

DYER & BLAIR INVESTMENT BANK

EARNINGS UPDATE

Founder Member of the Nairobi Securities Exchange

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DYER & BLAIR
INVESTMENT BANK

WE KNOW. YOU KNOW.

BARCLAYS BANK OF KENYA: 3Q18 EARNINGS UPDATE

Dear All,

Barclays Bank Kenya (BBK) released its 3Q18 results, posting a 2.0% y-o-y increase in profit after tax (PAT) to KES 5.4 BN. Profit before tax was fairly flat, gaining 0.2% y-o-y to KES 7.7 BN. EPS for the period stands at KES 1.00, up from KES 0.98 recorded the same period last year. Trailing EPS stands at KES 1.29 (+11.2% y-o-y). Annualized ROA and ROE declined 31 bps y-o-y each to 2.2% and 17.0% respectively.

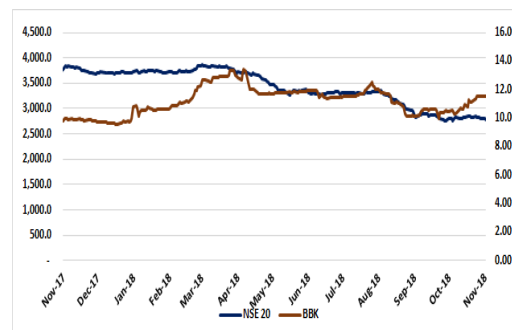
Below please find key highlights:

Net interest income grew 2.1% y-o-y to KES 16.5 BN. Interest expense increased 30.1% y-o-y to KES 5.2 BN, outpacing a 7.7% y-o-y gain in interest income to KES 21.7 BN in 3Q18. Annualized cost of funds grew 23 bps y-o-y to 2.6% while annualized yield on interest earning assets rose 5 bps y-o-y to 11.2%. Net interest margin declined 18 bps y-o-y to 8.6%.

Interest income from government securities increased 34.8% y-o-y to KES 5.6 BN. Estimated annualized return on government securities stood at 7.2% down from 8.5% in 3Q17. The yield curve has shifted downwards YTD, -230 bps for the 2yr, -133 bps for the 5yr and -53 bps for the 10yr. Interest income from customer loans and advances rose 0.7% y-o-y to KES 16.0 BN despite of a 6.7% y-o-y increase in customer loans and advances. Interest on customer deposits increased 26.9% y-o-y to KES 4.5 BN. During the period, the government repealed the floor for savings which was set at a minimum of 70.0% of the CBR.

Non-funded income rose 14.0% y-o-y to KES 7.4 BN. This is attributable to a 114.9%, 16.7% and 5.5% increase in other operating income, fees and commission and forex income to KES 605.0 MN, KES 4.2 BN and KES 2.5 BN respectively. Funded income reliance dropped 229 bps y-o-y to 69.2%. The bank's focus on alternative channels with its launch of Timiza in 1Q18, is expected to continue to boost non funded income.

BARCLAYS KENYA: 52 WEEK PRICE PERFORMANCE (Source: NSE, DBIB Research)



PRICE	ABSOLUTE	EXCESS
RETURN	RETURN	RETURN
3 months	(2.1)	15.1
6 months	(2.1)	17.5
12 months	15.0	42.9

KEY METRICS

Current Price (KES)	11.50
52 week Range (KES)	8.55-13.40
YTD Return (%)	19.79
Issued Shares (Mn)	5,431.5
Market Cap (USD Mn)	607.3

Recommendation	Buy
Trailing EPS (KES)	1.29
NAV (KES)	7.70
P/E (x)	8.9
P/B (x)	1.5
Div Yld (%)	8.7

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Operating expenses less loan loss provisions was up 5.9% y-o-y to KES 13.3 BN.

This is primarily due to an 8.0% y-o-y decrease in staff costs to KES 7.5 BN. We believe that this is as a result of the concluded branch rationalization that saw the lender close 6 branches in 2017. Rent charge declined 8.1% y-o-y to KES 867.9 MN. Cost to income ratio rose 20 bps y-o-y to 55.8%.

Loan loss provision expensed rose 21.3% y-o-y to KES 2.8 BN. The continuing increase in loan loss provisions in our view demonstrates the lenders' conservative provisioning policy.

