

# DYER & BLAIR INVESTMENT BANK

## EARNINGS UPDATE

Founder Member of the Nairobi Securities Exchange

25<sup>TH</sup> MAY 2023



DYER & BLAIR  
INVESTMENT BANK

WE KNOW. YOU KNOW.

### KCB GROUP: 1Q23 EARNINGS UPDATE

Dear All,

KCB Group released its 1Q23 results reporting a 1.1% y-o-y decline in after tax profits to KES 9.8 BN. The group's performance was characterized by a 59.2% y-o-y jump in non-funded income to KES 14.8 BN and an 11.8% y-o-y growth in net interest income to KES 22.1 BN. The annualized EPS for the period stood at KES 12.14 (1Q22: KES 12.18).

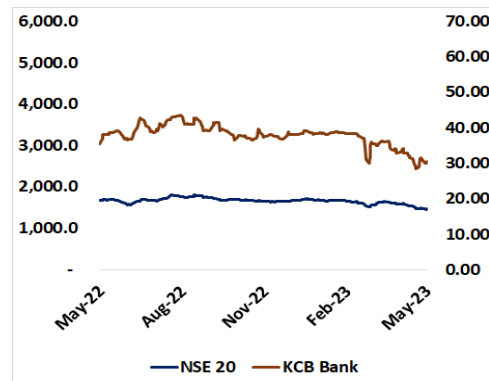
Below please find key highlights:

**Net interest income advanced by 11.8% y-o-y to KES 22.1 BN**, characterized by a 26.2% y-o-y growth in total interest income to KES 33.6 BN against a 67.7% y-o-y rise in total interest expenses to KES 11.6 BN. The annualized yield on interest earning assets eased by 60 bps y-o-y to 9.4% while the annualized cost of funds rose by 50 bps y-o-y to 3.5% resulting in a NIM of 5.8% (1Q22: 7.0%).

**Interest income from loans and advances rose by 31.4% y-o-y to KES 24.7 BN** driven by a 31.9% y-o-y expansion in the group's loan book to KES 928.8 BN and a 12 bps y-o-y increase in the annualized yield on loans to 11.0%. **Interest income arising from the group's portfolio of government & investment securities improved by 14.6% y-o-y to KES 8.8 BN** powered by an 86 bps y-o-y increase in the annualized yield on government securities to 11.8% and a 5.6% y-o-y growth in the group's holding of government & investment securities to KES 297.7 BN.

**Interest expenses from customer deposits went up by 36.1% y-o-y to KES 7.8 BN** occasioned by a 41.5% y-o-y growth in customer deposits to KES 1.2 TN as the annualized cost of customer deposits remained relatively flat at 2.7% (-5 bps y-o-y).

#### KCB GROUP: 52 WEEK PRICE PERFORMANCE



(Source: NSE, DBIB Research)

PRICE RETURN	ABSOLUTE RETURN	EXCESS RETURN
3 months (%)	(20.7)	(9.4)
6 months (%)	(18.6)	(8.3)
12 months (%)	(15.2)	(3.6)

#### KEY METRICS

Current Price (KES)	30.50
52 week Range (KES)	28.50 – 43.50
YTD Return (%)	(19.9)
Issued Shares (Mn)	3,213.5
Market Cap (USD Mn)	710.5

Trailing EPS (KES)	12.67
NAV (KES)	64.77
P/E (x)	2.4
P/B (x)	0.5
Div. Yield (%)	-

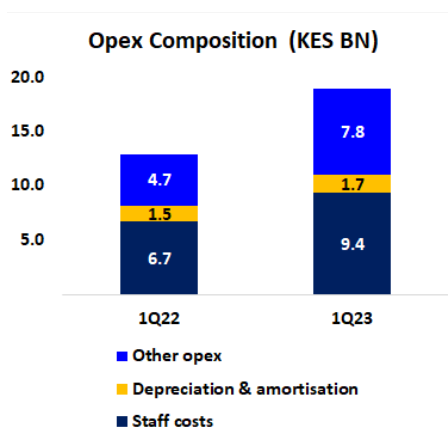
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**Non-funded income went up by 59.2% y-o-y to KES 14.8 BN** principally driven by a 111.4% y-o-y surge in other fees and commissions to KES 7.1 BN, a 52.1% y-o-y jump in foreign exchange trading income to KES 2.6 BN and a 43.8% y-o-y increase in other fees and commissions to KES 2.3 BN. Fees and commissions on loans and advances rose by 5.7% y-o-y to KES 2.7 BN. Total operating income edged up by 26.9% y-o-y to KES 36.9 BN. The contribution of non-funded income to total income improved by 813 bps y-o-y to 40.1% (1Q22: 32.0%).

