



### NCBA GROUP: 3Q22 EARNINGS UPDATE

Dear All,

NCBA Group released its 3Q22 results reporting a 96.2% y-o-y upswing in after-tax profits to KES 12.8 BN steered by a 40.1% y-o-y growth in non-funded income to KES 22.5 BN, a 15.1% y-o-y increase in net interest income to KES 23.2 BN and a 9.2% y-o-y decline in loan loss provisions to KES 8.3 BN. EPS for the period stood at KES 7.77 (3Q21: KES 3.96).

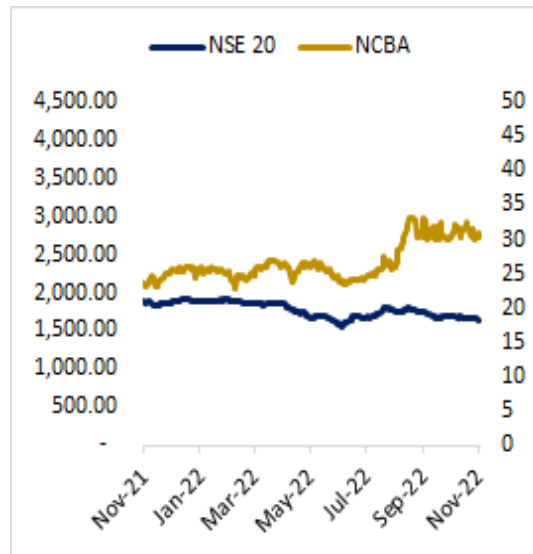
#### Key highlights:

**Net interest income went up by 15.1% y-o-y to KES 23.2 BN** following a 13.3% y-o-y increase in interest income to KES 38.8 BN which offset a 10.8% y-o-y rise in interest expense to KES 15.5 BN. Annualized yield on interest earning assets rose by 67 bps y-o-y to 10.0% while the annualized cost of funds increased by 32 bps y-o-y to 4.3%. As a result, the group's annualized net interest margin (NIM) improved by 36 bps y-o-y to 5.6%.

**Interest income from loans and advances grew by 5.0% y-o-y to KES 20.0 BN** supported by an 11.7% y-o-y expansion in the group's net customer loan book to KES 266.1 BN and a 16 bps y-o-y rise in the annualized yield on loans to 10.6%. **Interest income from government securities inched higher 23.8% y-o-y to KES 18.2 BN** anchored by a 10.4% y-o-y growth in investment securities to KES 233.4 BN and a 56 bps y-o-y increase in the annualized yield on investment securities to 10.9%.

**Interest expense arising from customer deposits rose by 8.9% y-o-y to KES 14.8 BN** bolstered by a 3.2% y-o-y advancement in customer deposits to KES 462.1 BN. The annualized cost of deposits rose marginally to 4.4% (+8 bps y-o-y).

#### NCBA GROUP: 52 WEEK PRICE PERFORMANCE



(Source: NSE, DBIB Research)

PRICE	ABSOLUTE	EXCESS
RETURN	RETURN	RETURN
3 months (%)	(24.1)	21.2
6 months (%)	(7.3)	42.8
12 months (%)	31.4	43.3

#### KEY METRICS

Current Price (KES)	30.35
52 week Low (KES)	23.00
52 week High (KES)	33.20
YTD Return (%)	20.4
Issued Shares (MN)	1,647.5
Market Cap (USD MN)	409.2

Trailing EPS (KES)	10.02
NAV (KES)	49.09
Trailing P/E (x)	3.0
Trailing P/B (x)	0.6

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**Non-funded income inched higher by 40.1% y-o-y to KES 22.5 BN.** This improvement was occasioned by a 162.9% y-o-y upsurge in net income from forex dealings to KES 9.2 BN, a 4.0% y-o-y rise in fees and commissions on loans to KES 8.5 BN, an 8.6% y-o-y growth in other fees and commissions to KES 2.9 BN and an increase in other operating income by 11.2% y-o-y to KES 1.9 BN. Total operating income edged up by 26.2% y-o-y to KES 45.8 BN. The contribution of non-funded income to the total operating income came in at 49.2%, 490 bps up y-o-y.

