

DYER & BLAIR INVESTMENT BANK

EARNINGS UPDATE

Founder Member of the Nairobi Securities Exchange

16TH MARCH 2023



DYER & BLAIR
INVESTMENT BANK

WE KNOW. YOU KNOW.

KCB GROUP HOLDINGS: FY22 EARNINGS UPDATE

Dear All,

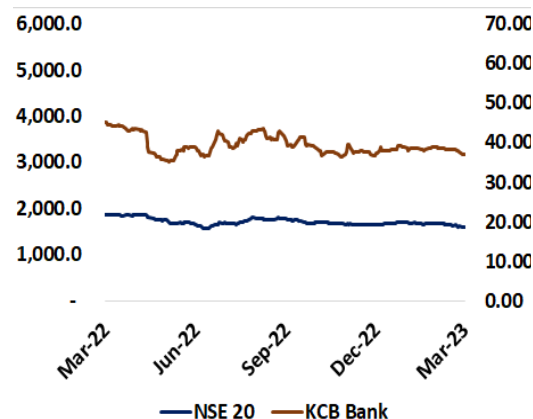
KCB Group released its FY22 results reporting a 19.5% y-o-y improvement in after-tax profits to KES 40.8 BN. The improvement in the financial performance was powered by a 39.8% y-o-y rise in non-funded income to KES 43.3 BN and an 11.5% y-o-y upswing in net interest income to KES 86.7 BN. EPS for the period went up by 19.1% y-o-y to KES 12.64. The board has recommended a final dividend of KES 1.00 placing the total dividend per share for the period at KES 2.00 (FY21: KES 3.00), having already paid an interim dividend of KES 1.00 per share. If approved, the final dividend will be paid to shareholders on the register at the close of business on 6th April 2023.

Below please find key highlights:

Net interest income advanced by 11.5% y-o-y to KES 86.7 BN, led by a 15.3% y-o-y growth in total interest income to KES 117.8 BN outweighing a 27.1% y-o-y climb in total interest expenses to KES 31.1 BN. The yield on interest earning assets eased by 30 bps y-o-y to 10.1%, while cost of funds rose by 30 bps y-o-y to 3.1%. Subsequently, the group's NIM declined by 60 bps y-o-y to 7.0%.

Interest income from loans and advances edged up by 13.8% y-o-y to KES 84.2 BN powered by a 27.8% y-o-y growth in the group's net loan book to KES 863.3 BN as the yield on loans declined by 70 bps y-o-y to 10.9%. The group attributed the lower yield on loans to the impact of the suspension of interest on a number of loans and advances that migrated to non-performing loans. On the other hand, income arising from government securities climbed by 23.8% y-o-y to KES 32.9 BN supported by a 60 bps y-o-y rise in the yield on government securities to 11.5% and a 6.9% y-o-y growth realized in the group's holding of government and investment securities to KES 295.4 BN.

KCB GROUP: 52 WEEK PRICE PERFORMANCE



(Source: NSE, DBIB Research)

PRICE RETURN	ABSOLUTE RETURN	EXCESS RETURN
3 months (%)	0.8	4.1
6 months (%)	(9.4)	1.7
12 months (%)	(17.7)	(2.8)

KEY METRICS

Current Price (KES)	37.05
52 week Range (KES)	35.00 - 45.05
YTD Return (%)	(2.8)
Issued Shares (Mn)	3,213.5
Market Cap (USD Mn)	918.7

EPS (KES)	12.64
NAV (KES)	62.30
P/E (x)	2.9
P/B (x)	0.6
Div. Yield (%)	5.4

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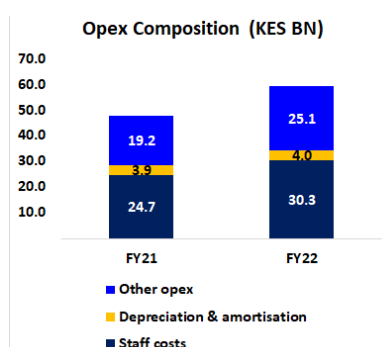
Interest expenses arising from customer deposits increased by 23.0% y-o-y to KES 25.2 BN owing to a 35.6% y-o-y jump in customer deposits to KES 1.1 TN. The cost of customer deposits remained relatively unchanged at 2.6%.

Non-funded income improved by 39.8% y-o-y to KES 43.3 BN lifting the contribution of non-funded income to total operating income by 481 bps y-o-y to 33.3% (FY21: 28.5%). The growth witnessed in non-funded income was largely driven by a 69.2% y-o-y jump in forex trading income to KES 11.1 BN, a 20.6% y-o-y rise in fees and commissions on loans and advances to KES 10.6 BN and a 16.9% y-o-y growth in other fees and commissions to KES 12.3 BN.

