

DYER & BLAIR INVESTMENT BANK

EARNINGS UPDATE

Founder Member of the Nairobi Securities Exchange

24TH MAY 2024



DYER & BLAIR
INVESTMENT BANK

WE KNOW. YOU KNOW.

EQUITY GROUP HOLDINGS: 1Q24 EARNINGS UPDATE

Dear All,

Equity Group released its 1Q24 results reporting a 25.2% y-o-y growth in after tax profits to KES 16.0 BN. Profitability growth was backed by a 21.0% y-o-y jump in non-funded income to KES 22.4 BN and a 28.4% y-o-y growth in net interest income to KES 27.8 BN. EPS for the period stood at KES 4.08 (1Q23: KES 3.26).

Below please find key highlights:

Net interest income advanced by 28.4% y-o-y to KES 27.8 BN, characterized by a 32.7% y-o-y growth in total interest income to KES 43.0 BN against a 41.4% y-o-y rise in total interest expenses to KES 15.2 BN. The annualized yield on interest earning assets rose by 224 bps y-o-y to 12.3% while the annualized cost of funds rose by 101 bps y-o-y to 4.5% resulting in a NIM of 7.8% (1Q23: 6.5%).

Interest income from loans and advances rose by 31.9% y-o-y to KES 27.3 BN driven by a 3.0% y-o-y expansion in the group's loan book to KES 779.2 BN as the annualized yield on loans increased by 178 bps y-o-y to 13.1%.

Interest income arising from the group's portfolio of government & investment securities improved by 36.5% y-o-y to KES 14.6 BN fueled by a 111 bps y-o-y increase in the annualized yield on government securities to 12.0%. The group's holding of government & investment securities grew by 20.6% y-o-y to KES 473.2 BN.

Interest expenses from customer deposits went up by 49.2% y-o-y to KES 11.1 BN occasioned by a 11.3% y-o-y growth in customer deposits to KES 1.2 TN and a 67 bps y-o-y jump in the annualized cost of customer deposits to 3.4%.

EQUITY GROUP: 52 WEEK PRICE PERFORMANCE



(Source: NSE, DBIB Research)

PRICE	ABSOLUTE	EXCESS
RETURN	RETURN	RETURN
3 months	18.18%	6.1%
6 months	18.03%	2.21%
12 months	16.80%	0.6%

KEY METRICS

Current Price (KES)	44.85
52 week Range (KES)	33.65 - 49.20
YTD Return (%)	33.3
Issued Shares (Mn)	3,703
Market Cap (USD Mn)	1,270.41

