



NCBA GROUP: 1H22 EARNINGS UPDATE

Dear All,

NCBA Group released its 1H22 results reporting a 66.9% y-o-y growth in after-tax profits to KES 7.8 BN. This was predominantly occasioned by a 10.2% y-o-y rise in net interest income to KES 14.8 BN, a 32.5% y-o-y increase in non-funded income to KES 14.2 BN and a 6.1% y-o-y drop in loan loss provision expense to KES 5.6 BN. Earnings per share (EPS) for the period closed off at KES 4.72 (1H21: KES 2.83). The board has approved the payment of an interim dividend of KES 2.00 (1H21: KES 0.75) payable on or about 30th September 2022 to shareholders on register at the close of business on 15th September 2022.

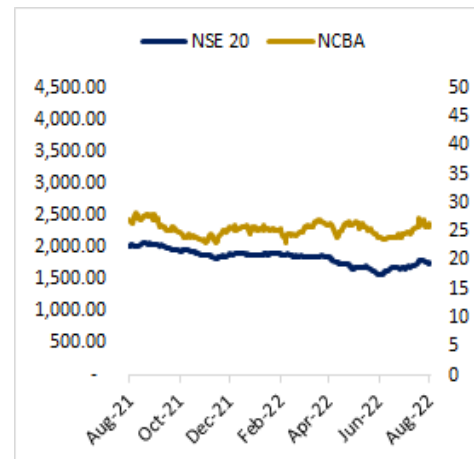
Key highlights:

Net interest income rose by 10.2% y-o-y to KES 14.8 BN backed by a 10.9% y-o-y growth in total interest income to KES 24.9 BN which offset a 12.0% y-o-y rise in total interest expenses to KES 10.1 BN. Annualized yield on interest earning assets remained fairly unchanged at 9.5% (-4 bps y-o-y) while annualized cost of funds remained relatively constant at 4.1% (+3 bps y-o-y). As a result, the group's net interest margin (NIM) dropped marginally by 8 bps y-o-y to 5.4%.

Interest income from loans and advances contracted slightly by 1.6% y-o-y to KES 12.8 BN despite a 4.5% y-o-y increase in the net customer loans and advances to KES 250.5 BN. The annualized yield on loans for the period stood at 10.4%, 22 bps down y-o-y. Interest income from investment securities moved up by 28.1% y-o-y to KES 11.9 BN underpinned by a 21.6% y-o-y advancement in the group's allocation to investment securities to KES 232.9 BN and a 94 bps increase in the annualized yield on investment securities to 11.2%.

Interest expense from customer deposits increased by 10.6% y-o-y to KES 9.7 BN supported by a 7.1% y-o-y growth in customer deposits to KES 468.5 BN. The annualized cost of deposits remained fairly unchanged at 4.3% (+4 bps y-o-y).

NCBA GROUP: 52 WEEK PRICE PERFORMANCE



(Source: NSE, DBIB Research)

PRICE RETURN	ABSOLUTE RETURN	EXCESS RETURN
3 months (%)	(33.9)	7.6
6 months (%)	(19.2)	27.4
12 months (%)	(0.6)	12.9

KEY METRICS

Current Price (KES)	26.45
52 week Low (KES)	23.00
52 week High (KES)	28.15
YTD Return (%)	5.0
Issued Shares (MN)	1,647.5
Market Cap (USD MN)	363.6

Trailing EPS (KES)	8.10
NAV (KES)	48.67
Trailing P/E (x)	3.2
Trailing P/B (x)	0.5
Dividend yield (%)	16.4

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Non-funded income grew by 32.5% y-o-y to KES 14.2 BN mainly supported by a 121.9% y-o-y advancement in net income from forex dealings to KES 5.3 BN and a 2.6% y-o-y increase in fees on loans and advances to KES 5.6 BN. Other fees and commission income grew by 7.6% y-o-y to KES 1.9 BN while other operating income rose by 28.4% y-o-y to KES 1.3 BN. The contribution of non-funded income to total operating income rose by 458 bps y-o-y to 48.9%.

