



NCBA GROUP: FY22 EARNINGS UPDATE

Dear All,

NCBA Group released its FY22 results reporting a **34.8% y-o-y increase in after-tax profits to KES 13.8 BN** driven by a 36.8% y-o-y growth in non-funded income to KES 30.3 BN and a 13.5% y-o-y increase in net interest income to KES 30.7 BN. EPS for the period stood at KES 8.36 (FY21: KES 6.21). **The board has recommended a final dividend of KES 2.25 per share** placing the total dividend per share for the period at KES 4.25 (FY21: 3.00), having already paid an interim dividend of KES 2.00 per share. If approved, the final dividend will be paid on or about 31st May 2023 to shareholders on the register at the close of business on 28th April 2023.

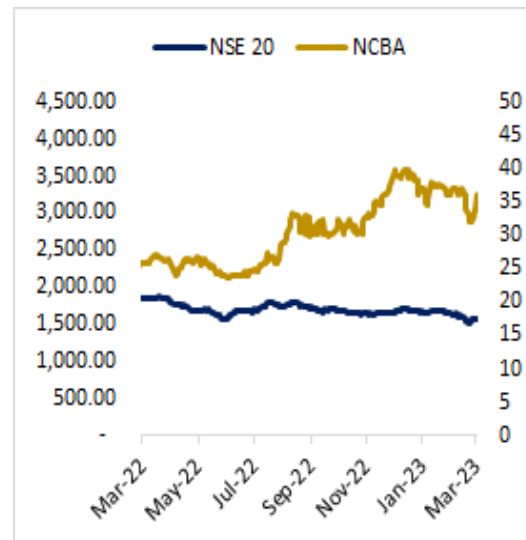
Key highlights:

Net interest income went up by 13.5% y-o-y to KES 30.7 BN following a 12.7% y-o-y increase in interest income to KES 52.4 BN which offset an 11.5% y-o-y rise in interest expense to KES 21.7 BN. Yield on interest earning assets grew by 67 bps y-o-y to 9.8% while cost of funds increased by 27 bps y-o-y to 4.2%. As a result, the group's net interest margin (NIM) rose by 40 bps y-o-y to 5.6%.

Interest income from loans and advances edged up by 5.1% y-o-y to KES 26.8 BN supported by a 14.3% y-o-y growth in net loans and advances to KES 278.9 BN. Yield on loans for the period contracted marginally by 10 bps y-o-y to 10.3%. Interest income from investment securities increased by 21.8% y-o-y to KES 24.8 BN buoyed by a 4.6% y-o-y uptick in investment securities to KES 229.7 BN and a 43 bps y-o-y growth in the yield on investment securities to 11.0%.

Interest expense from customer deposits rose by 12.0% y-o-y to KES 20.8 BN bolstered by a 7.0% y-o-y advancement in customer deposits to KES 502.7 BN and an 11 bps y-o-y slight increase in the cost of deposits to 4.3%.

NCBA GROUP: 52 WEEK PRICE PERFORMANCE



(Source: NSE, DBIB Research)

PRICE RETURN	ABSOLUTE RETURN	EXCESS RETURN
3 months (%)	(9.9)	37.5
6 months (%)	10.1	62.1
12 months (%)	40.3	55.1

KEY METRICS

Current Price (KES)	36.05
52 week Low (KES)	23.60
52 week High (KES)	40.00
YTD Return (%)	(8.4)
Issued Shares (MN)	1,647.5
Market Cap (USD MN)	450.7

EPS (KES)	8.36
NAV (KES)	50.03
P/E (x)	4.3
P/B (x)	0.7
Div Yld (%)	11.8

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Non-funded income inched higher by 36.8% y-o-y to KES 30.3 BN. This improvement was occasioned by a 147.1% y-o-y upswing in net income from forex dealings to KES 12.5 BN, a 4.3% y-o-y rise in fees and commissions on loans to KES 11.3 BN, and a 6.9% y-o-y growth in other fees and commissions to KES 4.0 BN. Other operating income remained fairly flat at KES 2.5 BN (-0.7% y-o-y). Total operating income grew by 24.0% y-o-y to KES 60.9 BN. The contribution of non-funded income to the total operating income came in at 49.7%, 466 bps up y-o-y.

