



**Equity Group
FY'23 Earnings
Note**





Equity Group Holdings FY'23 Earnings Note

April 4th, 2024

Ticker Information

NSE Code:	EQTY
Issued Shares (Bn):	3.77
52-week high:	KES 51.00
52-week low:	KES 33.70

Chart 1: Price Trend (Last 12 Months)



Source: NSE, AIB-AXYS Research

Historical Share Performance

Last	1M	3M	6M	12M
Change	19.9%	40.2%	33.9%	4.4%

Source: NSE, AIB-AXYS Research

Analysts

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Recommendation

BUY

Current Price

KES 47.95

Target Price

KES 55.15

Summary

- **Equity Group Holdings trailed below in-house expectations to record a surprise 5.1% y/y slump in net earnings to KES 43.74Bn throughout 2023.** Growth momentum was grounded by a faster surge in pre-provision operating expenses compared to operating incomes. Net interest margins widened marginally to 7.2% as rising reinvestment yields met with soaring cost of funds landscape.
- **The Board of Directors recommend a first and final dividend of KES 4.00 per share.** This distribution fell marginally below our expected total dividend range. This year's payment translates to a dividend payout ratio of 34.5%. The dividend will be payable on 28th June 2024 to shareholders on register as of 24th May 2024.

Key Highlights

- **A Tight Race for Margins:** Net Interest Income surged by 21.2% y/y to KES 104.19Bn driven by a faster jump in yields on customer assets and investment securities compared to the upsurge in cost of funds. Non-funded income expanded faster by 30.7% y/y to KES 78.31Bn supported by volume-driven forex trading income. The average yield on interest-earning assets paced up 100bps y/y to 11.0% owing to higher reinvestment returns on customer assets and investment securities. However, this increase was watered down by a 90bps y/y upsurge in cost of funds to 3.8% attributed to the rising interest rate landscape in 2023.
- **Soaring Credit Delinquencies:** Gross Non-Performing Loans (NPLs) soared markedly by 81.5% y/y to KES 114.6Bn – quickening a 380bps y/y rise in the Gross NPL ratio to 12.3% on account of material concentration losses. NPL coverage was consequently raised by 570bps y/y to 82.6%. In response to the mounting credit risks and the regional currency depreciation in 2023, the management team more than doubled credit impairment provisions in the year, raising provisions by 109.2% y/y to KES 32.25Bn – signaling a guarded stance amid substantial pressure on asset quality.

Balance Sheet Dynamics

Customer deposits grew 29.1% y/y to KES 1,358Bn driven by aggressive mobilization in Equity Rwanda, Equity BCDC and Equity Tanzania deposits which grew by 96%, 37% and 36% respectively. All subsidiaries now comprise 50.5% of total deposits of Equity Group Holdings. Customer assets lifted 25.6% to KES 887.38Bn, with the bulk of the credit growth emerging from short-term lending in Equity BCDC. The Group credit distribution became more diversified, with the subsidiaries accounting for 49.4% of all extended loans. Management bulked up the holdings of investment securities by 27.0% y/y to KES 500.54Bn. Despite the rising yield landscape in 2023, the Group managed to trim fair value losses on investment securities by 64.9% y/y to KES 10.19Bn – reflecting effective duration risk management of the fixed-income portfolio.

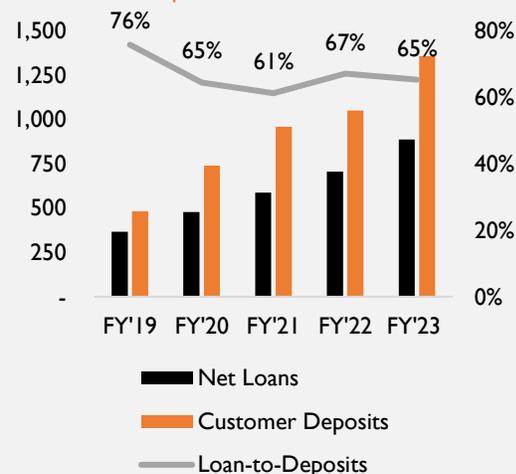
Pressurized Operating Efficiency

The Cost-to-Income ratio (excluding loan-loss provisions) deteriorated as reflected by the 550bps y/y increase to 53.9%. Operating incomes soared considerably across subsidiaries led by Equity BCDC which posted a remarkable 73% jump in revenues to KES 55.9Bn. Subsidiaries collectively accounted for 51.2% of Group revenues and 48.1% of pre-provision operating profits. Pre-provision operating expenses on the other hand, quickened 39.2% y/y – channeled towards talent acquisition and retention strategies coupled with digital infrastructure upgrades. The bulk of the cost pressures emerged from Equity BCDC and Equity Uganda – which posted 48% y/y and 47% y/y growth in pre-provision expenses respectively.

Recommendation

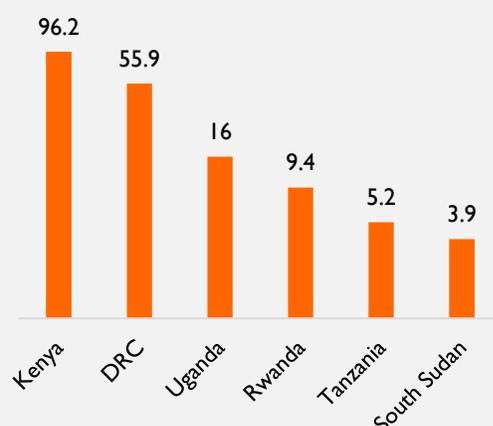
- **We maintain our BUY recommendation on Equity Group Holdings on account of its robust commercial momentum across regional subsidiaries and adequate coverage against protracted market risks.** At the current market price, the stock is trading at P/E ratio of 4.3x and a P/B ratio of 0.8x. Our one-year target price for Equity Group Holdings currently stands at KES 55.15 - representing a c.15.0% upside potential from current levels.

