

## EQUITY GROUP FY'2022 EARNINGS UPDATE

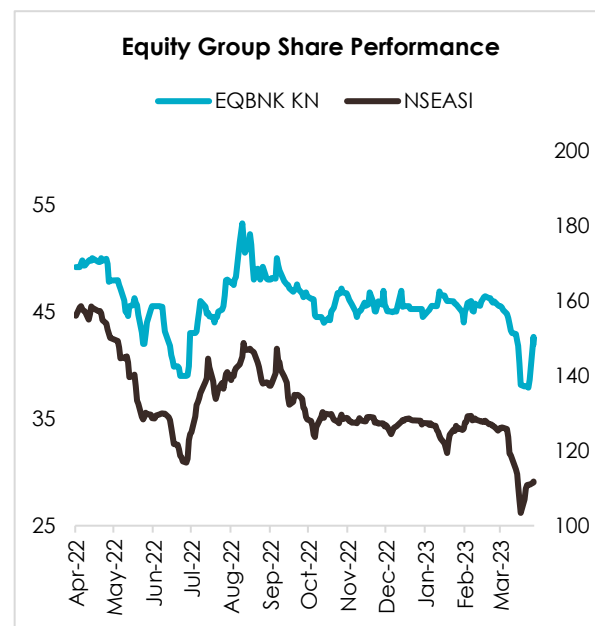
Equity Group released its financial results posting a **15%** rise in profit after tax driven by a 34.5% growth in non-interest income and a 25% increase in net interest income. The **Return on Equity** and Return on Assets improved to **25.1%** and 3.3%, respectively. **Earnings per share** increased to **KES 11.90** from KES 10.38 recorded in the previous financial year. The Board of directors recommended payment of a **KES 4.00** first and final dividend (KES 3.00 in FY2021), which translates to **9.4%** dividend yield.

### FY2022 Performance – % y/y performance

- Earnings:** Operating income grew by 28.7% to KES 145.9Bn mainly driven by 34.5% growth in non-interest income, to KES 59.9Bn. This was largely attributable to foreign exchange trading income that grew by 58.4% to KES 13Bn as the bank leveraged on wider spreads. Interest income rose by 25% to KES 119.60 boosted by a 35.9% increase in interest earned from government securities to KES 40Bn.
- Loan book:** The bank's loans and advances to customers grew by 20.2% to KES 706.6Bn faster than the 9.7% growth in customer deposits. This led to a 590bps increase in the loan to deposit ratio to 67.2% from 61.3% recorded in FY2021.
- Customer deposits** grew by 9.7% to cross the 1trillion mark at KES 1.1Tn supported by inorganic growth through its regional subsidiaries. The Subsidiaries contributed 46% of the growth in deposits. On the other hand, this prompted a 25.4% climb in interest expense on customer deposits to KES 22.4Bn.
- Government securities** remained relatively unchanged at KES 394Bn as the lender shifted towards aggressive lending and regional expansion. Revenue from government securities grew by 35.9% while the yield on government securities improved by 90bps to an average yield of 10.5%
- Efficiency:** Cost to income ratio excluding provisions reduced to 48.4% from 49.1%. Cost to income ratio including provisions surged to 59% from 54.2% recorded in 2021. Operating costs grew by 27% to KES 70.7Bn while loan loss provisions shot up to KES 15.4Bn from KES 5.8Bn in the previous year.
- Asset Quality:** The group recorded an NPL ratio of 7.7%, lower than the industry average of 13.7% – reflective of improved asset quality. SME's, which is the lender's prevalent sector, has the greatest credit risk exposure at 12.8%.

