

DYER & BLAIR INVESTMENT BANK

EARNINGS UPDATE

Founder Member of the Nairobi Securities Exchange

24TH NOVEMBER 2023



DYER & BLAIR
INVESTMENT BANK

WE KNOW. YOU KNOW.

EQUITY GROUP HOLDINGS: 3Q23 EARNINGS UPDATE

Dear All,

Equity Group released its 3Q23 results reporting a 5.3% y-o-y growth in after tax profits to KES 36.2 BN. The group's financial performance was supported by a 21.3% y-o-y uplift in net interest income to KES 72.6 BN and a 36.9% y-o-y advancement in non-funded income to KES 57.8 BN. EPS for the period stood at KES 9.17 (3Q22: KES 8.84). No dividends were declared for the period but the management is still committed to its targeted payout ratio of between 30.0% to 50.0% of net earnings by the end of every financial year.

Below please find key highlights:

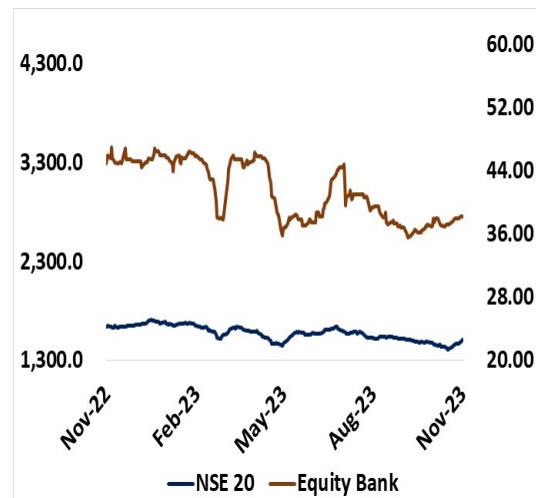
Net interest income increased by 21.3% y-o-y to KES 72.6 BN, driven by a 32.0% y-o-y growth in total interest income to KES 111.1 BN against a 58.4% y-o-y climb in total interest expenses to KES 38.5 BN. The annualized yield on interest earning assets rose by 52 bps y-o-y to 10.2% while the annualized cost of funds rose by 97 bps y-o-y to 3.9% resulting in a NIM of 6.4% (3Q22: 6.8%).

Interest income from loans and advances rose by 31.3% y-o-y to KES 70.6 BN driven by a 21.3% y-o-y expansion in the group's loan book to KES 845.9 BN and a 78 bps y-o-y increase in the annualized yield on loans to 12.4%.

Interest income arising from the group's portfolio of government & investment securities improved by 23.3% y-o-y to KES 36.5 BN powered by an 67 bps y-o-y increase in the annualized yield on government securities to 11.1%. The group's holding of government & investment securities grew by 21.5% y-o-y to KES 445.2 BN.

Interest expenses from customer deposits went up by 58.4% y-o-y to KES 26.1 BN occasioned by a 19.9% y-o-y growth in customer deposits to KES 1.2 TN as the annualized cost of customer deposits increased by 85 bps y-o-y to 3.1%.

EQUITY GROUP: 52 WEEK PRICE PERFORMANCE



(Source: NSE, DBIB Research)

PRICE	ABSOLUTE	EXCESS
RETURN	RETURN	RETURN
3 months	(3.0%)	(2%)
6 months	3.79%	2.31%
12 months	(16.6%)	(8%)

KEY METRICS

Current Price (KES)	38.30
52 week Range (KES)	35.55 - 46.95
YTD Return (%)	(13.9)
Issued Shares (Mn)	3,703
Market Cap (USD Mn)	928.08

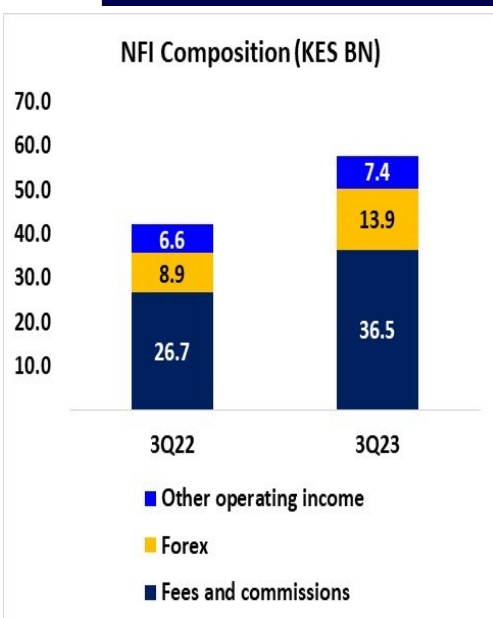
Trailing EPS (KES)	12.23
NAV (KES)	49.67
P/E (x)	3.1
P/B (x)	0.8
Dividend Yield (%)	-

