



### KCB GROUP HOLDINGS: FY21 EARNINGS UPDATE

Dear All,

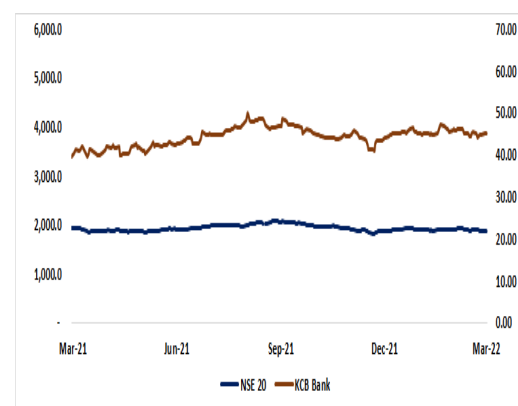
KCB Group released its FY21 results reporting a **74.3% y-o-y jump in after tax profits to KES 34.2 BN**. The rise in profitability was attributable to a 52.3% y-o-y decline in loan loss provisions to KES 13.0 BN, a 15.0% y-o-y advancement in net interest income to KES 77.7 BN and a 9.9% y-o-y increase in non-funded income to KES 30.9 BN. EPS for the period stood at KES 10.64 (FY20: KES 6.10). The board announced a final dividend per share of KES 2.00, having already paid an interim dividend per share of KES 1.00. If approved the final dividend will be payable to shareholders on the share register at the close of business on Monday, 25th April, 2022.

Below please find key highlights:

**Net interest income went up by 15.0% y-o-y to KES 77.7 BN**, supported by a 15.1% y-o-y growth in total interest income to KES 102.2 BN which offset a 15.3% y-o-y rise in total interest expenses to KES 24.5 BN. The yield on interest earning assets remained relatively unchanged at 11.1% (-1 bps y-o-y) while cost of funds rose marginally by 8 bps y-o-y to 2.8%. Subsequently, the group's NIM remained unchanged at 8.3% (-9 bps y-o-y).

**Interest income from loans and advances edged up by 14.2% y-o-y to KES 74.0 BN** predicated by a 13.5% y-o-y growth in the group's net loan book to KES 675.5 BN and enhanced by a 23 bps y-o-y rise in the yield on loans to 11.6%. On the other hand, income arising from government securities climbed by 14.5% y-o-y to KES 26.5 BN reflecting the 31.1% y-o-y growth realized in the group's holding of government and investment securities to KES 276.3 BN. The yield on government securities however eased by 144 bps y-o-y to 10.9%.

### KCB GROUP: 52 WEEK PRICE PERFORMANCE



(Source: NSE, DBIB Research)

PRICE RETURN	ABSOLUTE RETURN	EXCESS RETURN
3 months (%)	1.4	1.4
6 months (%)	(5.0)	4.3
12 months (%)	9.2	13.1

### KEY METRICS

Current Price (KES)	44.60
52 week Range (KES)	39.40 - 49.90
YTD Return (%)	(1.9)
Issued Shares (Mn)	3,213.5
Market Cap (USD Mn)	1,253.0

EPS (KES)	10.64
NAV (KES)	53.44
P/E (x)	4.2
P/B (x)	0.8
Div. Yield (%)	6.7

### Research Analyst

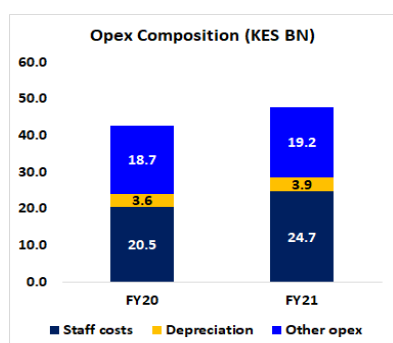
John Jumwa

[jjumwa@dyerandblair.com](mailto:jjumwa@dyerandblair.com)

+254 7709 930 127

**Interest expenses arising from customer deposits increased by 8.7% y-o-y to KES 20.5 BN** mirroring the 9.1% y-o-y jump in customer deposits to KES 837.1 BN. The cost of customer deposits remained relatively unchanged at 2.6% (-4 bps y-o-y).

