

NIC Group– FY17 Earnings Update

“Surprise Bonus Share Issue”

NIC marked a 4.3% y/y (- 36.0% q/q) drop in net earnings to KES 4.1B on the back of an 11.5% y/y (+3.7% q/q) contraction in net interest income to KES 10.8B. The lender announced a first and final dividend of KES 1.00 which will be paid on 25th May 2018. Books closure is slated for 30th April 2018. The lender also announced a 1:10 bonus share issue with more details to follow up.

Total interest income dipped 3.2% y/y (+5.3% q/q) to KES 18.4B, although interest income from government securities surged 39.5% y/y to KES 5.2B as the total stock of government securities shot up 77.9% y/y to KES 54.2B. On the other hand, **total interest expenses edged up 11.5% y/y (+7.2% q/q)** attributable to a massive increase in customer deposits (+24.2%). The lender has increased its deposit taking in foreign currency over the past 2 years from 35% of total deposits in 2015 to 41% of total deposits in 2017. As total interest expenses outpaced the growth in total interest income, **net interest income shrunk 11.5% y/y (+3.7% q/q) to KES 10.8B** and its net interest margin contracted to 4.8% (-150bps y/y).

Total non interest income climbed 3.6% y/y (+2.4% q/q) to KES 4.2B mainly boosted by a 14.2% y/y rise in gross fees and commissions to KES 2.3B. The bulk of gross fees and commissions came from services and transaction fees, which galloped 20.3% y/y to 1.4B. Total non funded income contributed to 27.9% of total income (+310bps y/y).

Total operating expenses only marginally went up 1.4% y/y to KES 6.4B. This was aided by a reduction in its workforce program last year and its rapidly evolving digital landscape. The latter includes investing and partnering with fintech companies and creating mobile solutions for SMEs and businesses to reduce branch visits. NIC is the first bank which allows clients to buy FX online and is the first bank in East Africa to install the NCR Interactive Teller, which will digitize transactions and enhance the banking experience for its customers. This is also expected to ease its operating expenses going forward.

Loan loss provision expense dropped 20.5% y/y to KES 2.9B and gross NPLs increased 5.4% y/y to KES 14.3B. This saw the lender’s NPL ratio climb to 11.5% (+10bps y/y), higher than the industry average of 10.6%. We remain worrisome about NIC’s loan book quality going forward. Nevertheless, NIC has established a credit advisory group and aims to be aggressive in collections, which may bear fruit. In the past, NIC had focused on corporate and asset finance but now strives to grow its presence in the retail and SME space and be a brand driven bank. NIC has been successful in growing its loan book since it started growing its deposits in foreign currency and has seen its cost of funds come down to 5.1% (-90bps y/y). However the challenge remains in attracting cheap deposits. We are hopeful that a possible repeal of the rate cap will bolster the lender’s interest income, offsetting the high interest expenses. The counter is trading at 6.0x P/E, 0.7x P/B (among the lowest in the banking sector) and a low dividend yield of 2.6% which may not entice dividend seeking investors.