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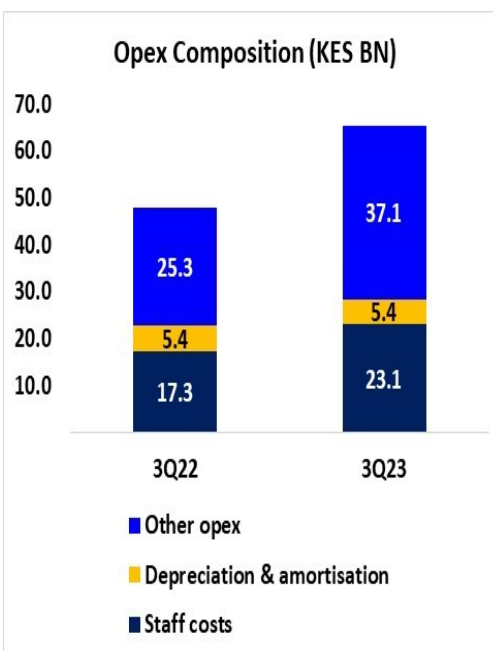
Source: Company

Non-funded income improved by 36.9% y-o-y to KES 57.8 BN mainly bolstered by a 46.6% y-o-y growth in other fees and commissions to KES 29.7 BN and a 56.3% y-o-y jump in foreign exchange trading income to KES 13.9 BN. Fees and commissions on loans and advances edged up by 5.3% y-o-y to KES 6.8 BN. The contribution of non-funded income to total income increased by 296 bps y-o-y to 44.3% (3Q22: 41.4%). Total operating income increased by 27.8% y-o-y to KES 130.4 BN. The contribution of non-funded income to total income improved by 296 bps y-o-y to 44.3% (3Q22: 41.4%).

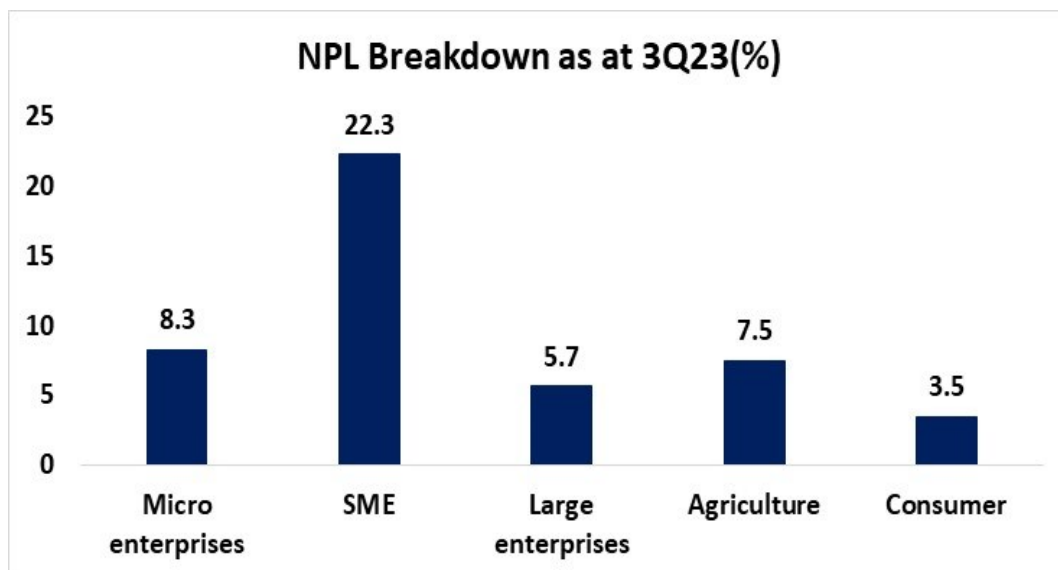
Operating expenses (excluding provisions) registered a 36.3% y-o-y climb to KES 65.5 BN mainly on the back of a 46.8% y-o-y growth in other expenses to KES 36.5 BN and a 33.0% y-o-y advance in staff costs to KES 23.1 BN. The group's cost-to-income ratio (excluding provisions) increased by 313 bps y-o-y to 50.2% (3Q22: 47.1%). Owing to the faster rise in operating expenses (excluding provisions) in comparison to operating income, the group's cost-to-income ratio (excluding provisions) rose by 313 bps y-o-y to 50.2% (3Q22: 47.1%).

