

## KCB GROUP PLC Q1 2023 EARNINGS UPDATE

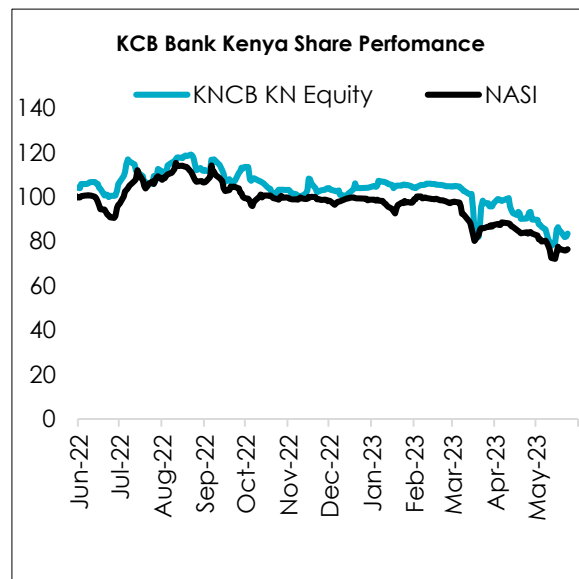
KCB released its Q1 2023 financial results posting a 2.9% decline in profit after tax to KES 9.5Bn attributable to increase in the cost of funds to 3.5% from 3.0% along with increase in loan loss provisions by 98.4% y/y. Total income grew by 26.9% to KES 36.9Bn driven by an 11.8% increase in interest income. The **Return on Equity** saw a slight decline to **4.9%** from 5.0%, respectively. **Earnings per share** saw a decline to **KES 12.14** from KES 12.18 recorded in the previous financial year.

### Q12023 Performance – % y/y performance

- Earnings:** Operating income grew by 26.9% to KES 36.8Bn mainly driven by non-interest income which grew by 59.2% to KES 14.8Bn. This was largely attributable to growth in foreign exchange trading income as the bank leveraged on wider spreads. Forex trading income grew by 52.1% to KES 2.6Bn. The bank's net fees and commissions grew to 65% to KES 9.8Bn
- Loan book:** The bank's loans and advances to customers grew by 31.9% to KES 928.8Bn slower than the 41.5% growth in customer deposits. This led to a decline in the loan to deposit ratio to 77.6% from 83.3% recorded in Q1 2022.
- Customer deposits** grew by 41.5% to KES 1.1Tn faster than the 31.9% growth in loans. This was driven by an 18% organic growth in demand and term deposits in existing business and 23% from the consolidation of Trust Merchant Bank (TMB). TMB accounted to an 16.6% contribution to total customer deposits.
- Government securities** recorded a marginal growth of 0.4% to KES 252.1Bn as bank remains skeptical on government securities owing to tough macroeconomic conditions prevailing.
- Efficiency:** Cost to income ratio excluding provisions increased to 51.2% from 44.5%. Cost to income ratio including provisions saw an uptick to 62.4% from 51.7%. Operating costs grew by 53.3% to KES 22.9Bn driven by investments in technology, amortization of intangibles, provisions and expenditure to support additional expansion of its footprint which is eating into the lender's bottom line.
- Asset Quality:** Gross NPLs increased by 34.8% to KES 176.4Bn. The lender's NPL ratio rose to 16.0% from 15.7% in the previous financial period attributable to an increase in non-performing loans in the manufacturing, transport and communication sectors in the Kenyan economy mirroring the tough macroeconomic environment.

Share Data	KCB Group PLC
Ticker	KNCB KN
<b>RECOMMENDATION</b>	<b>BUY</b>
Current Price (KES)	30.05
Target Price (KES)	53.80
Dividend Yield	6.56%
Upside	76%
52WK High (KES)	44.00
52WK Low (KES)	28.05
Market Cap (KES Bn)	98.332
Free Float	69.33%
P/B	0.5x
P/E	2.5x
<b>Current Price = as of 25<sup>h</sup> May 2023</b>	

