Below is a summary of Equity Group Holdings Plc Q3’2022 performance:

Balance Sheet Items	Q3’2021 (Kshs bn)	Q3’2022 (Kshs bn)	y/y change
Government Securities	233.2	233.0	(0.1%)
Net Loans and Advances	559.0	673.9	20.6%
Total Assets	**1,184.3**	**1,363.7**	**15.2%**
Customer Deposits	875.1	1,007.3	15.1%
Deposits per Branch	2.6	2.8	9.6%
Total Liabilities	1020.9	1209.7	18.5%
Shareholders’ Funds	**156.3**	**147.5**	**(5.6%)**

Balance Sheet Ratios	Q3’2021	Q3’2022	% points y/y change
Loan to Deposit Ratio	63.9%	66.9%	3.0%
Return on average equity	22.2%	31.3%	9.1%
Return on average assets	3.0%	3.7%	0.7%

Income Statement	Q3’2021 (Kshs bn)	Q3’2022 (Kshs bn)	y/y change
Net Interest Income	48.5	59.8	23.4%
Net non-Interest Income	32.0	42.2	32.0%
Total Operating income	**80.5**	**102.1**	**26.9%**
Loan Loss provision	(5.1)	(9.7)	87.9%
Total Operating expenses	(43.8)	(57.7)	31.7%
Profit before tax	36.6	44.3	21.0%
Profit after tax	**26.9**	**34.4**	**27.9%**
Core EPS	**7.1**	**9.1**	**27.9%**

Income Statement Ratios	Q3’2021	Q3’2022	% points y/y change
Yield from interest-earning assets	9.6%	10.1%	0.5%
Cost of funding	2.8%	2.9%	0.1%
Cost of risk	6.4%	9.5%	3.1%
Net Interest Margin	7.0%	7.3%	0.3%
Net Interest Income as % of operating income	60.3%	58.6%	(1.7%)
Non-Funded Income as a % of operating income	39.7%	41.4%	1.7%
Cost to Income Ratio	54.5%	56.6%	2.1%
Cost to Income Ratio without LLP	48.1%	47.1%	(1.0%)
Cost to Assets	3.7%	3.8%	0.1%

Capital Adequacy Ratios	Q3’2021	Q3’2022	% Points Change
Core Capital/Total Liabilities	15.3%	16.9%	1.6%
Minimum Statutory ratio	8.0%	8.0%	0.0%
Excess	**7.3%**	**8.9%**	**1.6%**
Core Capital/Total Risk Weighted Assets	13.5%	16.1%	2.6%
Minimum Statutory ratio	10.5%	10.5%	0.0%
Excess	**3.0%**	**5.6%**	**2.6%**
Total Capital/Total Risk Weighted Assets	16.8%	20.7%	3.9%
Minimum Statutory ratio	14.5%	14.5%	0.0%
Excess	**2.3%**	**6.2%**	**3.9%**
Liquidity Ratio	59.5%	51.8%	(7.7%)

Minimum Statutory ratio	20.0%	20.0%	0.0%
Excess	**39.5%**	**31.8%**	**(7.7%)**
Adjusted core capital/ total deposit liabilities	15.3%	16.9%	1.6%
Adjusted core capital/ total risk weighted assets	13.5%	16.1%	2.6%
Adjusted total capital/ total risk weighted assets	16.8%	20.7%	3.9%

Key Q3'2022 Highlights:

- Equity Group Holdings Plc through Equity Bank (Kenya) Limited, announced that it had entered into an Assets and Liabilities purchase agreement with Spire Bank Limited for purchase of certain assets and liabilities. In the deal which was anchored in Equity's plan to support economic recovery post COVID-19, Equity Bank Kenya Limited would acquire approximately 20,000 deposit customers with deposits totaling Kshs 1.3 bn, and 3,700 loan customers. However, discussions are ongoing whether to cancel the deal with members of parliament raising questions on how the process of acquisition was undertaken. Additionally, the agreement has been frozen by the Employment and Labor Relations Court following dispute over the fate of employees in Spire bank. For more information, please see our Cytonn Weekly #37/2022.

