Equity Group – Q3'2024

15th November, 2024

Below is a summary of Equity Group Q3'2024 performance:

Balance Sheet Items	Q3'2023	Q3'2024	y/y change
Government Securities	242.5	258.9	6.8%
Net Loans and Advances	845.9	800.1	(5.4%)
Total Assets	**1691.2**	**1703.1**	**0.7%**
Customer Deposits	1207.7	1316.8	9.0%
Deposits per branch	3.6	3.7	3.8%
Total Liabilities	1497.9	1476.1	(1.5%)
Shareholders' Funds	**183.9**	**216.9**	**18.0%**

Balance Sheet Ratios	Q3'2023	Q3'2024	% points change
Loan to Deposit Ratio	70.0%	60.8%	(9.3%)
Dovernment Securities to Deposits	28.7%	32.4%	3.7%
Return on average equity	29.1%	23.7%	(5.4%)
Return on average assets	3.2%	2.8%	(0.4%)

Income Statement	Q3'2023	Q3'2024	y/y change
Net Interest Income	72.6	80.6	11.0%
Net non-Interest Income	57.8	61.2	5.8%
Total Operating income	**130.4**	**141.7**	**8.7%**
Loan Loss provision	(19.0)	(12.7)	(33.2%)
Total Operating expenses	**(84.5)**	**(90.7)**	**7.4%**
Profit before tax	45.9	51.0	11.1%
Profit after tax	**36.2**	**40.9**	**13.1%**
Core EPS	**9.6**	**10.8**	**13.1%**

Income Statement Ratios	Q3'2023	Q3'2024	% points change
Yield from interest-earning assets	11.2%	11.7%	0.4%
Cost of funding	3.7%	4.2%	0.4%
Cost of risk	14.6%	8.9%	(5.6%)
Net Interest Margin	5.6%	7.7%	2.1%
Net Interest Income as % of operating income	55.7%	56.9%	1.2%
Non-Funded Income as a % of operating income	44.3%	43.1%	(1.2%)
Cost to Income Ratio	64.8%	64.0%	(0.8%)
CIR without LLP	50.2%	55.1%	4.8%
Cost to Assets	4.3%	4.6%	0.3%

Capital Adequacy Ratios	Q3'2023	Q3'2024	% Points Change
Core Capital/Total Liabilities	17.7%	16.9%	(0.8%)
Minimum Statutory ratio	8.0%	8.0%	0.0%
Excess	**9.7%**	**8.9%**	**(0.8%)**
Core Capital/Total Risk Weighted Assets	15.2%	15.9%	0.7%
Minimum Statutory ratio	10.5%	10.5%	0.0%
Excess	**4.7%**	**5.4%**	**0.7%**
Total Capital/Total Risk Weighted Assets	19.2%	18.3%	(0.9%)
Minimum Statutory ratio	14.5%	14.5%	0.0%
Excess	**4.7%**	**3.8%**	**(0.9%)**
Liquidity Ratio	49.7%	55.0%	5.3%
Minimum Statutory ratio	20.0%	20.0%	0.0%
Excess	**29.7%**	**35.0%**	**5.3%**

