

DYER & BLAIR INVESTMENT BANK

EARNINGS UPDATE

Founder Member of the Nairobi Securities Exchange

19TH AUGUST 2021



DYER & BLAIR
INVESTMENT BANK

WE KNOW. YOU KNOW.

KCB GROUP: 1H21 EARNINGS UPDATE

Dear All,

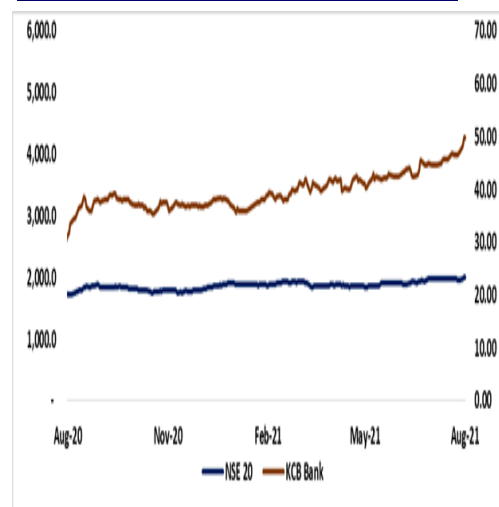
KCB Group released its 1H21 results reporting a 101.9% y-o-y rise in after tax profits to KES 15.3 BN. The rise in profitability was primarily attributable to a 17.2% y-o-y growth in net interest income to KES 36.4 BN and a 40.3% y-o-y decline in loan loss provisions to KES 6.6 BN. EPS for the period rose by 60.0% y-o-y to stand at KES 8.53.

Below please find key highlights:

Net interest income increased by 17.2% y-o-y to KES 36.4 BN, largely lifted by a 13.9% y-o-y growth in total interest income to KES 47.1 BN; total interest expenses rose by 3.8% y-o-y to KES 10.7 BN. The annualized yield on interest earning assets inched up by 72 bps y-o-y to 11.5% while the annualized cost of funds remained relatively flat, easing marginally by 5 bps y-o-y to 2.5%, consequently, the annualized net interest margin (NIM) went up by 77 bps y-o-y to 9.0%.

Interest income arising from loans and advances recorded a 15.0% y-o-y jump to KES 34.5 BN placing the annualized yield on loans at 11.4% which was 70 bps higher y-o-y (1H20: 10.7%). The growth realized in interest income from loans and advances was on the back of an 8.4% y-o-y rise in the group's loan book to KES 607.0 BN. **Interest income from government securities also edged up, growing by 11.6% y-o-y to KES 12.1 BN** resulting in an annualized yield on government securities of 11.3% -- up 90 bps y-o-y from 10.4% in 1H21. The group's portfolio of investment securities increased by 2.2% y-o-y to KES 213.0 BN.

KCB GROUP: 52 WEEK PRICE PERFORMANCE



(Source: NSE, DBIB Research)

PRICE RETURN	ABSOLUTE RETURN	EXCESS RETURN
3 months (%)	23.5	14.6
6 months (%)	27.9	21.2
12 months (%)	56.3	40.8

KEY METRICS

Current Price (KES)	49.70
52 week Range (KES)	31.80-49.90
YTD Return (%)	30.4
Issued Shares (Mn)	3,213.5
Market Cap (USD Mn)	1,458.7

Trailing EPS (KES)	8.5
NAV (KES)	47.6
P/E (x)	5.8
P/B (x)	1.04
Div. Yield (%)	-

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Interest expenses arising from customer deposits eased by 1.7% y-o-y to KES 9.2 BN supported by a lower cost of customer deposits (annualized) which shed 20 bps y-o-y to 2.3% as the group's customer deposits rose by 3.7% y-o-y 786.0 BN. Borrowed funds recorded a 63.9% y-o-y rise to KES 35.0 BN.

