

DYER & BLAIR INVESTMENT BANK

EARNINGS UPDATE

Founder Member of the Nairobi Securities Exchange

30TH NOVEMBER 2023



DYER & BLAIR
INVESTMENT BANK

WE KNOW. YOU KNOW.

KCB GROUP: 3Q23 EARNINGS UPDATE

Dear All,

KCB Group released its 3Q23 results reporting a marginal increase of 0.4% y-o-y in after tax profits to KES 30.7 BN. The slight increase in the financial performance was contributed by a 38.7% y-o-y rise in non-funded income to KES 42.4 BN and a 21.6% y-o-y upswing in net interest income to KES 74.9 BN. EPS for the period went up by 0.9% y-o-y to KES 12.75 (3Q22: 12.64). No dividends were declared for the period. The management is also considering no payment of dividends from KCB bank Kenya to KCB Group in the full year 2023 in order to help KCB Bank Kenya boost its adequacy ratios.

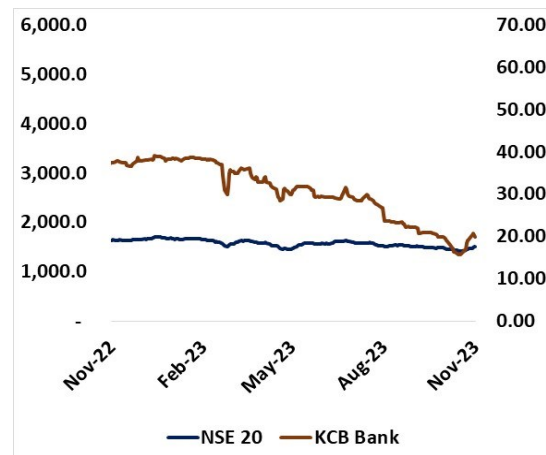
Below please find key highlights:

Net interest income inched higher by 21.6% y-o-y to KES 74.9 BN, led by a 36.4% y-o-y growth in total interest income to KES 113.9 BN against a 77.9% y-o-y advancement in total interest expenses to KES 39.1 BN. The annualized yield on interest earning assets eased by 5 bps y-o-y to 10.7% and the annualized cost of funds edged down by 3 bps y-o-y to 3.0% resulting in a NIM of 7.8% (3Q22: 7.8%).

Interest income from loans and advances rose by 39.1% y-o-y to KES 81.9 BN driven by a 38.1% y-o-y expansion in the group's loan book to KES 1.0 TN and a 26 bps y-o-y increase in the annualized yield on loans to 11.4%. **Interest income arising from the group's portfolio of government & investment securities improved by 22.8% y-o-y to KES 29.8 BN** powered by an 39 bps y-o-y increase in the annualized yield on government securities to 11.9% and a 34.0% y-o-y growth in the group's holding of government & investment securities to KES 371.3 BN.

Interest expenses from customer deposits went up by 55.6% y-o-y to KES 27.8 BN occasioned by a 79.6% y-o-y advancement in customer deposits to KES 1.7 TN as the annualized cost of customer deposits remained relatively flat at 2.7% (-7 bps y-o-y).

KCB GROUP: 52 WEEK PRICE PERFORMANCE



(Source: NSE, DBIB Research)

PRICE	ABSOLUTE	EXCESS
RETURN	RETURN	RETURN
3 months	(16.4%)	(15.6%)
6 months	(35.9%)	(37.4%)
12 months	(46.9%)	(38.9%)

KEY METRICS

Current Price (KES)	19.90
52 week Range (KES)	15.75 - 39.20
YTD Return (%)	(47.8)
Issued Shares (Mn)	3,213
Market Cap (USD Mn)	418.47

Trailing EPS (KES)	12.5
NAV (KES)	68.1
P/E (x)	1.6
P/B (x)	0.3
Div. Yield (%)	-

Research Analyst

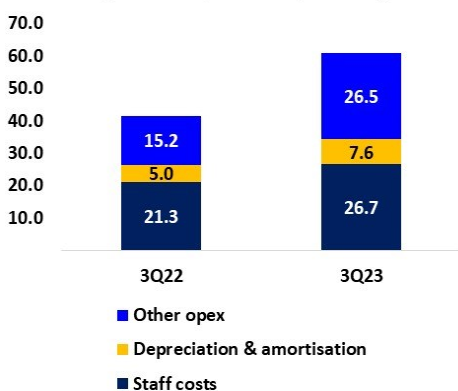
Sylvester Odhiambo

sotieno@dyerandblair.com

+254 709 930 127

Non-funded income trended higher, rising by 38.7% y-o-y to KES 42.4 BN, lifting the contribution of non-funded income to total operating income by 3 bps y-o-y to 36.1% (3Q22: 33.2%). The growth witnessed in non-funded income was largely driven by a 118.8% y-o-y jump in other fees and commissions to KES 20.0 BN, a 3.6% y-o-y rise in fees and commissions on loans and advances to KES 8.1 BN against a 2.4% y-o-y decrease in forex trading income to KES 8.2 BN. Total operating income edged up by 27.3% y-o-y to KES 117.3 BN. The contribution of non-funded income to total income improved by 3 bps y-o-y to 36.1% (3Q22: 33.2%).

