

KINGDOM SECURITIES

KCB Group Posts a 74.4% Growth on Profits

KCB Group reported 85.9% Y/Y spike in Profits before tax (PBT) to KES 47.81Bn in FY-21 on growths in the total income and reduction in loan loss provisions. Profit after tax (PAT) jumped to KES 34.17Bn in FY-21 from KES 19.16Bn the year before amid return of 30% corporate tax from 25%.

KCB Kenya remained key, contributing KES 40.50Bn or 86.1% of total PBT having grown by 71.7% Y/Y as total subsidiary contribution nearly doubled from KES 3.61Bn to KES 6.53Bn largely on income growths in KCB Tanzania Rwanda and Burundi.

The Group EPS spiked 74.4% to 10.64 from that of 6.10 in FY-20. The Board recommended a final dividend of KES 2.0 per share of book closure on 25th April and payment to be advised after approval. If approved, total dividend payment for the year will be KES 3.00, a 28.2% payout for FY-21 which signals a return of historical dividend payment of above Kes. 2.00 by the Group.

We recommend a BUY on the counter with a valuation price of KES 52.31, a 17.3% upside, giving a total return of 21.8% on the current price of KES 44.60 as of 17th March.

Income Statement

- Total interest income was 15.3% Y/Y up to KES 102.56 reaping off from all the three interest income channels which emanated from the rising interest earning assets plus rite-backs from restructured facilities which resumed to paying on recovery from covid-19 effect on several sectors.
- Interest on loans moved 14.2% up riding on the growing loan book which was 13.5% up. Interest on government securities edged 14.5% higher Y/Y from KES 23.18Bn to KES 26.54Bn on returns from heavy investments on government securities that happened at the peak of covid-19 period.
- Interest expense edged 15.3% up Y/Y to KES 24.46Bn on the growing customer deposits and deposits placements from banking institutions which helped sustain the ballooning loan book. Cost of borrowed funds added some pressure on interest expense as borrowed funded moved 1.4% up Y/Y to 37.56Bn.
- Increased interest growth also benefitted from a 13.5% Y/Y growth in loan book to KES 675.48Bn on increased lending to SMEs, consumer, and corporate sectors plus the revamped mobile credit by the lender.
- Non-funded revenue (NFI) grew 9.9% to KES 30.94Bn benefitting from a 17.5% Y/Y increase on fees and commissions on loans and advances coming from the soaring loan book. This also benefitted from mobile credit recoveries in Vooma, Fuliza and KCB M-pesa whose total disbursement grew by 2.6% KES 158.00Bn.
- The lender noted a slow growth on NFIs attributed to freezing of bank to wallet and wallet to money bank transfer fees. The lender's talks with the regulator, however, poses positive sentiment on reinstatement of the cost which will rally the NFIs up if effected.
- Forex revenue improved 21.5% Y/Y to KES 6.55Bn with Q4-2021 contributing the most at a 14.2% growth from KES 4.50Bn in Q3-2021 to KES 6.55Bn all being

KCB Group plc Earnings Update – FY 2021

Bloomberg Ticker	KCB KE
Recommendation	BUY
Share Statistics	
Valuation Price	52.31
Current Price (KES)	44.60
Upside/Downside	17.3%
Total Return	21.8%
3 Months Avr	45.27
6 Months Avr	45.00
12 Months Avr	44.29
52 Week High - Low	49.90 - 39.40
Issued shares (Mn)	3,213.46
Market Cap (KES Mn)	144,766.50
Market Cap (USD Mn)	1266.70
EPS	10.64
PE	4.2
Bvps	54.0
PB	0.8
DPS	3.00
Dividend Payout	28.2%
Div Yield	6.7%

KCB Group Vs Nasi Price movement		
Period	KCB	NASI
M-M	-2.0%	-3.5%
3-Months	2.3%	-2.3%
6-Months	-4.0%	-11.8%
YTD	-0.1%	-3.2%
Y-Y	12.8%	-2.2%

Subsidiary Contribution (KES Bn)			
Subsidiary	2020	2021	Y-Y Δ%
KCB Kenya	23.59	40.50	71.7%
NBK	0.31	1.39	343.1%
KCB Rwanda	0.63	1.08	71.0%
KCB Tanzania	0.49	1.07	117.2%
KCB S. Sudan	0.67	1.00	48.1%
KCB Burundi	0.51	0.62	21.5%
KCB Bancass.	0.44	0.53	21.1%
BPR	-	0.48	0.0%
KCB Uganda	0.55	0.37	32.7%

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Brief Summary

NNI + 15.0% Y/Y

Provisions – 53.2% Y/Y

Opex. – 13.1 Y/Y

PBT + 85.9% Y/Y

PAT + 74.3% Y/Y

Loans +13.5 % Y/Y

Deposits + 9.1Y/Y

Shareholder's Funds + 21.8 Y/Y

attributed to the weakening shilling in the period and growths in diaspora remittances which surged 20.0% to Kes. 3.7Bn in FY-21

- Operating expenses contracted 13.1% to KES 60.82Bn from KES 69.97Bn on account of reduced loan loss provisions which dropped KES 14.22Bn from that of KES 27.21Bn in FY-21 to KES 12.99Bn. Cost to Income ratio remained stable and contained at 44.0% from 44.7% in FY-20.
- Excluding loan loss provisions, operating expenses were 11.9% up to KES 47.82Bn on acquisition of Banque Populaire du Rwanda Plc (BPR) expenses plus staff salary increment that happened late 2021 after the collective bargaining agreement.

