KINGDOM SECURITIES

KCB Group Plc

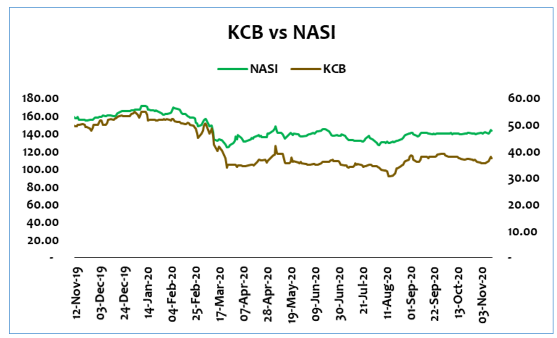
Earnings Update – Q3-2020

KCB Group Plc – Earnings Update Q3-2020

KCB Group reported a 43.2% dip in Q3-2020 Profits after tax (PAT) to KES 10.89Bn from KES 19.16Bn in Q3-19. Profit before tax declined by 36.9% to KES 17.1Bn from KES 27.17Bn. The Group's performance was heavily affected by a 242.5% increase in loan loss provision due to a KES 105Bn loan book restructure. The Groups top line performance remained robust for the two quarters (Q2-2020 and Q3-2020) that were affected by COVID-19. The poor NFI performance was hinged on government directive on cash handling. We expect it to rebound with time as the economy recovers leading to a faster growth in loan book and the reinstatement of mobile money wallet charges to boost the revenue line.

Bloomberg Ticker:	KNCB KN
Share Stats	
Current Price	37.40
12 Month Average	41.03
52 Week High-Low	55.00-30.55
Issued shares (Mn)	3,209.04
Free Float	70.30%
Market Cap (KES Bn)	120,018.10
Market Cap (USD Bn)	1,100.74
EPS	4.72
P/E	7.94
PB	0.88

- The group maintained a positive trajectory with Net Interest Income (NII) growing by 23.7% Y-Y to KES 60.39Bn from KES 51.45Bn.
- Interest revenues increased by 23.0% Y-Y to KES 63.29Bn from KES 51.45Bn. This was boosted by a 65.7% increase in interest from government securities and 12.9% increase in interest from loans and advances.
- Interest expense increased by 20.8% in Y-Y to KES 15.42Bn from KES 12.77Bn. This was driven by 23.6% Y-Y increase in interest on customers deposits.
- Non-Funded Income (NFI) marginally improved by 1.5% boosted by 20.8% growth in fees and other commission income. NFIs were heavily affected by waiver of charges on transfers between mobile money wallets to bank and a 14.2% dip fees and commission income from loans and advances.
- NII contribution to operating income improved to 69.2% with NFI dipping to 30.8% compared to 64.8% and 35.2% respectively in Q3-19.
- Operating expenditure increased by 60.1% affected by 242.5% increase in loan loss provisions. Operating expenses excluding provisions were up 20.1% influenced by 12.2% and 26.6% increase in staff costs and other operating expenses. Cost to income (CTI) increased to 75.2% compared to 54.4% in Q3-19 while CTI excluding provisions was to 46.3% from 44.7% over the period.
- P&L Q-Q performance saw a 52.9% growth in interest income, interest expense eased to 49.6% from 55.7% same period in 2019 while NFIs dipped to 52.4% from 59.2% in Q3-19 which is in line with previous period performance.
- Balance sheet saw assets increase by 27.2% to KES 972.01Bn from KES 764.3Bn. Investment in securities increased by 83.9% while loans and advances were up by 18.7%. the growth was fueled by a 31.7% increase in customer deposits.
- The quarter saw the balance sheet grow was by 2.0%, investment in securities up 10.1% while loans were up 3.1%. Customer deposit grew marginally by 1.5% Q-Q.
- Gross Non-Performing Loans (NPLs) to Gross Loans increased to 15.2% from 8.3% in Q3-219 and 13.7% in Q2-2020.
- Ratio saw ROA down to 10.9% from 21.8% in Q3-19 and 11.6% IN Q2-2020. Cost of funds remained stable at 2.7% Q-Q while down from 2.8% in Q3-19. Net Interest Margins remained flat at 7.9% Y-Y while cost of risk shot to 4.8% on deteriorating loan book due to COVID-19.



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- Advances to Deposit (AD) ratio declined to 74.7% from 82.9%. The Group remained conservative with ratio of securities to total assets growing to 224.3% Y-Y and from 21.9% Q-Q. Advances to assets shrunk to 59.4% Y-Y and while improving from 58.7% Q-Q.
- The Group has observed a slowdown in loan restructuring with end of Q3-2020 witnessing KES 105Bn in value of restructured loans, a marginal increase from KES 101Bn at end of Q2-2020. This was expected as majority of clients opted for an earlier restructuring to benefit from the principal and interest moratorium ranging from 3 – 12 months.

Our take –

- The Groups top line performance remained robust for the two quarters (Q2-2020 and Q3-2020) that were affected by COVID-19. We project the Group to maintain the top line performance.
- The poor NFI performance was hinged on government directive on cash handling. We expect it to rebound with time as the economy recovers leading to a faster growth in loan book and the reinstatement of mobile money wallet charges to boost the revenue line.
- We project single digit growth performance of key balance sheet lines with the lender remaining in growing its loan book.

Profit and Loss (KES Mn)	Q3-2019	Q2-2020	Q3-2020	Y-Y	Q-Q
Interest income	51,448	41,382	63,287	23.0%	52.9%
Interest Expense	12,768	10,313	15,424	20.8%	49.6%
NII	38,680	31,070	47,863	23.7%	54.1%
NFI	20,975	13,964	21,280	1.5%	52.4%
Operating Income	59,654	45,033	69,143	15.9%	53.5%
Loan Loss Provisions	5,843	11,027	20,012	242.5%	81.5%
Operating Expense	32,481	32,208	52,000	60.1%	61.4%
Opex exl Provisions	26,638	21,181	31,987	20.1%	51.0%
PBT	27,173	12,825	17,143	-36.9%	33.7%
PAT	19,163	7,578	10,891	-43.2%	43.7%
EPS	8.33	4.72	4.52	-45.7%	-4.2%

Balance Sheet (KES Mn)	Q3-2019	Q2-2020	Q3-2020	Y-Y	Q-Q
Investment securities	128,459	208,523	236,247	83.9%	13.3%
Loans and Advances	486,423	559,884	577,505	18.7%	3.1%
Total Assets	764,335	953,072	972,009	27.2%	2.0%
Customer Deposits	586,715	758,241	772,663	31.7%	1.9%
Liabilities	643,103	820,933	836,064	30.0%	1.8%
Shareholders' Fund	121,232	132,139	135,945	12.1%	2.9%

Key Ratios	Q3-2019	Q2-2020	Q3-2020
NII % Operating Income	64.8%	69.0%	69.2%
NFI % Operating Income	35.2%	31.0%	30.8%
CTI	54.4%	71.5%	75.2%
CTI exl Provisions	44.7%	47.0%	46.3%
ROA	21.8%	11.6%	10.9%
Cost of Funds	2.8%	2.7%	2.7%
Net Interest Margins	7.9%	7.8%	7.9%
Cost f Risk	1.7%	4.0%	4.8%
Gross NPL: Gross Loans	8.3%	13.7%	15.2%
NPL Coverage	56.0%	61.7%	68.6%
Loan to Deposit	82.9%	73.8%	74.7%
Investment in Securities to Assets	16.8%	21.9%	24.3%
Loan to Assets	63.6%	58.7%	59.4%

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- **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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