Income Statement

- Core earnings per share increased by 27.9% to Kshs 9.1 in Q3'2022, from Kshs 7.1 recorded in Q3'2021, higher than our projections of a 24.2% increase to Kshs 8.8. The performance was driven by a 26.9% growth in total operating income to Kshs 102.1 bn, from Kshs 80.5 bn in Q3'2021 higher than our projections of 17.1%. However, the performance was weighed down by the 31.7% growth in total operating expenses to Kshs 57.7 bn, from Kshs 43.8 bn in Q3'2021,
- Total Operating Income rose by 26.9% to Kshs 102.1 bn, from Kshs 80.5 bn recorded in Q3'2021 driven by a 23.4% increase in Net Interest Income (NII) to Kshs 59.8 bn, from Kshs 48.5 bn in Q3'2021, coupled with a 32.0% increase in Non-Funded Income (NFI) to Kshs 42.2 bn, from Kshs 32.0 bn in Q3'2021,
- Interest income grew by 25.6% to Kshs 84.2 bn, from Kshs 67.0 bn in Q3'2021 driven by a 19.9% increase in interest income from loans and advances to Kshs 53.7 bn, from Kshs 44.8 bn recorded in Q3'2021, coupled with a 43.1% increase in interest income from government securities to Kshs 29.6 bn, from Kshs 20.7 bn in Q3'2021. The Yield on Interest-Earning Assets (YIEA) rose by 0.5% points to 10.1%, from 9.6% in Q3'2021, attributable to the faster 25.7% growth in trailing interest income which outpaced the 19.6% growth in Average Interest-Earning Assets (AIEA). Trailing Interest Income refers to the performance of the interest income for the past 12 consecutive months,
- Interest expenses rose by 31.3% to Kshs 24.3 bn, from Kshs 18.5 bn in Q3'2021, following a 28.5% increase in interest expense on customer deposits to Kshs 16.5 bn, from Kshs 12.8 bn in Q3'2021, coupled with a 40.3% increase in other interest expenses to Kshs 5.8 bn, from Kshs 4.2 bn in Q3'2021. Additionally, interest expenses on deposits and placements also increased by 30.3% to Kshs 2.0 bn, from Kshs 1.5 bn in Q3'2021. Consequently, the Cost of funds (COF) increased by 0.1% points to 2.9%, from 2.8% recorded in Q3'2021, following a faster 28.6% increase in Trailing interest expense, compared to the 22.8% increase in average interest bearing liabilities. Trailing interest expense refers to the performance of the interest expenses for the past 12 consecutive months. The Net Interest Margin (NIM) also increased to 7.3%, from 7.0% in Q3'2021, attributable to the 24.6% growth in Trailing Net Interest Income (NII), which outpaced the 19.6% growth average interest-earning assets,
- Non-Funded Income (NFI) rose by 32.0% to Kshs 42.2 bn, from Kshs 32.0 bn in Q3'2021. The increase was mainly driven by a 34.4% growth in income from other fees and commissions to Kshs 20.3 bn, from Kshs 15.1 bn in Q3'2021, coupled with a 57.5% increase in foreign exchange trading income to Kshs 8.9 bn, from Kshs 5.6 bn in Q3'2021. Income from fees and commissions on loans increased by 13.3% to Kshs

6.5 bn, from Kshs 5.7 bn in Q3’2021. Equity Group’s total fees and commission increased by 28.6% to Kshs 26.7 bn, from Kshs 20.8 bn in Q3’2021. Consequently, the revenue mix shifted to 59:41 from 60:40, funded to non-funded income, recorded in Q3’2021, owing to the faster 32.0% growth in NFI compared to the 23.4% growth in NII,