**Operating expenses (less loan loss provisions) rose by 19.5% y-o-y to KES 18.5 BN** mainly on account of a 25.0% y-o-y advancement in other expenses to KES 9.0 BN and a 19.5% y-o-y increase in staff costs to KES 7.1 BN. The cost to income ratio eased by 225 bps y-o-y to 40.5% (3Q21: 42.7%).

**Loan loss provision expense declined by 9.2% y-o-y to KES 8.3 BN** placing the annualized cost of risk at 4.2%, 96 bps lower y-o-y. The cumulative loan loss provisions dropped by 30.5% y-o-y to KES 16.8 BN and as a result, the NPL coverage ratio went down by 677 bps y-o-y to 57.1%.

**Gross non-performing loans (NPLs) decreased by 20.9% y-o-y to KES 36.4 BN (-1.3% q-o-q)** while interest in suspense dropped by 14.0% y-o-y to KES 6.9 BN (-20.1% q-o-q). As such, total NPLs shrank by 22.3% y-o-y to KES 29.5 BN (+4.5% q-o-q). **The NPL ratio fell to 12.0%, 415 bps lower y-o-y, and below the Kenyan industry average of 14.2% as at August 2022.**

**Customer loans and advances scaled by 11.7% y-o-y to KES 266.1 BN (+6.2% q-o-q)** while investment securities rose by 10.4% y-o-y to KES 233.4 BN (+0.2% q-o-q). On the funding side, **customer deposits edged up by 3.2% y-o-y to KES 462.1 BN (-1.4% q-o-q)** while borrowed funds dwindled by 37.5% y-o-y to KES 4.5 BN (+52.5% q-o-q). The group's loan to deposits ratio rose by 426 bps y-o-y to 56.0% in line with the loans to deposits and borrowed funds ratio which grew by 466 bps y-o-y to 57.0%.

**NCBA Group's core capital ratio (Core capital/TRWA) dropped by 63 bps y-o-y to 18.4% while the total capital ratio (Total capital/TRWA) declined by 65 bps y-o-y to 18.4%.** Both ratios remain above the statutory minimum of 10.5% and 14.5% respectively. Liquidity ratio fell by 614 bps y-o-y to 55.6%, above the statutory minimum of 20.0%. **NCBA Bank's core capital ratio (Core capital/TRWA) decreased by 21 bps y-o-y to 18.3% while the total capital ratio (Total capital/TRWA) dropped by 26 bps y-o-y to 18.3%.** Both ratios remain above the statutory minimum of 10.5% and 14.5% respectively. Liquidity ratio dwindled by 484 bps y-o-y to 54.9%, above the statutory minimum of 20.0%.

**On a trailing basis,** NCBA is trading at a P/E multiple of 3.0x against an industry median of 3.7x and a P/B multiple of 0.6x against an industry median of 0.7x. Its ROE stands at 20.4% while its ROA stands at 2.8%.

## PROFIT AND LOSS SUMMARY (KES MN)

Year End: December	3Q22	3Q21	y-y% ch	3q22	2q22	3q21	y-y% ch	q-q% ch
Interest income	38,781	34,225	13.3	13,849	12,768	11,750	17.9	8.5
Interest expense	15,533	14,022	10.8	5,402	5,061	4,974	8.6	6.7
Net interest income	23,247	20,204	15.1	8,447	7,707	6,777	24.7	9.6
Other operating income	1,851	1,665	11.2	510	554	621	(17.8)	(8.0)
Fees and commission income	11,480	10,915	5.2	3,924	3,905	3,636	7.9	0.5
Net income from forex dealings	9,208	3,503	162.9	3,922	3,666	1,121	249.9	7.0
Total non-interest income	22,539	16,083	40.1	8,356	8,126	5,378	55.4	2.8
Total income	45,786	36,286	26.2	16,804	15,833	12,154	38.3	6.1
Less operating expenses	18,540	15,509	19.5	7,019	5,929	5,101	37.6	18.4
Operating profit	27,246	20,777	31.1	9,784	9,903	7,053	38.7	(1.2)
Bad debt charge	(8,327)	(9,169)	(9.2)	(13,884)	3,031	(15,087)	(8.0)	(558.0)
Exceptional items	(725)	(547)	32.5	(1,449)	540	(938)	54.5	(368.4)
Profit before tax	18,194	11,061	64.5	7,014	6,332	3,647	92.3	10.8
Less tax	(5,390)	(4,536)	18.8	(8,800)	1,973	(7,293)	20.7	(546.1)
Profit after tax	12,804	6,526	96.2	5,033	4,359	1,869	169.3	15.5