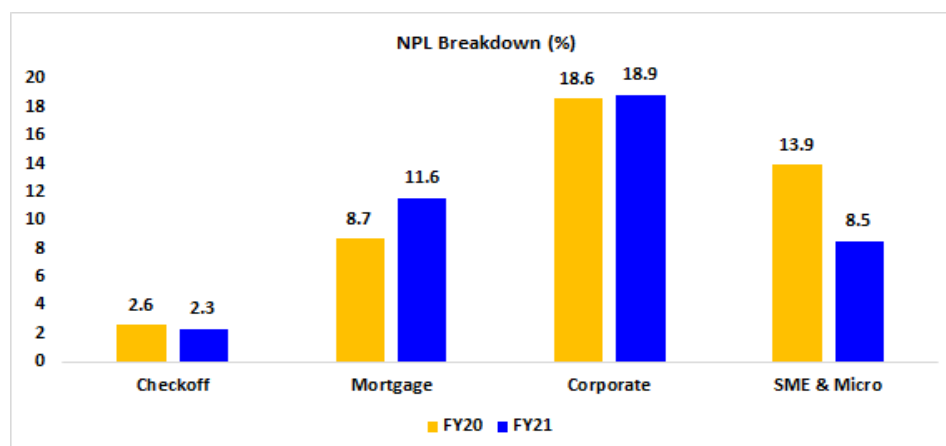
**Non-funded income improved by 9.9% y-o-y to KES 30.9 BN** mainly supported by a 21.5% y-o-y rise in forex trading income to KES 6.5 BN and a 17.5% y-o-y increase in fees and commissions on loans and advances to KES 8.8 BN. Other fees and commissions went up by 2.8% y-o-y to KES 10.6 BN. Given the higher growth in net interest income in comparison to non-funded income, the group's contribution of non-funded income to total operating income slipped by 94 bps y-o-y to 28.5% (FY20: 29.4%).



Source: Company

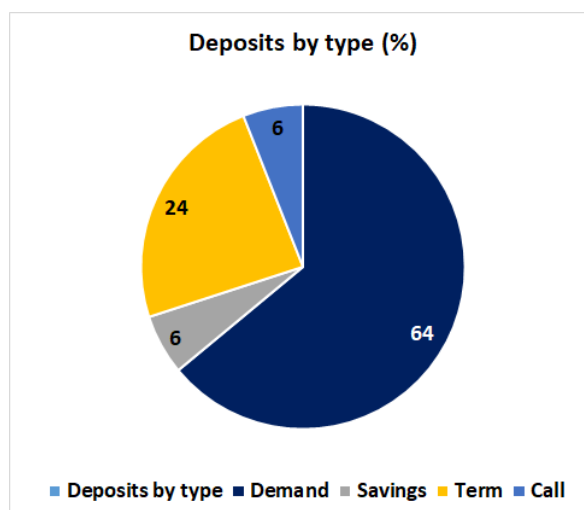
**Operating expenses (excluding provisions) inched higher, rising by 11.9% y-o-y to KES 47.8 BN** largely driven by a 20.9% y-o-y growth in staff costs to KES 24.7 BN. According to the group's management, the higher operating expenses were impacted by the acquisition of BPR as well as inflationary pressures. The group's cost-to-income ratio dropped by 65 bps y-o-y to 44.0% mainly due to the effect of a faster rise in total operating income (+13.5% y-o-y to KES 108.6 BN) in comparison to operating expenses (excluding provisions).

**Loan loss provisions eased by 52.3% y-o-y to KES 13.0 BN** owing to reduced provisions on digital and corporate loans. Accordingly, the group's cost of risk (based on KCB's calculations) sank from 4.0% in FY20 to 2.0% in FY21. Despite the lower cost of risk, **gross non-performing loans surged by 27.2% y-o-y to KES 122.9 BN lifting the NPL ratio by 180 bps y-o-y to 16.5% (based on KCB's calculations) above the Kenyan banking industry NPL ratio of 13.1%.** According to the group's management, the deterioration in asset quality was driven by the **manufacturing, building & construction and hospitality sectors.** The construction sector (roads construction) was affected by delayed government payments. The segments with the highest NPL ratios were corporate and mortgage. We note with concern on the significant deterioration in asset quality.



Source: Company

**Net loans and advances rose by 13.5% y-o-y to KES 675.5 BN** (driven by personal and manufacturing sectors) **in comparison to a 31.1% y-o-y rise in government and investment securities to KES 276.3 BN**. On the funding side, **customer deposits edged up by 9.1% y-o-y to KES 837.1 BN** (supported by organic growth of KES 43.0 BN and inorganic growth of KES 27.0 BN). Borrowed funds climbed by 1.4% y-o-y to KES 37.6 BN. The loan-to-deposit ratio settled at 80.7% (FY20: 77.6%) while the loan to deposit and borrowed funds stood at 77.2% (FY20: 74.0%).



