BK GROUP PLC| EQUITIES RESEARCH REPORT

We initiate coverage with a **BUY** recommendation based on a target price of **KES 46.8**, reflecting an upside of 45.9% from the volume weighted average price of **KES 32.1** as of 29th Feb 2024.

Our recommendation is based on strategies being employed by the Group to grow the loan book, their investment in diversification as well as digitalization to streamline operations.

Share Data	BK Group Plc
Ticker	**BKG KN**
RECOMMENDATION	**BUY**
Current Price (KES)	**32.1**
Target Price (KES)	**46.8**
Upside	**45.9%**
52WK High (KES)	**37.0**
52WK Low (KES)	**26.5**
No. of shares issued (Mn)	**896.8**
Market Cap (KES Bn)	**29.4**
Free Float	**100.0%**
EPS (FY'22)	**KES 7.3**
P/E	***4.4x***
P/B	***0.7x***
Current Price = as of 29th February 2024	

INVESTMENT CASE

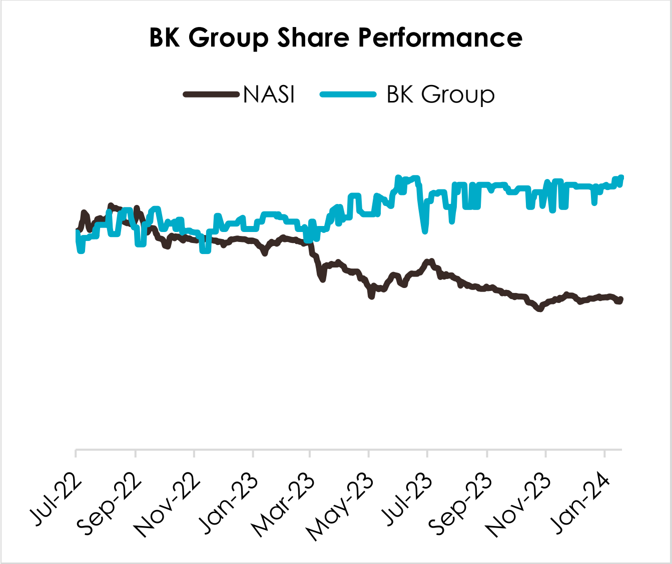
Interest Income Growth- BK Group's interest income has experienced exponential growth driven by interest income from equipment loans which accounted for 57.7% of the total income in FY2022 and grew at a rate of 6.7% to FRw 108.1Bn in FY2022. Interest on consumer loans grew by 23.0% in FY2022.

Improved Asset Quality- The Group's asset quality has been improving for the past 2 years with the Non-Performing Loans (NPL) ratio declining by 2.7% in FY2022 from 5.3% in FY2021.

INVESTMENT RISK

Deteriorating Efficiency- BK Group's Cost to Income ratio (CIR) has been increasing since FY2020, coming in at 49.1% in FY2022 from 45.0% in FY2021. This increase signals potential challenges in managing costs in relation to income generation. It is also indicative of a need to invest in operational efficiency.

Challenging Business Environment- adverse macro-economic factors remain a challenge for BK Group. Rwanda has faced high inflation and rapid currency depreciation which negatively impacts businesses.



Rwanda

Republic of Rwanda is a member of the East African Community with an estimated population of 13.8Mn and a GDP of USD 13.3Bn in 2022.

Macroeconomic Overview

Robust Economic Growth

According to National Institute of Statistics of Rwanda (NISR), the country's GDP in the Q32023 grew by 7.5% from 6.3% registered in Q22023. The improvement was driven by expansion in the services, industrial and agricultural sectors of 29.0%, 14.0% and 3.0%, respectively. In the service sector, financial services grew by 16% compared to 8% in the previous year.

Services and agricultural sectors accounted for 46% and 25% of the GDP, respectively.

Q3 2023 Sectoral Contribution to GDP

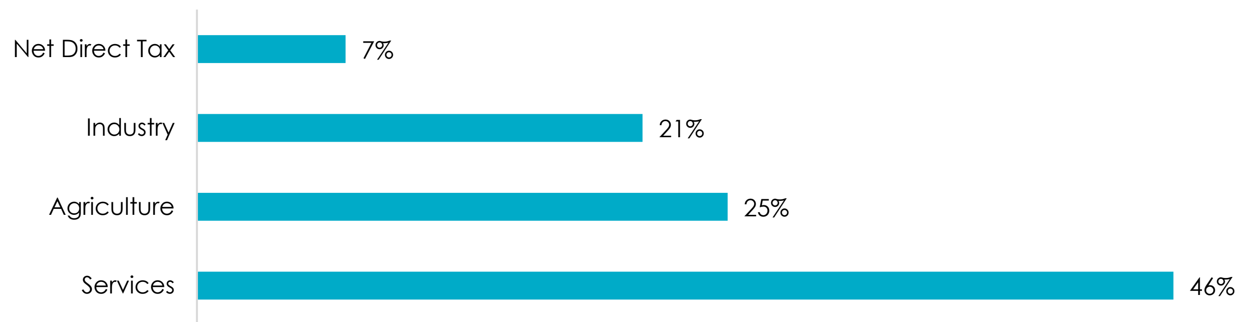
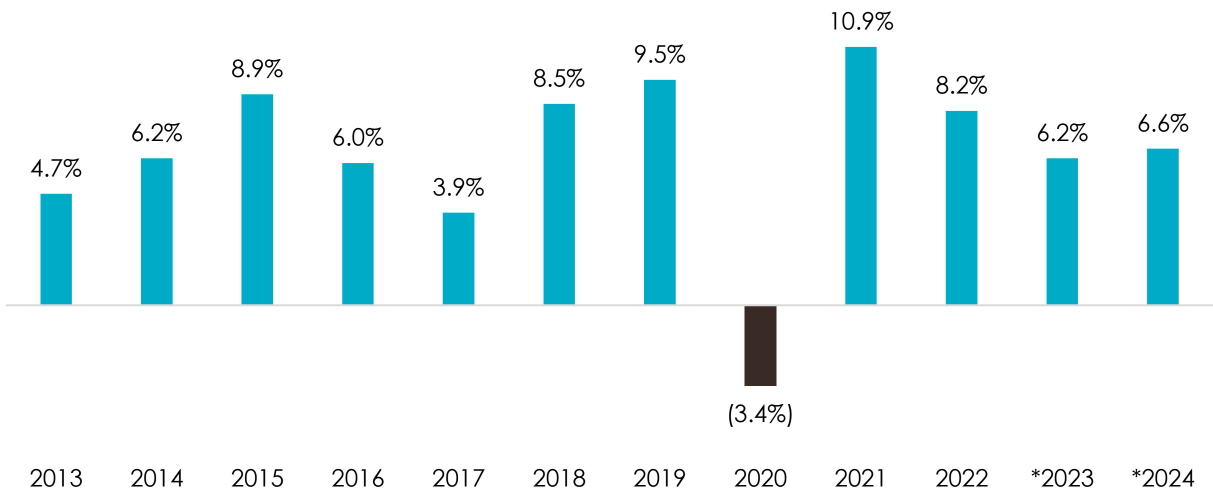


Chart 1: GDP ***Source: NISR, NCBA IB Research***

Rwanda's overall economic growth remained robust in 2023. The rate of growth in 2023 is however estimated to be lower compared to the previous year. Geopolitical risks such as Ukraine-Russia and Israel-Palestine conflicts, tightening of global financial conditions, consecutive weak agricultural seasons, and a decline in structural external concessional financing have put pressure on the level of international reserves.

According to IMF, the country's economic growth is expected to moderate to 6.2% in 2023 and 6.6% in 2024 partly attributable to continued fiscal consolidation and tight monetary and exchange rate policies. The outlook remains tilted to the downside due to continued deepening of geopolitical conflicts, expected spike in oil and fertilizer prices as well as a steeper decline in trading partners growth related to funding squeeze.

GDP Growth Rate



**Projected Growth Rates*

Chart 2: Growth Rate ***Source: IMF, NISR, NCBA IB Research***

Elevated Inflationary Pressures

Inflation in December 2023 eased by 3.0% points to 6.4% from 9.4% recorded in November of the same year. The average inflation rate in 2023 was 14.5% compared to 13.9% in 2022. The declining trend is partly due to monetary tightening by National Bank of Rwanda, disinflationary measures employed by the government as well as a reduction in oil prices. The inflation rate has however remained above the central bank's target range of **2%-8%.** It is expected to be within the target band in 2024, as a result of the tightening measures undertaken in 2023. The assumption though is that there will be no further internal and external shocks.

Inflation

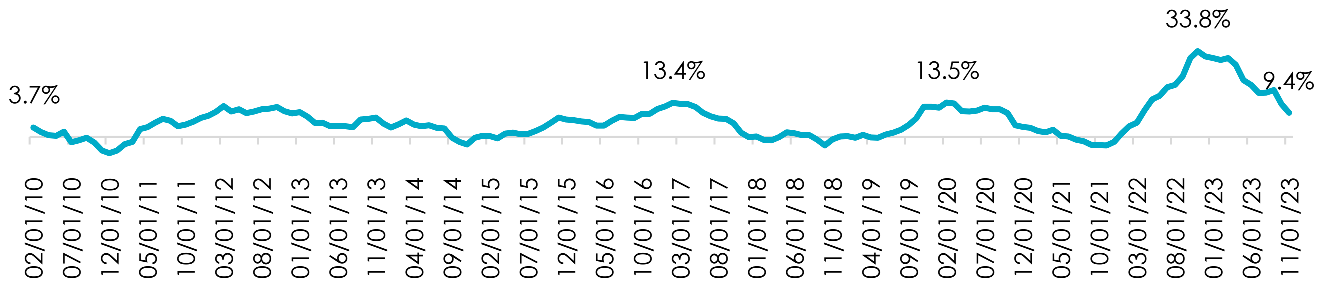


Chart 3: Inflation ***Source: IMF, NISR, NCBA IB Research***

Currency Depreciation & Monetary Policy

The Rwandan Franc (FRw) depreciated by 19% in 2023. The depreciation has largely been driven by an increase in higher import bills on oil and food. The latter was necessitated by poor agricultural seasons. Constrained external financing was also a contributor to the currency depreciation.