- Total operating expenses increased by 31.7% to Kshs 57.7 bn in Q3’2022, from Kshs 43.8 bn recorded in Q3’2021, mainly due to a 87.9% increase in Loans Loss Provision to Kshs 9.7 bn in Q3’2022, from Kshs 5.1 bn recorded in Q3’2021 coupled with a 28.3% increase in staff cost to Kshs 17.3 bn, from Kshs 13.5 bn in Q3’2021. The increased provisioning level points towards more risk aversion and increased credit risk on the back of the elevated cost of living,
- Cost to Income Ratio (CIR) with LLP deteriorated, rising by 2.1% points to 56.6%, from 54.5% in Q3’2021 due to the 31.7% increase in total expenses which outpaced the 26.9% growth in total income. Without LLP, the Cost to Income ratio improved, declining by 1.0% points to 47.1%, from 48.1% in Q3’2021, an indication of improved efficiency levels in the Bank, and,
- Profit before tax increased by 21.0% to Kshs 44.3 bn, from Kshs 36.6 bn in Q3’2021 with the effective tax rate declining to 22.4% from 26.6% in Q3’2021. Similarly, the profit after tax increased by 27.9% to Kshs 34.4 bn in Q3’2022, from Kshs 26.9 bn recorded in Q3’2021.

Balance Sheet

- The balance sheet recorded an expansion as total assets increased by 15.2% to Kshs 1,363.7 bn in Q3’2022, from Kshs 1,184.3 bn recorded in Q3’2021, largely driven by the 20.6% growth in the loan book to Kshs 673.9 bn, from Kshs 559.0 bn recorded in Q3’2021. The balance sheet growth was however weighed down by Government securities which declined slightly by 0.1% to Kshs 233.0 bn, from Kshs 233.2 bn in Q3’2021,
- Total liabilities rose by 18.5% to Kshs 1,209.7 bn, from Kshs 1,020.9 bn in Q3’2021, driven by a 15.1% increase in customer deposits to Kshs 1,007.3 bn, from Kshs 875.1 bn in Q3’2021. Deposits per branch increased by 9.6% to Kshs 2.8 bn, from Kshs 2.6 bn in Q3’2021, with the number of branches increasing by 17 to 354 branches in Q3’2022, from 337 in Q3’2021, with Equity Bank Democratic Republic of Congo (DRC) contributing 11, Equity Bank Uganda and Tanzania contributed 2 each, while Equity Bank Rwanda and Kenya contributed 1 additional branch each,
- The faster 20.6% growth in loans as compared to the 15.1% growth in customer deposits led to an increase in the Loans to deposit ratio to 66.9% from 63.9% in Q3’2021,
- Gross Non-Performing Loans (NPLs) increased by 20.8% to Kshs 67.9 bn in Q3’2022, from Kshs 56.2 bn recorded in Q3’2021, while Gross loans increased by 20.8% to Kshs 716.6 bn, from 593.1 bn in Q3’2021, leaving the NPL ratio relatively unchanged at 9.5%, similar to what was recorded in Q3’2021,
- The NPL coverage increased to 63.0%, from 60.6% in Q3’2021 on the back of a 100.3% increase in interest in suspense to Kshs 14.1 bn, from Kshs 7.1 bn in Q3’2021 coupled with the 5.9% increase in general provisions (LLP) to Kshs 28.6 bn, from Kshs 27.0 bn in Q3’2021, which outpaced the 20.8% growth in Gross non-performing loans,
- Shareholders’ funds declined by 5.6% to Kshs 147.5 bn in Q3’2022, from Kshs 156.3 bn in Q3’2021, mainly due to a 653.9% increase in revaluation reserve to Kshs 49.4 bn, from Kshs 6.6 bn in Q3’2021. However, the decline was mitigated by 23.7% increase in retained earnings to Kshs 179.6 bn, from Kshs 145.2 recorded in Q3’2021,
- Equity Group is currently sufficiently capitalized with a core capital to risk-weighted assets ratio of 16.1%, 5.6% points above the minimum statutory requirement of 10.5%. In addition, the total capital to risk-weighted assets ratio was 20.7%, exceeding the minimum statutory requirement of 14.5% by 6.2% points. Adjusting for IFRS 9, the core capital to risk-weighted assets stood at 16.1% while total capital to risk-weighted assets came in at 20.7%, and,
- The bank currently has a Return on Average Assets (ROaA) of 3.7%, and a Return on Average Equity (ROaE) of 31.3%.