Operating expenses (less loan loss provisions) went up by 10.7% y-o-y to KES 11.5 BN primarily due to a 16.2% y-o-y increase in staff costs to KES 4.5 BN and a 10.2% y-o-y rise in other operating expenses to KES 5.4 BN. Cost-to-income ratio declined by 338 bps y-o-y to 39.8%.

Loan loss provisions dropped by 6.1% y-o-y to KES 5.6 BN in line with the decline in the gross non-performing loans (NPLs), placing the annualized cost of risk at 4.4%, 50 bps lower y-o-y. **Gross NPLs shrunk by 18.1% y-o-y to KES 36.9 BN** (-18.3% q-o-q) whereas interest in suspense rose by 14.6% y-o-y to KES 8.7 BN (+1.2% q-o-q). The total NPLs decreased by 24.7% y-o-y to KES 28.2 BN (-22.9% q-o-q). As a result, the NPL ratio dropped by 299 bps y-o-y to 12.8%. Cumulative loan loss provisions fell by 37.2% y-o-y to KES 14.5 BN (40.1% q-o-q) placing the NPL coverage ratio to 51.3% (1H21: 61.5%).

Net customer loans and advances inched higher by 4.5% y-o-y to KES 250.5 BN (+2.7% q-o-q) while the group's allocation to investment securities rose by 21.6% y-o-y to KES 232.9 BN (+3.6% q-o-q). On the funding side, **customer deposits grew by 7.1% y-o-y to KES 468.5 BN (+0.6% q-o-q)** while borrowed funds declined by 35.4% y-o-y to KES 4.7 BN (-20.1% q-o-q). Loans to deposits ratio went down by 132 bps y-o-y to 53.5% while loans to deposits and borrowed funds ratio dropped by 318 bps y-o-y to 50.7%.

NCBA Group's core capital ratio (Core capital/TRWA) rose by 261 bps y-o-y to 21.8% while Total capital ratio (Total capital/TRWA) rose by 243 bps y-o-y to 21.8%. Both ratios remain above the statutory minimum of 10.5% and 14.5% respectively. Liquidity ratio declined by 231 bps y-o-y to 58.0%, above the statutory minimum of 20.0%.

NCBA Group's core capital ratio (Core capital/TRWA) edged up by 41 bps y-o-y to 19.2% while Total capital ratio (Total capital/TRWA) rose by 31 bps y-o-y to 19.2%. Both ratios remain above the statutory minimum of 10.5% and 14.5% respectively. Liquidity ratio edged down by 35 bps y-o-y to 58.0%, above the statutory minimum of 20.0%.

On a trailing basis, NCBA is trading at a P/E multiple of 3.2x against a sector median of 3.6x and a P/B multiple of 0.5x against a sector median of 0.7x. Its ROE stands at 16.6% whereas ROA stands at 2.2%. Dividend yield as per current prices stands at 16.4%.

PROFIT AND LOSS SUMMARY (KES MN)

Year End: December	1H22	1H21	y-y% ch	2q22	1q22	2q21	y-y%ch	q-q%ch
Interest income	24,931	22,475	10.9	12,768	12,163	11,472	11.3	5.0
Interest expense	10,131	9,048	12.0	5,061	5,070	4,636	9.2	(0.2)
Net interest income	14,800	13,427	10.2	7,707	7,093	6,836	12.7	8.7
Other operating income	1,341	1,044	28.4	554	787	614	(9.8)	(29.5)
Fees and commission income	7,556	7,279	3.8	3,905	3,650	3,630	7.6	7.0
Net income from forex dealings	5,286	2,382	121.9	3,666	1,620	1,218	201.0	126.3
Total non-interest income	14,182	10,705	32.5	8,126	6,057	5,462	48.8	34.2
Total income	28,982	24,132	20.1	15,833	13,150	12,298	28.7	20.4
Less operating expenses	11,521	10,408	10.7	5,929	5,592	5,279	12.3	6.0
Operating profit	17,461	13,724	27.2	9,903	7,558	7,019	41.1	31.0
Bad debt charge	5,556	5,919	(6.1)	3,031	2,525	3,279	(7.6)	20.1
Exceptional items	725	391	85.2	540	185	196	-	0.0
Profit before tax	11,180	7,414	50.8	6,332	4,848	3,544	78.7	30.6
Less tax	3,410	2,757	23.7	1,973	1,437	1,722	14.6	37.3
Profit after tax	7,771	4,657	66.9	4,359	3,411	1,822	139.2	27.8

