



KCB GROUP HOLDINGS: FY20 EARNINGS UPDATE

Dear All,

KCB GROUP released its FY20 results recording a **22.1% y-o-y decline in profit after tax (PAT) to KES 19.6 BN**. Pre-provision operating profit however grew 16.3% y-o-y to KES 53.2 BN. Loan loss provision surged three-fold y-o-y to KES 27.5 BN, impacting bottom line growth numbers. EPS for the period stood at KES 6.10.

Below please find key highlights:

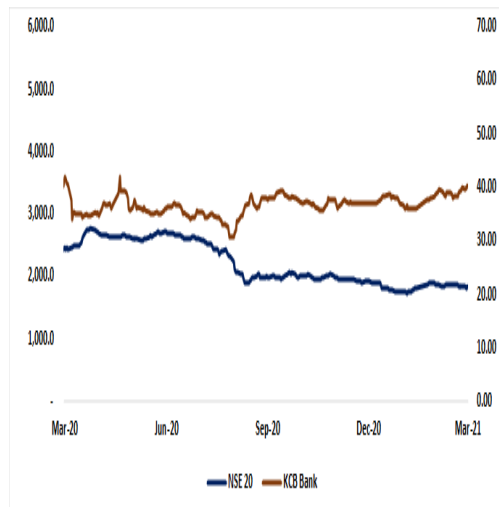
Net interest income rose 21.0% y-o-y to KES 67.9 BN on the back of a 19.4% y-o-y rise in interest income to KES 88.7 BN and a 14.2% y-o-y increase in interest expense, slower than interest income growth, to KES 20.8 BN. The yield on interest earning assets edged up 37 bps y-o-y to 10.9% whereas the cost of funds remained relatively unchanged y-o-y at 2.6%. Consequently, net interest margin was up 35 bps y-o-y to stand at 8.3%.

Non-funded income was up by a marginal 1.0% y-o-y to KES 28.4 BN following a 38.1% y-o-y rise in other operating income to KES 5.3 BN, a 19.8% y-o-y rise in net income from forex dealings to KES 5.4 BN and a 10.4% y-o-y decline in fees and commission income to KES 17.8 BN. The marginal increase in non-funded income drove the group's funded income reliance to 70.5%, up 390 bps y-o-y.

Operating expenses (less loan loss provisions) rose 12.1% y-o-y to KES 43.2 BN mainly on the back of a 5.6% y-o-y rise in staff costs to KES 20.4 BN and a 13.3% y-o-y rise in other operating expenses to KES 16.1 BN. Cost-to-income ratio improved 91 bps y-o-y to 44.8%.

Customer loans and advances grew 11.2% y-o-y to KES 595.2 BN (+3.1% q-o-q). On the funding side, customer deposits rose 11.7% y-o-y to KES 767.2 BN (-0.7% q-o-q). Loans-to-deposits ratio in turn declined 39 bps y-o-y to stand at 77.6%.

KCB GROUP: 52 WEEK PRICE PERFORMANCE



(Source: NSE, DBIB Research)

PRICE RETURN	ABSOLUTE RETURN	EXCESS RETURN
3 months (%)	8.7	1.2
6 months (%)	6.8	2.2
12 months (%)	3.8	2.1

KEY METRICS

Current Price (KES)	32.55
52 week Range (KES)	30.55-41.95
YTD Return (%)	5.2
Issued Shares (Mn)	3,213.5
Market Cap (USD Mn)	1,182.6

EPS (KES)	6.10
NAV (KES)	44.3
P/E (x)	6.6
P/B (x)	0.9
Div. Yield (%)	2.5

Research Analyst

Lucy Awuor

lodhiambo@dyerandblair.com

+254 727014866

Loan loss provision expense rose 209.5% y-o-y to KES 27.5 BN. Notably, this was mainly driven by KCB Bank Kenya's jump in provisioning (+168.3% y-o-y to KES 23.4 BN) compared to NBK's decline in provisioning (-30.1% y-o-y to KES 1.4 BN).

Gross non-performing loans rose 52.4% y-o-y to KES 96.6 BN (-0.4% q-o-q). Interest in suspense rose 31.9% y-o-y to KES 11.8 BN (-8.2% q-o-q). As a result, total NPLs (Gross NPLs less interest in suspense) rose 55.8% y-o-y to KES 84.8 BN. NPL ratio rose 338 bps y-o-y to 14.0% while NPL coverage ratio also increased 138 bps y-o-y to 54.2% following the surge in provisioning. KCB Bank Kenya's gross NPLs notably increased by 92.1% y-o-y to KES 66.8 BN while National Bank's gross NPLs increased by 5.0% y-o-y to KES 26.4 BN.

KCB Group's core capital ratio (Core capital/TRWA) increased by 100 bps y-o-y to 18.2% above the statutory minimum of 10.5% while Total capital/TRWA ratio rose 260 bps y-o-y to 21.6% above the statutory minimum of 14.5%.

KCB Kenya's core capital ratio (Core capital/TRWA) remained flat y-o-y at 15.6% (rose 90 bps q-o-q) above the statutory minimum of 10.5% while Total capital/TRWA ratio increased 190 bps y-o-y to 19.4% above the statutory minimum of 14.5%.

NBK's core capital ratio (Core capital/TRWA) declined 110 bps y-o-y to 8.7% below the statutory minimum of 10.5% while Total capital/TRWA ratio also declined 120 bps y-o-y to 10.5% below the statutory minimum of 14.5%.

The Group's dividend payout stood at 16.4% (based on the recommended dividend per share of KES 1.00) vis-à-vis FY19's payout of 44.7%.

