



NCBA GROUP: 1Q22 EARNINGS UPDATE

Dear All,

NCBA Group released its 1Q22 results reporting a **20.3% y-o-y improvement in profit after tax (PAT) to KES 3.4 BN**. This was supported by a 7.6% y-o-y advancement in net interest income to KES 7.1 BN, a 15.5% y-o-y growth in non-funded income to KES 6.1 BN and a 4.3% y-o-y drop in loan loss provision expense to KES 2.5 BN. EPS for the period stood at KES 2.07 compared to KES 1.72 in 1Q21.

Key highlights:

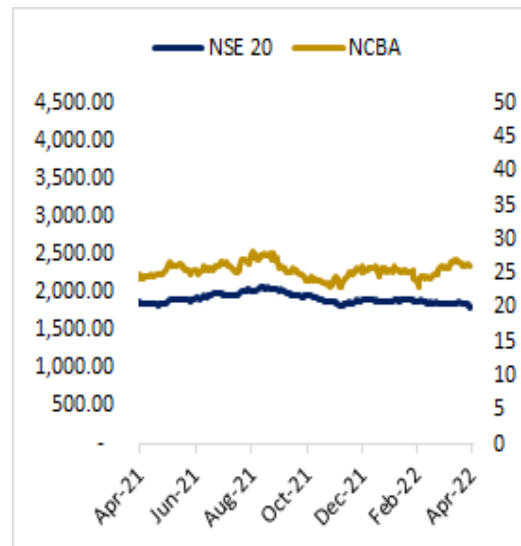
Net interest income rose by 7.6% y-o-y to KES 7.1 BN, backed by a 10.5% y-o-y growth in interest income to KES 12.2 BN which offset a 14.9% y-o-y increase in interest expense to KES 5.1 BN. Annualized yield on interest earning assets inched higher by 21 bps y-o-y to 9.5% while annualized cost of funds rose by 32 bps y-o-y to 4.2%. As a result, the group's net interest margin (NIM) shed 10 bps y-o-y to 5.3%.

Interest income from loans and advances dwindled by 3.6% y-o-y to KES 6.3 BN weighed down by a 41 bps y-o-y drop in the annualized yield on loans to 10.3% as net customer loans edged up by 0.3% y-o-y to KES 243.9 BN. Interest income from investment securities saw a 31.6% y-o-y growth to KES 5.8 BN supported by a 29.3% y-o-y growth in the group's allocation to investment securities to KES 224.1 BN and a 150 bps y-o-y rise in the annualized yield on investment securities to 11.6%.

Interest expense from customer deposits increased by 11.9% y-o-y to KES 4.8 BN buoyed by a 7.2% y-o-y rise in customer deposits to KES 465.5 BN and a 32 bps y-o-y rise in the annualized cost of deposits to 4.3%.

Non-funded income went up by 15.5% y-o-y to KES 6.1 BN courtesy of a 39.2% y-o-y increase in net income from forex dealings to KES 1.6 BN, a 3.8% y-o-y advancement in other fees and commissions to KES 966.0 MN and an 83.0% y-o-y rise in other operating income to KES 786.7 MN. Fees and commissions on loans declined by a marginal 1.3% y-o-y to KES 2.7 BN. As a result, the contribution of non-funded income to total operating income grew to 46.1% (1Q21: 44.3%).

NCBA GROUP: 52 WEEK PRICE PERFORMANCE



(Source: NSE, DBIB Research)

PRICE RETURN	ABSOLUTE RETURN	EXCESS RETURN
3 months (%)	(35.0)	5.1
6 months (%)	(20.6)	24.8
12 months (%)	5.9	9.8

KEY METRICS

Current Price (KES)	26.00
52 week Low (KES)	23.00
52 week High (KES)	28.15
YTD Return (%)	3.2
Issued Shares (MN)	1,647.5
Market Cap (USD MN)	369.9

Trailing EPS (KES)	6.56
NAV (KES)	48.67
Trailing P/E (x)	4.0
Trailing P/B (x)	0.5

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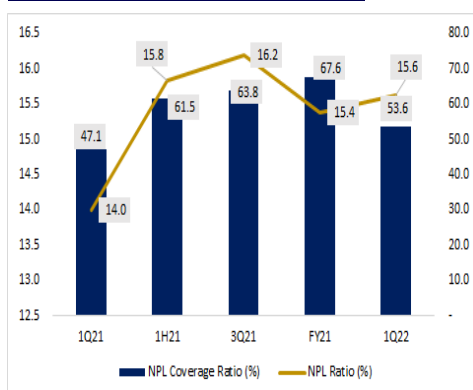
Operating expenses (less loan loss provisions) rose by 9.0% y-o-y to KES 5.6 BN mainly owing to a 14.6% y-o-y increase in other operating expenses to KES 2.7 BN and a 10.1% y-o-y increase in staff costs to KES 2.2 BN. The group's cost-to-income ratio eased by 81 bps y-o-y to 42.5%.

