

Barclays Bank of Kenya– 1H17 Earnings Update

Interim Dividend Maintained Despite Weaker Bottom Line

Barclays Bank of Kenya (BBK) posted a 5.9% y/y decline in 2Q17 PAT to KES 1.8B. Net interest income dropped 3.0% y/y (+9.4% q/q) in 2Q17 to KES 5.5B. The company maintained interim dividend at KES 0.20 per share. Books closure is slated for 8th September 2017 and payment will be made on 13th October 2017.

Total interest income was down 6.0% y/y (+5.2%, q/q) in 2Q17 to KES 6.7B. Interest income from government securities dipped 2.1% y/y (+0.6%, q/q) in 2Q17 to KES 1.3B, while total funds held in government securities rose 4.7% y/y (+16.0% q/q) in 2Q17. On the other hand, interest income from loans and advances to customers rose 5.5% y/y (+6.2%, q/q) in 2Q17 to KES 5.4B. The increase was driven by growth in loan book, up 6.8% y/y (-2.9%, q/q) in 2Q17. Total interest expenses declined 17.4% y/y (-10.4%, q/q) in 2Q17 to KES 1.2B, even as interest expenses from customer deposits increased 4.9% y/y (-0.6%, q/q) in 2Q17, largely in line with the 3.2% y/y (+3.9% q/q) growth in customer deposits. **Net interest income** fell 3.0% y/y (+9.4%, q/q) and the lender's NIM was down 140 bps y/y to 9.4%. The group's loans to deposits ratio rose 300 bps y/y to 86.8% in 2Q17.

Total non-interest income plunged 21.2% y/y (-14.6% q/q) in 2Q17 primarily attributed to a 26.1% y/y (-13.9%, q/q) fall in income from fees and commission. Income from BBK's foreign exchange trading was largely unchanged y/y but declined 16.2% q/q. Overall, non interest income attributed to 26.9% of total income in 2Q17, down from 31.1% in 2Q16.

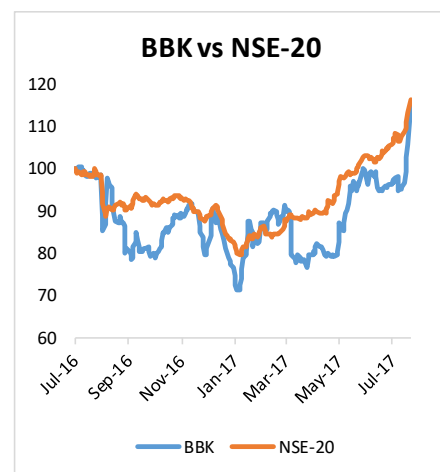
Core operating expenses were up a marginal 1.6% y/y to KES 4.3B in 2Q17. However, loan loss provision expense tumbled 52.2% y/y (-25.3% q/q) despite a 36.9% y/y (+2.4% q/q) increase in **Gross NPLs**. The group's NPL ratio climbed 150bps y/y (+40bps q/q) to 7.1% highlighting an increase in underperforming assets. Despite the increase in bad loans, it is noteworthy that BBK's NPL ratio has consistently remained well below the industry average, while the lender's NPL coverage ratio hovers at a comfortable 41.5%.

Looking ahead: The current stock price of KES 11.55 sees the blue-chip lender trade at an attractive 1.5 times trailing FY16 book value and 8.5 times trailing FY16 earnings, with a trailing dividend yield of 8.7%. Going forward, we expect further NIM compression as the effects of the recently implemented cap on lending rates are felt across an entire financial year; and the boost in loan book growth as a result of top-ups of existing loan facilities begins to fade. Nonetheless, BBK's strong industry foothold and attractive valuation metrics, could translate to investor accumulation around current levels.

