DYER & BLAIR INVESTMENT BANK EARNINGS UPDATE

Founder Member of the Nairobi Securities Exchange

25TH MARCH 2024

DYER & BLAIR INVESTMENT BANK

WE KNOW. YOU KNOW.

KCB GROUP: FY24 EARNINGS UPDATE

Dear All,

KCB Group released its FY24 results reporting a 64.9% y-o-y increase in after-tax profits to KES 61.8 BN. The improvement in the financial performance was mainly driven by a 28.0% y-o-y surge in net interest income to KES 137.3 BN and a 61.7% y-o-y increase in forex trading income to KES 17.5 BN. EPS for the period also decreased by 60.4% y-o-y to KES 18.70. **The board recommends a final dividend of KES 1.50 per share (FY23: KES 0.00) bringing the total DPS for the year to KES 3.00 per share.** If approved, the dividend will be paid on or about 23rd May 2025 to shareholders registered on the Group's register at the close of business on 03rd April 2025.

Below please find key highlights:

Net interest income inched higher by 28.0% y-o-y to KES 137.3 BN, led by a 26.9% y-o-y growth in total interest income to KES 213.4 BN against a 25.0% y-o-y advancement in total interest expenses to KES 76.1 BN.

Non-funded income improved by 16.6% y-o-y to KES 67.5 BN mainly driven by a 61.7% growth in foreign exchange trading income to KES 17.5 BN.

Loan loss provisions went down by 11.3% y-o-y to KES 30.0 BN placing the annualized cost of risk at 3.0% (FY23: 3.1%). **The Group's gross non-performing loans increased by 8.4% y-o-y to KES 225.7 BN (+4.8% q-o-q)** pivoting **the Group's NPL ratio to 18.6%** to from 16.0% from FY23.

The sale of National Bank of Kenya (NBK) to Access Bank is currently in a frozen state. This due to Access Bank being required by the Central Bank of Nigeria (CBN) to sell its subsidiary in the Democratic Republic of Congo (DRC) before it can proceed with the acquisition of NBK. Additionally, the CBN has initiated a review of Access Bank's London operations complicating the sale process further.

KCB GROUP: 52 WEEK PRICE PERFORMANCE

(Source: NSE, DBIB Research)

PRICE RETURN	ABSOLUTE RETURN	EXCESS RETURN
3 months	5.6%	(10.0%)
6 months	23.6%	(2.7%)
12 months	53.3%	22.5%

KEY METRICS	
Current Price (KES)	41.70
52 week Range (KES)	24.15 - 45.80
YTD Return (%)	0.2
Issued Shares (Mn)	3,213
Market Cap (USD Mn)	1035.36

Trailing EPS (KES)	18.7
NAV (KES)	85.5
P/E (x)	2.2
P/B (x)	0.5
Div. Yield (%)	7.2

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Net interest income inched higher by 28.0% y-o-y to KES 137.3 BN, led by a 26.9% y-o-y growth in total interest income to KES 213.4 BN against a 25.0% y-o-y advancement in total interest expenses to KES 76.1 BN. The annualized yield on interest earning assets edged up by 177 bps y-o-y to 12.1% and the annualized cost of funds increased by 66 bps y-o-y to 4.6% resulting in a NIM of 7.4% (FY23: 6.3%).

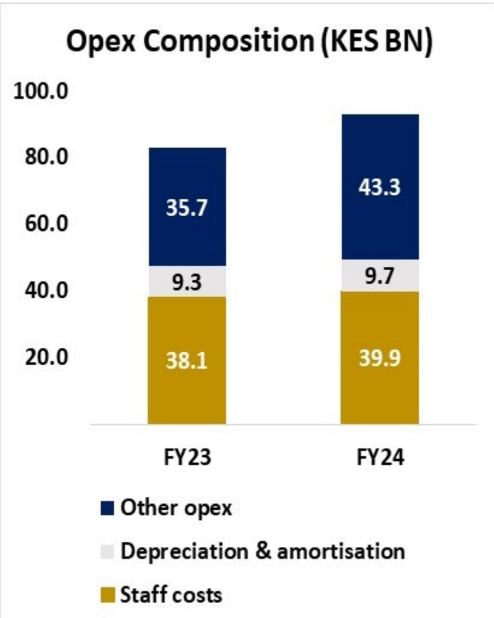
Interest income from loans and advances rose by 26.3% y-o-y to KES 153.6 BN driven by a 231 bps y-o-y increase in the annualized yield on loans to 14.7% despite a 9.6% y-o-y decline in customer loans and advances to KES 990.4 MN.

