Equity Group Holdings HY 24 Earnings Highlights

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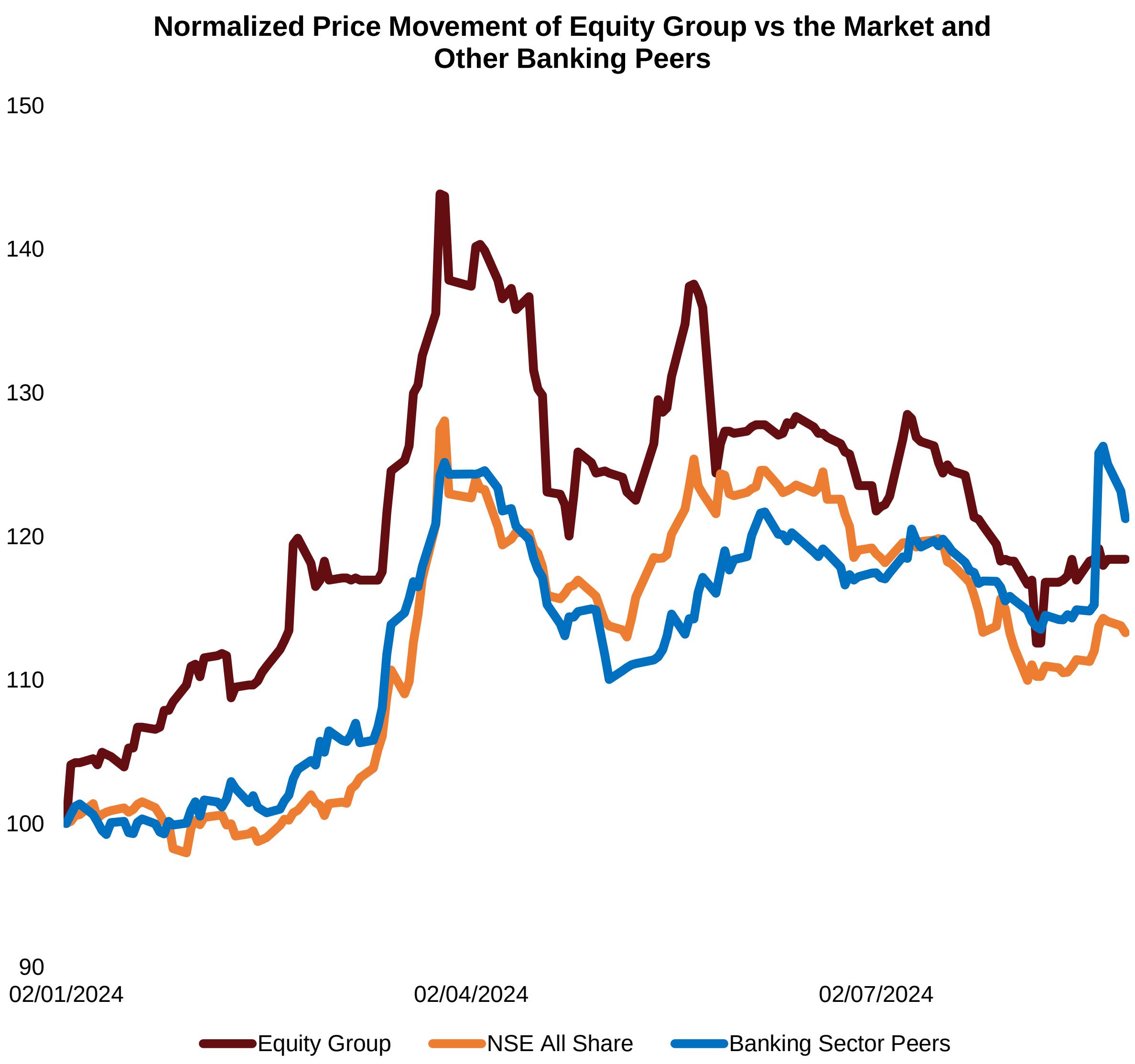
Summary



Source: Bloomberg

Last Price – 27th August 2024 in KES	40.50
Valuation Estimate in KES	**47.24**
Upside	**16.64%**
Recommendation	**Buy**
52-Week High	51.00
52-Week Low	33.60
52-Week Price Return	27.14%
Year-to-Date Price Return	**37.55%**
Price to Earnings Ratio (P/E)	3.60
Price to Book Ratio (P/B)	0.77

Source: Bloomberg and Faida Analysis

We recommend a **BUY** recommendation on Equity Group with a fair value of KES 47.24 representing a potential **16.64% upside** on the 27th August 2024 closing price of KES 40.50.

We believe that the Group performance will be propelled further by the performance of its regional subsidiaries which will also act as a support for the Kenyan unit which continues to battle a tough economic environment.

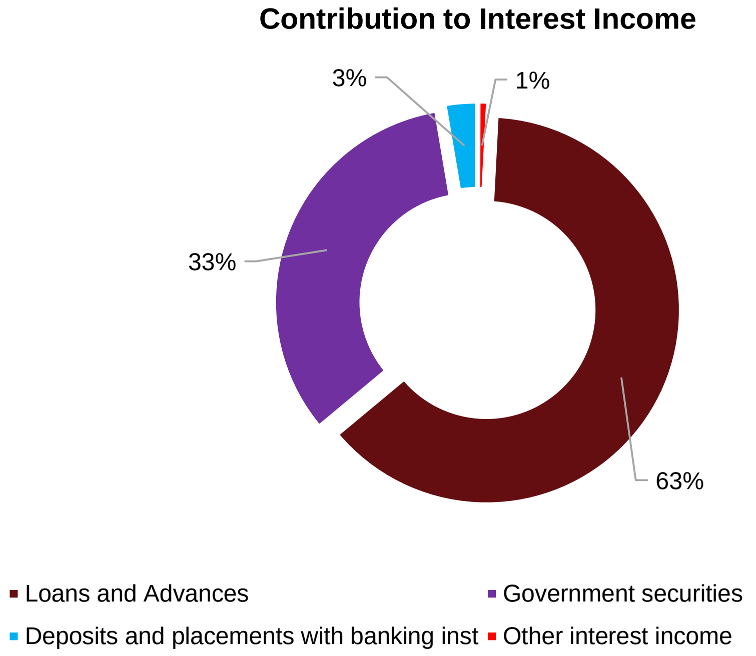
Also, Equity Group has a wide range of product offerings – the insurance business, and the Investment Bank – which will support and diversify income.

