AIB Capital Ltd.
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Recommendation:

HOLD

KCB Group PLC

Profits After Tax (PAT) flat despite Headwinds

Price on 8th March 2018:
KES 48.25

52-week Trading Range:
KES 27.75 to KES 49.75

EPS:
KES 6.43

P/E
7.5

ROaE
19.5%

ROaA
1.7%

Dividend Yield:
6.1%

Market cap:
KES 151.00Bn

Estimated Free float:
82.5%

Shares Outstanding:
3,066.1 Million

Latest Full Year Results:
The full Year 2017

KCB Group released their full-year results posting flat Profit after Tax (PAT) of **KES 19.71Bn** in full year (FY) 2017 from **KES 19.72Bn** in 2016 and Profit before tax (PBT) of **29.11Bn** from **KES 29.09Bn** over the same period. The board declared a final dividend of **KES 2.00** to complement the interim dividend of **KES 1.00** for a final dividend of **KES 3.00** which is equal to 2016.

Strong Balance Sheet:

The lender saw its assets grow by **8.6%** to **KES 646.67Bn** from **KES 595.24Bn**. This was driven by a **9.6%** increase in loan book, **7.4%** growth in investment in government securities. This was financed by an **11.5%** growth in customer deposit. Shareholders' funds improved to **105.97Bn**, a **9.7%** increase from **KES 96.57Bn**. This build-up was boosted by retained earnings.

The group's deposits mix remained well distributed with term deposits representing **65.0%** and **51%** representing corporate deposits which are long-term deposits helping it maintain a low-interest expense.

Minimal Interest Income Growth:

The bank posted **KES 63.67Bn** in interest income in FY 2017 from **KES 62.81Bn** same period 2016. Net interest income (NII) marginally went up **2.9%** driven by a **6%** decline in interest to customer deposit. Net interest margins (NIMs) were at **8.9%** versus **9.6%** 2016.

The FY17 NFI stood at **KES 23.00Bn**, up **2.5%** from **KES 22.45Bn** in 2016 with its contribution to income remaining flat a **32.2%.** The growth was driven by improved fees and commission income and lending fees income.

The 2017 Return on average equity (ROaE) was down **19.5%** from **22.2%** on flat PAT and growing Equity base. Return on average Assets (ROaA) dipped from 1.7% to **1.6%**. EPS was at **6.43** with the Price-earnings (P/E) of **7.6X** and dividend yield of **6.15**. Price to Book Value (P/B) **1.4**. The cost to Income ratio (CTI) eased to **46.2%** from **47.6%** in 2016.

Challenges:

Kenyan unit remains the main contributor to the group's figures, an indication that the regional lender has not benefited from regional diversification. The Kenyan subsidiary contributed **83.1%** (**89.5%** in 2016), NII **91.1%** (**91.3**%-2016), Loans and Advances **91.8%** (**91.8%** 2016), Deposits **88.1%** (**86.3%-**2016) and PBT (**94.5%** (**97.9%**-2016).

Increasing NPLs: The bank has seen its NPL inch upwards to **8.5%** from **8%** in 2016 with Micro and SME (MSME) the main culprit. The bank targets to reduce the NPLs to **7%** through improved collection and stringent credit risk analysis. We anticipate a reduction in the MSME loan portfolio.

Forecast 2018:

We project a price of **KES 52.65** compared to **KES 48.75** currently. Earnings Per Share (EPS) to grow to **KES 6.94**. The bank's management is optimistic about an improved economy in 2018. They project a loans growth of **8%** funded from a deposit growth of **11%.** They foresee cost of funds inching up to **3.3%** from the current **3.0%** with a cost of risk slowing to **1.3%** from **1.5%.** The two, cost of fund and cost of risk will be affected by the IFRS 9 which came into effect earlier this year. NIMs are expected to stand at **8.7%** with ROaE at **21.1%.** NFI contribution to slow to **30.9%** with CTI remaining flat at **46%.**

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