



NCBA GROUP: FY20 EARNINGS UPDATE

Dear All,

Disclaimer: NCBA's FY20 financials are prepared on a prospective basis i.e. 12 months performance of NCBA Bank for 2020 while the prior year comparatives represent the 9 months performance of CBA Bank and 3 months performance of NCBA bank. As such, the y-o-y variances highlighted are not based on like-for-like comparison.

NCBA Group released its FY20 results recording a 41.7% y-o-y decline in profit after tax (PAT) to KES 4.6 BN. Pre-provision operating profit grew by 37.3% y-o-y to KES 26.8 BN. However, this was eroded by a 227.0% y-o-y upsurge in loan loss provision expense to KES 20.4 BN. EPS for the period stood at KES 2.77, 62.8% lower y-o-y. The directors recommend the payment of a final dividend of KES 1.50 per share to shareholders on the company's register at the close of business on 20th April 2021.

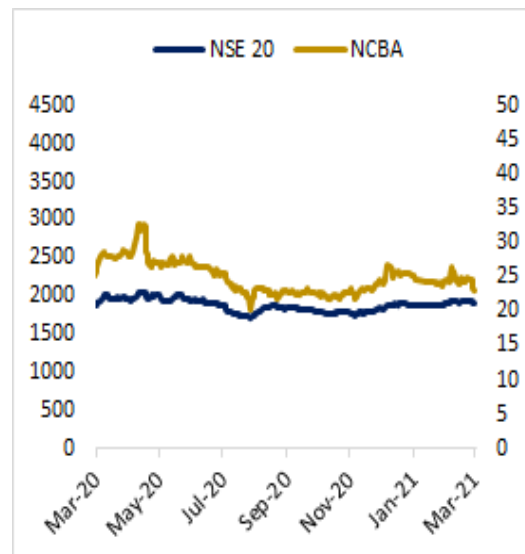
Key highlights:

Net interest income rose by 91.1% y-o-y to KES 25.5 BN, following a 73.4% y-o-y growth in interest income to KES 44.2 BN and cushioned by a 54.0% y-o-y increase in interest expense to KES 18.8 BN. Yield on interest earning assets rose 368 bps y-o-y to 9.8% whereas cost of funds rose 129 bps y-o-y to 4.3%. As a result, the group's net interest margin (NIM) rose 239 bps y-o-y to 5.5%.

Interest income from loans and advances grew by 69.8% y-o-y to KES 26.7 BN, placing the yield on average loans for the period at 10.7%, 224 bps up y-o-y. Interest income from investment securities saw an 83.4% y-o-y increase to KES 16.8 BN placing the yield on average investment securities at 10.9%, 233 bps up y-o-y. Interest expense from customer deposits rose 62.5% y-o-y to KES 17.2 BN, placing the cost of average deposits at 4.3%, 62 bps up y-o-y.

Non-funded income grew by 3.1% y-o-y to KES 20.9 BN courtesy of a 19.2% y-o-y rise in fees and commission income to KES 14.2 BN and a 66.6% y-o-y increase in net income from forex dealings to KES 4.7 BN.

NCBA GROUP: 52 WEEK PRICE PERFORMANCE



(Source: NSE, DBIB Research)

PRICE RETURN	ABSOLUTE RETURN	EXCESS RETURN
3 months (%)	(42.3)	(5.6)
6 months (%)	(29.5)	12.8
12 months (%)	(11.2)	(11.8)

KEY METRICS

Current Price (KES)	23.10
52 week Low (KES)	20.20
52 week High (KES)	32.75
YTD Return (%)	(13.6)
Issued Shares (MN)	1,647.5
Market Cap (USD MN)	346.8

Target Price (KES)	Under Review
Trailing EPS (KES)	2.77
NAV (KES)	43.91
Trailing P/E (x)	8.3
Trailing P/B (x)	0.5
Div Yld (%)	6.5

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Fees and commissions on loans rose 15.4% y-o-y to KES 10.8 BN while other fees and commissions increased by 33.3% y-o-y to KES 3.3 BN. Other operating income dropped 63.6% y-o-y to KES 2.0 BN. As a result, funded income reliance rose 1,527 bps y-o-y to 54.9%.

Operating expenses (less loan loss provisions) rose by 38.9% y-o-y to KES 19.6 BN mainly on account of a 51.1% y-o-y increase in other operating expenses to KES 8.9 BN and a 29.6% y-o-y increase in staff costs to KES 7.2 BN. The cost to income ratio deteriorated by 28 bps y-o-y to 42.2%. Pre-provision operating profit rose 37.3% y-o-y to KES 26.8 BN.