Customer loans and advances grew 6.7% y-o-y to KES 178.4 BN (+1.3% q-o-q) while customer deposits increased by 9.9% y-o-y to KES 220.2 BN. As a result, the loans to deposits ratio declined 245 bps y-o-y to 81.0%. Available for sale (AFS) government securities rose 29.5% y-o-y (+6.0% q-o-q) to KES 74.6 BN while held for dealing securities grew four fold to KES 28.3 BN. This is in line with current banking trends.

Gross NPLs rose 22.3% y-o-y to KES 14.6 BN (+ 1.7% q-o-q) as Interest in suspense rose 1.8% y-o-y to KES 3.0 BN (-10.1% q-o-q). This resulted in a 29.3% y-o-y increase in total NPL to KES 11.5 BN. Loan loss provision increased 34.5% y-o-y (up 5.6% q-o-q) to KES 7.2 BN. Net NPLs rose 21.4% y-o-y to KES 4.3 BN. NPL ratio (gross NPL/ gross loans) rose 90 bps y-o-y (2 bps q-o-q) to 7.6% whereas NPL coverage (loan loss provision/ total NPL) recorded a 244 bps y-o-y improvement to 62.6%.

Core capital ratio (Core capital/TRWA) declined 110 bps y-o-y (up 10 bps q-o-q) to 14.8% above the statutory minimum of 10.5%, while Total capital/TRWA recorded a 130 bps y-o-y drop to 16.7% above the statutory minimum of 14.5%. Liquidity ratio rose 190 bps y-o-y to 39.9%, above the statutory minimum of 20.0%.

Going forward: We are of the view that Barclays Bank's product expansion (Banc assurance brokerage, asset finance and mortgage finance) and focus on alternative channels (like Timiza) will assist reduce the bank's reliance on funded income. We note that the Bank is slowly transitioning to ABSA Group Limited with the change expected to be completed by 6th June 2020. We maintain our view that the separation from Barclays PLC has increased the bank's flexibility and thus improved its competitiveness in the banking industry.

On a trailing basis, Barclays Bank of Kenya is trading at a P/E and P/B ratio of 8.9x and 1.5x against an industry median of 5.9x and 0.9x respectively. Its ROE and ROA multiples stand at 16.5% and 2.2% against sector median multiples of 16.5% and 2.2% respectively. We issue a **BUY** recommendation on Barclays Bank.

PROFIT AND LOSS SUMMARY (KES MN)

Year End: December	9M18	9M17	y-y% ch	3Q18	2Q18	3Q17	y-y% ch	q-q% ch
Interest income	21,674	20,130	7.7	7,535	7,216	6,993	7.7	4.4
Interest expense	5,178	3,981	30.1	2,006	1,712	1,388	44.5	17.1
Net interest income	16,496	16,149	2.1	5,529	5,504	5,605	(1.4)	0.5
Other operating income	605	282	114.9	315	160	81	290.5	96.5
Fees and commission income	4,231	4,011	5.5	1,466	1,404	1,298	12.9	4.4
Net income from forex dealings	2,523	2,162	16.7	881	882	682	29.2	(0.1)
Total non-interest income	7,359	6,455	14.0	2,662	2,447	2,060	29.2	8.8
Total income	23,854	22,604	5.5	8,191	7,951	7,665	6.9	3.0
Less operating expenses	13,304	12,562	5.9	4,644	4,236	4,129	12.5	9.6
Operating profit	10,550	10,042	5.1	3,547	3,715	3,536	0.3	(4.5)
Bad debt charge	(2,829)	(2,333)	21.3	(1,112)	(1,141)	(979)	13.6	(2.6)
Exceptional items	-	-	0.0	-	-	-	0.0	0.0
Profit before income tax	7,721	7,709	0.2	2,435	2,573	2,557	(4.8)	(5.4)
Less tax	(2,286)	(2,380)	(3.9)	(762)	(694)	(770)	(1.1)	9.9
Profit after tax	5,435	5,329	2.0	1,673	1,880	1,786	(6.3)	(11.0)
EPS (KES)	1.0	1.0	2.0	1.0	0.3	0.3	204.3	189.2

(Source: Company, DBIB Research)

BALANCE SHEET SUMMARY (KES MN)

