Below is a summary of Equity Group Holdings Plc FY’2022 performance:

Balance Sheet Items	FY’2021 (Kshs bn)	FY’2022 (Kshs bn)	y/y change
Government Securities	228.5	219.2	(4.1%)
Net Loans and Advances	587.8	706.6	20.2%
Total Assets	**1,304.9**	**1,447.0**	**10.9%**
Customer Deposits	959.0	1,052.2	9.7%
Deposits per Branch	2.8	3.0	4.4%
Total Liabilities	**1,128.7**	**1,264.8**	**12.1%**
Shareholders’ Funds	**169.2**	**176.2**	**4.2%**

Balance Sheet Ratios	FY’2021	FY’2022	% points y/y change
Loan to Deposit Ratio	61.3%	67.2%	5.9%
Return on average equity	26.6%	26.7%	0.1%
Return on average assets	3.5%	3.4%	(0.1%)

Income Statement	FY’2021 (Kshs bn)	FY’2022 (Kshs bn)	y/y change
Net Interest Income	68.8	86.0	25.0%
Net non-Interest Income	44.6	59.9	34.5%
Total Operating income	**113.4**	**145.9**	**28.7%**
Loan Loss provision	(5.8)	(15.4)	163.7%
Total Operating expenses	(61.5)	(86.1)	40.0%
Profit before tax	51.9	59.8	15.3%
Profit after tax	**40.1**	**46.1**	**15.1%**
Core EPS	**10.6**	**12.2**	**15.1%**

Income Statement Ratios	FY’2021	FY’2022	% points y/y change
Yield from interest-earning assets	9.3%	10.0%	0.7%
Cost of funding	2.7%	2.9%	0.2%
Cost of risk	5.2%	10.6%	5.4%
Net Interest Margin	6.8%	7.2%	0.4%
Net Interest Income as % of operating income	60.7%	58.9%	(1.8%)
Non-Funded Income as a % of operating income	39.3%	41.1%	1.8%
Cost to Income Ratio	54.2%	59.0%	4.8%
Cost to Income Ratio without LLP	49.1%	48.4%	(0.7%)
Cost to Assets	4.8%	5.1%	0.3%

Capital Adequacy Ratios	FY’2021	FY’2022	% Points Change
Core Capital/Total Liabilities	14.2%	16.9%	2.7%
Minimum Statutory ratio	8.0%	8.0%	-
Excess	**6.2%**	**8.9%**	**2.7%**
Core Capital/Total Risk Weighted Assets	12.9%	15.6%	2.7%
Minimum Statutory ratio	10.5%	10.5%	-
Excess	**2.4%**	**5.1%**	**2.7%**
Total Capital/Total Risk Weighted Assets	17.7%	20.2%	2.5%
Minimum Statutory ratio	14.5%	14.5%	-
Excess	**3.2%**	**5.7%**	**2.5%**
Liquidity Ratio	63.4%	52.1%	(11.3%)

Minimum Statutory ratio	20.0%	20.0%	-
Excess	**43.4%**	**32.1%**	**(11.3%)**
Adjusted core capital/ total deposit liabilities	14.2%	16.9%	2.7%
Adjusted core capital/ total risk weighted assets	12.9%	15.6%	2.7%
Adjusted total capital/ total risk weighted assets	17.7%	20.2%	2.5%

Key Highlights after FY'2022:

- On 1st February 2023,Equity Group Holdings PLc, through Equity Bank Kenya Limited (EBKL) announced that it had completed the acquisition of certain assets and liabilities of Spire Bank Limited after obtaining all the required regulatory approvals. The completion of the acquisition followed the Assets and Liabilities Purchase Agreement, which was announced in September 2022, as highlighted in our Cytonn Weekly #37/2022. Consequently, the Group's branches currently stand at 365 after Equity Bank Kenya Limited took over Spire Banks's 12 branches, as well as all existing depositors in Spire Bank, other than remaining deposits from its largest shareholder, Mwalimu Sacco. Additionally, Spire Bank transferred approximately 20,000 deposit customers to Equity Bank, and 3,700 loan customers that had an outstanding loan balances reported at a net carrying value after statutory loss provisions of Kshs 0.9 bn. However, Mwalimu Sacco, the sole shareholder in Spire Bank, would pay Equity Group Holdings Plc Kshs 510.7 mn to cover the difference between the distress bank's assets and liabilities, hence the P/Bv multiple in the transaction was inconsequential.

