

DYER & BLAIR INVESTMENT BANK

EARNINGS UPDATE

Founder Member of the Nairobi Securities Exchange

30TH AUGUST 2021



DYER & BLAIR
INVESTMENT BANK

WE KNOW. YOU KNOW.

NCBA GROUP: 1H21 EARNINGS UPDATE

Dear All,

NCBA Group released its 1H21 earnings reporting a **76.9% y-o-y growth in Profit after tax (PAT) to KES 4.7 BN**. This was primarily on account of a 19.7% y-o-y rise in net interest income to KES 13.4 BN and a 22.4% y-o-y drop in bad debt charge to KES 5.9 BN. Earnings per share (EPS) for the period closed at KES 2.83, 60.8% higher y-o-y. The board approved the payment of an **interim dividend of KES 0.75 per share**, payable on or about 12th October 2021 to shareholders on register at the close of business on 28th September 2021.

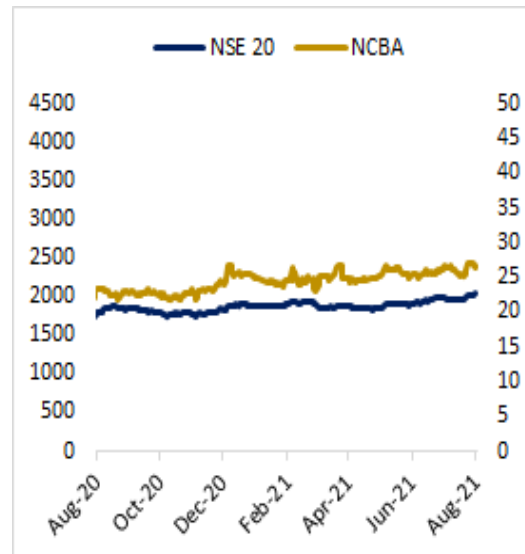
Key highlights:

Net interest income rose by 19.7% y-o-y to KES 13.4 BN, backed by an 8.7% y-o-y growth in interest income to KES 22.5 BN and a 4.4% y-o-y decrease in interest expense to KES 9.0 BN. Annualized yield on interest earning assets rose 13 bps y-o-y to 9.6% whereas annualized cost of funds shed 62 bps y-o-y to 4.1%. As a result, the group's net interest margin (NIM) gained 75 bps y-o-y to 5.5%.

Interest income from loans and advances grew by 7.7% y-o-y to KES 13.0 BN, placing the yield on average loans for the period at 10.6%, 244 bps down y-o-y. Interest income from investment securities saw a 13.6% y-o-y growth to KES 9.3 BN placing the yield on average investment securities at 10.3%, 297 bps down y-o-y. Interest expense from customer deposits increased by 4.6% y-o-y to KES 8.8 BN, placing the cost of average deposits at 4.3%, 139 bps down y-o-y.

Non-funded income rose 6.2% y-o-y to KES 10.7 BN. Fees and commissions income edged up 1.0% y-o-y to KES 7.3 BN on the back of a 16.7% y-o-y rise in fees and commissions on loans to KES 5.5 BN but curtailed by a 28.2% y-o-y drop in other fees and commissions to KES 1.8 BN. Other operating income increased by 10.7% y-o-y to KES 1.0 BN while net income from forex dealings rose by 23.5% y-o-y to KES 2.4 BN. As such, funded income reliance rose 297 bps y-o-y to 55.6%.

NCBA GROUP: 52 WEEK PRICE PERFORMANCE



(Source: NSE, DBIB Research)

PRICE	ABSOLUTE	EXCESS
RETURN	RETURN	RETURN
3 months (%)	(33.9)	(1.6)
6 months (%)	(19.2)	19.0
12 months (%)	12.8	(0.6)

KEY METRICS

Current Price (KES)	26.45
52 week Low (KES)	21.70
52 week High (KES)	27.15
YTD Return (%)	(1.1)
Issued Shares (MN)	1,647.5
Market Cap (USD MN)	396.8

Target Price (KES)	Under Review
Trailing EPS (KES)	4.00
NAV (KES)	45.18
Trailing P/E (x)	6.6
Trailing P/B (x)	0.6

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Operating expenses (less loan loss provisions) rose by 11.1% y-o-y to KES 10.4 BN owing to a 21.1% y-o-y increase in other operating expenses to KES 4.9 BN and a 10.7% y-o-y increase in staff costs to KES 3.9 BN. This placed cost to income ratio at 43.1%, 86 bps lower y-o-y.

