# Equity Group – H1’2024

**16th August, 2024**

Below is a summary of Equity Group H1’2024 performance:

| Balance Sheet Items | H1’2023 | H1’2024 | y/y change |
|---|---|---|---|
| Government Securities | 278.5 | 264.3 | (5.1%) |
| Net Loans and Advances | 817.2 | 791.1 | (3.2%) |
| **Total Assets** | **1,644.8** | **1,746.0** | **6.2%** |
| Customer Deposits | 1,175.3 | 1,299.5 | 10.6% |
| Deposits per branch | 3.5 | 3.7 | 5.3% |
| Total Liabilities | 1,450.5 | 1,525.5 | 5.2% |
| **Shareholders’ Funds** | **186.1** | **211.1** | **13.4%** |

| Balance Sheet Ratios | H1’2023 | H1’2024 | % points change |
|---|---|---|---|
| Loan to Deposit Ratio | 69.5% | 60.9% | (8.7%) |
| Dovernment Securities to Deposits | 34.1% | 33.4% | (0.7%) |
| Return on average equity | 29.1% | 23.7% | (5.4%) |
| Return on average assets | 3.2% | 2.8% | (0.4%) |

| Income Statement | H1’2023 | H1’2024 | y/y change |
|---|---|---|---|
| Net Interest Income | 46.4 | 54.4 | 17.2% |
| Net non-Interest Income | 36.5 | 42.8 | 17.2% |
| **Total Operating income** | **82.9** | **97.1** | **17.2%** |
| Loan Loss provision | (7.1) | (10.5) | 48.3% |
| **Total Operating expenses** | **(47.7)** | **(60.0)** | **25.7%** |
| Profit before tax | 35.2 | 37.2 | 5.7% |
| **Profit after tax** | **26.3** | **29.6** | **12.5%** |
| **Core EPS** | **7.0** | **7.8** | **12.5%** |

| Income Statement Ratios | H1’2023 | H1’2024 | % points change |
|---|---|---|---|
| Yield from interest-earning assets | 10.4% | 10.5% | 0.1% |
| Cost of funding | 3.4% | 4.2% | 0.9% |
| Cost of risk | 8.6% | 10.8% | 2.3% |
| Net Interest Margin | 7.2% | 3.7% | (3.4%) |
| Net Interest Income as % of operating income | 56.0% | 56.0% | (0.0%) |
| Non-Funded Income as a % of operating income | 44.0% | 44.0% | 0.0% |
| Cost to Income Ratio | 57.6% | 61.7% | 4.2% |
| CIR without LLP | 49.0% | 50.9% | 1.9% |
| Cost to Assets | 2.7% | 2.9% | 0.2% |

| Capital Adequacy Ratios | H1’2023 | H1’2024 | % Points Change |
|---|---|---|---|
| Core Capital/Total Liabilities | 17.9% | 17.4% | (0.5%) |
| Minimum Statutory ratio | 8.0% | 8.0% | 0.0% |
| **Excess** | **9.9%** | **9.4%** | **(0.5%)** |
| Core Capital/Total Risk Weighted Assets | 15.0% | 15.8% | 0.8% |
| Minimum Statutory ratio | 10.5% | 10.5% | 0.0% |
| **Excess** | **4.5%** | **5.3%** | **0.8%** |
| Total Capital/Total Risk Weighted Assets | 19.0% | 18.4% | (0.6%) |
| Minimum Statutory ratio | 14.5% | 14.5% | 0.0% |
| **Excess** | **4.5%** | **3.9%** | **(0.6%)** |
| Liquidity Ratio | 51.1% | 56.7% | 5.6% |
| Minimum Statutory ratio | 20.0% | 20.0% | 0.0% |
| **Excess** | **31.1%** | **36.7%** | **5.6%** |

