Below is a summary of Equity Group Holdings Plc FY'2021 performance:

Balance Sheet Items	FY'2020 (Kshs bn)	FY'2021 (Kshs bn)	y/y change
Government Securities	175.7	228.5	30.0%
Net Loans and Advances	477.8	587.8	23.0%
Total Assets	**1,015.1**	**1,304.9**	**28.6%**
Customer Deposits	740.8	959.0	29.5%
Total Liabilities	876.5	1128.7	28.8%
Shareholders' Funds	**132.2**	**169.2**	**28.0%**

Balance Sheet Ratios	FY'2020	FY'2021	% points y/y change
Loan to Deposit Ratio	64.5%	61.3%	(3.2%)
Return on average equity	16.5%	26.6%	10.1%
Return on average assets	2.4%	3.5%	1.1%

Income Statement	FY'2020 (Kshs bn)	FY'2021 (Kshs bn)	y/y change
Net Interest Income	55.1	68.8	24.8%
Net non-Interest Income	38.5	44.6	15.8%
Total Operating income	**93.7**	**113.4**	**21.1%**
Loan Loss provision	(26.6)	(5.8)	(78.1%)
Total Operating expenses	(72.7)	(61.5)	(15.4%)
Profit before tax	22.2	51.9	134.0%
Profit after tax	**20.1**	**40.1**	**99.4%**
Core EPS	**5.3**	**10.6**	**99.4%**

Income Statement Ratios	FY'2020	FY'2021	% points y/y change
Yield from interest-earning assets	10.1%	9.3%	(0.8%)
Cost of funding	2.70%	2.65%	(0.05%)
Cost of risk	28.4%	5.2%	(23.2%)
Net Interest Margin	7.6%	6.8%	(0.8%)
Net Interest Income as % of operating income	58.9%	60.7%	1.8%
Non-Funded Income as a % of operating income	41.1%	39.3%	(1.8%)
Cost to Income Ratio	77.6%	54.2%	(23.4%)
Cost to Income Ratio without LLP	49.2%	49.1%	(0.1%)
Cost to Assets	5.5%	4.8%	(0.7%)

Capital Adequacy Ratios	FY'2020	FY'2021
Core Capital/Total Liabilities	16.2%	14.2%
Minimum Statutory ratio	8.0%	8.0%
Excess	**8.2%**	**6.2%**
Core Capital/Total Risk Weighted Assets	14.8%	12.9%
Minimum Statutory ratio	10.5%	10.5%
Excess	**4.3%**	**2.4%**
Total Capital/Total Risk Weighted Assets	18.9%	17.7%
Minimum Statutory ratio	14.5%	14.5%
Excess	**4.4%**	**3.2%**
Liquidity Ratio	59.3%	63.4%
Minimum Statutory ratio	20.0%	20.0%

Excess	**39.3%**	**43.4%**
Adjusted core capital/ total deposit liabilities	16.2%	14.2%
Adjusted core capital/ total risk weighted assets	14.8%	12.9%
Adjusted total capital/ total risk weighted assets	19.0%	17.7%

Key Highlights

- During Q1'2021, Equity Group Holdings announced that it had secured four loan facilities amounting to Kshs 46.8 bn to sustain and scale their operations, as well as onward lending to MSMEs to bolster their resilience and growth during the COVID-19 environment. For more information, see our Cytonn Weekly #09/2021,
- Equity Group disclosed that borrowers impacted by the COVID-19 pandemic accounted for 32.0% of their loan portfolio as of Q1'2021 while the Loan restructuring fees waived amounted to Kshs 1.2 bn. This is in additional to a restructured loan amount of Kshs 171.0 bn in FY'2020. For more information, please see our Kenya Listed Banks FY'2020 Report,
- In May 2021, Equity Group disclosed that it had acquired an additional 7.7% stake valued at Kshs 996.0 mn, in Equity bank Congo (EBC) from the German Sovereign Wealth Fund (KfW). The acquisition raised the total ownership in EBC to 94.3%, indicating that they are currently valuing the company at Kshs 14.2 bn. This follows the recent acquisition of 66.5% stake in Banque Commerciale Du Congo (BCDC) by Equity Group at a cost of Kshs 10.2 bn in August 2020. For more information, please see Cytonn Weekly#20/2021, and,
- In October 2021, Equity Group announced that it had received two guarantee facilities totaling Kshs 5.0 bn (39.0 mn Euros) from Proparco for onward lending to Micro Small and Medium-sized Enterprises (MSMEs) and Women Entrepreneurs. The Group has collectively received approximately Kshs 38.0 bn to boost credit flows and liquidity to MSMEs since the pandemic began after signing three other loans; USD 50.0 mn (Kshs 5.5 bn) with IFC in September 2020, USD 100.0 mn (Kshs 11.0 bn) with Proparco in October 2020 and Kshs 125.0 mn Euros (Kshs 16.5 bn) in March 2021.