Non-funded income climbed by 5.9% y-o-y to KES 14.8 BN occasioned by (i) a 35.3% y-o-y increase in other income to KES 2.9 BN (ii) a 16.2% y-o-y rise in other fees and commissions to KES 5.2 BN and (iii) an 11.8% y-o-y jump in forex trading income to KES 2.7 BN. Fees and commissions on loans and advances sank by 18.9% y-o-y to KES 4.0 BN. Owing to the higher rise in net interest income vis-à-vis that in non-funded income, the proportion of non-funded income to total income fell by 210 bps y-o-y to 28.9% from 31.0% in 1H20.

Operating expenses (excluding provisions) edged up by 7.2% y-o-y to KES 22.7 BN on the back of a 21.4% y-o-y growth in staff costs to KES 12.3 BN. The cost-to-income ratio (excluding provisions) shed 270 bps y-o-y to 44.3%, owing to the faster rise in total operating income (+13.7% y-o-y to KES 51.2 BN) against the rise in operating expenses (excluding provisions).

Loan loss provisions sank by 40.3% y-o-y to KES 6.6 BN despite a 14.1% y-o-y rise in gross non-performing loans to KES 95.7 BN.

KCB Group's total assets rose by 7.2% y-o-y to KES 1.0 TN (breaching the KES 1.0 TN mark) while total liabilities inched higher by 5.9% y-o-y to KES 869.2 BN.

KCB Group's core capital ratio (Core capital/TRWA) gained 70 bps y-o-y to 18.6% above the statutory minimum of 10.5% while Total capital/TRWA gained 240 bps y-o-y to 21.9% above the statutory minimum of 14.5%.

KCB Kenya Bank's core capital ratio (Core capital/TRWA) rose 50 bps y-o-y to 16.6% above the statutory minimum of 10.5% while Total capital/TRWA rose 280 bps y-o-y to 20.2% above the statutory minimum of 14.5%.

On a trailing basis, KCB Group is trading at a P/E multiple of 5.8x against an industry median of 6.6x and a P/B multiple of 1.04x above the industry median of 0.8x. Its ROE stands at 17.9% while its ROA stands at 2.7%.

PROFIT AND LOSS SUMMARY (KES MN)

Year End: December	1H21	1H20	y-y % ch	2q21	1q21	2q20	y-y % ch	q-q % ch
Interest income	47,118	41,382	13.9	25,148.4	21,969.6	21,175.2	18.8	14.5
Interest expense	10,702	10,313	3.8	5,458.4	5,243.4	5,159.5	5.8	4.1
Net interest income	36,416	31,070	17.2	19,690.0	16,726.2	16,015.6	22.9	17.7
Other operating income	2,888	2,136	35.3	1,736.5	1,151.9	1,119.5	55.1	50.8
Fees and commission income	9,187	9,397	(2.2)	5,214.6	3,972.6	3,994.9	30.5	31.3
Net income from forex dealings	2,718	2,431	11.8	1,528.6	1,189.4	952.2	60.5	28.5
Total non-interest income	14,794	13,964	5.9	8,479.7	6,313.9	6,066.6	39.8	34.3
Total income	51,210	45,033	13.7	28,169.8	23,040.1	22,082.2	27.6	22.3
Less operating expenses	22,711	21,181	7.2	11,649.9	11,061.2	10,050.2	15.9	5.3
Operating profit	28,499	23,852	19.5	16,519.8	11,979.0	12,032.0	37.3	37.9
Bad debt charge	-6,583	-11,027	(40.3)	(3,722.1)	(2,861.1)	(8,129.4)	(54.2)	30.1
Exceptional items	-	-	-	-	-	-	-	-
Profit before tax	21,916	12,825	70.9	12,797.7	9,117.9	3,902.7	227.9	40.4
Less tax	-6,615	-5,247	26.1	(3,872.8)	(2,742.0)	(2,587.1)	49.7	41.2
Profit after tax	15,301	7,578	101.9	8,925.0	6,376.0	1,315.6	578.4	40.0
Attributable Income	15,301	7,578	101.9	8,925.0	6,376.0	1,315.6	578.4	40.0
EPS (KES)	8.53	5.33	60.0	1.5	7.0	(2.5)	(161.4)	(78.5)
DPS (KES)	-	-	-	-	-	-	-	-