The group's gross non-performing loans advanced by 83.5% y-o-y to KES 124.5 BN (+27.7% q-o-q) while interest in suspense rose by 51.6% y-o-y to KES 21.4 BN (+16.4% q-o-q). Consequently, total NPLs (gross NPLs less interest in suspense) jumped by 91.8% y-o-y to KES 79.1 BN (+30.3% q-o-q). **Owing to the rise in gross non-performing loans, the NPL ratio rose by 50 bps y-o-y to 9.1%, but still remained below the Kenyan banking industry NPL ratio of 12.8% as at September 2023.** NPL coverage (excluding credit guarantees) declined from 53.2% in 3Q22 to 43.7% in 3Q23. The overall asset deterioration was largely contributed by Equity Bank Kenya with real estate and manufacturing being the main industries affected.

Loan loss provisions surged by 96.6% y-o-y to KES 19.0 BN placing the group's cost of risk at 9.0%, up 325 bps y-o-y.



Source: Company



Source: Company

Net loans and advances rose by 25.5% y-o-y to KES 845.9 BN (+3.5% q-o-q) while government and investment securities rose by 21.5% y-o-y to KES 445.2 BN (-8.3% q-o-q). On the funding side, customer deposits improved by 19.9% y-o-y to KES 1.2 TN (+2.8% q-o-q) while borrowed funds increased by 4.9% y-o-y to KES 121.7 BN (+3.7% q-o-q). The group's loan-to-deposit ratio rose by 314 bps y-o-y to 70.0% while the ratio of loans to customer deposits & borrowed funds went up by 360 bps y-o-y to 63.6%.

Equity Group's core capital ratio (Core capital/TRWA) decreased by 90 bps y-o-y to 15.2% above the statutory minimum of 10.5% while Total capital/TRWA decreased by 150 bps y-o-y to 19.2% above the statutory minimum of 14.5%. **Equity Bank Kenya's core capital ratio (Core capital/TRWA) decreased by 80 bps y-o-y to 15.2%** above the statutory minimum of 10.5% while Total capital/TRWA dropped by 110 bps y-o-y to 20.1% above the statutory minimum of 14.5%. Both the group's and the bank's liquidity ratios declined, falling to 49.7% and 44.6% from 51.8% and 67.5% in 3Q22—respectively.

	Group	Min.	Bank	Min.
Core capital ratio (%)	15.2	10.5	15.2	10.5
Total capital ratio (%)	19.2	14.5	20.1	14.5
Liquidity ratio (%)	49.7	20.0	44.6	20.0