Opex Composition (KES BN)



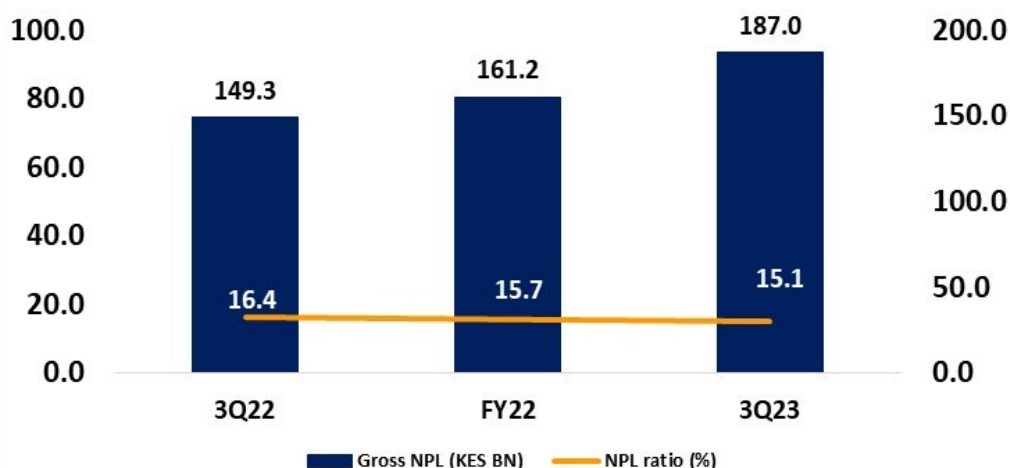
Source: Company

The group's operating expenses (minus provisions) climbed by 46.3% y-o-y to KES 60.8 BN mainly on the back of a 78.3% y-o-y increase in other expenses to KES 25.5 BN and a 25.3% y-o-y growth in staff costs to KES 26.7 BN. As a result of the faster rise in operating expenses (minus provisions) in comparison to total operating income (+27.3% y-o-y to KES 117.2 BN), the group's cost-to-income ratio rose by 675 bps y-o-y to 51.9% (3Q22: 45.1%).

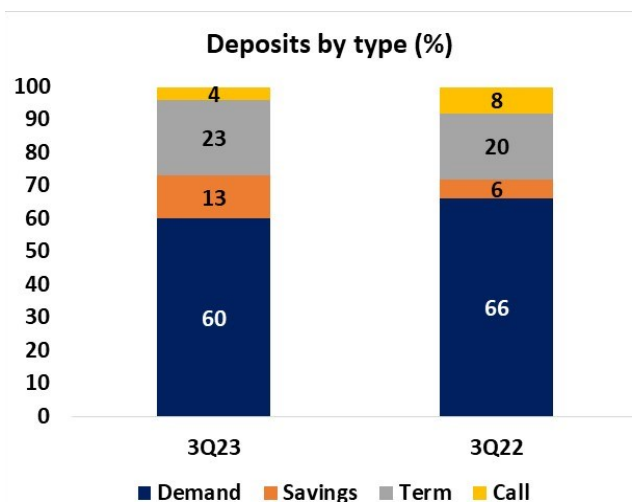
Loan loss provisions jumped by 25.3% y-o-y to 187.0 BN (2.8% q-o-q) placing the annualized cost of risk at 2.0% (3Q22: 1.3%). **The group's gross non-performing loans increased by 25.3% y-o-y to KES 187.0 BN (+2.8% q-o-q)** while interest in suspense rose by 44.1% y-o-y to KES 19.4 BN (+9.6% q-o-q). Consequently, total NPLs (gross NPLs less interest in suspense) advanced by 23.4% y-o-y to KES 167.6 BN (+2.0% q-o-q).

Owing to a faster rise in gross loans (increased 36.0% y-o-y to KES 1.2 TN) in comparison to non-performing loans, the NPL ratio cooled by 129 bps y-o-y to 15.1%. KCB management is still planning to accelerate recoveries and restructure NPLs in order to bring the overall stock number of NPLs down.