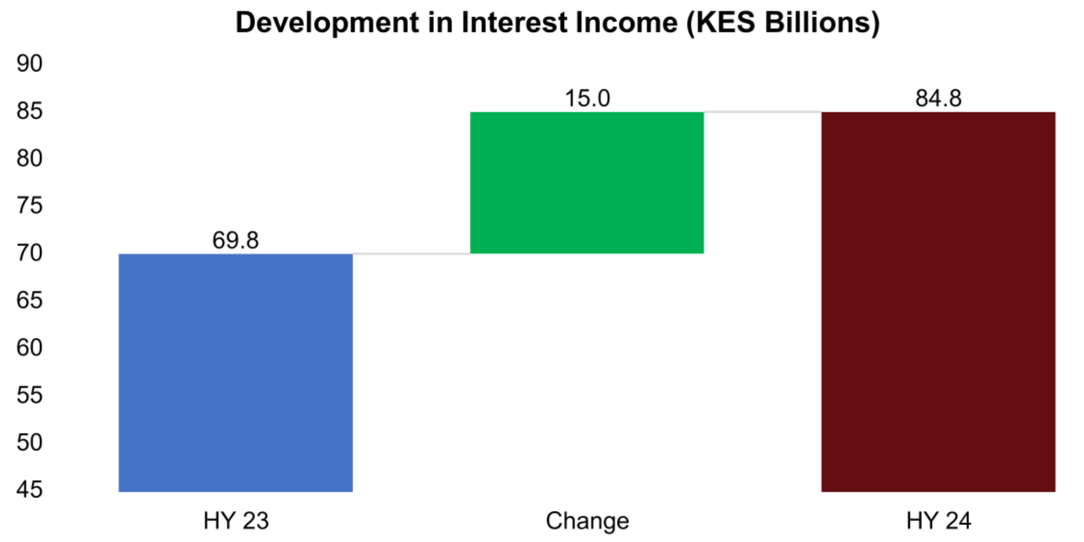
Boost in Interest Income

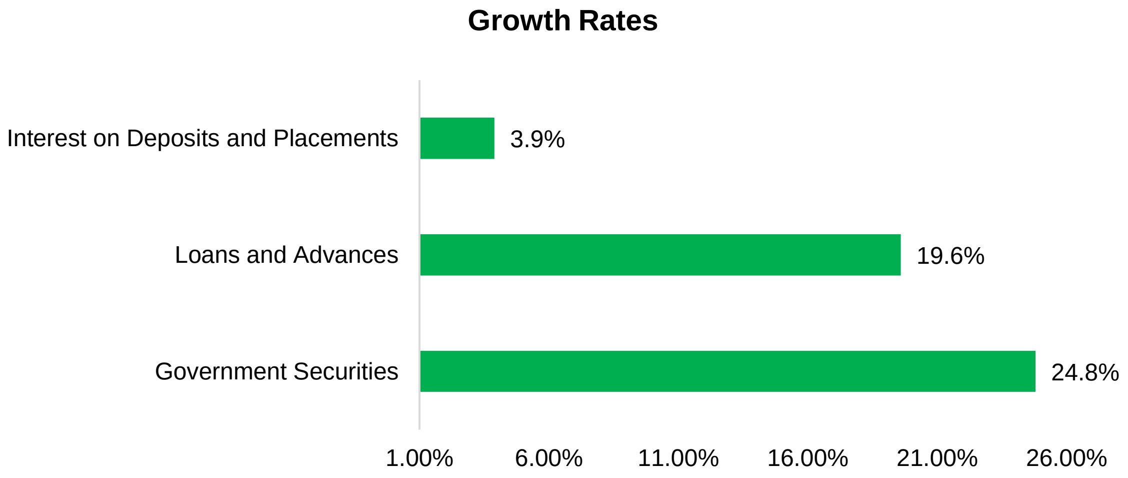
Equity Group recorded a **jump in Interest Income of 21.5% to reach KES 84.8 billion** up from KES 69.8 billion in HY 23.

This was largely driven by increased **Interest Income from Loans and Advances which climbed by 19.6%** from KES 44.8 billion in HY 23 to KES 53.5 billion.

Interest Income on Government Securities also recorded a welcome double-digit growth of 24.8% from KES 22.7 billion to KES 28.3 billion in HY 24. This is attributable to increased holdings in Government Securities coupled with higher yields.