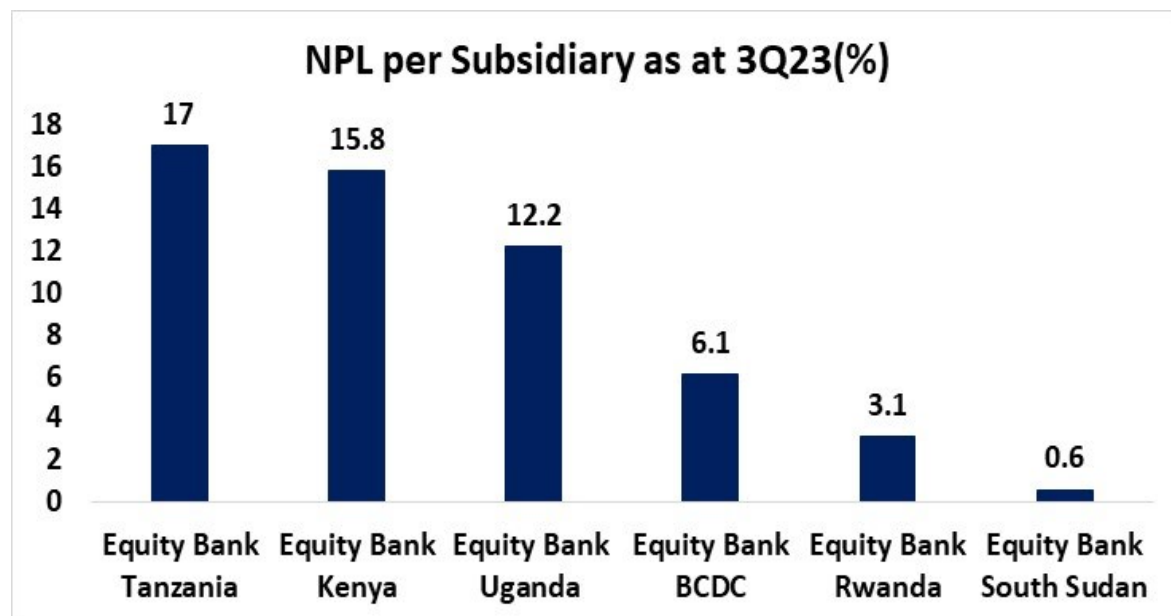
Source: Company

FY23's management guidance:

Equity group reiterated its earlier guidance as follows:

	FY23 Outlook
Loan growth (%)	25.0 - 30.0
Deposit growth (%)	20.0 - 25.0
NIM (%)	7.0 - 7.5
Non-funded income mix (%)	42.0 - 45.0
Cost-to-income ratio (%)	47.0 - 50.0
ROE (%)	22.0 - 26.0
ROA (%)	2.7 - 3.2
Cost of risk (%)	3.0 - 3.5
NPL (%)	11.0 - 13.0
Subsidiary contribution (Assets) (%)	45.0 - 50.0
Subsidiary contribution (PBT) (%)	45.0 - 50.0

Source: Company



Source: Company

Equity Group is also looking forward to expanding its business in insurance in partnership with Equity Afia targeting affordable healthcare. The group is also still pushing for geographical expansion and business diversification as it is set to complete the acquisition of Cogebanque Bank in Rwanda by 30th November 2023.

On a trailing basis, Equity Group is currently trading at a P/E multiple of 3.1x against an industry median of 3.4x and a P/B multiple of 0.8x against an industry median of 0.6x. Its ROE stands at 25.1% while its ROA stands at 2.7%.

PROFIT AND LOSS SUMMARY (KES MN)

Year End: December	3Q23	3Q22	y-y% ch	3q23	q-q% ch
Interest income	111,128	84,163	32.0	41,334	11
Interest expense	38,524	24,319	58.4	15,119	20
Net interest income	72,605	59,844	21.3	26,215	6
Other operating income	7,379	6,584	12.1	2,686	3
Fees and commission income	36,522	26,741	36.6	13,172	8
Net income from forex dealings	13,899	8,894	56.3	5,453	66
Total non-interest income	57,801	42,220	36.9	21,310	18
Total income	130,405	102,064	27.8	47,525	11
Less operating expenses	65,508	48,078	36.3	24,885	19
Operating profit	64,897	53,985	20.2	22,640	3
Bad debt charge	(18,990)	(9,661)	96.6	(11,895)	229
Exceptional items	0	0	0.0	0	0
Profit before income tax	45,907	44,325	3.6	10,745	(41)
Less tax	(9,703)	(9,949)	(2.5)	(869)	(82)
Profit after tax	36,204	34,376	5.3	9,876	(27)
Attributable Income	34,589	33,351	3.7	9,129	(31)
EPS (KES)	9.17	8.84	3.7	2	(32)

(Source: Company, DBIB Research)

BALANCE SHEET SUMMARY (KES MN)