The loan loss provision expense decreased by 22.4% y-o-y to KES 5.9 BN, placing the annualized cost of risk at 4.9%, 60 bps up y-o-y.

Total assets rose 5.6% y-o-y to KES 542.6 BN (+0.1% q-o-q). Customer loans and advances decreased by 3.5% y-o-y to KES 239.6 BN (-1.5% q-o-q). Contrastingly, investment securities saw an upswing of 12.1% y-o-y to KES 190.8 BN (+10.6% q-o-q) while held for dealing securities stood at KES 762.9 MN.

On the funding side, customer deposits rose by 12.0% y-o-y to KES 437.3 BN (+0.7% q-o-q). The group's loan to deposits ratio dropped 880 bps to 54.8%. Deposits due to other banks dropped by 45.4% y-o-y to KES 7.1 BN (+36.6% q-o-q) while borrowed funds dropped by 65.9% y-o-y to KES 7.3 BN (-43.8% q-o-q). As a result, loans to deposits and borrowed funds ratio shed 762 bps y-o-y to 53.9%.

Gross non-performing loans (NPLs) rose by 16.5% y-o-y to KES 45.0 BN (+13.8% q-o-q) whereas interest in suspense rose 9.2% y-o-y to KES 7.6 BN (+7.1% q-o-q). As such, total NPLs rose 18.0% y-o-y to KES 37.5 BN (+15.3% q-o-q). The NPL ratio rose to 15.8%, 235 bps up y-o-y. Loan loss provisions rose 62.5% y-o-y to KES 23.0 BN (+23.5% q-o-q) pivoting the NPL coverage ratio to 61.5%, 1,683 bps higher y-o-y.

NCBA Group's core capital ratio (Core capital/TRWA) rose 166 bps y-o-y to 19.2% whereas Total capital ratio (Total capital/TRWA) rose 88 bps y-o-y to 19.4%. Both ratios remain above the statutory minimum of 10.5% and 14.5% respectively. Liquidity ratio rose 544 bps y-o-y to 60.3%, well above the statutory minimum of 20.0%.

NCBA Bank's core capital ratio (Core capital/TRWA) rose 35 bps y-o-y to 18.8% whereas Total capital ratio (Total capital/TRWA) dropped 50 bps y-o-y to 18.9%. Both ratios remain above the statutory minimum of 10.5% and 14.5% respectively. Liquidity ratio rose 371 bps y-o-y to 58.4%, well above the statutory minimum of 20.0%.

On a trailing basis, NCBA is trading at a P/E multiple of 6.6x against a sector median of 6.3x and a P/B multiple of 0.6x against a sector median of 0.8x. Its ROE stands at 8.9% whereas ROA stands at 1.2%. Dividend yield as per current prices stands at 8.5%.

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	22,475	20,681	8.7	11,472	11,003	10,504	9.2	4.3
Interest expense	9,048	9,467	(4.4)	4,636	4,412	4,790	(3.2)	5.1
Net interest income	13,427	11,214	19.7	6,836	6,591	5,714	19.6	3.7
Other operating income	1,044	943	10.7	614	430	502	22.3	42.9
Fees and commission income	7,279	7,203	1.0	3,630	3,649	3,232	12.3	(0.5)
Net income from forex dealings	2,382	1,929	23.5	1,218	1,164	918	32.7	4.7
Total non-interest income	10,705	10,075	6.2	5,462	5,243	4,652	17.4	4.2
Total income	24,132	21,289	13.4	12,298	11,834	10,367	18.6	3.9
Less operating expenses	10,408	9,365	11.1	5,279	5,129	4,830	9.3	2.9
Operating profit	13,724	11,924	15.1	7,019	6,705	5,537	26.8	4.7
Bad debt charge	5,919	7,626	(22.4)	3,279	2,639	3,850	(14.8)	24.2
Exceptional items	391	391	0.0	196	196	196	-	0.0
Profit before tax	7,414	3,907	89.8	3,544	3,870	1,491	137.7	(8.4)
Less tax	2,757	1,275	116.3	1,722	1,035	490	251.6	66.3
Profit after tax	4,657	2,632	76.9	1,822	2,835	1,001	82.0	(35.7)