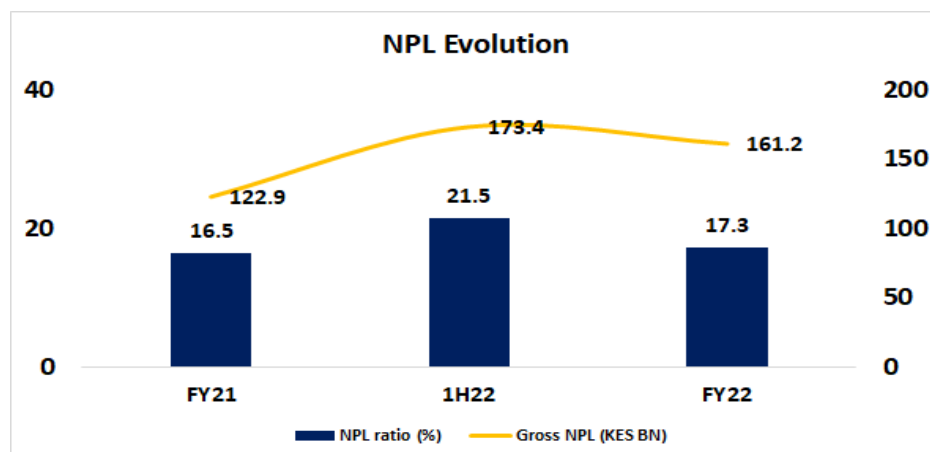
The group's operating expenses (minus provisions) climbed by 24.1% y-o-y to KES 59.4 BN mainly on the back of a 22.4% y-o-y growth in staff costs to KES 30.3 BN and a 33.2% y-o-y increase in other expenses to KES 21.5 BN. As a result of the faster rise in operating expenses (minus provisions) in comparison to total operating income (+19.6% y-o-y to KES 129.9 BN), the group's cost-to-income ratio rose by 167 bps y-o-y to 45.7% (FY21: 44.0%).

Loan loss provisions edged up by 1.7% y-o-y to KES 13.2 BN placing the group's cost of risk at 1.7%, down 30 bps y-o-y. The group's gross non-performing loans soared by 31.2% y-o-y to KES 161.2 BN (+8.0% q-o-q) while interest in suspense rose by 8.9% y-o-y to KES 13.8 BN (+2.6% q-o-q). Consequently, total NPLs (gross NPLs less interest in suspense) advanced by 33.8% y-o-y to KES 147.4 BN (+8.5% q-o-q).

The NPL ratio increased by 80 bps y-o-y to 17.3%, above the Kenyan banking industry NPL ratio of 13.3% as at December 2022. However, we note that between 1H22 and FY22 the NPL ratio declined by 420 bps (from 21.5% in 1H22), and the group attributed the improvement in asset quality to concerted efforts to reduce the size of non-performing loans especially in NBK and KCB Bank Kenya. The regulatory coverage ratio remained unchanged at 60.7% (FY21: 60.7%) while the IFRS

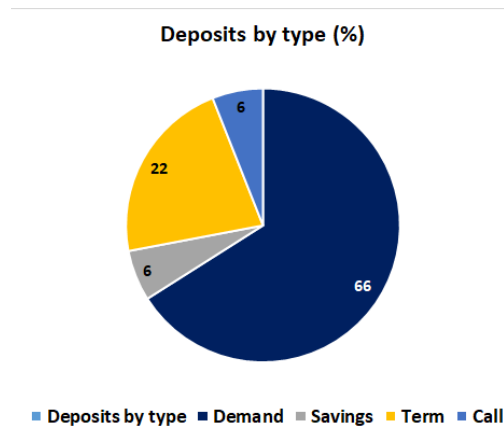


Source: Company



coverage ratio eased from 54.2% in FY21 to 44.1% in FY22.

Net loans and advances to customers rose by 27.8% y-o-y to KES 863.3 BN (+13.8% q-o-q) driven by improved lending in personal, building & construction and manufacturing sectors. Government and investment securities climbed by 6.9% y-o-y to KES 295.4 BN (+6.6% q-o-q). **On the funding side, customer deposits increased by 35.6% y-o-y to KES 1.1 TN (+23.1% q-o-q).** Borrowed funds jumped by 69.4% y-o-y to KES 63.6 BN (+1.5% q-o-q). The loan-to-deposit ratio settled at 76.0% (FY21: 80.7%) while the loan to deposit and borrowed funds stood at 72.0% (FY21: 77.2%).



