Cytonn INVESTMENTS

Equity Group – H1’2025

15th August, 2025

Below is a summary of Equity Group’s H1’2025 performance:

Balance Sheet Items	H1'2024	H1'2025	y/y change
Government Securities	264.3	321.2	21.6%
Net Loans and Advances	791.1	825.1	4.3%
Total Assets	**1746.0**	**1798.9**	**3.0%**
Customer Deposits	1299.5	1319.9	1.6%
Deposits/Branch	3.7	3.3	(11.4%)
Total Liabilities	1525.5	1522.9	(0.2%)
Shareholders’ Funds	**211.1**	**261.9**	**24.1%**

Balance Sheet Ratios	H1'2024	H1'2025	% y/y change
Loan to Deposit Ratio	60.9%	62.5%	1.6%
Government Securities to Deposit Ratio	33.4%	38.9%	5.5%
Return on average equity	23.7%	22.8%	(0.9%)
Return on average assets	2.8%	3.0%	0.3%

Income Statement (Kshs Bn)	H1'2024	H1'2025	y/y change
Net Interest Income	54.4	59.3	9.1%
Net non-Interest Income	42.8	40.9	(4.4%)
Total Operating income	**97.1**	**100.2**	**3.2%**
Loan Loss provision	(10.5)	(6.9)	(34.5%)
Total Operating expenses	(60.0)	(58.7)	(2.2%)
Profit before tax	37.2	41.5	11.8%
Profit after tax	**29.6**	**34.6**	**16.9%**
Core EPS	**7.6**	**8.8**	**16.8%**

Income Statement Ratios	H1'2024	H1'2025	y/y change
Yield from interest-earning assets	11.8%	11.1%	(0.6%)
Cost of funding	4.2%	3.9%	(0.3%)
Cost of risk	10.8%	6.9%	(4.0%)
Net Interest Margin	7.8%	7.5%	(0.3%)
Net Interest Income as % of operating income	56.0%	59.2%	3.2%
Non-Funded Income as a % of operating income	44.0%	40.8%	(3.2%)
Cost to Income Ratio	61.7%	58.5%	(3.2%)
CIR without LLP	50.9%	51.7%	0.8%
Cost to Assets	2.9%	2.9%	0.0%

Capital Adequacy Ratios	H1'2024	H1'2025	% points change
Core Capital/Total Liabilities	17.4%	18.9%	1.5%
Minimum Statutory ratio	8.0%	8.0%	0.0%
Excess	**9.4%**	**10.9%**	**1.5%**
Core Capital/Total Risk Weighted Assets	15.8%	16.5%	0.7%
Minimum Statutory ratio	10.5%	10.5%	0.0%
Excess	**5.3%**	**6.0%**	**0.7%**
Total Capital/Total Risk Weighted Assets	18.4%	18.1%	(0.3%)
Minimum Statutory ratio	14.5%	14.5%	0.0%
Excess	**3.9%**	**3.6%**	**(0.3%)**
Liquidity Ratio	56.7%	58.6%	1.9%
Minimum Statutory ratio	20.0%	20.0%	0.0%
Excess	**36.7%**	**38.6%**	**1.9%**

