

KCB Group Plc. HY Earnings Update

KCB released its 1H19 results this morning. PAT was up 5% as the banks net margins decreased to 8.5% from 9.5% in 2Q18. Non interest income growth of 15% (above our expectations) was driven by an increase in fees and commission income. The bank is expected to continue to focus on its mobile platform where it recently increased fees on loans. We are, however, concerned about the quality of loans on the platform as NPL ratio increased from 3% to c7%.

- Profit after tax (PAT) was up 5% to 12.7Bn from 12.1Bn registered previously. This was attributed to 5% rise in the interest income to 25.4Bn from 24.1Bn and 15% increase in Non funded income to 13.2Bn from 11.5Bn.
- The net interest income growth of 5% was below our expectation due to a decline in yield on loans. The bank's average yield on loans declined to 11.4% in 2Q19 from 12.4% in 2Q18.
- The non-funded income growth of 15% driven by increase in fees & commission income. The bank made up for the decline on yield on loans by increasing their fees and commissions on loans and advances which was up 51%. We believe that this mainly came from the mobile platform where they had increased the fees on KCB M-Pesa to 7.5% from 4.08%.
- The loan loss provision rose 266% to 3Bn from 828Mn . Last year, the bank's cost of risk was low as it had adopted IFRS 9 and passed provisions through the balance sheet at the beginning of the year.

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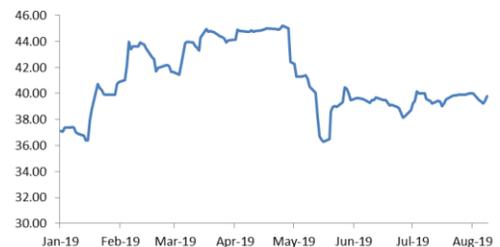
Target Price: KES 50.8

52 week range: KES 23.00 to KES 55.00

TtM EPS: KES 8.30

Latest Results: HY2019, KES 12.7Bn

Share price movement



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Income Statement 'KES Millions'	Jun-18	Jun-19	% Change
Interest income	32,220	33,603	4%
interest expense	8,074	8,201	2%
Net interest income	24,146	25,402	5%
Fees and commissions on loans & advances	3,078	4,662	51%
Other fee & commissions	3,698	4,240	15%
Forex	2,824	2060	-27%
Other Income	1880	2,210	18%
Non-funded income	11,480	13,172	15%
Total operating income	35,625	38,574	8%
Loan Loss provision	828	3,031	266%
Staff Costs	8,600	8,996	5%
Directors Emoluments	94	102	9%
Rental Charges	669	185	-72%
Depreciation on PPE	916	1217	33%
Amortization Charges	590	666	13%
Other operating expenses	6,834	6,443	-6%
Operating expenses	18,530	20,641	11%
Taxation	5,529	5,952	8%
Profit After tax	12,111	12,722	5%
Earnings per share	7.9	8.3	5%

Balance sheet	Jun-18	Jun-19	% Change
Cash & balance with CBK	28,501	55,658	95%
Loans and advances to customers(net)	421,508	478,730	14%
Property and equipment	10,329	13,552	31%
Total assets	667,682	725,663	9%
Deposits due to other banks	8,570	18,839	120%
Customer deposits	524,939	563,236	7%
Borrowings	20,699	22,418	8%
Other Liabilities	11,855	18,178	53%
Total liabilities	568,698	628,995	11%
Shareholders' funds	98,984	117,524	19%

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