

## NIC Group – 1H18 Earnings Update

### “Earnings Down”

**NIC Group’s 1H18 net earnings marginally declined 2.1% y/y to KES 2.0B, driven by a 30.0% y/y surge in net interest expense to KES 4.4B and a 9.1% y/y increase in operating expenses to KES 3.3B. The bottom-line was however shielded by a 23.0% y/y slash in loan loss provision expense to KES 1.1B and a 7.0% y/y increase in non-interest income to KES 2.1B.**

#### Headwinds

- Loans and advances declined 1.5% y/y to KES 115.0B premised on stringent lending by the bank on account of the prevailing rate cap. In effect, gross fees and commissions declined 3.0% y/y to KES 1.1B due to reduced lending;
- Interest expense surged 30.0% y/y to KES 4.4B riding on a 10.5% y/y increase in customer deposits to KES 147.1B, an indication that the bank may be aggressively lobbying for interest earning deposits;
- Gross NPLs rose 12.7% y/y to KES 16.2B with the NPL ratio edging up 1.5bps y/y to 13.3% above an industry average of 12.0% in 1H18.
- Operating expenses increased 9.1% y/y to KES 3.3B fuelled by a 7.7% y/y rise in staff costs to KES 1.7B and a 15.9% y/y increase in other operating expenses to KES 1.1B. The bank’s cost to income ratio however remains below 50.0% at 45.6%.

#### Tailwinds

- Interest income increased 8.6% y/y to KES 9.6B driven by a 52.8% surge in income from government securities which grew 25.7% y/y to KES 55.7B. We however expect this to remain subdued in 2H18, with lower yields on government securities as demand outweighs the government's appetite.
- Non-interest income was up 7.0% y/y to KES 2.1B on the back of a 16.9% y/y increase in foreign exchange income to KES 683.0M and a 24.1% y/y uplift in other income to KES 385.6M.
- Coverage ratio edged up 6.4bps y/y to 42.2% an indicator of the banks ability to meet its obligation. A 23.0% y/y slash in loan loss provision expense to KES 1.1B further shielded the bottom-line

#### Into the future:

With a liquidity ratio of 48.8% we expect that the bank will slow down on interest earning deposits that have spiked up interest expense. The loan book is expected to remain subdued in the prevailing rate cap era despite the bank’s resolve to diversify and establish its brand in the SME lending space.

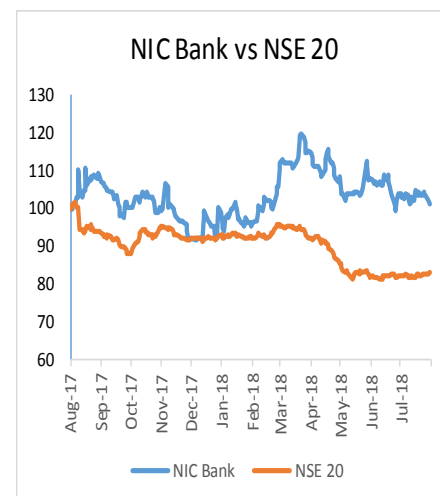
We remain worrisome on the bank's loan book quality and expect aggressive debt collection strategy to resolve rising NPLs. The counter remains unattractive for dividend seeking investors ( FY17 dividend yield of 2.6%).

Bloomberg Ticker : NICB.KN  
Reuters Ticker: NIC.NR

#### Share Statistics

Current Price (KES)	34.00
Issued shares (M)	639.9
Market cap (USD M)	235.8
Year end	Dec
Foreign ownership (%)	1.3
Free float (%)	60.4
Av daily trading vol (USDk)	166.6

