



KCB GROUP: 1Q22 EARNINGS UPDATE

Dear All,

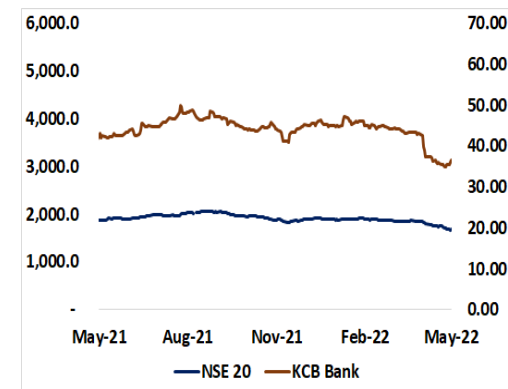
KCB Group released its 1Q22 results posting a 54.6% y-o-y upswing in after tax profits to KES 9.9 BN. The higher earnings were mainly driven by an 18.0% y-o-y growth in net interest income to KES 19.7 BN, a 47.2% y-o-y rise in non-funded income to KES 9.3 BN and a 27.5% y-o-y decline in loan loss provisions to KES 2.1 BN. EPS for the period settled at KES 12.18 (1Q21: KES 7.94).

Below please find key highlights:

Net interest income rose by 18.0% y-o-y to KES 19.7 BN backed by a 21.2% y-o-y increase in total interest income to KES 26.6 BN mitigating the impact of higher total interest expenses, which notched up by 31.4% y-o-y to KES 6.9 BN. The annualized yield on interest earning assets rose marginally by 17 bps y-o-y to 10.5% while the annualized cost of funds increased by 40 bps y-o-y to 3.0% (attributable to KES depreciation, LIBOR increase and an upswing in term deposit rates). Subsequently, the group's NIM came down by 23 bps y-o-y to 7.5%.

Interest income from loans and advances notched higher, climbing by 18.9% y-o-y to KES 18.8 BN mirroring the 18.0% y-o-y jump in the group's net loan book to KES 704.4 BN and enhanced by a 29 bps y-o-y rise in the annualized yield on loans to 10.9%. Income arising from investments in government securities climbed by 28.6% y-o-y to KES 7.7 BN predicated on the 32.6% y-o-y growth realized in the group's holdings of government and investment securities to KES 281.8 BN. The annualized yield on government securities however eased by 28 bps y-o-y to 11.0%.

KCB GROUP: 52 WEEK PRICE PERFORMANCE



(Source: NSE, DBIB Research)

PRICE	ABSOLUTE	EXCESS
RETURN	RETURN	RETURN
3 months (%)	(20.5)	(8.2)
6 months (%)	(16.9)	(6.8)
12 months (%)	(13.5)	(3.5)

KEY METRICS

Current Price (KES)	36.55
52 week Range (KES)	35.00-49.90
YTD Return (%)	(19.6)
Issued Shares (Mn)	3,213.5
Market Cap (USD Mn)	1,007.2

Trailing EPS (KES)	14.88
NAV (KES)	56.58
P/E (x)	3.1
P/B (x)	0.6
Div. Yield (%)	-

Research Analyst

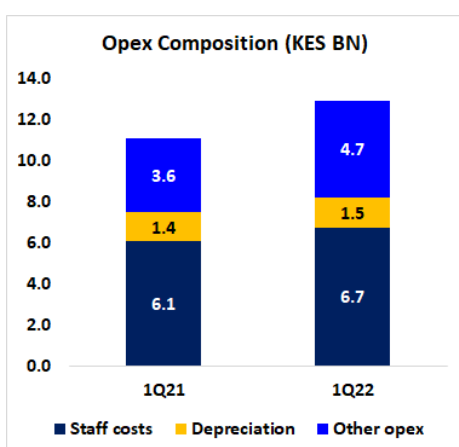
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Interest expenses arising from customer deposits encountered a 26.4% y-o-y upswing to KES 5.7 BN occasioned by a 12.9% y-o-y jump in customer deposits to KES 845.8 BN and a 33 bps y-o-y hike in the annualized cost of customer deposits to 2.7%.

