Below is a summary of Equity Group Holding’s H1’2023 performance:

Balance Sheet Items	H1'2022	H1'2023	y/y change
Government Securities	236.8	278.5	17.6%
Net Loans and Advances	650.6	817.2	25.6%
Total Assets	**1333.9**	**1644.8**	**23.3%**
Customer Deposits	970.9	1175.3	21.0%
Deposits per branch	2.9	3.3	15.2%
Total Liabilities	1183.5	1450.5	22.6%
Shareholders’ Funds	**150.4**	**194.3**	**29.2%**

Balance Sheet Ratios	H1'2022	H1'2023	% y/y change
Loan to Deposit Ratio	67.0%	69.5%	2.5%
Return on average equity	31.9%	29.1%	(2.8%)
Return on average assets	3.8%	3.2%	(0.6%)

Income Statement	H1'2022	H1'2023	y/y change
Net Interest Income	39.8	46.4	16.5%
Net non-Interest Income	25.8	36.5	41.2%
Total Operating income	**65.6**	**82.9**	**26.2%**
Loan Loss provision	(4.1)	(7.1)	73.6%
Total Operating expenses	(34.7)	(47.7)	37.4%
Profit before tax	30.9	35.2	13.7%
Profit after tax	**24.4**	**26.3**	**7.8%**
Core EPS	**6.5**	**7.0**	**7.8%**

Income Statement Ratios	H1'2022	H1'2023	y/y change
Yield from interest-earning assets	4.9%	5.1%	0.3%
Cost of funding	2.8%	3.4%	0.5%
Cost of risk	6.2%	8.6%	2.3%
Net Interest Margin	7.3%	7.2%	(0.1%)
Net Interest Income as % of operating income	60.6%	56.0%	(4.7%)
Non-Funded Income as a % of operating income	39.4%	44.0%	4.7%
Cost to Income Ratio	52.9%	57.6%	4.7%
CIR without LLP	46.7%	49.0%	2.3%
Cost to Assets	2.5%	2.7%	0.2%

Capital Adequacy Ratios	H1'2022	H1'2023	% points change
Core Capital/Total Liabilities	15.5%	17.9%	2.4%
Minimum Statutory ratio	8.0%	8.0%	0.0%
Excess	**7.5%**	**9.9%**	**2.4%**
Core Capital/Total Risk Weighted Assets	14.1%	15.0%	0.9%
Minimum Statutory ratio	10.5%	10.5%	0.0%
Excess	**3.6%**	**4.5%**	**0.9%**
Total Capital/Total Risk Weighted Assets	18.8%	19.0%	0.2%
Minimum Statutory ratio	14.5%	14.5%	0.0%
Excess	**4.3%**	**4.5%**	**0.2%**
Liquidity Ratio	53.2%	51.1%	(2.1%)
Minimum Statutory ratio	20.0%	20.0%	0.0%
Excess	**33.2%**	**31.1%**	**(2.1%)**