Share Data	Equity Group
Ticker	EQBNK KN
<b>RECOMMENDATION</b>	<b>BUY</b>
Current Price (KES)	42.65
Target Price (KES)	59.32
Dividend Yield	9.4%
Upside(Exc. Div. Yield)	39.1%
52WK High (KES)	53.50
52WK Low (KES)	37.50
Market Cap (KES Bn)	160.95
Free Float	93.7%
P/B	0.9x
P/E	3.6x
<b>Current Price = as of 28<sup>th</sup> March 2023</b>	

Source: Bloomberg, NSE, NCBA IB Research



Source: NSE, NCBA IB Research

## Financial Summary

Equity Group Holdings	Key Metrics Y/Y
Loans and Advances	Up 20.2% to KES 706.6Bn
Customer Deposits	Up 9.7% to KES 1.1Tn
Government Securities	Unchanged at KES 394Bn
<b>Net Interest Income</b>	<b>Up 25.1% to KES 86Bn</b>
<b>Non-Interest Income</b>	<b>Up 34.5% to KES 59.9Bn</b>
Forex trading income	Up 58.4% to KES 13Bn
<b>Loan Loss Provisions</b>	<b>Up 163.7% to 15.4Bn</b>
PBT	Up 15.3% to KES 59.8Bn
<b>PAT</b>	<b>Up 14.6% to KES 44.9Bn</b>
EPS	Up 14.6% to KES 11.90
<b>DPS</b>	<b>Up 33.3% to KES 4.00</b>

Source: Company financials, NCBA IB Research

Equity Group Holdings	Key Ratios Y/Y
Loan Deposit ratio	Up to 67.2% from 61.3%
Net Interest Margin	Up to 5.9% from 5.3%
<b>ROE</b>	<b>Up to 25.1% from 21.9%</b>
Cost to Income	Down to 48.4% from 49.1%
<b>Cost of Risk</b>	<b>Up to 2.2% from 1.0%</b>
<b>NPL Ratio</b>	<b>Down to 7.7% from 8.4%</b>
Current Market Price	KES 42.65
P/E	3.6x
P/B	0.9x
<b>Dividend payout</b>	<b>33.6%</b>
<b>Dividend Yield</b>	<b>9.4%</b>

