

DYER & BLAIR INVESTMENT BANK

EARNINGS UPDATE

Founder Member of the Nairobi Securities Exchange

28TH MAY 2024



DYER & BLAIR
INVESTMENT BANK

WE KNOW. YOU KNOW.

KCB GROUP: 1Q24 EARNINGS UPDATE

Dear All,

KCB Group released its 1Q24 results reporting a 69.0% y-o-y growth in after tax profits to KES 9.8 BN. The group's performance was characterized by a 17.8% y-o-y growth in non-funded income to KES 17.4 BN and an 40.8% y-o-y jump in net interest income to KES 31.1 BN. The annualized EPS for the period stood at KES 20.52 (1Q23: KES 12.14).

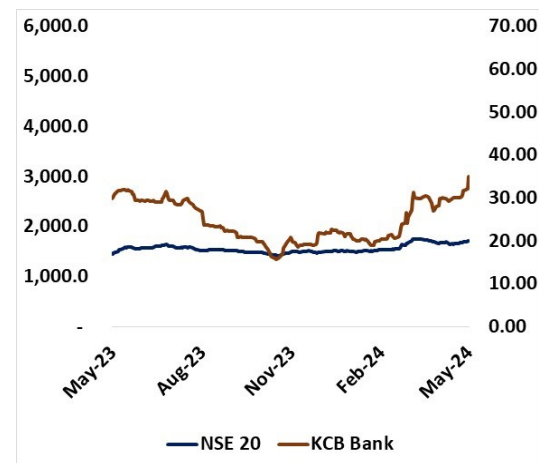
Below please find key highlights:

Net interest income advanced by 40.8% y-o-y to KES 31.1 BN, characterized by a 46.0% y-o-y growth in total interest income to KES 49.1 BN against a 56.0% y-o-y rise in total interest expenses to KES 18.0 BN. The annualized yield on interest earning assets increased by 296 bps y-o-y to 13.9% while the annualized cost of funds rose by 96 bps y-o-y to 4.4% resulting in a NIM of 9.5% (1Q23: 7.6%).

Interest income from loans and advances rose by 36.2% y-o-y to KES 33.6 BN driven by a 9.5% y-o-y expansion in the group's loan book to KES 1.1 TN and a 171 bps y-o-y increase in the annualized yield on loans to 12.7%. **Interest income arising from the group's portfolio of government & investment securities improved by 51.7% y-o-y to KES 13.3 BN** powered by an 164 bps y-o-y increase in the annualized yield on government securities to 13.5% and a 32.0% y-o-y growth in the group's holding of government & investment securities to KES 393.0 BN.

Interest expenses from customer deposits went up by 67.6% y-o-y to KES 13.1 BN occasioned by a 25.4% y-o-y growth in customer deposits to KES 1.5 TN as the annualized cost of customer deposits edged up by 60 bps y-o-y to 3.3%

KCB GROUP: 52 WEEK PRICE PERFORMANCE



(Source: NSE, DBIB Research)

PRICE	ABSOLUTE	EXCESS
RETURN	RETURN	RETURN
3 months	73.95%	61.85%
6 months	72.24%	58.20%
12 months	14.92%	(1.4%)

KEY METRICS

Current Price (KES)	35.05
52 week Range (KES)	15.75 - 35.05
YTD Return (%)	60.0
Issued Shares (Mn)	3,213
Market Cap (USD Mn)	855.05
Trailing EPS (KES)	20.04
NAV (KES)	64.77
P/E (x)	1.7
P/B (x)	0.5
Div Yld (%)	-