KCB Group is trading at a P/E ratio of 6.6x, above an industry median of 6.1x, and a P/B of 0.9x above an industry median of 0.7x. ROE stands at 13.8%, relative to an industry median of 11.3%, whereas ROA stands at 2.0%, relative to an industry median of 1.8%.

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	88,745	74,351	19.4	25,459	29,684	22,903	11.2	(14.2)
Interest expense	20,808	18,220	14.2	5,384	7,222	5,451	(1.2)	(25.5)
Net interest income	67,938	56,131	21.0	20,075	22,461	17,451	15.0	(10.6)
Other operating income	5,282	3,825	38.1	1,633	1,440	459	255.3	13.4
Fees and commission income	17,779	19,850	(10.4)	3,476	5,401	5,712	(39.2)	(35.6)
Net income from forex dealings	5,390	4,497	19.8	2,062	1,267	1,025	101.3	62.8
Total non-interest income	28,451	28,172	1.0	7,171	8,108	7,197	(0.4)	(11.6)
Total income	96,388	84,303	14.3	27,245	30,569	24,648	10.5	(10.9)
Less operating expenses	43,161	38,516	12.1	11,173	14,378	11,878	(5.9)	(22.3)
Operating profit	53,227	45,786	16.3	16,072	16,191	12,770	25.9	(0.7)
Bad debt charge	-27,508	-8,889	209.5	(7,496)	(16,981)	(3,046)	146.1	(55.9)
Exceptional items	-	-	-	-	-	-	-	-
Profit before tax	25,719	36,897	(30.3)	8,576	(790)	9,724	(11.8)	(1,185.6)
Less tax	-6,115	-11,732	(47.9)	137	(1,042)	(3,722)	(103.7)	(113.1)
Profit after tax	19,604	25,165	(22.1)	8,712	(1,832)	6,002	45.2	(575.7)
Attributable Income	19,604	25,165	(22.1)	8,712	(1,832)	6,002	45.2	(575.7)
EPS (KES)	6.10	7.83	(22.1)	2.71	-4.91	1.87	45.2	(155.2)

(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	142,424	135,945	129,741	9.8	4.8
Minority interest	-	-	-	-	-
Total Equity	142,424	135,945	129,741	9.8	4.8
Deposits due to other banks	19,668	16,570	20,371	(3.4)	18.7
Customer deposits	767,224	772,663	686,583	11.7	(0.7)
Borrowed funds	37,032	20,389	21,485	72.4	81.6
Other liabilities	21,461	26,442	40,392	(46.9)	(18.8)
Total equity and liabilities	987,810	972,009	898,572	9.9	1.6
Central bank balances	44,743	48,624	60,761	(26.4)	(8.0)
Deposits due from banks	43,573	36,564	47,647	(8.6)	19.2
Investment securities	215,400	236,247	169,243	27.3	(8.8)
Held for dealing securities	2,019	-	-	-	-
Customer loans and advances	595,254	577,505	535,370	11.2	3.1
Other assets	61,354	46,476	59,050	3.9	32.0
Intangible assets	5,499	6,696	6,337	(13.2)	(17.9)
Fixed assets	19,968	19,897	20,163	(1.0)	0.4
Total assets	987,810	972,009	898,572	9.9	1.6

(Source: Company, DBIB Research)

INVESTMENT RETURN

	FY20	9M20	FY19	y-y bps ch	q-q bps ch
ROA (%)	2.0	1.5	2.8	(82)	49
ROIC (%)	2.1	1.6	3.0	(93)	51
ROE (%)	13.8	10.7	19.4	(563)	308

(Source: Company, DBIB Research)

*Annualized

CAPITAL ADEQUACY, LIQUIDITY & ASSET QUALITY

	FY20	9M20	FY19	y-y bps ch	q-q bps ch
Core capital/TRWA (%)	18.2	16.0	17.2	100	220
Min. Statutory Ratio (%)	10.5	10.5	10.5	-	-
Total capital/TRWA (%)	21.6	17.3	19.0	260	430
Min. Statutory Ratio (%)	14.5	14.5	14.5	-	-
Liquidity Ratio (%)	36.1	33.3	37.1	(100)	280
Min. Statutory Ratio (%)	20.0	20.0	20.0	-	-
Leverage Ratio (%)	14.4	14.0	14.4	(2)	43
Equity-to-Loans Ratio (%)	23.9	23.5	24.2	(31)	39
NPL Ratio (%)	14.0	14.4	10.6	338	(42)
NPL Coverage Ratio (%)	54.2	52.2	52.8	138	197
Long Term Debt to Total Liabilities and Equity (%)	3.7	2.1	2.4	136	165
NTA/share (KES)	38.1	36.1	34.1	401	199
Book value/share (KES)	44.3	42.3	40.4	395	202
Payout ratio (%)	16.4	0.0	44.7	(2830)	-

(Source: Company, DBIB Research)

**Total Loan Portfolio net of Interbank Lending

OPERATING PERFORMANCE

	FY20	9M20	FY19	y-y bps ch	q-q bps ch
Yield on interest earning assets (%)	10.9	10.4	10.6	37	55
Cost of funds (%)	2.6	2.51	2.6	1	8
Net Interest Margin (%)	8.3	7.9	8.0	35	47
Loan-to-Deposits ratio (%)	77.6	74.7	78.0	(39)	284
Loan-to-Dep.&Borrowed Funds ratio (%)	74.0	72.8	75.6	(160)	119
Funded Income Generating Potential (%)	82.3	83.7	78.4	386	(145)
Funded Income Reliance (%)	70.5	69.2	66.6	390	126
Cost to income ratio (%)	44.8	46.3	45.7	(91)	(148)
Pre-tax margin (%)	26.7	24.8	43.8	(1709)	189
PAT margin (%)	20.3	15.8	29.9	(951)	459

(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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