

### KCB Group Posts a Decline in Profits

KCB Group reported KES 22.46Bn profit before tax (PBT) for H1-2023, a 20.3% year-on-year (y-y) drop from that of KES 28.18Bn recorded in H1-2022. The performance was mainly impacted by high loan loss provisions, and spikes in other operating and interest expenses. Profit after tax (PAT) declined 18.3% y-y from KES 19.65Bn to KES 16.06Bn partly benefitting from a lower effective tax of 28.5% compared to that of 37.9% of H1-2022.

On overall, the lender's revenues remained steady going up 22.2% y-y from KES 59.81Bn to KES 73.07Bn benefitting from the growing loan book and government securities book. KCB Bank Kenya contribution to total Group income remained strong rising from 84.6% to 85.4%. National Bank (NBK), the Kenyan subsidiary of KCB Group, contributed a loss before tax of 3.84Bn from a profit of KES 0.96Bn reported in H1-2023.

We retain our BUY recommendation on the lender's share price with an implied value of KES 36.60. Our recommendation is based on the company's strong growth in revenues.

### The Group's board did not recommend an interim dividend payment.

Net interest income (NNI) was 12.1% up from KES 40.59Bn to KES 45.51Bn reaping from a higher interest income compared to growth in interest expense. NNI contribution to total income declined from 67.9% to 62.3% as non-interest income contribution jumped from 32.1% to 40.1%.

Interest income spiked 28.6% y-y higher to KES 70.14Bn emanating from a faster rise in interest income from loans and advances and the general rise in interest lending rates in the market.

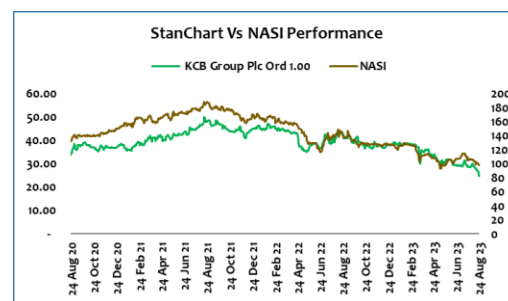
Interest income from loans and advances grew by 33.4% from KES 38.38Bn to KES 51.21Bn benefiting from a faster growth in the bank's loan book which expanded 32.1% or from KES 730.34Bn to KES 964.81Bn with KES 101.54Bn being disbursed in the first half of 2023. Yield on loans and advances improved from 10.9% to 11.2%. The faster loan book growth is also attributed to the consolidation of the acquired Trust Merchant Bank (TMB) of Congo.

Returns from government securities were 14.2% y-y higher from KES 15.87Bn to close H1-2023 at KES 18.12Bn riding on a 30.4% jump in the securities book. Yield on government securities slightly edged down from 11.6% to 11.3% on the effect of the rising bond yields.

Interest expense saw a 13.2% increase from KES 40.59Bn in H1-2022 to KES 45.51Bn especially on expensive deposits and placements from banking institutions that accelerated at from KES 2.14Bn to KES 7.90Bn. Quarter-on-quarter expense on these funds was 16.3% or 4.25Bn higher.

Operating expenses were elevated at 60.0% y-y from KES 31.63Bn in H1-2022 to KES 50.61Bn in H1-2023 on 136.0% and 79.8% spikes in loan loss provisions and other

| Bloomberg Ticker    | KCB KE        |
|---------------------|---------------|
| Recommendation      | BUY           |
| Share Statistics    |               |
| Implied Fair Value  | 36.60         |
| Current Price (KES) | 24.90         |
| Upside/Downside     | 47.0%         |
| Total Return        | 47.0%         |
| 3 Months Avr        | 29.48         |
| 6 Months Avr        | 31.64         |
| 12 Months Avr       | 35.16         |
| 52 Week High - Low  | 24.90 - 42.70 |
| Issued shares (Mn)  | 3,213.46      |
| Market Cap (KES Mn) | 80,015.22     |
| Market Cap (USD Mn) | 554.98        |
| EPS (annualized)    | 9.71          |
| PE                  | 2.6           |
| Bvps                | 65.7          |
| PB                  | 0.4           |



NNI + 12.1% Y/Y

Provisions + 136.0% Y/Y

Opex. + 60.0% Y/Y

Opex Exc. Loan loss prov. + 48.0% y-y

PBT – 20.3% Y/Y

PAT – 18.3% Y/Y

Govt. Securities + 30.4% Y/Y

Loans Book + 32.1% Y/Y

Deposits + 61.9% Y/Y

Shareholder's Funds + 17.9% Y/Y

Shadrack Manyinsa

Research Analyst

[smanyinsa@co-opbank.co.ke](mailto:smanyinsa@co-opbank.co.ke)

operating expenses which ballooned from KES 4.32Bn to KES 10.19Bn and from KES 9.51Bn to KES 17.10Bn respectively.

On its statement, the lender attributed the rapid rise in operating expenses as being driven by exceptional costs from the consolidation of TNB, provisions for NBK's court ruling and the staff rationalization program. Staff costs climbed 23.9% from KES 14.09Bn to KES 17.46Bn.

### Balance Sheet

KCB Group's total assets expanded by 54.1% from KES 1,210.11Bn to KES 1,864.59Bn being driven by the above TMB subsidiary consolidation. The loan book contributed a total of KES 101.54Bn in H1-2023 as the government securities books added in a total of KES 84.40Bn, all giving a total contribution of 71.2% to the total assets.