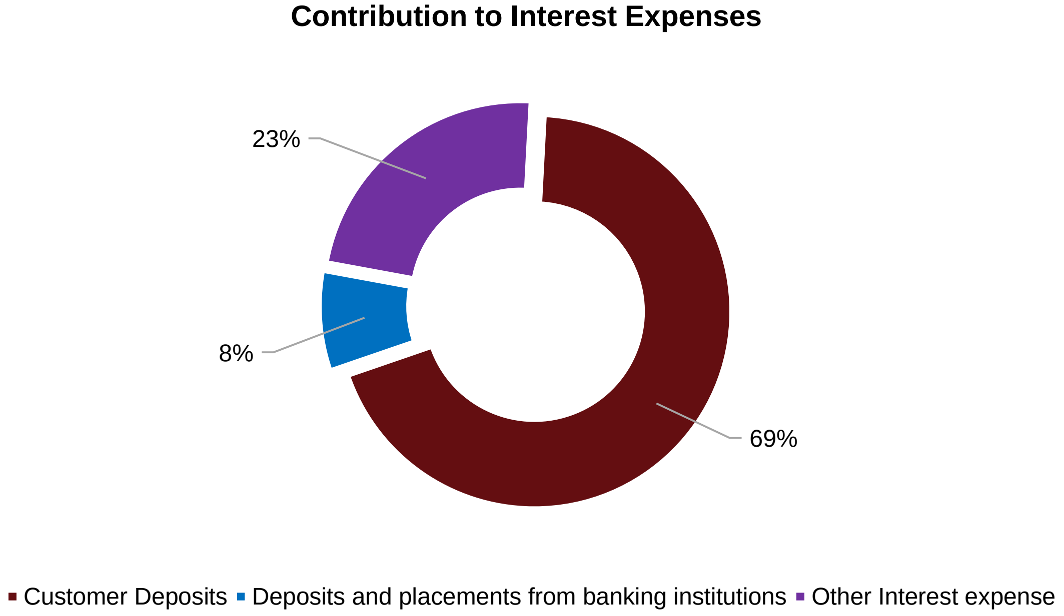
Source: Company Financials

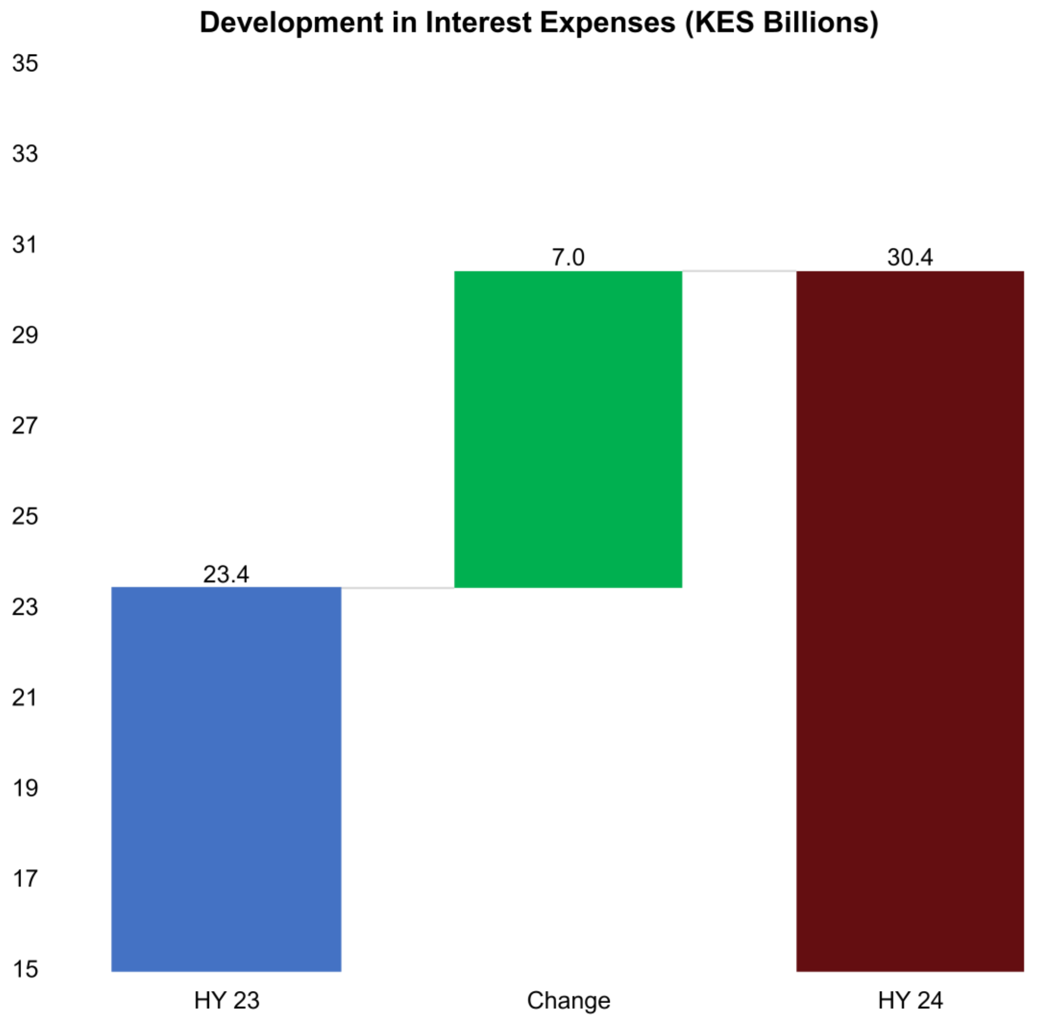
Rising Interest Expenses

Equity Group recorded **a 30.1% rise in Total Interest Expenses** from KES 23.4 billion in HY 23 to KES 30.5 billion in the just-concluded half.

This was driven by a **35.5% expansion in Interest Expenses on Customer Deposits** in the Half to June 2024, to KES 21.8 billion, compared to KES 16.1 billion in HY 23.

Additionally, **interest paid on deposits and placements climbed by 67.5% to KES 3.2 billion** from KES 1.9 billion in HY 23.