## 2023 Outlook

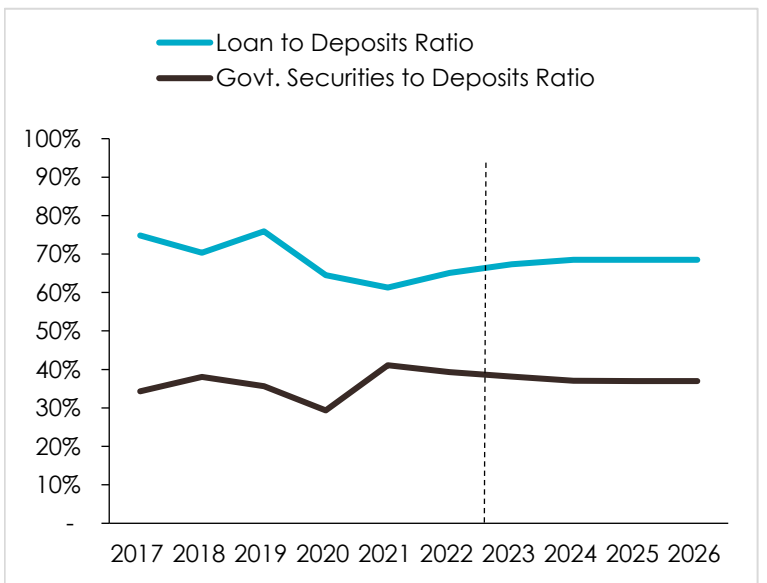
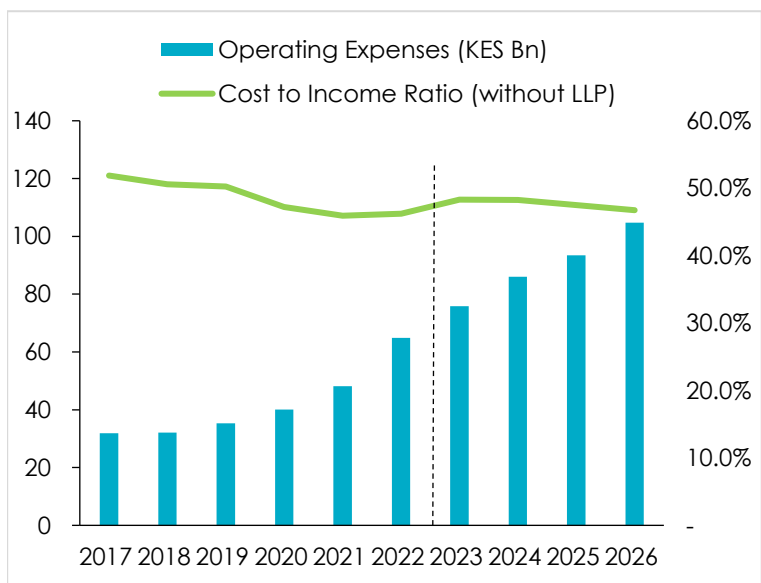
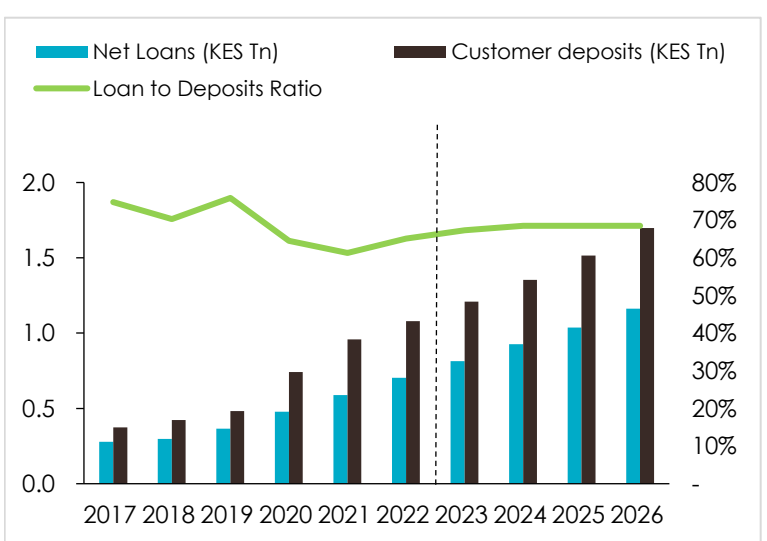
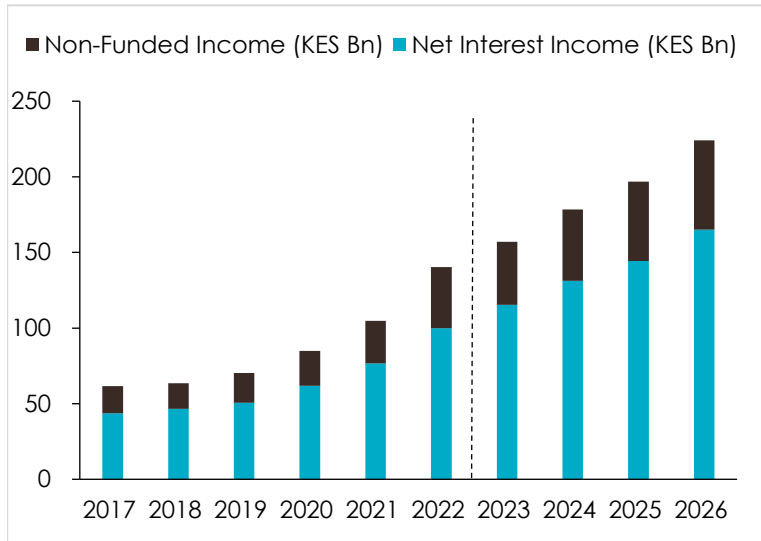
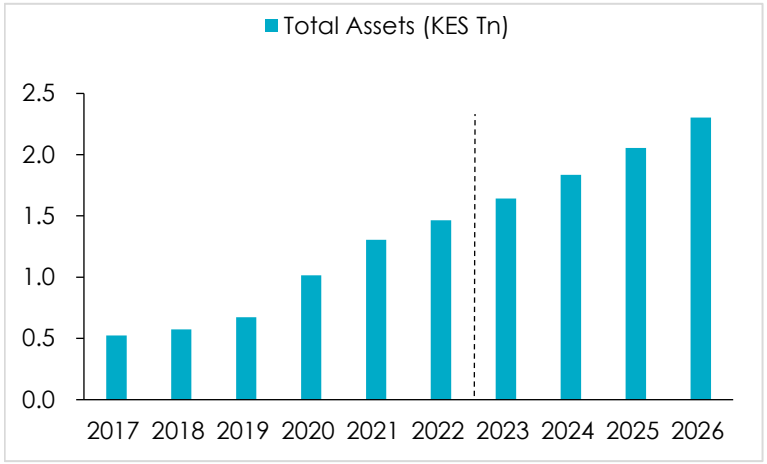
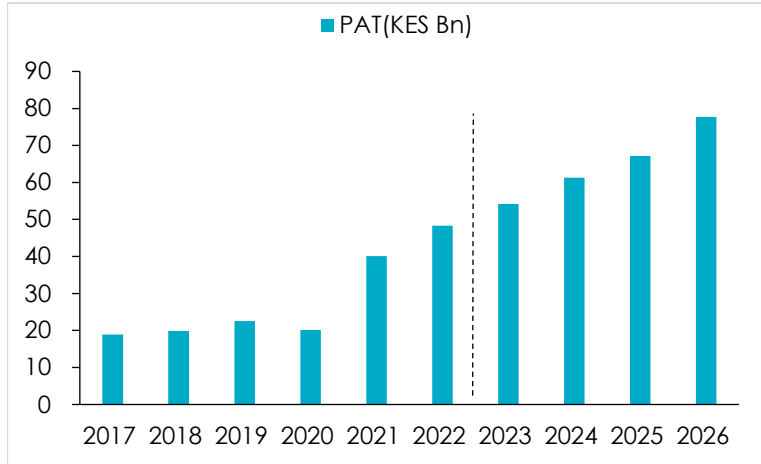
We expect Equity Group to record steady growth boosted by:

- 1. Subsidiaries performance and contribution:** The Group's subsidiaries contributed 44%, of total assets and revenue, up from 37% in the previous year. The bank will continue to drive transformation in its subsidiaries, which will support growth in the bottom-line.
- 2. Digital transformation:** Transactions conducted via digital channels account for 99% of all transactions while 83% of loans processed through mobile lending which speaks to the Group's efforts towards digital advancement.
- 3. Prudent risk management:** The Group has a commendable NPL ration of 7.7% owing to proactive credit risk management. Implementation of its risk-based pricing model in the Kenyan market, which provides the greatest risk exposure of 62%, will boost the Group's risk management strategy.

## Investment recommendation:

We believe the stock to be currently undervalued, which presents an opportunity for long-term investors to earn capital gains and an attractive dividend yield.

Equity group will continue to deliver long-term profitability based on geographical expansion, business diversification, and improved asset quality.

**Financial Highlights – Equity Group**


## About NCBA Investment Bank

NCBA Investment Bank is a subsidiary of NCBA Group. The services offered by the brokerage department include equities trading for listed securities, fixed income trading for both corporate and government bonds, Over the Counter (OTC) equity transactions as well as execution of equities transactions across the East African countries. Additionally, NCBA Investment Bank backs these activities with solid advice from the research team to enable investors meet their return objectives. NCBA Investment Bank deploys simple and convenient client driven technologies, robust risk management, highly competent and experienced staff and has the backing of robust research capabilities to differentiate itself from other players in the market.

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The following analyst(s) who prepared this research report: Victoria Mututu hereby certifies(y) that: (i) all of the views and opinions expressed in this research report accurately reflect the research analyst's(s') personal views about the subject investment(s) and companies (y) and (ii) no part of the analyst's(s') compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed by the analyst(s) in this research report.

## Rating Definitions

**BUY** – Total expected 12-month return (incl. dividends) greater than 20%  
**ACCUMULATE** - Total expected 12-month return (incl. dividends) between 10% - 20%  
**HOLD** – Total expected 12-month return (incl. dividends) between 0% -10%  
**SELL** – Total expected 12-month return (incl. dividends) less than 0%

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