(Source: Company, DBIB Research)

BALANCE SHEET SUMMARY (KES MN)

Year End: December	1H22	1Q22	1H21	y-y% ch	q-q%ch
Total shareholder's equity	80,179	80,181	74,265	8.0	(0.0)
Minority interest	73	124	171	0.0	0.0
Total Equity	80,251	80,305	74,436	7.8	(0.1)
Deposits due to other banks	25,309	9,246	7,140	254.5	173.7
Customer deposits	468,489	465,536	437,340	7.1	0.6
Borrowed funds	4,714	5,900	7,300	(35.4)	(20.1)
Other liabilities	25,532	26,390	16,380	55.9	(3.3)
Total equity and liabilities	604,296	587,377	542,596	11.4	2.9
Central bank balances	37,817	34,609	37,437	1.0	9.3
Deposits due from banks	39,668	43,820	39,065	1.5	(9.5)
Investment Securities	232,945	224,833	191,554	21.6	3.6
Customer loans and advances	250,499	243,899	239,601	4.5	2.7
Other assets	35,579	32,192	25,035	42.1	10.5
Intangible assets	5,270	5,665	6,232	(15.4)	(7.0)
Fixed assets	2,519	2,359	3,671	(31.4)	6.8
Total assets	604,296	587,377	542,596	11.4	2.9

(Source: Company, DBIB Research)

INVESTMENT RETURN

	1H22	1Q22	1H21	y-y bps ch	q-q bps ch
ROA (%)*	2.6	2.3	1.7	86	25
ROIC (%)*	2.8	2.5	1.8	101	33
ROE (%)*	19.4	17.0	12.5	685	237

(Source: Company, DBIB Research)

*Annualized

CAPITAL ADEQUACY, LIQUIDITY & ASSET QUALITY

	1H22	1Q22	1H21	y-y bps ch	q-q bps ch
Core capital/TRWA (%)	21.8	17.8	19.2	261	399
Min. Statutory Ratio (%)	10.5	10.5	10.5	-	-
Total capital/TRWA (%)	21.8	17.9	19.4	243	395
Min. Statutory Ratio (%)	14.5	14.5	14.5	-	-
Liquidity Ratio (%)	58.0	63.0	60.3	(231)	(496)
Min. Statutory Ratio (%)	20.0	20.0	20.0	-	-
Leverage Ratio (%)	5.9	7.3	9.8	(395)	(147)
Equity-to-Loans Ratio (%)	32.0	32.9	31.1	97	(89)
NPL Ratio (%)	12.8	15.6	15.8	(299)	(278)
NPL Coverage Ratio (%)	51.3	53.6	61.5	(1,017)	(223)
LT Debt to Total Liabilities and Equity (%)	0.8	1.0	1.3	(57)	(22)
NTA/share (KES)	45.5	353.1	41.4	10	(87)
Book value/share (KES)	48.7	48.7	45.2	8	(0)

(Source: Company, DBIB Research)

OPERATING PERFORMANCE

	1H22	1Q22	1H21	y-y bps ch	q-q bps ch
Yield on interest earning assets (%) *	9.5	9.5	9.6	(4)	3
Cost of funds (%) *	4.1	4.2	4.1	3	(12)
Net Interest Margin (%) *	5.4	5.3	5.5	(8)	14
Loan-to-Deposits ratio (%)	53.5	52.4	54.8	(132)	108
Loan-to-Dep. & Borrowed Funds ratio (%)	50.7	51.7	53.9	(318)	(101)
Funded Income Generating Potential (%)	86.6	87.1	86.5	4	(57)
Funded Income Reliance (%)	51.1	53.9	55.6	(458)	(287)
Cost to income ratio (%)	39.8	42.5	43.1	(338)	(277)
Cost of risk (%) *	4.4	4.1	4.9	30	30
Pre-tax margin (%)	38.6	36.9	30.7	785	171
PAT margin (%)	26.8	25.9	19.3	751	87

(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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