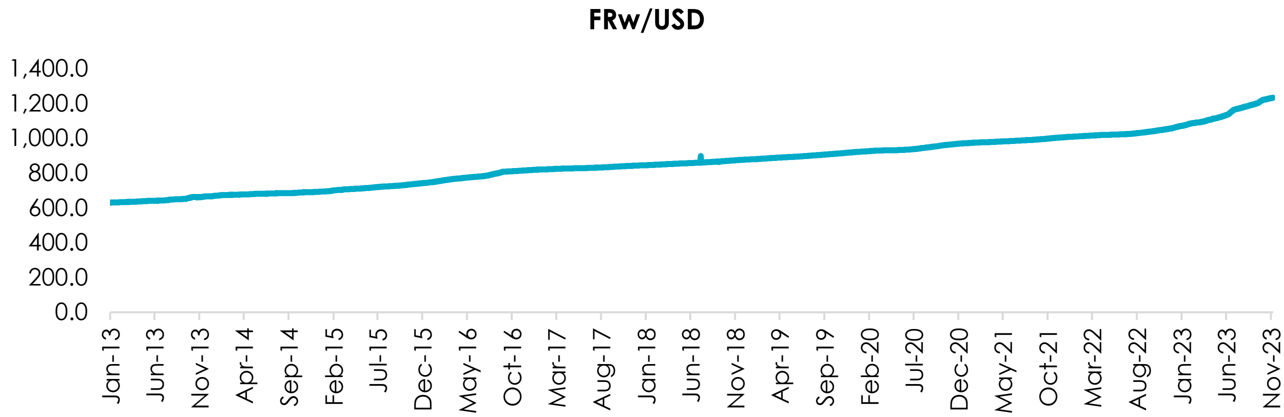


Chart 4: FRw/USD ***Source: NBR, NCBA IB Research***

Going forward, the NBR is expected to establish a formal framework to guide FX intervention policy which will involve the revision of the official exchange rate calculation methodology to ensure price discovery that is reflective of market conditions.

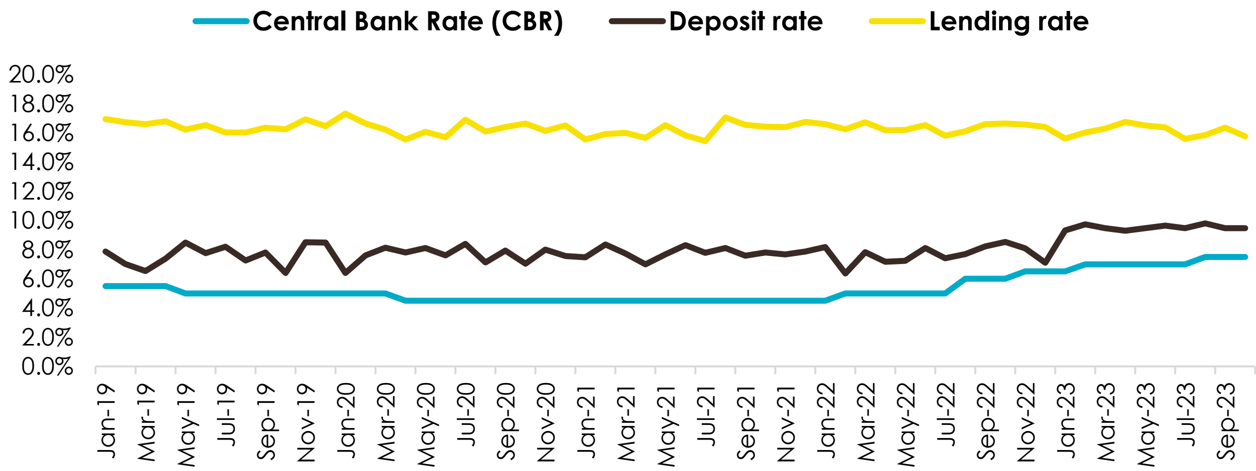


Chart 5: Interest Rates ***Source: NBR, NCBA IB Research***

Widening current account deficit

According to IMF, Rwanda's current account deficit to GDP is expected to widen to 11.8% in 2024. This is on the back of high food imports and construction projects i.e., post flood reconstruction and the large airport project. There is expectation on narrowing of the current account deficit, in the medium term, attributable to higher domestic savings due to policy adjustments. Financing from International Financial Institutions will also boost the reserves.

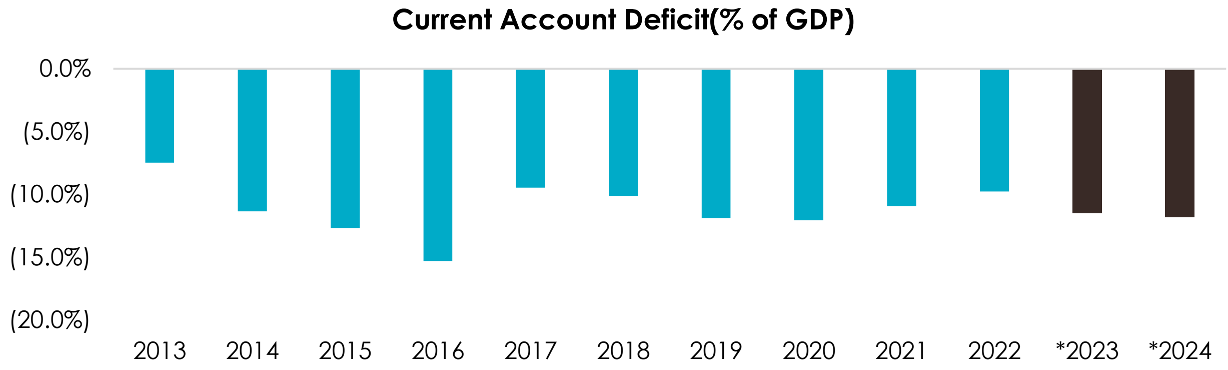


Chart 6: Current Account ***Source: NBR, NCBA IB Research***

**Projected*

Fiscal Policy

The fiscal deficit for FY23/24 is estimated at 7.3% of GDP compared to 7.6% of GDP in FY22/23 while the total revenue collected is estimated at 22.2% GDP lower than 25.9% recorded previously. The focused improved fiscal position is driven by lower expenditures which are expected to offset lower revenues. Rwanda's public debt remains elevated with debt to GDP for 2022 coming in at 68% and is estimated to increase to 71.6% and 78% in 2023 and 2024, respectively with external public debt expected to constitute more than 50% of the total public debt. In order to counter this, the government is likely to consider a more decisive and balanced fiscal consolidation in the medium-term, ensure comprehensive tax reforms and spending rationalization, and prioritize public financial management.

BANKING SECTOR OVERVIEW

Rwanda has a well-regulated banking sector with a vast headroom for growth for the 64% unbanked adult population. As of Q12023 banking sector total assets to GDP was 55.3%. The banking industry plays a dominant role in the country's financial system and remains the primary source for offering financial services to the private sector.

The sector comprises of 15 banks; inclusive of 10 commercial banks, 3 microfinance banks, 1 development bank and 1 co-operative bank. The chart below shows commercial bank's assets market share as of H12023;

No.	Commercial Banks	Total Assets (% of market share)
1	Bank of Kigali Plc	36.9%
2	BPR Bank of Rwanda Plc	15.2%
3	Equity Bank Rwanda Plc	12.7%
4	I&M Rwanda Plc	10.4%
5	Cogebanque Plc	6.0%
6	Ecobank Rwanda Plc	5.1%
7	Access Bank	4.3%
8	NCBA Bank Rwanda Plc	3.5%
9	Bank of Africa Plc	3.3%
10	Guaranty Trust Bank Rwanda Plc	2.7%

Table 1: Commercial Banks ***Source: NBR, NCBA IB Research***

Recent Developments

Equity Bank Rwanda completed the acquisition of Rwanda's bank Cogebanque, and is now holding 99.125% of the issued shares. The acquisition is expected to further strengthen the former's diversification strategy and support its growth as it aims to consolidate its operations with Equity Group Rwanda Plc.

Sector Performance

The sector's growth has remained stable with total assets expanding by 18.1% to USD 5.1Bn in June 2023. The sector's balance sheet is mainly supported by customer deposits that constitute 71.1% of total liabilities of banks while borrowing from domestic financial institutions constitutes 21.3% of total liabilities. Lending to the private sector continued to be on an upward trajectory with the total outstanding loans increasing by 17.3% in HY 2023 compared to a 16.1% growth in 2022.

Robust Capital Position

The capital position of the sector remains robust, providing banks with a strong buffer against possible shocks. The core Capital Adequacy Ratio (CAR) and total CAR ratio remained above the minimum required ratios of 12.5% and 15.0%, standing at 20.2% and 21.1%, respectively.

Banking sector capitalization outlook remains positive based on increased profitability along with capital conservation strategies being maintained by most banks. Headwinds such as market risks linked to local currency depreciation has the potential to weigh down on the outlook.