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

| Share Statistics | |
|-----------------------------|-------|
| Current Price (KES) | 39.00 |
| Issued shares (M) | 639.9 |
| Market cap (USD M) | 2,471 |
| 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 | 1Q17 | 2Q17 | 3Q17 | 4Q17 | FY17 | chg y/y | chg q/q |
|--|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|---------------|---------------|
| | KES '000 | KES '000 | KES '000 | KES '000 | KES '001 | KES '000 | | |
| Income Statement | | | | | | | | |
| Interest Income | 19,020,675 | 4,312,231 | 4,499,237 | 4,679,031 | 4,924,923 | 18,415,422 | -3.2% | 5.3% |
| Interest Expense | 6,852,078 | 1,605,110 | 1,807,453 | 2,041,043 | 2,188,014 | 7,641,620 | 11.5% | 7.2% |
| Net Interest Income | 12,168,597 | 2,707,121 | 2,691,784 | 2,637,988 | 2,736,909 | 10,773,802 | -11.5% | 3.7% |
| Foreign Exchange Income | 1,105,147 | 300,718 | 283,350 | 322,114 | 252,748 | 1,158,930 | 4.9% | -21.5% |
| Gross Fees and Commission | 2,010,351 | 554,045 | 560,147 | 617,147 | 563,755 | 2,295,094 | 14.2% | -8.7% |
| Other Income | 904,061 | 134,223 | 176,514 | 213,392 | 379,932 | 904,061 | 0.0% | 78.0% |
| Non Interest Income | 4,019,559 | 988,986 | 1,020,011 | 1,064,672 | 1,090,671 | 4,164,340 | 3.6% | 2.4% |
| Total Operating Income | 16,188,156 | 3,696,107 | 3,711,795 | 3,702,660 | 3,827,580 | 14,938,142 | -7.7% | 3.4% |
| Total Operating Expenses | 6,271,677 | 1,452,155 | 1,591,656 | 1,618,754 | 1,694,904 | 6,357,469 | 1.4% | 4.7% |
| Loan Loss Provision Expense | 3,749,530 | 875,324 | 570,379 | 698,929 | 835,091 | 2,979,723 | -20.5% | 19.5% |
| Operating Profit | 9,916,479 | 2,243,952 | 2,120,139 | 2,083,906 | 2,132,676 | 8,580,673 | -13.5% | 2.3% |
| Profit Before Tax | 6,166,949 | 1,368,628 | 1,549,760 | 1,472,958 | 1,209,604 | 5,600,950 | -9.2% | -17.9% |
| Current Tax | 1,836,553 | 416,592 | 472,033 | 183,348 | 384,559 | 1,456,532 | -20.7% | 109.7% |
| Profit After Tax | 4,330,396 | 952,036 | 1,077,727 | 1,289,610 | 825,045 | 4,144,418 | -4.3% | -36.0% |
| EPS (KES) | 6.77 | 1.49 | 1.68 | 2.02 | 1.29 | 6.48 | -4.3% | -36.0% |
| DPS (KES) | 1.00 | | | | | 1.00 | 0.0% | |
| Balance Sheet | | | | | | | | |
| Total Shareholders' Equity | 29,839,509 | 31,022,766 | 32,567,413 | 33,874,551 | 34,242,719 | 34,242,719 | 14.8% | 1.1% |
| Deposits due to Banks & Financial Institutions | 2,775,926 | 2,141,065 | 2,588,622 | 4,123,748 | 12,138,495 | 12,138,495 | | |
| Customer Deposits | 111,824,685 | 117,841,957 | 133,158,753 | 131,429,568 | 138,916,570 | 138,916,570 | 24.2% | 5.7% |
| Total Liabilities | 139,113,621 | 142,801,551 | 156,922,411 | 161,820,486 | 171,456,223 | 171,456,223 | 23.2% | 6.0% |
| Total Equity and Liabilities | 168,953,130 | 173,824,317 | 189,489,824 | 195,695,037 | 205,698,942 | 205,698,942 | 21.7% | 5.1% |
| Cash and CBK Balances | 7,263,501 | 8,878,687 | 10,135,442 | 11,380,489 | 9,516,131 | 9,516,131 | 31.0% | -16.4% |
| Balances due from Banks & Financial Institutions | 9,682,208 | 9,945,596 | 10,247,516 | 5,337,497 | 12,425,068 | 12,425,068 | 28.3% | 132.8% |
| Government and Other Securities | 30,470,895 | 31,078,256 | 44,328,933 | 51,787,859 | 54,197,707 | 54,197,707 | 77.9% | 4.7% |
| Net Loans and Advances | 114,466,274 | 116,323,035 | 116,769,833 | 118,552,625 | 119,760,537 | 119,760,537 | 4.6% | 1.0% |
| Fixed Assets | 1,043,497 | 1,023,268 | 1,024,797 | 1,073,145 | 1,148,712 | 1,148,712 | 10.1% | 7.0% |
| Total Assets | 169,458,985 | 173,824,317 | 189,489,824 | 195,695,037 | 206,172,460 | 206,172,460 | 21.7% | 5.4% |
| Key Ratios | | | | | | | | |
| Gross NPL (KES M) | 13,587,912 | 13,800,506 | 14,341,928 | 14,702,521 | 14,320,960 | 14,320,960 | 5.4% | -2.6% |
| Interest In Suspense (KES M) | 704,080 | 1,334,166 | 1,688,021 | 1,916,878 | 1,282,160 | 1,282,160 | 82.1% | -33.1% |
| Total NPL (KES M) | 12,883,832 | 12,466,340 | 12,653,907 | 12,785,643 | 13,038,800 | 13,038,800 | 1.2% | 2.0% |
| Loan Loss Provision (KES M) | 5,022,089 | 4,643,679 | 5,132,699 | 5,151,061 | 5,265,710 | 5,265,710 | 4.9% | 2.2% |
| Net NPL | 7,861,743 | 7,822,661 | 7,521,208 | 7,634,582 | 7,773,090 | 7,773,090 | -1.1% | 1.8% |
| NPL Ratio | 11.4% | 11.4% | 11.8% | 11.9% | 11.5% | 11.5% | | |
| Coverage Ratio | 37.0% | 33.6% | 35.8% | 35.0% | 36.8% | 36.8% | | |
| Cost of Risk | 3.3% | 3.0% | 2.0% | 2.4% | 2.8% | 2.5% | | |
| Loan to Deposits | 102.4% | 98.7% | 87.7% | 90.2% | 86.2% | 86.2% | | |
| Yield on Interest Earning Assets | 12.3% | 11.0% | 10.5% | 10.7% | 10.6% | 9.9% | | |
| Cost of Funds | 6.0% | 5.4% | 5.3% | 6.0% | 5.8% | 5.1% | | |
| NIM | 6.3% | 5.6% | 5.2% | 4.6% | 4.8% | 4.8% | | |
| Non Funded/Total Income | 24.8% | 26.8% | 27.5% | 28.8% | 28.5% | 27.9% | | |
| Cost to Income Ratio | 38.7% | 39.3% | 42.9% | 43.7% | 44.3% | 42.6% | | |
| ROE | 14.5% | 12.3% | 13.2% | 15.2% | 9.6% | 12.1% | | |
| ROA | 2.6% | 2.2% | 2.3% | 2.6% | 1.6% | 2.0% | | |
| Core Capital/TRWA | 18.7% | 17.9% | 17.7% | 18.6% | 19.2% | 19.2% | | |
| Total Capital/TRWA | 23.0% | 21.9% | 21.6% | 21.9% | 22.3% | 23.0% | | |
| Liquidity Ratio | 38.7% | 39.03% | 45.7% | 44.6% | 48.2% | 38.7% | | |
| P/E (x) | | | | | | 6.0 | | |
| P/B (x) | | | | | | 0.7 | | |
| Dividend Yield (%) | | | | | | 2.6 | | |

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