

KINGDOM SECURITIES

NCBA REPORTS 123.7% Profit Growth

NCBA Group reported KES 15.03Bn in FY-2021 profits before tax (PBT), 145.2% growth from KES 6.40Bn recorded in FY-2021. The spike resulted from a 16.4% reduction on operating expenses as operating income moved 5.8% up to KES 49.15Bn on increased revenue from lending. The lender's profits after tax spiked 123.7% up to KES 10.22 from KES 4.57Bn.

The group's board declared a KES 2.75 final dividend for a total dividend of KES. 3.00. The dividend payout of 48.3% on an EPS of 6.21. Book closure is set for 29th April with payment due on 5th May 2022.

We value the Group at KES. 39.27 per share, a 56.4% uptick from the current price of KES. 25.10, giving a total return of 65.4% and therefore issue a BUY recommendation on the counter.

Income Statement

- The group's net interest income (NII) increased 6.1% from KES 25.49Bn to Kes. 27.04Bn benefiting from the rising interest income from government securities which pushed interest income 5.1% up to KES 46.51Bn. This saw interest income grow at a faster rate of 5.1%Y/Y in comparison to 3.9% growth in interest expense. NII contribution to total income improved 10bps Y/Y to 55.0% from 54.9%.
- Interest income from loans and advances were 4.3% down to KES 25.53Bn from KES. 26.66Bn, being depressed by a 1.8% drop in the group's loan book from KES. 248.50Bn to KES 244.04Bn. Yields from loans and advances fell 20bps from 10.7% to 10.5%.
- Government securities income jumped 20.9% up from KES. 16.83Bn to KES. 20.34Bn reaping off from the growing securities book which expanded 33.8% to KES. 218.81Bn. Yields on government securities however dropped from 10.3% to 9.3%.
- Interest expense rose 3.9% to KES. 19.48Bn on a 7.8% uptick in cost of customer deposit due to liability drive. Growth on interest expense was contained due to a 45.7% drop on other interest expense supported by a 54.2% decline in borrowed funds.
- Non funded income (NFI) expanded 5.8% to KES 22.11Bn gaining from a 38.6% rise in forex trading commissions which moved from KES 4.74Bn to KES 5.06Bn as the Kenyan shilling weakened. The trimmed loan book saw fees and commission from loans and advance drop marginally at 0.5% to KES 10.79Bn. Total NFI contribution dropped marginally from 45.1% to 45.0%.
- Overall operating expense shrunk by 16.4% to KES 33.45Bn in FY-2021 from KES 40.03Bn in FY-2020 largely gaining from a 37.8% drop in loss provisions to KES. 12.72Bn in FY-2021 from a provision of KES 20.44Bn in 2020. Cost to income (CTI) ratio improved from 86.2% to 68.2% Y/Y riding on lower provisions.

NCBA Group plc

Earnings Update – FY 2021

Bloomberg Ticker	NCBA KE
Recommendation	BUY
Share Statistics	
Valuation Price	39.27
Current Price (KES)	25.10
Upside/Downside	56.4%
3 Months Avr	-0.01
6 Months Avr	24.95
12 Months Avr	25.40
52 Week High - Low	22.95 - 28.15
Issued shares (Mn)	1,647.52
Market Cap (KES Mn)	41,352.74
Market Cap (USD Mn)	360.84
EPS	6.21
PE	4.0
Bvps	47.3
PB	0.5
DPS	3.00
Dividend Payout	48.3%
Div Yield	12.0%
Total Return	65.4%

ABSA Group Vs Nasi Price movement		
Period	NCBA	NASI
M-M	-1.2%	-2.0%
3-Months	-1.4%	-5.9%
6-Months	-10.4%	-10.2%
YTD	-1.4%	-4.2%
Y-Y	1.4%	-5.3%

NNI + 6.1% Y/Y

Provisions - 37.8% Y/Y

Opex. + 16.4% Y/Y

PBT + 201.8% Y/Y

PAT + 123.7% Y/Y

Govt. Securities + 33.8% Y/Y

Loan Book + -1.8% Y/Y

Deposits + 11.5% Y/Y

Shareholder's Funds + 7.5% Y/Y

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- Excluding provisions, operating expenses was up 5.8% Y/Y on wage bill. Staff costs climbed 10.0% Y/Y to KES 7.96Bn on market expansion and effect of the collective bargaining that took place late last year. Post-merger operational system amalgamation pushed amortization cost 40.4% up. The bank's CTI less provisions remained stable Y/Y at 42.2%.

