

DYER & BLAIR INVESTMENT BANK

EARNINGS UPDATE

Founder Member of the Nairobi Securities Exchange

25TH MAY 2023



DYER & BLAIR
INVESTMENT BANK

WE KNOW. YOU KNOW.

NCBA GROUP: 1Q23 EARNINGS UPDATE

Dear All,

NCBA Group has released its 1Q23 results reporting a **48.5% y-o-y improvement in after-tax profits to KES 5.1 BN**. This was occasioned by an 18.0% y-o-y growth in net interest income to KES 8.4 BN, an 18.5% y-o-y increase in non-funded income to KES 7.2 BN and a 22.6% y-o-y drop in loan loss provisions to KES 2.0 BN. EPS for the period stood at KES 3.08 compared to KES 2.07 in 1Q22.

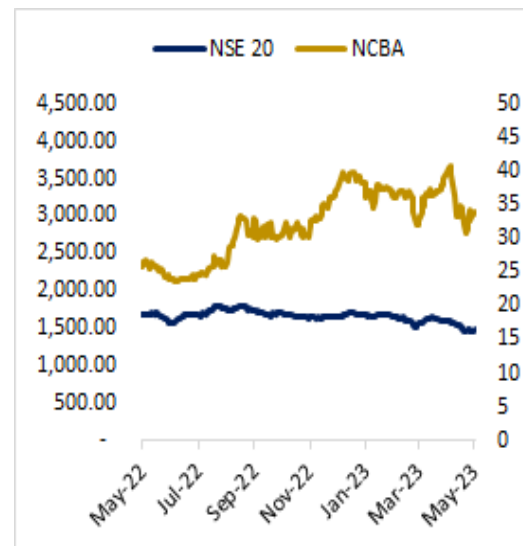
Key highlights:

Net interest income rose by 18.0% y-o-y to KES 8.4 BN, backed by a 21.0% y-o-y growth in interest income to KES 14.7 BN against a 25.2% y-o-y increase in interest expense to KES 6.3 BN. Annualized yield on interest earning assets inched higher by 117 bps y-o-y to 10.7% while annualized cost of funds rose by 72 bps y-o-y to 4.9%. As a result, the group's net interest margin (NIM) edged up by 45 bps y-o-y to 5.7%.

Interest income from loans and advances went up by 24.3% y-o-y to KES 7.8 BN hinged on a 17.7% y-o-y expansion in the group's net customer loans to KES 287.2 BN and a 145 bps y-o-y rise in the annualized yield on loans to 11.8%. Interest income from investment securities rose by 14.8% y-o-y growth to KES 6.6 BN supported by a 5.0% y-o-y growth in the group's government and investment securities portfolio to KES 235.3 BN as the annualized yield on investment securities remained relatively flat at 11.6% (-8 bps y-o-y).

Interest expense from customer deposits increased by 22.8% y-o-y to KES 5.9 BN bolstered by a 7.3% y-o-y rise in customer deposits to KES 499.7 BN and a 62 bps y-o-y growth in the annualized cost of deposits to 4.9%.

NCBA GROUP: 52 WEEK PRICE PERFORMANCE



(Source: NSE, DBIB Research)

PRICE RETURN	ABSOLUTE RETURN	EXCESS RETURN
3 months (%)	(15.1)	35.8
6 months (%)	3.7	58.9
12 months (%)	29.1	41.1

KEY METRICS

Current Price (KES)	33.95
52 week Low (KES)	23.60
52 week High (KES)	40.00
YTD Return (%)	(13.7)
Issued Shares (MN)	1,647.5
Market Cap (USD MN)	404.9

Trailing EPS (KES)	9.37
NAV (KES)	53.36
Trailing P/E (x)	3.6
Trailing P/B (x)	0.6

Research Analyst

Diana Omondi

domondi@dyerandblair.com

+254 709 930 128

Non-funded income went up by 18.5% y-o-y to KES 7.2 BN courtesy of a 63.8% y-o-y increase in net income from forex dealings to KES 2.7 BN, a 24.0% y-o-y growth in other fees and commissions to KES 1.2 BN and a 3.7% y-o-y increase in fees and commissions on loans to KES 2.8 BN. Other operating income dwindled by 30.7% y-o-y to KES 545.4 MN. Total income inched higher by 18.2% y-o-y to KES 15.5 BN. The contribution of non-funded income to total income rose to 46.2% compared to 46.1% in 1Q22.