**Income Statement**

- Core earnings per share increased by 12.5% to Kshs 7.8 from Kshs 7.0 in H1’2024, mainly driven by the 17.2% growth in total operating income to Kshs 97.1 bn, from Kshs 82.9 bn in H1’2023. However, the performance was weighed down by a 25.7% growth in total operating expenses to Kshs 60.0 bn, from Kshs 47.7 bn in H1’2023,
- The 17.2% growth in total operating income was mainly driven by a 17.2% growth in Net Interest Income to Kshs 54.4 bn, from Kshs 46.4 bn in H1’2023, coupled with a 17.2% growth in Non funded Income (NFI) to Kshs 42.8 bn, from Kshs 36.5 bn in H1’2023,
- Interest income grew by 21.5% to Kshs 84.8 bn from Kshs 69.8 bn in H1’2023, mainly driven by a 24.8% growth in interest from government securities to Kshs 28.3 bn, from Kshs 22.7 bn in H1’2023, coupled with a 19.6% increase in interest from loans and advances to Kshs 53.5 bn, from Kshs 44.8 bn in H1’2023. As such, the Yield on Interest-Earning Assets (YIEA) increased to 10.5% from 10.4% recorded in H1’2023, mainly attributable to the faster 21.5% growth in interest income compared to a 12.8% increase in average interest earning assets to Kshs 1,452.1 bn, from Kshs 1,287.8 bn in H1’2023,
- Interest expense increased by 30.1% to Kshs 30.5 bn in H1’2024 from Kshs 23.4 bn in H1’2023, largely due to a 67.5% increase in interest expense on deposits and placements to Kshs 3.2 bn from Kshs 1.9 bn in H1’2023, coupled with 35.5% increase in interest expenses on customer deposits to Kshs 21.8 bn from Kshs 16.1 bn in H1’2023. Consequently, Cost of funds (COF) increased by 0.9% points to 4.2% from 3.4% recorded in H1’2023, owing to a faster 39.7% increase in Trailing interest expense to Kshs 58.5 bn, from Kshs 41.9 bn recorded in H1’2023, compared to a 11.2% increase in average interest bearing liabilities to Kshs 1,388.4 bn from Kshs 1,248.8 bn in H1’2023. 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) decreased to 3.7% from 7.2% in H1’2023, attributable to the 41.3% decrease in trailing Net Interest Income (NII) to Kshs 54.4 bn from Kshs 92.6 bn in H1’2023 relative to the 12.8% growth in average interest-earning assets,
- Non-Funded Income (NFI) increased by 17.2% to Kshs 42.8 bn from Kshs 36.5 bn in H1’2023, mainly driven by a 23.3% increase in the fees and commissions on loans to Kshs 5.7 bn from Kshs 4.6 bn in H1’2023. Total fees and commissions increased by 15.5% to Kshs 27.0 bn, from Kshs 23.4 bn in H1’2023. The revenue mix remained unchanged from the 56:44 recorded inH1’2023 for the funded to Non-funded income owing to the equal 17.2% growth in Funded Income and Non Funded Income recorded in H1’2024,
- Total operating expenses increased by 25.7% to Kshs 60.0 bn from Kshs 47.7 bn in H1’2023, driven by a 48.3% increase in loan loss provisions to Kshs 10.5 bn from Kshs 7.1 bn recorded in H1’2023, coupled with a 12.5% increase in staff costs to Kshs 16.0 bn from Kshs 14.2 bn in H1’2023. The increase in provisioning is despite the reducing credit risk as a result of improved economic environment as evidenced by the average H1’2024 Purchasing Managers Index (PMI) of 50.0, up from an average of 48.7 in H1’2023,
- Cost to Income Ratio (CIR) increased to 61.7% from 57.6% in H1’2023, owing to the 25.7% increase in total operating expense, which outpaced the 17.2% increase in total operating income. Notably, CIR without LLP increased by 3.8% points to 50.9% from 47.1% recorded in H1’2023, and,
- Profit before tax increased by 5.7% to Kshs 37.2 bn from Kshs 35.2 bn in H1’2023, with effective tax rate declining to 20.3% in H1’2024 from 25.1% in H1’2023. As such, profit after tax increased by 12.5% to Kshs 29.6 bn in H1’2024, from Kshs 26.3 bn in H1’2023.

