

## KCB Group– 9M17 Earnings Update 'Earnings in the green'

**KCB Group posted bright earnings in comparison to its peers, marking a 5.0% y/y (-15.8% q/q) growth in net earnings to KES 15.1B. Net interest income dipped 1.0% y/y (-2.2% q/q) to KES 35.7B while non interest income grew 18.4% y/y (+1.2% q/q) to KES 17.5B.**

**Total interest income dropped 3.8% y/y (+0.9% q/q) to KES 46.8B.** This was attributed to a 4.4% y/y decline in interest income from loans and advances to KES 37.1B despite a 15.1% y/y growth in loan book to KES 419.5B as a result of the cap on lending rates. On the other hand, interest income from government securities went up a marginal 1.9% y/y to KES 9.3B as stock of government securities increased 3.5% y/y to KES 103.6B.

Total interest expense declined 10.9% y/y to KES 11.1B (+12.5% q/q). Interest expense from customer deposits slid 13.2% y/y to KES 9.9B even though the bank's deposit base grew 15.6% y/y to KES 496.3B. This is because the bulk of the deposit base was non-interest bearing (Demand deposits saw a 200bps y/y increase). The bank's NIM remained largely unchanged y/y at 8.2%.

**Non interest income spiked 18.4% y/y (+1.2% q/q) to KES 17.5B** primarily boosted by a 25.5% y/y increase in foreign exchange income to KES 3.6B and a 7.1% y/y increase in gross fees and commission to KES 11.2B.

**Total operating expenses shed 5.1% y/y (+13.7% q/q) to KES 27.6B.** This was supported by the bank's reduction in branch transactions (-6% y/y to 14%) and ATM transactions (-1% to y/y) in 3Q17 (-6% y/y). The lender continues to have a prominent digital footprint that has witnessed its mobile payment platform transactions rise 5% y/y to 57%. Consequently, the bank's cost-to-income ratio slid 450bps to 46.0%.

Loan loss provision expense fell 7.8% y/y to KES 3.1B even though gross NPLs climbed 11.7% y/y to KES 34.7B. Consequently, the bank's NPL ratio decreased 30bps to 7.9% although it still remains high in the industry.

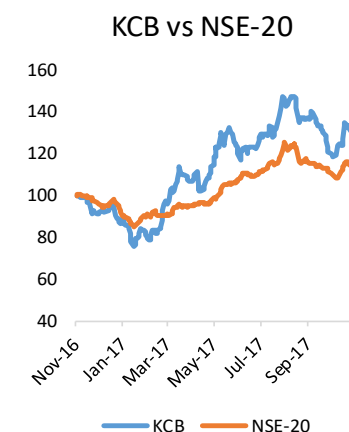
The lender's coverage ratio expanded 13.7% y/y to 57.1% in 3Q17, highlighting prudent and adequate provisioning.

**Looking ahead** the stock currently trades at 6.4x P/E and 1.2x P/B, with an ROE of 18.7%. We expect loan book growth to be driven by increased use of mobile banking and growth in the group's corporate loan portfolio. Non-funded income is also expected to increase as the bank continues to reduce its reliance on interest income.

Bloomberg Ticker :	KNCB.KN
Reuters Ticker:	KCB.NR

Share Statistics	
Current Price (KES)	39.75
Issued shares (M)	3066.1
Market cap (USD M)	116.6
Year end	Dec
Foreign ownership (%)	29.4
Free float (%)	74.0
Av daily trading vol (USDk)	799.9

### Price Trend



Source: Bloomberg

### Research Analyst

**Shaniza Kassam**

skassam@apexafrica.com

020-7602534

[www.apexafrica.com](http://www.apexafrica.com)