The sector's liquidity buffers have also improved. In June 2023, banks continued to hold liquid assets, that exceeded the mandated minimum requirement due to the expansion of investment in liquid assets, specifically, government securities, and cash reserves. This increased the Liquidity Coverage Ratio (LCR) to 274.1% as of H12023 from 224.7% in the same period the previous year and way above the 100% minimum regulatory requirement. LCR is a short-term liquid indicator that measures the ability of banks to withstand a 30- day liquidity stress period.

The banks' ability to maintain adequate liquidity position is mainly attributable to a stable domestic funding base, a high share of liquid assets, and a surplus of customers' deposits compared to loans. The healthy domestic funding position has supported lending to private sector and also limited reliance on offshore funding, which is expensive given the high volatility and risk premium in global markets.

Improved Asset Quality

As of H12023, asset quality improved, with the Non-Performing Loans (NPLs) dropping by 3.6% from 4.3% in the previous year. This was due to write offs and recoveries. Additionally, credit risk eased but still remains a major challenge due to adverse macroeconomic conditions. Apart from manufacturing, the asset quality remains generally healthy, reflecting the growth of outstanding loans, write offs and recoveries.

BK GROUP PLC: COMPANY OVERVIEW

The company was incorporated in 1966 as a joint venture between the government of Rwanda and Belgolaise, which was a subsidiary of Fortis Bank under the name Bank of Kigali. The government of Rwanda acquired 50% shares of Belgolaise in 2007 following the latter's withdrawal from African operations in 2005. The bank changed its name from Bank of Kigali S.A to Bank of Kigali Ltd in 2011 and later to BK Group PLC in 2017. BK Group was listed on the Rwanda Stock Exchange (RSE) in 2011 and cross listed on the Nairobi Securities Exchange (NSE) in 2018 with 60% floating shares.

BK Group is the largest bank in Rwanda with total assets market share of 36.9%. It has experienced strong asset growth at a CAGR of 21% as of FY'2022.

The Group is engaged in retail and corporate banking, asset management and investment banking. The group also offers insurance services and innovative enterprise solutions such as fintech. BK Group's main operations comprise five subsidiaries;

1. **Bank of Kigali (Business and Retail Banking)-** Offers commercial banking services to corporates, SMEs, Individuals, Micro enterprises, and NGOs. The key products for the corporate bank are long term CAPEX loans, commercial and mortgage loans.
2. **BK General Insurance Company (Insurance)-** Launched in 2016 to offer a wide range of non-life insurance products such as coverage for motor, money, bonds, transport, etc.
3. **BK TecHouse (Fintech) –** Founded in 2016 to develop digital ecosystems for various types of clients. It provides comprehensive smart solutions ranging from security for homes and SMEs and smart school solutions such as educative management software and cashless transactions. The company's objective is to expand tech-driven offerings across many sectors by leveraging connectivity, automation, advanced analytics and innovative digital solutions.
4. **BK Capital (Advisory and Wealth Management) –** Launched in 2015 as a securities brokerage company and later expanded its service offering to include investment and wealth management, corporate and advisory services, bonds and equities brokerage, and pension fund administration.
5. **BK Foundation-**The subsidiary was created in January 2023 with a focus in supporting education, innovation and environmental conservation.

Shareholding Summary:

Major Shareholders	No. of shares held	Percentage
EQUITY NOMINEES A/C 00605	35,321,000	22.94%
STANDARD CHARTERED KENYA NOMINEES LTD A/C KE22446	21,920,200	14.24%
STANBIC NOMINEES LIMITED AC NR1031436	19,742,726	12.82%
STANDARD CHARTERED KENYA NOMINEES LTD A/C KE004326	17,076,742	11.09%
STANDARD CHARTERED KENYA NOMINEES LTD A/C KE003534	9,843,000	6.39%
STERLING CAPITAL LIMITED	9,000,000	5.84%
STANDARD CHARTERED KENYA NOMINEES LTD A/C KE20353	6,482,200	4.21%
STANDARD CHARTERED KENYA NOMINEES LTD A/C KE003565	6,146,900	3.99%
STANDARD CHARTERED KENYA NOMINEES LTD A/C KE22816	5,533,662	3.59%
INVESTMENTS & MORTGAGES NOMINEES LTD A/C 003745	4,000,000	2.60%
Others	18,920,452	12.29%
Total	**153,986,882**	**100.00%**

Table 2: Shareholding ***Source: NSE, NCBA IB Research***

KEY INVESTMENT THEMES

Continued Interest Income Growth supported by increased loan yields

Net Interest Income recorded a CAGR of 16.1% in FY2022 from FRw 75.8Bn in FY2018. This was on the back of interest income from equipment loans which accounted for 57.7% of the total income in FY2022 and grew at a rate of 6.7%. Interest on consumer loans also grew by 23.0% in FY2022. Loan book grew by 14.6% with an improved yield of 16.5%.

Net Interest Margin (NIM) declined to 10.7% in FY2022 from 12.4% due to a rise in interest expenses. The latter rose by 23.3%, consequently slowing the growth of net interest income. Interest expenses were exacerbated by rising interest rates which led to an upward adjustment in deposit rates.

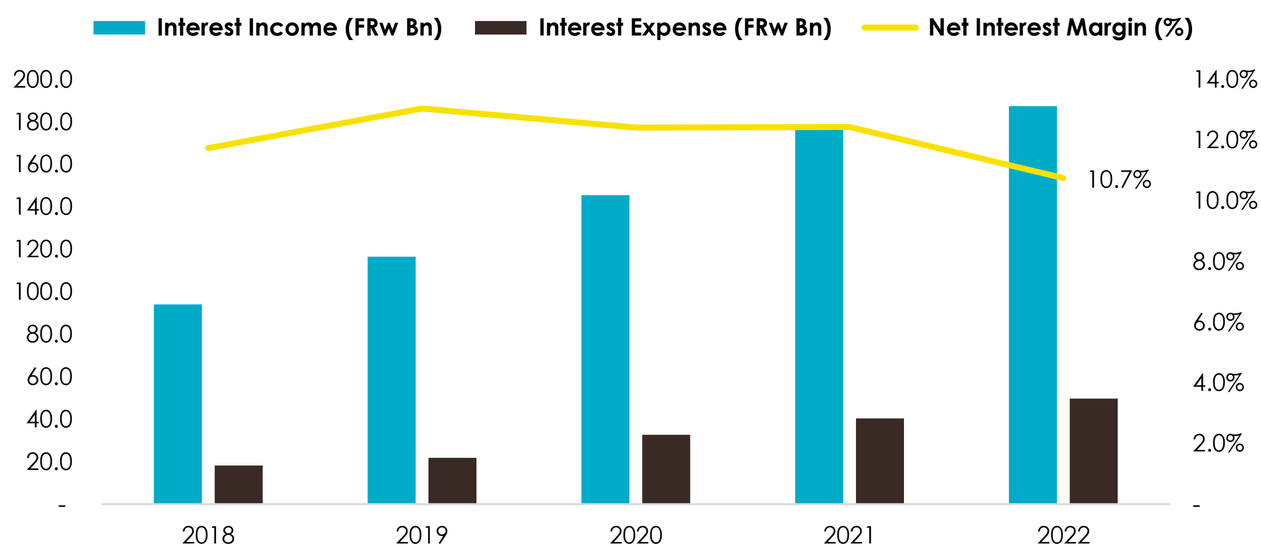


Chart 7: Interest Income ***Source: Company Financials, NCBA IB Research***

Growing Non-Interest Income partly driven by Fees, commissions and Forex related income

Non-Interest Income grew by 24.4% to FRw 174.3Bn from FRw 140.1Bn partly attributable to the growth in fees and commission income, foreign exchange related income and gross insurance premium by 32.3%, 14.9% and 14.2%, respectively. Net fees and commission income remained the largest non-interest income contributor, accounting for 49.1% in FY2022 followed by foreign exchange related income contributing 25.3% in the same year. The growth is majorly on the back of digitalization with more than 80% volume of transactions being undertaken digitally.

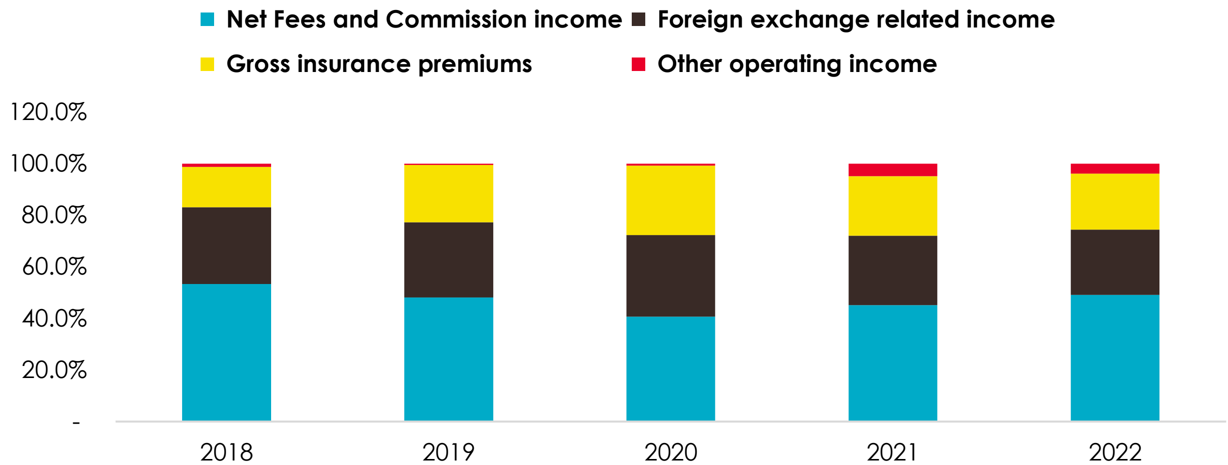


Chart 8: Non-Interest Income Contributions ***Source: Company Financials, NCBA IB Research***

The Group benefited from forex spread emanating from the currency depreciation against the dollar but also faced revaluation losses due to exposure to foreign currency. We expect the currency depreciation to continue to 2024 due to persistent risk factors such as current account deficit, need for government debt servicing and dwindling forex reserves.