Below are the key Equity Group highlights so far in 2022:

- Equity Group Holdings (EGH), announced the completion of the incorporation of a subsidiary, Equity Group Insurance Holdings Limited, a non-operating insurance holding company and issuance of a life insurance license to Equity Life Assurance Kenya (ELAK) Limited. ELAK, which is fully owned by Equity Group Insurance Holdings Limited, will conduct and undertake long-term insurance business in Kenya. This came after EGH obtained the prerequisite approvals from its shareholders and the Central Bank of Kenya (CBK), before subsequent registration and licensing from the Insurance Regulatory Authority (IRA) on 10th January 2022. For more information, please see our Cytonn Weekly #02/2022.

Income Statement

- Core earnings per share increased by 99.4% to Kshs 10.6 in FY'2021, from Kshs 5.3 recorded in FY'2020, higher than our projections of an 84.0% increase to Kshs 9.8. The performance was driven by a 21.1% growth in total operating income to Kshs 113.4 bn, from Kshs 93.7 bn in FY'2020, coupled with a 15.4% decline in total operating expenses to Kshs 61.5 bn, from Kshs 72.7 bn in FY'2020. The variance in core earnings per share growth against our expectations was due to the faster 15.8% increase in Non-Funded Income to Kshs 44.6 bn, from Kshs 38.5 bn in FY'2020, against our expectation of a 7.3% growth to Kshs 41.3 bn in FY'2021,

- Total Operating Income rose by 21.1% to Kshs 113.4 bn, from Kshs 93.7 bn recorded in FY’2020 driven by a 24.8% increase in Net Interest Income (NII) to Kshs 68.8 bn, from Kshs 55.1 bn in FY’2020, coupled with a 15.8% increase in Non-Funded Income (NFI) to Kshs 44.6 bn, from Kshs 38.5 bn in FY’2020,
- Interest income increased by 27.9% to Kshs 94.3 bn, from Kshs 73.8 bn in FY’2020 driven by a 22.6% increase in interest income on loans and advances to Kshs 63.8 bn, from Kshs 52.0 bn recorded in FY’2020, coupled with a 40.7% increase in interest income from government securities to Kshs 29.5 bn, from Kshs 20.9 bn in FY’2020. The Yield on Interest-Earning Assets, however, declined by 0.8% points to 9.3%, from 10.1% in FY’2020, as the average interest-earning assets grew faster by 39.1% to Kshs 1,014.7 bn, from Kshs 729.3 bn in FY’2020 compared to the 27.9% increase in trailing interest income. Trailing Interest Income refers to the performance of the interest income for the past 12 consecutive months,
- Interest expense rose by 37.2% to Kshs 25.5 bn, from Kshs 18.6 bn in FY’2020, following a 30.3% increase in interest expense on customer deposits to Kshs 17.9 bn, from Kshs 13.7 bn in FY’2020, coupled with a 70.9% increase in other interest expenses to Kshs 6.1 bn, from Kshs 3.6 bn in FY’2020. Cost of funds declined marginally by 0.1% point to 2.65%, from 2.70% in FY’2020, owing to the 39.8% growth in the average interest-bearing liabilities, which outpaced the faster 37.2% growth in trailing interest expense. Trailing interest expense refers to the performance of the interest expense for the past 12 consecutive months. Net Interest Margin (NIM) however declined to 6.8%, from 7.6% in FY’2020, attributable to the 39.1% growth in average interest-earning assets, which outpaced the 24.8% growth of trailing Net Interest Income (NII),
- Non-Funded Income (NFI) rose by 15.8% to Kshs 44.6 bn, from Kshs 38.5 bn in FY’2020. The increase was mainly driven by a 31.8% growth in Foreign Exchange Trading income to Kshs 8.2 bn, from Kshs 6.2 bn in FY’2020, coupled with a 17.0% increase in income from Fees and commissions on loans and advances to Kshs 7.7 bn, from Kshs 6.6 bn in FY’2020. Equity Group’s total fees and commission increased by 29.4% to Kshs 29.3 bn, from Kshs 22.7 bn in FY’2020, due to the lifting of the waiver of charges between mobile money wallets and bank accounts in the Kenyan subsidiary. Notably, the revenue mix shifted to 61:39 from 59:41, funded to non-funded income, recorded in FY’2020, owing to the faster 24.8% increase in net funded income compared to the 15.8% growth in non-funded income,
- Total operating expenses declined by 15.4% to Kshs 61.5 bn in FY’2021, from Kshs 72.7 bn recorded in FY’2020, mainly due to a 78.1% decline in Loans Loss Provision to Kshs 5.8 bn in FY’2021, from Kshs 26.6 bn recorded in FY’2020. The reduced provisioning level was due to declining credit risk on the back of increased business activities in 2021 driven by the gradual economic recovery. On the other hand, Staff Costs grew by 23.9% to Kshs 19.1 bn in FY’2021 from Kshs 15.4 bn recorded in FY’2020,
- As a result of the 78.1% decrease in Loans Loss Provisions (LLP), Cost to Income Ratio (CIR) with LLP improved by 23.4% points to 54.2%, from 77.6% in FY’2020. Without LLP, the Cost to Income ratio also improved, declining by 0.1% point to 49.1%, from 49.2% in FY’2020, an indication of improved efficiency levels in the Banks,
- Profit after tax increased by 99.4% to Kshs 40.1 bn in FY’2021, from Kshs 20.1 bn recorded in FY’2020, driven by a 21.1% growth in total operating income to Kshs 113.4 bn, from Kshs 93.7 bn in FY’2020, coupled with a 15.4% decline in total operating expenses to Kshs 61.5 bn, from Kshs 72.7 bn in FY’2020. Profit before tax increased by 134.0% to Kshs 51.9 bn, from Kshs 22.2 bn in FY’2020 with the effective tax rate increasing to 22.8% from 9.3% in FY’2020, and,

