

# KINGDOM SECURITIES

## KCB Group 1Q20 Earnings Update

The group's Profit Before Tax (PBT) grew by 5.0% to register Kes 8.9Bn. This was boosted by double-digit growth in Net Interest Income (NII) and Total Non-Interest Income, which grew by 18.90% and 31.67% respectively. However, this growth was impacted negatively by 21.98% growth in Operating expense, which was resulted by additional costs on NBK, increased depreciation due to IFRS 16 and annual increments in wages. **Overly, the Group's Profit After Tax surged by 8% to close at kes 6.3Bn with comparison to 5.8Bn on a favorable effective tax rate of 29.8% vs. 32.0% recorded in the same period in the previous year.**

The bank recorded a 31% y/y growth in the asset book to close at Kes 947.1Bn, in comparison to Kes 725.7Bn recorded in the same period in the previous year. A spike was experienced in customer deposits whereby a 34.08% y/y growth was recorded to close at Kes 740.4Bn, buoyed by NBK's acquisition and new customers who cumulatively injected an additional of Kes 53.0Bn in the system. The group saw its holdings in the Government securities spike by 52.81% to close at Kes 203.7Bn, from Kes 133.3Bn recorded in the same period in the previous year, due to improved liquidity that was resulted by a conservative lending approach.

Digital proliferation was apparent whereby the group saw 97% of its transactions carried outside the branches, with the mobile transactions accounting for 73% in comparison to 56% recorded in the similar period in the previous year. This consequently saw a 65% growth in non-branch revenue to Kes 2.8Bn and ATM activity dipping by 9%. **Credit uptake via the mobile channel recorded a 15% growth to close at Kes 49.8Bn.**

**Outlook:** The group points that all its lines of business have been negatively impacted by the current crisis. The pandemic has distressed demand for Credit; hence, the group is keen on digital platforms.

**Currently trading at Kes 37.05, we recommend Accumulate on KCB Group with an upside potential of 19.60%.**

### National Bank of Kenya Snapshot

KCB injected KES 5.00Bn aiding NBK meet regulatory liquidity requirements. The capital injection coupled with releasing of cash from the government securities enable the bank grow the loan book by 4.3%.

The loan book quality significantly improved with Gross NPL decreasing by 25.53% (Kes 31.48Bn in 1Q19 to Kes 25.08Bn in 1Q20) on improve collections.

The bank's Profit After Tax grew by 133.8% to Kes 154.9Mn 1Q20 from Kes 66.25Mn in 1Q19. NII improved by 5.7% (1.72Bn 1Q19 to 1.81Bn in 1Q20) while total operating Income registered a 6.7% growth (2.20Bn in 1Q19 to 2.35Bn in 1Q20).

Recommendation	Accumulate
Current Price	37.05
6-month Average	44.85
Upside/Downside	19.60%
YTD Performance	31.40%
No of Shares(Mn)	3,209.04
Free Float	70.30%
Market Cap(Bn)	118.90
Mkt Cap(USD Mn)	1,121.65

P&L (Bn)	1Q19	1Q20	%Δ
Interest Income	16.8	20.2	20.0%
Interest Expense	4.1	5.2	27.0%
Net Interest Income	12.7	15.1	18.0%
Fees and Commissions	4.0	5.4	34.0%
Other Income	1.0	1.0	1%
Operating Income	6.0	7.9	31%
Operating expense	9.1	11.1	18%
Profit Before Tax	8.5	8.9	5%
Profit After Tax	5.8	6.3	8%
Basic Annualized EPS*	7.53	7.79	3.5%

**NB: \* not in BNs**

Balance Sheet (Bn)	1Q19	1Q20	%Δ
Investments Securities	133.3	202.6	52.0%
Loans and advances	464.3	553.9	19%
Total Assets	725.7	947.1	31%
Shareholder's Funds	119.5	135.5	13%
Customer Deposits	552.2	740.4	34%

Key Ratios	1Q19	1Q20
Return on Average Equity	21.9%	22.4%
Cost to Income	48.5%	42.8%
Gross NPL to Gross Loans	7.7%	7.6%
Debt to Equity	18.0%	19.6%
Cost of Funds	2.8%	2.7%
Net Interest Margin	8.5%	7.4%
Cost of risk	1.0%	2.1%
Growth of Customer Deposits	11.0%	18.2%

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Analysts' stock ratings are defined as follows:

- **Buy** – A buy rating reflects 1) An analyst has a bullish conviction on a stock 2) A 30% or greater expected return.
- **Accumulate** – An accumulate rating reflects 1) An analyst has a lesser bullish conviction on a stock 2) Expected return falls between 10% and 30%.
- **Hold** – A hold rating reflects 1) An analyst has a neutral conviction (lack of bullish or bearish conviction) on a stock 2) Expected return falls within the range of 5% to 10%.
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- **Sell** – A sell rating reflects 1) An analyst has a bearish conviction on a stock 2) Expected return falls below 5%.

\*Expected Return (ER) represents the sum total of both capital appreciation and the dividend yield.

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