Income Statement

- Core earnings per share grew by 16.8% to Kshs 8.8, from Kshs 7.6 in H1'2024, driven by the 3.2% increase in total operating income to Kshs 100.2 bn, from Kshs 97.1 bn in H1'2024, coupled with the 2.2% decrease in total operating expenses to Kshs 58.7 bn from Kshs 60.0 bn in H1'2024,
- The 3.2% increase in total operating income was mainly driven by a 9.1% increase in Net Interest Income (NII) to Kshs 59.3 bn from Kshs 54.4 bn in H1'2024, however weighed down by a 4.4% decline in Non-Interest Income (NFI) to Kshs 40.9 bn, from Kshs 42.8 bn in H1'2024,
- Interest income declined by 0.6% to Kshs 84.3 bn from Kshs 84.8 bn in H1'2024, mainly driven by 7.2% decline in interest income from loans and advances to Kshs 49.7 bn, from Kshs 53.5 bn in H1'2024, however supported by a 28.5% increase in interest income from deposits and placements to Kshs 2.9 bn from Kshs 2.3 bn in H1'2024, and a 8.9% increase in interest income from government securities to Kshs 30.9 bn from Kshs 28.3 bn in H1'2024. The Yield on Interest-Earning Assets (YIEA) decreased by 0.6% points to 11.1% from 11.8% recorded in H1'2024, attributable to the 0.7% decline in trailing interest income to Kshs 169.7 bn, from Kshs 171.0 bn in H1'2024, compared to a 5.0% Increase in average interest earning assets to Kshs 1,525.3 bn, from Kshs 1,452.1 bn in H1'2024,
- Interest expenses declined by 18.0% to Kshs 25.0 bn from Kshs 30.5 bn in H1'2024, mainly driven by an 78.2% decrease in interest expense on deposits and placements to Kshs 0.7 bn from Kshs 3.2 bn in H1'2024, coupled with a 7.2% decrease in interest expense on customer deposits to Kshs 20.3 bn, from Kshs 21.8 bn recorded in H1'2024. Consequently, Cost of funds (COF) decreased by 0.3% points to 3.9% from 4.2% recorded in H1'2024, owing to a 3.7% decrease in Trailing interest expense to Kshs 56.1 bn from Kshs 58.2 bn recorded in H1'2024, compared to a 3.4% increase in average interest-bearing liabilities to Kshs 1,440.5 bn from Kshs 1,393.4 bn in H1'2024. Trailing interest expense refers to the performance of the interest expense for the past 12 consecutive months. Net Interest Margin (NIM) decreased by 0.3% points to 7.5% from 7.8% in H1'2024, attributable to a slower 0.8% increase in trailing net interest income to Kshs 113.7 bn from Kshs 112.8 bn recorded in H1'2024, compared to a faster 5.0% growth in average interest earning assets,
- Non-Funded Income (NFI) decreased by 4.4% to Kshs 40.9 bn from Kshs 42.8 bn in H1'2024, mainly driven by a 21.1% decrease in foreign exchange trading income to Kshs 5.2 bn, from Kshs 6.6 bn in H1'2024. Total fees

and commissions however increased by 3.1% to Kshs 27.8 bn from Kshs 27.0 bn in H1’2024. The revenue mix shifted to 59:41, from 56:44 for the funded to Non-funded income owing to the 9.1% growth in Funded Income compared to a 4.4% decrease in the Non-Funded Income,

- Total operating expense decreased by 2.2% to Kshs 58.7 bn in H1’2025, from Kshs 60.0 bn in H1’2024, mainly attributable to the 34.5% decrease in loan loss provisions expense to 6.9 bn from 10.5 in H1’2024. The decrease in provisioning comes amid improved business environment and reduced credit risk as evidenced by the average H1’2025 Purchasing Managers Index (PMI) of 50.5, up from an average of 50.0 in H1’2024. Notably, staff costs increased by 10.1% to Kshs 17.6 bn, from 16.0 bn in H1’2024,
- Cost to Income Ratio (CIR) decreased by 3.2% points to 58.5% from 61.7 in H1’2024, owing to the 2.2% decrease in total operating expenses, compared to the 3.2% increase in total operating income. Notably, CIR without LLP increased by 0.8% points to 51.7%, from 50.9% recorded in H1’2024,
- Profit before tax increased by 11.8% to Kshs 41.5 bn, from Kshs 37.2 bn recorded in H1’2024, with effective tax rate decreasing to 16.6% in H1’2025, from 21.5% in Q1’2024, leading to a 16.9% increase in profit after tax to Kshs 34.6 bn in H1’2025, from Kshs 20.3 bn in H1’2024.
- The Board of Directors did not recommend an interim dividend for the period, consistent with H1’2024.

