KINGDOM SECURITIES

KCB Group Plc

Earnings Update – Q1-2022

New Sheriff in town – KCB Group Plc

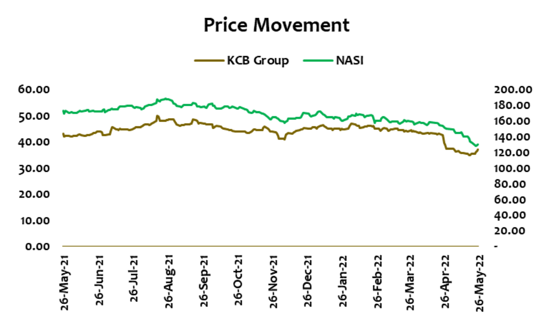
KCB Group bid farewell to their long serving Group MD by posing KES 14.03Bn in profits before tax (PBT), a 53.9% increase y-y from KES 9.12Bn in Q1-21. Profits after tax (PAT) edged upwards by 53.5% y-y to KES 9.79Bn from KES 6.38Bn over the same period. The performance was supported by a 26.0% surge in total income. Compared to Q4-21, PBT was up 16.9% while PAT increased by 9.8% suppressed by decline in net interest income (NII).

Annualized earning per share (EPS) stood at 12.18 with Q1-22 EPS at 3.05 against 1.76 and 2.78 EPS in Q1-21 and Q4-21 respectively.

We recommend a LONG Term BUY with a valuation price of KES 52.30 which is a 41.0% upside compared to a current price of KES 37.10. The counter is trading 18.6% below year-to-date price and 13.7% compared to same period in 2021.

Bloomberg Ticker:	KNCB KN
Recommendation	Long Term Buy
Share Stats	
Implied Price	52.30
Current Price	37.10
Upside/Downside	41.0%
3-Month Avg	41.49
6-Month Avg	43.20
12-Month Avg	44.21
52 Week High-Low	49.90-35.00
Issued shares (Mn)	3,213.46
Free Float	70.3%
Market Cap (KES Bn)	119,219.47
Market Cap (USD Bn)	1,021.70
EPS Annualized	12.18
PE	3.0
BVPS	57.2
PB	0.6
DPS	3.00
Dividend Yield	8.1%
DPS Payout	24.6%

Return Performance		
Period	KCB Group	NASI
3-Months	-17.5%	-18.7%
6-Months	-15.4%	-21.0%
Y-T-D	-18.6%	-22.1%
Y-Y	-13.7%	-24.6%



Income Statement

- Net interest income (NII) grew by 18.0% y-y to KES 19.74Bn from KES 16.73Bn in Q1-21. Quarter performance saw a 7.1% dip driven by a faster dip of 7.0% in interest income compared to 6.5% interest expense. The Q1-21 contribution to total income eased to 68.0% compared to 72.6% in Q1-21 and 74.0% in Q4-21.

- Interest income increased by 21.2% y-y to KES 26.63Bn from KES 21.67Bn. This was driven by a 28.6% jump in interest from government securities with the lender growing investments insecurities by 29.4% while return from government securities remained stable at 11.2%. Income from loans and advances grew by 18.9% drive by a 18.0% growth in net loan book while yield on loans marginally increased to 10.9% from 10.6% in Q1-21.
- Interest expenses were up 21.4% to KES 6.89Bn from KES 5.24Bn. This was affected by 26.4% interest paid on customer deposit due to a 12.9% y-y increase in deposit mobilized as cost of deposit increased to 2.7% from 2.4% in Q1-21. There was also in 48.0% increase in cost of deposits from other banks with the aggregated liability line expanding by 162.7% with need to expand loan book and investments in government securities. Interest expense declined by 6.5% q-q supported by a decline in cost of deposits and 79.4% drop in other interest expenses due to a slow uptake of 0.8% q-q in borrowing.
- Non-funded income increased by 47.2% y-y to KES 9.29Bn from KES 6.31Bn. This was boosted by a 49.1% increase in net fees and commission income due to growing loan book and digital lending fees as the e-credit loans surged by 25.0%. NFI were also buoyed by 46.2% increase in income from foreign exchange trading. Quarterly basis saw NFI marginally grow by 1.1% driven by a 20.5% q-q that was countered by a 14.8% dip in revenues from foreign exchange trading. The NFI contribution to total income improved to 32.0% from 27.4% in Q1-21 and 26.0% in Q4-21.

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- Operating expense increased to KES 15.00Bn from KES 13.92Bn lifted by 11.0% expansion of staff cost on salary adjustment as per 2021 collective bargaining agreement and acquisition of Congo Unit and 28.8% y-y increase in other operating expenses. Loan loss provision declined by 27.5% y-y on improved loan book quality. Quarterly, the expenses were 10.3% lower due to a 43.35 dip in loan loss provisions and 13.1% drop in other operating expense. Cost to income (CTI) ratio was 51.7%, lower compared to 60.4% in Q1-21 and 58.2% in Q4-21 due to the lower provisions.
- Expenses excluding provision were up 16.6% y-y however it was lower 1.1% q-q. This left CTI excluding provision better at 44.5% against 48.0% in Q1-21 and 45.5% in Q4-21.