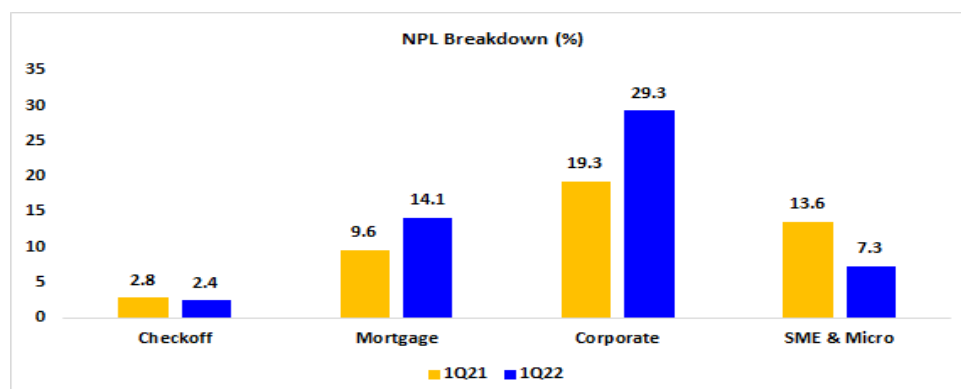
Progress was noted with regard to non-funded income which climbed by an impressive 47.2% y-o-y to KES 9.3 BN lifting the group's non-funded income contribution by 460 bps y-o-y to 32.0%. The growth in non-funded income was powered by a 73.2% y-o-y growth in fees and commissions income to KES 2.6 BN, a 34.7% y-o-y improvement in other fees and commissions to KES 3.3 BN, a 46.2% y-o-y rise in forex trading income to KES 1.7 BN and a 41.4% y-o-y increase in other income to KES 1.6 BN.



Source: Company

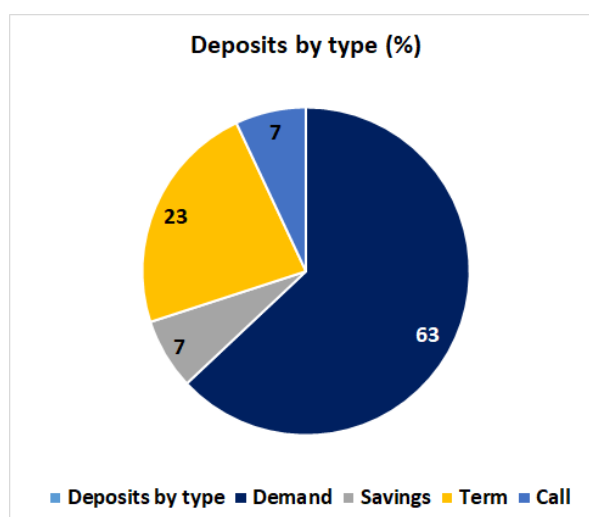
Operating expenses (excluding provisions) went up by 16.8% y-o-y to KES 12.9 BN principally buoyed by a 28.8% y-o-y advancement in other expenses to KES 4.3 BN and an 11.0% y-o-y increase in staff costs to KES 6.7 BN. Despite the higher operating expenses (sans provisions), the group's cost-to-income ratio slid by 349 bps y-o-y to 44.5% owing to a faster rise in total operating income (+26.0% y-o-y to KES 29.0 BN). The group attributed the rise in operating expenses to the consolidation of BPR and higher marketing, advertising & outsourcing services in KCB Kenya.

Loan loss provisions trended lower easing by 27.5% y-o-y to KES 2.1 BN placing the annualized cost of risk (as per KCB's calculations) at 1.2%, 50 bps lower y-o-y. Cost of risk improvement was occasioned by lower provisions in corporate and digital loans. Despite the lower cost of risk, gross non-performing loans increased by 33.6% y-o-y to KES 130.9 BN. The deterioration in asset quality was further reflected in the NPL ratio which climbed by 220 bps y-o-y to a lofty 17.0% (based on KCB's calculations). The NPL ratio remains above the Kenyan banking industry NPL ratio of 14.0% as at 1Q22. According to the group, the poor asset quality performance continued to be mostly affected by the manufacturing, building & construction and hospitality sectors. The coverage ratio (CBK standards) fell from 72.3% in 1Q21 to 61.1% in 1Q22.



Source: Company

The group's loan origination efforts continued to bear fruits as net loans and advances to customers climbed by 18.0% y-o-y to KES 704.4 BN (+4.3% q-o-q). The group attributed the loan book growth increased lending in personal, trade, transport & communication and real estate sectors. The group's portfolio of investment securities also edged up further, rising by 32.6% y-o-y to KES 281.8 BN (+2.0% q-o-q). **On the funding side, customer deposits increased by 12.9% y-o-y to KES 845.8 BN (+1.0% q-o-q)** while borrowed funds went up by 5.2% y-o-y to KES 37.8 BN (+0.8% q-o-q). Loans-to-deposits ratio went up by 360 bps y-o-y to 83.3% in alignment with the loans-to-deposits and borrowed funds ratio which climbed by 368 bps y-o-y to 79.7%.