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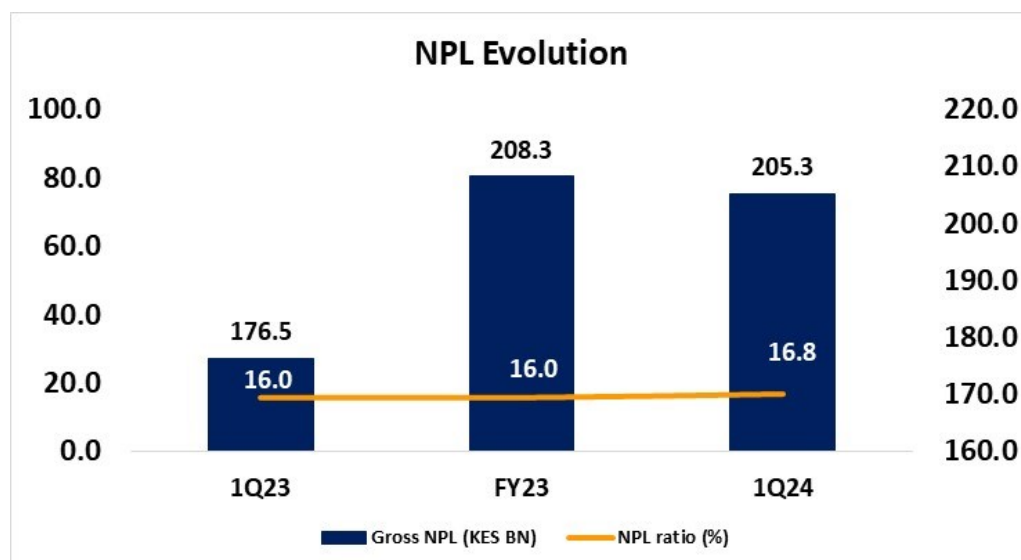
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Non-funded income went up by 17.8% y-o-y to KES 17.4 BN principally driven by a 81.2% y-o-y surge in foreign exchange trading income to KES 4.8 BN, a 10.7% y-o-y rise in other operating income to KES 2.6 BN and a 2.0% y-o-y increase in other fees and commissions to KES 7.2 BN. Fees and commissions on loans and advances edged up by 3.4% y-o-y to KES 2.8 BN. Total operating income jumped by 31.6% y-o-y to KES 48.5 BN. The contribution of non-funded income to total income declined by 420 bps y-o-y to 35.9% (1Q23: 35.9%).

Operating expenses (excluding provisions) climbed by 11.3% y-o-y to KES 21.0 BN largely fuelled by a 13.6% y-o-y rise in other expenses to KES 8.4 BN and a 3.1% y-o-y rise in staff costs to KES 9.7 BN. Owing to the slower rise in operating expenses (excluding provisions) in comparison to operating income the group's cost-to-income ratio (excluding provisions) fell by 789 bps y-o-y to 43.4% (1Q23: 51.2%).

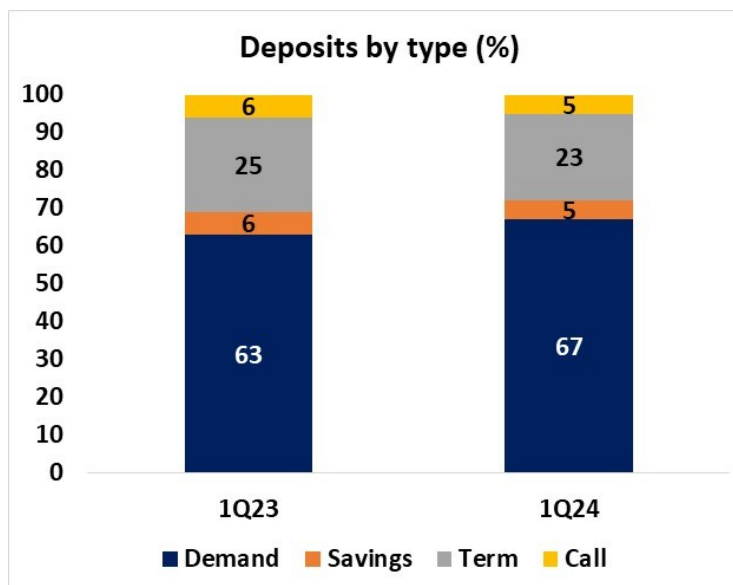
Loan loss provisions jumped by 53.4% y-o-y to KES 6.3 BN placing the annualized cost of risk at 2.5% (1Q23: 1.8%).

The group's gross non-performing loans increased by 16.3% y-o-y to KES 205.3 BN (-1.4% q-o-q) while interest in suspense rose by 64.9% y-o-y to KES 25.3 BN (+10.7% q-o-q). Consequently, total NPLs (gross NPLs less interest in suspense) advanced by 11.7% y-o-y to KES 180.0 BN (-2.9% q-o-q). **Owing to the rise in gross non-performing loans, the NPL ratio rose by 83 bps y-o-y to 16.8%.** The increase in NPLs was driven by manufacturing and real estate sectors. The NPL coverage ratio rose by 349 bps y-o-y to 56.7%.



Source: Company

Net loans and advances rose by 9.5% y-o-y to KES 1.0 TN (-7.2% q-o-q) in comparison to a 32.0% y-o-y growth in government and investment securities to KES 393.0 BN (-1.0% q-o-q). **On the funding side, customer deposits improved by 25.4% y-o-y to KES 1.5 TN (-11.2% q-o-q)** while borrowed funds increased by 21.5% y-o-y to KES 76.1 BN (-14.2% q-o-q). The group's loan-to-deposit ratio declined by 984 bps y-o-y to 67.8% while the ratio of loans to customer deposits & borrowed funds followed a similar trend, decreasing by 925 bps y-o-y to 64.5%.