Income Statement

- Core earnings per share grew by 7.8% to Kshs 7.0, from Kshs 6.5 in H1'2022, driven by the 26.2% growth in total operating income to Kshs 82.9 bn, from Kshs 65.6 bn in H1'2022. However, the performance was weighed down by a 37.4% growth in total operating expenses to Kshs 47.7 bn, from Kshs 34.7 bn in H1'2022,
- The 26.2% growth in total operating income was mainly driven by a 16.5% growth in Net Interest Income to Kshs 46.4 bn, from Kshs 39.8 bn in H1'2022, coupled with a 41.2% growth in Non funded Income (NFI) to Kshs 36.5 bn, from Kshs 25.8 bn in H1'2022,
- Interest income grew by 27.0% to Kshs 69.8 bn from Kshs 55.0 bn in H1'2022, mainly driven by a 26.9% growth in interest income from loans and advances to Kshs 44.8 bn from Kshs 35.3 bn in H1'2022. As such, the Yield on Interest-Earning Assets (YIEA) increased to 5.1% from 4.9% recorded in H1'2022, mainly attributable to the faster 27.0% growth in interest income compared to a 21.2% increase in average interest earning assets to Kshs 1287.8 bn, from Kshs 1062.8 bn in H1'2022,
- Interest expenses rose by 54.3% to Kshs 23.4 bn, from Kshs 15.2 bn in H1'2022, driven by 53.8% increase in interest expense on customer deposits to Kshs 16.1 bn, from Kshs 10.5 bn in H1'2022, coupled with a 84.2% increase in interest expense from deposits and placements to Kshs 1.9 bn in H1'2023, from Kshs 1.0 bn recorded in H1'2022. Consequently, Cost of funds (COF) increased by 0.5% points to 3.4% from 2.8% recorded in H1'2022, owing to a faster 43.8% increase in Trailing interest expense to Kshs 41.9 bn, from Kshs 29.1 bn recorded in H1'2022, compared to a 21.5% increase in average interest bearing liabilities to Kshs 1248.6 bn from Kshs 1027.8 bn in H1'2022.Trailing interest expense refers to the performance of the interest expense for the past 12 consecutive months. Net Interest Margin (NIM) decreased by 0.1% points to 7.2% from 7.3% in H1'2022, attributable to a 21.2% increase in average interest earning assets to kshs 1287.8 bn, from kshs 1062.8 bn in H1'2022 which outpaced the 19.5% growth in trailing net interest income to Kshs 92.6 bn from Kshs 77.5 bn recorded in H1'2022,
- Non-Funded Income (NFI) increased by 41.2% to Kshs 36.5 bn from Kshs 25.8 bn in H1'2022, mainly driven by a 68.0% increase in the foreign exchange trading income to Kshs 8.4 bn from Kshs 5.0 bn in H1'2022, highlighting the bank's increased foreign exchange margins. Total fees and commissions increased by 38.3% to Kshs 23.4 bn, from Kshs 16.9 bn in H1'2022. The revenue mix shifted to 56:44 from 61:39 for the funded to Non-funded income owing to the 16.5% growth in Funded Income slower than the 41.2% growth in the Non Funded Income,
- Total operating expenses increased by 37.4% to Kshs 47.7 bn from Kshs 34.7 bn in H1'2022, driven by 73.6% increase in loan loss provisions to Kshs 7.1 bn from Kshs 4.1 bn recorded in H1'2022, and coupled with a 31.5% increase in staff costs to Kshs 14.2 bn from Kshs 10.8 bn in H1'2022. The increase in provisioning is partly attributable to rising credit risk as a result deteriorioted economic environment as evidenced by the average Purchasing Managers Index (PMI) of 48.7 in H1'2023, down from an average of 49.3 in H1'2022,
- Cost to Income Ratio (CIR) increased to 57.6% from 52.9% in H1'2022, owing to the 37.4% increase in total operating expense, which outpaced the 26.2% increase in total operating income. Notably, CIR without LLP increased by 2.3% points to 49.0% from 46.7% recorded in H1'2022, and,
- Profit before tax increased by 13.7% to Kshs 35.2 bn from Kshs 30.9 bn in H1'2022, with effective tax rate increasing to 25.1% in H1'2023 from 21.0% in H1'2022, leading to a 7.8% increase in profit after tax to Kshs 26.3 bn in H1'2023, from Kshs 24.4 bn in H1'2022.