Interest income arising from the Group's portfolio of government & investment securities improved by 17.6% y-o-y to KES 50.2 BN powered by a 2.0% y-o-y growth in the Group's holding of government & investment securities to KES 408.9 BN and held back by a 19 bps y-o-y increase in the annualized yield on government securities to 12.5%.

Interest expenses from customer deposits went up by 32.5% y-o-y to KES 55.4 BN occasioned by a 65 bps y-o-y increase in the annualized cost of customer deposits to 3.6% despite an 18.3% y-o-y drop in customer deposits to KES 1.4 BN. Interest expense from deposits and placements from banking institutions increased by 9.2% to KES 20.3 BN despite a 49.2% y-o-y decline in deposits and placements due from banks to KES 218.0 BN.

Non-funded income improved by 16.6% y-o-y to KES 67.5 BN with the contribution of non-funded income to total operating income decreasing by 208 bps y-o-y to 33.0% (FY23: 35.0%). The growth witnessed in non-funded income was largely driven by a 10.1% y-o-y increase in fees and commissions on loans and advances to KES 42.3 BN. Forex trading income went up by 61.7% y-o-y to KES 17.5 BN while other operating income decreased by 11.3% y-o-y to KES 7.7 BN. Funded income generating potential improved by 253 bps y-o-y to 71.3%.

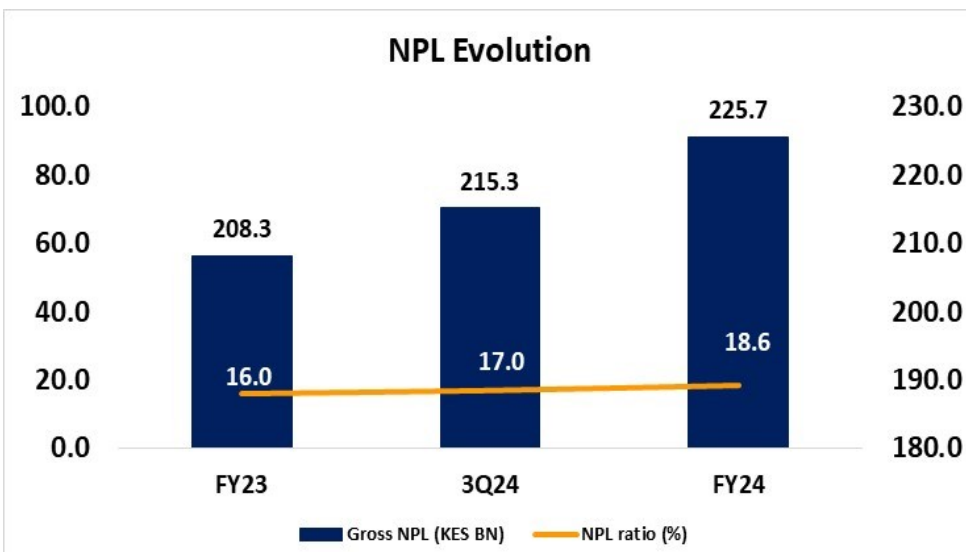
The Group's operating expenses (minus provisions) climbed by 11.8% y-o-y to KES 92.9 BN mainly on the back of a 4.5% y-o-y growth in staff costs to KES 39.9 BN and a 20.6% y-o-y increase in other expenses to KES 41.7 BN. As a result of the slower rise in operating expenses (minus provisions) in comparison to total operating income (+24.0% y-o-y to KES 204.9 BN), the Group's cost-to-income ratio declined by 495 bps y-o-y to 45.4% (FY23: 50.3%).