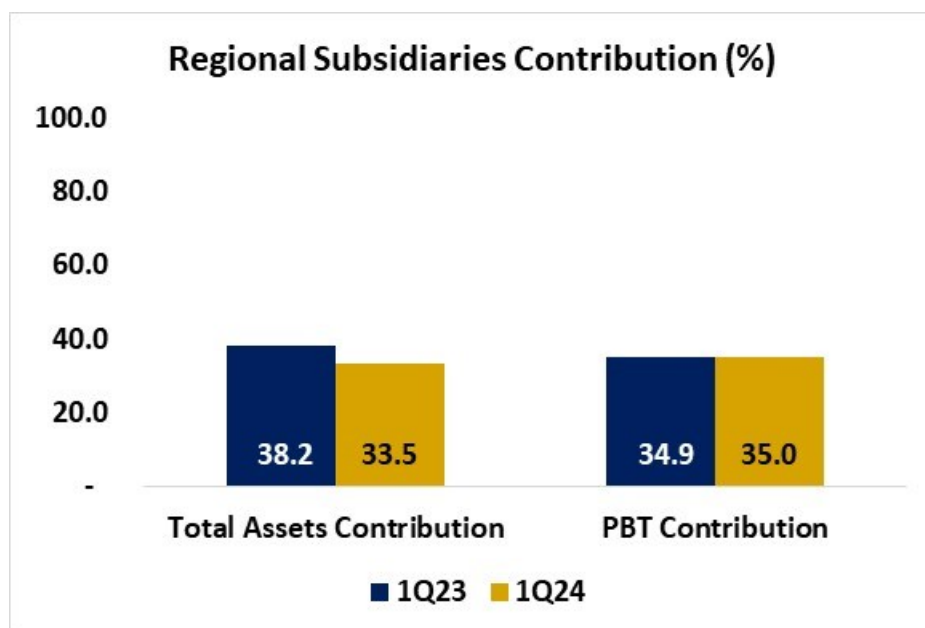
Source: Company

KCB Group's core capital ratio (core capital/TRWA) increased by 400 bps y-o-y to 17.6% above the statutory minimum of 10.5% while total capital/TRWA went up 300 bps y-o-y to 20.0% above the statutory minimum of 14.5%. **KCB Bank Kenya's core capital ratio (core capital/TRWA) increased by 300 bps y-o-y to 14.1%** above the statutory minimum of 10.5% while total capital/TRWA went up by 220 bps y-o-y to 17.5% above the statutory minimum of 14.5%. The Group's liquidity ratio improved to 47.9% (1Q23: 43.7%) while KCB Bank Kenya's liquidity ratio increased by 1,570 bps y-o-y to 43.8% (1Q22: 28.1%).

	Group	Min.	KCB KN	Min.
Core capital ratio (%)	17.6	10.5	14.1	10.5
Total capital ratio (%)	20.0	14.5	17.5	14.5

Source: Company

The international business contributed 33.5% of total assets (1Q23: 38.2%) and 35.0% of total pre-tax earnings (1Q23: 34.9%).



Source: Company

FY24's management guidance: Management guides as follows:

	FY24 Outlook
Loan growth (%)	16.0
Deposit growth (%)	13.0
NIM (%)	7.1
NFI ratio (%)	33.5
Cost-to-income ratio (%)	44.4
ROE (%)	24.6
Asset yield (%)	10.4
Cost of risk (%)	2.0
NPL (%)	13.5
Cost of funds (%)	3.3

On a trailing basis, KCB Group is currently trading at a P/E multiple of 2.6x against an industry median of 3.3x and a P/B multiple of 0.5x against an industry median of 0.7x. Its ROE stands at 19.0% while its ROA stands at 2.2%.

PROFIT AND LOSS SUMMARY (KES MN)

Year End: December	1Q24	1Q23	4Q23	y-y % ch	q-q % ch
Interest income	49,087	33,613	54,250	46.0	(9.5)
Interest expense	18,022	11,553	21,790	56.0	(17.3)
Net interest income	31,065	22,060	32,460	40.8	(4.3)
Other operating income	2,594	2,343	2,547	10.7	1.8
Fees and commission income	10,034	9,801	10,317	2.4	(2.7)
Net income from forex dealings	4,795	2,646	2,652	81.2	80.8
Total non-interest income	17,423	14,790	15,516	17.8	12.3
Total income	48,488	36,850	47,977	31.6	1.1
Less operating expenses	21,012	18,878	22,332	11.3	(5.9)
Operating profit	27,476	17,972	25,645	52.9	7.1
Bad debt charge	(6,318)	(4,118)	(17,787)	53.4	(64.5)
Exceptional items	-	-	-	-	-
Profit before tax	21,158	13,854	7,858	52.7	169.3
Less tax	(4,673)	(4,101)	(1,118)	13.9	318.1
Profit after tax	16,485	9,753	6,740	69.0	144.6
Attributable Income	16,059	9,503	6,247	69.0	157.1
EPS (KES)	20.52	12.14	0.00	69.0	0.0