#### Price Trend



Source: Bloomberg

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	FY16	1H17	FY17	1H18	chg y/y
	KES '000	KES '000	KES '000	KES '000	
<b>Income Statement</b>					
Interest Income	19,020,675	8,811,468	18,415,422	9,569,480	8.6
Interest Expense	6,852,078	3,412,563	7,641,620	4,436,059	30.0
<b>Net Interest Income</b>	<b>12,168,597</b>	<b>5,398,905</b>	<b>10,773,802</b>	<b>5,133,421</b>	<b>-4.9</b>
Foreign Exchange Income	1,105,147	584,068	1,158,930	683,035	16.9
Gross Fees and Commission	2,010,351	1,114,192	2,295,094	1,081,305	-3.0
Other Income	904,061	310,737	904,061	385,610	24.1
<b>Non Interest Income</b>	<b>4,019,559</b>	<b>2,008,997</b>	<b>4,164,340</b>	<b>2,149,950</b>	<b>7.0</b>
Total Operating Income	16,188,156	7,407,902	14,938,142	7,283,371	-1.7
Total Operating Expenses	6,271,677	3,043,811	6,357,469	3,321,856	9.1
Loan Loss Provision Expense	3,749,530	1,445,703	2,979,723	1,113,751	-23.0
<b>Operating Profit</b>	<b>9,916,479</b>	<b>4,364,091</b>	<b>8,580,673</b>	<b>3,961,515</b>	<b>-9.2</b>
<b>Profit Before Tax</b>	<b>6,166,949</b>	<b>2,918,388</b>	<b>5,600,950</b>	<b>2,847,764</b>	<b>-2.4</b>
Current Tax	1,836,553	888,625	1,456,532	861,091	-3.1
<b>Profit After Tax</b>	<b>4,330,396</b>	<b>2,029,763</b>	<b>4,144,418</b>	<b>1,986,673</b>	<b>-2.1</b>
EPS (KES)	6.77	3.17	6.48	3.10	-2.1
DPS (KES)	1.00		1.00		
<b>Balance Sheet</b>					
Total Shareholders' Equity	29,839,509	32,567,413	34,242,719	32,219,634.00	-1.1
Deposits due to Banks & Financial Institutions	2,775,926	2,588,622	12,138,495	2,297,387.00	-11.3
<b>Customer Deposits</b>	<b>111,824,685</b>	<b>133,158,753</b>	<b>138,916,570</b>	<b>147,088,189.00</b>	<b>10.5</b>
Total Liabilities	139,113,621	156,922,411	171,456,223	168,731,030.00	7.5
Total Equity and Liabilities	168,953,130	189,489,824	205,698,942	200,950,664.00	6.0
Cash and CBK Balances	7,263,501	10,135,442	9,516,131	11,472,616.00	13.2
Balances due from Banks & Financial Institutions	9,682,208	10,247,516	12,425,068	8,829,690.00	-13.8
<b>Government and Other Securities</b>	<b>30,470,895</b>	<b>44,328,933</b>	<b>54,197,707</b>	<b>55,736,677.00</b>	<b>25.7</b>
<b>Net Loans and advances</b>	<b>114,466,274</b>	<b>116,769,833</b>	<b>119,760,537</b>	<b>114,972,494.00</b>	<b>-1.5</b>
Fixed Assets	1,043,497	1,024,797	1,148,712	1,094,675.00	6.8
<b>Total Assets</b>	<b>169,458,985</b>	<b>189,489,824</b>	<b>206,172,460</b>	<b>200,950,664.00</b>	<b>6.0</b>
<b>Key Ratios</b>					
Gross NPL (KES M)	13,587,912	14,341,928	14,320,960	16,157,764.00	12.7
Interest In Suspense (KES M)	704,080	1,688,021	1,282,160	1,605,040.00	-4.9
Total NPL (KES M)	12,883,832	12,653,907	13,038,800	14,552,724.00	15.0
Loan Loss Provision (KES M)	5,022,089	5,132,699	5,265,710	6,824,055.00	33.0
Net NPL	7,861,743	7,521,208	7,773,090	7,728,669.00	2.8
NPL Ratio	11.4%	11.8%	11.5%	13.3%	
Coverage Ratio	37.0%	35.8%	36.8%	42.2%	
Cost of Risk	3.3%	1.2%	2.5%	1.0%	
Loan to Deposits	102.4%	87.7%	86.2%	78.2%	
Yield on Interest Earning Assets	12.3%	5.1%	9.9%	5.3%	
Cost of Funds	6.0%	2.5%	5.1%	3.0%	
NIM	6.3%	4.6%	4.8%	4.5%	
Non Funded/Total Income	24.8%	27.1%	27.9%	29.5%	
Cost to Income Ratio	38.7%	41.1%	42.6%	45.6%	
ROE	14.5%	1.1%	12.1%	1.0%	
ROA	2.6%	1.1%	2.0%	1.0%	
Core Capital/TRWA	18.7%	17.7%	19.2%	18.1%	
Total Capital/TRWA	23.0%	21.6%	23.0%	20.7%	
Liquidity Ratio	38.7%	45.7%	38.7%	48.8%	
P/E (x)			6.0		
P/B (x)			0.7		
<b>Dividend Yield (%)</b>			<b>2.6</b>		

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