Source: Company Financials

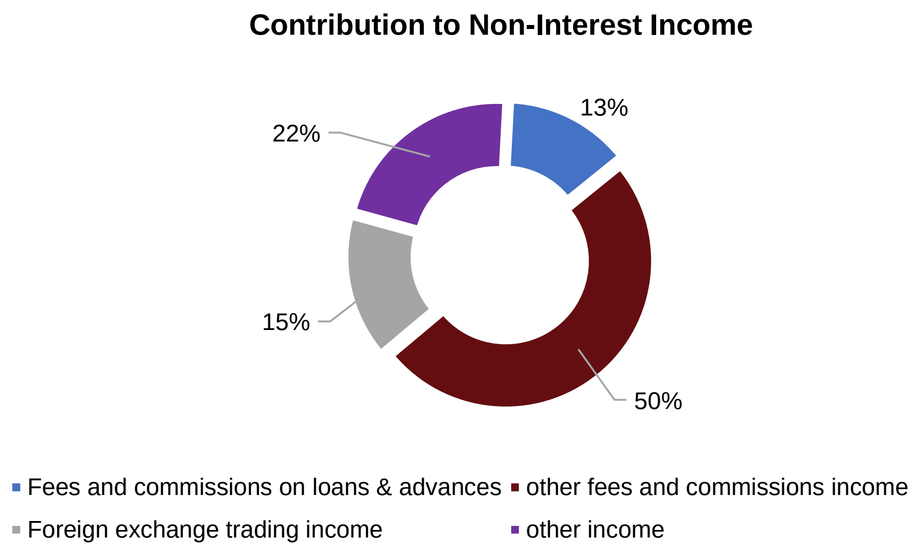
Net Interest Income and Non-Funded Income

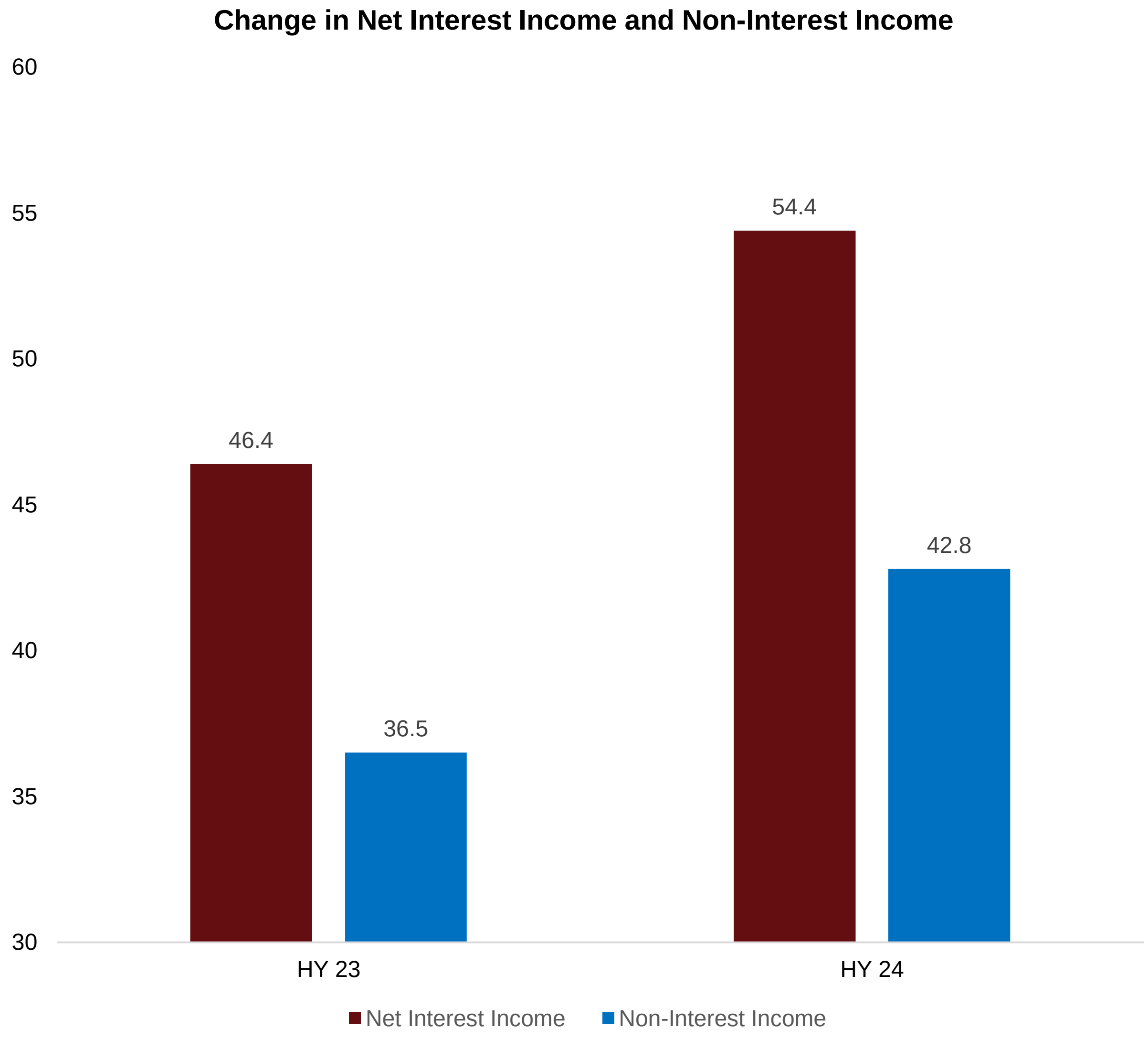
Net Interest Income (NII) rose by 17.2% to KES 54.4 billion in HY 24 despite Interest Expense growth outpacing that of Interest Income.

Similarly, **Non-Interest Income grew by 17.2%** from KES 36.5 billion to KES 42.8 billion in comparative halves, buoyed by the growth in Other Income which climbed by 96.5% to KES 9.2 billion from KES 4.7 billion posted in HY 23.

Forex Trading Income fell by double digits in this recently concluded Quarter to KES 6.6 billion from KES 8.4 billion in HY 23. This represents an even 22.0% decline.

As a result, the group's **Total Operating Income (Net Interest Income plus Non-Funded Income) increased by 17.2%** from KES 82.9 billion in HY 23 to KES 97.1 billion.