Trailing EPS (KES)	11.94
NAV (KES)	56.95
P/E (x)	3.8
P/B (x)	0.8
Div Yld (%)	-

Research Analyst

Sylvester Odhiambo

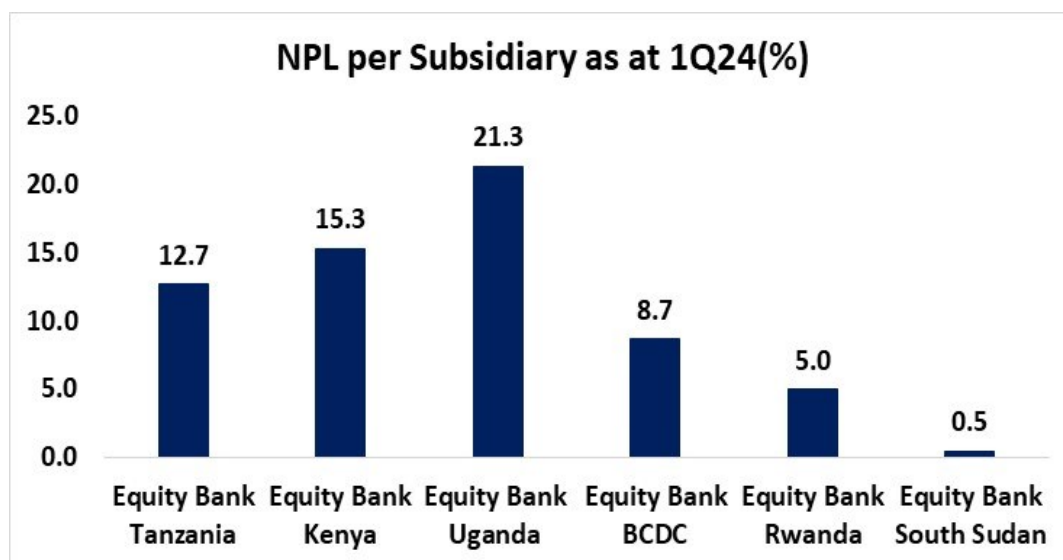
sotieno@dyerandblair.com

+254 709 930 127

Non-funded income went up by 21.0% y-o-y to KES 22.2 BN principally driven by a 127.5% y-o-y surge in other operating income to KES 4.8 BN and a 19.2% y-o-y increase in other fees and commissions to KES 10.9 BN. Fees and commissions on loans and advances rose by 37.6% y-o-y to KES 2.8 BN while net income from forex dealings dropped by 25.6% y-o-y to KES 3.8 BN. Total operating income increased by 25.0% y-o-y to KES 50.1 BN. The contribution of non-funded income to total income declined by 147 bps y-o-y to 44.4% (1Q23: 45.9%).

Operating expenses (excluding provisions) climbed by 19.7% y-o-y to KES 23.6 BN largely buoyed by a 20.0% y-o-y rise in other expenses to KES 13.5 BN and a 18.4% y-o-y advancement in staff costs to KES 7.9 BN. Owing to the slower rise in operating expenses (excluding provisions) in comparison to operating income, the group's cost-to-income ratio (excluding provisions) edged downwards by 207 bps y-o-y to 47.1% (1Q23: 49.2%).

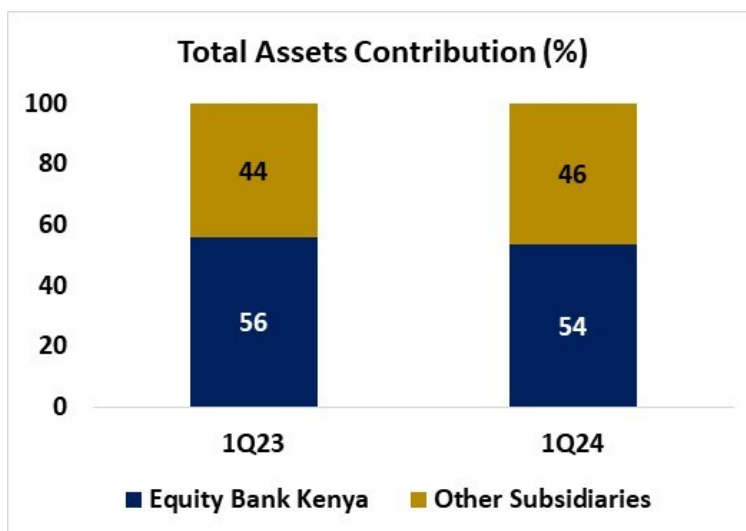
The group's gross non-performing loans increased by 50.0% y-o-y to KES 120.4 BN (+5.1% q-o-q) while interest in suspense rose by 32.6% y-o-y to KES 20.5 BN (+17.6% q-o-q). Consequently, total NPLs (gross NPLs less interest in suspense) advanced by 54.1% y-o-y to KES 100.0 BN (+2.8% q-o-q). **Owing to the rise in gross non-performing loans, the NPL ratio rose by 379 bps y-o-y to 13.4%.** Loan loss provisions surged by 74.5% y-o-y to KES 6.1 BN placing the group's annualized cost of risk at 3.1%, up 128 bps y-o-y.