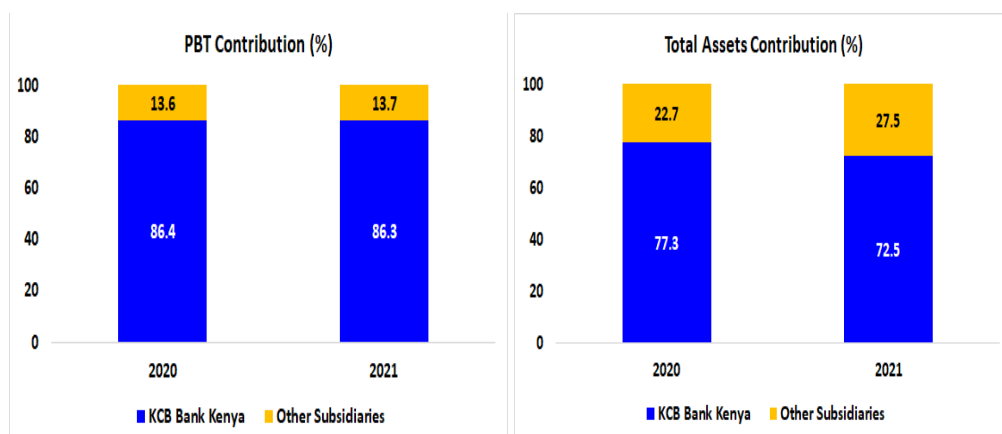
Source: Company

**KCB Group's core capital ratio (Core capital/TRWA) declined by 20 bps y-o-y to 18.0%** above the statutory minimum of 10.5% while **Total capital/TRWA climbed by 10 bps y-o-y to 21.7%** above the statutory minimum of 14.5%. KCB Bank Kenya's core capital ratio (Core capital/TRWA) rose 30 bps y-o-y to 15.9% above the statutory minimum of 10.5% while Total capital/TRWA went up by 80 bps y-o-y to 20.2% above the statutory minimum of 14.5%. The Group's liquidity ratio improved to 39.1% (FY20: 36.1%) characterized by low cost and stable funding mix -- driven by growth across demand and term deposits.

	Group	Min.	KCB KN	Min.
Core capital ratio (%)	18.0	10.5	15.9	10.5
Total capital ratio (%)	21.7	14.5	20.2	14.5

Source: Company

The regional business contributed 27.5% of total assets (FY20: 22.7%) and 13.7% of total pre-tax earnings (FY20: 13.6%).



Source: Company

**FY22's management guidance:** Management guides as follows:

FY22 Outlook	
NFI ratio (%)	33.0
Cost-to-income ratio (%)	44.0
NPL ratio (%)	13.0
Cost of risk (%)	1.8
Cost of funds (%)	2.7
NIM (%)	7.7
Asset yield (%)	10.4
Loan growth (%)	15.0
Deposit growth (%)	14.0
ROE (%)	23.0

Source: Company

**The group expects some one-off costs in FY22** associated with the integration of BPR and the review of business processes

**DRC as a new area of growth:** Following the successful acquisition of Banque Populaire du Rwanda Plc (BPR), the group announced that it is currently looking at acquisition targets within the Democratic Republic of Congo (DRC).

**KCB Group is currently trading** at a P/E multiple of 4.2x against an industry median of 4.7x and a P/B multiple of 0.8x against an industry median of 0.8x. Its ROE stands at 19.9% while its ROA stands at 3.0%.

## PROFIT AND LOSS SUMMARY (KES MN)

Year End: December	FY21	FY20	y-y % ch	4q21	3q21	4q20	y-y % ch	q-q % ch
Interest income	102,157	88,745	15.1	28,626	26,413	25,459	12.4	8.4
Interest expense	24,463	21,210	15.3	7,369	6,392	5,786	27.4	15.3
Net interest income	77,694	67,536	15.0	21,257	20,020	19,673	8.1	6.2
Other operating income	5,009	4,986	0.5	517	1,604	1,336	(61.3)	(67.8)
Fees and commission income	19,385	17,779	9.0	4,913	5,284	3,476	41.4	(7.0)
Net income from forex dealings	6,546	5,390	21.5	2,041	1,787	2,062	(1.0)	14.2
Total non-interest income	30,941	28,154	9.9	7,472	8,675	6,874	8.7	(13.9)
Total income	108,635	95,690	13.5	28,729	28,696	26,547	8.2	0.1
Less operating expenses	47,832	42,759	11.9	13,064	12,057	10,772	21.3	8.4
Operating profit	60,802	52,931	14.9	15,665	16,639	15,776	(0.7)	(5.9)
Bad debt charge	-12,988	-27,212	(52.3)	(3,660)	(2,745)	(7,200)	(49.2)	33.4
Exceptional items	-	-	-	-	-	-	-	-
Profit before income tax	47,814	25,719	85.9	12,005	13,894	8,576	40.0	(13.6)
Less tax	-13,642	-6,115	123.1	(3,039)	(3,988)	137	(2,326.3)	(23.8)
Profit after tax	34,172	19,604	74.3	8,966	9,906	8,712	2.9	(9.5)
Attributable Income	34,091	19,604	73.9	8,918	9,872	8,712	2.4	(9.7)
EPS (KES)	10.64	6.10	74.4	0.7	1.4	0.9	(21.8)	(48.2)
DPS (KES)	3.00	1.00	200.0	2.0	1.0	1.0	100.0	100.0
No of shares (m)	3,213.5	3,213	3213.46	-	3,213	-	-	-

