

EQUITY GROUP HOLDINGS LIMITED

2023 HALF YEAR EARNINGS UPDATE



EQUITY GROUP HOLDINGS LTD BUSINESS OVERVIEW

- Equity Group Holdings Limited, formerly Equity Bank Limited, is a Kenya-based commercial bank engaged in the business of retail banking, microfinance, and related services to individuals, and small and medium sized enterprises.
- The company offers various banking products, including current, equity ordinary, super junior investment, Jijenge, equity business and current accounts, and call and fixed deposit accounts. The banking group, which also offers trade finance services such as letters of credit and invoice discounting, operates in six geographical markets, namely, Kenya, Uganda, South Sudan, Rwanda, Tanzania, and Democratic Republic of Congo.
- Equity Group's three customer facing lines of businesses include consumer, small and medium enterprises (SMEs), and corporate. The consumer business line focuses on salaried customers or customers receiving other regular remittances, such as pension. The facilities granted under its SME line of business are for purposes of meeting working capital needs, property development or acquisition of assets. The corporate line of business comprises large enterprises. Equity offers a range of products, including Equity loan, Vijana loan, Fanikisha loan, Farm input, Mortgage loan, Asset finance loan, Trade finance, Development loan, Business Loan and Biashara Imara.

EQUITY HOLDINGS GROUP LIMITED	
Ticker symbol	EQTY
Primary Industry	Banking and Investments
Primary exchange	Nairobi Securities Exchange
Shares Outstanding	3.77 bn
Market Capitalization	Kes. 143 billion
Current stock price	Kes. 40.50

EQUITY GROUP HOLDINGS LTD SUBSIDIARIES

Equity Group Holdings Limited

Banking Subsidiaries

Non Banking Subsidiaries

Equity Bank Kenya Limited (100%)	Equity Bank Rwanda Ltd 100%	Equity Bank S Sudan Ltd 100%	Equity Bank Tanzania Ltd 100%	Equity Bank Uganda Ltd 100%	Equity BCDC (DRC) 77.5%	Equity Investment Bank Ltd 100%	Equity Group Insurance Holdings 100%	Equity Life Assurance (Kenya) 100%	Equity Bancassurance Intermediary 100%	Finserve Africa Ltd 100%	Equity Consulting 100%	Azenia 100%
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Equity Group Holdings Ltd Balance Sheet



STATEMENT OF FINANCIAL POSITION

	30th June 2019 KShs '000	30th June 2020 KShs '000	30th June 2021 KShs '000	30th June 2022 KShs '000	30th June 2023 KShs '000
ASSETS					
Cash (both local & foreign)	20,329,565	26,188,046	219,491,000	214,433,000	74,754,312
Balance due from Central Bank of Kenya	25,190,039	15,865,945	-	-	19,880,406
Investment securities	179,619,474	216,385,915	315,497,000	365,023,000	485,643,083
Loans and advances to customers (net)	320,886,253	391,633,218	504,849,000	650,556,000	817,186,428
Property and equipment	10,170,021	11,165,575	15,048,000	16,490,000	21,483,187
Intangible assets (including goodwill)	7,072,187	7,540,002	11,775,000	14,112,000	14,577,093
Differed tax asset/ Differed income tax	6,080,189	8,279,546	13,403,000	31,911,000	32,401,242
Other assets	23,867,546	24,775,866	-	-	45,493,755
TOTAL ASSETS	638,662,575	746,469,073	1,119,738,000	1,333,860,000	1,644,786,769
LIABILITIES					
Customer deposits	458,595,144	543,893,929	820,286,000	970,943,000	1,175,252,106
Other money market deposits	4,461,640	343,150	-	-	70,904,760
Borrowed funds	51,415,487	57,230,292	102,301,000	162,601,000	117,468,421
Other liabilities	20,471,429	20,710,778	30,236,000	36,375,000	67,850,895
TOTAL LIABILITIES	535,923,216	623,109,029	964,665,000	1,183,473,000	1,450,454,620
SHAREHOLDERS' FUNDS					
Paid up/ assigned capital	1,886,837	1,886,837	1,887,000	1,887,000	1,886,837
Share premium/ discount	16,062,607	16,062,607	15,325,000	15,325,000	15,325,264
Retained earnings/ Accumulated losses	89,405,901	108,171,776	131,001,000	126,501,000	199,938,822
TOTAL SHAREHOLDERS' FUNDS	102,739,359	123,360,044	155,073,000	150,387,000	194,332,149
TOTAL LIABILITIES AND SHAREHOLDERS' FUNDS	638,662,575	746,469,073	1,119,738,000	1,333,860,000	1,644,786,769

