

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

Balance Sheet Items	FY'2023	FY'2024f	y/y change
Government Securities	9.7	17.0	75.3%
Net Loans and Advances	38.8	38.9	0.2%
<b>Total Assets</b>	<b>61.6</b>	<b>70.1</b>	<b>14.0%</b>
Customer Deposits	43.8	47.5	8.3%
Deposits/Branch	2.0	2.2	8.3%
Total Liabilities	52.7	54.5	3.4%
<b>Shareholders' Funds</b>	<b>8.9</b>	<b>15.7</b>	<b>76.9%</b>

Balance Sheet Ratios	FY'2023	FY'2024f	% y/y change
Loan to Deposit Ratio	88.5%	81.9%	(6.6%)
Government Securities to Deposit Ratio	22.1%	35.7%	13.7%
Return on average equity	4.4%	4.3%	(0.1%)
Return on average assets	0.7%	0.8%	0.1%

Income Statement (Kshs Bn)	FY'2023	FY'2024f	y/y change
Net Interest Income	2.5	2.7	4.4%
Net non-Interest Income	1.2	1.5	21.2%
<b>Total Operating income</b>	<b>3.8</b>	<b>4.2</b>	<b>9.9%</b>
Loan Loss provision	(0.3)	(0.4)	17.8%
Total Operating expenses	(3.5)	(3.7)	7.0%
Profit before tax	0.3	0.5	37.5%
<b>Profit after tax</b>	<b>0.4</b>	<b>0.5</b>	<b>35.2%</b>
<b>Core EPS</b>	<b>1.0</b>	<b>0.9</b>	<b>(10.8%)</b>

Income Statement Ratios	FY'2023	FY'2024f	y/y change
Yield from interest-earning assets	11.0%	10.3%	(0.8%)
Cost of funding	5.7%	6.4%	0.7%
Net Interest Spread	5.3%	3.9%	(1.5%)
Net Interest Margin	5.4%	4.3%	(1.1%)
Cost of Risk	8.2%	8.7%	0.6%
Net Interest Income as % of operating income	67.2%	63.9%	(3.4%)
Non-Funded Income as a % of operating income	32.8%	36.1%	3.4%
Cost to Income Ratio	92.0%	89.5%	(2.5%)
Cost to Income Ratio (without LLP)	83.9%	80.8%	(3.1%)

Capital Adequacy Ratios	FY'2023	FY'2024f	% points change
Core Capital/Total Liabilities	4.7%	18.1%	13.4%
Minimum Statutory ratio	8.0%	8.0%	0.0%
<b>Excess</b>	<b>(3.3%)</b>	<b>10.1%</b>	<b>13.4%</b>
Core Capital/Total Risk Weighted Assets	5.3%	21.4%	16.1%
Minimum Statutory ratio	10.5%	10.5%	0.0%
<b>Excess</b>	<b>(5.2%)</b>	<b>10.9%</b>	<b>16.1%</b>
Total Capital/Total Risk Weighted Assets	9.0%	24.6%	15.6%
Minimum Statutory ratio	14.5%	14.5%	0.0%
<b>Excess</b>	<b>(5.5%)</b>	<b>10.1%</b>	<b>15.6%</b>
Liquidity Ratio	24.5%	41.8%	17.3%
Minimum Statutory ratio	20.0%	20.0%	0.0%
<b>Excess</b>	<b>4.5%</b>	<b>21.8%</b>	<b>17.3%</b>