Year End: December	3Q18	1H18	3Q17	y-y% ch	q-q%ch
Total shareholder's equity	42,684	40,807	42,543	0.3	4.6
Minority interest	-	-	-	N/A	N/A
Total Equity	42,684	40,807	42,543	0.3	4.6
Deposits due to other banks	2,347	5,435	1,708	37.3	(56.8)
Customer deposits	220,245	216,809	200,370	9.9	1.6
Balances due to group	43,664	41,894	22,680	92.5	4.2
Other liabilities	13,287	11,684	10,668	24.5	13.7
Total equity and liabilities	322,226	316,629	277,970	15.9	1.8
Central bank balances	21,196	15,716	15,618	35.7	34.9
Deposits due from banks	5,960	19,212	16,712	(64.3)	(69.0)
Kenya government securities	74,595	70,343	57,610	29.5	6.0
Held for dealing securities	28,261	22,986	6,790	316.2	23.0
Customer loans and advances	178,434	176,115	167,249	6.7	1.3
Other assets	10,520	8,753	9,847	6.8	20.2
Intangible assets	859	955	1,236	(30.5)	(10.1)
Fixed assets	2,400	2,548	2,907	(17.5)	(5.8)
Total assets	322,226	316,629	277,970	15.9	1.8

(Source: Company, DBIB Research)

INVESTMENT RETURN

	3Q18*	1H18*	3Q17*	y-y bps ch	q-q bps ch
ROA (%)	2.2	2.4	2.6	(31)	(13)
ROIC (%)	2.3	2.5	2.7	(31)	(12)
ROE (%)	17.0	18.4	16.7	28	(146)

(Source: Company, DBIB Research)

*Annualized

CAPITAL ADEQUACY, LIQUIDITY & ASSET QUALITY

	3Q18	1H18	3Q17	y-y bps ch	q-q bps ch
Core capital/TRWA (%)	14.8	14.7	15.9	(110)	10
Min. Statutory Ratio (%)	10.5	10.5	10.5	-	-
Total capital/TRWA (%)	16.7	16.7	18.0	(130)	0
Min. Statutory Ratio (%)	14.5	14.5	14.5	-	-
Liquidity Ratio (%)	39.9	38.3	38.0	190	160
Min. Statutory Ratio (%)	20.0	20.0	20.0	-	-
Leverage Ratio (%)	13.2	12.9	15.3	(206)	36
Equity-to-Loans Ratio (%)	23.9	23.2	25.4	(152)	75
NPL Ratio (%)	7.6	7.5	6.7	90	2
NPL Coverage Ratio (%)	62.6	58.3	60.2	244	434
Long Term Debt to Total Liabilities and Equity (%)	13.6	13.2	8.2	539	32
NTA/share (KES)	7.7	7.3	7.6	10	36
Book value/share (KES)	7.9	7.5	7.8	3	35

(Source: Company, DBIB Research)

**Total Loan Portfolio net of Interbank Lending

OPERATING PERFORMANCE

	3Q18	1H18	3Q17	y-y bps ch	q-q bps ch
Yield on interest earning assets (%)*	11.2	10.6	11.1	5	51
Cost of funds (%)*	2.6	2.4	2.4	23	19
Net Interest Margin (%)*	8.6	8.2	8.7	(18)	32
Loan-to-Deposits ratio (%)	81.0	81.2	83.5	(245)	(21)
Loan-to-Dep & Borrowed Funds ratio (%)	67.0	66.7	74.4	(740)	34
Funded Income Generating Potential (%)	80.4	83.9	86.9	(653)	(353)
Funded Income Reliance (%)	69.2	70.0	71.4	(229)	(86)
Cost to income ratio (%)	55.8	55.3	55.6	20	48
Pre-tax margin (%)	32.4	33.7	34.1	(174)	(138)
PAT margin (%)	22.8	24.0	23.6	(79)	(123)

(Source: Company, DBIB Research)

*Annualized

APPENDIX

COMPANY INVESTMENT RATINGS

Buy: Share price may generate more than 15.0% upside over the next 12 months

Overweight: Share price may generate between 5.0% and 15.0% upside over the next 12 months

Hold: Share price may fall within the range of <+5.0/ -10.0% over the next 12 months

Take Profit: Target price has been attained. Look to accumulate at lower levels. Company fundamentals however remain strong

Underweight: Share price may generate between 10.0% and 15.0% downside over the next 12 months

Sell: Share price may generate more than 15.0% downside over the next 12 months, significant business and/or financial risks present, industry concerns

Not Rated: Counter is not within regular research coverage

SECTOR INVESTMENT RATINGS

Overweight: Industry performance better than that of the whole market

Equal weight: Industry performance about the same as that of the whole market

Underweight: Industry performance worse than that of the whole market

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