Loan loss provision expense decreased by 4.3% y-o-y to KES 2.5 BN placing the annualized cost of risk at 4.1% (1Q21: 4.3%).

Net customer loans and advances edged up by 0.3% y-o-y to KES 243.9 BN (-0.1% q-o-q) while investment securities grew by 29.3% y-o-y to KES 224.1 BN (+2.0% q-o-q). We view the group's muted loan book growth vis-à-vis its increased allocation to investment securities as a hedge against its deteriorating asset quality.

On the funding side, customer deposits advanced by 7.2% y-o-y to KES 465.5 BN (-0.9% q-o-q) while borrowed funds dropped by 54.6% y-o-y to KES 5.9 BN (-3.2% q-o-q). As such, loan-to-deposits ratio declined by 361 bps y-o-y to 52.4% while loans-to-deposits and borrowed funds ratio fell by 263 bps y-o-y to 51.7%.

NPL RATIO & NPL COVERAGE RATIO



Source: Company, DBIB Research

The group intends to open 12 new branches in Kenya and 2 new branches in Rwanda in 2022 as part of its branch expansion strategy. We expect this to ultimately exert upward pressure on the group's customer deposits. The management also mentioned that they expect the group's risk based pricing model to be approved by the Central Bank by June 2022.

Gross non-performing loans (NPLs) rose by 14.1% y-o-y to KES 45.1 BN (+1.8% q-o-q) while interest in suspense increased by 21.3% y-o-y to KES 8.6 BN (+4.0% q-o-q). Thus, total NPLs rose by 12.5% y-o-y to KES 36.6 BN (+1.3% q-o-q). The group's NPL ratio soared by 162 bps y-o-y to 15.6%. Cumulative loan loss provisions went up by 29.6% y-o-y to KES 24.2 BN (-0.9% q-o-q) placing the NPL coverage ratio at 53.6%, 643 bps higher y-o-y.

NCBA Kenya's core capital ratio (Core capital/TRWA) fell by 22 bps y-o-y to 18.1% while total capital ratio (Total capital/TRWA) decreased by 35 bps y-o-y to 18.1%. Both ratios remain above the statutory minimum of 10.5% and 14.5% respectively. Liquidity ratio increased by 185 bps y-o-y to 60.8%, well above the statutory minimum of 20.0%. **NCBA Group's core capital ratio (Core capital/TRWA) shed 35 bps y-o-y to 17.8%** while total capital ratio (Total capital/TRWA) dropped by 46 bps y-o-y to 17.9%. Both ratios remain above the statutory minimum of 10.5% and 14.5% respectively. Liquidity ratio rose by 427 bps y-o-y to 63.0%, well above the statutory minimum of 20.0%.

On a trailing basis, NCBA is trading at a P/E multiple of 4.0x against an industry median of 4.5x and a P/B multiple of 0.5x against an industry median of 0.7x. Its ROE stands at 13.5% while its ROA stands at 1.8%.

PROFIT AND LOSS SUMMARY (KES MN)

Year End: December	1Q22	1Q21	4Q21	y-y% ch	q-q% ch
Interest income	12,163	11,003	12,289	10.5	(1.0)
Interest expense	5,070	4,412	5,456	14.9	(7.1)
Net interest income	7,093	6,591	6,833	7.6	3.8
Other operating income	787	430	858	83.0	(8.3)
Fees and commission income	3,650	3,649	3,620	0.0	0.8
Net income from forex dealings	1,620	1,164	1,554	39.2	4.3
Total non-interest income	6,057	5,243	6,032	15.5	0.4
Total income	13,150	11,834	12,865	11.1	2.2
Less operating expenses	5,592	5,129	5,224	9.0	7.0
Operating profit	7,558	6,705	7,641	12.7	(1.1)
Bad debt charge	2,525	2,639	21,885	(4.3)	(88.5)
Exceptional items	185	196	1,213	(5.6)	(84.8)
Profit before tax	4,848	3,870	3,974	25.3	22.0
Less tax	1,437	1,035	9,347	38.8	(84.6)
Profit after tax	3,411	2,835	3,698	20.3	(7.7)