Source: Company Financials

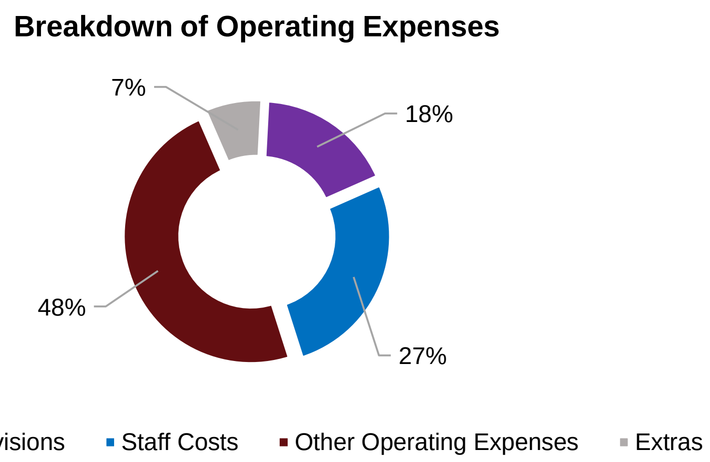
Operating Costs, Provisions & Profitability

The Group witnessed **a 25.7% increase in its Operating Expenses (Including Provisions) to KES 60.0 billion** from KES 47.7 billion in the comparative half. **Excluding provisions**, Operating Expenses grew by 21.7% from KES 40.6 billion to KES 49.4 billion.

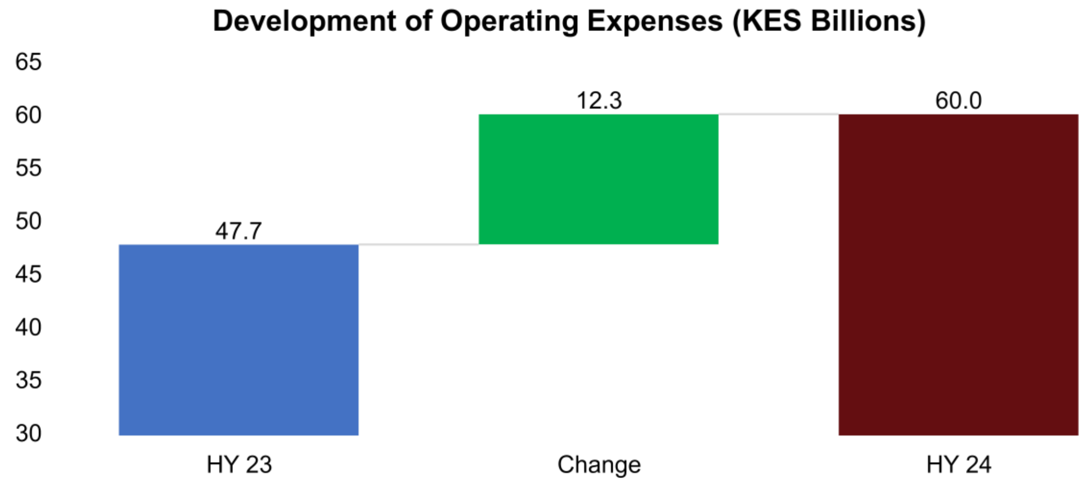
This highlights the impact of **increased Provisioning, which increased by 48.3%** from KES 7.1 billion to KES 10.5 billion, in a prudency move to provide an adequate buffer against worsening credit quality.

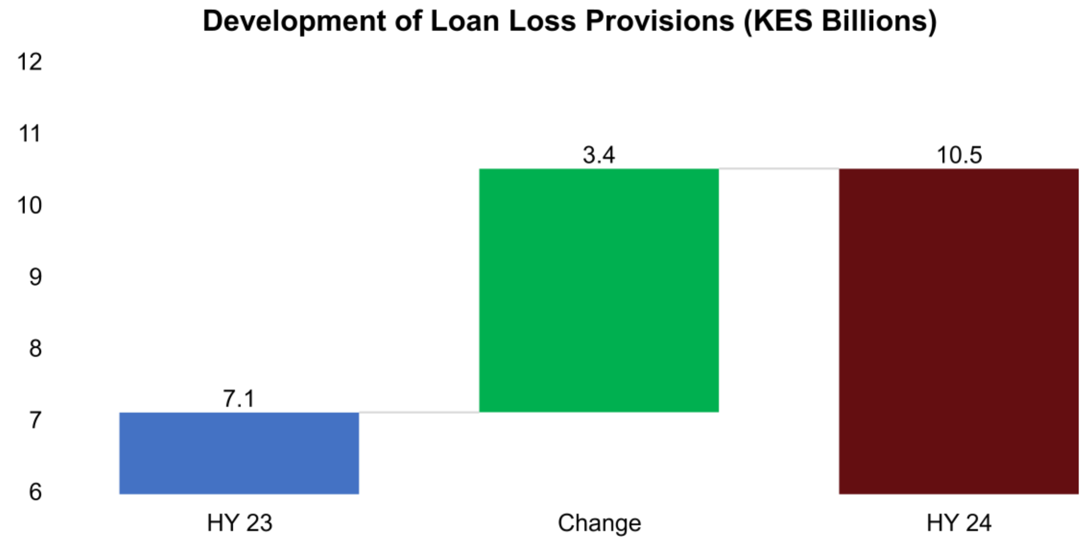
Resultantly, the **Cost to Income Ratio (excluding Provisions) rose from 49.0% in HY 23 to 50.9%.**

Group Profitability increased by 12.5% in HY 2024 from KES 26.3 billion to KES 29.6 billion.



Note: Extras in the above Chart represents Directors Emoluments, Rental Charges, and Depreciation and Amortization Charges





Source: Company Financials

Balance Sheet Snapshot

Equity Group's Total Asset Base grew by 6.2% to reach KES 1.7 trillion up from KES 1.6 trillion in HY 23.

