

Barclays Bank – 3Q17 Earnings Update

Barclays Bank Kenya posted a 9.4% y/y (-0.3% q/q) decline in net earnings to KES 1.9B in 3Q17. Net interest income dipped 2.7% y/y (+1.7% q/q) to KES 5.6B while non-interest income took a further beating of 15.6% y/y (+1.8% q/q).

Total interest income dropped 2.9% y/y to KES 6.9B but marked an improvement q/q (+3.8%). Interest income from loans and advances marginally went up 0.7% y/y to KES 5.4B in line with a 5.3% y/y to KES 167.2B growth in the lender's loan book (+2.1% q/q). On the other hand, interest income from government securities rose 0.5% y/y to KES 15.3B while witnessing a 3.4% y/y decline in the stock of government securities held by the bank to KES 64.4B.

Total interest expense slid 3.8% y/y to KES 1.4B but grew much higher q/q (+13.3%). Interest expense derived from customer deposits rose 5.0% y/y to KES 1.2B on the back of a 10.8% y/y (+6.2% q/q) spike in the bank's customer deposits base. The bulk of these deposits are likely non-interest bearing, explaining the fall in total interest expense. Barclays bank's net interest margin (NIM) shrunk 120bps y/y to 8.8% as the yield on the interest earning assets fell faster (-150bps y/y to 11.3%) than the cost of funds. Furthermore, as the lender's customer deposits base grew faster than its loan book in 3Q17, its loan to deposit ratio contracted 430bps y/y to 87.8%.

Total non-interest income plunged 15.6% y/y (+1.8% q/q) to KES 2.1B as income from gross fees and commissions– which contributes to a larger portion of non-funded income– took a beating (-14.6% y/y to KES 1.3B). On the plus side, foreign exchange income shot up 13.2% y/y to KES 682.7M on the back of gains from currency trading in light of the political uncertainties in the country that saw the shilling weaken against the dollar. Non-funded income therefore contributed less to total income in 3Q17 (-290bps y/y to 26.9%).

Total operating expenses dipped 1.3% y/y to KES 4.1B (-4.5% q/q) although the bank's cost-to-income ratio worsened by 290bps y/y to 53.9%. **Loan loss provision expense decreased 13.1% y/y but spiked 69.2% q/q.** Gross NPLs saw a rise of 14.6% y/y to KES 11.9B, which increased the NPL ratio by 50bps y/y to 6.9%. On the bright side, the bank's coverage ratio expanded 90bps y/y to 44.9%.

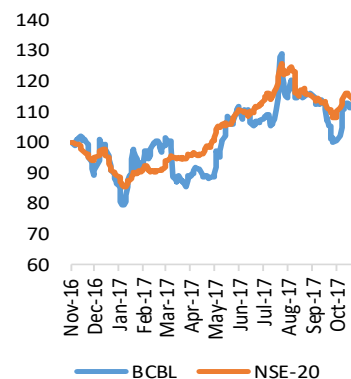
Looking ahead: The stock trades at 8.2x P/E, 1.2x P/B, with a dividend yield of 10.0% (highest in the sector). BBK's strong industry foothold and attractive valuation metrics, could translate to investor accumulation around current levels.

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

Share Statistics	
Current Price (KES)	10.00
Issued shares (M)	5,431.5
Market cap (USD M)	526.1
Year end	Dec
Foreign ownership (%)	72.7
Free float (%)	31.5
Av daily trading vol (USDk)	106.2