Income Statement

- Core earnings per share increased by 15.1% to Kshs 12.2 in FY'2022, from Kshs 10.6 recorded in FY'2021, higher than our projections of a 10.1% increase to Kshs 11.7. The performance was driven by a 28.7% growth in total operating income to Kshs 145.9 bn, from Kshs 113.4 bn in FY'2021 higher than our projections of 25.1%. However, the performance was weighed down by the 40.0% growth in total operating expenses to Kshs 86.1 bn, from Kshs 61.5 bn in FY'2021,
- Total Operating Income rose by 28.7% to Kshs 145.9 bn, from Kshs 113.4 bn recorded in FY'2021 driven by a 25.0% increase in Net Interest Income (NII) to Kshs 86.0 bn, from Kshs 68.8 bn in FY'2021, coupled with a 34.5% increase in Non-Funded Income (NFI) to Kshs 59.9 bn, from Kshs 44.6 bn in FY'2021,
- Interest income grew by 26.8% to Kshs 119.6 bn, from Kshs 94.3 bn in FY'2021 driven by a 22.6% increase in interest income from loans and advances to Kshs 78.2 bn, from Kshs 63.8 bn recorded in FY'2021, coupled with a 35.9% increase in interest income from government securities to Kshs 40.0 bn, from Kshs 29.5 bn in FY'2021. The Yield on Interest-Earning Assets (YIEA) rose by 0.7% points to 10.0%, from 9.3% in FY'2021, attributable to the faster 26.8% growth in trailing interest income which outpaced the 18.0% growth in Average Interest-Earning Assets (AIEA). Trailing Interest Income refers to the performance of the interest income for the past 12 consecutive months,
- Interest expenses rose by 31.7% to Kshs 33.6 bn, from Kshs 25.5 bn in FY'2021, following a 25.4% increase in interest expense on customer deposits to Kshs 22.4 bn, from Kshs 17.9 bn in FY'2021, coupled with a 35.9% increase in other interest expenses to Kshs 8.3 bn, from Kshs 6.1 bn in FY'2021. Additionally, interest expenses on deposits and placements also increased by 87.8% to Kshs 2.9 bn, from Kshs 1.5 bn in FY'2021. Consequently, the Cost of funds (COF) increased by 0.2% points to 2.9%, from 2.7% recorded in FY'2021, following a faster 31.7% increase in Trailing interest expense, compared to the 19.3% increase in average interest bearing liabilities. Trailing interest expense refers to the performance of the interest expenses for the past 12 consecutive months. The Net Interest Margin (NIM) also increased to 7.2%, from 6.8% in FY'2021, attributable to the 25.0% growth in Trailing Net Interest Income (NII), which outpaced the 18.0% growth average interest-earning assets,
- Non-Funded Income (NFI) rose by 34.5% to Kshs 59.9 bn, from Kshs 44.6 bn in FY'2021. The increase was mainly driven by a 30.2% growth in income from other fees and commissions to Kshs 28.1 bn, from Kshs 21.6 bn in FY'2021, coupled with a 58.4% increase in foreign exchange trading income to Kshs 13.0 bn,

from Kshs 8.2 bn in FY'2021, attributable to the group's increased foreign exchange margins. Income from fees and commissions on loans increased by 14.8% to Kshs 8.9 bn, from Kshs 7.7 bn in FY'2021. Equity Group's total fees and commission increased by 26.2% to Kshs 37.0 bn, from Kshs 29.3 bn in FY'2021. Consequently, the revenue mix shifted to 59:41 from 61:39, funded to non-funded income, recorded in FY'2021, owing to the faster 34.5% growth in NFI compared to the 25.0% growth in NII,