	1Q16	2Q16	3Q16	4Q16	FY16	1Q17	2Q17	3Q17	% chg y/y	% chg q/q
Income Statement	KES '000	KES '000	KES '000	KES '000	KES '000	KES '000	KES '000	KES '000	9M17 vs 9M16	3Q17 vs 2Q17
Interest Income	16,040,308	15,568,517	16,887,200	14,310,050	62,806,075	14,113,676	16,249,818	16,400,920	-3.6%	0.9%
Interest Expense	5,181,131	3,926,308	3,339,417	3,332,574	15,779,430	3,768,865	3,445,468	3,877,016	-10.9%	12.5%
<b>Net Interest Income</b>	<b>10,859,177</b>	<b>11,642,209</b>	<b>13,547,783</b>	<b>10,977,476</b>	<b>47,026,645</b>	<b>10,344,811</b>	<b>12,804,350</b>	<b>12,523,904</b>	<b>-1.0%</b>	<b>-2.2%</b>
Foreign Exchange Income	746,686	1,820,184	962,670	1,964,156	5,493,696	1,285,092	1,359,604	987,088	2.9%	-27.4%
Gross Fees and Commission	3,025,773	3,278,251	2,645,473	3,675,069	12,624,566	3,455,147	3,754,711	4,021,738	25.5%	7.1%
Other Income	852,760	1,484,355	-46,903	2,041,532	4,331,744	823,553	809,609	987,375	14.4%	22.0%
Non Interest Income	4,625,219	6,582,790	3,561,240	7,680,757	22,450,006	5,563,792	5,923,924	5,996,209	18.4%	1.2%
<b>Total Operating Income</b>	<b>15,484,396</b>	<b>18,224,999</b>	<b>17,109,023</b>	<b>18,658,233</b>	<b>69,476,651</b>	<b>15,908,603</b>	<b>18,728,274</b>	<b>18,520,113</b>	<b>4.6%</b>	<b>-1.1%</b>
Total Operating Expenses	8,870,108	10,006,168	10,198,952	11,310,297	40,385,525	9,316,585	8,555,563	9,730,411	-5.1%	13.7%
<b>Loan Loss Provision Expense</b>	<b>1,369,225</b>	<b>692,249</b>	<b>1,338,971</b>	<b>423,314</b>	<b>3,823,759</b>	<b>958,134</b>	<b>1,054,513</b>	<b>1,124,258</b>	<b>-7.8%</b>	<b>6.6%</b>
<b>Operating Profit</b>	<b>6,614,288</b>	<b>8,218,831</b>	<b>6,910,071</b>	<b>7,347,936</b>	<b>29,091,126</b>	<b>6,592,018</b>	<b>10,172,711</b>	<b>8,789,702</b>	<b>17.5%</b>	<b>-13.6%</b>
<b>Profit Before Tax</b>	<b>6,614,289</b>	<b>8,218,830</b>	<b>6,910,071</b>	<b>7,347,936</b>	<b>29,091,126</b>	<b>6,592,018</b>	<b>8,160,064</b>	<b>7,665,444</b>	<b>3.1%</b>	<b>-6.1%</b>
Current Tax	1,984,287	2,567,675	2,837,606	1,781,897	9,171,465	2,049,691	2,441,509	2,850,032	-0.7%	16.7%
Profit After Tax	4,630,002	5,651,155	4,072,465	5,368,825	19,722,447	4,542,327	5,718,555	4,815,412	5.0%	-15.8%
<b>EPS (KES)</b>	<b>6.12</b>	<b>0.82</b>	<b>5.42</b>	<b>-0.35</b>	<b>5.89</b>	<b>5.93</b>	<b>0.76</b>	<b>-0.1</b>	<b>5.1%</b>	<b>-117.1%</b>
<b>DPS (KES)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>3.00</b>	<b>-</b>	<b>1.00</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Balance Sheet</b>										
Total Shareholders' Equity	83,959,606	96,457,912	91,313,956	96,565,774	96,565,774	101,215,736	98,331,261	103,193,001	13.0%	4.9%
Deposits due to Banks & Financial Institutions	13,294,688	8,320,137	12,154,589	13,122,786	13,122,786	8,359,207	15,418,525	10,501,394	-13.6%	-31.9%
Borrowed Funds	19,604,344	17,746,261.00	15,968,268.00	22,982,348	22,982,348	23,595,619	16,732,935	14,423,505	-9.7%	-13.8%
<b>Customer Deposits</b>	<b>423,433,144</b>	<b>476,519,563</b>	<b>429,321,388</b>	<b>448,173,797</b>	<b>448,173,797</b>	<b>456,815,151</b>	<b>482,844,611</b>	<b>496,305,024</b>	<b>15.6%</b>	<b>2.8%</b>
<b>Total Liabilities</b>	<b>472,841,168</b>	<b>468,986,010</b>	<b>478,134,918</b>	<b>498,673,868</b>	<b>498,673,868</b>	<b>504,539,050</b>	<b>532,276,778</b>	<b>540,639,808</b>	<b>13.1%</b>	<b>1.6%</b>