Chart 2: Faster Deposit Mobilization



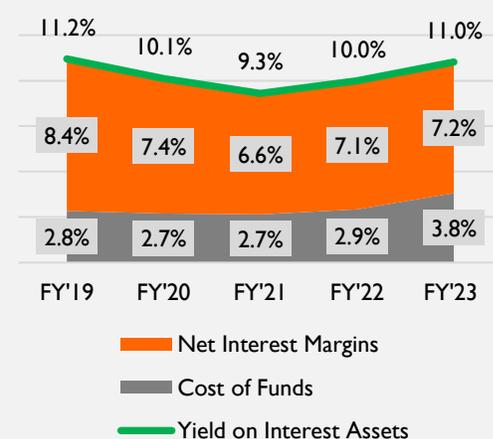
Source: Company filings, AIB-AXYS Research.

Chart 3: Regional Revenue Generation (KES Bn)



Source: Company filings, AIB-AXYS Research.

Chart 4: Widening Net Interest Margin



Source: Company filings, AIB-AXYS Research.

Income Statement (KES Mn)	FY'19	FY'20	FY'21	FY'22	FY'23	% y/y change
Net Interest Income	44,982.4	55,148.8	68,811.0	85,999.0	104,194.2	▲ 21.2%
Non-Interest Income	30,780.1	38,508.1	44,575.4	59,936.2	78,312.1	▲ 30.7%
Total Operating income	75,762.4	93,656.9	113,386.4	145,935.2	182,506.3	▲ 25.1%
Provision for Impairment	(5,302.6)	(26,631.3)	(5,844.7)	(15,414.3)	(32,254.3)	▲ 109.2%
Total Operating expenses	(44,285.0)	(72,664.5)	(61,505.4)	(86,091.4)	(130,627.5)	▲ 51.7%
Profit before tax	31,477.4	22,169.8	51,881.0	59,843.8	51,878.9	▼ (13.3%)
Profit after tax	22,560.7	20,099.5	40,071.6	46,102.5	43,736.6	▼ (5.1%)
Core EPS	5.98	5.33	10.62	12.22	11.59	▼ (5.1%)
DPS	2.50	-	3.00	4.00	4.00	-

Balance Sheet (KES Mn)	FY'19	FY'20	FY'21	FY'22	FY'23	% y/y change
Government Securities	138,573.0	217,407.9	394,101.4	393,983.9	500,542.3	▲ 27.0%
Loans and Advances	366,440.5	477,847.2	587,775.1	706,588.2	887,379.8	▲ 25.6%
Total Assets	673,682.5	1,015,093.3	1,304,913.8	1,447,010.6	1,821,434.5	▲ 25.9%
Customer Deposits	482,752.1	740,800.8	958,977.0	1,052,161.6	1,358,183.1	▲ 29.1%
Total Liabilities	561,905.9	876,452.5	1,128,722.5	1,264,799.3	1,603,299.4	▲ 26.8%
Total Equities and Liabilities	673,682.5	1,015,093.3	1,304,913.8	1,447,010.6	1,821,434.5	▲ 25.9%

Ratio Analysis	FY'19	FY'20	FY'21	FY'22	FY'23	% y/y change
Spreads Analysis						
Yield on Assets	11.2%	10.1%	9.3%	10.0%	11.0%	▲ 1.0%
Cost of Funds	2.8%	2.7%	2.7%	2.9%	3.8%	▲ 0.9%
Net Interest Margin	8.4%	7.4%	6.6%	7.1%	7.2%	▲ 0.1%
ROaE	22.0%	16.5%	26.0%	29.0%	21.8%	▼ (7.2%)
ROaA	3.6%	2.4%	3.5%	3.4%	2.7%	▼ (0.7%)
Profit Margin	29.8%	21.5%	35.3%	31.6%	24.0%	▼ (7.6%)

Operating Efficiency	FY'19	FY'20	FY'21	FY'22	FY'23	% y/y change
Cost to Income Less LLP	51.5%	49.2%	49.1%	48.4%	53.9%	▲ 5.5%
Cost to Assets Less LLP	6.3%	5.5%	4.8%	5.1%	6.0%	▲ 0.9%
Loan to Deposit	75.9%	64.5%	61.3%	67.2%	65.3%	▼ (1.8%)

Asset Quality	FY'19	FY'20	FY'21	FY'22	FY'23	% y/y change
Gross NPL Ratio	9.6%	11.7%	8.8%	8.6%	12.3%	▲ 3.8%
NPL Coverage	47.5%	62.4%	68.7%	76.9%	82.6%	▲ 5.7%
Cost of Risk	1.4%	5.6%	1.0%	2.2%	3.6%	▲ 1.5%

Capital Adequacy	FY'19	FY'20	FY'21	FY'22	FY'23	% y/y change
Core Capital/TRWA	16.3%	14.8%	12.9%	15.6%	14.3%	▼ (1.3%)
Total Capital /TRWA	21.4%	18.9%	17.7%	20.2%	18.1%	▼ (2.1%)
Liquidity	52.1%	59.3%	63.4%	52.1%	53.4%	▼ (2.4%)



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