Income Statement

- Core earnings per share increased by 13.1% to Kshs 10.8 from Kshs 9.6 in Q3’2024, mainly driven by the 8.7% growth in total operating income to Kshs 141.7 bn, from Kshs 130.4 bn in Q3’2023. However, the performance was weighed down by a 7.4% growth in total operating expenses to Kshs 90.7 bn, from Kshs 84.5 bn in Q3’2023,
- The 8.7% growth in total operating income was mainly driven by a 11.0% growth in Net Interest Income to Kshs 80.6 bn, from Kshs 72.4 bn in Q3’2023, coupled with a 5.8% growth in Non funded Income (NFI) to Kshs 61.2 bn, from Kshs 57.8 bn in Q3’2023,
- Interest income grew by 13.3% to Kshs 125.9 bn from Kshs 111.1 bn in Q3’2023, mainly driven by a 16.8% growth in interest from government securities to Kshs 42.6 bn, from Kshs 36.5 bn in Q3’2023, coupled with a 12.5% increase in interest from loans and advances to Kshs 79.4 bn, from Kshs 70.6 bn in Q3’2023. As such, the Yield on Interest-Earning Assets (YIEA) increased to 11.7% from 11.2% recorded in Q3’2023, mainly attributable to the faster 16.3% growth in interest income compared to a 11.9% increase in average interest earning assets to Kshs 1,459.5 bn, from Kshs 1,304.1 bn in Q3’2023,
- Interest expense increased by 17.7% to Kshs 45.3 bn in Q3’2024 from Kshs 38.5 bn in Q3’2023, largely due to a 29.0% increase in interest expense on customer deposits to Kshs 33.7 bn from Kshs 26.1 bn in Q3’2023. Consequently, Cost of funds (COF) increased by 0.4% points to 4.2% from 3.7% recorded in Q3’2023, owing to a faster 21.8% increase in Trailing interest expense to Kshs 58.3 bn, from Kshs 47.8 bn recorded in Q3’2023, compared to a 9.1% increase in average interest bearing liabilities to Kshs 1,400.4 bn from Kshs 1,283.3 bn in Q3’2023. Trailing interest expense refers to the performance of the interest expense for the past 12 consecutive months. Similarly, Net Interest Margin (NIM) decreased to 7.7% from 5.6% in Q3’2023, attributable to the 54.4% decrease in trailing Net Interest Income (NII) to Kshs 112.2 bn from Kshs 72.6 bn in Q3’2023 relative to the 11.9% growth in average interest-earning assets,
- Non-Funded Income (NFI) increased by 5.8% to Kshs 61.2 bn from Kshs 57.8 bn in Q3’2023, mainly driven by a 20.9% increase in the fees and commissions on loans to Kshs 8.2 bn from Kshs 6.8 bn in Q3’2023. Total fees and commissions increased by 9.5% to Kshs 40.0 bn, from Kshs 36.5 bn in Q3’2023. The revenue mix shifted to 57:43 from the 56:44 recorded in Q3’2023 for the Funded to Non-funded income owing to the greater 11.0% growth in Funded Income compared to the 5.8% growth in Non Funded Income recorded in Q3’2024,
- Total operating expenses increased by 7.4% to Kshs 90.7 bn from Kshs 84.5 bn in Q3’2023, driven by a 3.8% increase in staff costs to Kshs 24.0 bn from Kshs 23.1 bn recorded in Q3’2023, coupled with a 27.4% increase in other operating expenses to Kshs 54.1 bn from Kshs 42.4 bn in Q3’2023. Notably, loan loss provisions decreased by 33.2% to Kshs 12.7 bn from Kshs 19.0 bn recorded in Q3’2023. The decrease in provisioning is despite the increasing credit risk as a result of a deteriorated economic environment as evidenced by the average Q3’2024 Purchasing Managers Index (PMI) of 47.9, down from an average of 48.0 in Q3’2023,
- Cost to Income Ratio (CIR) decreased to 64.0% from 64.8% in Q3’2023, owing to the 8.7% increase in total operating income, which outpaced the 7.4% increase in total operating expenses. Notably, CIR without LLP increased by 4.8% points to 55.1% from 50.2% recorded in Q3’2023, and,
- Profit before tax increased by 11.1% to Kshs 51.0 bn from Kshs 45.9 bn in Q3’2023, with effective tax rate declining to 19.8% in Q3’2024 from 21.1% in Q3’2023. As such, profit after tax increased by 13.1% to Kshs 40.9 bn in Q3’2024, from Kshs 36.2 bn in Q3’2023.

Balance Sheet

- The balance sheet recorded an expansion as total assets increased marginally by 0.7% to Kshs 1,703.1 bn, from Kshs 1,691.2 bn in Q3’2023, mainly attributable to the 6.8% increase in the Group’s holdings in government securities to Kshs 258.9 bn in Q3’2024 from Kshs 242.5 bn in Q3’2023.
- Total liabilities decreased by 1.5% to Kshs 1,476.1 bn, from Kshs 1,497.9 bn in Q3’2023, largely attributable to a significant 98.3% growth in placements to Kshs 1,3 bn in Q3’2024, from Kshs 78.1 bn in Q3’2023.