(Source: Company, DBIB Research)

## BALANCE SHEET SUMMARY (KES MN)

Year End: December	FY21	3Q21	FY20	y-y % ch	q-q % ch
Total shareholder's equity	171,713	162,991	142,424	20.6	5.4
Minority interest	1,794	1,392	-	-	0.0
Total Equity	173,508	164,383	142,424	21.8	5.6
Deposits due to other banks	44,320	26,561	19,668	125.3	66.9
Customer deposits	837,141	859,103	767,224	9.1	(2.6)
Borrowed funds	37,561	35,273	37,032	1.4	6.5
Other liabilities	47,142	37,144	21,461	119.7	26.9
Total equity and liabilities	1,139,673	1,122,464	987,810	15.4	1.5
Central bank balances	53,233	68,091	44,743	19.0	(21.8)
Deposits due from banks	45,022	60,057	43,573	3.3	(25.0)
Investment securities	270,830	252,446	208,765	29.7	7.3
Held for dealing securities	5,462	-	2,019	-	-
Customer loans and advances	675,480	651,816	595,254	13.5	3.6
Other assets	60,901	64,230	67,989	(10.4)	(5.2)
Intangible assets	7,010	5,088	5,499	27.5	37.8
Fixed assets	21,734	20,735	19,968	8.8	4.8
Total assets	1,139,673	1,122,464	987,810	15.4	1.5

(Source: Company, DBIB Research)

## INVESTMENT RETURN

	FY21	9M21	FY20	y-y bps ch	q-q bps ch
ROA (%)	3.0	3.0	2.0	101	(0.3)
ROIC (%)	3.3	3.2	2.1	118	7.8
ROE (%)	19.6	20.4	13.8	588	(77.0)

(Source: Company, DBIB Research)

## CAPITAL ADEQUACY, LIQUIDITY & ASSET QUALITY

	FY21	9M21	FY20	y-y bps ch	q-q bps ch
Core capital/TRWA (%)	15.9	17.3	15.6	30	(140)
Min. Statutory Ratio (%)	10.5	10.5	10.5	-	-
Total capital/TRWA (%)	20.2	20.6	19.4	80	(40)
Min. Statutory Ratio (%)	14.5	14.5	14.5	-	-
Liquidity Ratio (%)	35.0	41.3	31.2	380	(630)
Min. Statutory Ratio (%)	20.0	20.0	20.0	-	-
Leverage Ratio (%)	15.2	14.6	14.4	81	58
Equity-to-Loans Ratio (%)	25.7	25.2	23.9	176	47
NPL Ratio (%)	15.4	13.1	14.0	142	230
NPL Coverage Ratio (%)	47.5	58.2	54.2	(666)	(1073)
Long Term Debt to Total Liabilities and Equity (%)	3.3	3.1	3.7	(45)	15
NTA/share (KES)	47.2	44.7	38.1		
Book value/share (KES)	54.0	51.2	44.3		
Payout ratio (%)	28.2	10.1	16.4	1180	-

(Source: Company, DBIB Research)

\*\*Total Loan Portfolio net of Interbank Lending

## OPERATING PERFORMANCE

	FY21	9M21	FY20	y-y bps ch	q-q bps ch
Yield on interest earning assets (%)	11.1	10.8	11.1	(1)	(26)
Cost of funds (%)	2.8	2.6	2.7	8	19
Net Interest Margin (%)	8.3	8.2	8.3	(9)	6
Loan-to-Deposits ratio (%)	80.7	75.9	77.6	310	482
Loan-to-Dep.&Borrowed Funds ratio (%)	77.2	72.9	74.0	321	434
Funded Income Generating Potential (%)	83.5	80.6	81.6	191	295
Funded Income Reliance (%)	71.5	70.6	70.6	94	89
Cost to income ratio (%)	44.0	43.5	44.7	(65)	52
Pre-tax margin (%)	44.0	44.8	26.9	1714	(80)
PAT margin (%)	31.5	31.5	20.5	1097	(9)

(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 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.*