KINGDOM SECURITIES

NCBA Group Plc

Earnings Update – Q3-2021

PAT 158.0% Growth on Lower Interest Expense and Operating Cost

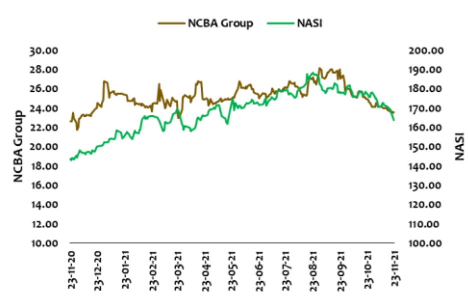
NCBA reported KES 11.06Bn in Q3-21 profits before tax (PAT), a 191.3% increase compared to KES 3.80Bn reported in Q3-20. Profit after tax (PAT) surged by 158.0% y-y to KES 6.53Bn from KES 2.53Bn over the same period. The stellar performance was supported by a 31.8% dip in loan loss provisions while PAT was further affected by higher effective tax rate of 41.0% from 33.4% in Q3-20.

Earning per share (EPS) slowed at 140.0% due to an increase in outstanding shares from bonus share amounting to 1,497.75Mn shares offered in 2020.

- Net interest income (NII) increased by 19.0% y-y to KES 20.20Bn from KES 16.97Bn in Q3-20. The NII performance q-q declined by 0.9% on weaker interest income.
- NII was shouldered by a 9.8% y-y increase in interest income to KES 34.23Bn from KES 31.17Bn. This income line benefited from a 6.5% increase in interest from loans and advances which was fueled by improved yield in loans to 10.7% from 9.6% Q3-20 as the loan book shrank by 4.6% y-y. Returns from government securities surged by 16.8% as holding in government securities expanded by 26.8% y-y. yield on government securities weaned to 9.3% from 10.1% in Q3-20.
- Compared to Q1-21, interest income grew by 2.4% supported by 12.0% increases in return on government securities on a 9.3% ballooning asset line while return on loans and advances dropped by 5.2% q-q on a as the loan book slimmed by KES 1.44Bn in Q3-21.
- Interest expenses thinned by 1.2% y-y to KES 14.02Bn from KES 14.20Bn in Q3-20 supported by 80.7% dip in other interest expenses due to drop in borrowing holding after payment of mid-term paper. Interest from deposits increased by 7.1% fueled by an 11.2% increase in customer deposit. Interest expenses increased by 7.3% q-q on 6.9% increase in cost of deposits and 67.5% on deposits and placements from banking institutions.
- Non -Funded Income (NFI) declined by 0.2% y-y to KES 16.08Bn from KES 16.11. The drop was due to a 4.3% drop on total fees and commission income due to a drop in loan book and slowdown in digital loan fees on clean-up of data. Foreign exchange income improved by 14.8% on increased trade and bet on the local currency. NFI was down 1.5% q-q on 8.0% drop on foreign exchange income. NFI contribution to total income worsened to 44.3% from 48.7% in Q3-20 and remained flat q-q.
- Loan loss provisions declined by 31.3% y-y to KES 9.17Bn from KES 13.35Bn in Q3-20. The provisions improved further easing by 0.9% q-q. This helped cost to income (CTI) lower at 68.0% from 86.5% in Q3-20 while worsened to 67.7% in Q2-21.
- Expenses less provisions increased by 1.6% y-y to KES 15.51Bn from KES 15.27Bn due to a 10.8% increase in staff cost. Staff expenses were up 5.0% q-q on salary review after collective bargaining agreement (CBA) implementation in September 2021. CTI excluding provisions improved to 42.7% from 46.2% in Q3-20 and 43.1% in Q2-21.

Bloomberg Ticker:	NCBA KN
Share Stats	
Current Price	23.55
3-Month Av	25.79
6 Month Av	25.84
52 Week Av	25.22
52 Week High - Low	28.15 - 21.10
Issued shares Mn	1,647.52
Free Float	64.3%
Market Cap (KES Mn)	38,799.08
Market Cap (USD Mn)	345.34
EPS Annualized	5.28
P/E	4.5
PB	0.5

Return Performance		
Period	NCBA Group	NASI
3-Month	-13.3%	-13.0%
6-Month	-5.4%	-4.9%
Y-T-D	-11.5%	7.7%
Y-Y	4.2%	13.9%