<b>Total Equity and Liabilities</b>	<b>556,800,774</b>	<b>513,749,010</b>	<b>470,988,305</b>	<b>595,239,642</b>	<b>595,239,642</b>	<b>605,754,786</b>	<b>630,608,039</b>	<b>643,832,809</b>	<b>36.7%</b>	<b>2.1%</b>
Cash and CBK Balances	41,104,418	46,197,273	26,608,187	29,430,129	29,430,129	31,867,877	29,892,911	42,523,946	59.8%	42.3%
Balances due from Banks & Financial Institutions	36,080,572	84,948,133	38,611,358	43,507,143	43,507,143	38,858,626	43,271,021	42,541,949	10.2%	-1.7%
Government and Other Securities	105,571,087	101,496,979	100,184,094	102,470,849	102,470,849	105,973,949	115,794,724	103,647,021	3.5%	-10.5%
<b>Net Loans and Advances</b>	<b>345,943,452</b>	<b>348,696,017</b>	<b>364,332,066</b>	<b>385,745,331</b>	<b>385,745,331</b>	<b>395,491,270</b>	<b>406,975,972</b>	<b>419,494,427</b>	<b>15.1%</b>	<b>3.1%</b>
Fixed Assets	8,383,551	10,663,990	9,787,262	9,372,955	9,372,955	9,453,613	9,493,791	9,307,081	-4.9%	-2.0%
<b>Total Assets</b>	<b>556,800,774</b>	<b>610,206,922</b>	<b>562,302,261</b>	<b>595,239,643</b>	<b>595,239,643</b>	<b>605,754,786</b>	<b>630,608,039</b>	<b>643,832,809</b>	<b>14.5%</b>	<b>2.1%</b>
<b>Key Ratios</b>										
Gross NPL (KES M)	30,436,873	32,978,280	31,096,578	31,812,856	31,812,856	32,151,386	33,248,978	34,731,290	11.7%	4.5%
Interest In Suspense (KES M)	4,074,524	4,269,838	4,556,422	4,609,881	4,609,881	4,746,065	4,918,816	3,761,805	-17.4%	-23.5%
Total NPL (KES M)	26,362,349	28,708,442	26,540,156	27,202,975	27,202,975	27,405,321	28,330,162	30,969,485	16.7%	9.3%
Loan Loss Provision (KES M)	12,603,423	14,533,676	13,484,947	16,460,084	16,460,084	19,250,483	19,103,631	19,832,149	47.1%	3.8%
Net NPL	13,758,926	14,174,766	13,055,209	10,742,891	10,742,891	8,154,838	9,226,531	11,137,336	-14.7%	20.7%
NPL Ratio	8.5%	9.1%	8.2%	7.9%	7.9%	7.8%	7.8%	7.9%		
Cost of Risk	1.6%	0.8%	1.5%	0.4%	1.0%	1.0%	1.0%	1.1%		
Loan to Deposits	81.7%	73.2%	84.9%	86.1%	86.1%	86.6%	84.3%	84.5%		
Coverage Ratio	41.4%	44.1%	43.4%	51.7%	51.7%	59.9%	57.5%	57.1%		
Yield on Interest Earning Assets	13.2%	11.6%	13.4%	10.8%	11.8%	10.4%	11.5%	11.6%		
Cost of Funds	4.5%	3.1%	2.9%	2.8%	3.3%	3.1%	2.7%	3.0%		
NIM	8.6%	8.5%	10.5%	8.0%	8.6%	7.4%	8.8%	8.6%		
Non Funded/Total Income	29.9%	36.1%	20.8%	41.2%	32.3%	35.0%	31.6%	32.4%		
Cost to Income Ratio	48.4%	51.1%	51.8%	58.3%	52.6%	52.5%	40.1%	46.5%		
ROE	22.1%	23.4%	17.8%	22.2%	20.4%	18.0%	23.3%	18.7%		
ROA	3.3%	3.7%	2.9%	3.6%	3.3%	3.0%	3.6%	3.0%		
Core Capital/TRWA	16.4%	16.5%	16.6%	18.4%	18.4%	17.4%	17.4%	17.4%		
Total Capital/TRWA	17.6%	17.7%	17.9%	19.7%	19.7%	18.7%	18.7%	18.7%		
Liquidity Ratio	38.8%	41.8%	38.0%	37.5%	37.5%	38.7%	35.7%	37.7%		
DPS (KES)								<b>3.00</b>		
P/E (x)								<b>6.4</b>		
P/B (x)								<b>1.2</b>		
<b>Dividend Yield</b>								<b>7.5%</b>		

## 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, 1<sup>st</sup> Floor, Prof. David Wasawo Drive, Off Riverside Drive | P.O. Box 43676-00100 | Nairobi | Kenya |  
**T:** +254-20-2226440 | **Fax:** +254-20-2319092 | **Cell:** +254-723-420204|  
**W** : [www.apexafrica.com](http://www.apexafrica.com)  
Part of AXYS Group  
**W** : [www.axys-group.com](http://www.axys-group.com)