Gross Insurance premiums has a high promise for growth driven by increased awareness and a low penetration rate of 0.9%.

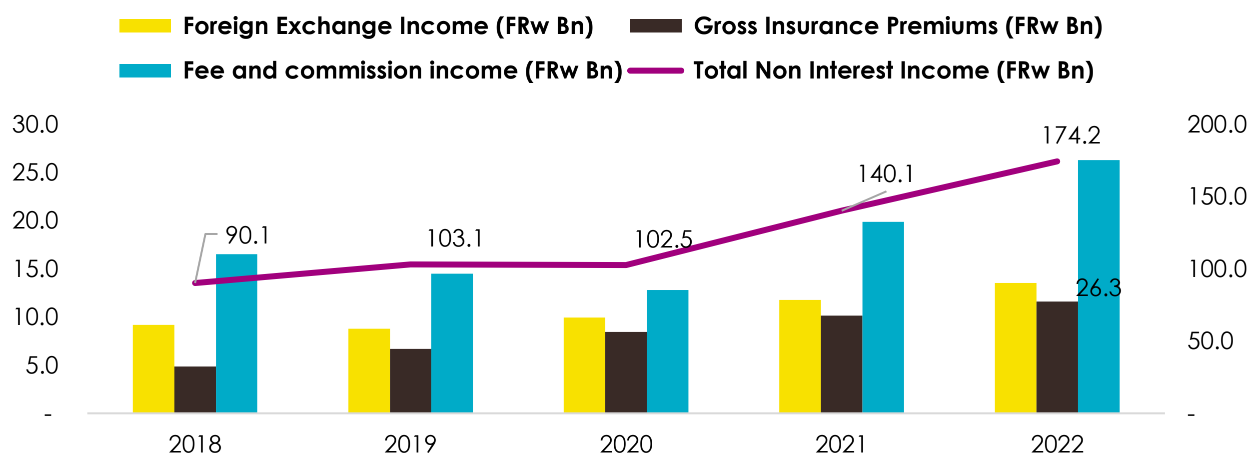


Chart 9: Non-Interest Income Growth ***Source: Company Financials, NCBA IB Research***

Increasing Profitability

The Group's net profit increased by 15.1% to FRw 59.7Bn in FY2022 at a CAGR of 21.5% since FY2018. The performance is on the back of 21.6% growth in Non-Interest income to FRw 53.5Bn coupled with a 1.1% growth in net interest income to FRw 137.8Bn. The increased profit comes at a time when the group recorded improved sales by undertaking customer segmentation that ensured increased engagement.

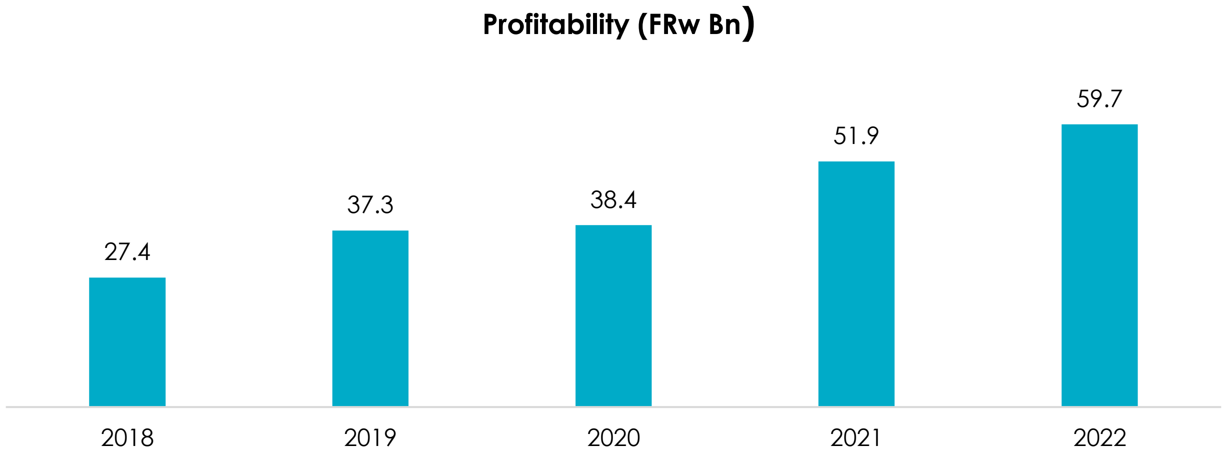


Chart 10: Profitability *Source: Company Financials, NCBA IB Research*

Consequently, the Group's ROAE increased by 4.9% points to 24.0% with net profit increasing by 24.4% while ROAA increased by 8.4% to 12.0% in FY2022. The improving ROAE and ROAA is an indication that the group is effectively using its share capital and assets to generate profits for its shareholders and ensuring good financial health.

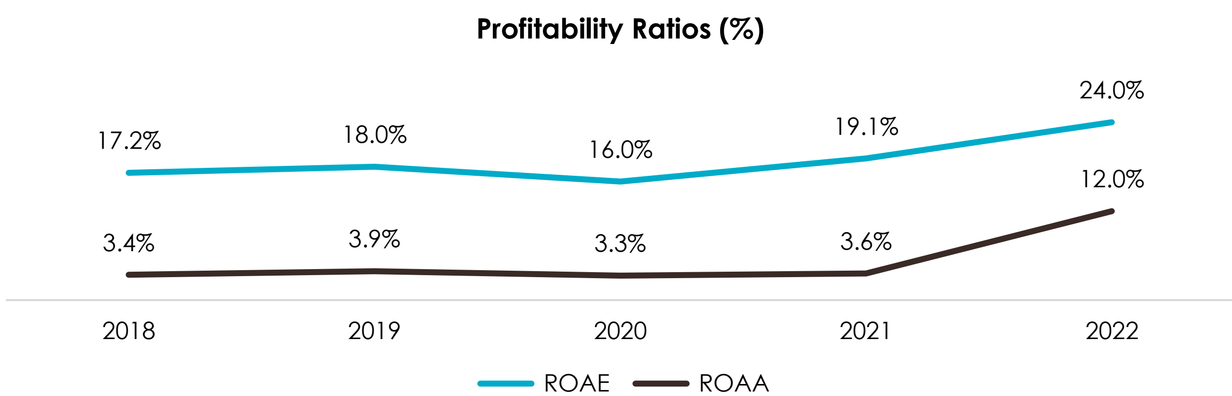


Chart 11: Profitability Ratios *Source: Company Financials, NCBA IB Research*

Consistent Dividend Payment

BK Group has maintained an attractive dividend payout ratio declaring a dividend per share of FRw 32.5 in FY2022, a 13.3% increase from FRw 28.7 in FY2021. The Group's dividend payment has been increasing over the years and only failing to pay in FY2020 on the advice of National Bank of Rwanda as a result of the COVID-19 pandemic. The management recommended a payout ratio of 50% in FY2021 and FY2022 to compensate for non-payment in FY2020. Going forward, the group expects the payout ratio to go back to pre-COVID range of **30%-40%**.

Dividend Per Share (FRw)

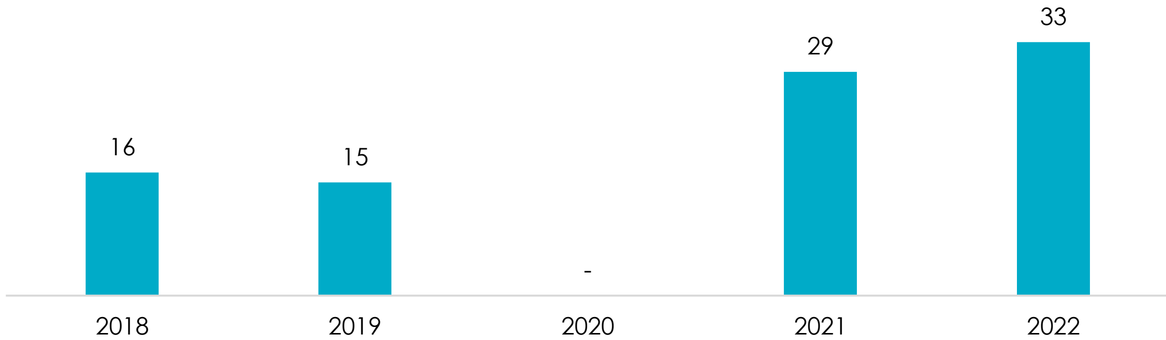
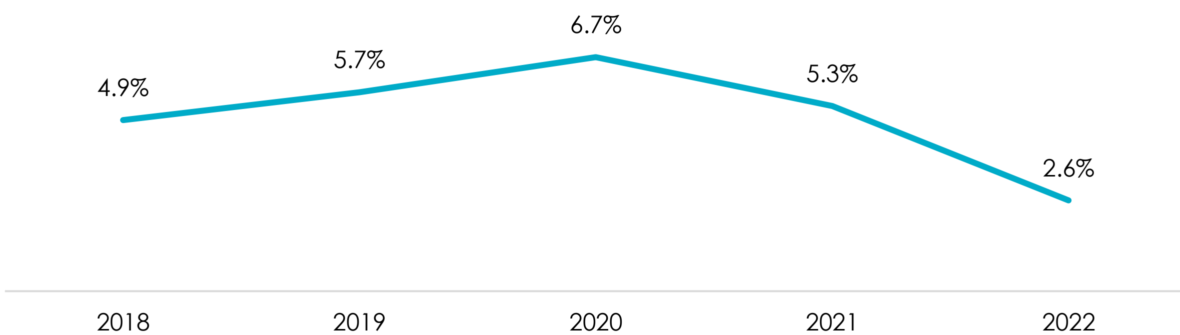


Chart 12: Dividend ***Source: NCBA IB Research***

Improved Asset Quality

The Group's asset quality has been improving since FY2020 with Non-Performing Loans (NPL) ratio declining by 2.7% between FY2021 & FY2022. Additionally, Loan Loss Provision (LLP) reduced by 3.9% to FRw 79.6Bn in FY2022 from FRw 82.8Bn previously pointing towards perceived reduction in credit risk for the bank.

