from Kshs 51.2 bn in FY'2023, mainly driven by a 45.0% increase in interest expense on customer deposits to Kshs 48.5 bn from Kshs 33.4 bn in FY'2023, coupled with a 4.7% increase in interest expense from placements to Kshs 4.6 bn, from Kshs 4.4 bn recorded in FY'2023. Consequently, Cost of funds (COF) increased by 0.4% points to 4.1% from 3.8% recorded in FY'2023, owing to a faster 20.3% increase in Trailing interest expense to Kshs 61.6 bn from Kshs 51.2 bn recorded in FY'2023, compared to a 9.7% increase in average interest-bearing liabilities to Kshs 1,491.4 bn from Kshs 1,359.3 bn in FY'2023. Trailing interest expense refers to the performance of the interest expense for the past 12 consecutive months. Net Interest Margin (NIM) decreased by 0.5% points to 7.0% from 7.4% in FY'2023,

attributable to a slower 3.7% increase in trailing net interest income to Kshs 108.7 bn from Kshs 104.8 bn recorded in FY'2023, compared to the 10.7% growth in average interest earning assets,

- Non-Funded Income (NFI) increased by 10.7% to Kshs 85.1 bn from Kshs 76.9 bn in FY'2023, mainly driven by a 63.2% increase in other income to Kshs 17.1 bn, from Kshs 10.5 bn in FY'2023. Total fees and commissions also increased by 28.4% to Kshs 10.6 bn from Kshs 8.2 bn in FY'2023. The revenue mix shifted to 56:44, from 58:42 for the funded to Non-funded income owing to the faster 10.7% growth in Non-Funded Income compared to a 3.7% increase in the Funded Income,
- Total operating expense increased by 2.5% to Kshs 133.0 bn in FY'2024, from Kshs 129.8 bn in FY'2023, mainly attributable to the 2.9% increase in staff costs to 33.3 bn from 32.0 in FY'2023. Notably, loan loss provisions expense declined by 43.3% to Kshs 20.2 bn, from 35.6 bn in FY'2023. The decrease in provisioning comes amid improved business environment and reduced credit risk as evidenced by the average FY'2024 Purchasing Managers Index (PMI) of 49.6, up from an average of 48.1 in FY'2023,
- Cost to Income Ratio (CIR) decreased by 2.8% points to 68.7% from 71.4% in FY'2023, owing to the slower 2.5% increase in total operating expenses, which was outpaced by the 6.7% increase in total operating income. Notably, CIR without LLP increased by 6.4% points to 58.2%, from 51.9% recorded in FY'2023,
- Profit before tax increased by 17.1% to Kshs 60.7 bn, from Kshs 51.9 bn recorded in FY'2023, with effective tax rate increasing to 19.6% in FY'2024, from 15.7% in FY'2023, leading to a 11.6% increase in profit after tax to Kshs 48.8 bn in FY'2024, from Kshs 43.7 bn in FY'2023.
- The Board of Directors declared a dividend of Kshs 4.25 per share in FY'2024, from a total dividend of 4.0 in FY'2023. The payout ratio and dividend yield came in at 34.5% and 9.2% respectively in FY'2024.