Source: Bloomberg, NSE, NCBA IB Research



Source: NSE, NCBA IB Research

## Financial Summary

KCB Group PLC	Key Metrics Y/Y
Loans and Advances	Up 31.9% to KES 928.8Bn
Customer Deposits	Up 41.5% to KES 1,196.59Bn
Government Securities	Up 0.4% to KES 252.1Bn
<b>Net Interest Income</b>	<b>Up 11.8% to KES 22.06Bn</b>
<b>Non-Funded Income</b>	<b>Up 59.2% to KES 14.79Bn</b>
Forex trading income	Up 52.1% to KES 2.65Bn
Loan Loss Provisions	Up 98.4% to KES 4.12Bn
PBT	Down 1.3% to KES 13.85Bn
<b>PAT</b>	<b>Down 2.9% to KES 9.50Bn</b>
EPS	Down 0.3% to Kes 12.14

KCB Group PLC	Key Ratios Y/Y
Loan Deposit ratio	Down to 77.6% from 83.3%
<b>Net Interest Margin</b>	<b>Down to 1.4% from 1.7%</b>
Cost to Income	Up 51.23% from 44.5%
<b>NPL Ratio</b>	<b>Up 16.0% from 15.7%</b>
Cost of Risk	Up to 0.4% from 0.3%
<b>ROE</b>	<b>Down to 4.9% from 5.0%</b>
Current Market Price	KES 30.5
P/E	2.5x
P/B	0.5x
<b>Target price</b>	<b>KES 53.8</b>

Source: Company financials, NCBA IB Research

## 2023 Outlook

We expect KCB to record steady growth boosted by:

- 1. Revenue Diversification:** The bank is a strong player in financial inclusion with their digital platforms, Fuliza and KCB Mobi loan which saw a 48% growth in value of transactions, coupled with other digital strides will allow the bank diversity its revenues.
- 2. Loans growth:** The bank's focus on digital lending through its automated business loan product will support NFI line growth. The bank's focus on co-creating solutions with customers to grow the loan book and increase product holding will see the loan book grow.
- 3. Subsidiaries performance and contribution:** The bank is placing its faith in regional subsidiaries as they accounted for an 35.0% increase in profit before tax. The lender's hinges its future on becoming a significant regional player, especially with the DRC unit becoming its second most profitable subsidiary. the restructuring of some of its units such as its investment bank and asset management will help grow their revenue streams in the remainder of the year

## Investment recommendation:

KCB'S wide regional footprint along with its well diversified portfolios of business and capital buffers position the lender to gain significant momentum in balance sheet growth across all subsidiaries driven by increased lending on the back of continued recovery in economic activities in the regions it operates in.

At the current market price, the stock is trading below its fair value which presents a value pick for long-term investors.

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

## About NCBA Investment Bank

NCBA Investment Bank is a subsidiary of NCBA Group. The services offered by the brokerage department include equities trading for listed securities, fixed income trading for both corporate and government bonds, Over the Counter (OTC) equity transactions as well as execution of equities transactions across the East African countries. Additionally, NCBA Investment Bank backs these activities with solid advice from the research team to enable investors meet their return objectives. NCBA Investment Bank deploys simple and convenient client driven technologies, robust risk management, highly competent and experienced staff and has the backing of robust research capabilities to differentiate itself from other players in the market.

## Physical Address

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

## Certification

The following analyst(s) who prepared this research report: Victoria Mututu hereby certifies(y) that: (i) all of the views and opinions expressed in this research report accurately reflect the research analyst's(s') personal views about the subject investment(s) and companies (y) and (ii) no part of the analyst's(s') compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed by the analyst(s) in this research report.

## 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%

## Disclaimer

Any opinion or other information in this document is not an invitation to buy or sell any asset class. Legally binding obligations can only arise for or be entered into on behalf of NCBA Group by means of a written instrument signed by a duly authorized signatory. You are cautioned to ensure that you have made an independent decision in accordance with your own objectives, experience, operational and financial resources and any other appropriate factors including independent professional advice. No guarantee, warranty, or representation is made in respect of the performance or return on any transaction.

## Key Contacts: Research Desk

[ncbaibresearch@ncbagroup.com](mailto:ncbaibresearch@ncbagroup.com)

## Key Contacts: Trading Team

[dealing@ncbagroup.com](mailto:dealing@ncbagroup.com)