Non Performing Loan Ratio (NPL)



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Source: Asset Quality ***Company Financials, NCBA IB Research***

Large corporates had the largest NPLs at 49.4% in FY2022 due to huge amount of outstanding loans within the sector. In FY2022, the amount of loans issued to the corporate sector stood at FRw 1.1Tn, accounting for **87.6%** of the total loan portfolio during the year.

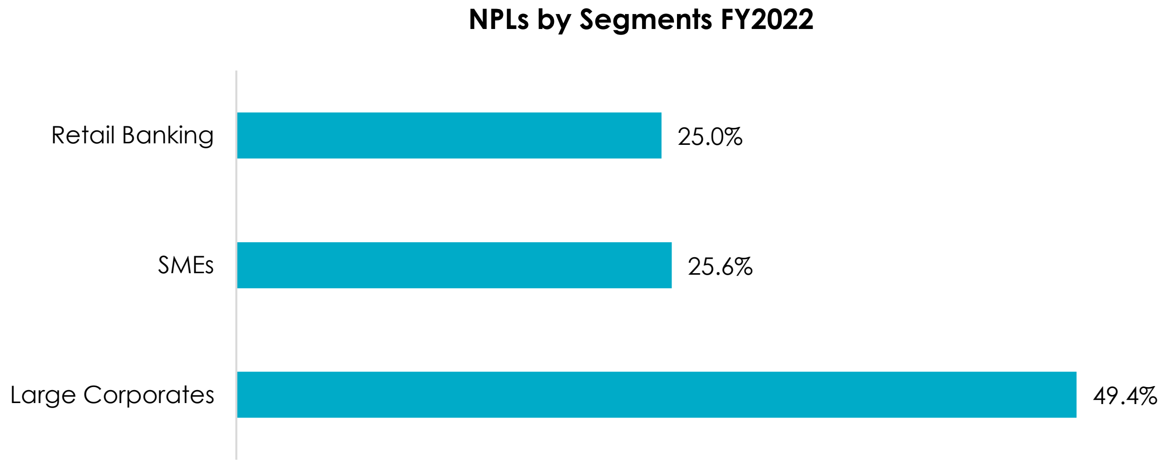

Chart 14: Asset Quality *Source: Company Financials, NCBA IB Research*

Consistent Growth in Loan Book

The lender's loan book has experienced steady growth over the years increasing by a CAGR of 18.8% to FRw 1,134,0Bn in FY2022 from FRw 567Bn in FY2018. On an y/y basis, the loan book surged by 14.6% to FRw 1,134.0Bn in FY2022 compared to FRw 990.0Bn in the same period in FY2021. The growth has been witnessed despite the adverse economic conditions experienced both locally and globally. The performance reflects the capacity of the bank to attract new clients and manage its credit risk with a declining NPL ratio.

The growth in the loan book over the years has been precipitated by;

1. **Digitalization** – The Group has endeavored to introduce new technologies and streamline processes through initiatives such as BK digital application and use of chatbot.
2. **Offering of new and innovative products** – The Group has been offering tailored products and services to SMEs such as the Launch of the SME center to support business expansion.
3. **Consumer segmentation**- The Group is focused on segmenting clients to ensure personalized services. This is being supported by a robust pool of relationship managers.

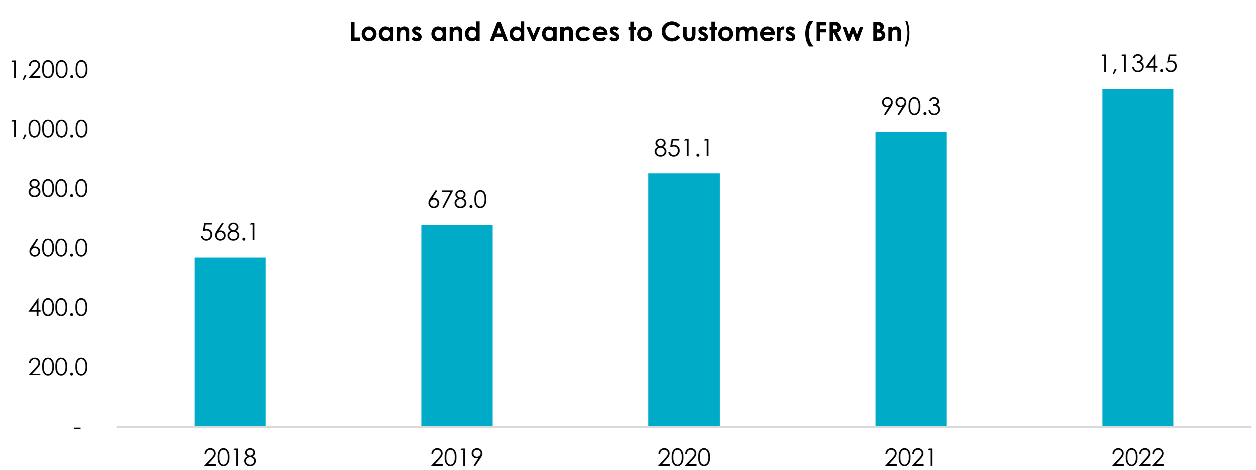

Chart 15: Loans and Advances *Source: Company Financials, NCBA IB Research*

Loan to deposit ratio

LDR increased in FY2022 driven by the 13.1% growth in loans and advances to customers which outpaced 10.3% growth in deposits indicating higher utility of deposits to fund loans coupled with an aggressive lending strategy.

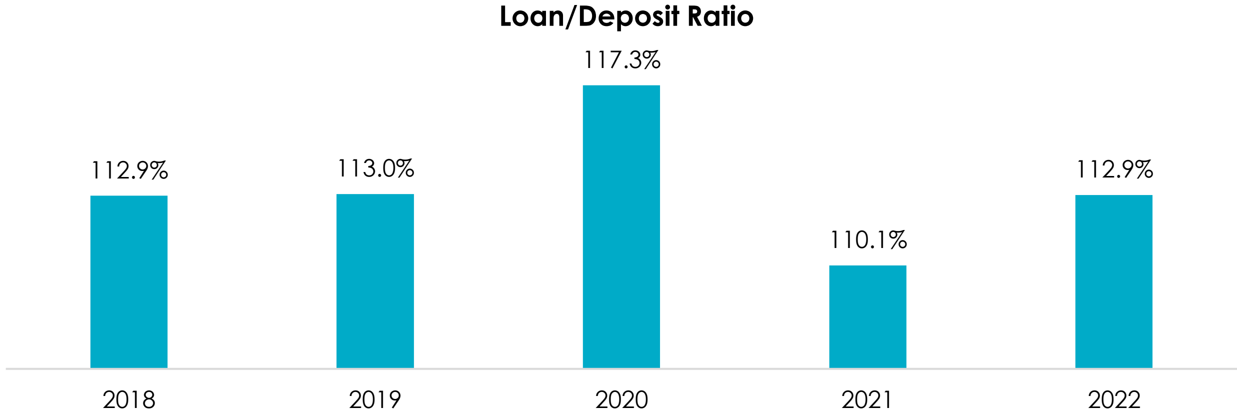

Chart 16: Loan/Deposit Ratio *Source: Company financials, NCBA IB Research*

Continued Growth in customer deposits supported by digitalization and mobilization

The Group's customer deposits have grown at a CAGR of 19.2% to FRw 1,075.2Bn in FY2022 from FRw 532.0Bn in FY2018. Deposits grew by 10.3% in FY2022 partly attributable to various strategies such as Diaspora promotions as a result of successful digitalization. The continued growth in deposits will also be supported by higher rates following the CBR rate hike by the National Bank of Rwanda (NBR).

The increase in the deposits portfolio, combined with growth in loan portfolio during the same period, demonstrates the Group's agile policy on customer growth & retention as well as efficient ALM management.