(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	74,265	74,407	70,056	6.0	(0.2)
Minority interest	171	194	246	0.0	0.0
Total Equity	74,436	74,601	70,302	5.9	(0.2)
Balances due to Central Bank	-	-	-	N/A	N/A
Deposits due to other banks	7,140	5,226	13,079	(45.4)	36.6
Customer deposits	437,340	434,211	390,489	12.0	0.7
Borrowed funds	7,300	12,995	21,416	(65.9)	(43.8)
Other liabilities	16,380	15,073	18,744	(12.6)	8.7
Total equity and liabilities	542,596	542,105	514,030	5.6	0.1
Central bank balances	37,437	31,721	39,976	(6.4)	18.0
Deposits due from banks	39,065	57,192	19,505	100.3	(31.7)
Investment Securities	190,791	172,569	170,259	12.1	10.6
Held for dealing securities	762.9	763	763	0.0	0.0
Customer loans and advances	239,601	243,142	248,306	(3.5)	(1.5)
Other assets	25,035	26,906	24,072	4.0	(7.0)
Intangible assets	6,232	5,572	6,491	(4.0)	11.8
Fixed assets	3,671	4,241	4,659	(21.2)	(13.4)
Total assets	542,596	542,105	514,030	5.6	0.1

(Source: Company, DBIB Research)

INVESTMENT RETURN

	1H21	1Q21	1H20	y-y bps ch	q-q bps ch
ROA (%)*	1.7	2.1	1.0	69	(38)
ROIC (%)*	1.8	2.2	1.1	70	(38)
ROE (%)*	13.6	15.2	8.7	496	(159)

(Source: Company, DBIB Research)

*Annualized

CAPITAL ADEQUACY, LIQUIDITY & ASSET QUALITY

	1H21	1Q21	1H20	y-y bps ch	q-q bps ch
Core capital/TRWA (%)	19.2	18.2	17.6	166	103
Min. Statutory Ratio (%)	10.5	10.5	10.5	-	-
Total capital/TRWA (%)	19.4	18.3	18.5	88	106
Min. Statutory Ratio (%)	14.5	14.5	14.5	-	-
Liquidity Ratio (%)	60.3	58.7	54.9	544	162
Min. Statutory Ratio (%)	20.0	20.0	20.0	-	-
Leverage Ratio (%)	9.8	17.4	30.6	(2,074)	(759)
Equity-to-Loans Ratio (%)	31.1	30.7	28.3	275	38
NPL Ratio (%) **	15.8	14.0	13.5	235	183
NPL Coverage Ratio (%) **	61.5	47.1	44.7	1,683	1,437
IFRS 9 NPL Coverage Ratio (%) **	68.0	65.0	54.6	1,338	297
LT Debt to Total Liabilities and Equity (%)	1.3	2.4	4.2	(282)	(105)
NTA/share (KES)	41.4	325.7	38.7	7	(87)
Book value/share (KES)	45.2	45.3	42.7	6	(0)

(Source: Company, DBIB Research)

**Total Loan Portfolio net of Interbank Lending

OPERATING PERFORMANCE

	1H21	1Q21	1H20	y-y bps ch	q-q bps ch
Yield on interest earning assets (%) *	9.6	9.3	9.4	13	27
Cost of funds (%) *	4.1	3.9	4.7	(62)	17
Net Interest Margin (%) *	5.5	5.4	4.8	75	10
Loan-to-Deposits ratio (%)	54.8	56.0	63.6	(880)	(121)
Loan-to-Dep.&Borrowed Funds ratio (%)	53.9	54.4	61.5	(762)	(46)
Funded Income Generating Potential (%)	86.5	87.2	85.2	130	(71)
Funded Income Reliance (%)	55.6	55.7	52.7	297	(6)
Cost to income ratio (%)	43.1	43.3	44.0	(86)	(21)
Cost of risk (%) *	4.9	4.3	6.1	60	60
Pre-tax margin (%)	30.7	32.7	18.4	1,237	(198)
PAT margin (%)	19.3	24.0	12.4	694	(466)

(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 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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