Equity Group Holdings Ltd Income Statement



STATEMENT OF COMPREHENSIVE INCOME					
	30th June 2019 KShs '000	30th June 2020 KShs '000	30th June 2021 KShs '000	30th June 2022 KShs '000	30th June 2023 KShs '000
NET INTEREST INCOME	21,079,251	24,635,221	31,154,655	39,803,839	46,390,067
NON-INTEREST INCOME:					
Fees and commissions income on loans & advances	2,753,974	2,457,713	3,480,411	4,225,510	4,628,859
Other fees and commissions income	7,275,575	6,765,169	9,658,387	12,653,558	18,721,968
Foreign exchange trading income	1,859,139	2,230,993	4,078,491	5,028,280	8,446,264
Dividend income	-	-	-	-	-
Other income	4,654,646	2,946,358	3,549,776	3,937,147	4,693,264
TOTAL NON-INTEREST INCOME	16,543,334	14,400,233	20,767,065	25,844,495	36,490,355
TOTAL OPERATING INCOME	37,622,585	39,035,454	51,921,720	65,648,334	82,880,422
OPERATING EXPENSES:					
Loan loss provision	918,498	8,022,277	2,912,467	4,086,983	7,095,601
Staff costs	5,945,962	6,719,322	8,518,591	10,818,825	14,231,696
Directors'emoluments	100,129	50,351	106,161	77,874	162,897
Rental charges	1,362,944	218,988	211,745	177,663	212,974
Depreciation on property and equipment	1,567,033	2,451,271	2,534,299	2,485,915	2,776,920
Ammortisation charges	661,686	639,283	1,005,511	1,018,760	653,517
Other operating expenses	10,077,278	8,956,470	12,801,973	16,064,377	22,585,033
TOTAL OPERATING EXPENSES	20,633,530	27,057,962	28,090,747	34,730,397	47,718,638
PROFIT/ (LOSS) BEFORE TAX AND EXCEPTIONAL ITEMS	16,989,055	11,977,492	23,830,973	30,917,937	35,161,784
Exceptional items- share of profit of associate	-	-	-	-	-
PROFIT/ (LOSS) AFTER EXCEPTIONAL ITEMS	16,989,055	11,977,492	23,830,973	30,917,937	35,161,784
Current tax	- 4,898,817	- 4,399,682	-6,442,140	-6,688,246	- 9,527,746
Deferred tax	- 82,492	1,499,293	555,365	200,784	694,274
PROFIT/ (LOSS) AFTER TAX AND EXCEPTIONAL ITEMS	12,007,746	9,077,103	17,944,198	24,430,475	26,328,312
Minority interest	88,271	54,986	-394,959	-685,200	867,757
PROFIT/ (LOSS) AFTER TAX AND EXCEPTIONAL ITEMS AND MINORITY INTERESTS	11,919,475	9,022,117	17,549,239	23,745,275	25,460,555
OTHER COMPREHENSIVE INCOME FOR THE YEAR NET OF TAX	3,321,237	2,506,276	- 1,511,506	- 38,308,172	- 500,853
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	15,240,712	11,528,393	16,037,733	- 14,562,897	24,959,702

Summary Analysis



	2019	2020	2021	2022	2023
Net Interest Income Growth YoY	7.64%	16.87%	26.46%	27.76%	16.55%
Loan to Deposit	69.97%	72.01%	61.29%	67.00%	69.50%
Cost to Income Ratio	54.84%	69.31%	54.10%	52.90%	57.58%
Core Capital to Total Deposit Liabilities	20.1%	20.3%	15.8%	15.5%	17.9%
Core Capital to Total Risk Weighted Assets	17.5%	16.9%	14.0%	14.1%	15.0%
ROE	13.91%	8.84%	14.55%	15.75%	17.51%
ROA	2.22%	1.42%	2.40%	2.18%	1.97%
Total assets (in Kes.)	638,663m	746,469m	1,119,738m	1,333,860m	1,644,787m
Earnings per share (in Kes.)	3.18	2.39	4.65	6.29	6.75

INVESTMENT SUMMARY

Economic Analysis

- East Africa
 - The government budgets proposed in June by most of the member states of the East African Community, indicated fiscal consolidation, implying continued focus on reducing the budget deficit. This policy is intended to rebuild fiscal buffers that have been eroded.
 - In a global economy facing several headwinds, we believe mid-to-high-single-digit real GDP growth goes a long way towards mitigating the risks from macroeconomic imbalances. East Africa is the fastest growing region in the world, it's projected to grow at 5.7% in 2023,
 - The region's robust real GDP growth will help mobilise the government revenue required to reduce negative budget deficit/GDP balances, and in so doing, lower public debt/GDP over the medium term.
- Kenya
 - The CBK noted sustained inflationary pressures driven by fuel, food and non-food non-fuel (NFNF) prices.
 - The global economic outlook remains uncertain, reflecting continuing concerns about financial sector stability in advanced economies.
 - The CBK foreign exchange reserves, which currently stand at USD 7,379 million (4.07 months of import cover), continue to provide adequate cover and a buffer against any short-term shocks in the foreign exchange market.
 - Leading economic indicators of the Kenyan economy pointed to strong economic performance in the first half of 2023, mainly driven by activity in the services sector and recovery in agriculture.
 - Exports of goods have remained strong, growing by 5.5% in the 12 months to May 2023 compared to a similar period in 2022.
 - The banking sector remained stable and resilient, with strong liquidity and capital adequacy ratios.
 - Growth in the private sector stood at 13.2% in both April and May 2023.
 - In Kenya, the GDP grew by just 4.8% while projected growth decreased to 5.8% from 6.1% because of lower growth in the agricultural sector.
- South Sudan
 - South Sudan's real GDP contracted an estimated 2.9% in 2021/22, after contracting 4.9% in 2020/21, driven by the oil sector. Oil production declined to 156,000 barrels a day in 2021/22 from 169,000 in 2020/21 after several oilfields were damaged by floods.
- DRC
 - Economic growth in Congo picked up to 8.6% in 2022, keeping the strong momentum from 2021 (6.2%). Mining sector investment and exports remain their key drivers of growth, owing to capacity expansion and recovery in global demand.