**Balance Sheet**

- The balance sheet recorded an expansion as total assets increased by 6.2% to Kshs 1,746.0 bn, from Kshs 1,644.8 bn in H1’2023, mainly attributable to the 80.4% increase in placements to Kshs 225.9 bn in H1’2024 from Kshs 125.2 bn in H1’2023, coupled with 21.6% increase in cash and bank balances to Kshs 115.1 bn, from Kshs 94.6 bn recorded in H1’2023
- Total liabilities grew by 5.2% to Kshs 1,525.5 bn, from Kshs 1,450.5 bn in H1’2023, largely attributable to a 10.6% growth in customer deposits to Kshs 1,299.5 bn in H1’2024, from Kshs 1,175.3 bn in H1’2023.

- The faster 5.2% growth in customer deposits as compared to the 3.2% decline in net loans and advances led to a decrease in the loan to deposits ratio to 60.9%, from 69.5% in H1’2023,
- Gross Non-Performing Loans (NPLs) increased by 23.0% to Kshs 119.9 bn in H1’2024 from Kshs 97.5 bn in H1’2023, while Gross Loans decreased by 1.0% to Kshs 861.6 bn from Kshs 870.3 bn in H1’2023. Consequently, the asset quality deteriorated with the NPL ratio rising to 13.9% in H1’2024 from 11.2% in H1’2023,
- General Provisions (LLP) increased by 39.7% to Kshs 48.5 bn in H1’2024 from Kshs 34.7 bn in H1’2023. The NPL coverage decreased to 58.8% in H1’2024, from 54.5% in H1’2023, attributable to the 39.7% increase in provisions coupled with 19.2% increase in interest in suspense to Kshs 22.0 bn from 18.4 bn recorded in H1’2023, against the 23.0% increase in gross non-performing loans,
- Shareholders’ funds increased by 13.4% to Kshs 211.1 bn in H1’2024, from Kshs 186.1 bn in H1’2023, supported by a 15.7% increase in retained earnings to Kshs 231.3 bn, from Kshs 199.9 bn in H1’2023,
- Equity Group remained capitalized with a core capital to risk-weighted assets ratio of 15.8%, 5.3% points above the statutory requirement of 10.5%. In addition, the total capital to risk-weighted assets ratio came in at 18.4%, exceeding the statutory requirement of 14.5% by 3.9% points, and,
- The bank currently has a Return on Average Assets (ROaA) of 2.8%, and a Return on Average Equity (ROaE) of 23.7%.

**Key Take-Outs:**

1. **Increase in Earnings -** Core earnings per share increased by 12.5% to Kshs 7.8 from Kshs 7.0 in H1’2024, mainly driven by the 17.2% growth in total operating income to Kshs 97.1 bn, from Kshs 82.9 bn in H1’2023. However, the performance was weighed down by a 25.7% growth in total operating expenses to Kshs 60.0 bn, from Kshs 47.7 bn in H1’2023,
2. **Increased Provisioning –** On the back of high credit risk still attached to the country despite the improvement in business environment in H1’2024, the bank increased its provisions holdings to cover for the anticipated losses in the future, with its general provisions increasing significantly by 48.3% to Kshs 10.5 bn from Kshs 7.1 bn recorded in H1’2023, and,

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, EGHL merged the business of the Cogebanque with its Rwandan Subsidiary, Equity Bank Rwanda Plc. Notably, in H1’2024, Profit After Tax (PAT) of the Equity Group Holdings’ subsidiaries amounted to Kshs. 13.8 bn, representing 50.0% of the Group’s overall profit, up from 42.0% recorded in H1’2023.

**Valuation Summary**

- We are of the view that Equity Group is an “Buy” with a target price of Kshs 52.2 representing an upside of 30.1%, from the current price of Kshs 40.1 as of 14th August 2024, inclusive of a dividend yield of 9.2%.
- Equity Group is currently trading at a P/TBV of 0.8x and a P/E of 3.4x vs an industry average of 0.8x and 3.4x respectively.