Balance Sheet

- Total assets expanded by 19.4% y-y to KES 1,166.91Bn from KES 977.52Bn in Q1-21 due on acquisition of Banque Populaire Du Rwanda Plc. Investment in government securities were up by 24.9% to KES 274.44Bn from KES 212.13Bn on heavy investment and acquisition. This saw its share to total assets at 23.5% against 21.7% in Q1-21.
- Net loan book expanded by 18.0% y-y to KES 704.37Bn from KES 597.11Bn due to acceptance of risk and acquisition. This left the loan book to share of total assets at 60.4%, marginally lower compared to 61.1% in Q1-21 however better than 59.3% in Q4-21.
- Customer deposit increased by 12.9% to KES 845.82Bn from KES 749.41Bn driven by organic and inorganic growth after the merger. The advances to deposit ratio was 83.3% from 79.7% in Q1-21 and 80.7% in Q4-21.
- The bank borrowed an additional 5.2% y-y to a net of KES 37.84Bn from KES 35.96Bn. Q-Q basis, the bank borrowed and additional 0.8% from KES 37.56Bn borrowing balance in Q4-21.
- Shareholders' funds expanded by 24.6% y-y to KES 183.72Bn for KES 147.51Bn on a 25.7% jump on retained earnings.

Ratios

- Profitability ratio saw return on average equity (RoAE) improve to 23.4% from 10.95 in Q1-21 and 22.0% in Q4-21 due to the growth in PAT.
- Net interest margins (NIMs) eased to 7.0% from 7.9% same period in 2020 on a faster increase in cost of funds to 3.0% from 2.6% over the period.
- A 33.6% increase in gross non-performing loans (NPLs) and a 38.6% increase in total non-performing loans to KES 130.95Bn and KES 117.44Bn respectively aided to banks NPL to surge to 17.0% from 15.1% in Q1-21 and 16.7% in Q4-21. This is 300bps higher compared to industry NPLs of 14.0.
- Cost of risk dipped to 1.2% from 4.8% in Q1-21 and 2.0% in Q4-21 supported by declining loan loss provisions on post loan book restructure.
- The slow uptake of new debt has led to debt-to-equity ratio easing to 20.6% from 24.4% in Q1-21 and 21.6% in Q4-21.

Profit and Loss (KES Mn)	Q1-2021	Q1-2022	%Δ Y-Y	Q4-2021	Q1-2022	%Δ Q-Q
Interest income	21,970	26,628	21.2%	28,626	26,628	-7.0%
Interest Expense	5,243	6,888	31.4%	7,369	6,888	-6.5%
NII	16,726	19,740	18.0%	21,257	19,740	-7.1%
NFI	6,314	9,292	47.2%	7,472	9,292	24.4%
Operating Income	23,040	29,031	26.0%	28,729	29,031	1.1%
Loan Loss Provisions	2,861	2,075	-27.5%	3,660	2,075	-43.3%
Operating Expense	13,922	14,999	7.7%	16,724	14,999	-10.3%
Opex exl Provisions	11,061	12,924	16.8%	13,064	12,924	-1.1%
PBT	9,118	14,032	53.9%	12,005	14,032	16.9%
PAT	6,376	9,789	53.5%	8,918	9,789	9.8%
EPS	7.02	12.18	73.5%	2.78	3.05	9.8%

Balance Sheet (KES Mn)	Q1-2021	Q1-2022	%Δ Y-Y	Q4-2021	Q1-2022	%Δ Q-Q
Investment securities	212,127	274,443	29.4%	270,830	274,443	1.3%
Loans and Advances	597,110	704,366	18.0%	675,480	704,366	4.3%
Total Assets	977,523	1,166,908	19.4%	1,139,673	1,166,908	2.4%
Customer Deposits	749,414	845,817	12.9%	837,141	845,817	1.0%
Borrowing	35,961	37,843	5.2%	37,561	37,843	0.8%
Shareholders' Fund	147,508	183,723	24.6%	173,508	183,723	5.9%

Non-Performing Loans	Q1-2021	Q1-2022	%Δ Y-Y	Q4-2021	Q1-2022	%Δ Q-Q
Gross NPL	98,019	130,947	33.6%	122,850	130,947	6.6%
Total NPL	84,728	117,441	38.6%	110,130	117,441	6.6%

Key Ratios	Q1-2021	Q4-2021	Q1-2022
NII % Operating Income	72.6%	74.0%	68.0%
NFI % Operating Income	27.4%	26.0%	32.0%
CTI	60.4%	58.2%	51.7%
CTI exl Provisions	48.0%	45.5%	44.5%
RoAE	10.9%	22.0%	23.4%
Cost of Funds	2.7%	2.6%	3.0%
Net Interest Margins	7.9%	7.6%	7.0%
Cost f Risk	4.8%	2.0%	1.2%
Gross NPL: Gross Loans	15.1%	16.7%	17.0%
NPL Coverage	68.6%	72.0%	61.6%
Advances to Deposit	79.7%	80.7%	83.3%
Advances to Deposit and Borrowing	76.0%	77.2%	79.7%
Investment in Securities to Assets	21.7%	23.8%	23.5%
Net Loans to Assets	61.1%	59.3%	60.4%
Debt to Equity	24.4%	21.6%	20.6%

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- **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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