

DYER & BLAIR INVESTMENT BANK

EARNINGS UPDATE

Founder Member of the Nairobi Securities Exchange

18TH NOVEMBER 2021



DYER & BLAIR
INVESTMENT BANK

WE KNOW. YOU KNOW.

KCB GROUP: 3Q21 EARNINGS UPDATE

Dear All,

KCB Group released its 3Q21 results reporting a 131.4% y-o-y surge in after tax profits to KES 25.2 BN. The increase in profitability was driven by a 53.4% y-o-y decline in loan loss provisions to KES 9.3 BN, a 17.9% y-o-y jump in net interest income to KES 56.4 BN and a 10.3% y-o-y growth in non-funded income to KES 23.5 BN. EPS for the period stood at KES 9.92, translating into a 91.5% y-o-y increase. The board announced an interim dividend per share of KES 1.00. The dividend will be paid on Friday, 14th February 2022 to shareholders on the register at the close of business on Thursday, 9th December 2021.

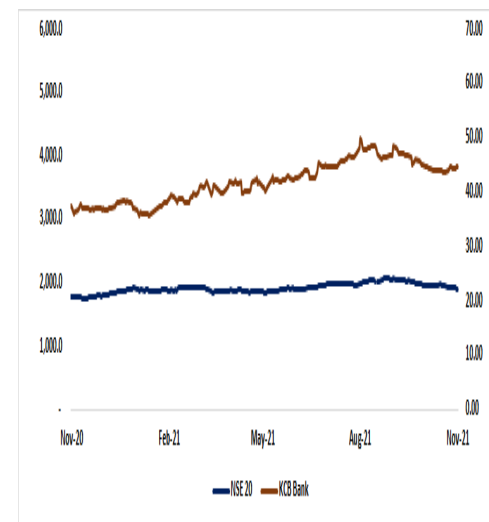
Below please find key highlights:

Net interest income rose by 17.9% y-o-y to KES 56.4 BN, occasioned by a 16.2% y-o-y rise in total interest income to KES 73.5 BN which offset a 10.8% y-o-y increase in total interest expenses to KES 17.1 BN. The annualized yield on interest earning assets rose by 28 bps y-o-y to 10.8% while the annualized cost of funds eased by 6 bps y-o-y to 2.6%; this led to 34 bps y-o-y rise in the annualized net interest margin to 8.2%.

Interest income from loans and advances increased by 16.8% y-o-y to KES 53.4 BN, on the back of a 12.9% y-o-y growth in the loan book to KES 651.8 BN coupled with a 50 bps y-o-y increase in the annualized yield on loans to 11.4%. Interest income from government securities advanced by 12.4% y-o-y to KES 18.9 BN mirroring the 6.9% y-o-y jump witnessed in the group's holding of government and investment securities to KES 252.4 BN. The annualized yield on government securities fell by 30 bps y-o-y to 10.9%.

Interest expenses from customer deposits increased by 4.8% y-o-y to KES 14.7 BN owing to an 11.2% y-o-y rise in customer deposits to KES 859.1 BN as the cost of customer deposits shed 15 bps y-o-y to stand at 2.4%.

KCB GROUP: 52 WEEK PRICE PERFORMANCE



(Source: NSE, DBIB Research)

PRICE	ABSOLUTE	EXCESS
RETURN	RETURN	RETURN
3 months (%)	(10.4)	(5.3)
6 months (%)	10.7	7.3
12 months (%)	21.1	14.8

KEY METRICS

Current Price (KES)	44.55
52 week Range (KES)	35.70 - 49.90
YTD Return (%)	16.9
Issued Shares (Mn)	3,213.5
Market Cap (USD Mn)	1,278.1