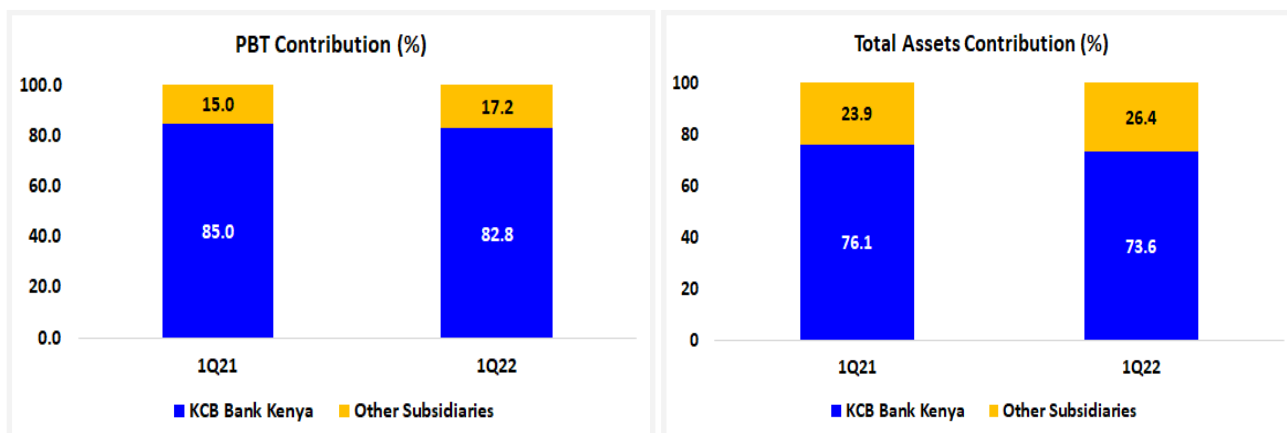
Source: Company

KCB Group's core capital ratio (Core capital/TRWA) and total capital ratio (Total capital/TRWA) both improved by 100 bps y-o-y to 19.2% and 22.8% respectively. Both ratios remain above the statutory minimum of 10.5% and 14.5% respectively. KCB Bank's core capital ratio (Core capital/TRWA) and total capital ratio (Total capital/TRWA) both dwindled by 50 bps y-o-y and 30 bps y-o-y to 15.7% and 19.6% respectively. Both ratios remain above the statutory minimum of 10.5% and 14.5% respectively. The group's liquidity ratio declined by 40 bps y-o-y to 36.9%, above the statutory minimum of 20.0%.

	Group	Min.	KCB KN	Min.
Core capital ratio (%)	19.2	10.5	15.7	10.5
Total capital ratio (%)	22.8	14.5	19.6	14.5

Source: Company

The regional business contributed 26.4% of total assets (1Q21: 23.9%) and 17.2% of total pre-tax earnings (1Q21: 15.0%).



Source: Company

FY22's management guidance: The group reiterated its earlier guidance 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 (%)	2.6
NIM (%)	7.7
Asset yield (%)	10.4
Loan growth (%)	15.0
Deposit growth (%)	14.0
ROE (%)	23.0

On a trailing basis, KCB Group is currently trading at a P/E multiple of 3.1x against an industry median of 3.8x and a P/B multiple of 0.6x against an industry median of 0.7x. Its ROE stands at 20.6% while its ROA stands at 3.2%.

PROFIT AND LOSS SUMMARY (KES MN)

Year End: December	1Q22	1Q21	4Q21	y-y % ch	q-q % ch
Interest income	26,628	21,970	28,626	21.2	(7.0)
Interest expense	6,888	5,243	7,369	31.4	(6.5)
Net interest income	19,740	16,726	21,257	18.0	(7.1)
Other operating income	1,629	1,152	517	41.4	215.2
Fees and commission income	5,923	3,973	4,913	49.1	20.5
Net income from forex dealings	1,740	1,189	2,041	46.2	(14.8)
Total non-interest income	9,292	6,314	7,472	47.2	24.4
Total income	29,031	23,040	28,729	26.0	1.1
Less operating expenses	12,924	11,061	13,064	16.8	(1.1)
Operating profit	16,107	11,979	15,665	34.5	2.8
Bad debt charge	(2,075)	(2,861)	(3,660)	(27.5)	(43.3)
Exceptional items	-	-	-	-	-
Profit before tax	14,032	9,118	12,005	53.9	16.9
Less tax	(4,176)	(2,742)	(3,039)	52.3	37.4
Profit after tax	9,856	6,376	8,966	54.6	9.9
Attributable Income	9,789	6,376	8,918	53.5	9.8

