KCB GROUP PLC FY'2022 EARNINGS UPDATE

KCB released its financial results posting a **20%** surge in profit after tax attributable to 15% increase in net interest income and 40% increase in non-interest income. The **Return on Equity** and Return on Assets rose to **23%** and 3%, respectively. **Earnings per share** increased to **KES 12.71** from KES 10.64 recorded in the previous financial year. The Board of directors recommended payment of a **KES 1.00** final dividend, taking the total dividend paid out in FY'22 to KES 2.00 which translates to **5.4%** dividend yield.

Share Data	KCB Group PLC
Ticker	KNCB KN
RECOMMENDATION	**BUY**
Current Price (KES)	37.05
Target Price (KES)	53.80
Dividend Yield	5.4%
Upside(Exc. Div. Yield)	43%
52WK High (KES)	46.00
52WK Low (KES)	34.00
Market Cap (KES Bn)	119.10
Free Float	78%
P/B	0.6x
P/E	2.9x
Current Price = as of 15th March 2023	

Source: Bloomberg, NSE, NCBA IB Research

FY2022 Performance – % y/y performance

- **Earnings:** Operating income grew by 20% to KES 129.9Bn mainly driven by non-interest income which grew by 40% to KES 43.3Bn coupled with a 15% rise in interest income. This was largely attributable to growth in foreign exchange trading income as the bank leveraged on wider spreads. Forex trading income grew by 70% to KES 11.1Bn.

- **Loan book**: The bank's loans and advances to customers grew by 28% to KES 863.3Bn. The loan to deposit ratio rose to 93% from 87% in FY2021 indicating that the bank leveraged more on deposits to fund its loans and advances to customers.

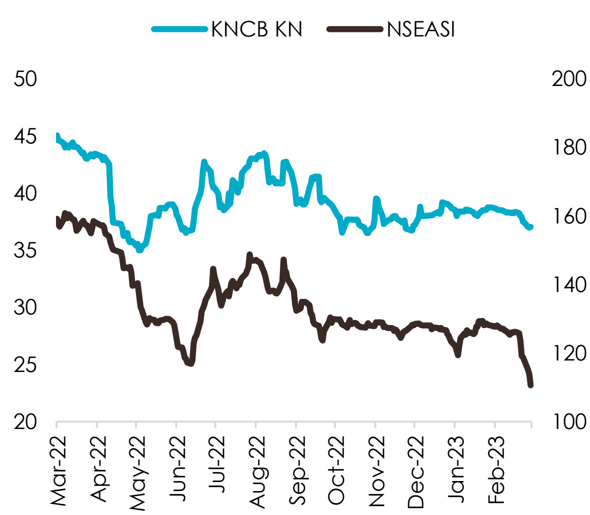
- **Customer deposits** grew by 35.6% to KES 1.1Tn faster than the 28% growth in loans. This was driven by organic growth in the existing businesses and the acquisition of Trust Merchant Bank (TMB). Organic and inorganic growth accounted for 13.3% and 22.3% increase in deposits, respectively.

- **Government securities** recorded 7% growth to KES 253.3Bn albeit lower than industry as the lender shifted its strategy towards aggressive lending and revenue diversification in the region.

- **Efficiency:** Cost to income ratio excluding provisions deteriorated to 46% from 44%. Cost to income ratio including provisions remained relatively, unchanged at 56%. Operating costs grew by 24% to KES 59.4Bn driven by BPR-Rwanda amalgamation, the TMB acquisition and investment in digital channels.

- **Asset Quality:** Gross NPLs increased by 31% to KES 161.2Bn. Credit impairment charges remained relatively unchanged at KES 13.2Bn. The NPL ratio worsened to 17% higher than the industry average of 13.70% – reflective of deteriorating asset quality.

KCB Share Performance



Source: NSE, NCBA IB Research

Financial Summary

KCB Group PLC	Key Metrics Y/Y
Loans and Advances	Up 28% to KES 863.3Bn
Customer Deposits	Up 36% to KES 1,135.4Bn
Government Securities	Up 7% to KES 253.3Bn
Net Interest Income	**Up 15% to KES 86.7Bn**
Non-Funded Income	**Up 40% to KES 43.3Bn**
Forex trading income	Up 70% to KES 11.1Bn
Loan Loss Provisions	Up 2% to KES 13.2Bn
PBT	Up 20% to KES 57.3Bn
PAT	**Up 20% to KES 40.6Bn**
EPS	Up 20% to KES 12.71
DPS	**Down 33% to KES 2.00**

KCB Group PLC	Key Ratios Y/Y
Loan Deposit ratio	Down to 76% from 81%
Net Interest Margin	**Down to 7% from 8%**
Cost to Income	Up to 44% from 46%
NPL Ratio	**Up to 17% from 15%**
Cost of Risk	Down to 1.7% from 1.8%
ROE	**Up to 23% from 18%**
Current Market Price	KES 37.05
P/E	2.9x
P/B	0.6x
Dividend payout	**15.7%**
Dividend Yield	**5.4%**

Source: Company financials, NCBA IB Research

2023 Outlook

We expect KCB to record steady growth boosted by:

1. **Loan book growth:** Growth in the topline boosted by both organic and inorganic growth.