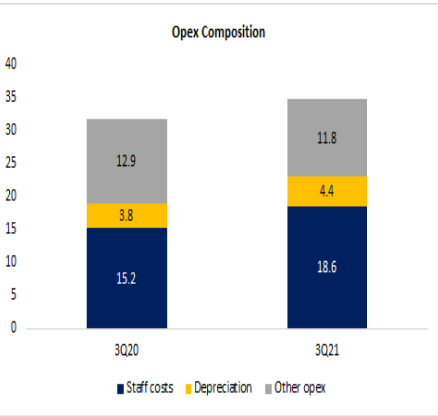
Trailing EPS (KES)	10.56
NAV (KES)	51.15
Trailing P/E (x)	4.2
Trailing P/B (x)	0.9
Dividend Yield (%)	2.2

Research Analyst

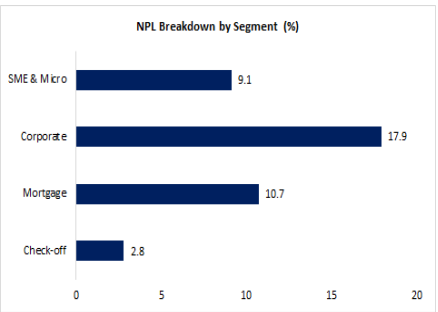
John Jumwa

jjumwa@dyaerandblair.com

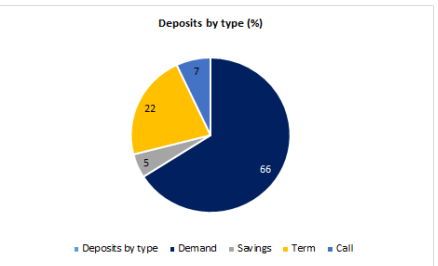
+254 709 930 127



Source: Company



Source: Company



Source: Company

Non-funded income inched higher by 10.3% y-o-y to KES 23.5 BN mainly supported by a 35.4% y-o-y rise in forex trading income to KES 4.5 BN. Other fees and commissions rose by 4.9% y-o-y to KES 7.9 BN, however, fees and commissions on loans sank by 3.0% y-o-y to KES 6.6 BN. Owing to the higher rise in net interest income in relation to non-funded income, the contribution of non-funded income to total operating income fell by 141 bps y-o-y to 29.4% (3Q20: 30.8%).

Operating expenses (excluding provisions) edged up by 8.7% y-o-y to KES 34.8 BN largely driven by a 22.0% y-o-y growth in staff costs to KES 18.6 BN. Given the higher growth in total operating income (+15.6% y-o-y to KES 79.9 BN) vis-à-vis operating expenses, the cost-to-income ratio eased by 275 bps y-o-y to 43.5% (3Q2020: 46.3%).

Gross non-performing loans rose by 1.2% y-o-y (+2.5% q-o-q) to KES 98.1 BN. Interest in suspense sank by 5.8% y-o-y to KES 12.2 BN. As a result, total NPLs (gross NPLs less interest in suspense) rose 2.3% y-o-y to KES 86.0 BN. According to the Group, the NPL ratio shed 140 bps y-o-y to 13.7% in line with the Kenyan banking industry NPL ratio of 13.9% (as at August 2021). In terms of coverage, the NPL coverage (excluding credit guarantees) rose from 68.6% in 3Q20 to 72.0% in 3Q21 (including credit guarantees, coverage stood at 73.4%). **Loan loss provisions declined by 53.4% y-o-y to KES 9.3 BN** on the back of reduced provisions in corporate and digital loans. Consequently, the Group's cost of risk eased to 2.0% from 4.8% recorded in 3Q20.

Net loans and advances rose by 12.9% y-o-y (+7.4% q-o-q) to KES 651.8 BN (attributed to improved lending in Kenya, Uganda, Rwanda as well as the BPR acquisition) in comparison to a **6.9% y-o-y (+18.5% q-o-q) rise in government and investment securities to KES 252.4 BN.** On the funding side, **customer deposits edged up by 11.2% y-o-y (+9.3% q-o-q) to KES 859.1 BN** (due to both organic growth and inorganic growth i.e. BPR acquisition) while borrowed funds advanced by 73.0% y-o-y to KES 35.3 BN. The loan-to-deposit ratio settled at 75.9% (3Q20: 74.7%) while the loan-to-deposit and borrowed funds ratio remained relatively flat at 72.9% (3Q20: 72.8%).