The Board of Directors recommended a final Dividend Per Share (DPS) of Kshs 3.0, translating to a total dividend payout of Kshs 11.3 bn. At the current price of Kshs 51.5, this translates to a dividend yield of 5.8%.

Balance Sheet

- The balance sheet recorded an expansion as Total Assets increased by 28.6% to Kshs 1,304.9 bn in FY’2021, from Kshs 1,015.1 bn recorded in FY’2020. This growth was largely driven by the 23.0% growth of the loan book to Kshs 587.8 bn, from Kshs 477.8 bn recorded in FY'2020, coupled with a 30.0% growth in Government securities to Kshs 228.5 bn in FY'2021, from Kshs 175.7 bn in FY'2020. The remarkable expansion in the balance sheet is also partly attributable to the 66.5% stake acquisition of Banque Commerciale Du Congo (BCDC) in August 2020. BCDC contributed Kshs 419.8 bn worth of assets in FY'2021 to the Group,

- Total liabilities rose by 28.8% to Kshs 1,128.7 bn, from Kshs 876.5 bn in FY'2020, driven by a 29.5% increase in customer deposits to Kshs 959.0 bn, from Kshs 740.8 bn in FY'2020. Key to note, the strong growth in customer deposits is mainly attributable to the acquisition of BCDC, with the subsidiary contributing Kshs 361.4 bn to the total deposits. Deposits per branch increased by 29.1% to Kshs 2.8 bn, from Kshs 2.2 bn in FY'2020, with the number of branches increasing by 1 to 337 branches in FY'2021, from 336 in FY'2020, with Equity Bank Rwanda contributing 1 additional branch,
- The faster 29.5% growth in customer deposits as compared to the 23.0% growth in loans, led to a decline in the Loans to deposit ratio to 61.3% from 64.5% in FY'2020,
- Gross Non-Performing Loans (NPLs) reduced by 9.3% to Kshs 53.9 bn in FY'2021, from Kshs 59.4 bn recorded in FY'2020. The group's asset quality improved, with the NPL ratio declining to 8.6% in FY'2021, from 11.5% recorded in FY'2020, attributable to the 9.3% decline in Gross Non-Performing Loans (NPLs) coupled with a 21.3% growth in gross loans. The main sectors that contributed to the Non-Performing Loans were MSMEs and Agriculture, which contributed 18.5% and 6.5%, respectively. The group's Tanzanian subsidiary recorded the highest NPL ratio, coming in at 23.3% in FY'2021, with Equity Bank Kenya recording an NPL ratio of 8.2% in FY'2021,
- With the general Loan Loss Provisions declining by 2.2% to Kshs 27.7 bn, from Kshs 28.3 bn in FY'2020, slower than the 9.3% decline in the Gross Non-Performing Loans, the NPL coverage improved to 68.7%, from 62.4% in FY'2020, an indication of sufficient provisioning,
- Shareholders' funds grew by 28.0% to Kshs 169.2 bn in FY'2021, from Kshs 132.2 bn in FY'2020, mainly supported by a 23.6% growth in retained earnings to Kshs 146.8 bn, from Kshs 118.8 bn in FY'2020,
- Equity Group is currently sufficiently capitalized with a core capital to risk-weighted assets ratio of 12.9%, 2.4% points above the minimum statutory requirement of 10.5%. In addition, the total capital to risk-weighted assets ratio was 17.7%, exceeding the minimum statutory requirement of 14.5% by 3.2% points. Adjusting for IFRS 9, the core capital to risk-weighted assets stood at 12.9% while total capital to risk-weighted assets came in at 17.7%, and,
- The bank currently has a Return on Average Assets (ROaA) of 3.5%, and a Return on Average Equity (ROaE) of 26.6%.