Source: Company

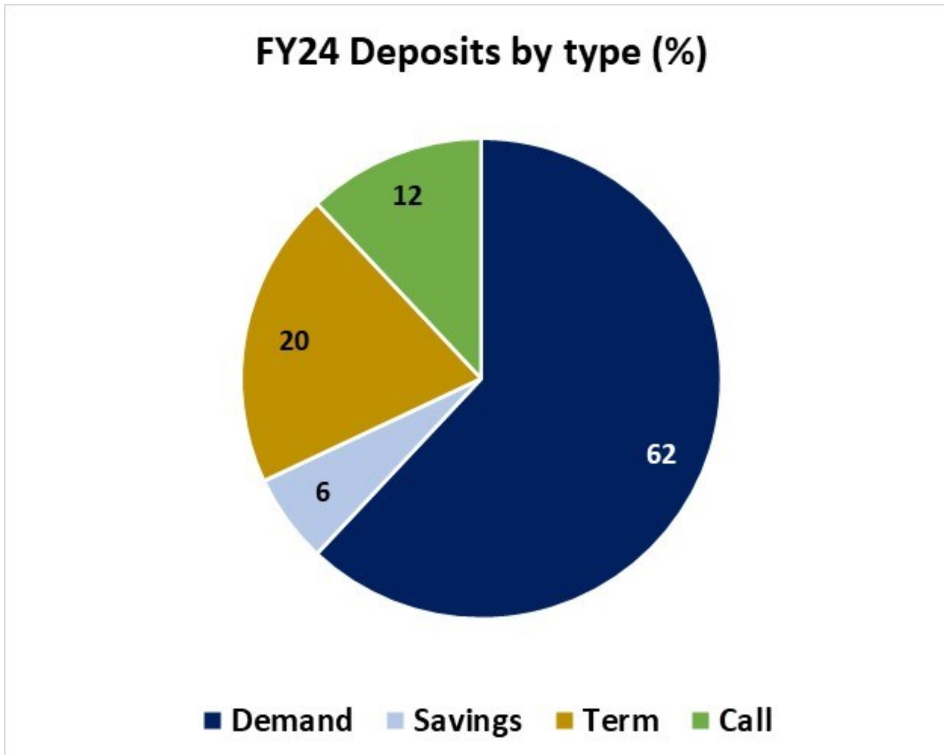
Loan loss provisions went down by 11.3% y-o-y to KES 30.0 BN placing the annualized cost of risk at 3.0% (FY23: 3.1%). **The Group's gross non-performing loans increased by 8.4% y-o-y to KES 225.7 BN (+4.8% q-o-q)** while interest in suspense rose by 32.6% y-o-y to KES 30.3 BN (+10.6% q-o-q). Consequently, total NPLs (gross NPLs less interest in suspense) advanced by 5.4% y-o-y to KES 195.4 BN (+4.0% q-o-q).

Consequently, the NPL ratio went up by 259 bps y-o-y to 18.6% from 16.0% in FY23. The NPL stock increased by KES 17.4 BN y-o-y mainly due to downgrades in the real estate, agriculture and construction sectors**.** KCB's management indicated that it is still planning to accelerate recoveries and restructure NPLs in order to bring the overall stock number of NPLs down. The major sectors contributing to the NPL Ratio are manufacturing, real estate and building & construction. As at FY24, the real estate sector contributes 22.2% of the NPL stock followed by the manufacturing sector at 20.6%. In terms of subsidiaries, National Bank of Kenya (NBK) has the largest NPL Ratio at 33.7% followed by KCB Bank Kenya at 21.8%.



Source: Company

Net loans and advances declined by 9.6% y-o-y to KES 990.4 BN (-6.0% q-o-q) in comparison to a 2.9% y-o-y rise in government and investment securities to KES 408.9 BN (+12.0% q-o-q). **On the funding side, customer deposits shrank by 18.3% y-o-y to KES 1.4 TN (-10.2% q-o-q)** while borrowed funds also went down by 21.9% y-o-y to KES 69.3 BN (+18.8% q-o-q). The Group's loan-to-deposit ratio increased by 685 bps y-o-y to 71.7% while the ratio of loans to customer deposits & borrowed funds followed a similar trend, increasing by 666 bps y-o-y to 68.2%.