Operating expenses (less loan loss provisions) rose by 19.9% y-o-y to KES 24.9 BN mainly on account of a 16.5% y-o-y advance in other expenses to KES 11.5 BN and a 27.2% y-o-y increase in staff costs to KES 10.1 BN. The cost-to-income ratio eased by 139 bps y-o-y to 40.8% (FY21: 42.2%).

Loan loss provision expense edged up by 2.7% y-o-y to KES 13.1 BN placing the cost of risk at 4.7%, 53 bps lower y-o-y.

Gross NPLs contracted by 11.7% y-o-y to KES 39.1 BN (+7.5% q-o-q) while interest in suspense declined by 11.8% y-o-y to KES 7.3 BN (+4.9% q-o-q). Consequently, total NPLs fell by 11.7% y-o-y to KES 31.9 BN (+8.1% q-o-q). The NPL ratio dropped by 307 bps y-o-y to 12.3%. The cumulative loan loss provisions dropped by 36.1% y-o-y to KES 15.6 BN (-7.3% q-o-q) placing the NPL coverage ratio at 49.0%, a decline from 67.6% in FY21.

Customer loans and advances scaled by 14.3% y-o-y to KES 278.9 BN (+4.8% q-o-q) while investment securities rose by 4.6% y-o-y to KES 229.7 BN (-1.6% q-o-q). **On the funding side, customer deposits edged up by 7.0% y-o-y to KES 502.7 BN (+8.8% q-o-q)** while borrowed funds dwindled by 31.0% y-o-y to KES 4.2 BN (-6.4% q-o-q). Loan-to-deposits ratio increased by 449 bps y-o-y to 54.8% while the loan-to-deposits and borrowed funds ratio rose by 376 bps y-o-y to 55.0%.

NCBA Group's core capital ratio (Core capital/TRWA) dropped by 65 bps y-o-y to 18.4% while total capital ratio (Total capital/TRWA) declined by 66 bps y-o-y to 18.4%. Both ratios remain above the statutory minimum of 10.5% and 14.5% respectively. Liquidity ratio dwindled by 852 bps y-o-y to 53.2%, above the statutory minimum of 20.0%. **NCBA Bank's core capital ratio (Core capital/TRWA) fell by 41 bps y-o-y to 17.9%** while total capital ratio (Total capital/TRWA) decreased by 44 bps y-o-y to 17.9%. Both ratios remain above the statutory minimum of 10.5% and 14.5% respectively. Liquidity ratio dropped by 503 bps y-o-y to 55.6%, above the statutory minimum of 20.0%.

NCBA is currently trading at a P/E multiple of 4.3x above an industry median of 4.1x and a P/B multiple of 0.7x at par with the industry median. Its ROE stands at 16.7% while its ROA stands at 2.2%. As per current prices, its dividend yield stands at 11.8%.

PROFIT AND LOSS SUMMARY (KES MN)

Year End: December	FY22	FY21	y-y% ch	4q22	3q22	4q21	y-y% ch	q-q% ch
Interest income	52,404	46,514	12.7	13,624	13,849	12,289	10.9	(1.6)
Interest expense	21,726	19,477	11.5	6,192	5,402	5,456	13.5	14.6
Net interest income	30,679	27,037	13.5	7,431	8,447	6,833	8.7	(12.0)
Other operating income	2,505	2,523	(0.7)	654	510	858	(23.8)	28.2
Fees and commission income	15,256	14,535	5.0	3,776	3,924	3,620	4.3	(3.8)
Net income from forex dealings	12,496	5,057	147.1	3,288	3,922	1,554	111.6	(16.2)
Total non-interest income	30,257	22,114	36.8	7,718	8,356	6,032	28.0	(7.6)
Total income	60,935	49,151	24.0	15,149	16,804	12,865	17.8	(9.8)
Less operating expenses	24,860	20,733	19.9	6,319	7,019	5,224	21.0	(10.0)
Operating profit	36,075	28,418	26.9	8,830	9,784	7,641	15.6	(9.8)
Bad debt charge	13,063	12,717	2.7	21,390	-13,884	21,885	(2.3)	(254.1)
Exceptional items	521	666	(21.8)	1,246	-1,449	1,213	2.7	(186.0)
Profit before tax	22,492	15,035	49.6	4,298	7,014	3,974	8.2	(38.7)
Less tax	8,714	4,811	81.1	14,104	-8,800	9,347	50.9	(260.3)
Profit after tax	13,778	10,224	34.8	975	5,033	3,698	(73.6)	(80.6)