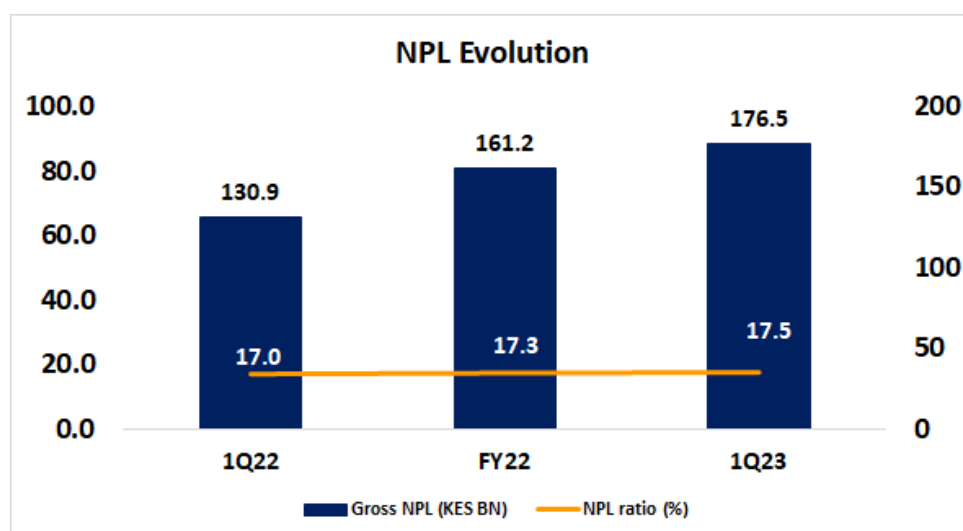


Source: Company

**Operating expenses (excluding provisions) climbed by 46.1% y-o-y to KES 18.1 BN** largely fuelled by a 72.2% y-o-y rise in other expenses to KES 7.4 BN and a 39.3% y-o-y advancement in staff costs to KES 9.4 BN. Owing to the faster rise in operating expenses (excluding provisions) in comparison to operating income the group's cost-to-income ratio (excluding provisions) rose by 671 bps y-o-y to 51.2% (1Q22: 44.5%).

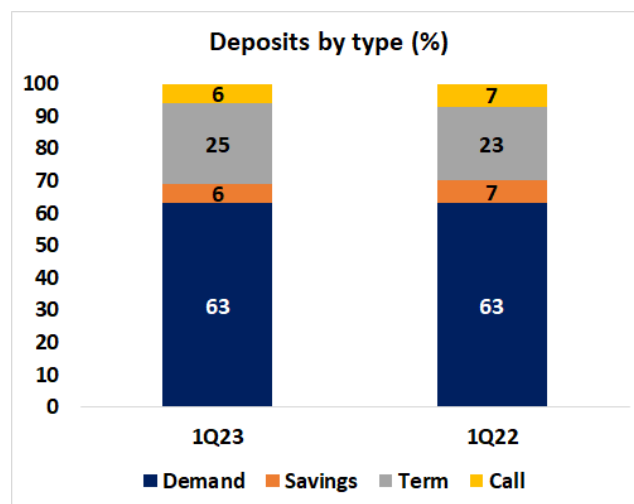
**Loan loss provisions jumped by 98.4% y-o-y to KES 4.1 BN** placing the annualized cost of risk at 1.8% (1Q22: 1.2%).

**The group's gross non-performing loans increased by 34.8% y-o-y to KES 176.5 BN (+9.5% q-o-q)** while interest in suspense rose by 13.5% y-o-y to KES 15.3 BN (+10.7% q-o-q). Consequently, total NPLs (gross NPLs less interest in suspense) advanced by 37.2% y-o-y to KES 161.1 BN (+9.4% q-o-q). **Owing to the rise in gross non-performing loans, the NPL ratio rose by 50 bps y-o-y to 17.5%.** The increase in NPLs was driven by manufacturing and transport & communication sectors within Kenya. The regulatory coverage ratio (excluding collateral) rose by 60 bps y-o-y to 58.7% while the IFRS coverage ratio (excluding collateral) eased by 790 bps y-o-y to 44.6%.