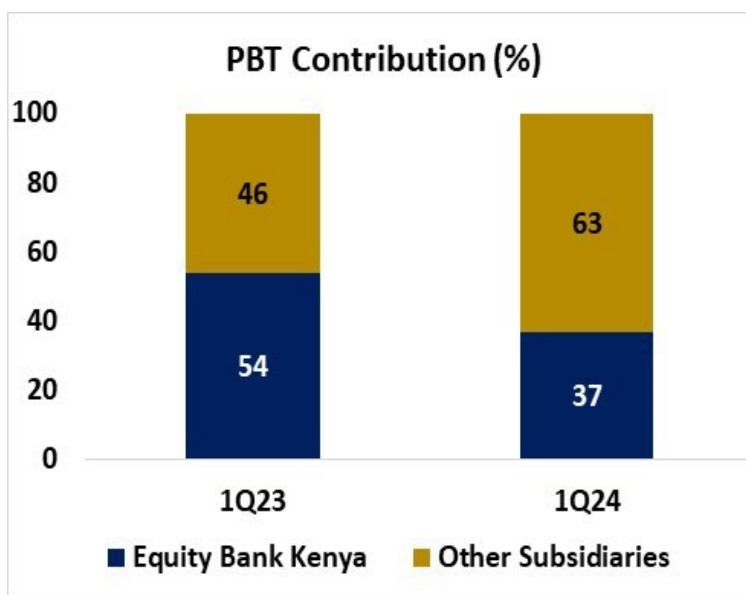
Source: Company

Net loans and advances rose marginally by 3.0% y-o-y to KES 779.2 BN (-12.2% q-o-q) while government and investment securities rose by 20.6% y-o-y to KES 473.3 BN (-5.5% q-o-q). On the funding side, customer deposits improved by 11.3% y-o-y to KES 1.2 TN (-9.0% q-o-q) while borrowed funds decreased by 3.9% y-o-y to KES 109.6 BN (-13.6% q-o-q). The group's loan-to-deposit ratio declined by 504 bps y-o-y to 63.0% while the ratio of loans to customer deposits & borrowed funds went down by 383 bps y-o-y to 57.9%.

Regional subsidiaries contributed 46.0% of total assets (1Q23: 44.0%) and 63.0% of total pre-tax earnings (1Q23: 46.0%).



Source: Company



Source: Company

Equity Group's core capital ratio (Core capital/TRWA) increased by 40 bps y-o-y to 15.9% above the statutory minimum of 10.5% while Total capital/TRWA eased by 50 bps y-o-y to 19.3% above the statutory minimum of 14.5%. **Equity Bank Kenya's core capital ratio (Core capital/TRWA) rose by 30 bps y-o-y to 15.2%** above the statutory minimum of 10.5% while Total capital/TRWA went down by 60 bps y-o-y to 19.0% above the statutory minimum of 14.5%. Both the group's and the bank's liquidity ratios increased to 52.1% and 72.6% from 51.5% and 52.1% in 1Q23—respectively.

	Group	Min.	Bank	Min.
Core capital ratio (%)	15.9	10.5	15.2	10.5
Total capital ratio (%)	19.3	14.5	19.0	14.5
Liquidity ratio (%)	52.1	20.0	72.6	20.0

Source: Company

FY24's management guidance: The group reiterated its guidance as follows:

	FY24 Outlook
Loan growth (%)	15.0 - 20.0
Deposit growth (%)	15.0 - 20.0
NIM (%)	7.2 - 7.6
Non-funded income mix (%)	40.0 - 43.0
Cost-to-income ratio (%)	48.0 - 50.0
ROE (%)	25.0 - 30.0
ROA (%)	3.2 - 3.7
Cost of risk (%)	2.0 - 2.5
NPL (%)	9.0 - 11.0
Subsidiary contribution (Assets) (%)	50.0 - 55.0
Subsidiary contribution (PBT) (%)	45.0 - 55.0

Source: Company

On a trailing basis, Equity Group is currently trading at a P/E multiple of 3.3x against an industry median of 3.7x and a P/B multiple of 0.8x against an industry median of 0.7x. Its ROE stands at 24.8% while its ROA stands at 3.0%.

PROFIT AND LOSS SUMMARY (KES MN)

Year End: December	1Q24	1Q23	y-y% ch	4Q23	q-q% ch
Interest income	43,044	32,440	32.7	44,511	(3.3)
Interest expense	15,205	10,755	41.4	12,921	17.7
Net interest income	27,839	21,685	28.4	31,590	(11.9)
Other operating income	4,767	2,095	127.5	3,103	53.6
Fees and commission income	13,632	11,124	22.6	13,911	(2.0)
Net income from forex dealings	3,843	5,165	(25.6)	3,498	9.9
Total non-interest income	22,242	18,384	21.0	20,512	8.4
Total income	50,081	40,069	25.0	52,101	(3.9)
Less operating expenses	23,602	19,711	19.7	29,865	(21.0)
Operating profit	26,479	20,358	30.1	22,236	19.1
Bad debt charge	(6,066)	(3,477)	74.5	(16,264)	(62.7)
Exceptional items	-	-	-	-	-
Profit before income tax	20,414	16,881	20.9	5,972	241.8
Less tax	(4,387)	(4,081)	7.5	1,560	(381.1)
Profit after tax	16,027	12,800	25.2	7,532	112.8
Attributable Income	15,396	12,306	25.1	7,387	108.4
EPS (KES)	4.08	3.26	25.1	2.0	109.2