Balance Sheet

- The group remained on a trillion-balance sheet since Q2-2021 closing the year at 15.4% up at KES 1.14Tr with the second half of 2021 accounting for 77.4% of the total addition of KES 151.86Bn.
- Borrowings enlarged at a low rate of 1.4% Y/Y KES 37.56Bn to cushion the growing loan book as the bank remained well cushioned on regulatory and internal capital ratios.
- Shareholder's funds were 20.6% up on the expanding retained earnings that saw an addition of KES 18.76Bn to close the year at KES 131.58Bn.

Ratios

- Non-performing loans (NPLS) spiked 180bps from 14.5% to 16.3% on what the lender said was delay from corporate clients who were awaiting payments from the government infrastructure projects. The NPLs however, remained above industry NPL of 13.1% for the same period.
- Assets to deposit ratio improved 310bps on a faster rise in loan book than deposit liabilities as advances to assets dipped 100bps on a quick rise on total assets compared to loan book.
- Return on average equity (ROaA) grew faster from 14.4% in FY-21 to 21.6% on at fast rise on PAT compared to return on average assets (ROaA) which moved from 2.1% to 3.2% Y/Y.

Outlook

- The lender's NPLs are set to edge down on corporate payments from infrastructure clients which is expected plus ongoing recoveries in the tourism and hotel sector.
- Cost to income ratio is set to remain above 44.0% on expenses in revamping mobile/online credit across the group plus a consolidation of operations for BRP and KCB banks in Rwanda.
- The lender remains confident on growth targeting a 20.0% subsidiary contribution to total income in FY-2022 from that of 13.7% in FY-21, with a priority of tapping investment opportunities as the economy fully recovers.

P&L (KES Mn)	FY-20	FY-21	Q3-2021	Q4-2021	Y-Y Δ%	Q-Q Δ%
Interest Income	88,745	102,157	26,413	28,626	15.1%	8.4%
Interest Expense	21,210	24,463	6,392	7,369	15.3%	15.3%
NII	67,536	77,694	20,020	21,257	15.0%	6.2%
NFI	28,154	30,941	8,675	7,472	9.9%	-13.9%
Total Income	95,690	108,635	28,696	28,729	13.5%	0.1%
Loan Loss Provisions	27,212	12,988	2,745	3,660	-52.3%	33.4%
Operating Expense	69,971	60,820	14,802	16,724	-13.1%	13.0%
Opex Excl Provisions	42,759	47,832	12,057	13,064	11.9%	8.4%
PBT	25,719	47,814	13,894	12,005	85.9%	-13.6%
PAT	19,604	34,172	9,906	8,966	74.3%	-9.5%
EPS	6.10	10.64	1.39	0.72	74.4%	-48.2%
DPS	1.00	3.00	1.00	2.00		

Balance Sheet (KES Mn)	FY-20	FY-21	Q3-2021	Q4-2021	Y-Y Δ%	Q-Q Δ%
Investments	208,765	270,830	252,446	270,830	29.7%	7.3%
Loans and Advances	595,254	675,480	651,816	675,480	13.5%	3.6%
Total Asset	987,810	1,139,673	1,122,466	1,139,673	15.4%	1.5%
Customer Deposit	767,224	837,141	859,103	837,141	9.1%	-2.6%
Shareholders' Fund	142,424	173,508	164,383.18	173,507.61	21.8%	5.6%

Ratios	FY 2020	Q3-2021	FY 2021
NII % of Total Income	70.6%	69.8%	71.5%
NFI % of Total Income	29.4%	30.2%	28.5%
CTI	73.1%	51.6%	58.2%
CTI exc Provision	44.7%	44.0%	44.0%
Yield on Advances	10.9%	8.2%	11.0%
Yield on Government Securities	11.1%	7.5%	9.8%
Cost of Funds	2.7%	2.6%	2.8%
Net Interest Margins	8.4%	8.2%	8.3%
ROaA	2.1%	3.2%	3.2%
ROaE	14.4%	21.9%	21.6%
Gross NPL to Net Loans	14.5%	13.5%	16.3%
AD Ratio	77.6%	75.9%	80.7%
Investments Securities to Assets	21.1%	22.5%	23.8%
Advances to Assets	60.3%	58.1%	59.3%

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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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