(Source: Company, DBIB Research)

BALANCE SHEET SUMMARY (KES MN)

Year End: December	1Q22	FY21	1Q21	y-y % ch	q-q % ch
Total shareholder's equity	181,833	171,713	147,508	23.3	5.9
Minority interest	1,890	1,794	-	-	-
Total Equity	183,723	173,508	147,508	24.6	5.9
Deposits due to other banks	45,293	44,320	17,238	162.7	2.2
Customer deposits	845,817	837,141	749,414	12.9	1.0
Borrowed funds	37,843	37,561	35,961	5.2	0.8
Other liabilities	54,232	47,142	27,401	97.9	15.0
Total equity and liabilities	1,166,908	1,139,673	977,523	19.4	2.4
Central bank balances	44,454	53,233	47,286	(6.0)	(16.5)
Deposits due from banks	40,722	45,022	38,347	6.2	(9.6)
Investment securities	274,443	270,830	212,127	29.4	1.3
Held for dealing securities	7,365	5,462	405	1718.2	34.8
Customer loans and advances	704,366	675,480	597,110	18.0	4.3
Other assets	66,486	60,901	58,343	14.0	9.2
Intangible assets	7,367	7,010	5,382	36.9	5.1
Fixed assets	21,705	21,734	18,522	17.2	(0.1)
Total assets	1,166,908	1,139,673	977,523	19.4	2.4

(Source: Company, DBIB Research)

INVESTMENT RETURN

	1Q22	1Q21	FY21	y-y bps ch	q-q bps ch
ROA (%)*	3.4	2.6	3.0	77	39
ROIC (%)*	3.7	2.7	3.3	96	44
ROE (%)*	21.5	17.3	19.6	417	181

(Source: Company, DBIB Research)

*Annualized

CAPITAL ADEQUACY, LIQUIDITY & ASSET QUALITY

	1Q22	1Q21	FY21	y-y bps ch	q-q bps ch
Core capital/TRWA (%)	15.7	16.2	15.9	(50)	(20)
Min. Statutory Ratio (%)	10.5	10.5	10.5	-	-
Total capital/TRWA (%)	19.6	19.9	20.2	(30)	(60)
Min. Statutory Ratio (%)	14.5	14.5	14.5	-	-
Liquidity Ratio (%)	33.1	31.3	35.0	180	(190)
Min. Statutory Ratio (%)	20.0	20.0	20.0	-	-
Leverage Ratio (%)	15.7	15.1	15.2	65	52
Equity-to-Loans Ratio (%)	26.1	24.7	25.7	138	40
NPL Ratio (%)	15.7	14.1	15.4	158	29
NPL Coverage Ratio (%)	47.2	55.6	47.5	(840)	(29)
LT Debt to Total Liabilities and Equity (%)	3.2	3.7	3.3	(44)	(5)
NTA/share (KES)	50.4	40.1	47.2	1028	319
Book value/share (KES)	57.2	45.9	54.0	1127	318

(Source: Company, DBIB Research)

OPERATING PERFORMANCE

	1Q22	1Q21	FY21	y-y bps ch	q-q bps ch
Yield on interest earning assets (%)*	10.5	10.4	11.1	17	(54)
Cost of funds (%)*	3.0	2.6	2.8	40	17
Net Interest Margin (%)*	7.5	7.8	8.3	(23)	(71)
Loan-to-Deposits ratio (%)	83.3	79.7	80.7	360	259
Loan-to-Dep.&Borrowed Funds ratio (%)	79.7	76.0	77.2	368	249
Funded Income Generating Potential (%)	84.5	82.8	83.5	169	100
Funded Income Reliance (%)	68.0	72.6	71.5	(460)	(352)
Cost to income ratio (%)	44.5	48.0	44.0	(349)	49
Pre-tax margin (%)	48.3	39.6	44.0	876	432
PAT margin (%)	34.0	27.7	31.5	628	249

(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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