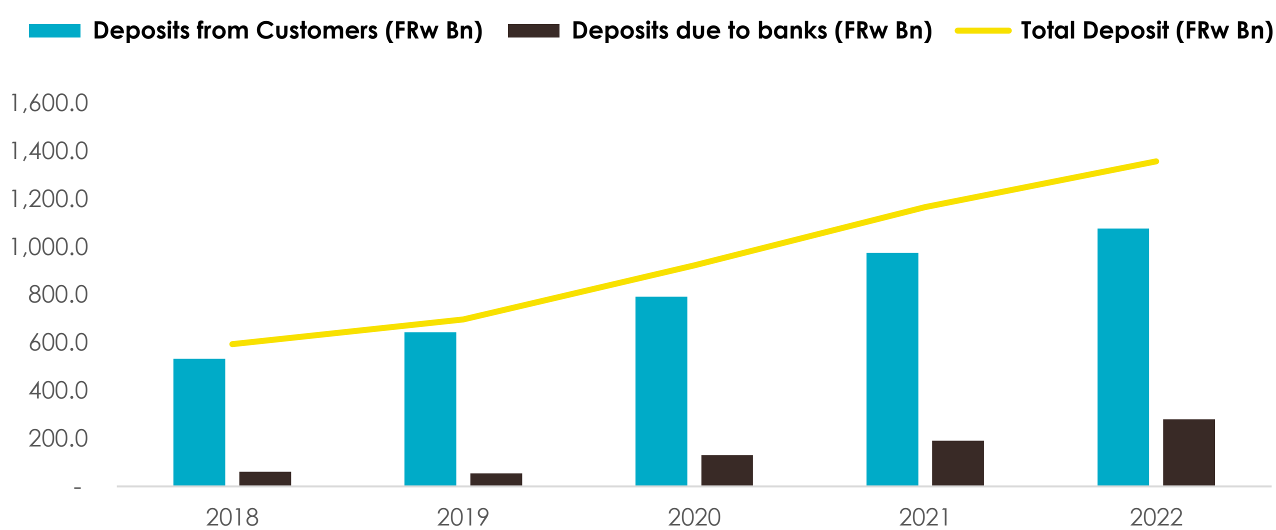

Chart 17: Deposits *Source: Company financials, NCBA IB Research*

A deep dive into the composition of deposits from different customer segments in FY2022 reveals the bank's customer base. The chart below shows that deposits from large corporates contributed 39.6% of the total deposits followed by SMEs.

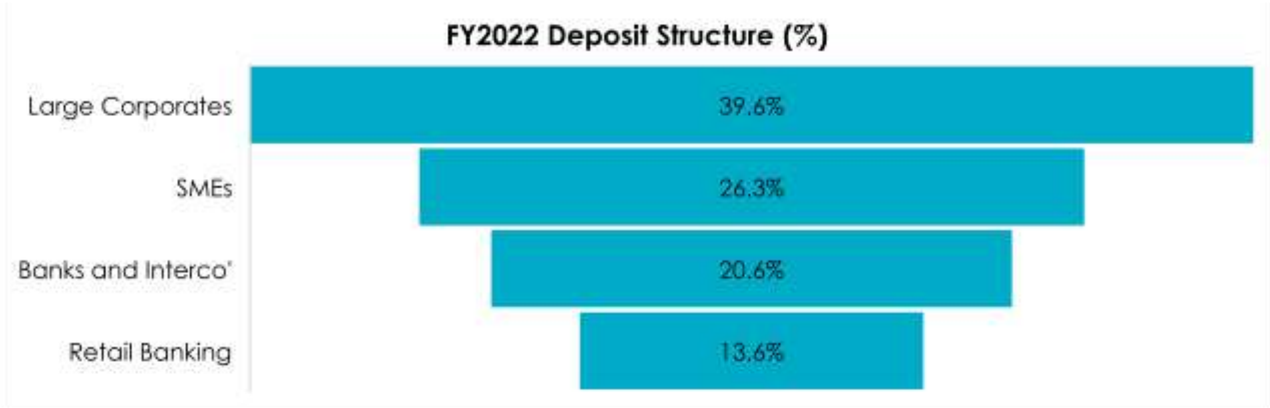

Chart 18: Deposit Structure ***Source: Company financials, NCBA IB Research***

Continued Investment in Government Securities

The Group's investment in government securities has consistently grown over the years at a CAGR of 31.0% to FRw 216.9Bn in FY2022 from FRw 73.6Bn in FY2018. The group also recorded a y/y growth of 32.2% in FY2022 indicating a preference for the low risk investments and increase in the sovereign domestic interest rates. We expect increased growth in interest from government securities on the back of an enlarged balance sheet.

Yields on government securities have been rising across leading to increased attractiveness of the asset class. The weighted average interest earned from these investments have also been on the rise which is indicative of a good balance between risk and return in the bank's investment portfolio.

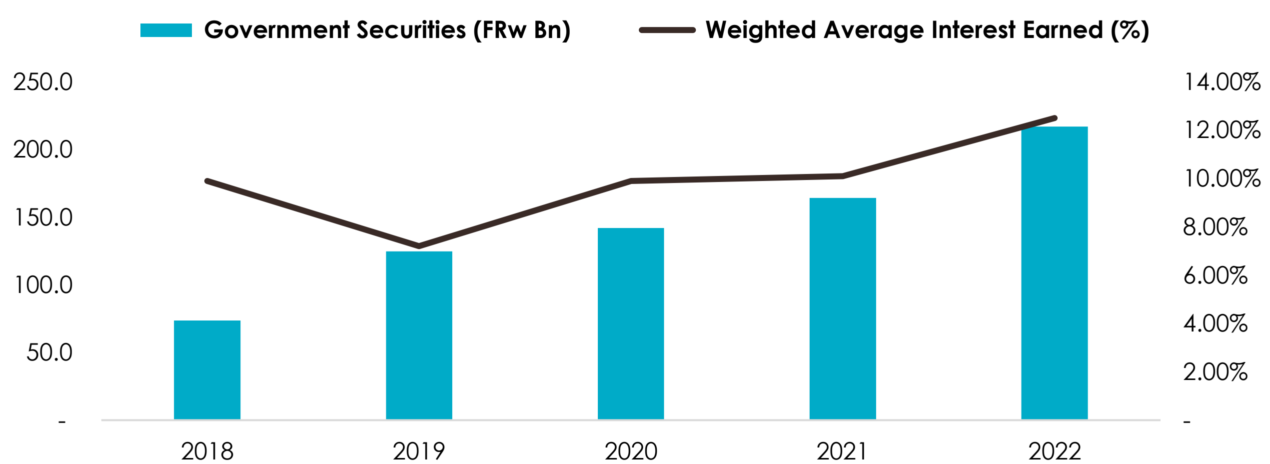

Chart 19: Gvnt Securities ***Source: Company financials, NCBA IB Research***

Strong Liquidity Position

The Bank's liquidity position is strong despite declining in FY2022 and is expected to continue displaying resilience to liquidity risk. The bank has continued to hold liquid assets coming in at 47.3% in FY2022, an improvement from 44.5%, exceeding the mandated minimum requirement of 20.0% for liquid assets.

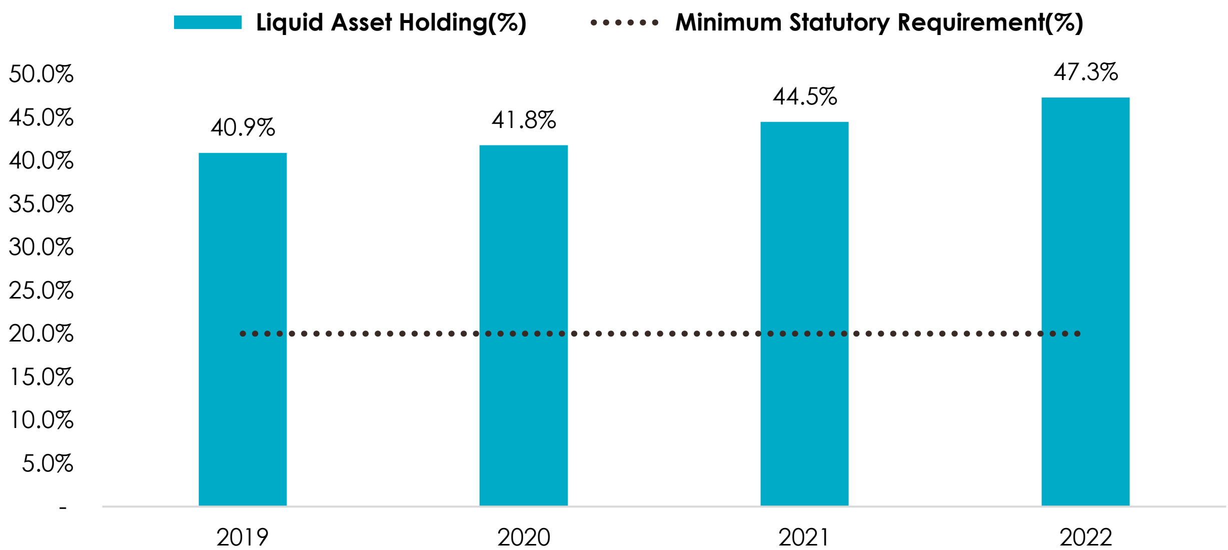

Chart 20: Liquidity ***Source: Company financials, NCBA IB Research***

BK Group increased its investment in liquid assets such as government securities and investment in specialized funds by 32.2% and 61.3%, respectively. The Liquidity Coverage Ratio (LCR) however declined to 156.0% as of FY2022 from 226.0% in the same period in the previous year but remained above 100% minimum regulatory requirement.