Balance Sheet

- The balance sheet recorded an expansion as total assets increased by 3.0% to Kshs 1,798.9 bn, from Kshs 1,746.0 bn in H1’2024, mainly driven by a 21.6% increase in government securities holdings to Kshs 321.2 bn, from 264.3 bn in H1’2024, coupled with a 4.3% increase in net loans and advances to Kshs 825.1 bn, from Kshs 791.1 bn in H1’2024. Total liabilities decreased by 0.2% to Kshs 1,522.9 bn from Kshs 1,525.5 bn in H1’2024, mainly driven by a 34.6% decrease in borrowings to Kshs 67.6 bn, from Kshs 103.3 bn in H1’2024, but was supported by the 1.6% increase in customer deposits to Kshs 1,319.9 bn, from Kshs 1,299.5 bn in H1’2024,
- The 1.6% growth in customer deposits, which was outpaced by the 4.3% growth in net loans led to an increase in the loan to deposits ratio to 62.5%, from 60.9% in H1’2024,
- The bank’s Asset Quality deteriorated, with Gross NPL ratio increasing to 15.3% in H1’2025, from 13.9% in H1’2024, attributable to a 16.2% increase in Gross non-performing loans to Kshs 139.4 bn, from Kshs 119.9 bn in H1’2024, relative to the 5.9% increase in gross loans to Kshs 912.0 bn, from Kshs 861.6 bn recorded in H1’2024,
- General Provisions (LLP) increased by 18.6% to Kshs 57.5 bn in H1’2025 from Kshs 48.5 bn in H1’2024. The NPL coverage increased to 62.4% in H1’2025, from 58.8% in H1’2024, attributable to the 18.6% increase in general provisions coupled with the 33.9% increase in interest in suspense to Kshs 29.4 bn from 22.0 bn in H1’2024 which outpaced the 16.2% increase in Gross Non-performing Loans to Kshs 132.8 bn, from Kshs 120.4 bn in Q1’2024.
- Shareholders’ funds increased by 24.1% to Kshs 261.9 bn in H1’2025, from Kshs 211.1 bn in H1’2024, supported by a 14.1% increase in retained earnings to Kshs 263.9 bn, from Kshs 231.3 bn in H1’2024,
- Equity Group remains capitalized with a core capital to risk-weighted assets ratio of 16.5%, 6.0% points above the statutory requirement of 10.5%. In addition, the total capital to risk-weighted assets ratio came in at 18.1%, exceeding the statutory requirement of 14.5% by 3.6% points, and,
- The bank currently has a Return on Average Assets (ROaA) of 3.0%, and a Return on Average Equity (ROaE) of 22.8%.

Key Take-Outs:

1. **Increased earnings -** Core earnings per grew by 16.8% to Kshs 8.8, from Kshs 7.6 in H1’2024, driven by the 3.2% increase in total operating income to Kshs 100.2 bn, from Kshs 97.1 bn in H1’2024, coupled with the 2.2% decrease in total operating expenses to Kshs 58.7 bn from Kshs 60.0 bn in H1’2024,
2. **Deteriorated asset quality –** The bank’s Asset Quality deteriorated, with Gross increasing to 15.3% in H1’2025, from 13.9% in H1’2024, attributable to a 16.2% increase in Gross non-performing loans to Kshs 139.4 bn, from Kshs 119.9 bn in H1’2024, relative to the 5.9% increase in gross loans to Kshs 912.0 bn, from Kshs 861.6 bn recorded in H1’2024,
3. **Expanded Balanced sheet** - The balance sheet recorded an expansion as total assets increased by 3.0% to Kshs 1,798.9 bn, from Kshs 1,746.0 bn in H1’2024, mainly driven by a 21.6% increase in government securities holdings to Kshs 321.2 bn, from 264.3 bn in H1’2024, coupled with a 4.3% increase in net loans and advances to Kshs 825.1 bn, from Kshs 791.1 bn in H1’2024,
4. **Increased lending**- Customer net loans and advances increased by 4.3% to Kshs 825.1 bn, from Kshs 791.1 bn in H1’2024.

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. Clients can now transfer funds, apply for loans, pay bills, and manage investments from their phones, eliminating the need for branch visits. This convenience and 24/7 accessibility have driven a sharp increase in customer uptake, boosting efficiency, cutting operational costs, and enabling the bank to serve millions more customers at scale.

- **Regional Expansion** – Equity Group’s strategic growth into other African markets has significantly diversified its revenue base and reduced overreliance on the Kenyan economy. The acquisition of Equity BCDC in the Democratic Republic of Congo in 2020 opened doors to one of Africa’s most populous nations and a fast-growing resource-rich economy, creating opportunities in retail lending, corporate banking, and trade finance. Similarly, established operations in Uganda, Tanzania, Rwanda, and South Sudan have allowed the bank to tap into cross-border trade flows, offer regional corporate clients integrated solutions, and benefit from economies of scale, positioning the group as a leading Pan-African financial services provider.

Valuation Summary

- We are of the view that Equity Group is a “buy” with a target price of Kshs 61.7 representing an upside of 13.2%, from the current price of 54.5 as of 15th August 2025,

- Equity Group is currently trading at a P/TBV of 0.9x and a P/E of 4.4x vs an industry average of 1.0x and 4.6x respectively.