Source: Company

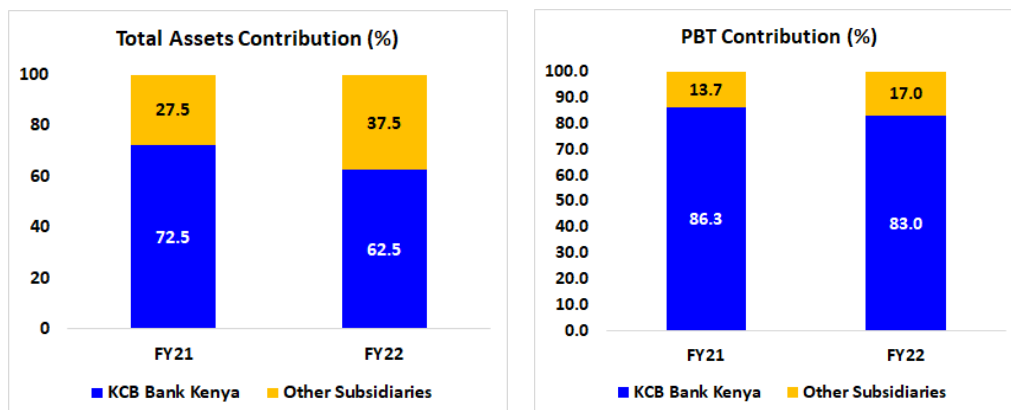
KCB Group's core capital ratio (Core capital/TRWA) declined by 410 bps y-o-y to 13.9% above the statutory minimum of 10.5% while **Total capital/TRWA decreased by 460 bps y-o-y to 17.1%** above the statutory minimum of 14.5%. KCB Bank Kenya's core capital ratio (Core capital/TRWA) eased by 500 bps y-o-y to 10.9% above the statutory minimum of 10.5% while Total capital/TRWA shed 500 bps y-o-y to 15.2% above the statutory minimum of 14.5%. NBK's core capital ratio (Core capital/TRWA) eased by 50 bps y-o-y to 12.2% above the statutory minimum of 10.5% while Total capital/TRWA shed 80 bps y-o-y to 13.5% below the statutory minimum of 14.5%. The group stated that it plans to improve NBK's total capital ratio in 1H23.

	Group	KCB KN	NBK KN	Min.
Core capital ratio (%)	13.9	10.9	12.2	10.5
Total capital ratio (%)	17.1	15.2	13.5	14.5

Source: Company

The Group's liquidity ratio improved to 40.9% (FY21: 39.1%) while KCB Bank Kenya liquidity ratio reduced by 510 bps y-o-y to 29.9%.

The regional business contributed 37.5% of total assets (FY21: 27.5%) spurred by the acquisition of TMB which contributed 13.5% to total assets. The regional business contribution to pre-tax earnings stood at 17.0% (FY21: 13.7%).



Source: Company

FY23's management guidance: Management guides as follows:

	FY23 Outlook
NFI ratio (%)	36.0
Cost-to-income ratio (%)	45.0
NPL ratio (%)	13.0
Cost of risk (%)	1.2
Cost of funds (%)	2.7
NIM (%)	7.8
Asset yield (%)	10.5
Loan growth (%)	10.0
Deposit growth (%)	15.0
ROE (%)	25.6

Source: Company

KCB Group is currently trading at a P/E multiple of 2.9x against an industry median of 3.6x and a P/B multiple of 0.6x against an industry median of 0.7x. Its ROE stands at 20.3% while its ROA stands at 2.6%.

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	117,751	102,157	15.3	34,211	29,002	28,626	19.5	18.0
Interest expense	31,098	24,463	27.1	9,151	7,999	7,369	24.2	14.4
Net interest income	86,653	77,694	11.5	25,059	21,002	21,257	17.9	19.3
Other operating income	9,185	5,009	83.4	4,000	2,327	517	673.9	71.9
Fees and commission income	22,987	19,385	18.6	6,018	5,545	4,913	22.5	8.5
Net income from forex dealings	11,079	6,546	69.2	2,683	3,463	2,041	31.4	(22.5)
Total non-interest income	43,252	30,941	39.8	12,701	11,335	7,472	70.0	12.0
Total income	129,905	108,635	19.6	37,760	32,338	28,729	31.4	16.8
Less operating expenses	59,367	47,832	24.1	17,794	14,263	13,064	36.2	24.8
Operating profit	70,538	60,802	16.0	19,967	18,075	15,665	27.5	10.5
Bad debt charge	(13,207)	(12,988)	1.7	(5,939)	(2,949)	(3,660)	62.3	101.4
Exceptional items	-	-	-	-	-	-	-	-
Profit before income tax	57,331	47,814	19.9	14,027	15,126	12,005	16.8	(7.3)
Less tax	(16,494)	(13,642)	20.9	(3,784)	(4,177)	(3,039)	24.5	(9.4)
Profit after tax	40,838	34,172	19.5	10,243	10,948	8,966	14.2	(6.4)
Attributable Income	40,614	34,091	19.1	10,155	10,812	8,918	13.9	(6.1)
EPS (KES)	12.71	10.64	19.5	0.1	0.5	0.2	(65.0)	(85.7)
DPS (KES)	2.00	3.00	(33.3)	1.0	1.0	2.0	(50.0)	-
No of shares (m)	3,213.5	3,213		3,213	3,213	3,213		

