

KINGDOM SECURITIES

NCBA Group Plc - Growth on Government Securities

NCBA Group reported Q1-22 figures posting KES 4.85Bn in profits before tax (PBT), a 25.3% y-y increase compared to KES 3.87Bn in Q1-21. Profits after tax (PAT) stood at KES 3.41Bn, a 20.3% y-y jump from KES 2.84Bn over the same period. The growth was boosted by a 15.5% y-y increase in non-funded income (NFI) and a 4.3% drop in loan loss provisions.

Earning per share was up 20.3% for a trailing PE of 4.0x compared to sector PE 4.40x. we retain a BUY recommendation with a revised value of KES 36.68, a 53.8% upside compared to KES 23.85 at close of business on May 4, 2022. The valuation is based on potential growth of loan book and NFIs as the Group liquidity stands at 63.0%, enough arsenal to grow interest income from loans and digital lending.

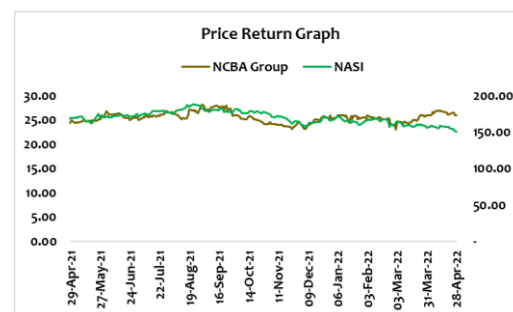
- Net interest income (NII) was up 7.6% y-y to KES 7.09Bn from KES 6.59Bn in Q1-21. Quarterly performance, Group NII was up 3.8% supported by interest income which shrunk by a lower margin of 1.0% compared to a 7.1% q-q decline in interest expense of 7.1%. NII contribution to total income declined to 53.9% from 55.7% in Q1-21.
- Interest income was up 10.5% y-y to KES 12.16Bn from KES 11.00Bn. the growth was supported by a 31.6% y-y growth on returns from government securities with the asset line growing by 29.3% y-y while yields on government securities increased 11.2% in Q1-22 compared to 10.4% in Q1-21. Income from loans and advances thinned by 3.6% as the loan book grew marginally by 0.3% while yields on loans were down to 10.2% from 10.6% in Q1-21.
- Interest expense jumped by 14.9% y-y to KES 5.07Bn from KES 4.41Bn in Q1-21. The jump was driven by a 11.9% increase in deposit expenses due to a 7.2% y-y increase in the liability line. Cost of deposits were up to 4.3% from 4.1% in Q1-21.
- Non-funded Income (NFI) closed the quarter 15.5% y-y better at KES 6.06Bn from KES 5.42Bn. This was buoyed by a 39.2% y-y increase in income from foreign exchange trading. Regulatory constrain and flat loan book growth saw fees and commission income remain flat. NFI contribution improved to 46.1% from 44.3% in Q1-21.
- Operating expenses increased by 4.5% y-y to KES 8.12Bn from KES 7.77Bn. Loan loss provisions dipped by 4.3% y-y due to the loan book performance. The loan loss provision declined by 28.8% Q-Q declining to KES 2.53Bn from KES 3.55Bn in Q4-21. Overall cost to income improved to 61.7% from 65.6% in Q1-21.
- Expenses excluding loan loss provisions increased by 90% y-y to KES 5.59Bn from KES 2.13Bn. The increase was due to a 10.1% increase in staff cost while other operating expenses were 14.6% higher year on year. CTI excluding provisions improved to 42.5% from 43.3%.

NCBA Group Plc

Earnings Update – Q1-2022

Recommendation:	BUY
Bloomberg Ticker:	NCBA KN
Share Stats	
Implied Value	36.68
Current Price	23.85
Upside/Downside	53.8%
3-Month Av	25.44
6 Month Av	25.05
52 Week Av	25.50
52 Week High - Low	28.15 - 23.00
Issued shares Mn	1,647.52
Free Float	64.3%
Market Cap (KES Mn)	42,835.51
Market Cap (USD Mn)	369.89
EPS Trailing 12Mnths	6.6
P/E	4.0
BVPS	48.7
PB	0.5

Return Performance		
Periods	NCBA Group	NASI
3-Months	2.4%	-6.7%
6-Months	6.6%	-15.6%
Y-T-D	2.2%	-10.1%
Y-Y	7.2%	-10.6%



