

KCB Group: Full-Year Results Note 2019

KCB Group PLC (NSE: KCB) released their FY19 financial results, reporting a year-on-year growth in reporting a **4.9%** y/y growth in profit after tax to **25.2Bn** from **23.9Bn** with the exclusion of National bank of Kenya(NBK). Over the period, both interest income and Non-Funded Income(NFI) recording a positive growth of 12.2% and 22.6% respectively. We maintain our long-term **BUY** with a target price of **KES 63.69**.

In 4Q19, the bank concluded the acquisition of NBK

Highlights:

- Interest income increased on the back of an expanding loan book. Net interest income was up **15%** driven by loan book growth. This follows KCB's successful acquisition of National Bank of Kenya(NBK). NFI was up **22.6%** following a two-fold increase in the revenues from fees and commissions. KCB's continued leveraging on mobile and digital platforms has been at the heart of NFI growth.
- Loan book grows 12% on account of increased mobile lending: Loans and advances over the period increased to **KES 59.01 Bn** from **KES 52.71Bn** due to increased lending on mobile platforms. Loans to corporate and retail clients over the period rose 25% and 13% respectively. From a sector perspective, majority of the loans are extended to Personal(37.8%) and Real Estate (17.8%). We are however, concerned about the bank's exposure to the Real Estate sector, as they are likely to experience an increase in NPLs due to the slowdown in the sector.

Date: 12th March 2020

Target Price: **63.69**

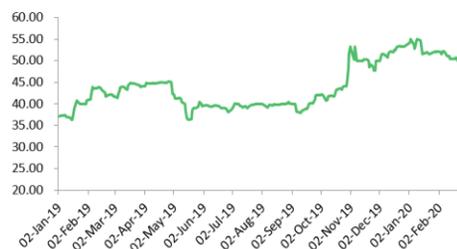
52 week range: KES 36.30 to KES 55.00

Latest Results: FY 2019.

Earnings Per share: KES 8.11

Dividend per share: KES 3.50

KCB Share price movement.



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- **Non-Performing Loans increase by 96%** : Non-performing loans over the period increased to **10.9%** and (7.4% excluding NBK) from **6.4%** in FY2018. The cash strapped environment that gripped the country is the main reason attributed to a deteriorating performance of the loans over the period. The NPLs in the personal/household sector increased indicating that the NPL ratio in the mobile platform have increased. This has been a very profitable segment for the bank. However, following the increased NPLs the bank may be forced to re-evaluate its strategy and reduce the growth of mobile lending. Over the period Loan loss provisioning increased to **KES 8.9 Bn** up from **KES 2.9 Bn**, thereby increasing the bank's cost of risk.

- **Higher operating cost due to changes in reporting standards:** Last year, the bank had a 26% increase in total operating expenses following the introduction of IFRS 16. The standard came into effect on January 1st 2016 and requires lessees to recognize all leases on the balance sheet to reflect their right to use an asset and any associated liabilities for a specified period of time.

KCB GROUP FY 2019 RESULTS			
	31-Dec-19	31-Dec-18	% Change
	'000	'000	
INTEREST INCOME			
Loans and Advances	59,011,551	52,711,906	12.0%
Government securities.	14,066,479	12,983,467	8.3%
Deposits and placements with banking institutions.	1,272,851	585,325	117.5%
Total Interest income.	74,350,881	66,280,698	12.2%
INTEREST EXPENSE			
Customer deposits	16,265,919	15,464,365	5.2%
Deposits and other placements.	1,953,699	1,985,797	-1.6%
Total Interest Expenses	18,219,618	17,450,162	4.4%
Net Interest income	56,131,263	48,830,536	15.0%
Operating Income			
Fees and commissions on loans and advances	9,179,404	4,273,520	114.8%
Other fees and commissions.	10,670,461	9,965,226	7.1%
Foreign exchange trading income	4,497,062	4,374,312	2.8%
Other income	3,824,612	4,360,505	-12.3%
Total Operating income	28,171,539	22,973,563	22.6%
Operating expenses			
Loan Loss provisions	8,888,942	2,944,367	201.9%
Staff Costs	19,459,349	17,007,482	14.4%
Director's emoluments	356,030	339,076	5.0%
Rental charges	98,083	1,262,514	-92.2%
Depreciation charge on property and equipment	2,761,425	1,866,468	47.9%
Amortisation charges	1,625,137	1,279,757	27.0%
Other Operating expenses	14,216,218	13,245,599	7.3%
Total Operating expenses	47,405,184	37,945,263	24.9%
Total Operating Income	36,897,618	33,858,836	9.0%

Income Statement KES ('000)	31-Dec-19	31-Dec-18	% Change
Net interest income	56,131,263	48,830,536	14.95%
Non-interest revenue	28,171,539	22,973,563	22.63%
Total Income	84,302,802	71,804,099	17.41%
Total operating expenses	47,405,184	37,945,263	24.93%
Profit Before Tax	36,897,618	33,858,836	8.97%
Tax expenses	(11,732,190)	(9,863,866)	18.94%
Profit After Tax	25,165,428	23,994,970	4.88%

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