The loan loss provision expense saw an upswing of 227.0% y-o-y to KES 20.4 BN, placing the cost of risk at 8.2%, 572 bps up y-o-y. We attribute the increased provisioning to the higher delinquency levels occasioned by the COVID-19 pandemic. The group restructured loans amounting to KES 78.0 BN in FY20 to corporate and retail customers.

Income tax charge dropped by 88.2% y-o-y to KES 411.1 MN following the reduction of corporate tax from 30.0% to 25.0% by the government in FY20 to curb the effects of the COVID-19 pandemic on corporates, placing the group's effective tax rate at 8.3% vis-à-vis 30.7% in FY19.

Total assets rose 6.7% y-o-y to KES 528.0 BN (+1.7 q-o-q). Customer loans and advances edged down by 0.3% y-o-y to KES 248.5 BN (-0.5% q-o-q). Investment securities saw a 12.8% y-o-y increase to KES 163.5 BN (-2.2% q-o-q).

On the funding side, customer deposits saw an 11.4% y-o-y increase to KES 421.5 BN (+4.7% q-o-q). The group's loan to deposits ratio shed 599 bps to 58.1%. Deposits due to other banks dropped by 42.1% y-o-y to KES 6.3 BN (-46.2% q-o-q) while borrowed funds dropped by 39.7% y-o-y to KES 13.3 BN (-7.2% q-o-q). As such, loans to deposits and borrowed funds ratio fell by 431 bps y-o-y to 56.3%.

Gross non-performing loans (NPLs) rose 19.0% y-o-y to KES 40.1 BN (+4.2% q-o-q) whereas interest in suspense dropped by 1.9% y-o-y to KES 6.6 BN (+1.3% q-o-q). As such, total NPLs rose 24.2% y-o-y to KES 33.5 BN (+4.8% q-o-q). The NPL ratio worsened to 13.9%, 199 bps up y-o-y. Cumulative loan loss provisions rose 47.2% y-o-y to KES 17.8 BN (+12.2% q-o-q) placing the NPL coverage ratio at 53.3%, 833 bps higher y-o-y.

NCBA Kenya's core capital ratio (Core capital/TRWA) rose 70 bps y-o-y to 17.3% whereas Total capital ratio (Total capital/TRWA) rose 14 bps y-o-y to 17.5%. Both ratios remain above the statutory minimum of 10.5% and 14.5% respectively. Liquidity ratio rose 323 bps y-o-y to 55.1%, above the statutory minimum of 20.0%.

	NCBA Bank		NCBA Group	
	Reported	Adjusted Ratios	Reported	Adjusted Ratios
Core capital ratio	17.8	18.0	17.3	17.5
Total capital ratio	17.9	18.2	17.5	17.7

(Source: Company Filings, DBIB Research)

Adjusted ratios include the expected credit loss provisions added back to capital in line with the CBK guidance note issued in April 2018 on implementation of IFRS 9.

NCBA is currently trading at a P/E multiple of 8.3x, against an industry median of 6.5x and a P/B multiple of 0.5x, against an industry median of 0.7x. Its ROE stands at 6.3%, below the industry median of 10.3%, whereas its ROA stands at 0.9%, below the industry median of 1.6%. The dividend yield stands at 6.5% as per current prices.

PROFIT AND LOSS SUMMARY (KES MN)

Year End: December	FY20	FY19	y-y% ch	4q20	3q20	4q19	y-y% ch	q-q% ch
Interest income	44,245	25,514	73.4	13,079	10,485	10,483	24.8	24.7
Interest expense	18,751	12,176	54.0	4,547	4,738	4,888	(7.0)	(4.0)
Net interest income	25,493	13,338	91.1	8,532	5,747	5,595	52.5	48.5
Other operating income	2,030	5,583	(63.6)	378	709	5,025	(92.5)	(46.6)
Fees and commission income	14,178	11,897	19.2	2,774	4,200	4,160	(33.3)	(34.0)
Net income from forex dealings	4,735	2,842	66.6	1,684	1,123	987	70.6	49.9
Total non-interest income	20,943	20,322	3.1	4,836	6,032	10,171	(52.5)	(19.8)
Total income	46,437	33,660	38.0	13,368	11,780	15,767	(15.2)	13.5
Less operating expenses	19,592	14,107	38.9	4,325	5,902	5,320	(18.7)	(26.7)
Operating profit	26,844	19,553	37.3	9,043	5,878	10,447	(13.4)	53.9
Bad debt charge	20,441	6,250	227.0	33,793	5,726	8,240	310.1	490.1
Exceptional items	1,421	1,989	(28.5)	2,083	271	2,319	(10.2)	669.8
Profit before tax	4,982	11,314	(56.0)	1,194	-119	4,527	(73.6)	(1100.7)
Less tax	411	3,472	(88.2)	1,679	2,543	5,652	(70.3)	(34.0)
Profit after tax	4,571	7,842	(41.7)	2,051	-112	3,236	(36.6)	(1923.8)