NPL Evolution



Net loans and advances rose by 38.1% y-o-y to KES 1.0 TN (+8.6% q-o-q) in comparison to a 34.0% y-o-y rise in government and investment securities to KES 371.3 BN (+2.4% q-o-q). **On the funding side, customer deposits advanced by 79.6% y-o-y to KES 1.7 TN (+12.6% q-o-q)** while borrowed funds also increased by 71.2% y-o-y to KES 73.7 BN (63.5% q-o-q). The group's loan-to-deposit ratio declined by 1,901 bps y-o-y to 63.3% while the ratio of loans to customer deposits & borrowed funds followed a similar trend, dropping by 1,762 bps y-o-y to 59.4%.



Source: Company

KCB Group's core capital ratio (core capital/TRWA) remained constant y-o-y and stood at 14.5% above the statutory minimum of 10.5% while total capital/TRWA declined by 30 bps y-o-y to 17.8% above the statutory minimum of 14.5%. **KCB Bank Kenya's core capital ratio (core capital/TRWA) eased by 180 bps y-o-y to 10.8%** above the statutory minimum of 10.5% while total capital/TRWA went down by 210 bps y-o-y to 14.9% above the statutory minimum of 14.5%. KCB Group's and KCB Bank Kenya's liquidity ratio improved to 50.3% (3Q22: 38.5%) and 47.8% (3Q22: 34.6%).

	Group	Min.	KCB KN	Min.
Core capital ratio (%)	14.5	10.5	10.8	10.5
Total capital ratio (%)	17.8	14.5	14.9	14.5

Source: Company

The thinning of KCB Bank Kenya's adequacy ratios has been a concern to the KCB Group management but insist the ratio's don't fully encompass the profit of the company with the ratios currently being calculated with only 50.0% of the registered profit for the period as required by regulators with the other 50.0% expected to be fully incorporated in the full year ratios. Additionally, the management has been eager to take action to safeguard capital and increase the adequacy ratios for KCB Bank Kenya. One potential strategy being considered is for KCB Bank Kenya to refrain from paying dividends to KCB Group in the full year.

The Democratic Republic of Congo is scheduled to hold its general elections on December 20th, 2023 with the campaign period having started on the 19th November 2023 and is stated to end on 18th December, 2023. The current political climate is calm but with rising tensions. The European Union has recently cancelled its election observation mission saying it would not be able to deploy observers to different parts of the country due to security reasons. The outcome of the election and the general political climate will majorly determine the performance of Trust Merchant Bank in the coming months which is a subsidiary of KCB Group. The current assessment points towards a tense political climate with some disturbance hence the performance of TMB might be affected in December and possibly in the first few months of the new year.

KCB Group is shifting its strategy for the period 2024—2026 dubbed “*Transforming Today Together*”. This comes as the group retires its current strategy “*Beyond Banking*” which has seen the group achieve most of its desired goals in digitally transforming the bank. The “*beyond banking*” strategy was aimed at making the bank the very best in customer experience while driving it towards a digital future. This has been firmly driven in the period by growth in total assets by 64.5% y-o-y to KES 2.1 TN and offering digital financial services. As per 3Q23, 99.0% of the transactions in the group were carried out through digital channels.

FY23’s KCB management guidance:

The Group Management has revised its FY23 guides as follows:

	FY23 Outlook
Loan growth (%)	10.0 - 15.0
Deposit growth (%)	12.0 - 18.0
NIM (%)	7.4 - 7.6
Cost-to-income ratio (%)	52.0 - 54.0
ROE (%)	17.0 - 19.0
Asset yield (%)	10.4 - 10.9
Cost of risk (%)	2.0 - 2.4
NPL (%)	14.0 - 16.0
Cost of funds (%)	3.0 - 3.3

On a trailing basis, KCB Group is currently trading at a P/E multiple of 1.6x against an industry median of 3.8x and a P/B multiple of 0.3x against an industry median of 0.7x. Its ROE stands at 18.3% while its ROA stands at 1.9%.

