Equity Group – Q1’2024
17th May, 2024

Below is a summary of Equity Group’s Q1’2024 performance:

Balance Sheet Items	Q1'2023	Q1'2024	y/y change
Government Securities	216.0	250.9	16.2%
Net Loans and Advances	756.3	779.2	3.0%
Total Assets	**1537.7**	**1685.9**	**9.6%**
Customer Deposits	1111.2	1236.3	11.3%
Deposits per branch	3.3	3.5	5.9%
Total Liabilities	1347.0	1467.1	8.9%
Shareholders’ Funds	**183.8**	**210.9**	**14.8%**

Balance Sheet Ratios	Q1'2023	Q1'2024	% points change
Loan to Deposit Ratio	68.1%	63.0%	(5.1%)
Government Securities to Deposits	28.6%	32.2%	3.6%
Return on average equity	26.8%	23.8%	(3.0%)
Return on average assets	3.4%	2.9%	(0.5%)

Income Statement	Q1'2023	Q1'2024	y/y change
Net Interest Income	21.7	27.8	28.4%
Net non-Interest Income	18.4	22.2	21.0%
Total Operating income	**40.1**	**50.1**	**25.0%**
Loan Loss provision	(3.5)	(6.1)	74.5%
Total Operating expenses	**(23.2)**	**(29.7)**	**27.9%**
Profit before tax	16.9	20.4	20.9%
Profit after tax	**12.8**	**16.0**	**25.2%**
Core EPS	**3.4**	**4.2**	**25.2%**

Income Statement Ratios	Q1'2023	Q1'2024	% points change
Yield from interest-earning assets	10.5%	12.3%	1.9%
Cost of funding	3.2%	4.2%	1.0%
Cost of risk	8.7%	12.1%	3.4%
Net Interest Margin	7.4%	8.2%	0.8%
Net Interest Income as % of operating income	54.1%	55.6%	1.5%
Non-Funded Income as a % of operating income	45.9%	44.4%	(1.5%)
Cost to Income Ratio	57.9%	59.2%	1.4%
CIR without LLP	49.2%	47.1%	(2.1%)
Cost to Assets	1.4%	1.5%	0.1%

Capital Adequacy Ratios	Q1'2023	Q1'2024	% Points Change
Core Capital/Total Liabilities	17.7%	17.1%	(0.6%)
Minimum Statutory ratio	8.0%	8.0%	0.0%
Excess	**9.7%**	**9.1%**	**(0.6%)**
Core Capital/Total Risk Weighted Assets	15.5%	15.9%	0.4%
Minimum Statutory ratio	10.5%	10.5%	0.0%
Excess	**5.0%**	**5.4%**	**0.4%**
Total Capital/Total Risk Weighted Assets	19.8%	19.3%	(0.5%)
Minimum Statutory ratio	14.5%	14.5%	0.0%
Excess	**5.3%**	**4.8%**	**(0.5%)**
Liquidity Ratio	51.5%	52.1%	0.6%
Minimum Statutory ratio	20.0%	20.0%	0.0%
Excess	**31.5%**	**32.1%**	**0.6%**

Income Statement

- Core earnings per share increased by 25.2% to Kshs 4.2 from Kshs 3.4 in Q1’2024, mainly driven by the 25.0% growth in total operating income to Kshs 50.1 bn, from Kshs 40.1 bn in Q1’2023. However, the performance was weighed down by a 27.9% growth in total operating expenses to Kshs 29.7 bn, from Kshs 23.2 bn in Q1’2023,
- The 25.0% growth in total operating income was mainly driven by a 28.4% growth in Net Interest Income to Kshs 27.8 bn, from Kshs 21.7 bn in Q1’2023, coupled with a 21.0% growth in Non funded Income (NFI) to Kshs 22.2 bn, from Kshs 18.4 bn in Q1’2023,
- Interest income grew by 32.7% to Kshs 43.0 bn from Kshs 32.4 bn in Q1’2023, mainly driven by a 31.9% growth in interest from loans and advances to Kshs 27.3 bn, from Kshs 20.7 bn in Q1’2023, coupled with a 36.5% increase in interest from government securities to Kshs 14.6 bn, from Kshs 10.7 bn in Q1’2023. As such, the Yield on Interest-Earning Assets (YIEA) increased to 12.3% from 10.5% recorded in Q1’2023, mainly attributable to the faster 32.7% growth in interest income compared to a 12.3% increase in average interest earning assets to Kshs 1346.9 bn, from Kshs 1199.7 bn in Q1’2023,
- Interest expense increased by 41.4% to Kshs 15.2 bn in Q1’2024 from Kshs 10.8 bn in Q1’2023, largely due to an 80.4% increase in interest expense on deposits and placements to Kshs 1.8 bn from Kshs 1.0 bn in Q1’2023, coupled with 49.2% increase in interest expenses on customer deposits to Kshs 11.1 bn from Kshs 7.4 bn in Q1’2023. Consequently, the Cost of funds (COF) increased by 1.0% points to 4.2% from 3.2% recorded in Q1’2023, owing to a faster 50.8% increase in Trailing interest expense to Kshs 55.9 bn, from Kshs 37.1 bn recorded in Q1’2023, compared to a 13.5% increase in average interest bearing liabilities to Kshs 1,315.9 bn from Kshs 1159.1 bn in Q1’2023. 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) increased to 8.2% from 7.4% in Q1’2023, attributable to the 24.9% increase in trailing Net Interest Income (NII) to Kshs 110.3 bn from Kshs 88.3 bn in Q1’2023 relative to the 12.3% growth in average interest-earning assets,
- Non-Funded Income (NFI) increased by 21.0% to Kshs 22.2 bn from Kshs 18.4 bn in Q1’2023, mainly driven by a 37.6% increase in the fees and commissions on loans to Kshs 2.8 bn from Kshs 2.0 bn in Q1’2023. Total fees and commissions increased by 22.6% to Kshs 13.6 bn, from Kshs 11.1 bn in Q1’2023. The revenue mix shifted to 56:44 from 54:46 for the funded to Non-funded income owing to the 28.4% growth in Funded Income which outpaced the 21.0% growth in the Non Funded Income,
- Total operating expenses increased by 27.9% to Kshs 29.7 bn from Kshs 23.2 bn in Q1’2023, driven by a significant 74.5% increase in loan loss provisions to Kshs 6.1 bn from Kshs 3.5 bn recorded in Q1’2023, coupled with an 18.4% increase in staff costs to Kshs 7.9 bn from Kshs 6.6 bn in Q1’2023. The increase in provisioning is partly attributable to rising credit risk despite improvement in the economic environment as evidenced by the Q1’2024 Purchasing Managers Index (PMI) which averaged 50.3, up from an average of 49.3 in Q1’2023,
- Cost to Income Ratio (CIR) increased to 59.2% from 57.9% in Q1’2023, owing to the 27.9% increase in total operating expense, which outpaced the 25.0% increase in total operating income. Notably, CIR without LLP decreased by 2.1% points to 47.1% from 49.2% recorded in Q1’2023, and,
- Profit before tax increased by 20.9% to Kshs 20.4 bn from Kshs 16.9 bn in Q1’2023, with the effective tax rate declining to 21.5% in Q1’2024 from 24.2% in Q1’2023. As such, profit after tax increased by 25.2% to Kshs 16.0 bn in Q1’2024, from Kshs 12.8 bn in Q1’2023.