Customer deposits jumped 61.9% up from KES 908.57Bn to KES 1,1471.25Bn enough to support the growing asset book.

Shareholder's funds grew 17.9% y-y from KES 179.11Bn to KES 211.23Bn benefiting from a 7.6% rise in retained earnings and the 72.9% spike in statutory reserves.

### Key Ratios

Profitability saw net interest margins (NIMs) at 6.6%, 90bps lower from 7.5% in Q3'21 but remained flat compared to Q2'21.

The decline in profitability saw Return on Average Equity (ROaE) drop from 20.3% to 15.6%. Return on average asset (ROaA) was also fell by almost a half from 3.4% to 1.9%

Non-Performing loans declined to 17.4% y-y in H1-2023 from a high of 21.5% in H1-2022 but remained marginally higher compared to that of Q1-2023 of 17.3%. The rate was higher compared to industry level of 14.6%.

| P&L (KES Mn)         | Q2-2022       | Q1-2023       | Q2-2023       | Q-Q Δ%        | Y-Y Δ%        |
|----------------------|---------------|---------------|---------------|---------------|---------------|
| Interest Income      | 54,539        | 33,613        | 70,144        | 8.7%          | 28.6%         |
| Interest Expense     | 13,947        | 11,553        | 24,635        | 13.2%         | 76.6%         |
| NII                  | 40,592        | 22,060        | 45,508        | 6.3%          | 12.1%         |
| NFI                  | 19,216        | 14,790        | 27,560        | -13.7%        | 43.4%         |
| Total Income         | 59,807        | 36,850        | 73,068        | -1.7%         | 22.2%         |
| Loan Loss Provisions | 4,319         | 4,118         | 10,191        | 47.5%         | 136.0%        |
| Operating Expense    | 31,629        | 22,996        | 50,611        | 20.1%         | 60.0%         |
| Opex Excl Provisions | 27,310        | 18,878        | 40,420        | 14.1%         | 48.0%         |
| <b>PBT</b>           | <b>28,178</b> | <b>13,854</b> | <b>22,457</b> | <b>-37.9%</b> | <b>-20.3%</b> |
| PAT                  | 19,647        | 9,753         | 16,057        | -35.4%        | -18.3%        |
| EPS                  | 12.15         | 11.83         | 9.71          | -117.9%       | -20.1%        |

| Balance Sheet (KES Mn) | Q2-2022   | Q1-2023   | Q2-2023   | Y-Y Δ% | Q-Q Δ% |
|------------------------|-----------|-----------|-----------|--------|--------|
| Investments            | 277,844   | 297,719   | 362,423   | -78.3% | 30.4%  |
| Loans and Advances     | 730,335   | 928,824   | 964,809   | -96.1% | 32.1%  |
| Total Asset            | 1,210,108 | 1,630,604 | 1,864,591 | -85.7% | 54.1%  |

|                    |         |            |            |        |       |
|--------------------|---------|------------|------------|--------|-------|
| Customer Deposit   | 908,573 | 1,196,587  | 1,471,246  | -77.0% | 61.9% |
| Shareholders' Fund | 179,113 | 208,144.94 | 211,232.04 | -98.5% | 17.9% |

|                                  |       |       |       |
|----------------------------------|-------|-------|-------|
| NII % of Total Income            | 67.9% | 59.9% | 62.3% |
| NFI % of Total Income            | 32.1% | 40.1% | 37.7% |
| CTI                              | 52.9% | 62.4% | 69.3% |
| CTI exc Provision                | 45.7% | 51.2% | 55.3% |
| Yield on Advances                | 10.9% | 11.0% | 11.2% |
| Yield on Government Securities   | 11.6% | 12.2% | 11.3% |
| Cost of Funds                    | 2.9%  | 3.6%  | 3.5%  |
| Net Interest Margins             | 7.7%  | 6.2%  | 5.9%  |
| ROaA                             | 3.4%  | 2.5%  | 1.9%  |
| ROaE                             | 22.3% | 19.0% | 15.6% |
| Gross NPL to Net Loans           | 21.2% | 16.7% | 16.8% |
| AD Ratio                         | 80.4% | 77.6% | 65.6% |
| Investments Securities to Assets | 23.0% | 18.3% | 19.4% |
| Advances to Assets               | 60.4% | 57.0% | 51.7% |
| Non-performing Loans (NPLs)      | 21.5% | 17.3% | 17.4% |

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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 of both capital appreciation and the dividend yield.

Kingdom Securities Ltd – A subsidiary of Co-operative Bank Limited. Co-operative Bank House- 5th Floor, P.O Box 48231 - 00100 Nairobi, Kenya

Office: 0711049540/0711049956

Email: [kingdomresearch@co-opbank.co.ke](mailto:kingdomresearch@co-opbank.co.ke)

### Research Department

Willis Nalwenge [wnalenge@co-opbank.co.ke](mailto:wnalenge@co-opbank.co.ke)

Shadrack Manyinsa [smanyinsa@co-opbank.co.ke](mailto:smanyinsa@co-opbank.co.ke)

### Equities Dealing

Asena Moffat [amoffat@co-opbank.co.ke](mailto:amoffat@co-opbank.co.ke)

Ashley Odundo [aodundo@co-opbank.co.ke](mailto:aodundo@co-opbank.co.ke)