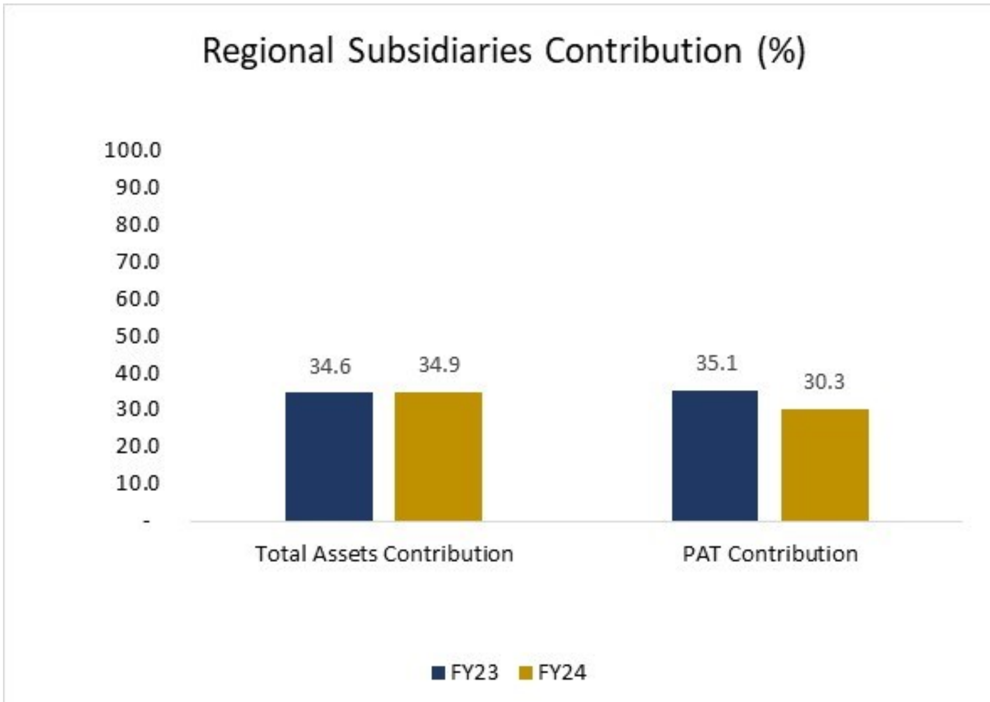
Source: Company

KCB Group's core capital ratio (core capital/TRWA) increased by 460 bps y-o-y and stood at 16.8% above the statutory minimum of 10.5% while total capital/TRWA improved by 200 bps y-o-y to 19.4% above the statutory minimum of 14.5%. **KCB Bank Kenya's core capital ratio (core capital/TRWA) increased by 320 bps y-o-y to 15.0%** above the statutory minimum of 10.5% while total capital/TRWA went up by 260 bps y-o-y to 18.4% above the statutory minimum of 14.5%. KCB Group's and KCB Bank Kenya's liquidity ratio declined to 47.6% (FY23: 48.5%) and 42.4% (FY23: 46.2%), respectively.

	Group	Min.	KCB KN	Min.
Core capital ratio (%)	16.8	10.5	15.0	10.5
Total capital ratio (%)	19.4	14.5	18.4	14.5

Source: Company

KCB Kenya contributed 65.1% of total assets (KES 1.3 TN) while other subsidiaries outside of Kenya improved on their proportion of assets to 34.9% (KES 0.7 TN) from 34.6% in FY23. **Subsidiaries outside of KCB Bank Kenya recorded a 100 bps drop in terms of revenue contribution to 38.2% (KES 73.2 BN)** while the Kenyan subsidiary still remained the main powerhouse for the Group contributing 61.8% of revenue (KES 118.2 BN). KCB Bank Kenya contributed the bulk of Group's PAT (up 480 bps to 69.7% of PAT contribution) while other subsidiaries outside of KCB Bank Kenya recorded a 480 bps drop to 30.3% of the Group's PAT contribution.