(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	80,181	77,863	74,407	7.8	3.0
Minority interest	124	124	194	(36.0)	0.0
Total Equity	80,305	77,987	74,601	7.6	3.0
Balances due to Central Bank	-	-	-	-	-
Deposits due to other banks	9,246	14,775	5,226	76.9	(37.4)
Customer deposits	465,536	469,890	434,211	7.2	(0.9)
Borrowed funds	5,900	6,097	12,995	(54.6)	(3.2)
Other liabilities	26,390	22,339	15,073	75.1	18.1
Total equity and liabilities	587,377	591,088	542,105	8.4	(0.6)
Central bank balances & Cash	34,609	43,154	31,721	9.1	(19.8)
Deposits due from banks	43,820	45,119	57,192	(23.4)	(2.9)
Investment Securities	224,070	219,721	173,331	29.3	2.0
Held for dealing securities	-	-	-	-	-
Customer loans and advances	243,899	244,038	243,142	0.3	(0.1)
Other assets	32,955	30,491	26,906	22.5	8.1
Intangible assets	5,665	6,083	6,330	(10.5)	(6.9)
Fixed assets	2,359	2,482	3,483	(32.3)	(5.0)
Total assets	587,377	591,088	542,105	8.4	(0.6)

(Source: Company, DBIB Research)

INVESTMENT RETURN

	1Q22*	1Q21*	FY21	y-y bps ch	q-q bps ch
ROA (%)	2.3	2.1	1.7	23	59
ROIC (%)	2.5	2.2	1.8	30	68
ROE (%)	17.0	15.2	13.1	179	388

(Source: Company, DBIB Research)

*Annualized

CAPITAL ADEQUACY, LIQUIDITY & ASSET QUALITY

	1Q22	1Q21	FY21	y-y bps ch	q-q bps ch
Core capital/TRWA (%)	17.8	18.2	19.0	(35)	(117)
Min. Statutory Ratio (%)	10.5	10.5	10.5	-	-
Total capital/TRWA (%)	17.9	18.3	19.1	(46)	(120)
Min. Statutory Ratio (%)	14.5	14.5	14.5	-	-
Liquidity Ratio (%)	63.0	58.7	61.7	427	125
Min. Statutory Ratio (%)	20.0	20.0	20.0	-	-
Leverage Ratio (%)	7.3	17.4	13.2	(1,007)	(583)
Equity-to-Loans Ratio (%)	32.9	30.7	32.0	224	97
NPL Ratio (%)**	15.6	14.0	15.4	162	24
NPL Coverage Ratio (%)**	53.6	47.1	67.6	643	(1,405)
IFRS 9 NPL Coverage Ratio (%)	72.6	65.0	73.6	756	(107)
LT Debt to Total Liabilities and Equity (%)	1.0	2.4	7.8	(139)	(681)
NTA/share (KES)	353.1	325.7	43.6	2,742	30,944
Book value/share (KES)	48.7	45.3	47.3	346	141

(Source: Company, DBIB Research)

OPERATING PERFORMANCE

	1Q22	1Q21	FY21	y-y bps ch	q-q bps ch
Yield on interest earning assets (%)*	9.5	9.3	9.1	21	37
Cost of funds (%)*	4.2	3.9	4.0	32	25
Net Interest Margin (%)*	5.3	5.4	5.2	(10)	12
Loan-to-Deposits ratio (%)	52.4	56.0	50.4	(361)	204
Loan-to-Dep. & Borrowed Funds ratio (%)	51.7	54.4	51.3	(263)	47
Funded Income Generating Potential (%)	87.1	87.4	86.1	(24)	104
Funded Income Reliance (%)	53.9	55.7	55.0	(176)	(107)
Cost to income ratio (%)	42.5	43.3	42.2	(81)	34
Cost of risk (%)	4.1	4.3	5.2	(20)	(107)
Pre-tax margin (%)	36.9	32.7	30.6	416	628
PAT margin (%)	25.9	24.0	20.8	199	514

(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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