Operating expenses (less loan loss provisions) rose by 28.7% y-o-y to KES 7.2 BN mainly owing to a 31.8% y-o-y increase in other operating expenses to KES 3.5 BN and a 35.2% y-o-y increase in staff costs to KES 2.9 BN. The group's cost-to-income ratio rose by 378 bps y-o-y to 46.3%.

Loan loss provisions dropped by 22.6% y-o-y to KES 2.0 BN placing the annualized cost of risk at 2.7% (1Q22: 4.1%).

Gross non-performing loans fell by 11.9% y-o-y to KES 39.7 BN (+1.6% q-o-q) while interest in suspense decreased by 6.0% y-o-y to KES 8.1 BN (+10.8% q-o-q). Thus, total NPLs declined by 13.3% y-o-y to KES 31.7 BN (-0.5% q-o-q). The group's NPL ratio shrank by 346 bps y-o-y to 12.2%. Cumulative loan loss provisions dropped by 40.0% y-o-y to KES 14.5 BN (-7.0% q-o-q) placing the NPL coverage ratio at 36.5% (1Q22: 53.6%).

Net customer loans and advances scaled by 17.7% y-o-y to KES 287.2 BN (+3.0% q-o-q) while investment securities grew by 5.0% y-o-y to KES 235.3 BN (+2.4% q-o-q). **On the funding side, customer deposits edged up by 7.3% y-o-y to KES 499.7 BN (-0.6% q-o-q)** while borrowed funds dropped by 28.1% y-o-y to KES 4.2 BN (+0.8% q-o-q). As such, loan-to-deposit ratio rose by 507 bps y-o-y to 57.5% while loan-to-deposit and borrowed funds ratio increased by 524 bps y-o-y to 57.0%.

NCBA Kenya's core capital ratio (Core capital/TRWA) fell by 62 bps y-o-y to 17.4% while total capital ratio (Total capital/TRWA) decreased by 65 bps y-o-y to 17.4%. Both ratios remain above the statutory minimum of 10.5% and 14.5% respectively. Liquidity ratio declined by 598 bps y-o-y to 54.8%, above the statutory minimum of 20.0%. **NCBA Group's core capital ratio (Core capital/TRWA) shed 29 bps y-o-y to 17.7%** while total capital ratio (Total capital/TRWA) dropped by 24 bps y-o-y to 17.8%. Both ratios remain above the statutory minimum of 10.5% and 14.5% respectively. Liquidity ratio fell by 992 bps y-o-y to 53.1%, above the statutory minimum of 20.0%.

On a trailing basis, NCBA is trading at a P/E multiple of 3.6x at par with the industry and a P/B multiple of 0.6x against an industry median of 0.7x. Its ROE stands at 17.6% 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	14,714	12,163	13,624	21.0	8.0
Interest expense	6,346	5,070	6,192	25.2	2.5
Net interest income	8,368	7,093	7,431	18.0	12.6
Other operating income	545	787	654	(30.7)	(16.6)
Fees and commission income	3,981	3,650	3,776	9.1	5.4
Net income from forex dealings	2,653	1,620	3,288	63.8	(19.3)
Total non-interest income	7,179	6,057	7,718	18.5	(7.0)
Total income	15,547	13,150	15,149	18.2	2.6
Less operating expenses	7,199	5,592	6,319	28.7	13.9
Operating profit	8,349	7,558	8,830	10.5	(5.4)
Bad debt charge	1,954	2,525	21,390	(22.6)	(90.9)
Exceptional items	-	185	1,246	(100.0)	(100.0)
Profit before tax	6,395	4,848	4,298	31.9	48.8
Less tax	1,328	1,437	14,104	(7.6)	(90.6)
Profit after tax	5,066	3,411	975	48.5	419.9