- The faster 9.0% growth in customer deposits as compared to the 5.4% decline in net loans and advances led to a decrease in the loan to deposits ratio to 60.8%, from 70.0% in Q3’2023,
- Gross Non-Performing Loans (NPLs) increased by 0.7% to Kshs 125.3 bn in Q3’2024 from Kshs 124.5 bn in Q3’2023, while Gross Loans decreased by 4.5% to Kshs 871.3 bn from Kshs 912.4 bn in Q3’2023. Consequently, the asset quality deteriorated with the NPL ratio rising to 14.4% in Q3’2024 from 13.6% in Q3’2023,
- General Provisions (LLP) increased by 2.3% to Kshs 46.0 bn in Q3’2024 from Kshs 45.0 bn in Q3’2023. The NPL coverage increased to 56.8% in Q3’2024, from 53.4% in Q3’2023, attributable to the 33.2% increase in provisions coupled with 17.3% increase in interest in suspense to Kshs 25.2 bn from 21.4 bn recorded in Q3’2023, against the 0.7% increase in gross non-performing loans,
- Shareholders’ funds increased by 18.0% to Kshs 216.9 bn in Q3’2024, from Kshs 183.9 bn in Q3’2023, supported by a 12.9% increase in retained earnings to Kshs 236.1 bn, from Kshs 209.1 bn in Q3’2023,
- Equity Group remained capitalized with a core capital to risk-weighted assets ratio of 15.9%, 5.4% points above the statutory requirement of 10.5%. In addition, the total capital to risk-weighted assets ratio came in at 18.3%, exceeding the statutory requirement of 14.5% by 3.8% points, and,
- The bank currently has a Return on Average Assets (ROaA) of 2.8%, and a Return on Average Equity (ROaE) of 23.7%.

Key Take-Outs:

1. **Increase in Earnings -** Core earnings per share increased by 13.1% to Kshs 10.8 from Kshs 9.6 in Q3’2024, mainly driven by the 8.7% growth in total operating income to Kshs 141.7 bn, from Kshs 130.4 bn in Q3’2023. However, the performance was weighed down by a 7.4% growth in total operating expenses to Kshs 90.7 bn, from Kshs 84.5 bn in Q3’2023,
2. **Decreased Provisioning –** On the back of high credit risk still attached to the country despite the improvement in business environment in Q3’2024, the bank decreased its provisions holdings to cover for the anticipated losses in the future, with its general provisions decreasing by 33.2% to Kshs 12.7 bn from Kshs 19.0 bn recorded in Q3’2023, and,

Going forward, the factors that would drive the bank’s growth would be:

- **Geographical Diversification** – The bank has been aggressively expanding into other regions, namely DRC, Rwanda, Tanzania, Uganda and Ethiopia. On 14 June 2023, the bank announced that it had entered into a binding agreement with Government of Rwanda, Rwanda Social Security Board and other investors of Compagnie Generale De Banque (Cogebanque) Plc Limited to acquire a 91.9% stake in the Rwanda based lender. Since completion of the acquisition, EGHL merged the business of the Cogebanque with its Rwandan Subsidiary, Equity Bank Rwanda Plc. Notably, in Q3’2024, Profit After Tax (PAT) of the Equity Group Holdings’ subsidiaries amounted to Kshs. 18.4 bn, representing 47.0% of the Group’s overall profit.

Valuation Summary

- We are of the view that Equity Group is an “Buy” with a target price of Kshs 52.0 representing an upside of 12.3%, from the current price of Kshs 49.9 as of 15th November 2024, inclusive of a dividend yield of 8.0%.
- Equity Group is currently trading at a P/TBV of 1.0x and a P/E of 4.3x vs an industry average of 0.9x and 4.2x respectively.