- Total operating expenses increased by 40.0% to Kshs 86.1 bn in FY'2022, from Kshs 61.5 bn recorded in FY'2021, mainly due to a 163.7% increase in Loans Loss Provision to Kshs 15.4 bn in FY'2022, from Kshs 5.8 bn recorded in FY'2021 coupled with a 29.7% increase in staff cost to Kshs 24.8 bn, from Kshs 19.1 bn in FY'2021. The increased provisioning level points towards more risk aversion and increased credit risk on the back of the elevated cost of living being witnessed in the country,
- Cost to Income Ratio (CIR) with LLP deteriorated, rising by 4.8% points to 59.0%, from 54.2% in FY'2021 due to the 163.7% growth in Loans Loss Provision which largely contributed to the 40.0% increase in total expenses, outpacing the 28.7% growth in total income. Without LLP, the Cost to Income ratio improved, declining by 0.7% points to 48.4%, from 49.1% in FY'2021, an indication of improved efficiency levels in the Bank,
- Profit before tax increased by 15.3% to Kshs 59.8 bn, from Kshs 51.9 bn in FY'2021 with the effective tax rate increasing to 23.0% from 22.8% in FY'2021. Similarly, the profit after tax increased by 15.1% to Kshs 46.1 bn in FY'2022, from Kshs 40.1 bn recorded in FY'2021, and,
- Equity Group's directors recommended a final dividend per share of Kshs 4.0 in FY'2022, representing a dividend yield of 8.8% as at 31 March 2023. The dividends recommended represent a 33.3% increase from dividend per share of Kshs 3.0 paid in FY'2021. Additionally, the dividend payout ratio increased to 33.6% in FY'2022, from 28.9% in FY'2021.

Balance Sheet

- The balance sheet recorded an expansion as total assets increased by 10.9% to Kshs 1,447.0 bn in FY'2022, from Kshs 1,304.9 bn recorded in FY'2021, largely driven by the 20.2% growth in the loan book to Kshs 706.6 bn, from Kshs 587.8 bn recorded in FY'2021. The balance sheet growth was however weighed down by Government securities which declined by 4.1% to Kshs 219.2 bn, from Kshs 228.5 bn in FY'2021,
- Total liabilities rose by 12.1% to Kshs 1,264.8 bn, from Kshs 1,128.7 bn in FY'2021, driven by a 9.7% increase in customer deposits to Kshs 1,052.2 bn, from Kshs 959.0 bn in FY'2021. Deposits per branch increased by 4.4% to Kshs 3.0 bn, from Kshs 2.8 bn in FY'2021, with the number of branches increasing by 17 to 354 branches in FY'2022, from 337 in FY'2021, with Equity Bank Democratic Republic of Congo (DRC) contributing 11, Equity Bank Uganda and Tanzania contributed 2 each, while Equity Bank Rwanda and Kenya contributed 1 additional branch each,
- The faster 20.2% growth in loans as compared to the 9.7% growth in customer deposits led to an increase in the Loans to deposit ratio to 67.2% from 61.3% in FY'2021,
- Gross Non-Performing Loans (NPLs) increased by 17.2% to Kshs 63.1 bn in FY'2022, from Kshs 53.9 bn recorded in FY'2021, while Gross loans increased by 20.2% to Kshs 751.1 bn, from 624.8 bn in FY'2021, leading to an improvement in the NPL ratio to 8.4%, from 8.6% recorded in FY'2021,
- The NPL coverage increased to 70.5%, from 68.7% in FY'2021 driven by a 39.2% increase in interest in suspense to Kshs 13.0 bn, from Kshs 9.4 bn in FY'2021 coupled with the 13.9% increase in general provisions (LLP) to Kshs 31.5 bn, from Kshs 27.7 bn in FY'2021, which outpaced the 17.2% growth in Gross non-performing loans,
- Shareholders' funds increased by 4.2% to Kshs 176.2 bn in FY'2022, from Kshs 169.2 bn in FY'2021, mainly due to 29.2% increase in retained earnings to Kshs 189.6 bn, from Kshs 146.8 bn recorded in FY'2021, However, the increase was weighed down by a 409.4% increase in revaluation reserve to Kshs 32.2 bn, from Kshs 6.3 bn in FY'2021,

