

### KCB Group Posts 49.0% Rise in Profits to KES 45.76Bn

KCB Group reported KES 57.43Bn in profits before tax (PBT) for the period ending September 2024, a 41.5% rise from KES 40.59Bn reported same time in 2023, on account of improved business environment. Profits after tax (PAT) went up by almost half at 49.0% from KES 30.72Bn in by closure of Q3-2023 to KES 45.76Bn in Q3-2024. KCB Bank Kenya recorded a 32.4% growth in PAT from KES 23.98Bn in Q3-2023 to close Q3-2024 at Kes 31.75Bn, to contribute 69.4% of the Group total income down from 78.1% recorded same time last year.

Overall, total income surged 21.9% up from KES 117.26Bn in Q3-2023 to KES 142.95Bn in Q3-2024 heavily supported by continued growth in the counter's core revenue lines, interest income. As a result, the total interest income contribution to total income increased from 63.9% in Q3-2023 to 64.9% by end of Q3-2024. This was largely attributed to higher lending rates witnessed in the period, just before a marginal rate cut market transmission of the new Central Bank Rate (CBR) of 12.75% recorded in early August from a 12-years high of 13.00% instituted in February 2024.

Total subsidiary revenue grew by 19.1% year on year (y-y) from KES 45.66Bn or 39.0% contribution to total revenue in Q3-2023 to KES 54.37Bn or 38.0% contribution to total income. KCB Kenya revenue grew climbed 23.7% up y-y from KES 71.60Bn to KES 88.57Bn.

We retain our BUY recommendation on the Bank's share price with a revised fair value of KES 54.82 per share, a 40.0% upside from the current price of KES 39.15 per share as of 20<sup>th</sup> November 2024.

### Income Statement

Group net interest income (NII) accelerated up 23.9% y-y from KES 74.87Bn to KES 92.80Bn driven by a faster growth in interest income which outweighed the rise in the interest expense. This was as market hiked interest rates pushed total interest income 30.8% y-y up from KES 113.92Bn to KES 149.03Bn after recording similar growths in both loan book and government securities interest income.

Faster growth in interest income saw NII contribution to total income enlarge from 63.9% to 64.9%.

Interest income from loans and advances shot up 27.1% y-y from KES 81.89Bn to KES 104.06Bn on account of the above interest rate rise. This was despite the Bank's loan book relatively remaining stable at KES 1,053.20Bn, a 0.5% y-y rise. Consequently, yield on loans and advances improved from 11.4% as of Q3-2023 to 12.9% by Q3-2024.

Interest income from government securities also soared 27.0% up from KES 29.80Bn to KES 37.86Bn still on the elevated returns from government bonds which hit 18.0% in the period. This pushed the return on government securities up from 12.2% to 13.3% in a similar period.

Bloomberg Ticker	KNCB KN
Recommendation	BUY
Share Statistics	
Implied Fair Value	54.82
Current Price (KES)	39.30
Upside/Downside	39.5%
1 Month Average	35.62
3 Months Average	35.62
6 Months Average	33.83
12 Months Average	29.09
52 Week High - Low	39.55 - 18.60
Issued shares (Mn)	3,213.46
Market Cap (KES Mn)	126,289.09
Market Cap (USD Mn)	975.25
PE	2.1
Bvps	77.47
PB	0.5
EPS	18.99

KCB Group Vs Nasi Price movement		
Period	KCB	NASI
MTD PriceΔ(%ge)	4.3%	10.6%
M/M PriceΔ(%ge)	0.3%	-1.7%
3mtd PriceΔ(%ge)	31.2%	9.4%
6mtd PriceΔ(%ge)	40.1%	5.7%
YTD Δ(%ge)	78.4%	22.6%
Y/Y Δ(%ge)	93.3%	24.7%



NNI +23.9% Y/Y

Provisions +12.2% Y/Y

Opex. +11.5% Y/Y

Opex. Excl Provisions +11.4% Y/Y

PBT +41.5% Y/Y

PAT +49.0% Y/Y

Govt. Securities -2.7% Y/Y

Loans +0.5% Y/Y

Deposits -7.1% Y/Y

Shareholder's Funds +13.8% Y/Y

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Interest expenses climbed 44.0% up from KES 39.05Bn to KES 56.24Bn to compensate for the expensive customer deposits and expensive borrowings to

support the loan book. Informed by higher returns in treasury bills and bonds, the cost on customer deposits ballooned 46.8% from KES 27.75Bn to KES 40.74Bn.

Deposits from other banks also expanded 38.3% to KES 15.20Bn by the end of Q3-2024.

Operating expenses were higher at 11.5% from KES 76.67Bn in Q3-2023 to KES 85.51Bn by 30<sup>th</sup> September 2024 mainly on rise in loan loss provisions and normal staff rise which went up at 12.2% y-y and 10.0% y-y to KES 17.78Bn and to KES 29.35Bn respectively.

### Balance Sheet

The top tier 1 bank in terms of assets and revenue, saw its total assets decline 5.1% y-y from KES 1,099.20BBn to KES 1,993.06Bn on account of low disbursements and a depressed government securities book. As much as the loan book grew marginally from Kes 1,047.87Bn, the government securities book shrunk 2.7% from KES 371.27Bn to KES 361.11Bn. Further, the Group's balances due from the Central Bank fell 22.3% y-y from KES 71.06Bn to KES 55.20Bn same period.