### **Income Statement**

- Core earnings per share declined by 10.8% to Kshs 0.9, from Kshs 1.0 in FY'2023, 7.0% increase in total operating expenses to Kshs 3.7 bn from Kshs 3.5 bn in FY'2023,
- The total operating income increased by 9.9% to Kshs 4.2 bn from Kshs 3.8 bn in FY'2023, mainly driven by a 21.2% increase in Non- Interest Income (NFI) to Kshs 1.5 bn from Kshs 1.2 bn in FY'2023, coupled with the 4.4% growth in Net Interest Income (NII) to Kshs 2.7 bn, from Kshs 2.5 bn in FY'2023,
- Interest income grew by 23.1% to Kshs 6.4 bn from Kshs 5.2 bn in FY'2023, mainly driven by a 51.7% growth in interest income from deposits and placements to Kshs 0.1 bn, from Kshs 0.0 bn in FY'2023, coupled with a 38.2% increase in interest income from government securities to Kshs 1.6 bn, from Kshs 1.1 bn in FY'2023. As such, the Yield on Interest-Earning Assets (YIEA) decreased by 0.8% points to 10.3% from 11.0% recorded in FY'2023, attributable to a faster 12.9% Increase in average interest earning assets to Kshs 53.2 bn, from Kshs 47.2 bn in FY'2023 compared to the slower 5.1% growth in trailing interest income to Kshs 5.5 bn, from Kshs 5.2 bn in FY'2023, compared to,
- Interest expenses rose by 41.0% to Kshs 3.7 bn from Kshs 2.7 bn in FY'2023, mainly driven by a 75.2% increase in interest expense from placements to Kshs 0.4 bn, from Kshs 0.3 bn recorded in FY'2023 coupled with a 45.9% increase in interest expense on customer deposits to Kshs 2.9 bn from Kshs 2.0 bn in FY'2023. Consequently, Cost of funds (COF) increased by 0.7% points to 6.4% from 5.7% recorded in FY'2023, owing to a faster 20.5% increase in Trailing interest expense to Kshs 3.2 bn from Kshs 2.7 bn recorded in FY'2023, compared to a 6.9% increase in average interest-bearing liabilities to Kshs 49.9 bn from Kshs 46.7 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 1.1% points to 4.3% from 5.4% in FY'2023, attributable to a 10.9% decrease in trailing net interest income to Kshs 2.3 bn from Kshs 2.5 bn recorded in FY'2023, compared to the 12.9% growth in average interest earning assets,
- Non-Funded Income (NFI) increased by 21.2% to Kshs 1.5 bn from Kshs 1.2 bn in FY'2023, mainly driven by a 80.1% increase in other fees income to Kshs 0.3 bn, from Kshs 0.2 bn in FY'2023, coupled with a 9.6% increase in Foreign exchange trading income to remain relatively unchanged from the Kshs 0.2 bn recorded in FY'2023 highlighting the bank's increased foreign exchange margins. Total fees and commissions decreased by 1.9%

to remain relatively unchanged from the Kshs 0.2 bn recorded in in FY’2023. The revenue mix shifted to 64:36, from 67:33 for the funded to Non-funded income owing to the faster 4.4% growth in Funded Income compared to a 21.2% increase in the Non-Funded Income,

- Total operating expense increased by 7.0% to Kshs 3.7 bn in FY’2024, from Kshs 3.5 bn in FY’2023, mainly attributable to 16.5% increase in staff cost to Kshs 1.9 bn, from Kshs 1.6 bn in FY’2023. Notably, loan loss provisions expense increased by 17.8% to Kshs 0.4 bn, from 0.3 bn in FY’2023,
- Cost to Income Ratio (CIR) decreased by 2.5% points to 89.5% from 92.0% in FY’2023, owing to the slower 7.0% increase in total operating expenses, which was outpaced by the 9.9% increase in total operating income. CIR without LLP decreased by 3.1% points to 80.8% from 83.9% in FY’2023.
- Profit before tax increased by 37.5% to Kshs 0.5 bn, from Kshs 0.3 bn recorded in FY’2023, with effective tax rate decreasing to 14.1% in FY’2024, from 16.0% in FY’2023, leading to a 35.2% increase in profit after tax to Kshs 0.5 bn in FY’2024, from Kshs 0.4 bn in FY’2023.

