

KINGDOM SECURITIES

NCBA – Earnings Update Q1-2020

The bank opted to release Q1-2020 while comparing with CBA Bank performance in Q1-2019, for a fair comparison. Our analysis makes comparison against the sum of the individual units of CBA and NIC.

We give a BUY recommendation on NCBA as the counter closed at KES 27.55 on May 20th, 2020 which is 18.0% below the 6-month average of KES 32.50. NCBA Bank posted a post-merger Profit After Tax of KES 1.63Bn in Q1-2020, this 26.8% lower compared to a sum performance of KES 2.23Bn of the unmerged units in Q1-2019. Profit before tax (PBT) stood at KES 2.42Bn, improved from sum performance of KES 3.29Bn. In spite of the current economic environment, the bank stalled in its lending as it works on sanitizing its loan book with Q1-2020 NPLs at 14.1% compared to industry levels of 12.5%. The bank projects a tougher Q2-2020 due to the ongoing lockdown and slowdown in business activities.

Statement of Comprehensive Income: Net Interest Income (NII) increased by 5.5% suppressed by interest expense growing faster than interest income at 8.3% and 6.8% respectively. A 2.2% growth in loan book saw interest income from loans and advances improve by 3.9% while interest expense up 14.1%. NII contribution to total income dipped to 50.3% from 58.0%.

Non-Funded Income (NFI) had a large influence on total income. Year on year, NFI grew by 43.6% to contribute 49.7% of total income. The growth was driven by 82.6%, 23.6% and 36.2% growth in fees and commission on loans, forex income and other income respectively. Digital loans continue to boost NFI due to their low operating cost.

Total operating expenses moved up by 37.2% forced by loan loss provision which increased by 200.1%. Operating expense excluding provisions eased by 5.5% benefiting from a 18.4% decline in staff costs. Cost to Income (CTI) jumped to 76.1% from 67.4% while CTI excluding provision dipped to 41.5% from 53.4% as merged unit benefits on synergy on merged duties and digitization.

Balance Sheet: A 200.1% increase in Loan Loss Provisions forced the bank to take a conservative strategy with loan book growing by 2.2% as its percentage to total asset easing to 48.2% compared to 51.6% in Q1-2019. Investment insecurities grew by 23.6% while it was up to 30.4% as a component of asset from 26.8%. Customer deposits increased by 9.9%. The asset to deposit ratio (AD) 63.0% from 67.7%. Shareholders' equity marginally improved by 1.2%.

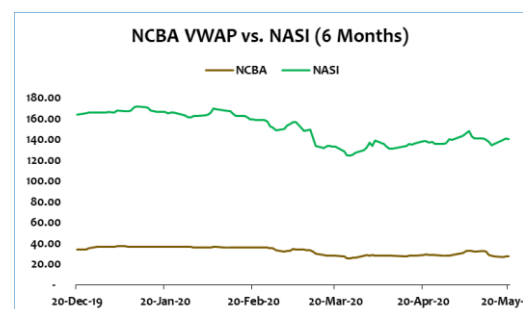
Key Ratios: First quarter of the year saw Return on Assets (ROA) worsened to 0.3% from 0.5% same period in 2019 while Return on Equity at 2.4% from 3.3% over the same period. Cost of funds marginally improved to 1.1% from 1.2% with Net Interest Margins (NIM) growing to 1.3% from 1.2% over the period. Non-Performing Loans (NPL) increased to 14.1% with coverage ration worsening to 54.5% compared to NPL of 12.1% and a coverage of 55.9% in full year 2019. The NPLs were 160bps higher compared to industry NPLs of 12.5% in Q1-2020

Regional Performance: Subsidiaries continue to struggle with Tanzania and Rwanda posting a 166Mn and 91Mn loss while Uganda posted a profit of KES 67Mn. Their contribution to the group makes up 9% of Group Gross Loans and 7% of Deposits.

Management Outlook: With World Bank projecting 2020 GDP Growth of 1%, management predicts a tougher Q2-2020 due to extended lockdown and slowdown on productivity with some companies witnessing productivity freeze. With reported COVID-19 cases on the rise, the prospect of business re-opening declines.

Recommendation: BUY
Bloomberg Ticker: NCBA KN

Share Stats	
Current Price (kes)	27.55
6 Months Average	32.50
Upsides/Downside	18.0%
Issued shares	1,497.75
Market Cap (Kes Mn)	41,262.88
Market Cap (USD Mn)	386.36
EPS (LTM)	7.34
P/E	3.75
PB	0.60



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	Q1 2020		Q1-2019			
Profit and Loss (KES Mn)	NCBA	CBA	NIC	Merged Unit	NCBA vs CBA %Δ	NCB vs Merged %Δ
Interest Income	10,176	4,805	4,727	9,531	111.8%	6.8%
Interest Expense	4,677	2,311	2,009	4,320	102.4%	8.3%
NII	5,499	2,494	2,718	5,212	120.5%	5.5%
NFI	5,423	2,660	1,118	3,777	103.9%	43.6%
Total Income	10,922	5,154	3,836	8,989	111.9%	21.5%
Provisions	3,775	585	673	1,258	545.4%	200.1%
Opex	8,310	3,556	2,500	6,056	133.7%	37.2%
Opex exc Provisions	4,535	2,971	1,827	4,797	52.7%	-5.5%
PBT	2,416	1,954	1,336	3,290	23.7%	-26.5%
PAT	1,631	1,296	931	2,228	25.8%	-26.8%
EPS	1.09	4.50	1.38	5.88	-75.8%	-81.5%
No of Shares	1,498	288	704			

	Q1 2020		Q1-2019			
Balance Sheet (KES Mn)	NCBA	CBA	NIC	Merged Unit	NCBA vs CBA	NCB vs Merged
Investment Securities	154,670	55,498	69,678	125,176	178.7%	23.6%
Loans and Advances	245,858	122,326	118,324	240,650	101.0%	2.2%
Total Assets	509,595	253,118	213,630	466,748	101.3%	9.2%
Customer Deposit	390,529	204,228	151,081	355,308	91.2%	9.9%
Shareholders' Equity	68,816	30,298	37,695	67,993	127.1%	1.2%

	Q1 2020		Q1-2019		
Key Ratios	NCBA	CBA	NIC	Merged Unit	
NII Contribution	50.3%	48.4%	70.9%	58.0%	
NFI Contribution	49.7%	51.6%	29.1%	42.0%	
CTI	76.1%	69.0%	65.2%	67.4%	
CTI ex Provisions	41.5%	57.6%	47.6%	53.4%	
AD	63.0%	59.9%	78.3%	67.7%	
Investment to Assets	30.4%	21.9%	32.6%	26.8%	
Loans to Assets	48.2%	48.3%	55.4%	51.6%	
ROA	0.3%	0.5%	0.4%	0.5%	
ROE	2.4%	4.3%	2.5%	3.3%	
Cost of Funds	1.1%	1.2%	1.2%	1.2%	
NIM	1.3%	1.1%	1.4%	1.2%	
NPL *vs FY 2019	14.1%			12.1%	
Provision Coverage *vs FY 2019	54.5%			55.9%	

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Recommendation Guide:

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%.
- **Speculative Buy** – A speculative buy rating reflects 1) An analyst has a bullish conviction accompanied by a substantially higher than normal risk 2) Expected return falls above 10%.
- **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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