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Balance Sheet

- Total assets expanded by 8.4% y-y to KES 587.38Bn from KES 542.11Bn. Investment in government securities was upped by 29.3% y-y to KES 223.19Bn from KES 172.57Bn in Q1-21. This pushed share to total assets to 38.0% from 31.8%.
- Net loans increased by a margin of 0.3% y-y to KES 243.90Bn from KES 243.14Bn. This has stalled as gross non-performing loans (NPLs) increased by 12.0% y-y while total NPLs were up 9.6% leaving NPLs at 9.1% 80bps higher to 8.3% in Q1-21. Net loan contributions to assets dipped to 41.5% compared to 44.9% in Q1-21.
- Customer deposits were up 7.2% y-y to KES 465.54Bn from KES 434.21Bn. The growth in deposits led to the asset to deposit ratio reducing to 52.4% from 56.0%.
- The bank reduced its borrowing to KES 5.90Bn, a 54.6% y-y from KES 13.00Bn after bond repayment. Debt to equities eased 7.3% from 30.5%.
- Shareholders' funds increased by 7.6% boosted by a 14.1% y-y growth in retained income.

Key Ratio

- Net interest margins (NIMs) remained flat at 5.4% from 5.5% due to a higher cost of funds 4.2% vs 3.9% in Q1-21 while yields on assets were 9.6% vs 9.5% over the period.
- Return on average assets marginally to 2.3% from 2.1% while return on average equity was up 180bps to 17.2% from 15.4% on improved PAT.
- NPLs worsened to 9.1% from 8.3% on deteriorating loan book. Cost of risk improved to 4.1% from 4.3%.

Outlook

- The group focus on loan book management continues to aid in risk management despite NPLs edging upwards. We view the management will continue with investment in government securities whose yields continues to match or better loan yields.
- Slowdown in loan growth will continue to impact NFIs as the regulation on charges on wallet to bank and bank to wallet transaction continues to be in place. The industry continues to have talk with the regulator on the issue.

P&L (KES Mn)	Q1-2021	Q4-2021	Q1-2022	Y-Y %Δ	Q-Q %Δ
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NCBA Group Plc

Earnings Update – Q1-2022

Interest Income	11,003	12,289	12,163	10.5%	-1.0%
Interest Expense	4,412	5,456	5,070	14.9%	-7.1%
NII	6,591	6,833	7,093	7.6%	3.8%
NFI	5,243	6,032	6,057	15.5%	0.4%
Total Income	11,834	12,865	13,150	11.1%	2.2%
Loan Loss Provisions	2,639	3,548	2,525	-4.3%	-28.8%
Operating Expense	7,768	8,772	8,117	4.5%	-7.5%
Opex excl Provision	5,129	5,224	5,592	9.0%	7.0%
PBT	3,870	3,974	4,848	25.3%	22.0%
PAT	2,835	3,698	3,411	20.3%	-7.7%
EPS	1.72	2.25	2.07	20.3%	-8.0%

Balance Sheet (KES Mn)	Q1-2021	Q4-2021	Q1-2022	Y-Y %Δ
Investments	172,569	218,809	223,158	29.3%
Loans and Advances	243,142	244,038	243,899	0.3%
Total Asset	542,105	591,088	587,377	8.4%
Customer Deposit	434,211	469,890	465,536	7.2%
Borrowing	12,995	6,097	5,900	-54.6%
Shareholders' Fund	74,601	77,987	80,305	7.6%

Non-Performing Loans (KES Mn)	Q1-2021	Q4-2021	Q1-2022	Y-Y %Δ
Gross NPLs	14,839	15,937	16,621	12.0%
Total NPLs	20,211	20,977	22,142	9.6%

Ratios	Q1-2021	FY-2021	Q1-2021
NII % of Total Income	55.7%	53.1%	53.9%
NFI % of Total Income	44.3%	46.9%	46.1%
CTI	65.6%	68.2%	61.7%
CTI exc Provision	43.3%	40.6%	42.5%
Cost of Funds	3.9%	4.2%	4.2%
Net Interest Margins	5.5%	5.5%	5.4%
Yield on Advances	10.6%	10.4%	10.4%
Yield on Govt Securities	10.4%	10.6%	11.2%
Cost of Deposit	4.0%	4.2%	4.3%
ROaA	2.1%	1.8%	2.3%
ROaE	15.4%	13.6%	17.2%
Total NPL to Net Loans	8.3%	8.6%	9.1%
Cost of Risk	4.3%	5.2%	4.1%
AD Ratio	56.0%	51.9%	52.4%
Investment Securiteis to Assets	31.8%	37.0%	38.0%
Advances to Assets	44.9%	41.3%	41.5%
Debt to Equity	17.4%	7.8%	7.3%

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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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