<u>Key Take-Outs:</u>

1. The Group's geographical diversification strategy has continued to emerge as a net positive, with the bank's various subsidiaries in Uganda, DRC, Rwanda, Tanzania, and South Sudan cumulatively contributing 19.7% to the bank's total profitability and 32.7% to the group's total asset base. However, given the high NPL levels in the group's Tanzania subsidiary of 23.3%, the group will need to improve its credit assessment in the country to bring down the high NPL ratio. Cumulatively, the group's subsidiaries, excluding Equity Bank Kenya Ltd, recorded a 29.4% growth in their Profit after Tax (PAT) to Kshs 7.9 bn, from Kshs 6.1 bn in FY'2020, with the Tanzanian subsidiary recording a y/y growth of 129.0% to a profit of Kshs 0.1 bn in FY'2021, from a recorded loss of Kshs 0.3 bn in FY'2020, while the DRC subsidiary, Equity BCDC, recorded a growth of 211.0% in their Profit After Tax to Kshs 4.0 bn in FY'2021 from Kshs 1.3 bn in FY'2020. Total assets in the bank's regional subsidiaries, excluding Equity Bank Kenya Ltd, grew by 23.0% to Kshs 427.5 bn in FY'2021, from Kshs 347.4 bn in FY'2020, largely driven by the 25.0% growth of the subsidiaries' loan book to Kshs 206.0 bn, from Kshs 164.8 bn recorded in FY'2020,
2. Equity Group recorded a remarkable increase in its balance sheet, as Total Assets increased by 28.6% to Kshs 1.3 tn, from Kshs 1.0 tn recorded in FY'2020 as the business environment continues to improve. The increase is largely attributable to the 31.4% growth in assets held by the Kenyan subsidiary to Kshs 877.4

bn, from Kshs 667.6 bn, coupled with a 47.2% increase in assets held by the Group's DRC subsidiary, Equity BCDC, which increased to Kshs 419.8 bn, from Kshs 285.1 bn in FY'2020. The Group's diversification into different markets will allow it to mitigate risks that are unique to Kenya such as the 2022 electioneering period as well as spread risks over economically well-placed economies,

3. Increased innovation and digitization have seen 96.8% of all transactions of the bank being done on alternative channels, with mobile and internet transactions taking up 86.3% of all transactions, and agency banking contributing 6.3% of all transactions. In terms of the value of transactions, digital banking, branches and diaspora remittances contributed 64.8%, 31.0% and 4.2%, respectively. This highlights the transformation of branches to handle high-value transactions. This transformation aids the bank by offering its ecosystem banking products to retail and SME clients, and,
4. The bank's asset quality improved, as evidenced by the 2.9% points decline in the NPL ratio to 8.6% in FY'2021, from 11.5% in FY'2020. The main sectors that contributed to the Non-Performing Loans were MSMEs and Agriculture, which contributed 18.5% and 6.5%, respectively. The group's Tanzanian subsidiary recorded the highest NPL ratio, coming in at 23.3% in FY'2021, with Equity Bank Kenya recording an NPL ratio of 8.2% in FY'2021. With the improvement in business conditions and expected economic recovery in Rwanda, Uganda, Kenya, Tanzania and DRC, we expect the group's asset quality to improve in the medium term.

Going forward, we expect the bank's growth to be driven by:

I. Channeled diversification which is likely to further improve on efficiency with emphasis on alternative channels of transactions, as the bank rides on the digital revolution wave, thereby further improving the cost to income ratio by cost rationalization and revenue expansion. This will likely propel the bank's prospects of achieving sustainable growth, as it replicates its successful business model across its various regional subsidiaries,
II. The bank's operating model of enhancing balance sheet agility is likely to place the bank in a prime position to take advantage of any opportunities that may arise, such as attractive inorganic growth via acquisitions or fast lending with the repeal of the interest rate cap law and the recent approval of the risk-based pricing lending model. The bank's balance sheet agility is seen with a liquidity ratio of 63.4%, loan deposit ratio of 61.3% and a core capital to risk-weighted asset ratio of 12.9%, and,
III. Continued expansion through acquisition of other banks in Kenya as well as in the region, including a consideration to purchase back a stake in Housing Finance (HF) Group. Equity Group previously owned 24.7% stake in HF Group but sold all their shares in 2014.

Valuation Summary

- We are of the view that Equity Group is a "***Hold***" with a target price of Kshs 55.1 representing an upside of 7.1%, from the current price of Kshs 51.5 as of 25th March 2022, and,
- Equity Group is currently trading at a P/TBV of 1.0x and a P/E of 4.8x vs an industry average of 1.0x and 5.2x, respectively.