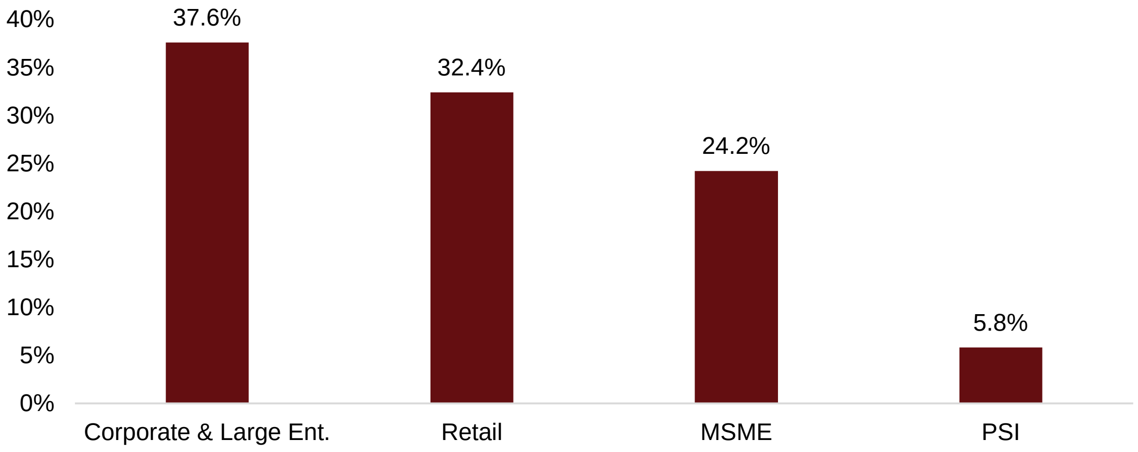
The overall Loan Book Portfolio has decreased by 3.0% in HY 24 to KES 791.1 billion from KES 817.2 billion in HY 23.

The Group's **holdings of government securities dropped by 5.4% to KES 459.2 billion** from KES 485.6 billion in HY 23.

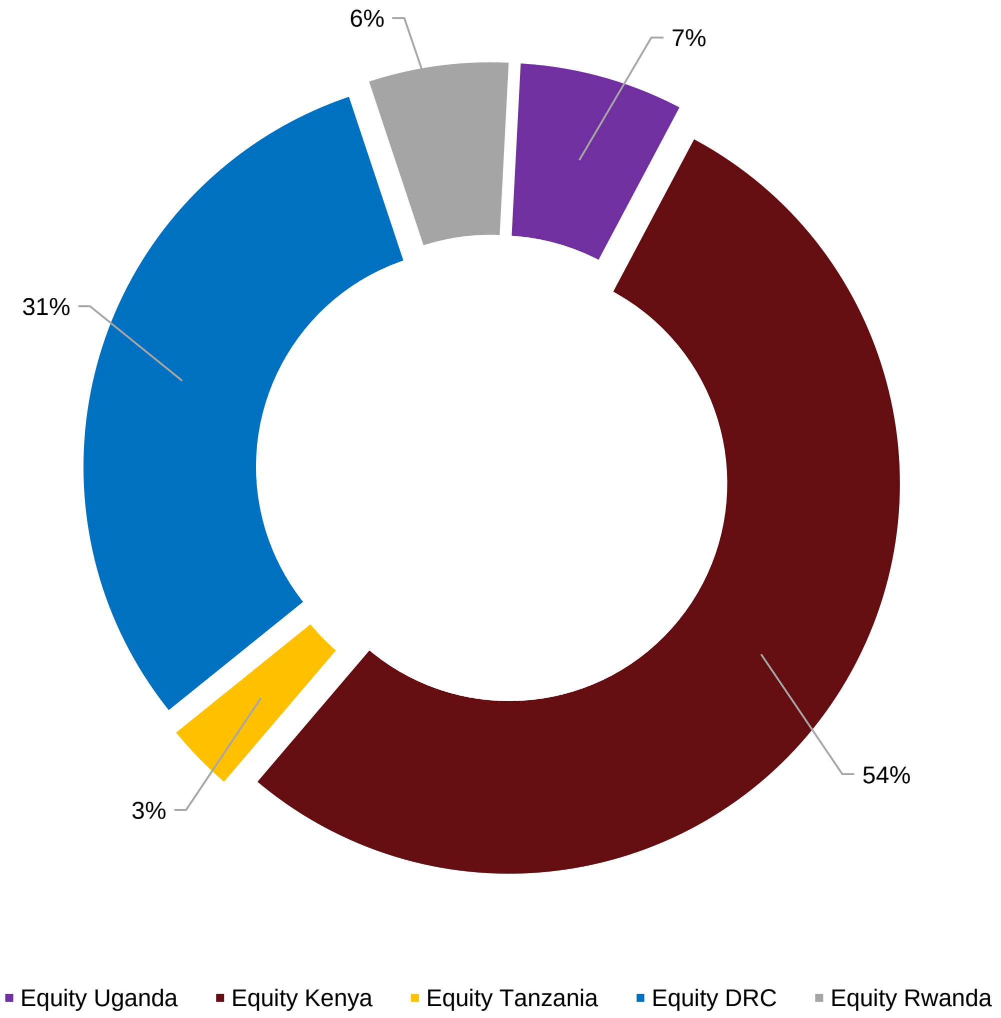
Finally, **Customer Deposits recorded double-digit growth (10.6%)** from KES 1.2 trillion to KES 1.3 trillion in comparative halves.

This faster growth in Funding compared to Lending led to **the Loan-Deposit Ratio reducing to 60.9%** from 69.5% in HY 23.