2. **Subsidiaries growth:** The subsidiaries contributed to 17% growth in PBT in FY2022, up from 13% in 2021. The turnaround of NBK and steady growth in the other subsidiaries is expected to support KCB's long term growth.

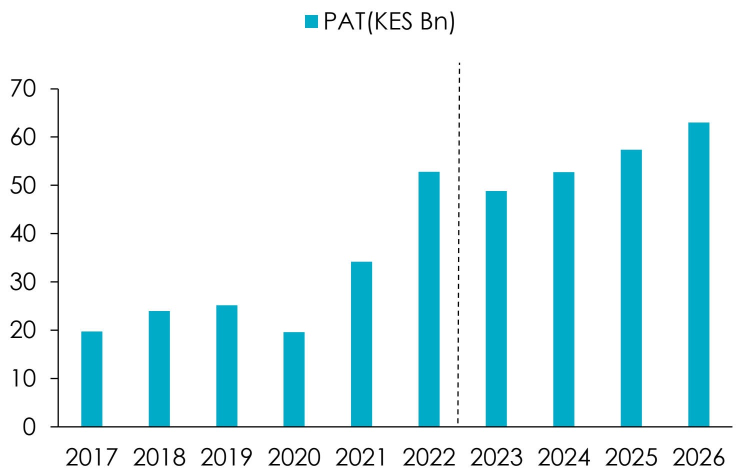
3. **Worsening asset quality:** The lender has the highest NPL ratio of 17% compared to the 13.7% industry average. Interventions will be critical and the implementation of risk-based pricing models will be key in the bank's credit the risk management. Management expects the NPL ratio to improve to ~13% in 2023.

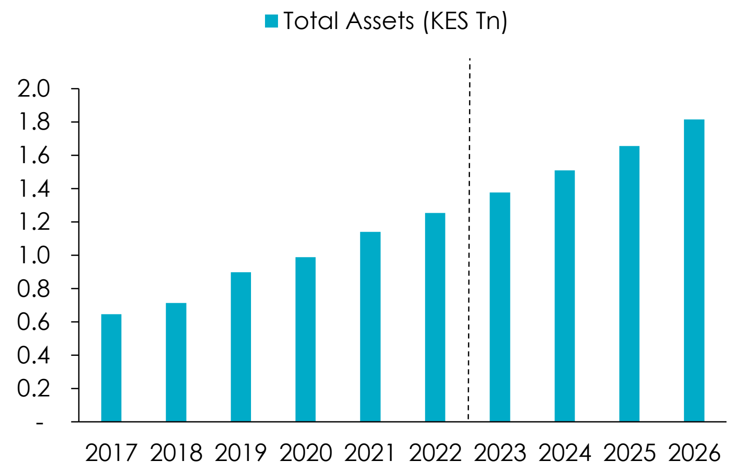
Investment recommendation:

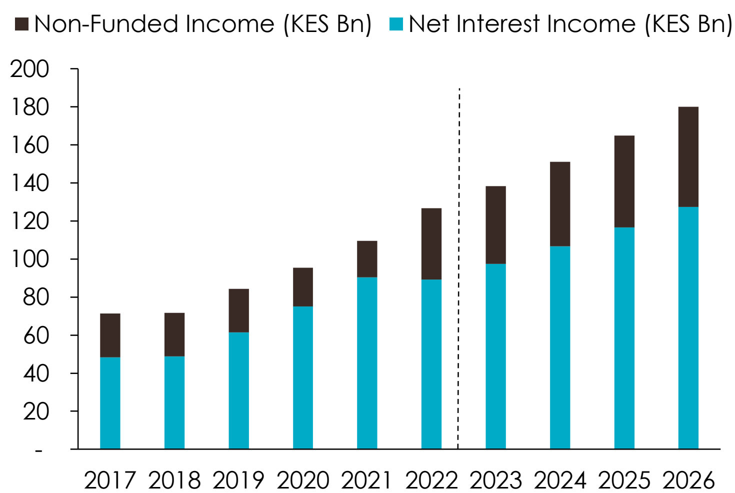
At the current market price, we believe the counter is undervalued and this presents an opportunity for investors to reap from potential capital gains and an attractive dividend yield.