(Source: Company, DBIB Research)

## BALANCE SHEET SUMMARY (KES MN)

Year End: December	3Q22	1H22	3Q21	y-y% ch	q-q%ch
Total shareholder's equity	80,884	80,179	74,825	8.1	0.9
Minority interest	40	73	153	(73.7)	(44.4)
Total Equity	80,925	80,251	74,978	7.9	0.8
Balances due to Central Bank	11,500	-	-	-	-
Deposits due to other banks	12,989	25,309	12,620	2.9	(48.7)
Customer deposits	462,113	468,489	447,623	3.2	(1.4)
Borrowed funds	4,495	4,714	7,189	(37.5)	52.5
Other liabilities	23,394	25,532	20,220	15.7	(8.4)
Total equity and liabilities	595,417	604,296	562,631	5.8	(1.5)
Central bank balances	35,233	37,817	34,448	2.3	(6.8)
Deposits due from banks	19,836	39,668	42,088	(52.9)	(50.0)
Investment Securities	233,446	232,945	211,465	10.4	0.2
Customer loans and advances	266,110	250,499	238,166	11.7	6.2
Other assets	32,527	35,579	27,013	20.4	(8.6)
Intangible assets	5,516	5,270	6,157	(10.4)	4.7
Fixed assets	2,749	2,519	3,294	(16.6)	9.1
Total assets	595,417	604,296	562,631	5.8	(1.5)

(Source: Company, DBIB Research)

## INVESTMENT RETURN

	3Q22	1H22	3Q21	y-y bps ch	q-q bps ch
ROA (%)*	2.9	2.6	1.5	132	30
ROIC (%)*	3.0	2.8	1.6	144	24
ROE (%)*	21.1	19.4	11.6	949	173

(Source: Company, DBIB Research)

\*Annualized

## CAPITAL ADEQUACY, LIQUIDITY & ASSET QUALITY

	3Q22	1H22	3Q21	y-y bps ch	q-q bps ch
Core capital/TRWA (%)	18.4	21.8	19.0	(63)	(345)
Min. Statutory Ratio (%)	10.5	10.5	10.5	-	-
Total capital/TRWA (%)	18.4	21.8	19.1	(65)	(340)
Min. Statutory Ratio (%)	14.5	14.5	14.5	-	-
Liquidity Ratio (%)	55.6	58.0	61.7	(614)	(243)
Min. Statutory Ratio (%)	20.0	20.0	20.0	-	-
Leverage Ratio (%)	13.6	5.9	13.3	29	770
Leverage Ratio (%)	13.6	5.9	13.3	29	770
Equity-to-Loans Ratio (%)	30.4	32.0	31.5	(107)	(163)
NPL Ratio (%)	12.0	12.8	16.2	(415)	(80)
NPL Coverage Ratio (%)	57.1	51.3	63.8	(677)	575
Long Term Debt to Equity (%)	5.6	0.8	9.6	(403)	478
NTA/share (KES)	45.8	45.5	41.8	400	26
Book value/share (KES)	49.1	48.7	45.5	361	41

(Source: Company, DBIB Research)

## OPERATING PERFORMANCE

	3Q22	1H22	3Q21	y-y bps ch	q-q bps ch
Yield on interest earning assets (%) *	10.0	9.5	9.3	67	42
Cost of funds (%) *	4.3	4.1	4.0	32	22
Net Interest Margin (%) *	5.6	5.4	5.3	36	21
Loan-to-Deposits ratio (%)	56.0	53.5	51.7	426	254
Loan-to-Dep. & Borrowed Funds ratio (%)	57.0	50.7	52.4	466	630
Funded Income Generating Potential (%)	87.2	86.6	87.4	(16)	67
Funded Income Reliance (%)	50.8	51.1	55.7	(490)	(29)
Cost to income ratio (%)	40.5	39.8	42.7	(225)	74
Cost of risk (%)	4.2	4.4	5.1	(96)	(26)
Pre-tax margin (%)	39.7	38.6	30.5	925	116
PAT margin (%)	28.0	26.8	18.0	998	115
PAT margin (%)	18.0	19.3	7.6	1,036	(132)

(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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