- Equity Group is currently sufficiently capitalized with a core capital to risk-weighted assets ratio of 15.6%, 5.1% points above the minimum statutory requirement of 10.5%. In addition, the total capital to risk-weighted assets ratio was 20.2%, exceeding the minimum statutory requirement of 14.5% by 5.7% points. Adjusting for IFRS 9, the core capital to risk-weighted assets stood at 15.6% while total capital to risk-weighted assets came in at 20.2%, and,
- The bank currently has a Return on Average Assets (ROaA) of 3.4%, and a Return on Average Equity (ROaE) of 26.7%.

Key Take-Outs:

1. **Increased profitability as a result of Group's Geographical diversification**- 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 30.0% to the bank's total profitability and 44.0% to the group's total asset base. Cumulatively, the group's subsidiaries, excluding Equity Bank Kenya Ltd, recorded an 61.1% growth in their Profit after Tax (PAT) to Kshs 12.7 bn, from Kshs 7.9 bn in FY'2021, with the Equity Bank South Sudan recording the highest year on year growth of 1381.0% in PAT to Kshs 2.3 bn from a loss of Kshs 0.2 bn in FY'2021, mainly driven by favorable operating business environment following reduction in political instability in the country. However, concerns remain high on the high NPL levels in the group's Tanzanian subsidiary of 18.9% and we expect the group to improve its credit assessment in the country to bring down the high NPL ratio,

2. **Increased Provisioning** – The Group increased its Loans Loss Provision (LLPs) by 163.7% to Kshs 15.4 bn in FY'2022, from Kshs 5.8 bn recorded in FY'2021 aimed at mitigating increased credit risk on the back of the elevated inflationary pressures. Additionally, the NPL coverage increased to 70.5%, from 68.7% in FY'2021 as a result of the 13.9% increase in general provisions, coupled with a 39.2% increase in interest in suspense which outpaced the 17.2% growth in Gross non-performing loans. We expect the high provisioning to cushion the Group against high credit risk on the tough operating business environment which has curtailed recovery in some sectors locally and the high NPL ratios in some of the group's subsidiaries,
3. **Improved efficiency levels** – The Group recorded improved operating efficiency levels with cost to income ratio without LLP declining by 0.7% to 48.4%, from 49.1% in FY'2021,

4. **Improved Lending** – FY'2022 was characterized by a 20.2% growth in loans with investments in government securities declining by 4.1%, highlighting the Group's strategy to increase lending despite the tough operating business environment. Notably, the Group diversified risk by extending credit to various sectors in the economy with high lending recorded in sectors such as trade, personal household, and real estate at 23.0%, 22.0% and 14.0%, respectively. Going forward, we expect the bank's growth to be driven by:

I. **Digital transformation-** Innovation and digitization continue to enhance high value transaction which has seen 99.0% of all transactions of the bank being 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, value of transactions has continued to increase with digital banking, branches and diaspora remittances contributing 48.0%, 26.6% and 4.9%, respectively. This highlights the transformation of branches to handle high-value transactions which aid the bank by offering its ecosystem banking products to retail and SME clients, and,

II. **Continued expansion.** Equity Group has continued to acquire other banks in Kenya as well as in the region, with Equity Bank Kenya having completed acquisition Spire Bank Limited in February 2023. Additionally, Ethiopian government opened up the financial sector to foreign investors which provide a great opportunity for Equity Group to expand its operations into the untapped market.

Valuation Summary

- We are of the view that Equity Group is a "***Buy***" with a target price of Kshs 54.7 representing an upside of 20.1%, from the current price of Kshs 45.5 as of 31 March 2023, and,
- Equity Group is currently trading at a P/TBV of 1.0x and a P/E of 3.7x vs an industry average of 1.0x and 4.9x, respectively.