### **Balance Sheet**

- The balance sheet recorded an expansion as total assets increased by 14.0% to Kshs 70.1 bn, from Kshs 61.6 bn in FY’2023, mainly driven by a 75.3% increase in governments securities holdings to Kshs 17.0 bn, from 9.7 bn in FY’2023 coupled with a 0.2% increase in net loans and advances to Kshs 38.9 bn, from Kshs 38.8 bn in FY’2023. Total liabilities increased by 3.4% to Kshs 54.5 bn from Kshs 52.7 bn in FY’2023, mainly driven by 8.3% increase in customer deposits to Kshs 47.5 bn, from Kshs 43.8 bn in FY’2023, however weighed down by the 27.7% decline in borrowings to Kshs 2.7 bn, from Kshs 3.8 bn in FY’2023. With 22 branches, similar to FY’2023, deposits per branch increased by 8.3% to Kshs 2.2 bn, from Kshs 2.0 bn in FY’2023,
- The 8.3% increased growth in customer deposits, which outpaced the 0.2% increase in net loans led to a decrease in the loan to deposits ratio to 81.9%, from 88.5% in FY’2023,
- The bank’s Asset Quality deteriorated, with Gross NPL ratio increasing to 25.3% in FY’2024, from 23.1% in FY’2023, attributable to a 10.6% increase in Gross non-performing loans to Kshs 12.0 bn, from Kshs 10.8 bn in FY’2023, which outpaced the 0.8% decrease in gross loans to Kshs 47.3 bn, from Kshs 46.9 bn recorded in FY’2023,
- General Provisions (LLP) increased by 3.2% to Kshs 5.2 bn in FY’2024 from Kshs 5.0 bn in FY’2023. The NPL coverage decreased to 70.3% in FY’2024, from 74.9% in FY’2023, attributable to the 3.2% increase in general provisions coupled with the 4.8% increase in interest in suspense to Kshs 3.3 bn from 3.1 bn in FY 2023 which was outpaced by the 10.6% increase in Gross Non-performing Loans to Kshs 12.0 bn, from Kshs 10.8 bn in FY’2023.
- Shareholders’ funds increased by 76.9% to Kshs 15.7 bn in FY’2024, from Kshs 8.9 bn in FY’2023, however weighed down by a 17.5% decline in retained earnings to Kshs 2.7 bn, from Kshs 3.3 bn in FY’2023,
- HF Group remains capitalized with a core capital to risk-weighted assets ratio of 21.4%, 10.9% points above the statutory requirement of 10.5%. In addition, the total capital to risk-weighted assets ratio came in at 24.6%, exceeding the statutory requirement of 14.5% by 10.1% points, and,
- The bank currently has a Return on Average Assets (ROaA) of 0.8%, and a Return on Average Equity (ROaE) of 4.3%.

### **Key Take-Outs:**

1. **Decreased earnings** Core earnings per share declined by 10.8% to Kshs 0.9, from Kshs 1.0 in FY’2023, 7.0% increase in total operating expenses to Kshs 3.7 bn from Kshs 3.5 bn in FY’2023,

2. **Deteriorated asset quality** – The bank's Asset Quality deteriorated, with Gross NPL ratio increasing to 25.3% in FY'2024, from 23.1% in FY'2023, attributable to a 10.6% increase in Gross non-performing loans to Kshs 12.0 bn, from Kshs 10.8 bn in FY'2023, which outpaced the 0.8% decrease in gross loans to Kshs 47.3 bn, from Kshs 46.9 bn recorded in FY'2023,
3. **Expanded Balanced sheet** - The balance sheet recorded an expansion as total assets increased by 14.0% to Kshs 70.1 bn, from Kshs 61.6 bn in FY'2023, mainly driven by a 75.3% increase in governments securities holdings to Kshs 17.0 bn, from 9.7 bn in FY'2023 coupled with a 0.2% increase in net loans and advances to Kshs 38.9 bn, from Kshs 38.8 bn in FY'2023,
4. **Increased lending**- Customer net loans and advances increased by 0.2% to Kshs 38.9 bn in FY'2024, from Kshs 38.8 bn in FY'2023.

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

- **Capital injection through rights issue** - The Group successfully raised Kshs 6.0 bn in 2024 via a rights issue. This capital boosted HF Group's financial position, enabling further investment in growth initiatives. The capital raised was for product expansion, technological advancements and for regulatory compliance requiring banks to increase their capital base to Kshs 10.0 bn by 2028. The successful completion of the rights issue positioned HF Group to implement its growth strategies effectively and navigate the evolving financial landscape.

#### Valuation Summary

- We are of the view that HF Group is a "sell" with a target price of Kshs 4.3 representing a downside of 38.3%, from the current price of 6.9 as of 28<sup>th</sup> March 2025
- HF Group is currently trading at a P/TBV of 0.2x and a P/E of 5.9x vs an industry average of 0.2x and 2.3x respectively.