(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	87,907	82,422	80,181	9.6	6.7
Total Equity	87,907	82,422	80,305	9.5	6.7
Balances due to Central Bank	3,000	-	-	-	-
Deposits due to other banks	9,563	5,914	9,246	3.4	61.7
Customer deposits	499,736	502,676	465,536	7.3	(0.6)
Borrowed funds	4,241	4,207	5,900	(28.1)	0.8
Other liabilities	24,379	24,443	26,390	(7.6)	(0.3)
Total equity and liabilities	628,826	619,662	587,377	7.1	1.5
Central bank balances & Cash	33,173	38,626	34,609	(4.1)	(14.1)
Deposits due from banks	28,758	25,693	43,820	(34.4)	11.9
Investment Securities	235,271	229,732	224,070	5.0	2.4
Held for dealing securities	-	-	-	-	-
Customer loans and advances	287,154	278,921	243,899	17.7	3.0
Other assets	36,510	38,523	32,955	10.8	(5.2)
Intangible assets	5,795	5,810	5,665	2.3	(0.3)
Fixed assets	2,165	2,357	2,359	(8.2)	(8.1)
Total assets	628,826	619,662	587,377	7.1	1.5

(Source: Company, DBIB Research)

INVESTMENT RETURN

	1Q23	1Q22	FY22	y-y bps ch	q-q bps ch
ROA (%)*	3.2	2.3	2.2	90	100
ROIC (%)*	3.4	2.5	2.3	95	111
ROE (%)*	23.1	17.0	16.7	606	634

(Source: Company, DBIB Research)

*Annualized

CAPITAL ADEQUACY, LIQUIDITY & ASSET QUALITY

	1Q23	1Q22	FY22	y-y bps ch	q-q bps ch
Core capital/TRWA (%)	17.7	18.0	18.4	(29)	(62)
Min. Statutory Ratio (%)	10.5	10.5	10.5	-	-
Total capital/TRWA (%)	17.8	18.0	18.4	(24)	(62)
Min. Statutory Ratio (%)	14.5	14.5	14.5	-	-
Liquidity Ratio (%)	53.1	63.0	53.2	(992)	(15)
Min. Statutory Ratio (%)	20.0	20.0	20.0	-	-
Leverage Ratio (%)	4.8	7.3	13.3	(252)	(848)
Equity-to-Loans Ratio (%)	30.6	32.9	29.6	(231)	106
NPL Ratio (%)	12.2	15.6	12.3	(346)	(14)
NPL Coverage Ratio (%)	36.5	53.6	49.0	(1,705)	(1,247)
IFRS 9 NPL Coverage Ratio (%)	56.8	72.6	58.5	(1,577)	(167)
LT Debt to Total Liabilities and Equity (%)	0.7	1.0	5.1	(33)	(443)
NTA/share (KES)	378.2	353.1	46.5	2,508	33,166
Book value/share (KES)	53.4	48.7	50.0	461	333

(Source: Company, DBIB Research)

OPERATING PERFORMANCE

	1Q23	1Q22	FY22	y-y bps ch	q-q bps ch
Yield on interest earning assets (%)*	10.7	9.5	9.8	117	87
Cost of funds (%)*	4.9	4.2	4.2	72	71
Net Interest Margin (%)*	5.7	5.3	5.6	45	16
Loan-to-Deposits ratio (%)	57.5	52.4	54.8	507	262
Loan-to-Dep. & Borrowed Funds ratio (%)	57.0	51.7	55.0	524	195
Funded Income Generating Potential (%)	87.7	87.1	86.2	52	142
Funded Income Reliance (%)	53.8	53.9	50.3	(12)	348
NFI contribution to total income (%)	46.2	46.1	49.7	12	(348)
Cost to income ratio (%)	46.3	42.5	49.7	378	(335)
Cost of risk (%)*	2.7	4.1	4.7	(142)	(196)
Pre-tax margin (%)	41.1	36.9	40.8	426	33
PAT margin (%)	32.6	25.9	36.9	664	(432)

(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

DISCLAIMER

While every care has been taken in preparing this report and it has been prepared from sources believed to be reliable, no representation, warranty, or undertaking (express or implied) is given and no responsibility is accepted by Dyer and Blair Investment Bank Limited, its related companies, subsidiaries, affiliates, its employees and agents, as to the accuracy and completeness of the information contained herein or in respect of any reliance on or use thereof. This report is solely intended for distribution to clients of Dyer and Blair Investment Bank Limited. Any information may be changed after distribution at any time without any notice.