

NCBA Group Plc – Earnings Updates – H1-2020

NCBA Group Plc reported KES 2.63Bn in H1-2020, this was 38.3% lower y-y compared to the merged units of NIC and CBA which has a sum of KES 4.27Bn. the performance was influenced by a 180.9% increase in loan loss provisions. Profits before tax were down 42.0% y-y to KES 3.91Bn from KES 6.74Bn on merged CBA and NIC entities.

The lenders top line improved with Net Interest Income (NII) up 6.8% higher boosted by a 6.2% growth in interest income to KES 20.68Bn from 19.47Bn on merged entity's H1-2019. Interest expense was up at a slower pace of 5.5% to KES 9.47Bn in H1-2020 from KES 8.97Bn. The bank has shown positive performance with interest income growing by 103.2% Q-Q while NII was up 103.9% Q-Q.

Non-Funded Income increased to KES 10.0Bn, a 13.7% y-y jump from KES 8.86Bn cumulatively. The performance of this line of income was up 85.8% Q-Q due to a 48.7% Q-Q growth of fees and commission on loans and advances on a near flat loan book growth. NFI contribution to total income improved to 47.3% compared to a summation performance of 45.8% in H1-19.

Operating expense increased by 39.6% from 12.17Bn on merged entity sum to KES 16.99Bn. This was driven by a 180.9% increase in loan loss provision which increased to KES 7.63Bn from KES 2.71Bn. The bank stated they had restructured loans amounting to KES 58Bn or 28% of loan book to assist customers cope with the Covid-19 disruption. Expenses less provisions eased down by 1.0% from KES 9.46Bn to KES 9.37Bn boosted by a synergy benefit of 11.2% in decline on staff cost.

The increase in provisions led to Cost to income ratio to deteriorate to 79.8% in H1-2020 compared to a merged entity CTI of 62.9%. CTI less provisions improved to 44.0% in H1-2020 from 48.8%.

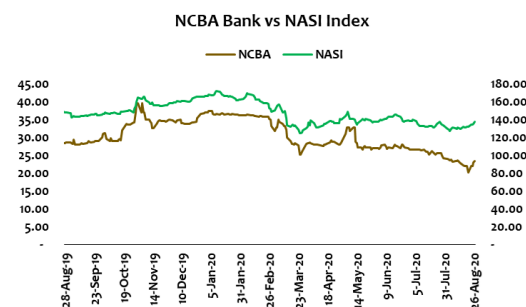
Balance sheet saw customer deposit growth by 9.1% y-y from KES 357.99Bn to KES 390.49Bn in H1-19. Deposit growth was flat Q-Q. Total assets were up 8.0% to KES 514.03Bn from a cumulated asset of KES 476.10Bn. Deposit was deployed into growing investments in securities which were up 24.0% y-y and 101% Q-Q. This pushed the ratio of Investment insecurities to total assets up to 32.9% from 28.6%.

Loan and advances were up 4.0% to KES 248.31Bn from a total combined KES 238.78Bn in H1-19. The ratio of loans to total assets dipped to 48.3% from 50.2% a sigh on the bank taking an aggressive measure of containing credit risk. Measure taken on the loan growth saw Advances to Deposit (AD) ratio to ease to 63.6% from 62.9% in H1-2020.

Ratio saw cost of funds remain flat at 4.5% while Net Interest Margins (NIM) improving to 5.7% on better asset yields.

Non-Performing Loans (NPL) ratio (total non-performing loans to net loan book) was 12.8% from a combined NPL of 10.3% in H1-2019. The NPLs were 30bps lower to the industry rate of 13.1% This was caused by a 27.6% increase in gross non-performing loans and advances due to the restructuring KES 58Bn in loans.

Bloomberg Ticker:	NCBA KN
Share Stats	
Current Price	23.40
52 Week Average	30.43
52 Week High	39.45
52 Week Low	20.20
Issued shares	1,497.75
Market Cap (KES Mn)	35,047.23
Market Cap (USD Mn)	324.05
EPS	2.52
P/E	9.29
PB	0.50



Profit and Loss (KES Mn)	NCBA	CBA	NIC	Merged Unit	NCBA	NCBA vs CBA	NCB vs Merged	NCBA
	Q1 2020	H1-2019			H1 2020	y-y %Δ	y-y %Δ	Q-Q
Interest Income	10,176	9,817	9,656	19,473	20,681	110.7%	6.2%	103.2%
Interest Expense	4,677	4,846	4,125	8,971	9,467	95.4%	5.5%	102.4%
NII	5,499	4,971	5,531	10,502	11,214	125.6%	6.8%	103.9%
NFI	5,423	6,193	2,664	8,858	10,075	62.7%	13.7%	85.8%
Total Income	10,922	11,165	8,195	19,360	21,289	90.7%	10.0%	94.9%
Provisions	3,775	1,271	1,443	2,714	7,626	499.8%	180.9%	102.0%
Opex	8,310	6,935	5,235	12,169	16,991	145.0%	39.6%	104.5%
Opex Less Provisions	4,535	5,663	3,792	9,455	9,365	65.4%	-1.0%	106.5%
PBT	2,416	4,030	2,705	6,735	3,907	-3.1%	-42.0%	61.7%
PAT	1,631	2,364	1,903	4,268	2,632	11.3%	-38.3%	61.4%
EPS	1.09	8.22	0.28	8.50	1.76	-78.6%	-79.3%	61.5%
No of Shares	1,498	288	704		1,498			

Balance Sheet (KES Mn)	NCBA	CBA	NIC	Merged Unit	NCBA	NCBA vs CBA	NCB vs Merged	NCBA
	Q1 2020	H1-2019			H1 2020	y-y %Δ	y-y %Δ	Q-Q
Investment Securities	153,492	75,930	60,277	136,207	168,958	122.5%	24.0%	10.1%
Loans and Advances	245,858	120,273	118,504	238,777	248,306	106.5%	4.0%	1.0%
Total Assets	509,595	261,960	214,140	476,099	514,030	96.2%	8.0%	0.9%
Customer Deposit	390,529	205,685	152,304	357,989	390,489	89.8%	9.1%	0.0%
Shareholders' Equity	68,565	31,776	37,409	69,185	70,056	120.5%	1.3%	2.2%

Key Ratios	NCBA	CBA	NIC	Merged Unit	NCBA
	Q1 2020	H1-2019			H1 2020
NII Contribution	50.3%	44.5%	67.5%	54.2%	52.7%
NFI Contribution	49.7%	55.5%	32.5%	45.8%	47.3%
CTI	76.1%	62.1%	63.9%	62.9%	79.8%
CTI less Provisions	41.5%	50.7%	46.3%	48.8%	44.0%
AD	63.0%	58.5%	77.8%	66.7%	63.6%
Investment to Assets	30.1%	29.0%	28.1%	28.6%	32.9%
Loans to Assets	48.2%	45.9%	55.3%	50.2%	48.3%
Cost of Funds	4.4%	4.3%	4.8%	4.5%	4.5%
NIM	5.7%	4.4%	5.5%	4.9%	5.7%

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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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