Equity Group Holdings — DCF Valuation Report

Valuation date: Monday, 16 June 2025
Prepared by: Alex Mwangi
Model basis: 5-year explicit FCFE forecast (2024–2028), discounted at Cost of Equity; Gordon Growth terminal value.
Market close (valuation date: 16/06/2025): KES **46.25** per share

---

Executive summary

Using the provided Excel DCF model, the estimated intrinsic value for Equity Group Holdings is **KES 50.60** per share (model value: **KES 50.5958**). Against the closing market price of **KES 46.25** on 16 June 2025, this implies an upside of **≈9.4%**, suggesting the stock is **modestly undervalued** on a DCF/FCFE basis.

Valuation approach — concise description

This valuation uses a **Free Cash Flow to Equity (FCFE)** model:

1. Forecast FCFE for a 5-year explicit period (years 1–5).
2. Discount each year's FCFE to present value using the **Cost of Equity (CoE)**.
3. Compute terminal value at the end of year 5 with the **Gordon Growth Model**:
4. Discount TV to present value and sum with discounted FCFE to obtain **total equity value**. Divide by shares outstanding to get **intrinsic value per share**.

Because FCFE already represents cash flows available to equity holders, the discount rate used is CoE rather than WACC.

Key inputs & assumptions (from the workbook)

- **Forecast horizon (explicit):** 5 years.
- **Cost of Equity (CoE): 22.65%**. Components: Risk-free rate **14.25%**, Beta **1.2**, Risk premium **7.0%**.
- **Terminal (long-term) growth rate (g): 5.0%**.
- **Shares outstanding: 3,770,000,000**.

- **Terminal value (undiscounted, workbook units): 186,890,463.74**
- **Total equity value (model, workbook units): 190,746,040.35**
- **Units / scaling:** Workbook figures are expressed in **KES thousands**.

Results (calculation & interpretation)

- **Equity value (model): KES 190,746,040,346** (total equity value in KES).
- **Intrinsic value per share (model):** KES 50.60
- **Market price (16 June 2025):** KES **46.25**.
- **Implied upside:** ((50.60 - 46.25) / 46.25 = 9.4%
- **Value concentration:** Terminal value (TV) ≈ **186,890,464**, which is about **98%** of total equity value (186,890,464 ÷ 190,746,040 ≈ 0.9799).

Interpretation: The model indicates a modest undervaluation. However, because the terminal value dominates the result, the intrinsic price is sensitive to small changes in CoE and g. The 9.4% margin is not large — it suggests limited margin of safety under the current assumptions.

Sensitivities & drivers

The three most impactful drivers are:

1. **Cost of Equity (CoE)** — high CoE (22.65%) compresses present values; CoE itself is driven by an elevated risk-free rate (14.25%) and a 7% equity risk premium. A ±1 percentage-point change in CoE materially shifts intrinsic value.
2. **Terminal growth rate (g = 5.0%)** — with ~98% of value in TV, small changes in g (e.g., 4% vs 5%) will materially alter the outcome.
3. **FCFE path to year 5** — revenue growth, margins, CAPEX and working capital drive $FCFE_5$ and therefore the TV.

Risks & model limitations

- **Terminal-value concentration risk:** heavy reliance on TV increases fragility.

- **Macro & sector risks:** Kenyan interest rates, credit cycles (NPLs), regulatory shifts and fintech competition can affect cash flows.
- **Input judgment:** CoE, risk premium and long-run growth are judgmental; ensure sources for the risk-free rate and any country risk premium adjustments are documented.
- **Corporate action risk:** confirm share count reflects all recent actions (buybacks, issuances).

Conclusion & recommended next steps

The DCF model (dated 16 June 2025) implies **KES 50.60** per share vs market **KES 46.25**, indicating a modest undervaluation (~9.4%). Because the margin is small and the valuation is highly sensitive to terminal assumptions, I recommend the following for further model analysis:

1. Generating a **sensitivity table** for CoE and terminal growth.
2. Test an **exit multiple** terminal value and/or extend the explicit forecast to 7–10 years.