KINGDOM SECURITIES

KCB Group plc
Earnings Update – H1 2024

KCB Group Profits Jumps 86.4% up in H1-2024

KCB Group plc reported KES 38.11Bn profit before tax (PBT) for H1-2024, representing a 69.7% year on year (y-y) rise compared to KES 22.46Bn of H1-2023. The stellar performance was elevated by faster income growths of both the funded interest and non-funded income (NFI) lines and prudent cost management tactics.

As a result, the Group's profits after tax (PAT) accelerated 86.4% y-y from KES 16.06Bn to KES 29.92Bn, further supported by a lower effective tax rate of 21.5% in relation to 28.5% effective tax rate for H1-202. Subsidiary contribution to total net profits grew from 22.9% in H1-2023 to 37.8% in H1-2024 representing KES 11.31Bn.

The Group's Board recommended a per share interim payment of KES 1.50 whose book closure and payment dates are scheduled for 12th September and 30th October 2024 respectively.

We retain a BUY recommendation on the Group's share price with a revised implied value of KES 49.19, a 52.5% upside from the current price of KES 32.25 per share. Its annualized earnings per share (EPS) stands at 20.52 which gives a good indication and prospect for a final dividend for FY-2024.

Income Statement

Higher lending rates was witnessed in the period saw the Group's net interest income (NII) shoot up 34.8% year on year from KES 45.51Bn to KES 61.33Bn. This was as total interest surged 38.9% from KES 70.14Bn to KES 97.42Bn benefitting from both loans and government securities.

As a result of the better rates, NII contribution to total income maintained an upwards trajectory, rising from 62.3% to 64.8% in H1-2024. Quarter on quarter however, NII contribution to total income declined from 65.6% to 64.8% on effect from a 9.1% drop on the Bank's government securities holdings.

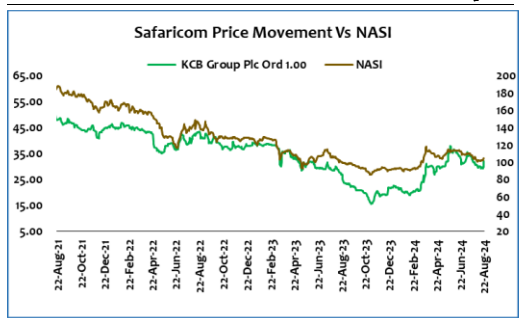
Interest income from its core business, loans and advances, went up 35.1% from KES 51.21Bn to KES 69.19Bn on what we attribute to elevated lending rates after the Bank reviewed its rates two times in the period. The lending Group pushed up its base lending rate to 14.7% and 15.6% in May 2024 as the Central Bank Rate (CBR) rose to 13.0% and 13.5% in the same period.

This further benefited from a 7.0% rise in the bank's loan book on increased focus in lending across its seven markets.

Interest coming from government securities climbed 40.6% up from KES 18.12Bn to KES 25.47Bn as the Lender took advantage of the better returns witnessed in the period on the above rate hikes. This was despite a 1.5% decline in government securities book from KES 362.42Bn to KES 357.07Bn.

Consequently, yield on loans and advanced rose from 11.2% in H1-2023 to 13.0% in H1-2024 as that on government securities also improved from 11.3% to 13.55% in the same period respectively.

Bloomberg Ticker	KNCB KN
Recommendation	BUY
Share Statistics	
Implied Fair Value	49.18
Current Price (KES)	32.25
Upside/Downside	52.5%
1 Month Average	30.75
3 Months Average	33.02
6 Months Average	30.14
12 Months Average	25.43
52 Week High - Low	37.95 - 15.75
Issued shares (Mn)	3,213.46
Market Cap (KES Mn)	103,634.18
Market Cap (USD Mn)	786.74
PE	1.6
BVPS	75.00
P/B	0.4
EPS	20.52
Interim Dividend	**1.50**



KCB Group Vs Nasi Price movement		
Period	KCB	NASI
M-T-D Price Δ%	5.4%	0.9%
M-M Price Δ%	-3.6%	-2.4%
3m-t-d Price Δ%	0.2%	-8.8%
6m-t-d Price Δ%	60.0%	13.4%
Y-T-D Δ%	46.9%	14.3%
Y-Y Δ%)	19.4%	4.4%

NII + 34.8% y-y

Provisions + 19.7% y-y

Opex. + 11.7% y-y

PBT + 69.7% y-y

PAT + 86.4% y-y

Loan Book + 7.0% y-y

Govt. Securities + -1.5% y-y

Deposits + 1.3% y-y

Shareholder's Funds + 14.1% y-y

Shadrack Manyinsa
Research Analyst
smanyinsa@co-opbank.co.ke

To fund the rising loan book, the bank's saw its interest expense surge 46.5% especially on expensive customer deposits and placements from banking institutions. As a result, the cost of funds remained contained at 4.3% in H1-2024 compared to 3.5% of H1-2023.

The strengthening local currency saw forex trading income climb 68.8% from KES 5.91Bn to 9.97Bn to push the total non-funded 20.8% up from KES 27.56Bn to KES 33.94Bn. If the shilling remains stable as has been in over the last 1-month, then the growth rate might not be replicated in H2-2024.

Operating expenses were curbed at 11.7% y-y rise from KES 50.61Bn to KES 56.51Bn mainly eroded by a 19.7% spike in loan loss provisions from KES 10.19Bn to KES 12.20Bn to cushion the rising loan book.