(Source: Company, DBIB Research)

BALANCE SHEET SUMMARY (KES MN)

Year End: December	FY22	3Q22	FY21	y-y% ch	q-q%ch
Total shareholder's equity	82,422	80,884	77,863	5.9	1.9
Minority interest	-	40	124	(100.0)	(100.0)
Total Equity	82,422	80,925	77,987	5.7	1.8
Balances due to Central Bank	-	11,500	-	-	-
Deposits due to other banks	5,914	12,989	14,775	(60.0)	(54.5)
Customer deposits	502,676	462,113	469,890	7.0	8.8
Borrowed funds	4,207	4,495	6,097	(31.0)	(6.4)
Other liabilities	24,443	23,394	22,339	9.4	4.5
Total equity and liabilities	619,662	595,417	591,088	4.8	4.1
Cash and Central bank balances	38,626	35,233	43,154	(10.5)	9.6
Deposits due from banks	25,693	19,836	45,119	(43.1)	29.5
Investment Securities	229,732	233,446	219,721	4.6	(1.6)
Held for dealing securities	-	-	-	-	-
Customer loans and advances	278,921	266,110	244,038	14.3	4.8
Other assets	38,523	32,527	30,491	26.3	18.4
Intangible assets	5,810	5,516	6,083	(4.5)	5.3
Fixed assets	2,357	2,749	2,482	(5.0)	(14.2)
Total assets	619,662	595,417	591,088	4.8	4.1

(Source: Company, DBIB Research)

INVESTMENT RETURN

	FY22	3Q22	FY21	y-y bps ch	q-q bps ch
ROA (%)*	2.2	2.9	1.7	49	(64)
ROIC (%)*	2.3	3.0	1.8	52	(73)
ROE (%)*	16.7	21.1	13.1	361	(438)

(Source: Company, DBIB Research)

*annualized

CAPITAL ADEQUACY, LIQUIDITY & ASSET QUALITY

	FY22	3Q22	FY21	y-y bps ch	q-q bps ch
Core capital/TRWA (%)	18.4	18.4	19.0	(65)	(2)
Min. Statutory Ratio (%)	10.5	10.5	10.5	-	-
Total capital/TRWA (%)	18.4	18.4	19.1	(66)	(1)
Min. Statutory Ratio (%)	14.5	14.5	14.5	-	-
Liquidity Ratio (%)	53.2	55.6	61.7	(852)	(238)
Min. Statutory Ratio (%)	20.0	20.0	20.0	-	-
Leverage Ratio (%)	13.3	13.6	13.2	13	(28)
Equity-to-Loans Ratio (%)	29.6	30.4	32.0	(241)	(86)
NPL Ratio (%)	12.3	12.0	15.4	(307)	27
NPL Coverage Ratio (%)	49.0	57.1	67.6	(1,863)	(809)
Cost of risk (%)*	4.7	4.2	5.2	(53)	51
Long Term Debt to Equity (%)	5.1	5.6	7.8	(271)	(45)
NTA/share (KES)	46.5	45.8	43.6	286	73
Book value/share (KES)	50.0	49.1	47.3	269	91

(Source: Company, DBIB Research)

*annualized

OPERATING PERFORMANCE

	FY22	3Q22	FY21	y-y bps ch	q-q bps ch
Yield on interest earning assets (%)*	9.8	10.0	9.1	67	(15)
Cost of funds (%)*	4.2	4.3	4.0	27	(8)
Net Interest Margin (%)*	5.6	5.6	5.2	40	(7)
Loan-to-Deposits ratio (%)	54.8	56.0	50.4	449	(117)
Loan-to-Dep. & Borrowed Funds ratio (%)	55.0	57.0	51.3	376	(200)
Funded Income Generating Potential (%)	86.2	87.2	86.1	14	(100)
Funded Income Reliance (%)	50.3	50.8	55.0	(466)	(43)
NFI contribution to total income	49.7	49.2	45.0	466	43
Cost to income ratio (%)	40.8	40.5	42.2	(139)	30
Pre-tax margin (%)	36.9	39.7	30.6	632	(283)
PAT margin (%)	22.6	28.0	20.8	181	(535)

(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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