Source: Company

**Net loans and advances rose by 31.9% y-o-y to KES 928.8 BN (+7.6% q-o-q)** in comparison to a 5.6% y-o-y rise in government and investment securities to KES 297.7 BN (+0.8% q-o-q). **On the funding side, customer deposits improved by 41.5% y-o-y to KES 1.2 TN (+5.4% q-o-q)** while borrowed funds increased by 65.5% y-o-y to KES 62.6 BN (-1.5% q-o-q). The group's loan-to-deposit ratio declined by 565 bps y-o-y to 77.6% while the ratio of loans to customer deposits & borrowed funds followed a similar trend, decreasing by 595 bps y-o-y to 73.8%.



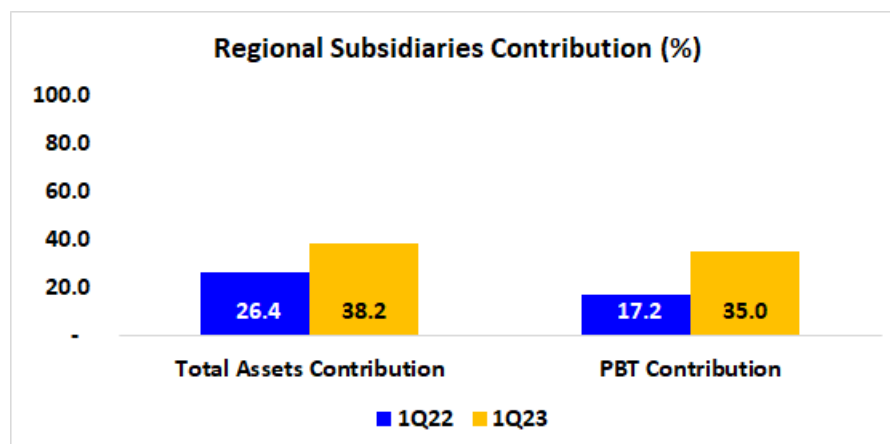
Source: Company

**KCB Group's core capital ratio (core capital/TRWA) decreased by 560 bps y-o-y to 13.6%** above the statutory minimum of 10.5% while total capital/TRWA declined by 580 bps y-o-y to 17.0% above the statutory minimum of 14.5%. **KCB Bank Kenya's core capital ratio (core capital/TRWA) eased by 460 bps y-o-y to 11.1%** above the statutory minimum of 10.5% while total capital/TRWA went down by 430 bps y-o-y to 15.3% above the statutory minimum of 14.5%. The Group's liquidity ratio improved to 43.7% (1Q22: 36.9%) while KCB Bank Kenya's liquidity ratio reduced by 500 bps y-o-y to 28.1% (1Q22: 33.1%).

	Group	Min.	KCB KN	Min.
Core capital ratio (%)	13.6	10.5	11.1	10.5
Total capital ratio (%)	17.0	14.5	15.3	14.5

Source: Company

The international business contributed 38.2% of total assets (1Q22: 26.4%) and 35.0% of total pre-tax earnings (1Q22: 17.2%).



Source: Company

**FY23's management guidance:** Management guides as follows:

	<b>FY23 Outlook</b>
Loan growth (%)	10.0 - 15.0
Deposit growth (%)	12.0 - 18.0
NIM (%)	7.7 - 7.9
NFI ratio (%)	35.0 - 37.0
Cost-to-income ratio (%)	44.0 - 46.0
ROE (%)	24.0 - 26.0
Asset yield (%)	10.4 - 10.9
Cost of risk (%)	1.1 - 1.5
NPL (%)	12.0 - 14.0
Cost of funds (%)	2.7 - 3.0

**On a trailing basis**, KCB Group is currently trading at a P/E multiple of 2.4x against an industry median of 3.6x and a P/B multiple of 0.5x against an industry median of 0.7x. Its ROE stands at 19.4% while its ROA stands at 2.5%.

## PROFIT AND LOSS SUMMARY (KES MN)

Year End: December	1Q23	1Q22	4Q22	y-y % ch	q-q % ch
Interest income	33,613	26,628	34,211	26.2	(1.7)
Interest expense	11,553	6,888	9,151	67.7	26.2
Net interest income	22,060	19,740	25,059	11.8	(12.0)
Other operating income	2,343	1,629	4,000	43.8	(41.4)
Fees and commission income	9,801	5,923	6,018	65.5	62.9
Net income from forex dealings	2,646	1,740	2,683	52.1	(1.4)
Total non-interest income	14,790	9,292	12,701	59.2	16.5
Total income	36,850	29,031	37,760	26.9	(2.4)
Less operating expenses	18,878	12,924	17,794	46.1	6.1
Operating profit	17,972	16,107	19,967	11.6	(10.0)
Bad debt charge	(4,118)	(2,075)	(5,939)	98.4	(30.7)
Exceptional items	-	-	-	-	-
Profit before tax	13,854	14,032	14,027	(1.3)	(1.2)
Less tax	(4,101)	(4,176)	(3,784)	(1.8)	8.4
Profit after tax	9,753	9,856	10,243	(1.1)	(4.8)
Attributable Income	9,503	9,789	10,155	(2.9)	(6.4)
EPS (KES)	12.14	12.18	0.07	(0.3)	0.0