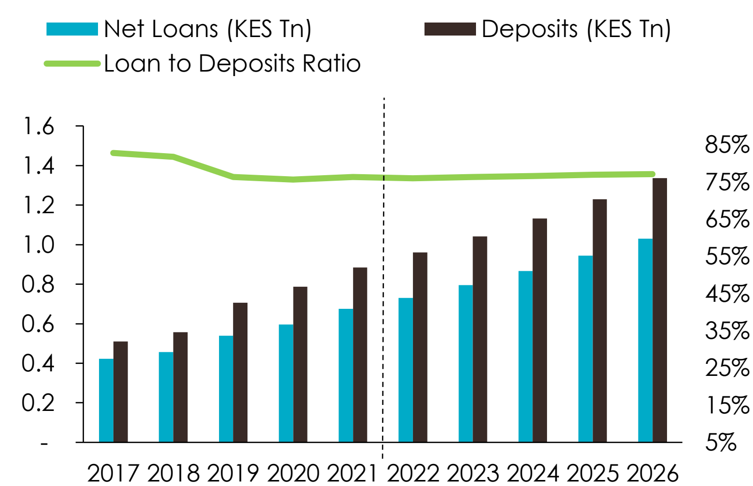
We expect the bank to continue generating long-term profitability supported by an aggressive lending strategy, subsidiaries' performance, and regional diversification.

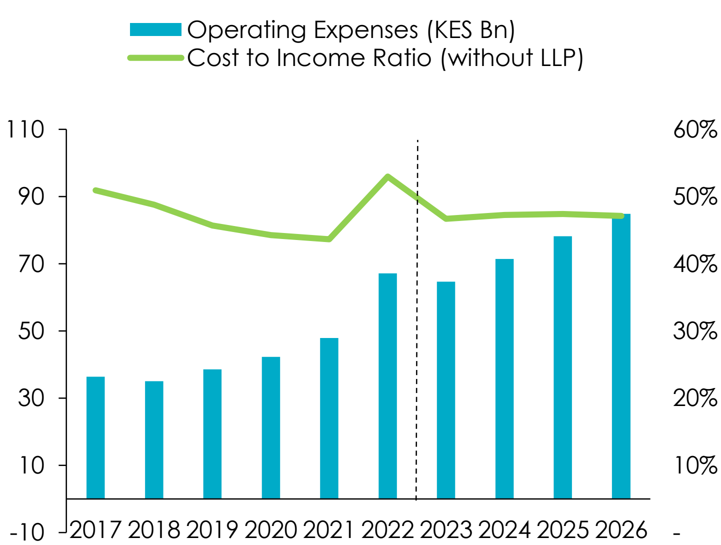
Financial highlights and forecasts- KCB Group PLC

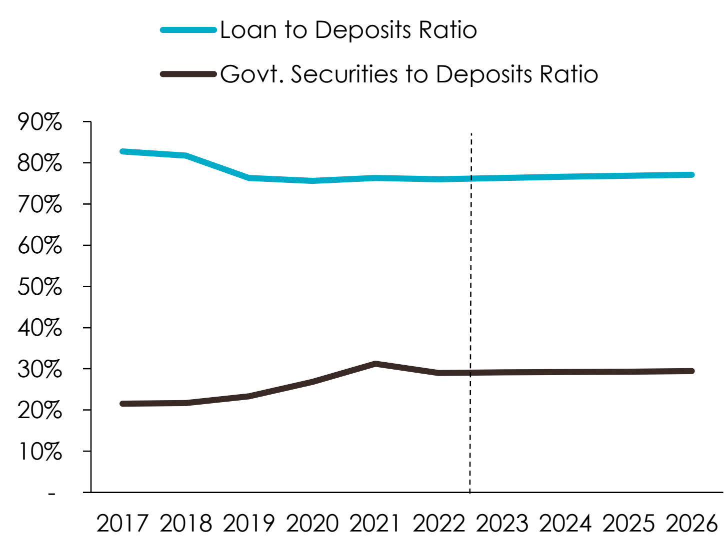












About NCBA Investment Bank

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Physical Address

NCBA Annex,
Hospital Road, Upper Hill, Tel: +254 20 2884444
Mobile: +254 711 056444/+254 732 156444

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Rating Definitions

BUY – Total expected 12-month return (incl. dividends) greater than 20%
ACCUMULATE - Total expected 12-month return (incl. dividends) between 10% - 20%
HOLD – Total expected 12-month return (incl. dividends) between 0% -10%
SELL – Total expected 12-month return (incl. dividends) less than 0%

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Key Contacts: Research Team

ncbaibresearch@ncbagroup.com
victoria.mututu@ncbagroup.com

Key Contacts: Trading Team

dealing@ncbagroup.com