Excluding loan loss provisions, the expenses were controlled at a 9.6% increase from KES 40.42Bn to KES 44.31Bn, attributed to normal pay rise of about 6.0% and other operating expenses.

Balance Sheet

The Bank's overall balance sheet enlarged by 6.0% y-y from KES 1.86 trillion to 1.98Tr being heavily supported loan book growths which added KES 67.36Bn of the total balance sheet growth, representing 60.0% of the total growth amount.

Subsidiary contribution to total assets declined from 36.3% in H1-2023to 34.4% in H1-2024 despite a 0.5% marginal growth in subsidiaries' total assets from KES 676.85Bn to KES 680.04Bn.

Government securities book however shrunk 1.5% from KES 362.42Bn to KES 357.07Bn as it focused on its loan book growth.

Customer deposits remained stable with a 1.3% rise from KES 1,471.25Bn to KES 1,490.59Bn to support the above loan book growth.

The stable clients' deposits helped the bank narrow down the banks borrowed funds by 10.1% from KES 65.64Bn to KES 58.80Bn.

Key Rations

The outstanding profit performance saw the banks average return on assets (ROaA) flourish from 1.9% in H1-2023 to 2.8% in H1-2024. However, return on average equity (ROaE) rose faster than ROaA from 16.1% to 24.8% on a faster rise in profits compared to shareholders' equity.

The cost of risk remained relatively flat from 2.2% in H1-2023 to 2.3% in H1-2024 supported by prudent loan loss provisioning inH1-2023 and appreciation of the Kenya shilling.

Non-performing loans (NPLs) ration rose from 17.4% to 18.5% against the industry average of 16.3% as of end of June 2024. This was mainly due to high NBK and KCB Kenya high NPLs rations of 26.7% and 21.4 respectively.

Net interest margin ration (NIM) improved from 6.0% in H1-2023 to 6.5% in H1-2024 on account of a faster rise in asset yield from 9.4% to 10.6% even as the cost of funds also rose from 3.5% to 4.3%.

Outlook

On its outlook, KCB Group intends to grow its loan book by between 14.0% and 17.0% from the current growth of 7.0% in H1-2024. To finance this growth, the Bank projects to grow its deposits by about 10.0% and 13.0% from the current growth of 1.3% witnessed in H1-2024.

Resolving high NPLs ratios remains its key focus area with the management targeting to narrow this from 18.5% to a range of 13% - 15%.

Also, the bank intends to address the cost of funding by reducing the cost of funds from 4.1% to between 3.3% and 3.6%.

P&L (KES Mn)	H1-2023	Q1-2024	H1-2024	Δ% Q-Q	Y-Y Δ%
Interest Income	70,144	49,087	97,416	-1.5%	38.9%
Interest Expense	24,635	4,945	36,089	529.8%	46.5%
NII	**45,508**	**44,142**	**61,327**	**-61.1%**	**34.8%**
NFI	27,560	17,423	33,294	-8.9%	20.8%
Total Income	**73,068**	**61,565**	**94,621**	**-46.3%**	**29.5%**
Loan Loss Provisions	10,191	6,318	12,200	-6.9%	19.7%
Operating Expense	50,611	27,330	56,509	6.8%	11.7%
Opex Excl Provisions	40,420	21,012	44,309	10.9%	9.6%
PBT	**22,457**	**34,235**	**38,112**	**-88.7%**	**69.7%**
PAT	16,057	29,562	29,924	-98.8%	86.4%
EPS	**9.71**	**20.52**	**18.62**	**-109.3%**	**91.8%**
DPS	-	-	1.50		

Balance Sheet (KES Mn)	H1-2023	Q1-2024	H1-2024	Δ% Q-Q	Y-Y Δ%
Investments	362,423	393,040	357,065	-9.2%	-1.5%
Loans and Advances	964,809	1,017,419	1,032,170	1.4%	7.0%
Total Asset	1,864,591	1,996,196	1,976,856	-1.0%	6.0%
Customer Deposit	1,471,246	1,501,007	1,490,593	-0.7%	1.3%
Shareholders' Fund	211,232	231,455	241,007	4.1%	14.1%

Ratios	H1-2023	Q1-2024	H1-2024
NII % of Total Income	62.3%	52.0%	64.8%
NFI % of Total Income	37.7%	48.0%	35.2%
CTI	69.3%	88.3%	59.7%
CTI exc Provision	55.3%	70.5%	46.8%
Yield on Advances	11.2%	12.7%	13.0%
Yield on Government Securities	11.3%	13.5%	13.5%
Cost of Funds	3.5%	1.2%	4.3%
Net Interest Margins	5.9%	9.5%	6.4%
ROaA	1.9%	5.6%	2.8%
ROaE	16.1%	50.7%	24.8%
Gross NPL to Net Loans	17.4%	17.7%	18.5%
AD Ratio	65.6%	67.8%	69.2%
Investments Securities to Assets	19.4%	19.7%	18.1%
Advances to Assets	51.7%	51.0%	52.2%

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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 fallsbetween 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 substantiallyhigher 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

Research Department		Equities Dealing	
Shadrack Manyinsa	smanyinsa@co-opbank.co.ke	Asena Moffat	amoffat@co-opbank.co.ke
		Ashley Odundo	aodundo@co-opbank.co.ke
		Alfred Too	atoo@co-opbank.co.ke