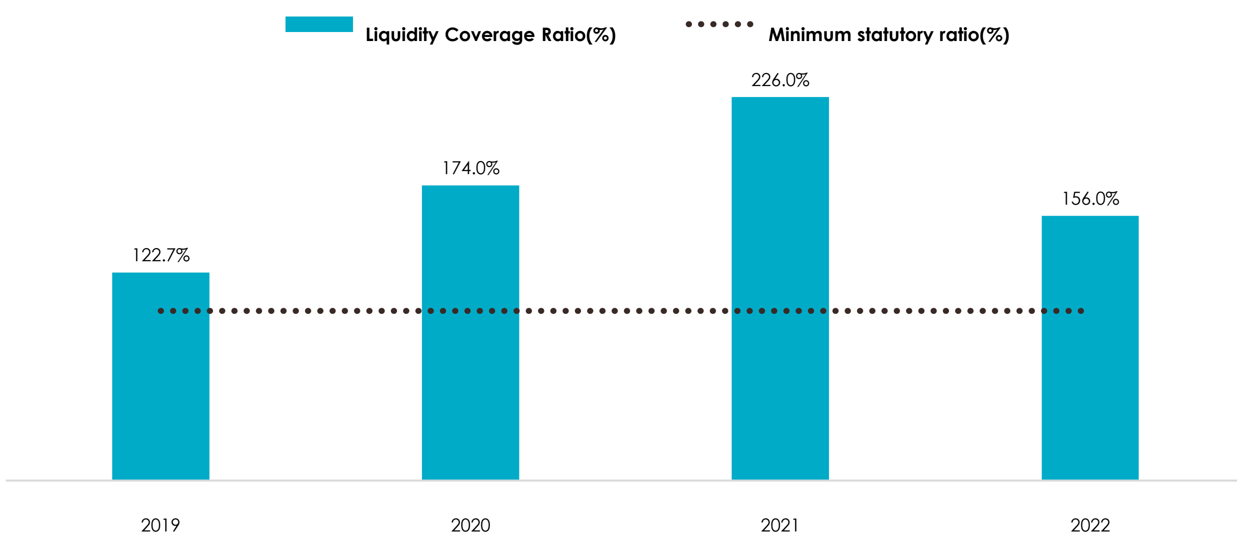

Chart 21: LCR ***Source: Company financials, NCBA IB Research***

KEY INVESTMENT RISKS

Deteriorating Efficiency

BK Group's Cost to Income ratio (CIR) has been increasing since FY2020, coming in at 49.1% in FY2022 from 45.0% in FY2021. The increase signals potential challenges in managing operational efficiency and controlling costs in relation to income generation.

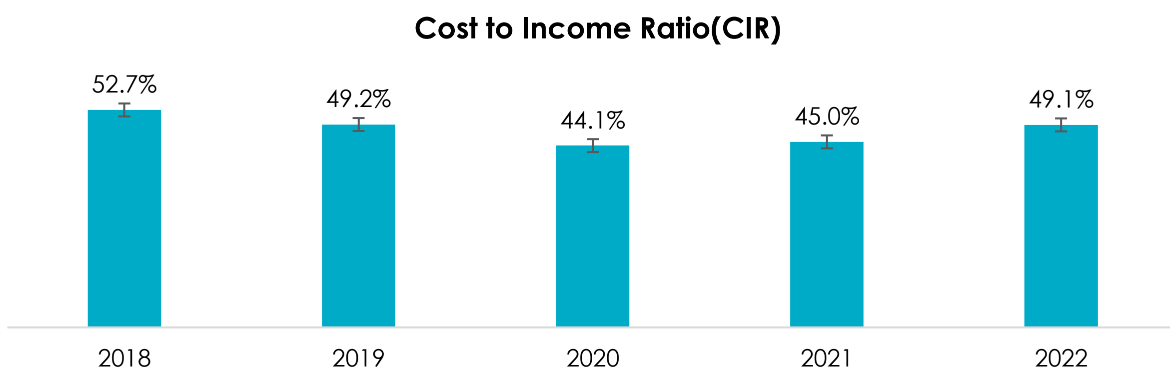

Chart 22: CIR ***Source: Company financials, NCBA IB Research***

The hike is partially attributable to escalating operating expenses which grew by 35.8% in FY2022 outpacing the 24.4% growth recorded by net operating income. The escalation in the operating expenses is majorly driven by administration and general expenses, depreciation and amortization and employee benefits increasing by 67.0%, 30.5%, and 11.8%, respectively.

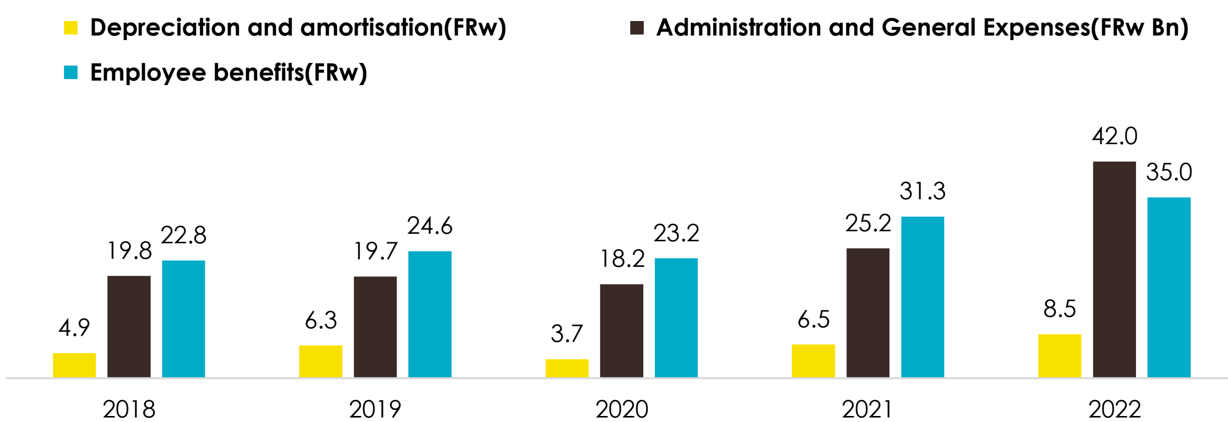

Chart 23: Expenses ***Source: Company financials, NCBA IB Research***

Challenging Business Environment

The Rwandese economy remains robust but continues to face persistent macro-economic challenges such as elevated inflation and currency depreciation necessitating monetary tightening. This will consequently impact cost of deposits, lending rates and non-performing loans. There is need for effective risk management, robust capital planning, and a proactive approach in adapting business strategies in response to these challenges.

Q3 2023 Financial performance and Outlook

- **Earnings:** Operating income grew by 20.9% to FRw 162.9Bn driven by 10.8% growth in interest income, to FRw 157.6Bn driven by 15.8% growth in loans and advances to FRw 1,195.5Bn. Non-interest income grew by 42.4% to FRw 42.7Bn mainly on the back of increased trade volume and economic activities.

- **Loan book**: The bank's loans and advances to customers grew by 15.8% to FRw 1,195.9Bn faster than the 11.9% growth in deposits to FRw 1,260.9Bn. The loan to deposit ratio rose to 87.8% from 85.9% in previous financial period indicating that higher proportion of funds are allocated to lending.

- **Client balances and deposits** increased by 11.9% to FRw 1,260.9Bn supported by growth in the various business segments driven by the lender's deposits mobilization initiatives and supported by its online banking channels.

- **Efficiency:** Cost to income ratio saw a marginal increase to 42.0% from 41.4% recorded in the same period in 2022. The increase is partly attributable to increase in deposit rates during the period coming after the MPC hiked policy rates by 100bps to 7.5%. The group is still focused on cost optimization operating strategies such as automation.

- **Asset Quality:** Asset quality improved slightly with NPLs ratio declining to 4.3% from 4.6% in the same period of the previous year.

BK Group's Outlook

We expect BK Group's steady growth to be boosted by:

1. **Digital Initiatives:** The Group continues to optimize its digitalization process to streamline operations and enhance customer experience. The Group has aims to deliver 26 digital strategies over the next three years to ensure connectivity, automation, advanced analytics and innovation. The bank is also focused on migrating customers to digital banking through various initiatives such as launch of the BK digital application and use of platforms such as IKAZE to provide real-time feedback from clients. The insurance subsidiary also launched digital projects such as self-service portal for insurance and Oracle Enterprise Finance Planning to handle all operations digitally.

2. **Revenue stream diversification-** BK Group is offering a comprehensive approach that prioritizes growth and diversification of its business operations. Its expansion efforts are focused on self-service products, an expanded distribution network, retail product offerings and new lines of business. The approach has enabled the Group to increase its channels and capacities, whilst reaching out to previously underserved segments who have had little or no involvement in the formal financial system. The Group currently has 67 bank branches.

3. **Expanding loan book:** The Group has put in place strategies to improve its loan book by expanding its customer base. The effort has borne fruit as evidenced by 18.9% CAGR growth since FY2018. Bank of Kigali through BKQUICK, a mobile solution towards savings and small loans, has succeeded in tapping into the retail market competitively thus increasing loans and deposits in the segment. The bank has also ensured instant issuing of credit/debt cards.

Valuation and Investment Recommendation

From our estimates and assumptions based on 5-year financial forecasts, we completed a comprehensive analysis to arrive at our fair value of the stock.

We arrived at a target price of **KES 46.8**, which implies a significant upside potential hence a **BUY** recommendation. The target price implies an upside of **45.9%** to the current trading price of KES 32.1 as of **29th February 2024.**

We have used four valuation methodologies to arrive at our fair value estimate:

1. Residual Income
2. DDM
3. Price to Book Valuation
4. Price to earnings Valuation

Assumptions

- Risk free rate of 12% based on the 10-year Treasury bond yields.
- Tax rate of 30%
- Country risk premium of 8.0% based on NYU Stern Country Risk Premium – Rwanda.
- Adjusted Beta of 0.58 on stock's relative volatility on the index.
- Long term growth rate of 6% based on average GDP forecast.

Valuation Methodology	Implied Price	Weighting	Weighted Value
Residual Income	49.0	30.0%	14.7
DDM	60.1	30.0%	18.0
P/BV	41.4	20.0%	8.3
P/E	28.8	20.0%	5.8
Fair Value		**100.0%**	**46.8**
Current Price			**32.1**
Upside/(Downside)			**45.9%**

Investment recommendation:

BK Group has put strategies in place to improve its loan book by expanding the customer base. It is also offering a comprehensive approach that prioritizes the growth and diversification of its business operations. The Group continues to optimize its digitalization process to streamline operations and enhance customer experience.

