

**EQUITY GROUP HOLDINGS PLC Q1 2023 EARNINGS UPDATE**

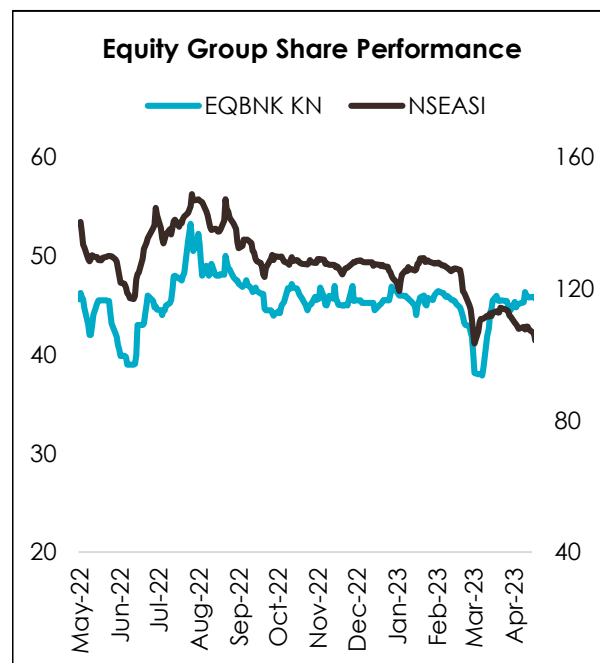
Equity Group released its Q1 2023 financial results posting a **6.6%** rise in profit after tax driven by a 54.3% growth in non-interest income and a 12.1% increase in net interest income. The **Return on Equity** improved to **6.7%** while Return on Assets declined to **0.9%**. **Earnings per share** increased to **KES 3.26** from KES 3.06 recorded in the previous year.

**Q1 2023 Performance – % y/y performance**

- **Earnings:** Operating income grew by 28.2% to KES 40.1Bn mainly driven by 54.3% growth in non-interest income, to KES 18.4Bn. This was largely attributable to foreign exchange trading income that grew by 152.3% to KES 5.2Bn as the bank leveraged on wider spreads. Interest income rose by 21.6% to KES 32.44Bn boosted by a 517.5% increase in interest earned from deposits and placements with banking institutions to KES 1.01Bn.
- **Loan book:** The bank's loans and advances to customers grew by 21.3% to KES 756.3Bn slower than the 23.3% growth in customer deposits. This led to a 114.7bps decline in the loan to deposit ratio to 68.1% from 69.2% recorded in Q1 2022.
- **Customer deposits** increased by 23.3% to KES 1.11Tn faster than 21.3% growth in loans following aggressive deposit mobilization as the Group leveraged more on borrowed funds and bank deposit liabilities to fund its investments.
- **Government securities** declined by 7.7% to KES 215.95Bn with an aim to reduce the exposure to manage the risks arising from government's tight liquidity position.
- **Efficiency:** The Group's Cost to income ratio excluding provisions Increased to 49.2% from 45.3% in Q3'2022 due to the faster operating expenses growth compared to operating income. Inclusive of provisions, cost to income ratio increased to 57.9% from 51.1% in Q1'2022.
- **Asset Quality:** The Group's Gross NPL increased 35.2% to KES 80.3Bn. The NPL ratio grew to 9.6% from 8.7% in Q1'2022. This is indicative of worsening credit quality owing to tough macro-economic conditions.

Share Data	Equity Group
<b>Ticker</b>	<b>EQBKN KN</b>
<b>RECOMMENDATION</b>	<b>BUY</b>
<b>Current Price (KES)</b>	<b>40.50</b>
<b>Target Price (KES)</b>	<b>59.32</b>
<b>Dividend Yield</b>	<b>9.9%</b>
<b>Upside(Exc. Div. Yield)</b>	<b>46.5%</b>
<b>52WK High (KES)</b>	<b>53.50</b>
<b>52WK Low (KES)</b>	<b>37.50</b>
<b>Market Cap (KES Bn)</b>	<b>152.83</b>
<b>Free Float</b>	<b>93.7%</b>
<b>P/B</b>	<b>0.8x</b>
<b>P/E</b>	<b>12.4x</b>
<i>Current Price = as of 15<sup>th</sup> May 2023</i>	

Source: Bloomberg, NSE, NCBA IB Research



Source: NSE, NCBA IB Research

## Financial Summary

Equity Group Holdings	Key Metrics Y/Y
Loans and Advances	Up 21.3% to KES 756.3Bn
Customer Deposits	Up 23.3% to KES 1,111.17Bn
Government Securities	Down 7.7% to KES 215.95Bn
<b>Net Interest Income</b>	<b>Up 12.1% to KES 21.68Bn</b>
<b>Non-Funded Income</b>	<b>Up 54.3% to KES 18.38Bn</b>
Forex trading income	Up 152.3% to KES 5.16Bn
Loan Loss Provisions	Up 92.5% to KES 3.48Bn
PBT	Up 10.5% to KES 16.88Bn
<b>PAT</b>	<b>Up 6.6% to KES 12.31Bn</b>
EPS	Up 6.5% to KES 3.26

Equity Group Holdings	Key Ratios Y/Y
Loan Deposit ratio	Down to 68.1% from 69.2%
<b>Net Interest Margin</b>	<b>Down to 1.4% from 1.5%</b>
Cost to Income	Up to 49.2% from 45.3%
<b>NPL Ratio</b>	<b>Up to 9.6% from 8.7%</b>
Cost of Risk	up to 0.5% from 0.3%
<b>ROE</b>	<b>Up to 6.7% from 6.3%</b>
Current Market Price	KES 40.50
P/E	12.4x
P/B	0.8x
<b>Target price</b>	<b>KES 59.32</b>

Source: Company financials, NCBA IB Research

## 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. The group has received regulatory approval to set up a general insurance business in Kenya, which would add on to its life assurance business which in line will help diversify in revenue streams. The General Insurance business arm of Equity Group follows the early success of Equity Life Insurance which in under 9 months has achieved significant milestones including registering Gross Written Premium of KES 3.99Bn.
- 2. Risk Management:** The Group has recorded a 9.6% NPL ratio, which compares relatively well with the industry NPL average ratio of 14%. The NPL coverage of 88%, loan to deposit ratio of 68.1% and liquidity ratio of 51.5% positions the Group defensively.
- 3. Digital transformation:** The Fintech/digital capabilities of the Group continued to be strengthened by the successful rollout of the interoperable universal digital payments platform, pay with Equity (PwE), whose transactions volume grew by 243% to 48.3Mn transactions up from 14.1Mn transactions. Mobile and internet banking transactions grew by 270% to 1,336.3Mn transactions up from 361.6Mn transactions. Transaction income grew by 73% to KES. 4,119.6Mn up from KES 2,388Mn.

## Investment recommendation:

Equity's strong cash and liquidity position, strong momentum of growth and performance, strong asset buffers in provisions and capital buffers position the institution well to unleash its offensive growth strategy either opportunistically through mergers and acquisitions or via organic growth riding on its strong brand and digital capabilities, strong entrepreneurial and managerial depth and the Group reputation of a steadfast governance structure, practices, and execution capabilities.

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.

## About NCBA Investment Bank

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## Certification

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## 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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