Source: Company

The board recommended a final dividend of KES 1.50 per share (FY23: KES 0.00) bringing the total DPS for the year to KES 3.00 per share. If approved, the dividend will be paid on or about 23rd May 2025 to shareholders registered on the Group's register at the close of business on 3rd April 2025. This translates to a dividend payout of 16.0% which is below the FY23 industry average of 36.0%.

Management attributed the low payout due to the need for capital preservation in relation to some forthcoming undertakings. The Group CEO, Paul Russo, stated that they plan on injecting capital into the Tanzania Subsidiary which led them to moderating the dividend payout to shareholders. The CEO further added that the Group does plan to increase payout to the targeted 40.0% payout in the coming years. Dividend payout was also muted because of majority of subsidiaries outside of Kenya not paying dividends to the Group. This was mainly to allow the subsidiaries to increase their capital.

As at FY24, NBK assets and liabilities have been fully reclassified on the Group's balance sheet as assets held for sale as they proceed with NBK's sale to Access Bank Plc. Currently the buyout deal is in a frozen state due to Access Bank being required by the Central Bank of Nigeria (CBN) to exit the Democratic Republic of Congo (DRC) before it can acquire NBK. The main reason for the cautionary tone by Nigeria's regulatory bank has been due to the considerable challenges Nigerian banks have faced in DRC while counterparts like Kenyan Banks have thrived. Additionally, the CBN has initiated a review of Access Bank's London operations complicating the sale process further. KCB's management still maintain confidence on completing the sale of NBK even though it might take longer than expected. The deal was stated to be at a multiple of 1.25x the book value of NBK which should see KCB Group receive approximately KES 16.3 BN on the completion of the sale. We still expect shareholders to receive some windfall in terms of dividends once the sale is completed.

KCB Group has also recently acquired a majority stake in Riverbank Solutions which is a digital payment firm. Once the transaction is completed, Riverbank will become the Group's 13th subsidiary. Riverbank provides payment solutions for various sectors including micro-finance, manufacturing, retail and the military while also having partnerships with county governments including Kisumu and Migori. The payment solution firm has provided the Group with agency banking solutions since 2013. This acquisition will help the Group accelerate its strategy to interconnect with partner platforms and fintechs to offer services such as virtual wallets and payment APIs. This will see the Group consolidate its agent banking channels into one platform.

KCB management's FY25 guidance:

The Group Management has revised its FY25 guides as follows:

	FY25 Outlook
Loan growth (%)	8.0 - 10.0
Deposit growth (%)	9.0 - 11.0
NIM (%)	6.6 - 7.4
Cost-to-income ratio (%)	43.0 - 45.0
ROE (%)	22.0 - 24.0
Asset yield (%)	10.8 - 11.2
Cost of risk (%)	2.2 - 2.4
NPL (%)	14.0 - 16.0
Cost of funds (%)	3.8 - 4.2

On a trailing basis, KCB Group is currently trading at a P/E multiple of 2.2x against an industry median of 4.0x and a P/B multiple of 0.5x against an industry median of 0.8x. Its ROE stands at 21.9% while its ROA stands at 3.1%.

PROFIT AND LOSS SUMMARY (KES MN)

Year End: December	FY24	FY23	y-y% ch
Interest income	213,402	168,175	26.9
Interest expense	76,056	60,841	25.0
Net interest income	137,346	107,334	28.0
Other operating income	7,661	8,632	(11.3)
Fees and commission income	42,320	38,428	10.1
Net income from forex dealings	17,540	10,844	61.7
Total non-interest income	67,521	57,905	16.6
Total income	204,867	165,239	24.0
Less operating expenses	92,944	83,151	11.8
Operating profit	111,923	82,088	36.3
Bad debt charge	(29,950)	(33,636)	(11.0)
Exceptional items	-	-	-
Profit before income tax	81,973	48,452	69.2
Less tax	(20,198)	(10,991)	83.8
Profit after tax	61,774	37,462	64.9
Attributable Income	60,089	36,176	66.1
EPS (KES)	18.70	11.66	60.4

(Source: Company, DBIB Research)

BALANCE SHEET SUMMARY (KES MN)