(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	200,200	187,772	171,713	16.6	6.6
Minority interest	6,076	2,447	1,794	-	0.0
Total Equity	206,276	190,219	173,508	18.9	8.4
Deposits due to other banks	55,559	32,722	44,320	25.4	69.8
Customer deposits	1,135,417	922,304	837,141	35.6	23.1
Borrowed funds	63,610	62,688	37,561	69.4	1.5
Other liabilities	93,167	68,351	47,142	97.6	36.3
Total equity and liabilities	1,554,030	1,276,283	1,139,673	36.4	21.8
Central bank balances	65,115	73,137	53,233	22.3	(11.0)
Deposits due from banks	189,649	62,364	45,022	321.2	204.1
Investment securities	278,020	277,109	270,830	2.7	0.3
Held for dealing securities	17,403.32	-	5,462	-	-
Customer loans and advances	863,268	758,816	675,480	27.8	13.8
Other assets	89,631	78,462	60,901	47.2	14.2
Intangible assets	21,215	6,132	7,010	202.6	246.0
Fixed assets	29,729	20,263	21,734	36.8	46.7
Total assets	1,554,030	1,276,283	1,139,673	36.4	21.8

(Source: Company, DBIB Research)

INVESTMENT RETURN

	FY22	9M22	FY21	y-y bps ch	q-q bps ch
ROA (%)	2.6	3.2	3.0	(38)	(58.3)
ROIC (%)	2.9	3.5	3.3	(36)	(58.1)
ROE (%)	19.7	21.4	19.6	4	(166.1)

(Source: Company, DBIB Research)

CAPITAL ADEQUACY, LIQUIDITY & ASSET QUALITY

	FY22	9M22	FY21	y-y bps ch	q-q bps ch
Core capital/TRWA (%)	10.9	12.6	15.9	(500)	(170)
Min. Statutory Ratio (%)	10.5	10.5	10.5	-	-
Total capital/TRWA (%)	15.2	17.0	20.2	(500)	(180)
Min. Statutory Ratio (%)	14.5	14.5	14.5	-	-
Liquidity Ratio (%)	29.9	34.6	35.0	(510)	(470)
Min. Statutory Ratio (%)	20.0	20.0	20.0	-	-
Leverage Ratio (%)	13.3	14.9	15.2	(195)	(163)
Equity-to-Loans Ratio (%)	23.9	25.1	25.7	(179)	(117)
NPL Ratio (%)	17.3	18.2	16.5	80	(90)
NPL Coverage Ratio (%)*	60.7	61.4	60.7	-	(70)
LT Debt to Total Liabilities and Equity (%)	4.1	4.9	3.3	80	(82)
NTA/share (KES)	54.9	52.9	47.2		
Book value/share (KES)	64.2	59.2	54.0		
Payout ratio (%)	15.7	7.9	28.2	(1246)	-
Adj payout ratio (%)	15.7	10.5	28.2	(1247)	-

(Source: Company, DBIB Research)

*Regulatory coverage

OPERATING PERFORMANCE

	FY22	9M22	FY21	y-y bps ch	q-q bps ch
Yield on interest earning assets (%)	10.1	10.0	10.4	(30)	10
Cost of funds (%)	2.1	3.0	2.8	30	10
Net Interest Margin (%)	7.0	7.0	7.6	(60)	-
Loan-to-Deposits ratio (%)	76.0	82.3	80.7	(466)	(624)
Loan-to-Dep. & Borrowed Funds ratio (%)	72.0	77.0	77.2	(523)	(504)
Funded Income Generating Potential (%)	74.6	81.2	83.5	(895)	(661)
Funded Income Reliance (%)	66.7	66.8	71.5	(481)	(14)
Cost to income ratio (%)	45.7	45.1	44.0	167	58
Pre-tax margin (%)	44.1	47.0	44.0	12	(286)
PAT margin (%)	31.4	33.2	31.5	(2)	(177)

(Source: Company, DBIB Research)

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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