Balance Sheet

- The balance sheet recorded an expansion as total assets increased by 9.6% to Kshs 1685.9 bn, from Kshs 1537.7 bn in Q1’2023, mainly attributable to the 16.2% growth in investment government securities to Kshs 250.9 bn in Q1’2024 from Kshs 216.0 bn in Q1’2023, coupled with 3.0% increase in loans and advances to Kshs 779.2 bn, from Kshs 756.3 bn recorded in Q1’2023,
- Total liabilities grew by 8.9% to Kshs 1467.1 bn, from Kshs 1347.0 bn in Q1’2023, largely attributable to an 11.3% growth in customer deposits to Kshs 1236.3 bn in Q1’2024, from Kshs 1111.2 bn in Q1’2023,

- The faster 11.3 % growth in customer deposits as compared to the 3.0% growth in net loans and advances led to a decrease in the loan to deposits ratio to 63.0%, from 68.1% in Q1’2023,
- Gross Non-Performing Loans (NPLs) increased by 50.0% to Kshs 120.4 bn in Q1’2024 from Kshs 80.3 bn in Q1’2023, while Gross Loans increased by 5.4% to Kshs 849.4 bn from Kshs 806.1 bn in Q1’2023. Consequently, the asset quality deteriorated with the NPL ratio rising to 14.2% in Q1’2024 from 10.0% in Q1’2023,
- General Provisions (LLP) increased by 44.6% to Kshs 49.7 bn in Q1’2024 from Kshs 34.4 bn in Q1’2023. The NPL coverage decreased to 58.3% in Q1’2024, from 62.0% in Q1’2023, attributable to the 44.6% increase in provisions coupled with a 32.6% increase in interest in suspense to Kshs 20.5 bn from 15.4 bn recorded in Q1’2023, against the 50.0% increase in gross non-performing loans,
- Shareholders’ funds increased by 14.8% to Kshs 210.9 bn in Q1’2024, from Kshs 183.8 bn in Q1’2023, supported by a 25.2% increase in retained earnings to Kshs 16.0 bn, from Kshs 12.8 bn in Q1’2023,
- Equity Group remained capitalized with a core capital to risk-weighted assets ratio of 15.9%, 5.4% points above the statutory requirement of 10.5%. In addition, the total capital to risk-weighted assets ratio came in at 19.3%, exceeding the statutory requirement of 14.5% by 4.8% points, and,
- The bank currently has a Return on Average Assets (ROaA) of 2.9%, and a Return on Average Equity (ROaE) of 23.8%.

Key Take-Outs:

1. **Increase in Earnings -** Core earnings per share increased by 25.2% to Kshs 4.2 from Kshs 3.4 in Q1’2024, mainly driven by the 25.0% growth in total operating income to Kshs 50.1 bn, from Kshs 40.1 bn in Q1’2023. However, the performance was weighed down by a 27.9% growth in total operating expenses to Kshs 29.7 bn, from Kshs 23.2 bn in Q1’2023, and,
2. **Increased Provisioning –** On the back of high credit risk still attached to the country despite the improvement in the business environment in Q1’2024, the bank increased its provisions holdings to cover for the anticipated losses in the future, with its general provisions increasing significantly by 44.6% to Kshs 49.7 bn from Kshs 34.4 bn recorded in Q1’2023.

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 the 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 Q1’2024, Profit After Tax (PAT) of the Equity Group Holdings’ subsidiaries amounted to Kshs 11.4 bn, representing 62.0% of the Group’s overall profit.

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 34.2%, from the current price of Kshs 44.9 as of 17th May 2024, inclusive of a dividend yield of 8.9%, and,
- Equity Group is currently trading at a P/TBV of 0.8x and a P/E of 3.5x vs an industry average of 0.8x and 3.4x respectively.