Year End: December	FY24	3Q24	FY23	y-y % ch	q-q % ch
Total shareholder's equity	274,890	248,953	228,320	20.4	10.4
Minority interest	8,091	7,655	8,038	0.7	0.0
Total Equity	282,981	256,608	236,358	19.7	10.3
Deposits due to other banks	23,602	26,394	30,434	(22.4)	(10.6)
Customer deposits	1,381,976	1,538,432	1,690,908	(18.3)	(10.2)
Borrowed funds	69,273	58,320	88,658	(21.9)	18.8
Other liabilities	204,488	113,302	124,515	64.2	80.5
Total equity and liabilities	1,962,320	1,993,055	2,170,874	(9.6)	(1.5)
Central bank balances	64,759	84,105	77,013	(15.9)	(23.0)
Deposits due from banks	218,012	333,749	429,508	(49.2)	(34.7)
Investment securities	389,548	361,111	397,202	(1.9)	7.9
Held for dealing securities	19,347	3,916	-	#DIV/0!	394.1
Customer loans and advances	990,413	1,053,199	1,095,933	(9.6)	(6.0)
Other assets	238,412	118,793	125,008	90.7	100.7
Intangible assets	14,944	14,649	19,324	(22.7)	2.0
Fixed assets	26,885	23,532	26,885	0.0	14.2
Total assets	1,962,320	1,993,055	2,170,874	(9.6)	(1.5)

(Source: Company, DBIB Research)

INVESTMENT RETURN

	FY24	3Q24	FY23	y-y bps ch	q-q bps ch
ROA (%)	3.1	3.1	1.7	140	0.1
ROIC (%)	3.5	3.3	1.8	167	17.3
ROE (%)	21.2	23.1	15.3	593	(188.9)

(*Source: Company, DBIB Research)*

**Annualized*

CAPITAL ADEQUACY, LIQUIDITY & ASSET QUALITY

	FY24	3Q24	FY23	y-y bps ch	q-q bps ch
Core capital/TRWA (%)	15.0	13.2	11.8	320	180
Min. Statutory Ratio (%)	10.5	10.5	10.5	-	-
Total capital/TRWA (%)	18.4	16.7	15.8	260	170
Min. Statutory Ratio (%)	14.5	14.5	14.5	-	-
Liquidity Ratio (%)	42.4	42.2	46.2	(380)	20
Min. Statutory Ratio (%)	20.0	20.0	20.0	-	-

Leverage Ratio (%)	14.4	12.9	10.9	353	155
Equity-to-Loans Ratio (%)	28.6	24.4	21.6	701	421
NPL Ratio (%)	18.6	17.0	16.0	259	159
NPL Coverage Ratio (%)	59.6	58.5	57.9	176	114
Long Term Debt to Total Liabilites and Equity (%)	3.5	2.9	4.1	(55)	60
NTA/share (KES)	83.4	75.3	67.5	1587	812
Book value/share (KES)	88.1	79.9	73.6	1451	821

(Source: Company, DBIB Research)

OPERATING PERFORMANCE

	FY24	3Q24	FY23	y-y bps ch	q-q bps ch
Yield on interest earning assets (%)	12.1	11.0	10.3	177	101
Cost of funds (%)	4.6	4.4	4.0	66	25
Net Interest Margin (%)	7.4	6.7	6.3	111	76
Yield on Loans (%)	14.7	13.2	12.4	231	152
Yield on Government Securities (%)	12.5	13.7	12.6	(19)	(126)
Cost of Customer deposits (%)	3.6	3.4	3.0	65	21
Loan-to-Deposits ratio (%)	71.7	68.5	64.8	685	321
Loan-to-Dep.&Borrowed Funds ratio (%)	68.2	66.0	61.6	666	229
Funded Income Generating Potential (%)	71.3	71.2	68.8	253	15
Funded Income Reliance (%)	67.0	64.9	65.0	208	212
Non-funded Income contribution to total income (%)	33.0	35.1	35.0	(208)	(212)
Cost to income ratio (%)	45.4	47.4	50.3	(495)	(202)
Cost of risk (%)	3.0	2.3	3.1	(5)	77
Pre-tax margin (%)	40.0	40.2	29.3	1069	(17)
PAT margin (%)	30.2	32.0	22.7	748	(186)

(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

DISCLAIMER