Loan Book Segmentation



Loan Book Geographical Distribution



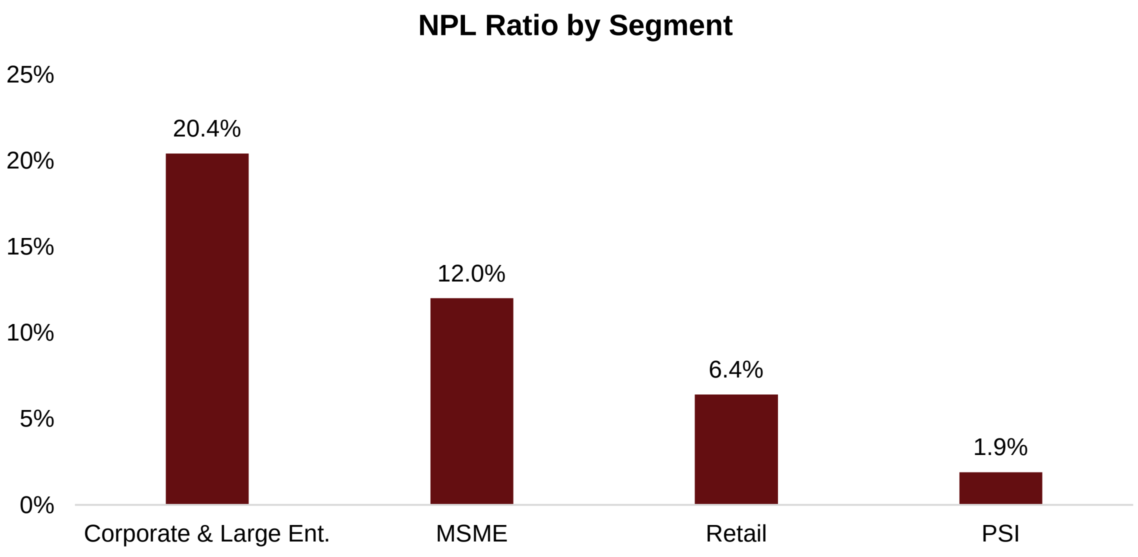
Source: Company Financials

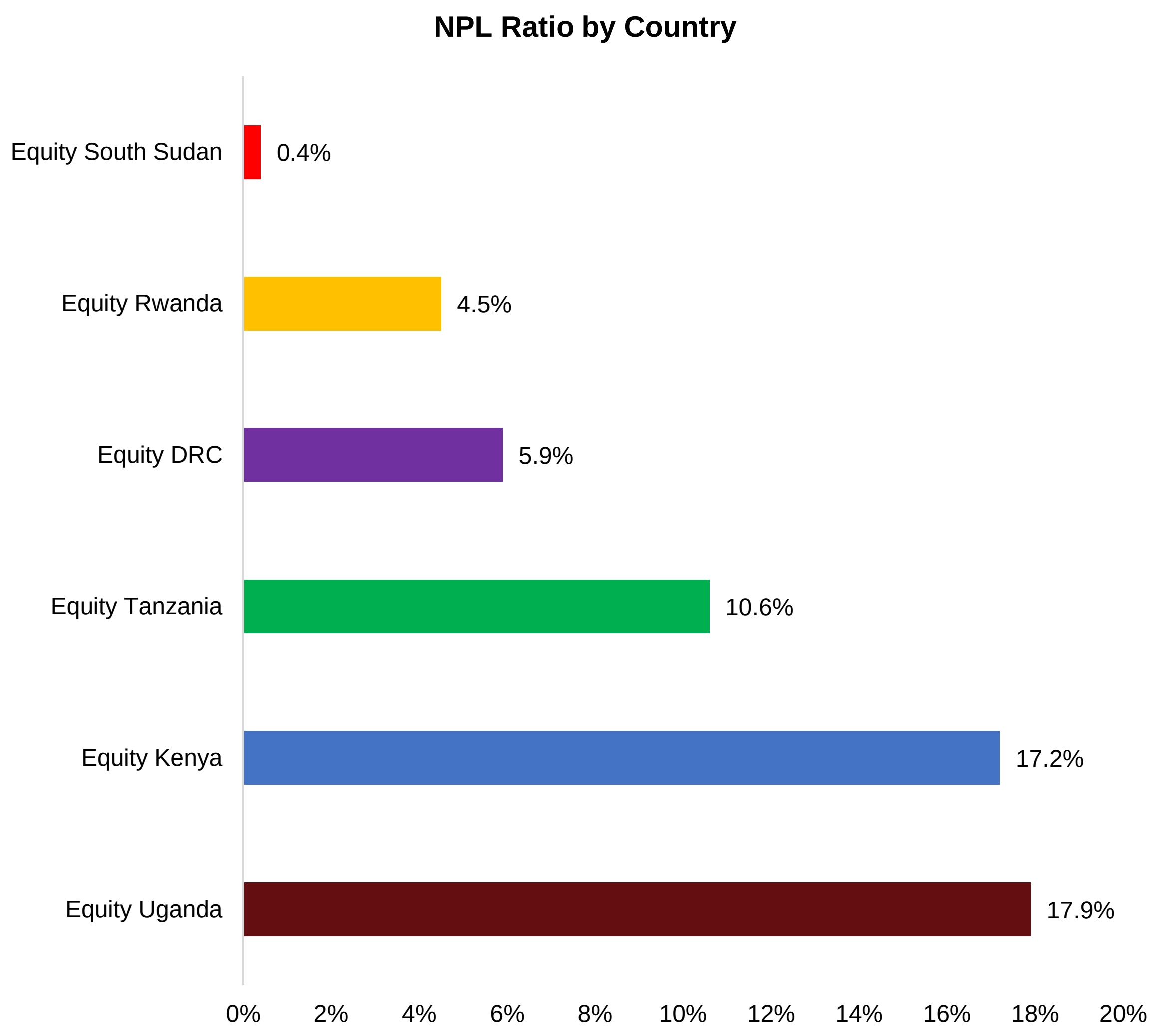
Deteriorating Asset Quality

The lender recorded a Group Non-Performing Loans Ratio of 14.3% keeping the trend of deteriorating Asset Quality among commercial banks in Kenya. This metric was 11.4% in HY 23. However, this is still NPL below the industry average NPL Ratio which was at 16.3%.

Equity's **Gross Non-Performing Loans rose by 23.0%** from KES 97.5 billion in HY 23 to KES 119.9 billion in the first half of the year.

The Corporate and Large Enterprise segment of the Loan Book is driving the NPL's recording a 20.4% NPL Ratio. In country terms, Uganda leads at 17.9% closely followed by Equity Kenya at 17.2%.