Bloomberg Ticker : BCBL.KN
Reuters Ticker: BBK.NR

Share Statistics

Current Price (KES)	11.55
Issued shares (M)	5,431.5
Market cap (USD M)	605.8
Year end	Dec
Foreign ownership (%)	72.7
Free float (%)	31.5
Av daily trading vol (USDk)	106.2



Price Trend

Source: Bloomberg

Research Analyst

Shaniza Kassam

skassam@apexafrica.com

020-7602534

www.apexafrica.com

	1Q16	2Q16	3Q16	4Q16	FY16	1Q17	2Q17	chg y/y	chg q/q	chg y/y
Income Statement	KES '000	KES '000	KES '000	KES '000	KES '000	KES '000	KES '000	2Q17 vs 2Q16	2Q17 vs 1Q17	1H17 vs 1H16
Interest Income	6,742,231	7,161,226	7,202,037	7,015,695	28,121,189	6,402,215	6,734,598	-6.0%	5.2%	-5.5%
Interest Expense	1,323,021	1,483,315	1,442,639	1,537,983	5,786,958	1,367,363	1,225,350	-17.4%	-10.4%	-7.6%
Net Interest Income	5,419,210	5,677,911	5,759,398	5,477,712	22,334,231	5,034,852	5,509,248	-3.0%	9.4%	-5.0%
Foreign Exchange Income	676,605	671,990	603,232	668,510	2,620,337	805,170	675,063	0.5%	-16.2%	9.8%
Gross Fees and Commission	1,652,485	1,698,245	1,518,814	900,947	5,770,491	1,458,117	1,255,308	-26.1%	-13.9%	-19.0%
Other Income	241,173	197,399	321,395	199,086	959,053	106,982	93,836	-52.5%	-12.3%	-54.2%
Non Interest Income	2,570,263	2,567,634	2,443,441	1,768,543	9,349,881	2,370,269	2,024,207	-21.2%	-14.6%	-14.5%
Total Operating Income	7,989,473	8,245,545	8,202,839	7,246,255	31,684,112	7,405,121	7,533,455	-8.6%	1.7%	-8.0%
Total Operating Expenses	4,946,831	5,465,063	5,311,718	5,108,093	20,831,705	4,885,258	4,901,151	-10.3%	0.3%	-6.0%
Loan Loss Provision Expense	797,890	1,211,553	1,126,692	791,002	3,927,137	774,707	578,763	-52.2%	-25.3%	-32.6%
Operating Profit	3,042,642	2,780,482	2,891,121	2,138,162	10,852,407	2,519,863	2,632,304	-5.3%	4.5%	-11.5%
Profit Before Tax	3,042,642	2,780,482	2,891,121	2,138,162	10,852,407	2,519,863	2,632,304	-5.3%	4.5%	-11.5%
Current Tax	933,130	1,020,780	1,042,090	796,394	3,792,394	810,715	891,520	-12.7%	10.0%	-12.9%
Profit After Tax	2,181,684	1,905,005	1,973,088	1,339,619	7,399,396	1,749,568	1,793,070	-5.9%	2.5%	-13.3%
EPS (KES)	0.40	0.35	0.37	0.24	1.36	0.32	0.33	-5.7%	3.1%	-13.3%
DPS (KES)		0.20			1.00		0.20			
Balance Sheet										
Total Shareholders' Equity	42,315,483	39,103,237	41,465,431	42,388,242	42,388,242	44,047,037	40,786,729	4.3%	-7.4%	4.3%
Deposits due to Banks & Financial Institutions	192,447	163,145	5,062,916	3,263,679	3,263,679	1,667,191	3,993,984			
Balances due to banking institutions in the group	19,531,238	23,201,805	25,872,156	24,895,103	24,895,103	22,182,392	21,575,265	-7.0%	-2.7%	-7.0%
Customer Deposits	168,932,598	182,875,680	180,862,520	178,179,795	178,179,795	181,535,911	188,652,234	3.2%	3.9%	3.2%
Total Liabilities	199,318,684	217,038,988	222,537,700	217,303,770	217,303,770	216,741,660	227,400,119	4.8%	4.9%	4.8%
Total Equity and Liabilities	241,634,167	256,142,225	264,003,131	259,692,012	259,692,012	260,788,697	268,186,848	4.7%	2.8%	4.7%
Cash and CBK Balances	16,420,866	23,099,412	17,802,195	13,378,044	13,378,044	4,057,366	17,452,600			
Balances due from Banks & Financial Institutions	381,931	2,005,909	311,718	218,530	218,530	1,391,618	10,009,947			
Government and Other Securities	51,679,547	54,908,955	66,683,092	56,044,294	56,044,294	49,523,954	57,469,042	4.7%	16.0%	4.7%