(Source: Company, DBIB Research)

BALANCE SHEET SUMMARY (KES MN)

Year End: December	1Q24	FY23	1Q23	y-y % ch	q-q % ch
Total shareholder's equity	231,455	228,320	208,145	11.2	1.4
Minority interest	7,118	8,038	6,701	-	-
Total Equity	238,573	236,358	214,846	11.0	0.9
Deposits due to other banks	109,671	30,434	60,989	79.8	260.3
Customer deposits	1,501,007	1,690,908	1,196,587	25.4	(11.2)
Borrowed funds	76,094	88,658	62,636	21.5	(14.2)
Other liabilities	70,851	124,515	95,546	(25.8)	(43.1)
Total equity and liabilities	1,996,196	2,170,874	1,630,604	22.4	(8.0)
Central bank balances	79,117	77,013	64,954	21.8	2.7
Deposits due from banks	336,341	429,508	189,480	77.5	(21.7)
Investment securities	393,040	397,202	297,719	32.0	(1.0)
Held for dealing securities	0	0	0	#DIV/0!	#DIV/0!
Customer loans and advances	1,017,419	1,095,933	928,824	9.5	(7.2)
Other assets	129,709	125,008	96,266	34.7	3.8
Intangible assets	16,429	19,324	22,328	(26.4)	(15.0)
Fixed assets	24,140	26,885	31,033	(22.2)	(10.2)
Total assets	1,996,196	2,170,874	1,630,604	22.4	(8.0)

(Source: Company, DBIB Research)

INVESTMENT RETURN

	1Q24	1Q23	FY23	y-y bps ch	q-q bps ch
ROA (%)*	3.3	2.4	1.7	91	164
ROIC (%)*	3.6	2.6	1.8	99	184
ROE (%)*	27.6	18.2	15.3	948	1233

(Source: Company, DBIB Research)

*Annualized

CAPITAL ADEQUACY, LIQUIDITY & ASSET QUALITY

	1Q24	1Q23	FY23	y-y bps ch	q-q bps ch
Core capital/TRWA (%)	14.1	11.1	11.8	300	230
Min. Statutory Ratio (%)	10.5	10.5	10.5	-	-
Total capital/TRWA (%)	17.5	15.3	15.8	220	170
Min. Statutory Ratio (%)	14.5	14.5	14.5	-	-
Liquidity Ratio (%)	43.8	28.1	46.2	1570	(240)
Min. Statutory Ratio (%)	20.0	20.0	20.0	-	-
Leverage Ratio (%)	12.0	13.2	10.9	(122)	106
Equity-to-Loans Ratio (%)	23.4	23.1	21.6	32	188
NPL Ratio (%)	16.8	16.0	16.0	83	82
NPL Coverage Ratio (%)	56.7	53.2	57.9	349	(118)
LT Debt to Total Liabilities and Equity (%)	3.8	3.8	4.1	(3)	(27)
NTA/share (KES)	66.7	57.2	65.2	953	154
Book value/share (KES)	74.2	66.9	73.6	738	69

(Source: Company, DBIB Research)

OPERATING PERFORMANCE

	1Q24	1Q23	FY23	y-y bps ch	q-q bps ch
Yield on interest earning assets (%)*	13.9	11.0	11.3	296	266
Cost of funds (%)*	4.4	3.4	3.4	96	96
Net Interest Margin (%)*	9.5	7.6	7.8	200	170
Loan-to-Deposits ratio (%)	67.8	77.6	64.8	(984)	297
Loan-to-Dep.&Borrowed Funds ratio (%)	64.5	73.8	61.6	(925)	293
Funded Income Generating Potential (%)	70.7	75.2	68.8	(456)	188
Funded Income Reliance (%)	64.1	59.9	65.0	420	(89)
Cost to income ratio (%)	43.3	51.2	50.3	(789)	(699)
Cost of risk (%)*	2.5	1.8	3.1	71	(59)
Pre-tax margin (%)	43.6	37.6	29.3	604	1431
PAT margin (%)	34.0	26.5	22.7	753	1133

(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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