INVESTMENT SUMMARY Continued...

Company Analysis

A. Strategic Review

- The group's strategy is the 'Africa Recovery and Resilience Plan'. It is aimed at catalysing a demand complementarity-led transformation of Africa, underpinned by: (i) capacitating and enhancing productivity of raw material producers, (ii) integrating primary producers to more co-ordinated African productive / manufacturing capacities; and (iii) connecting these primary and secondary sectors to global supply chains (and capital markets) that are now more focused on reducing concentration risks with increased focused on assurance of accessibility.
- The execution of the "Africa Recovery and Resilience Plan" will be underpinned by its Social and Economic Engines that capacities value chains (Social Engine) and provide holistic financial solutions to productive ecosystems (Economic Engine).
- Equity Group's excess liquidity, currently at 2% of East and Central Africa will be redirected to the private sector across various value chains.
- By 2030 the group aims to have 100 million customers in total, 5 million borrowing businesses, 25 million borrowing customers, and 25 million direct jobs.
- Their strategic plan if realized will revive and set the continent of Africa on a path of economic recovery and prosperity as it will help individual businesses scale up and boost their capacity hence creating more jobs and increasing taxes for the governments. If these taxes are faithfully committed to improve infrastructure by the governments and the governments pass laws favourable for businesses to thrive then the continent of Africa will be an economic power house.
- Equity Group on the other hand will cement its place as the leading financial institution in the continent of Africa and a force to reckon with on the global landscape.

INVESTMENT SUMMARY Continued...

B. Financial Analysis

- Their half year loan book has been increasing at a CAGR of 26.33% over the past 5 years indicating exponential growth.
- Their half year deposits have increased at a CAGR of 26.54% over the past fast 5 years increasing their pool of capital for lending.
- Their loan to deposit ratio has increased steadily since 2021 and is currently at 69.50% indicating increased risk profile.
- Net interest income has increased at a CAGR of 21.80% indicating that they have been increasing their earnings from their interest earning assets relative to their interest-bearing liabilities.
- The net interest income growth Year on Year has been on a slight decrease at 16.55% in Q2 of 2023 it's at one of its lowest since the year 2020, indicating a decrease in the efficiency of the company in converting sales to actual profit.
- The cost to income ratio has been on relative increase since 2021 indicating lower profitability and increasing efficiency costs.
- The capital adequacy ratios have been on an increase since 2021 and they're all higher than the statutory minimum indicating adequate and increasing ability from the group to meet its' obligations.
- A steady increase in the level of profitability was generated from the company's total assets and shareholder's equity, as ROOA was 1.97% and ROOE stood at 17.51% in this year's second quarter.
- There has also been a great increase in total asset base at a CAGR of 26.68% over the past 5 years. This rise indicates an increase in the company's opportunities in maintaining its growth.
- There has also been a steady increase the Earnings Per Share since 2019 with CAGR of 20.70% currently peaking at Kes. 6.75. This higher EPS indicates greater value because investors will pay more for a company's shares if they think the company has higher profits relative to its share price.
- The YoY growth contribution to Equity Group Holdings Ltd constituted 53% by Equity Bank Kenya Ltd and 47% by other subsidiaries. This is an indication of the strong diversification by Equity Holdings thus spreading their risks and maximizing their returns.

INVESTMENT SUMMARY Continued...

Management View

- Equity Group Holdings Ltd can continue to grow and execute its strategy which is a multi-pronged and holistic solution to achieve social and economic transformation of Africa thanks to a variety of factors. These include increased efficiency resulting from digital adoption prompted by the COVID-19 environment, strong diversification in different countries and product offerings, a potential increase in loan growth from the implementation of risk-based pricing, and a continued economic recovery.

Our View

- Despite the increase in costs and macroeconomic tailwinds that have plagued the banking sector, its strong asset base, as well as its subsidiaries across Africa with increased diversification in financial services sector means that Equity Group Holdings Ltd is poised to achieve its strategy over the next years. Its loan book will also likely continue growing with the implementation of risk-based pricing. It's strong brand across the African region is also a catalyst to it's growth. With the increasing interest rates, it will be interesting to see how they navigate, whether they'll pass on those costs to the end consumers and how that will impact their business.

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