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Balance Sheet

- Total asset increased by 8.4% y-y to KES 562.63Bn from KES 59.17Bn in Q3-20. The increase was supported by a 26.8% increase in investment in securities to KES 210.70Bn from KES 166.17Bn. This pushed investment securities share in total assets up to 37.4% from 32.0% in Q3-20.
- A 19.7% growth in gross loan loss forced the lender's net loans book to shrink 4.6% y-y from KES 249.69Bn to KES 238.17Bn. This suppressed advance to deposit (AD) ratio to 53.2% from 62.0% in Q3-20 and 54.8% in Q2-21.
- Customer deposits were up by 11.2% y-y to KES 447.62Bn from KES 402.63Bn.
- The lender contained risk by cutting loan book by 1.44Bn while expending investment in securities by KES 19.91Bn in Q3-21 which was further supported by a KES 10.28Bn increase in q-q deposits.
- Repayment of the mid-term paper saw borrowing decline by 49.9% y-y to KES 7.19Bn from KES 14.36Bn in Q3-20. This led to debt to equity to drop to 9.6% from 48.1% in Q3-20.
- Shareholders' funds surged by 6.2% to KES 74.98Bn from KES 70.63Bn buoyed by a 12.9% y-y increase in retained earnings.

Key Ratios

- Cost of funds marginally improved y-y to 4.1% in Q3-21 from 4.5% in Q3-20 on lower borrowings but remained flat q-q.
- Lower cost of funds and improved yield on assets saw net interest margins (NIMs) improve to 5.5% from5.0% in Q3-20 but lower compared to 5.7% in Q2-21.
- Return on average assets (ROaA) improved to 1.6% in Q3-21 from 0.7% in Q3-20 but performed 10bps lower compared to 1.7% in Q2-21.
- Return on average equity (ROaE) was 15.9% against 12.8% in Q3-20 and 15.6% in Q2-21.
- A 197% increase in gross non-performing loans forced non-performing loans rate up to 15.9% from 12.8% in Q3-20. The rate was weak compared to 13.9% industry ratio.

Outlook

- The merger synergy continues to evade the group with a shrinking net loan book as they continue with clean up. Cost management continues to be mirage even after closure of branches and staff rationalization.
- We expect the lender to remain risk averse with focus on growing investments in government security.
- Company subsidiaries continues to drag the group performance with NCBA Kenya contributing 107.9% and 117.7% in PBT and PAT respectively while running 79.6% of group expenses.

KINGDOM SECURITIES

NCBA Group Plc

Earnings Update – Q3-2021

P&L (KES Mn)	Q3-2020	Q2-2021	Q3-2021	Δ% Y-Y	Q2-2021	Q3-2021	Δ% Q-Q
Interest Income	31,166	22,475	34,225	9.8%	11,472	11,750	2.4%
Interest Expense	14,195	9,048	14,022	-1.2%	4,636	4,974	7.3%
NII	16,971	13,427	20,204	19.0%	6,836	6,777	-0.9%
NFI	16,108	10,705	16,083	-0.2%	5,462	5,378	-1.5%
Total Income	33,078	24,132	36,286	9.7%	12,298	12,154	-1.2%
Loan Loss Provisions	13,352	5,919	9,169	-31.3%	3,279	3,250	-0.9%
Operating Expense	28,619	16,326	24,678	-13.8%	8,558	8,351	-2.4%
Opex excl Provision	15,267	10,408	15,509	1.6%	5,279	5,101	-3.4%
PBT	3,798	7,414	11,061	191.3%	3,544	3,647	2.9%
PAT	2,530	4,657	6,526	158.0%	1,822	1,869	2.5%
EPS	1.65	2.83	3.96	140.0%	1.11	1.13	1.8%

Balance Sheet (KES Mn)	Q3-2020	Q2-2021	Q3-2021	Δ% Y-Y	Q2-2021	Q3-2021	Δ% Q-Q
Investments	166,165	190,791	210,702	26.8%	18,223	19,911	9.3%
Loans and Advances	249,690	239,601	238,166	-4.6%	(3,541)	(1,436)	-59.5%
Total Asset	519,169	542,596	562,631	8.4%	490	20,035	3985.8%
Customer Deposit	402,628	437,340	447,623	11.2%	3,129	10,283	228.6%
Borrowing	14,360	7,300	7,189	-49.9%	(5,695)	(110)	-98.1%
Shareholders' Fund	70,632	74,436	74,978	6.2%	(165)	542	428.9%

Ratios	Q3-2020	Q2-2021	Q3-2021
NII % of Total Income	51.3%	55.6%	55.7%
NFI % of Total Income	48.7%	44.4%	44.3%
CTI	86.5%	67.7%	68.0%
CTI exc Provision	46.2%	43.1%	42.7%
Cost of Funds	4.5%	4.1%	4.1%
Net Interest Margins	5.0%	5.7%	5.5%
ROaA	0.7%	1.7%	1.6%
ROaE	4.9%	12.7%	11.8%
Gross NPL to Net Loans	12.8%	15.6%	15.9%
AD Ratio	62.0%	54.8%	53.2%
Investment Securities to Assets	32.0%	35.2%	37.4%
Advances to Assets	48.1%	44.2%	42.3%
Debt to Equity	20.3%	9.8%	9.6%

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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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