(Source: Company, DBIB Research)

## BALANCE SHEET SUMMARY (KES MN)

Year End: December	1Q23	FY22	1Q22	y-y % ch	q-q % ch
Total shareholder's equity	208,145	200,200	181,833	14.5	4.0
Minority interest	6,701	6,076	1,890	-	-
Total Equity	214,846	206,276	183,723	16.9	4.2
Deposits due to other banks	60,989	55,559	45,293	34.7	9.8
Customer deposits	1,196,587	1,135,417	845,817	41.5	5.4
Borrowed funds	62,636	63,610	37,843	65.5	(1.5)
Other liabilities	95,546	93,167	54,232	76.2	2.6
Total equity and liabilities	1,630,604	1,554,030	1,166,908	39.7	4.9
Central bank balances	64,954	65,115	44,454	46.1	(0.2)
Deposits due from banks	189,480	189,649	40,722	365.3	(0.1)
Investment securities	297,719	278,020	274,443	8.5	7.1
Held for dealing securities	-	17,403	7,365	(100.0)	(100.0)
Customer loans and advances	928,824	863,268	704,366	31.9	7.6
Other assets	96,266	89,631	66,486	44.8	7.4
Intangible assets	22,328	21,215	7,367	203.1	5.2
Fixed assets	31,033	29,729	21,705	43.0	4.4
Total assets	1,630,604	1,554,030	1,166,908	39.7	4.9

(Source: Company, DBIB Research)

## INVESTMENT RETURN

	1Q23	1Q22	FY22	y-y bps ch	q-q bps ch
ROA (%)*	2.4	3.4	2.6	(99)	(22)
ROIC (%)*	2.6	3.7	2.9	(105)	(24)
ROE (%)*	18.2	21.5	19.7	(330)	(153)

(Source: Company, DBIB Research)

\*Annualized

## CAPITAL ADEQUACY, LIQUIDITY & ASSET QUALITY

	1Q23	1Q22	FY22	y-y bps ch	q-q bps ch
Core capital/TRWA (%)	11.1	15.7	10.9	(460)	20
Min. Statutory Ratio (%)	10.5	10.5	10.5	-	-
Total capital/TRWA (%)	15.3	19.6	15.2	(430)	10
Min. Statutory Ratio (%)	14.5	14.5	14.5	-	-
Liquidity Ratio (%)	28.1	33.1	29.9	(500)	(180)
Min. Statutory Ratio (%)	20.0	20.0	20.0	-	-
Leverage Ratio (%)	13.2	15.7	13.3	(257)	(10)
Equity-to-Loans Ratio (%)	23.1	26.1	23.9	(295)	(76)
NPL Ratio (%)	16.0	15.7	15.7	29	23
NPL Coverage Ratio (%)	53.2	47.2	47.9	599	527
LT Debt to Total Liabilities and Equity (%)	3.8	3.2	4.1	60	(25)
NTA/share (KES)	57.2	50.4	54.9	678	226
Book value/share (KES)	66.9	57.2	64.2	969	267

(Source: Company, DBIB Research)

## OPERATING PERFORMANCE

	1Q23	1Q22	FY22	y-y bps ch	q-q bps ch
Yield on interest earning assets (%)*	9.4	10.0	10.1	(60)	(70)
Cost of funds (%)*	3.5	3.0	3.1	50	40
Net Interest Margin (%)*	5.8	7.0	7.0	(120)	(120)
Loan-to-Deposits ratio (%)	77.6	83.3	76.0	(565)	159
Loan-to-Dep. & Borrowed Funds ratio (%)	73.8	79.7	72.0	(595)	176
Funded Income Generating Potential (%)	75.2	84.5	74.6	(929)	66
Funded Income Reliance (%)	59.9	68.0	66.7	(813)	(684)
Cost to income ratio (%)	51.2	44.5	45.7	671	553
Pre-tax margin (%)	37.6	48.3	44.1	(1074)	(654)
PAT margin (%)	26.5	34.0	31.4	(748)	(497)

(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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