The regional business contributed 26.4% of total assets (3Q20: 23.9%) and 14.4% of total pre-tax earnings (3Q20: 11.7%).

KCB Group's core capital ratio (Core capital/TRWA) declined by 50 bps y-o-y to 17.3% above the statutory minimum of 10.5% while Total capital/TRWA climbed by 100 bps y-o-y to 20.6% above the statutory minimum of 14.5%. KCB Bank Kenya's core capital ratio (Core capital/TRWA) declined 80 bps y-o-y to 15.2% above the statutory minimum of 10.5% while Total capital/TRWA went up by 150 bps y-o-y to 18.8% above the statutory minimum of 14.5%. The Group's liquidity ratio improved to 41.3% (3Q20: 38.1%) characterized by low cost and stable funding mix -- driven by growth across demand and term deposits.

	Group	Min.	KCB KN	Min.
Core capital ratio(%)	17.3	10.5	15.2	10.5
Total capital ratio(%)	20.6	14.5	18.8	14.5

Source: Company

On a trailing basis, KCB Group is trading at a P/E multiple of 4.2x against an industry median of 6.0x and a P/B multiple of 0.9x against an industry median of 0.7x. Its ROE stands at 20.8% while its ROA stands at 3.0%.

PROFIT AND LOSS SUMMARY (KES MN)

Year End: December	3Q21	3Q20	y-y% ch	3q21	2q21	3q20	y-y% ch	q-q% ch
Interest income	73,531	63,287	16.2	26,413	25,148	21,904	20.6	5.0
Interest expense	17094.151	15,424	10.8	6,392	5,458	5,111	25.1	17.1
Net interest income	56,437	47,863	17.9	20,020	19,690	16,793	19.2	1.7
Other operating income	4,492	3,649	23.1	1,604	1,737	1,514	6.0	(7.6)
Fees and commission income	14,472	14,303	1.2	5,284	5,215	4,907	7.7	1.3
Net income from forex dealings	4,505	3,327	35.4	1,787	1,529	896	99.5	16.9
Total non-interest income	23,469	21,280	10.3	8,675	8,480	7,316	18.6	2.3
Total income	79,906	69,143	15.6	28,696	28,170	24,110	19.0	1.9
Less operating expenses	34,768	31,987	8.7	12,057	11,650	10,806	11.6	3.5
Operating profit	45,137	37,155	21.5	16,639	16,520	13,303	25.1	0.7
Bad debt charge	(9,328)	(20,012)	(53.4)	(2,745)	(3,722)	(8,985)	(69.5)	(26.3)
Exceptional items	-	-	-	-	-	-	-	-
Profit before tax	35,810	17,143	108.9	13,894	12,798	4,318	221.7	8.6
Less tax	(10,603)	(6,252)	69.6	(3,988)	(3,873)	(1,005)	297.0	3.0
Profit after tax	25,207	10,891	131.4	9,906	8,925	3,314	198.9	11.0
Attributable Income	25,173	10,891	131.1	9,872	8,925	3,314	197.9	10.6
EPS (KES)	9.92	5.18	91.5	1.4	1.5	(0.2)	(1,026.7)	(7.9)

(Source: Company, DBIB Research)

BALANCE SHEET SUMMARY (KES MN)