Year End: December	3Q23	1H23	3Q22	y-y% ch	q-q% ch
Total shareholder's equity	183,922	186,060	147,510	24.7	(1.1)
Minority interest	9,287	8,273	6,566	0.0	12.3
Total Equity	193,209	194,332	154,076	25.4	(0.6)
Deposits due to other banks	877	500	-	-	-
Customer deposits	1,207,698	1,175,252	1,007,338	19.9	2.8
Borrowed funds	121,774	117,468	116,085	4.9	3.7
Other liabilities	167,596	157,234	86,248	94.3	6.6
Total equity and liabilities	1,691,154	1,644,787	1,363,747	24.0	2.8
Cash & Central bank balances	103,020	94,635	95,050	8.4	8.9
Deposits due from banks	159,666	125,190	117,140	36.3	27.5
Investment securities	445,177	485,643	366,455	21.5	(8.3)
Held for dealing securities	-	-	-	-	-
Customer loans and advances	845,919	817,186	673,913	25.5	3.5
Other assets	100,195	86,073	81,130	23.5	16.4
Intangible assets	14,723	14,577	12,675	16.2	1.0
Fixed assets	22,455	21,483	17,384	29.2	4.5
Total assets	1,691,154	1,644,787	1,363,747	24.0	2.8

(Source: Company, DBIB Research)

INVESTMENT RETURN

	3Q23	1H23	3Q22	y-y bps ch	q-q bps ch
ROA (%)	2.9	3.1	3.4	(51)	(24)
ROIC (%)	3.2	3.4	3.6	(42)	(25)
ROE (%)	23.9	27.4	28.9	(499)	(350)

(Source: Company, DBIB Research)

*Annualized

CAPITAL ADEQUACY, LIQUIDITY & ASSET QUALITY – EQUITY KENYA

	3Q23	1H23	3Q22	y-y bps ch	q-q bps ch
Core capital/TRWA (%)	15.2	15.0	16.1	(90)	20
Min. Statutory Ratio (%)	10.5	10.5	10.5	-	-
Total capital/TRWA (%)	19.2	19.0	20.7	(150)	20
Min. Statutory Ratio (%)	14.5	14.5	14.5	-	-
Liquidity Ratio (%)	49.7	51.1	51.8	(210)	(140)
Min. Statutory Ratio (%)	20.0	20.0	20.0	-	-
Leverage Ratio (%)	10.9	11.3	10.8	6	(44)
Equity-to-Loans Ratio (%)	22.8	23.8	22.9	(2)	(94)
NPL Ratio (%)	12.8	10.7	9.1	368	217
NPL Coverage Ratio (%)	43.7	43.9	53.2	(954)	(24)
Long Term Debt to Total Liabilities and Equity (%)	7.2	7.1	8.5	(131)	6
NTA/share (KES)	452.7	440.2	364.9	8786	1248
Book value/share (KES)	49.7	50.2	39.8	983	(58)

(Source: Company, DBIB Research)

OPERATING PERFORMANCE

	3Q23	1H23	3Q22	y-y bps ch	q-q bps ch
Yield on interest earning assets (%)	10.2	9.8	9.7	52	44
Cost of funds (%)	3.9	3.6	2.9	97	24
Net Interest Margin (%)	6.4	6.2	6.8	(46)	20
Loan-to-Deposits ratio (%)	70.0	69.5	66.9	314	51
Loan-to-Dep.&Borrowed Funds ratio (%)	63.6	63.2	60.0	360	40
Funded Income Generating Potential (%)	85.8	86.8	84.9	91	(104)
Funded Income Reliance (%)	55.7	56.0	58.6	(296)	(30)
Cost to income ratio (%)	50.2	49.0	47.1	313	122
Pre-tax margin (%)	35.2	42.4	43.4	(823)	(722)
PAT margin (%)	27.8	31.8	33.7	(592)	(400)

(Source: Company, DBIB Research)

* Annualized

APPENDIX

COMPANY INVESTMENT RATINGS

Buy: Share price may generate more than 15.0% upside over the next 12 months

Overweight: Share price may generate between 5.0% and 15.0% upside over the next 12 months

Hold: Share price may fall within the range of <+5.0/ -10.0% over the next 12 months

Take Profit: Target price has been attained. Look to accumulate at lower levels. Company fundamentals however remain strong

Underweight: Share price may generate between 10.0% and 15.0% downside over the next 12 months

Sell: Share price may generate more than 15.0% downside over the next 12 months, significant business and/or financial risks present, industry concerns

Not Rated: Counter is not within regular research coverage

SECTOR INVESTMENT RATINGS

Overweight: Industry performance better than that of the whole market

Equal weight: Industry performance about the same as that of the whole market

Underweight: Industry performance worse than that of the whole market

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