(Source: Company, DBIB Research)

BALANCE SHEET SUMMARY (KES MN)

Year End: December	1Q24	FY23	1Q23	y-y% ch	q-q% ch
Total shareholder's equity	210,872	207,793	183,764	14.8	1.5
Minority interest	7,907	10,342	6,920	14.3	(23.5)
Total Equity	218,779	218,135	190,684	14.7	0.3
Deposits due to other banks	-	-	-	-	-
Customer deposits	1,236,345	1,358,183	1,111,169	11.3	(9.0)
Borrowed funds	109,615	126,914	114,113	(3.9)	(13.6)
Other liabilities	121,139	118,203	121,710	(0.5)	2.5
Total equity and liabilities	1,685,877	1,821,435	1,537,677	9.6	(7.4)
Cash & Central bank balances	129,364	100,766	114,988	12.5	28.4
Deposits due from banks	149,151	189,318	143,416	4.0	(21.2)
Investment securities	473,239	500,542	392,469	20.6	(5.5)
Held for dealing securities	-	-	-	-	-
Customer loans and advances	779,229	887,380	756,334	3.0	(12.2)
Other assets	117,083	101,875	96,921	20.8	14.9
Intangible assets	15,141	15,577	13,085	15.7	(2.8)
Fixed assets	22,669	25,977	20,465	10.8	(12.7)
Total assets	1,685,877	1,821,435	1,537,677	9.6	(7.4)

(Source: Company, DBIB Research)

INVESTMENT RETURN

	1Q24	FY23	1Q23	y-y bps ch	q-q bps ch
ROA (%)	3.7	2.4	3.2	45	125
ROIC (%)	4.0	2.6	3.5	46	137
ROE (%)	28.1	19.2	25.8	233	891

(Source: Company, DBIB Research)

*Annualized

CAPITAL ADEQUACY, LIQUIDITY & ASSET QUALITY – EQUITY KENYA

	1Q24	FY23	1Q23	y-y bps ch	q-q bps ch
Core capital/TRWA (%)	15.2	15.8	14.9	30	(60)
Min. Statutory Ratio (%)	10.5	10.5	10.5	-	-
Total capital/TRWA (%)	19.0	20.6	19.6	(60)	(160)
Min. Statutory Ratio (%)	14.5	14.5	14.5	-	-
Liquidity Ratio (%)	72.6	67.5	62.2	1040	510
Min. Statutory Ratio (%)	20.0	20.0	20.0	-	-
Leverage Ratio (%)	12.5	11.4	12.0	56	54
Equity-to-Loans Ratio (%)	28.1	24.6	25.2	286	349
NPL Ratio (%)	13.4	11.4	9.6	379	195
NPL Coverage Ratio (%)	49.7	43.9	53.0	(327)	583
Long Term Debt to Total Liabilities and Equity (%)	6.5	7.0	7.4	(92)	(47)
NTA/share (KES)	451.2	487.7	411.7	39	(36)
Book value/share (KES)	56.9	56.1	49.6	7	1

(Source: Company, DBIB Research)

OPERATING PERFORMANCE

	1Q24	FY23	1Q23	y-y bps ch	q-q bps ch
Yield on interest earning assets (%)*	12.3	9.9	10.0	224	242
Cost of funds (%)*	4.5	3.5	3.5	101	105
Net Interest Margin (%)*	7.8	6.4	6.5	123	136
Loan-to-Deposits ratio (%)	63.0	65.3	68.1	(504)	(231)
Loan-to-Dep.&Borrowed Funds ratio (%)	57.9	59.8	61.7	(383)	(186)
Funded Income Generating Potential (%)	83.1	86.6	84.0	(90)	(345)
Funded Income Reliance (%)	55.6	57.1	54.1	147	(150)
Cost to income ratio (%)	47.1	52.3	49.2	(207)	(513)
Cost of Risk (%)*	3.1	4.0	1.8	128	(86)
Pre-tax margin (%)	40.8	28.4	42.1	(137)	1234
PAT margin (%)	32.0	24.0	31.9	6	804

(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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