We expect BK Group to deliver long-term profitability based on digitalization, increasing consumer base through consumer/business segmentation.

APPENDIX: Historical Financial Statements (FRw Mn)

	2018	2019	2020	2021	2022
Interest Income					
Interest on overdrawn accounts	5,562,843	6,817,836	9,312,866	11,798,639	13,229,005
Interest on Treasury loans	6,473,934	7,641,488	8,024,633	9,070,134	7,144,097
Interest on equipment loans	49,401,834	62,472,379	78,829,366	101,289,896	108,068,085
Interest on consumer loans	8,902,776	9,471,129	11,288,212	8,912,572	10,973,632
Interest on mortgage loans	13,307,368	18,983,219	20,054,001	25,032,964	17,825,505
Other interest on loans to clients	436,235	1,823,000	1,968,494	1,745,172	2,570,818
Interest on deposits with banks	774,202	1,155,095	1,637,695	1,583,180	2,798,532
Interest received from reverse repos	853,912	967,535	1,213,163	1,705,171	2,328,741
Interest on investments in government securities	8,284,701	7,185,480	13,162,587	15,434,807	22,510,398
Total Revenue Actuals	**93,997,805**	**116,517,161**	**145,491,017**	**176,572,535**	**187,448,813**
Interest Expenses					
Interest on Customer Term deposit	9,113,785	12,749,863	17,457,203	21,707,347	23,587,263
Interest on Current Accounts	2,544,173	2,411,808	4,208,862	6,475,509	14,195,449
Interest on Saving Accounts	-	1,123,541	1,680,384	2,476,526	2,941,448
Interest on Long term Credit Lines	4,160,127	3,087,181	4,925,253	3,719,625	4,653,683
Interest on Transactions with other banks	2,381,021	2,371,323	4,426,000	5,922,170	4,295,194
Total Interest Expense	**18,199,106**	**21,743,716**	**32,697,702**	**40,301,177**	**49,673,037**
Net Interest Income	**75,798,699**	**94,773,445**	**112,793,315**	**136,271,358**	**137,775,776**
Fees and commission income					
Fee and commission income	17,369,912	16,208,851	15,182,610	21,824,949	29,167,427
Fee and commission expense	(846,746)	(1,738,171)	(2,385,861)	(1,965,524)	(2,894,123)
Net Fees and Commission income	**16,523,166**	**14,470,680**	**12,796,749**	**19,859,425**	**26,273,304**
Foreign exchange related income	9,188,503	8,783,166	9,924,689	11,779,561	13,529,522
Gross insurance premiums	4,855,521	6,671,948	8,460,697	10,140,525	11,581,822
Other operating income	392,387	155,409	251,793	2,170,394	2,087,671
Non-Interest Income	**30,959,577**	**30,081,203**	**31,433,928**	**43,949,905**	**53,472,319**
Operating income Bfr impairment losses & claims	**106,758,276**	**124,854,648**	**144,227,243**	**180,221,263**	**191,248,095**
Credit impairment losses	(13,933,231)	(17,886,085)	(37,128,906)	(34,068,752)	(10,006,879)
Premium ceded to reinsurance	(922,870)	(1,515,824)	(1,647,235)	(2,694,984)	(3,744,871)
Insurance benefits and claims paid	(1,785,522)	(2,368,177)	(2,982,619)	(3,359,441)	(3,247,645)
Impairment losses and Claims	**(16,641,623)**	**(21,770,086)**	**(41,758,760)**	**(40,123,177)**	**(16,999,395)**
Net Operating Income	**90,116,653**	**103,084,562**	**102,468,483**	**140,098,086**	**174,248,700**
Operating Expenses					
Employee Benefits	**(22,818,679)**	**(24,640,029)**	**(23,232,754)**	**(31,333,019)**	**(35,039,416)**
Depreciation and Amortization					
Depreciation of property and equipment	(3,860,518)	(3,811,622)	(1,490,354)	(3,743,864)	(4,637,801)
Depreciation on right to use asset	-	(827,295)	(832,065)	(829,679)	(1,035,511)
Amortization of intangible assets	(1,006,137)	(1,692,648)	(1,376,957)	(1,969,547)	(2,865,224)
Depreciation and amortization	**(4,866,655)**	**(6,331,565)**	**(3,699,376)**	**(6,543,090)**	**(8,538,536)**
Administration and General Expenses	(19,829,695)	(19,738,007)	(18,241,423)	(25,153,532)	(41,994,760)
Total Operating Expenses	**(47,515,029)**	**(50,709,601)**	**(45,173,553)**	**(63,029,641)**	**(85,572,712)**
Operating Profit	**42,601,624**	**52,374,961**	**57,294,930**	**77,068,445**	**88,675,988**
Interest on Lease Liabilities	-	(282,355)	(228,644)	(187,777)	(221,212)
Profit before Income Tax	**42,601,624**	**52,092,606**	**57,066,286**	**76,880,668**	**88,454,776**
Income tax charge /credit	(15,235,009)	(14,784,270)	(18,632,997)	(24,985,698)	(28,730,466)
Profit for the year	**27,366,615**	**37,308,336**	**38,433,289**	**51,894,970**	**59,724,310**

Source: Company financials, NCBA IB Research

APPENDIX: Historical Financial Statements (FRw Mn)

	2018	2019	2020	2021	2022
Fixed Assets					
Property and equipment	28,226,576	26,389,977	29,483,594	29,608,750	30,057,613
Intangible assets	3,675,053	6,771,054	8,464,386	10,273,785	10,494,510
Right-of-use asset	-	3,309,375	2,489,038	1,659,359	1,760,557
Total Fixed assets	**31,901,629**	**36,470,406**	**40,437,018**	**41,541,894**	**42,312,680**
Financial Assets					
Assets Held for sale	1,634,510	1,634,510	734,678	734,678	566,145
Held to maturity investments	73,594,798	124,797,114	142,021,914	164,115,134	216,899,036
Investment in specialized fund	-	-	1,216,854	7,814,784	12,605,141
Investment in corporate bond	-	-	12,166,178	12,703,795	12,069,536
Insurance-related assets	2,877,789	2,923,995	2,742,765	6,517,668	5,518,539
Total Financial Assets	**78,107,097**	**129,355,619**	**158,882,389**	**191,886,059**	**247,658,397**
Gross Loans and advances to customers	600,567,341	725,996,210	927,535,601	1,073,110,190	1,214,137,082
Credit Impairment Provision (LLP)	(32,462,617)	(47,990,325)	(76,435,790)	(82,842,869)	(79,624,764)
Net Loans and Advances to Customers	**568,104,724**	**678,005,885**	**851,099,811**	**990,267,321**	**1,134,512,318**
Total interest earning assets	**646,211,821**	**807,361,504**	**1,009,982,200**	**1,182,153,380**	**1,382,170,715**
Cash in hand	20,071,592	14,400,534	21,152,662	21,723,165	21,757,316
Balances with the National Bank of Rwanda	64,914,684	68,351,345	101,621,779	231,758,146	328,750,207
Due from banks	105,210,355	77,286,457	107,102,581	77,839,613	48,979,707
Cash and balances	**190,196,631**	**160,038,336**	**229,877,022**	**331,320,924**	**399,487,230**
Other assets					
Current Income Tax	551,644	-	-	-	-
Deferred income tax	672,030	5,261,914	6,102,616	9,546,653	10,649,558
Other assets	7,867,609	9,943,427	17,605,631	25,810,132	19,374,250
Other Assets	**9,091,283**	**15,205,341**	**23,708,247**	**35,356,785**	**30,023,808**
Total Assets	**877,401,364**	**1,019,075,587**	**1,304,004,487**	**1,590,372,983**	**1,853,994,433**
LIABILITIES					
Due to banks	61,312,934	54,160,261	130,557,930	190,223,687	280,588,198
Deposits and balances from customers	531,959,345	642,698,799	790,811,261	974,494,626	1,075,188,572
Income tax payable	4,095,815	7,441,556	3,276,474	10,013,864	5,920,034
Dividends payable	11,078,029	13,291,112	13,286,327	26,928,781	30,704,511
Insurance liabilities	3,909,011	5,079,081	6,713,188	9,445,233	8,162,379
Other liabilities	19,457,343	26,189,778	32,404,493	35,470,426	29,848,038
Lease liabilities	-	3,426,696	2,669,914	2,069,256	1,787,992
Long-term finance	50,883,806	45,977,418	64,940,879	56,026,996	102,718,352
Total liabilities	**682,696,283**	**798,264,701**	**1,044,660,466**	**1,304,672,869**	**1,534,918,076**
EQUITY					
Share capital	8,967,592	9,045,474	9,045,474	9,045,474	9,185,147
Share premium	74,795,986	76,573,491	76,573,491	76,573,491	79,953,617
Revaluation reserves	13,000,149	13,000,149	13,099,994	13,099,994	13,099,994
Statutory reserves	-	-	2,279,052	2,321,973	2,321,973
Retained earnings	96,995,779	120,862,519	156,494,803	181,990,759	211,017,312
Equity Attributable to owners of the parent	**193,759,506**	**219,481,633**	**257,492,814**	**283,031,691**	**315,578,043**
Non-controlling interests	945,575	1,329,253	1,851,206	2,668,423	3,498,314
Total equity	**194,705,081**	**220,810,886**	**259,344,020**	**285,700,114**	**319,076,357**
Total liabilities and equity	**877,401,364**	**1,019,075,587**	**1,304,004,486**	**1,590,372,983**	**1,853,994,433**

Source: Company Financials, NCBA IB Research

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.

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Certification

The following analyst(s) who prepared this research report: hereby certify 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.

Disclaimer

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