Balance Sheet

- The balance sheet recorded a contraction as total assets declined by 0.9% to Kshs 1,804.6 bn, from Kshs 1,821.4 bn in FY'2023, mainly driven by a 7.7% decrease in net loans and advances to Kshs 819.2 bn, from 887.4 bn in FY'2023, but was supported by a 22.0% increase in government securities holdings to Kshs 300.9 bn, from Kshs 246.7 bn in FY'2023. Total liabilities declined by 2.8% to Kshs 1,557.8 bn from Kshs 1,603.3 bn in FY'2023, mainly driven by a 44.4% decrease in borrowings to Kshs 70.5 bn, from Kshs 126.9 bn in FY'2023, but was supported by the 3.1% increase in customer deposits to Kshs 1,399.6 bn, from Kshs 1,358.2 bn in FY'2023. With 399 branches, compared to 358 branches in FY'2023, deposits per branch decreased by 7.5% to Kshs 3.5 bn, from Kshs 3.8 bn in FY'2023,
- The 3.1% growth in customer deposits, which was outpaced by the 7.7% decline in net loans led to a decrease in the loan to deposits ratio to 58.5%, from 65.3% in FY'2023,
- The bank's Asset Quality deteriorated, with Gross NPL ratio increasing to 13.6% in FY'2024, from 12.1% in FY'2023, attributable to a 6.5% increase in Gross non-performing loans to Kshs 122.0 bn, from Kshs 114.6 bn in FY'2023, relative to the 5.3% decrease in gross loans to Kshs 896.9 bn, from Kshs 947.5 bn recorded in FY'2023,
- General Provisions (LLP) increased by 21.1% to Kshs 51.7 bn in FY'2024 from Kshs 42.7 bn in FY'2023. The NPL coverage increased to 63.7% in FY'2024, from 52.4% in FY'2023, attributable to the 21.1% increase in general provisions coupled with the 49.6% increase in interest in suspense to Kshs 26.0 bn from 17.4 bn in FY 2023 which outpaced the 6.5% increase in Gross Non-performing Loans to Kshs 122.0 bn, from Kshs 114.6 bn in FY'2023.
- Shareholders' funds increased by 12.6% to Kshs 234.0 bn in FY'2024, from Kshs 207.8 bn in FY'2023, supported by a 14.5% increase in retained earnings to Kshs 32.8 bn, from Kshs 28.6 bn in FY'2023,

- Equity Group remains capitalized with a core capital to risk-weighted assets ratio of 17.3%, 6.8% points above the statutory requirement of 10.5%. In addition, the total capital to risk-weighted assets ratio came in at 19.0%, exceeding the statutory requirement of 14.5% by 4.5% points, and,
- The bank currently has a Return on Average Assets (ROaA) of 2.7%, and a Return on Average Equity (ROaE) of 22.1%.

Key Take-Outs:

- 1. Increased earnings** - Core earnings per share grew by 11.0% to Kshs 12.3, from Kshs 11.1 in FY'2023, driven by the 6.7% increase in total operating income to Kshs 193.8 bn, from Kshs 181.7 bn in FY'2023, which outpaced the 2.5% increase in total operating expenses to Kshs 133.0 bn from Kshs 129.8 bn in FY'2023,
- 2. Deteriorated asset quality** – The bank's Asset Quality deteriorated, with Gross NPL ratio increasing to 13.6% in FY'2024, from 12.1% in FY'2023, attributable to a 6.5% increase in Gross non-performing loans to Kshs 122.0 bn, from Kshs 114.6 bn in FY'2023, relative to the 5.3% decrease in gross loans to Kshs 896.9 bn, from Kshs 947.5 bn recorded in FY'2023,
- 3. Contracted Balanced sheet** - The balance sheet recorded a contraction as total assets declined by 0.9% to Kshs 1,804.6 bn, from Kshs 1,821.4 bn in FY'2023, mainly driven by a 7.7% decrease in net loans and advances to Kshs 819.2 bn, from 887.4 bn in FY'2023, but was supported by a 22.0% increase in government securities holdings to Kshs 300.9 bn, from Kshs 246.7 bn in FY'2023,
- 4. Declaration of dividends** - The Board of Directors declared a dividend of Kshs 4.25 per share in FY'2024, from a total dividend of 4.0 in FY'2023. The payout ratio and dividend yield came in at 34.5% and 9.2% respectively in FY'2024, and,
- 5. Reduced lending**- Customer net loans and advances decreased by 7.7% to Kshs 819.2 bn in FY'2024, from Kshs 887.4 bn in FY'2023 attributed to increased credit risk with high NPLs in the industry, with the lender preferring to limit customer lending.

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

- **Digital Transformation**– Equity Group Holdings has been at the forefront of digital transformation within Kenya's banking sector, implementing innovative solutions to enhance customer experience and operational efficiency, reducing the need for physical branch operations. A cornerstone of this strategy is Equitel, the Group's mobile virtual network operator, which has significantly influenced the financial landscape.

Valuation Summary

- We are of the view that Equity Group is a "buy" with a target price of Kshs 60.2 representing an upside of 27.8%, from the current price of 47.1 as of 28th March 2025, inclusive of a dividend yield of 9.0%
- Equity Group is currently trading at a P/TBV of 0.8x and a P/E of 3.6x vs an industry average of 1.0x and 4.3x respectively.