

NCBA Bank 3Q2020 Earnings Update

NCBA Bank closed 3Q2020 at a Profit Before Tax of Kes 3.79Bn; a 66.3% downgrowth from the Kes 11.25Bn recorded in 3Q2019 (Kes 4.47Bn NIC and Kes 6.79Bn CBA) and a 3.06% Q/Q decline. The shedding of profit was resulted by a cumulative Y/Y 51.2% spike of the Operating Expense caused by a 210.6% jump of Loan loss provisions (Kes 4.30Bn in 3Q2019 – cumulative Kes 13.35Bn in 3Q2020). The Q/Q loan loss provision stood at 75.09%. The group attributes this to the Covid-19 pandemic that has slowed down global economy.

There was a 4.8% Y/Y growth of the Interest Income from an aggregate of Kes 29.75Bn in 3Q2019 to Kes 31.17Bn in 3Q2020 and a 50.70% Q/Q growth in the same. The group registered a 61.2% underperformance in Net Income to close the quarter at Kes 3.38B down, from NIC's 3Q2019 Kes 3.76Bn and CBA's Kes 4.95Bn.

The Asset books received a 6.4% Y/Y boost from Kes 519.17Bn; a scenario that is attributed to the integration of both CBA's and NIC's assets. This growth was however marginal Q/Q to record a growth of 1.0%. Investment Securities grew by 12.5% Y/Y from Kes 147.66Bn to Kes 166.16Bn while Loans and Advances registered marginal growth of 0.4%. Shareholders' funds further gave asset book a 46bps hit from merged sum of Kes 70.96Bn to Kes 70.63Bn. The business entities saw the customer deposit record a 8.1% up, from a consolidated sum of Kes 372.39Bn in 3Q2019 to Kes 402.63Bn in 3Q20.

The key ratios largely remained adequate, with Net Interest Income contributing 51.3% of the total operating income from 52.8% 3Q19, while NFI contribution edged up marginally to 48.7% from 47.2% 3Q19. Gross NPL improved with respect to Gross loans to 12.79% from 13.4% in 3Q19 and 12.78% in 2Q20; a general industry trend that has been resulted by the Covid-19 pandemic that has caused financial distress in every sector of the economy.

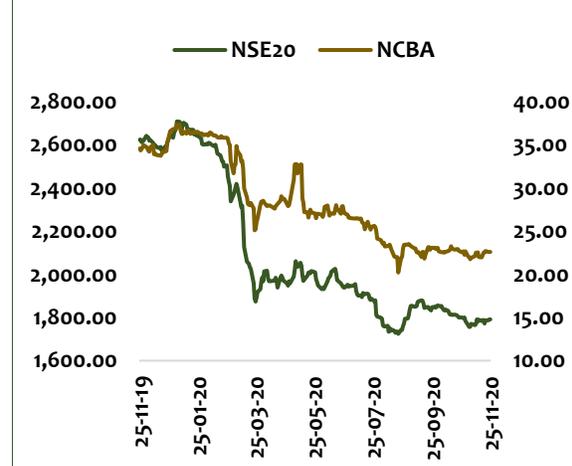
Outlook:

- With the Group's ongoing reorganizational structure which eventually will release some of its workforce through early retirement and a voluntary exit program, the Total Operating Expense is poised to improve through reduction of the staff cost, which currently stands Kes 5.31Bn. Total staff cost registered a growth of 37.0% in 3Q2020 in comparison to 3Q2019.
- The management foresees a substantial decline in the full year earnings, a scenario that we could attribute to the dynamics of the current pandemic, which has consequently pushed the loan loss provisions up by 210.60% Y/Y.
- The group has restructured loans worth Kes 76.0Bn to cushion its clients from the pandemic.

Stock Statistics

Current Price	22.6
YTD Performance	-38.67%
No of Shares (Mn)	1647.52
Mkt Cap (USD Mn)	338.61
6-month average	24.10
12-month average	28.25
PB	0.53
PE	13.53
EPS	1.67

Stock Movement



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P&L (Bn)	Sep-19	Jun-20	Sep-20	Y/Y%Δ	Q/Q%Δ
Interest Income	29.75	20.68	31.17	4.76%	50.70%
Interest Expense	14.08	9.47	14.20	0.87%	50.04%
NII	16.11	11.21	16.96	5.30%	51.25%
NFI	14.41	10.08	16.11	11.81%	59.87%
Operating Income	30.51	21.29	33.07	8.37%	55.33%
Loan Loss Provisions	4.30	7.63	13.35	210.60%	75.09%
Operating expense	18.93	16.99	28.62	51.18%	68.44%
Opex exc Provisions	14.63	9.37	15.27	4.34%	63.02%
PBT	11.25	3.91	3.79	-66.34%	-3.06%
PAT	8.71	3.04	3.38	-61.21%	11.06%

Balance Sheet (Bn)	Sep-19	Jun-20	Sep-20	Y/Y%Δ	Q/Q%Δ
Investment securities	147.66	168.96	166.16	12.53%	-1.65%
Loans and advances	248.79	248.31	249.69	0.36%	0.56%
Customer deposits	372.39	390.49	402.63	8.12%	3.11%
shareholders' funds	70.96	70.30	70.63	-0.46%	0.47%
Total Assets	487.89	514.03	519.17	6.41%	1.00%

Key Ratios	Sep-19	Jun-20	Sep-20
NII Contribution	52.79%	52.67%	51.29%
NFI Contribution	47.21%	47.33%	48.71%
CTII	62.04%	79.81%	86.54%
CTI exc Provisions	47.95%	43.99%	46.17%
ROaE	12.28%	4.33%	4.78%
ROaA	1.79%	0.59%	0.65%
Gross NPL to Gross Loans	13.40%	12.78%	12.79%
Cost of Funds	3.44%	2.19%	3.13%
AD Ratio	66.81%	63.59%	62.02%
Investment Securities to Assets	30.26%	32.87%	32.01%
Loans to Assets	50.99%	48.31%	48.09%

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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%.
- **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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