(Source: Company, DBIB Research)

BALANCE SHEET SUMMARY (KES MN)

Year End: December	FY20	3Q20	FY19	y-y% ch	q-q%ch
Total shareholder's equity	72,349	70,410	66,993	8.0	2.8
Minority interest	200	223	267	(25.2)	(10.3)
Total Equity	72,548	70,632	67,260	7.9	2.7
Balances due to Central Bank	-	-	-	-	-
Deposits due to other banks	6,303	11,716	10,893	(42.1)	(46.2)
Customer deposits	421,504	402,628	378,237	11.4	4.7
Borrowed funds	13,319	14,360	22,081	(39.7)	(7.2)
Other liabilities	14,278	19,831	16,372	(12.8)	(28.0)
Total equity and liabilities	527,954	519,169	494,843	6.7	1.7
Cash and Central bank balances	34,527	24,102	37,210	(7.2)	43.3
Deposits due from banks	41,677	37,551	25,569	63.0	11.0
Investment Securities	163,547	167,258	145,021	12.8	(2.2)
Held for dealing securities	-	-	-	-	-
Customer loans and advances	248,498	249,690	249,355	(0.3)	(0.5)
Other assets	29,102	29,593	26,834	8.5	(1.7)
Intangible assets	6,463	5,802	7,009	(7.8)	11.4
Fixed assets	4,140	5,173	3,844	7.7	(20.0)
Total assets	527,954	519,169	494,843	6.7	1.7

(Source: Company, DBIB Research)

INVESTMENT RETURN

	FY20	3Q20	FY19	y-y bps ch	q-q bps ch
ROA (%)	0.9	0.6	1.6	(72)	22
ROIC (%)	0.9	0.7	1.6	(75)	22
ROE (%)	6.3	4.8	11.7	(536)	154

(Source: Company, DBIB Research)

CAPITAL ADEQUACY, LIQUIDITY & ASSET QUALITY

	FY20	3Q20	FY19	y-y bps ch	q-q bps ch
Core capital/TRWA (%)	17.3	16.9	16.6	70	46
Min. Statutory Ratio (%)	10.5	10.5	10.5	-	-
Total capital/TRWA (%)	17.5	17.5	17.3	14	2
Min. Statutory Ratio (%)	14.5	14.5	14.5	-	-
Liquidity Ratio (%)	55.1	53.4	51.8	323	170
Min. Statutory Ratio (%)	20.0	20.0	20.0	-	-
Leverage Ratio (%)	13.7	13.6	13.5	17	14
Equity-to-Loans Ratio (%)	29.2	28.3	27.0	222	91
NPL Ratio (%)	13.9	13.3	11.9	199	54
NPL Coverage Ratio (%)	53.3	49.8	44.9	833	348
Cost of risk (%)	8.2	7.1	2.5	572	110
Long Term Debt to Equity (%)	18.4	20.3	32.8	(1,447)	(197)
NTA/share (KES)	40.1	39.4	36.6	354	76
Book value/share (KES)	44.0	42.9	40.8	321	116

(Source: Company, DBIB Research)

OPERATING PERFORMANCE

	FY20	3Q20	FY19	y-y bps ch	q-q bps ch
Yield on interest earning assets (%)	9.8	9.1	6.1	368	61
Cost of funds (%)	4.3	4.4	3.0	129	(17)
Net Interest Margin (%)	5.5	4.7	3.1	239	78
Loan-to-Deposits ratio (%)	58.1	60.3	64.1	(599)	(218)
Loan-to-Dep.&Borrowed Funds ratio (%)	56.3	58.2	60.6	(431)	(191)
Funded Income Generating Potential (%)	85.9	87.5	84.9	108	(160)
Funded Income Reliance (%)	54.9	51.3	39.6	1,527	361
Cost to income ratio (%)	42.2	46.2	41.9	28	(398)
Pre-tax margin (%)	10.7	11.5	33.6	(2,288)	(73)
PAT margin (%)	9.8	7.6	23.3	(1,345)	222

(Source: Company, DBIB Research)

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 10.0% and 15.0% upside over the next 12 months

Hold: Share price may fall within the range of +/- 10% 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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