

Recommendation:

HOLDTarget Price: **KES 43.50**Price on 23rd March 2018:**KES 41.50**

Potential Upside/Downside:

4.80%

52-week Trading Range:

KES 20.50 to KES 42.50

EPS:

KES 6.48

P/E

6.4x

ROaE

12.7%

ROaA

2.2%

Dividend Yield:

2.4%

Market cap:

KES 26.4Bn

Estimated free float:

56.5%

Shares Outstanding:

639.9 Million

Latest Full Year Results:

The full Year 2017

NIC GROUP

Profits After Tax declines by 4.3%

NIC group released its Full-Year results (FY17) posting a **9.2%** downswing in Profit Before Tax (PBT) of **KES 5.6Bn** compared to FY16 PBT of **KES 6.2Bn**. The Profit after Tax (PAT) declined by **4.3%** from **KES 4.3Bn** in FY16 to **KES 4.1Bn** in FY17. The board proposed a payment of a first and final cash dividend of **KES 1.00** per share and issued a bonus share equivalent of **KES 3.50**, compared to an FY16 dividend of **KES 1.25**. The bank increased the number of branches in its network in FY17 with the aim of increasing its brand presence in the country and as a result added **15,000** new accounts.

Balance Sheet: NIC group saw its Total Assets grow from **KES 169.5Bn** in FY16 to **KES 206.2Bn** in FY17, an upsurge of **21.7%**. Investments in government securities in FY17 rose by **77.9%** to **KES 54.2Bn** from **KES 30.5Bn** in FY16, while the loan book in FY17 was up **4.6%** to **KES 119.8Bn** from **KES 114.5Bn** over the same period last year. The upswing in investments was fueled by a **24.2%** growth in customer deposits which was advantaged by the added branches. The funding portfolio remains heavily skewed toward term (**56%**) and credit deposits (**41%**). Shareholders funds for FY17 went up by **14.4%** to **KES 34.2Bn** in FY17 compared to **KES 29.8Bn** in FY16 over the same period last year, fueled by an increase in retained earnings.

Interest Income Decline: The group posted a **3.2%** decrease in interest income to **KES 18.4Bn** in FY17 compared to **KES 19.0Bn** in FY16 due to the interest capping law and a decline in net loans and advances. Higher margins on Government securities coupled with the increased investment cushioned the fall in net interest income, which declined to **KES 10.8Bn** in FY17 versus **KES 12.2Bn** in FY16.

Non-Funding income grew to **KES 4.2Bn** in FY17 from **KES 4.0Bn** in FY16 driven by improved service and transaction fees edging the NFI contribution to total income up to **27.9%** in FY17 from **24.8%** in FY16.

The Return On average Equity (ROaE) decelerated in FY17 to **12.7%** from **15.3%** over the same period in 2016. The Return On average Assets (ROaA) dwindled in FY17 to **2.2%** from **2.6%** in FY16 driven by the decline of PAT. The FY17 Earnings per share (EPS) declined to **KES 6.48** from **KES 6.77** realized in 2016. The decline resulted in a price to earnings (PE) ratio of **6.4x**. The final dividend of KES 1.00 means that NIC group dividend yield is **2.4%**. The FY17 Price to Book value (P/B) decelerated to **0.8x** from FY16 P/B ratio of **0.9x**. The Cost To Income ratio (CTI) with provisioning went up **62.51%** in FY17 from **61.90%** FY16. The Cost To Income (CTI) without provision also increased in FY17 to **42.6%** from **38.7%** in FY16. This increase was due to the growing cost versus the declining interest income.

Challenges: The Company retains one of the highest levels of NPLs for listed companies at **11.1%**. With its book skewed the corporate business, the levels on NPLs will remain high. The drive to MSME will face headwinds on the pricing of credit risk.

Forecast 2018: We forecast a **5.5%** upside to **KES 43.50** compared to today's average of **KES 41.50**. Review of the interest rate cap will play an important role in the bank's performance especially with reference to interest income. Recovery of the economy will help drive the lender's bottom line through additional loans in the corporate division.

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