

KCB Group: 1Q20 Earnings Update

KCB Group's 1Q20 net earnings rose 8.5% y/y to KES 6.3B (-3.0% y/y for KCB Bank Kenya Exc NBK) driven by sustained growth in non-interest revenue and rising interest income. Bottom line growth was however curtailed by a 22.3% y/y rise in operating expenses to KES 11.1B and a 149.1% y/y rise loan loss provision expense to KES 2.9B

Key highlights

➤ Interest income grew 20.4% y/y to KES 20.2B on the back of an 63.3% y/y uptick in interest income from investment in government securities and a 9.5% y/y rise in interest income from loans and advances. Growth in these line items was on the back of a 30.5% y/y expansion in the total asset book. The group's investment in government securities grew 52.0% y/y to KES 202.6B while the loan book grew 19.3% y/y to KES 553.9B. Loan book growth was boosted by the personal lending, real estate, manufacturing and trade segments.

➤ Interest expense expanded 26.6% y/y to KES 5.2B mirroring a 34.1% swell in customer deposits to KES 740.4B. However, the cost of funds declined 500bps y/y to 2.7% reflecting cheaper deposits by the group. In effect the net interest income rose 18.5% y/y to KES 15.1B with yield on interest earning assets closing at 10.3%.

➤ Gross NPLs swelled 70.5% y/y to KES 66.2B due to absorption of the bad book from NBK. The SME & Micro and the corporate sectors shared the larger pie in NPL contribution. The group NPL ratio closed at 12.0% lagging behind an industry ratio of 12.5%.

Outlook

- The Kenyan economy is anticipated to grow at 1% pressed down on by the effects of the prevailing COVID-19 pandemic that seen slowdown in economic activities in the country. We expect that SMEs and manufacturing will be most hit hard following reduced consumer spending. However, the Central Banks resolve to lower the CBR rate coupled with governments efforts to release pending payments may see an improvement in liquidity in the markets.
- We may see the bad book expand further despite restructuring efforts if the effects of a closed economy continue to be felt in the short to medium term.
- We however remain confident that the group remains fundamentally sound and holds enough capital buffers to withstand the effects of a challenging economic environment. We therefore encourage investors to take positions at the current price of KES 37.05.

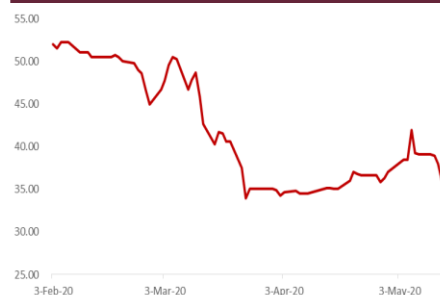
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KCB

Target Price: Under review

52 week range:

KES 33.75 to KES 55.50



Analysts

Linda Kiraithe

+254 719 712 031

Sarah Wanga

wangas@aibcapital.com

(+254) 711047105

Financial Statements

	1Q19	1Q20	chg y/y
Income Statement	KES M	KES M	
Interest Income	16,777	20,207	↑ 20.4%
Interest Expense	4,069	5,153	↑ 26.6%
Net Interest Income	12,708	15,054	↑ 18.5%
Non Interest Income	6,050	7,897	↑ 30.5%
Total Operating Income	18,758	22,951	↑ 22.4%
Total Operating Expenses	9,099	11,131	↑ 22.3%
Loan Loss Provision Expense	1,163	2,898	↑ 149.1%
Operating Profit	9,659	11,820	↑ 22.4%
Profit Before Tax	8,496	8,922	↑ 5.0%
Current Tax	2,723	2,660	↓ -2.3%
Profit After Tax	5,774	6,262	↑ 8.5%
EPS (KES)	7.53	7.79	↑ 3.5%
DPS (KES)			
Balance Sheet			
Total Shareholders' Equity	119,463	135,546	↑ 13.5%
Customer Deposits	552,205	740,444	↑ 34.1%
Total Liabilities	606,200	811,522	↑ 33.9%
Total Equity and Liabilities	725,669	947,068	↑ 30.5%
Cash and CBK Balances	39,471	55,903	↑ 41.6%
Government and Other Securities	133,337	202,643	↑ 52.0%
Net Loans and Advances	464,263	553,861	↑ 19.3%
Fixed Assets	9,888	20,684	↑ 109.2%
Total Assets	725,663	947,068	↑ 30.5%
Key Ratios			
Gross NPL (KES M)	38,824	66,201	↑ 70.5%
NPL Ratio	8.1%	12.0%	
Loan to Deposits	84.1%	74.8%	
Yield on Interest Earning Assets	11.2%	10.3%	
Cost of Funds	3.2%	2.7%	
NIM	8.0%	7.6%	
Non Funded/Total Income	32.3%	34.4%	
Cost to Income Ratio	48.5%	48.5%	
ROE	7.2%	18.5%	
ROA	1.2%	2.6%	
Core Capital/TRWA	18.9%	17.1%	
Total Capital/TRWA	20.3%	19.0%	
Liquidity Ratio	35.6%	40.1%	
P/E (x)		4.8	
P/B (x)		0.9	

Source: Company Filings, ApexAfrica Research

CONTACTS:

Research Desk

Sarah Wanga
wangas@aibcapital.com
(+254) 711047105

Linda Kiraithe
+254 719 712 031
lkiraithe@apexafrica.com

Keith Maru
maruk@aibcapital.com
(+254) 711047105

Equities Dealing

Bernard Kung'u
kungub@aibcapital.com
(+254) 711047108

Benard Gichuru
gichurub@aibcapital.com
(+254) 711047111

Brian Tanui
tanuib@aibcapital.com
(+254) 711047124

Bond Dealing

Crispus Otieno
otienoc@aibcapital.com
(+254) 711047113

Titus Marenye
marenyet@aibcapital.com
(+254) 7110471180

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