Balance Sheet

- Total assets grew 12.0% from KES 527.95Bn to KES 591.09Bn as government securities enlarged 33.8% to KES 218.81Bn. Securities contribution to total assets from 31.0% to 37.0%. Loan book fell 1.8% from KES 248.50Bn to KES 244.04Bn reducing its contribution to total assets from 47.1% to 41.3%.
- Customer deposits jumped 11.5% to KES 469.89Bn pulling the advance to deposit ratio 700bps down from 59.0% to 51.9% on what seems to be a risk containment measure.
- Borrowings dipped by 54.2% to KES 6.10Bn which aided a marginal decline in cost of funds from 4.4% to 4.2% Y/Y as the ratio of debt to equity dropped from 18.4% to 7.8% same period.
- The 13.2% growth in retained earnings to KES 44.20Bn pushed the shareholders' funds 7.5% up to KES 77.99Bn.

Ratios

- A deteriorating loan book saw total non-performing loans increase by 7.8% pushing NPLs up by 140bps up from 13.9% to 15.3%. The containment of the runaway loan book has led to a continued focus of government securities shunning credit growth.
- Net interest margin receded from 5.7% to 5.5% on lower yield on interest earning assets.
- The bank's cost of risk dropped from 8.2% to 5.2% on reduced loan provisions and slow growth on loan book.
- Return on average equity (ROaE) grew 700bps from 6.5% to 13.6% as Return on average assets (ROaA) doubled from 0.9% to 1.9% on a faster rise in PAT.

P&L (KES Mn)	FY-2020	FY-2021	Q3-2021	Q4-2021	Y-Y Δ%	Q-Q Δ%
Interest Income	44,245	46,514	11,750	12,289	5.1%	4.6%
Interest Expense	18,751	19,477	4,974	5,456	3.9%	9.7%
NII	25,493	27,037	6,777	6,833	6.1%	0.8%
NFI	20,943	22,114	5,378	6,032	5.6%	12.2%
Total Income	46,437	49,151	12,154	12,865	5.8%	5.8%
Loan Loss Provisions	20,441	12,717	3,250	3,548	-37.8%	9.2%
Operating Expense	40,033	33,450	8,351	8,772	-16.4%	5.0%
Opex Excl Provisions	19,592	20,733	5,101	5,224	5.8%	2.4%
PBT	4,982	15,035	3,647	3,974	201.8%	8.9%
PAT	4,571	10,224	1,869	3,698	123.7%	97.9%
EPS	2.77	6.21	1.13	2.25	123.8%	99.1%
DPS	1.50	3.00	-	2.25		

Balance Sheet (KES Mn)	FY-2020	FY-2021	Q3-2021	Q4-2021	Y-Y Δ%	Q-Q Δ%
Investments	163,547	218,809	210,702	218,809	33.8%	3.8%
Loans and Advances	248,498	244,038	238,166	244,038	-1.8%	2.5%
Total Asset	527,954	591,088	562,631	591,088	12.0%	5.1%
Customer Deposit	421,504	469,890	447,623	469,890	11.5%	5.0%
Shareholders' Fund	72,548	77,987	74,978	77,987	7.5%	4.0%

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Ratios	FY 2020	Q3-2021	FY 2021
NII % of Total Income	54.9%	55.8%	55.0%
NFI % of Total Income	45.1%	44.2%	45.0%
CTI	86.2%	68.7%	68.2%
CTI exc Provision	42.2%	42.2%	42.2%
Yield on Advances	10.7%	10.7%	10.5%
Yield on Government Securities	10.3%	9.3%	9.3%
Cost of Funds	4.4%	4.1%	4.2%
Cost of Risk	8.2%	3.8%	5.2%
Net Interest Margins	5.7%	5.5%	5.5%
ROaA	0.9%	1.6%	1.8%
ROaE	6.5%	11.8%	13.6%
Gross NPL to Net Loans	13.9%	16.3%	15.3%
AD Ratio	59.0%	53.2%	51.9%
Investments Securities to Assets	31.0%	37.4%	37.0%
Advances to Assets	47.1%	42.3%	41.3%

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Recommendation Guide:

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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