Balance Sheet

- The balance sheet recorded an expansion as total assets grew by 23.3% to Kshs 1644.8 bn, from Kshs 1333.9 bn in H1'2022, driven by a 25.6% loan book expansion to Kshs 817.2 bn, from Kshs 650.6 bn in H1'2022, coupled with a 17.6% increase investment in government securities to Kshs 278.5 bn from Kshs 236.8 bn in H1'2022,
- Total liabilities rose by 22.6% to Kshs 1450.5 bn from Kshs 1183.5 bn in H1'2022, driven by a 21.0% growth in customer deposits to Kshs 1175.3 bn, from Kshs 970.9 bn in H1'2022, coupled with a 69.7% increase in

placements to 71.4 bn, from Kshs 42.1 bn recorded in H1'2022. With 354 branches countrywide compared to 337 branches in H1'2022, deposits per branch decreased by 15.2% to Kshs 3.3 bn, from Kshs 2.9 bn in H1'2022,

- The faster 25.6% growth in loans as compared to the 21.0% growth in deposit led to an increase in the loan to deposits ratio to 69.5%, from 67.0% in H1'2022,
- The bank's Asset Quality deteriorated, with Gross NPL ratio increasing to 11.2% in H1'2023 from 8.8% in H1'2022, attributable to 59.8% increase in Gross non-performing loans to Kshs 97.5 bn, from Kshs 61.0 bn in H1'2022, which outpaced the 26.2% increase in gross loans to Kshs 870.3 bn, from Kshs 689.7 bn recorded in H1'2022,
- General Provisions (LLP) increased by 26.1% to Kshs 34.7 bn in H1'2023 from Kshs 27.5 bn in H1'2022. The NPL coverage decreased to 54.5% in H1'2023, from 64.1% in H1'2022, attributable to the 26.1% increase in provisions coupled with 59.1% increase in interest in suspense to Kshs 18.4 bn from 11.6 bn recorded in H1'2022, which offset the 59.8% increase in gross non-performing loans,
- Shareholders' funds increased by 29.2% to Kshs 194.3 bn in H1'2023, from Kshs 150.4 bn in H1'2022, supported by a 17.6% increase in retained earnings to Kshs 199.9 bn, from Kshs 170.0 bn in H1'2022,
- Equity Group remained capitalized with a core capital to risk-weighted assets ratio of 15.0%, 4.5% 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 3.2%, and a Return on Average Equity (ROaE) of 29.1%.

Key Take-Outs:

1. **Strong earnings growth -** Core earnings per share (EPS) grew by 7.8% to Kshs 7.0, from Kshs 6.5 in H1'2022, driven by the 26.2% growth in total operating income to Kshs 82.9 bn, from Kshs 65.6 bn in H1'2022. However, the performance was weighed down by a 37.4% growth in total operating expenses to Kshs 47.7 bn, from Kshs 34.7 bn in H1'2022,
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 provisions increasing by 26.1% to Kshs 34.7 bn from Kshs 27.5 bn recorded in H1'2022, and,
3. **Revenue Diversification –** The Group's Non-Funded income increased by 41.2% to Kshs 36.5 bn in H1'2023, from Kshs 25.8 bn in H1'2022, which resulted to a shift in revenue mix to 56:44 in H1'2023 from 61:39 in H1'2022. The increase was mainly attributable to a faster 41.2% increase in non-funded income to Kshs 36.5 bn, from Kshs 25.8 bn in H1'2022, compared to the 16.5% increase in Funded income to kshs 46.4 bn, from kshs 39.8 bn in H1'2022.

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

- **Digital transformation**. We expect innovation and digitization to continue to enhance high value transaction. In FY'2022, the bank disclosed that 99.0% of its transactions were done on alternative channels, with mobile and internet transactions taking up 79.2% of all transactions, and agency banking contributing 6.2% of all transactions. Additionally, the non- Funded income has continued to grow, registering a 41.2% growth to Kshs 36.5 bn in H1'2023, from Kshs 25.8 bn in H1'2022.

Valuation Summary

- We are of the view that Equity Group is a "buy" with a target price of Kshs 50.8 representing an upside of 34.9%, from the current price of Kshs 40.6 as of 18th August 2023, inclusive of a dividend yield of 9.9%.
- Equity Group is currently trading at a P/TBV of 0.8x and a P/E of 3.3x vs an industry average of 0.8x and 3.8x respectively.