PROFIT AND LOSS SUMMARY (KES MN)

Year End: December	3Q23	3Q22	2Q22	y-y % ch	q-q % ch
Interest income	113,925	83,541	36,531	36	20
Interest expense	39,051	21,947	13,083	78	10
Net interest income	74,874	61,594	23,448	22	25
Other operating income	6,085	5,185	1,474	17	54
Fees and commission income	28,111	16,969	8,034	66	28
Net income from forex dealings	8,192	8,396	3,262	(2)	(30)
Total non-interest income	42,388	30,551	12,770	39	16
Total income	117,262	92,145	36,218	27	22
Less operating expenses	60,819	41,573	21,542	46	(5)
Operating profit	56,443	50,572	14,676	12	62
Bad debt charge	(15,849)	(7,268)	(6,073)	118	(7)
Exceptional items	0	0	0	0	0
Profit before tax	40,594	43,304	8,603	(6)	111
Less tax	(9,873)	(12,709)	(2,299)	(22)	51
Profit after tax	30,721	30,595	6,305	0	133
Attributable Income	29,929	30,459	6,092	(2)	135
EPS (KES)	13	13	(2)	1	(225)

(Source: Company, DBIB Research)

BALANCE SHEET SUMMARY (KES MN)

Year End: December	3Q23	1H23	3Q22	y-y % ch	q-q % ch
Total shareholder's equity	218,819	211,232	187,772	16.5	3.6
Minority interest	7,274	6,765	2,447	197.3	7.5
Total Equity	226,093	217,997	190,219	18.9	3.7
Deposits due to other banks	36,121	48,622	32,722	10.4	(25.7)
Customer deposits	1,656,370	1,471,246	922,304	79.6	12.6
Borrowed funds	107,303	65,643	62,688	71.2	63.5
Other liabilities	73,654	61,082	68,351	7.8	20.6
Total equity and liabilities	2,099,541	1,864,591	1,276,283	64.5	12.6
Central bank balances	103,997	64,372	73,137	42.2	61.6
Deposits due from banks	426,035	332,747	62,364	583.1	28.0
Investment securities	371,274	362,423	277,109	34.0	2.4
Customer loans and advances	1,047,865.75	964,809	758,816	38.1	8.6
Other assets	100,080	90,602	78,462	27.6	10.5
Intangible assets	18,011	19,370	6,132	193.7	(7.0)
Fixed assets	32,279	30,269	20,263	59.3	6.6
Total assets	2,099,541	1,864,591	1,276,283	64.5	12.6

(Source: Company, DBIB Research)

INVESTMENT RETURN

	3Q23	1H23	3Q22	y-y bps ch	q-q bps ch
ROA (%)	2.0	1.7	3.2	(125)	23
ROIC (%)	2.1	1.8	3.5	(141)	23
ROE (%)	17.6	14.7	21.4	(370)	292

(Source: Company, DBIB Research)

*Annualized

CAPITAL ADEQUACY, LIQUIDITY & ASSET QUALITY

	3Q23	1H23	3Q22	y-y bps ch	q-q bps ch
Core capital/TRWA (%)	14.5	15.0	14.5	0	(50)
Min. Statutory Ratio (%)	10.5	10.5	10.5	-	-
Total capital/TRWA (%)	17.8	18.4	18.1	(30)	(60)
Min. Statutory Ratio (%)	14.5	14.5	14.5	-	-
Liquidity Ratio (%)	50.3	52.1	38.5	1180	(180)
Min. Statutory Ratio (%)	20.0	20.0	20.0	-	-
Leverage Ratio (%)	10.8	11.7	14.9	(414)	(92)
Equity-to-Loans Ratio (%)	21.6	22.6	25.1	(349)	(102)
NPL Ratio (%)	15.1	15.9	16.4	(129)	(72)
NPL Coverage Ratio (%)	57.7	45.8	48.1	955	1185
Long Term Debt to Total Liabilities and Equity (%)	5.1	3.5	4.9	20	159
NTA/share (KES)	60.3	58.4	52.9	742	189
Book value/share (KES)	70.4	67.8	59.2	1116	252

(Source: Company, DBIB Research)

OPERATING PERFORMANCE

	3Q23	1H23	3Q22	y-y bps ch	q-q bps ch
Yield on interest earning assets (%)*	10.7	10.6	10.8	(5)	13
Cost of funds (%)*	3.0	3.1	3.0	(2)	(13)
Net Interest Margin (%)*	7.8	7.5	7.8	(3)	26
Loan-to-Deposits ratio (%)	63.3	65.6	82.3	(1901)	(231)
Loan-to-Dep.&Borrowed Funds ratio (%)	59.4	62.8	77.0	(1762)	(336)
Funded Income Generating Potential (%)	67.6	71.2	81.2	(1357)	(359)
Funded Income Reliance (%)	63.9	62.3	66.8	(299)	157
Cost to income ratio (%)	51.9	55.3	45.1	675	(345)
Cost of Risk (%)	2.0	2.1	1.3	74	(10)
Pre-tax margin (%)	34.6	30.7	47.0	(1238)	388
PAT margin (%)	26.2	22.0	33.2	(700)	422

(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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