Price Trend

BCBL vs NSE-20



Source: Bloomberg

Research Analyst

Shaniza Kassam

skassam@apexafrica.com

020-7602534

www.apexafrica.com

	1Q16	2Q16	3Q16	4Q16	FY16	1Q17	2Q17	3Q17	chg yly	chg q/q
	KES '000	KES '000	KES '000	KES '000	KES '000	KES '000	KES '000	KES '000	3Q17 vs 3Q16	3Q17 vs 2Q17
Income Statement										
Interest Income	6,742,231	7,161,226	7,202,037	7,015,695	28,121,189	6,402,215	6,734,598	6,993,433	-2.9%	3.8%
Interest Expense	1,323,021	1,483,315	1,442,639	1,537,983	5,786,958	1,367,363	1,225,350	1,388,409	-3.8%	13.3%
Net Interest Income	5,419,210	5,677,911	5,759,398	5,477,712	22,334,231	5,034,852	5,509,248	5,605,024	-2.7%	1.7%
Foreign Exchange Income	676,605	671,990	603,232	668,510	2,620,337	805,170	675,063	682,691	13.2%	1.1%
Gross Fees and Commission	1,652,485	1,698,245	1,518,814	900,947	5,770,491	1,458,117	1,255,308	1,297,714	-14.6%	3.4%
Other Income	241,173	197,399	321,395	199,086	959,053	106,982	93,836	80,747	-74.9%	-13.9%
Non Interest Income	2,570,263	2,567,634	2,443,441	1,768,543	9,349,881	2,370,269	2,024,207	2,061,152	-15.6%	1.8%
Total Operating Income	7,989,473	8,245,545	8,202,839	7,246,255	31,684,112	7,405,121	7,533,455	7,666,176	-6.5%	1.8%
Total Operating Expenses	4,148,941	4,253,510	4,185,026	4,317,091	16,904,568	4,110,551	4,322,388	4,129,089	-1.3%	-4.5%
Loan Loss Provision Expense	797,890	1,211,553	1,126,692	791,002	3,927,137	774,707	578,763	979,497	-13.1%	69.2%
Operating Profit	3,840,532	3,992,035	4,017,813	2,929,164	14,779,544	3,294,570	3,211,067	3,537,087	-12.0%	10.2%
Profit Before Tax	3,042,642	2,780,482	2,891,121	2,138,162	10,852,407	2,519,863	2,632,304	2,557,590	-11.5%	-2.8%
Current Tax	933,130	1,020,780	1,042,090	796,394	3,792,394	810,715	891,520	677,608	-35.0%	-24.0%
Profit After Tax	2,181,684	1,905,005	1,973,088	1,339,619	7,399,396	1,749,568	1,793,070	1,787,276	-9.4%	-0.3%
EPS (KES)	0.40	0.35	0.37	0.24	1.36	0.32	0.33	0.33	-10.8%	0.0%
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	42,543,436	2.6%	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	1,708,467	-66.3%	-57.2%
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	22,679,534	-12.3%	5.1%
Customer Deposits	168,932,598	182,875,680	180,862,520	178,179,795	178,179,795	181,535,911	188,652,234	200,370,484	10.8%	6.2%
Total Liabilities	199,318,684	217,038,988	222,537,700	217,303,770	217,303,770	216,741,660	227,400,119	235,426,392	5.8%	3.5%
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	277,969,828	5.3%	3.6%
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	15,618,427	-12.3%	-10.5%
Balances due from Banks & Financial Institutions	381,931	2,005,909	311,718	218,530	218,530	1,391,618	10,009,947	16,711,941	5261.2%	67.0%
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	64,399,545	-3.4%	12.1%
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	167,249,182	5.3%	2.1%
Fixed Assets	3,421,874	3,351,384	3,269,495	3,080,831	3,080,831	3,164,236	3,063,790	2,907,441	-11.1%	-5.1%
Total Assets	241,634,467	256,142,225	264,003,131	259,692,012	259,692,012	260,788,697	268,186,848	277,969,828	5.3%	3.6%
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	11,935,508	14.6%	-0.5%
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	3,027,322	14.9%	-6.4%
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	8,908,186	14.5%	1.6%
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	5,359,171	17.0%	7.6%
Net NPL	2,891,415	2,703,925	3,199,936	3,633,303	3,633,303	3,386,027	3,785,300	3,549,019	10.9%	-6.2%
NPL Ratio	5.1%	5.6%	6.4%	6.6%	6.6%	6.7%	7.1%	6.9%		
Coverage Ratio	44.4%	43.9%	44.0%	44.9%	44.9%	45.9%	41.5%	44.9%		
Cost of Risk	2.1%	3.2%	2.8%	1.9%	2.3%	1.8%	1.4%	2.3%		
Loan to Deposits	90.2%	83.8%	87.8%	94.6%	94.6%	92.9%	86.8%	83.5%		
Yield on Interest Earning Assets	13.2%	13.6%	12.8%	12.5%	12.5%	11.7%	11.6%	11.3%		
Cost of Funds	2.8%	2.9%	2.7%	3.0%	2.8%	2.7%	2.3%	2.5%		
NIM	10.4%	10.7%	10.0%	9.5%	9.7%	9.0%	9.4%	8.8%		
Non Funded/Total Income	32.2%	31.1%	29.8%	24.4%	29.5%	32.0%	26.9%	26.9%		
Cost to Income Ratio	51.9%	51.6%	51.0%	58.6%	53.4%	55.5%	57.4%	53.9%		
ROE	20.6%	19.5%	19.0%	12.6%	17.5%	15.9%	17.6%	16.8%		
ROA	3.6%	3.0%	3.0%	2.1%	2.8%	2.7%	2.7%	2.6%		
Core Capital/TRWA	16.0%	15.8%	16.5%	15.7%	15.7%	15.7%	15.7%	15.9%		
Total Capital/TRWA	18.2%	18.0%	19.1%	17.9%	17.9%	17.8%	17.8%	18.0%		
Liquidity Ratio	33.2%	36.6%	34.5%	28.3%	28.3%	29.6%	36.1%	38.0%		
P/E (x)								8.2		
P/B (x)								1.3		
Dividend Yield								10.0%		

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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
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