Net Loans and Advances	152,442,482	153,304,212	158,843,058	168,509,529	168,509,529	168,701,793	163,782,554	6.8%	-2.9%	6.8%
Fixed Assets	3,421,874	3,351,384	3,269,495	3,080,831	3,080,831	3,164,236	3,063,790	-8.6%	-3.2%	-8.6%
Total Assets	241,634,467	256,142,225	264,003,131	259,692,012	259,692,012	260,788,697	268,186,848	4.7%	2.8%	4.7%
Key Ratios										
Gross NPL (KES M)	7,891,337	8,764,640	10,412,797	11,472,301	11,472,301	11,713,284	11,999,105	36.9%	2.4%	36.9%
Interest In Suspense (KES M)	1,494,942	2,211,200	2,634,290	2,689,552	2,689,552	2,949,784	3,233,288	46.2%	9.6%	46.2%
Total NPL (KES M)	6,396,395	6,553,440	7,778,507	8,782,749	8,782,749	8,763,500	8,765,817	33.8%	0.0%	33.8%
Loan Loss Provision (KES M)	3,504,980	3,849,515	4,578,571	5,149,446	5,149,446	5,377,473	4,980,517	29.4%	-7.4%	29.4%
Net NPL	2,891,415	2,703,925	3,199,936	3,633,303	3,633,303	3,386,027	3,785,300	40.0%	11.8%	40.0%
NPL Ratio	5.1%	5.6%	6.4%	6.6%	6.6%	6.7%	7.1%			
Coverage Ratio	44.4%	43.9%	44.0%	44.9%	44.9%	45.9%	41.5%			
Cost of Risk	2.1%	3.2%	2.8%	1.9%	2.3%	1.8%	1.4%			
Loan to Deposits	90.2%	83.8%	87.8%	94.6%	94.6%	92.9%	86.8%			
Yield on Interest Earning Assets	13.2%	13.6%	12.8%	12.5%	12.5%	11.7%	11.6%			
Cost of Funds	2.8%	2.9%	2.7%	3.0%	2.8%	2.7%	2.3%			
NIM	10.4%	10.7%	10.0%	9.5%	9.7%	9.0%	9.4%			
Non Funded/Total Income	32.2%	31.1%	29.8%	24.4%	29.5%	32.0%	26.9%			
Cost to Income Ratio	51.9%	51.6%	51.0%	59.6%	53.4%	55.5%	57.4%			
ROE	20.6%	19.5%	19.0%	12.6%	17.5%	15.9%	17.6%			
ROA	3.6%	3.0%	0.7%	0.5%	2.8%	2.7%	2.7%			
Core Capital/TRWA	16.0%	15.8%	16.5%	15.7%	15.7%	15.7%	15.7%			
Total Capital/TRWA	18.2%	18.0%	19.1%	17.9%	17.9%	17.9%	17.9%			
Liquidity Ratio	33.2%	36.6%	34.5%	28.3%	28.3%	28.3%	28.3%			
P/E (x)					8.5					
P/B (x)					1.5					
Dividend Yield					8.7%					

Disclaimer

ApexAfrica and its parent company AXYS Group seek to do business with companies covered in their research reports. Consequently, a conflict of interest may arise that could affect the objectivity of this report. This document should only be considered a single factor used by investors in making their investment decisions. The reader should independently evaluate the investment risks and is solely responsible for their investment decisions. The opinions and information portrayed in this report may change without prior notice to investors.

This publication may not be distributed to the public media or quoted or used by the public media without prior and express written consent of ApexAfrica or AXYS Group.

This document does not constitute an offer, or the solicitation of an offer, for the sale or purchase of any security. Whilst every care has been taken in preparing this document, no representation, warranty or undertaking (express or implied) is given and no responsibility or liability is accepted by Apex Africa or any of its employees as to the accuracy of the information contained and opinions expressed in this report.

ApexAfrica Capital Ltd
A The Riverfront, 1st Floor, Prof. David Wasawo Drive, Off Riverside Drive | P.O. Box 43676-00100 | Nairobi | Kenya |
T: +254-20-2226440 | **F**ax: +254-20-2319092 | **C**ell: +254-723-420204|
W : www.apexafrica.com
Part of AXYS Group
W : www.axys-group.com