Source: Company Financials

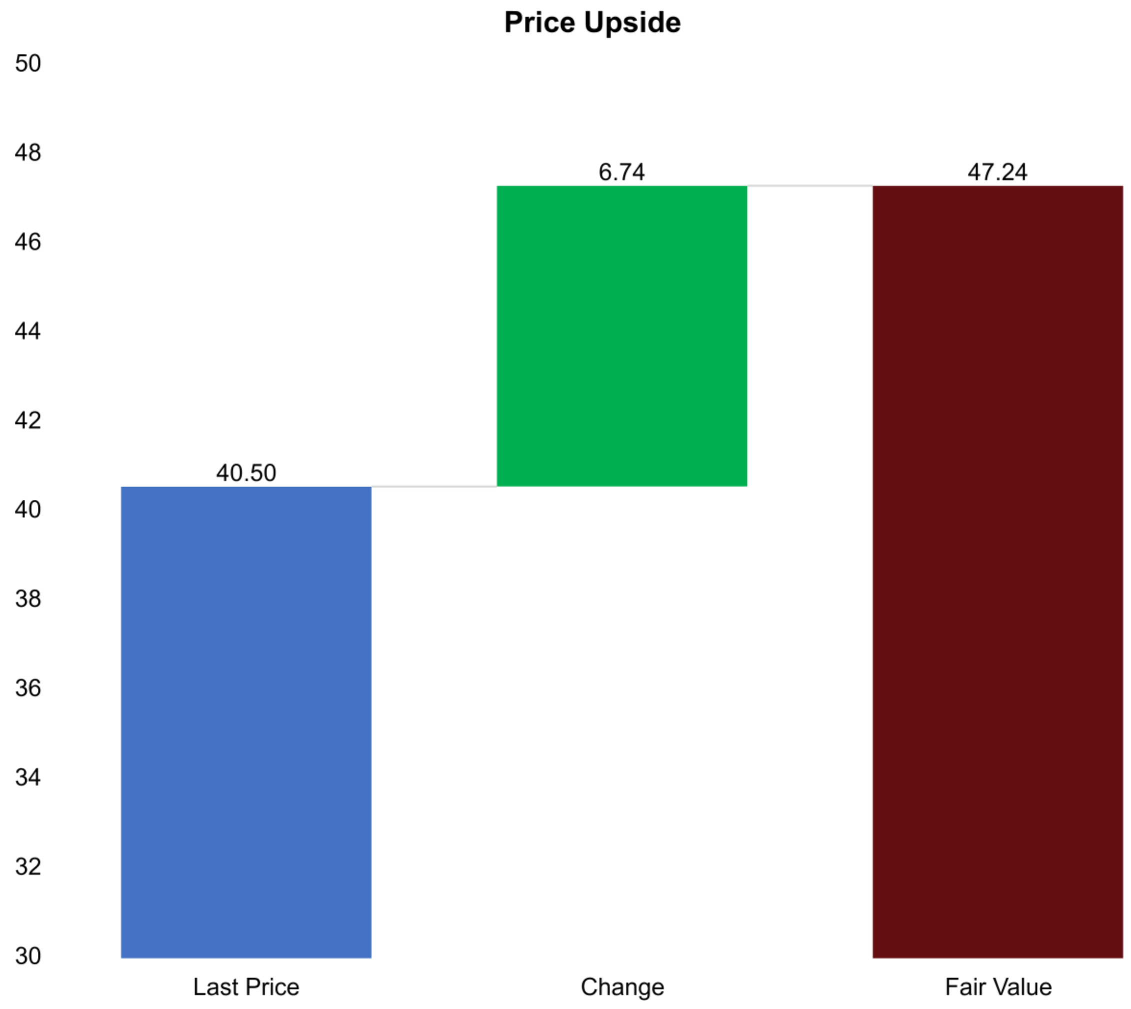
Outlook and Recommendation

Group Profitability has been spurred by subsidiary performance, with subsidiaries providing 55% of group revenue. Aggressive mobilization efforts in subsidiary countries saw customer deposits tick up, resulting in improved interest income and overall top line.

The Group has also committed to diversifying its Revenue generation arms through the Insurance business as well as the Wealth Management arm (Equity Investment Bank) and this will support income as well as growth.

Current operational efficiency is not at an optimal level, but the group's investments in digital infrastructure and employee training are expected to deliver long-term benefits, naturally reducing operating expenses over time.

We are confident that Equity Group is experiencing solid growth, driven by a wide range of products that effectively support its operations. Its price as of 27th August 2024 was KES 40.50 presenting a potential 16.6% upside for long-term investors willing to wait out the short-term market and price volatility.



Source: Company Financials and Faida Forecasts

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Glossary of Terms

Target Price – Analyst estimate of the fair value or intrinsic value of the company.
Cost of Funds - This is the effective average interest rate paid on interest-earning liabilities. It is calculated as Total Interest Expense/Average Interest Earning Liabilities.
Loan Yield - This is the effective average interest rate received on average loans and advances. It is calculated as Interest on Loans and Advances/Average Loans and Advances.
Cost of Risk – This ratio measures the amount of risk involved in lending. It is calculated as Net Impairment Provisions/Average Gross Loans in the period.
Non-Performing Loans -These are loans that have been classified as impaired. The CBK classifies loans into five categories i.e. Normal, Watch, Substandard, Doubtful, and Loss depending on the performance of the loan. The last three i.e. sub-standard, doubtful, and loss are referred to as non-performing loans. Under IFRS, these are classified as stage 3 loans.
Non-Performing Loans (NPL) Ratio - This is the proportion of NPLs in the loan book. It is calculated as Gross NPLs/Gross Loans.
Non-Funded/Non-Interest Income– This represents income that is not classified as interest income.

Recommendation

BUY – Minimal risks to catalysts.
SELL- Risks outweigh the catalysts.
NEUTRAL – This is where the positives and negatives in a company almost balance out. You can accumulate for the long term