(Source: Company, DBIB Research)

BALANCE SHEET SUMMARY (KES MN)

Year End: December	1H21	1Q21	1H20	y-y % ch	q-q % ch
Total shareholder's equity	152,920	147,508	132,139	15.7	3.7
Minority interest	-	-	-	-	-
Total Equity	152,920	147,508	132,139	15.7	3.7
Deposits due to other banks	15,006	17,238	13,362	12.3	(12.9)
Customer deposits	786,035	749,414	758,241	3.7	4.9
Borrowed funds	35,042	35,961	21,377	63.9	(2.6)
Other liabilities	33,150	27,401	27,953	18.6	21.0
Total equity and liabilities	1,022,153	977,523	953,072	7.2	4.6
Central bank balances	63,282	47,286	60,786	4.1	33.8
Deposits due from banks	52,549	38,347	53,328	(1.5)	37.0
Investment securities	213,040	219,014	208,523	2.2	(2.7)
Held for dealing securities	-	405	-	-	(100.0)
Customer loans and advances	606,967	597,110	559,884	8.4	1.7
Other assets	63,052	51,456	42,999	46.6	22.5
Intangible assets	5,082	5,382	7,313	(30.5)	(5.6)
Fixed assets	18,181	18,522	20,239	(10.2)	(1.8)
Total assets	1,022,153	977,523	953,072	7.2	4.6

(Source: Company, DBIB Research)

INVESTMENT RETURN

	1H21	1H20	1Q21	y-y bps ch	q-q bps ch
ROA (%)*	3.0	1.6	2.6	140	38
ROIC (%)*	3.1	1.7	2.7	148	41
ROE (%)*	20.0	11.5	17.3	854	272

(Source: Company, DBIB Research)

*Annualized

CAPITAL ADEQUACY, LIQUIDITY & ASSET QUALITY

	1H21	1H20	1Q21	y-y bps ch	q-q bps ch
Core capital/TRWA (%)	18.6	17.9	9.7	70	890
Min. Statutory Ratio (%)	10.5	10.5	10.5	-	-
Total capital/TRWA (%)	21.9	19.5	11.5	240	1040
Min. Statutory Ratio (%)	14.5	14.5	14.5	-	-
Liquidity Ratio (%)	40.1	40.0	45.7	10	(560)
Min. Statutory Ratio (%)	20.0	20.0	20.0	-	-
Leverage Ratio (%)	15.0	13.9	15.1	110	(13)
Equity-to-Loans Ratio (%)	25.2	23.6	24.7	159	49
NPL Ratio (%)	13.8	13.0	14.1	79	(28)
NPL Coverage Ratio (%)	56.0	50.0	55.6	601	38
Long Term Debt to Total Liabilities and Equity (%)	3.4	2.2	3.7	119	(25)
NTA/share (KES)	41.9	34.8	40.1	711	179
Book value/share (KES)	47.6	41.1	45.9	647	168
Payout ratio (%)	-	-	-	-	-
Adj payout ratio (%)	-	-	-	-	-

(Source: Company, DBIB Research)

**Total Loan Portfolio net of Interbank Lending

OPERATING PERFORMANCE

	1H21	1H20	1Q21	y-y bps ch	q-q bps ch
Yield on interest earning assets (%)	11.5	10.8	10.8	72	73
Cost of funds (%)	2.5	2.6	2.6	-5	-7
Net Interest Margin (%)	9.0	8.2	8.2	77	80
Loan-to-Deposits ratio (%)	77.2	73.8	79.7	338	-246
Loan-to-Dep.&Borrowed Funds ratio (%)	73.9	71.8	76.0	211	-211
Funded Income Generating Potential (%)	80.2	80.6	83.5	-40	-331
Funded Income Reliance (%)	71.1	69.0	72.6	212	-148
Cost to income ratio (%)	44.3	47.0	48.0	-269	-366
Pre-tax margin (%)	42.8	28.5	39.6	1,432	322
PAT margin (%)	29.9	16.8	27.7	1,305	221

(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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