Customer deposits thinned 7.1% y-y from KES 1,656.37Bn in Q3-2023 to Kes 1,538.43Bn but remained sufficient to support the bank's loan-book. This was even as the bank's borrowings also dipped 16.9% from KES 70.22Bn to KES 58.32Bn on a low demand for cash to grow the loan book.

Shareholders' funds grew faster at 13.8% year on year from KES 218.82Bn in Q3-2023 to KES 248.95Bn by end of Q3-2024, supported by growths in retained earnings following the rise in revenues.

### Key Ratios

A faster rise in profitability saw net interest margins (NIMs) rise to 6.5% in Q3-2024 compared to 6.1% in a similar period in Q3-2023. KCB Bank Kenya recorded the best NIMs of 7.2% on its first rise in revenue growths.

Return on average assets (RoAA) rose from 2.2% in Q3-2023 to 3.0% in Q3-2024 following a rise in net revenues. Further following a faster growth in revenues compared to shareholders' funds, saw the return on average equity (ROaE) soar up from 19.0% to 26.3%.

Cost of rise remained stable at 2.2% held down by a higher average loan book three quarters of 2024 which cancelled off the rise in loan loss provisions.

The Bank's gross non-performing ratios (NPLs) escalated to 17.9% in Q3-2024 from that of 15.7% in Q3-2023 occasioned by high NPLs in the building and construction, agriculture and manufacturing. We expect the agriculture NPL to drop upon sales from the ongoing harvesting especially in the western part of the country.

Subsidiary Contribution		
KES Mn	Q3-2023	Q3-2024
Total revenue	38.9%	38.0%
PBT	20.0%	30.1%
PAT	21.9%	30.6%

KCB Kenya (KES Bn)			
KES Mn	Q3-2023	Q3-2024	%Δ
NII	47.12	59.85	27.0%
NFI Total Income	71.60	88.57	23.7%
PBT	32.47	40.12	23.5%
PAT	23.98	31.75	32.4%

Subsidiaries (KES Bn)			
KES Mn	Q3-2023	Q3-2024	%Δ
NII	27.76	32.95	18.7%
NFI Total Income	45.67	54.37	19.1%
PBT	8.12	17.31	113.2%
PAT	6.74	14.01	107.9%

P&L (KES Mn)	Q3-2023	Q2-2023	Q3-2024	Δ% Q-Q	Y-Y Δ%
Interest Income	113,925	97,416	149,033	6.8%	30.8%
Interest Expense	39,051	36,089	56,235	11.5%	44.0%
<b>NII</b>	<b>74,874</b>	<b>61,327</b>	<b>92,798</b>	<b>4.0%</b>	<b>23.9%</b>
NFI	42,388	33,294	50,148	6.2%	18.3%
<b>Total Income</b>	<b>117,262</b>	<b>94,621</b>	<b>142,946</b>	<b>4.7%</b>	<b>21.9%</b>
Loan Loss Provisions	15,849	12,200	17,781	-5.1%	12.2%
Operating Expense	76,668	56,509	85,514	-0.6%	11.5%
Opex Excl Provisions	60,819	44,309	67,732	0.5%	11.4%
<b>PBT</b>	<b>40,594</b>	<b>38,112</b>	<b>57,432</b>	<b>14.0%</b>	<b>41.5%</b>
PAT	30,721	29,924	45,761	17.8%	49.0%
<b>EPS</b>	<b>12.75</b>	<b>18.62</b>	<b>18.99</b>	<b>-119.5%</b>	<b>48.9%</b>

Balance Sheet (KES Mn)	Q3-2023	Q2-2023	Q3-2024	Δ% Q-Q	Y-Y Δ%
Investments	371,274	357,065	361,111	1.1%	-2.7%
Loans and Advances	1,047,866	1,032,170	1,053,199	2.0%	0.5%
Total Asset	2,099,541	1,976,856	1,993,055	0.8%	-5.1%
Customer Deposit	1,656,370	1,490,593	1,538,432	3.2%	-7.1%
Shareholders' Fund	218,819	241,007	248,953	3.3%	13.8%

Ratios	Q3-2023	Q2-2023	Q3-2024
NII % of Total Income	63.9%	64.8%	64.9%
NFI % of Total Income	36.1%	35.2%	35.1%
CTI	65.4%	59.7%	59.8%
CTI exc Provision	51.9%	46.8%	47.4%
Yield on Advances	11.4%	13.0%	12.9%
Yield on Government Securities	2.0%	13.5%	13.3%
Cost of Funds	3.5%	4.3%	4.4%
Net Interest Margins	6.1%	6.4%	6.5%
ROaA	2.2%	2.8%	3.0%
ROaE	19.0%	24.8%	26.3%
Gross NPL to Net Loans	15.7%	18.5%	17.9%
AD Ratio	63.3%	69.2%	68.5%
Investments Securities to Assets	17.7%	18.1%	18.1%
Advances to Assets	49.9%	52.2%	52.8%

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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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