Year End: December	3Q21	1H21	3Q20	y-y% ch	q-q% ch
Total shareholder's equity	162,991	152,920	135,945	19.9	6.6
Minority interest	1,392	0	0	-	-
Total Equity	164,383	152,920	135,945	20.9	7.5
Deposits due to other banks	26,561	15,006	16,570	60.3	77.0
Customer deposits	859,103	786,035	772,663	11.2	9.3
Borrowed funds	35,273	35,042	20,389	73.0	0.7
Other liabilities	37,144	33,150	26,442	40.5	12.0
Total equity and liabilities	1,122,464	1,022,153	972,009	15.5	9.8
Central bank balances	68,091	63,282	48,624	40.0	7.6
Deposits due from banks	60,057	52,549	36,564	64.3	14.3
Investment securities	252,446	213,040	236,247	6.9	18.5
Held for dealing securities	-	-	-	-	-
Customer loans and advances	651,816	606,967	577,505	12.9	7.4
Other assets	64,230	63,052	46,476	38.2	1.9
Intangible assets	5,088	5,082	6,696	(24.0)	0.1
Fixed assets	20,735	18,181	19,897	4.2	14.0
Total assets	1,122,464	1,022,153	972,009	15.5	9.8

(Source: Company, DBIB Research)

INVESTMENT RETURN

	3Q21	1H21	3Q20	y-y bps ch	q-q bps ch
ROA (%)*	3.0	3.0	1.5	150	0
ROIC (%)*	3.2	3.1	3.5	(33)	3
ROE (%)*	20.4	20.0	21.1	(66)	41

(Source: Company, DBIB Research)

*Annualized

CAPITAL ADEQUACY, LIQUIDITY & ASSET QUALITY –EQUITY KENYA

	3Q21	1H21	3Q20	y-y bps ch	q-q bps ch
Core capital/TRWA (%)	17.3	16.6	16.0	130	70
Min. Statutory Ratio (%)	10.5	10.5	10.5	-	-
Total capital/TRWA (%)	20.6	20.2	17.3	330	40
Min. Statutory Ratio (%)	14.5	14.5	14.5	-	-
Liquidity Ratio (%)	41.3	35.1	33.3	800	620
Min. Statutory Ratio (%)	20.0	20.0	20.0	-	-
Leverage Ratio (%)	14.6	15.0	14.0	66	(32)
Equity-to-Loans Ratio (%)	25.2	25.2	23.5	168	3
NPL Ratio (%)**	13.1	13.8	14.4	(129)	(73)
NPL Coverage Ratio (%)**	58.2	56.0	52.2	604	223
Long Term Debt to Total Liabilities and Equity (%)	3.1	3.4	2.1	104	(29)
NTA/share (KES)	44.7	41.9	36.1	859	277
Book value/share (KES)	51.2	47.6	42.3	885	357

(Source: Company, DBIB Research)

**Total Loan Portfolio net of Interbank Lending

OPERATING PERFORMANCE

	3Q21	1H21	3Q20	y-y bps ch	q-q bps ch
Yield on interest earning assets (%)*	10.8	11.5	10.4	47	(65)
Cost of funds (%)*	2.4	2.5	2.5	(6)	(6)
Net Interest Margin (%)*	8.4	9.0	7.9	54	(59)
Loan-to-Deposits ratio (%)	75.9	77.2	74.7	113	(135)
Loan-to-Dep.&Borrowed Funds ratio (%)	72.9	73.9	72.8	6	(104)
Funded Income Generating Potential (%)	80.6	80.2	83.7	(316)	34
Funded Income Reliance (%)	70.6	71.1	69.2	141	(48)
Cost to income ratio (%)	43.5	44.3	46.3	(275)	(84)
Pre-tax margin (%)	44.8	42.8	24.8	2002	202
PAT margin (%)	31.5	29.9	15.8	1579	167

(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

DISCLAIMER

While every care has been taken in preparing this report and it has been prepared from sources believed to be reliable, no representation, warranty, or undertaking (express or implied) is given and no responsibility is accepted by Dyer and Blair Investment Bank Limited, its related companies, subsidiaries, affiliates, its employees and agents, as to the accuracy and completeness of the information contained herein or in respect of any reliance on or use thereof. This report is solely intended for distribution to clients of Dyer and Blair Investment Bank Limited. Any information may be changed after distribution at any time without any notice.