Key Take-Outs:

1. **The Group’s diversification strategy deemed profitable** - The Group’s geographical diversification strategy has continued to emerge as a net positive, with the bank’s various subsidiaries in Uganda, DRC, Rwanda, Tanzania, and South Sudan cumulatively contributing 32.0% to the bank’s total profitability and 42.0% to the group’s total asset base. Cumulatively, the group’s subsidiaries, excluding Equity Bank Kenya Ltd, recorded an 71.9% growth in their Profit after Tax (PAT) to Kshs 11.0 bn, from Kshs 6.4 bn in Q3’2021, with the Equity BCDC in DRC recording a 113.7% growth in PAT to Kshs 4.7 bn from Kshs 2.2 bn in Q3’2021, mainly driven by favorable operating business environment coupled with low banking penetration which providing more opportunities for profitability. However, concerns remain high on the high NPL levels in the group’s Tanzanian subsidiary of 23.1% and we expect the group to improve its credit assessment in the country to bring down the high NPL ratio,

2. **Increased Provisioning** – The Group increased its Loans Loss Provision (LLPs) by 87.9% to Kshs 9.7 bn in Q3’2022, from Kshs 5.1 bn recorded in Q3’2021 aimed at mitigating increased credit risk on the back of the elevated cost of living. Additionally, the NPL coverage increased to 63.0%, from 60.6% in Q3’2021 as a result of a 100.3% increase in interest in suspense coupled with the 5.9% increase in general provisions, which outpaced the 20.8% growth in Gross non-performing loans. We expect the high provisioning to cushion the Group against high credit risk on the tough operating business environment which has curtailed recovery in some sectors locally and the high NPL ratios in some of the group’s subsidiaries,
3. **Improved efficiency levels** – The group’s cost to income ratio without LLP improved, declining by 1.0% to 47.1%, from 48.1% in Q3’2021, an indication of improved efficiency,
4. **Improved Lending** – Q3’2022 was characterized by a 20.6% growth in loans with investments in government securities declining by 0.1%, highlighting the Group’s strategy to increase lending despite the tough operating business environment. Notably, the Group diversified risk by extending credit to various sectors in the economy with high lending recorded in sectors such as personal household, trade and real estate at 23.0%, 22.0% and 14.0%, respectively. Additionally, 43.0% of the Group’s loan book comprised of Loans extended to Small and Medium Enterprises (SMEs) operating in sectors such as real estate, trade and agriculture among others which we expect to support their recovery from the effect of the pandemic.

Going forward, we expect the bank’s growth to be driven by:

I. **Innovation and digitization continue to enhance high value transaction** - Increased innovation and digitization have seen 99.0% of all transactions of the bank being done on alternative channels, with mobile and internet transactions taking up 81.2% of all transactions, and agency banking contributing 6.3% of all transactions. In terms of the value of transactions, digital banking, branches and diaspora remittances contributed 46.9%, 27.3% and 4.9%, respectively. This highlights the transformation of branches to handle high-value transactions which aid the bank by offering its ecosystem banking products to retail and SME clients, and,

II. **Continued expansion** through acquisition of other banks in Kenya as well as in the region, with Equity Bank Kenya in the process of acquiring Spire Bank Limited. Additionally, Ethiopian government recently decided to open up the financial sector to foreign investors which provide a great opportunity for Equity Group to expand its operations into the untapped market.

Valuation Summary

- We are of the view that Equity Group is a “***Buy***” with a target price of Kshs 55.9 representing an upside of 21.7%, from the current price of Kshs 46.0 as of 25th November 2022, and,
- Equity Group is currently trading at a P/TBV of 1.1x and a P/E of 3.7x vs an industry average of 0.9x and 5.0x, respectively.