

NIC Bank– 3Q17 Earnings Update

‘Stellar Growth’

The lender posted a **21.8% y/y (+19.7% q/q) surge in net earnings in 3Q17 to KES 1.3B. Non-interest income spiked 25.8% y/y (+13.0% q/q) to KES 1.2B. On the downside, net interest income took a beating of 20.6% y/y to KES 2.6B but marked an improvement q/q (marginally dipping 2.0%).**

Total interest income dipped 3.9% y/y (+4.0% q/q) to KES 4.7B. This was mainly attributed by a 16.4% y/y drop in interest income from loans and advances as even though the bank grew its loan book by 7.3% y/y (+1.5% q/q). It is noteworthy that the bank was previously growing its loan book at a much faster pace but has now limited growth in light of the rate cap. Consequently, its loan to deposit ratio contracted 11.7% y/y to 90.2%. On the other hand, interest income from government securities surged 45.3% y/y to KES 1.4B on the back of a solid 49.7% y/y growth in the stock of government securities held by the bank.

Total interest expense shot up 31.8% y/y to KES 2.0B, outpacing total interest income received by the bank. This was due to a 45.6% y/y increase in interest expense derived from customer deposits, in line with a 21.3% growth in the bank’s deposit base. Furthermore, the lender’s cost of funds (+50bps y/y to 5.3%) surpassed the yield on interest earning assets, which in turn contracted net interest margin to 5.4% (-270bps y/y).

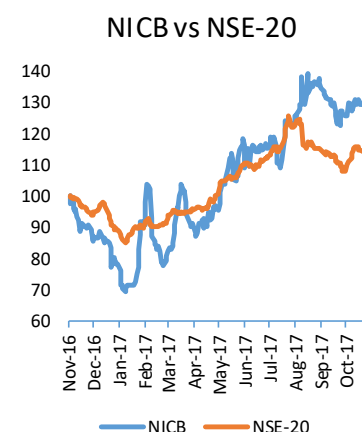
Total non-interest income registered a stellar growth of 25.8% y/y (+13.0% q/q) to KES 1.2B. This was supported by a boost in income from gross fees and commission (+19.9% y/y to KES 617.1M) and foreign exchange income (+11.9% y/y to KES 322.1M). The latter may have been as a result of gains from currency trading in light of the political uncertainties in the country that saw the shilling weaken against the dollar. Therefore, the bank’s non funded income contributed a larger portion of total income (+880bps y/y to 30.4%).

Total operating expenses eased off, posting a marginal 0.8% y/y dip to KES 1.6B. The lender’s cost to income ratio increased 420bps y/y but still hovers comfortably at a record of 42.7%, which is among the lowest in comparison to its peers. **Loan loss provision expense plunged 35.6% y/y to KES 698.9M as gross NPLs rose 3.2% y/y to KES 14.7B.** The latter saw the bank’s NPL ratio (-40bps y/y to 11.9%) and coverage ratio improve (+10 bps y/y to 35.0%). The stock trades at 5.5x P/E, 0.7x P/B, with a dividend yield of 2.7%.

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

Share Statistics	
Current Price (KES)	36.75
Issued shares (M)	639.9
Market cap (USD M)	227.8
Year end	Dec
Foreign ownership (%)	1.3
Free float (%)	60.4
Av daily trading vol (USDk)	78.4

Price Trend



Source: Bloomberg

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	1Q16	2Q16	3Q16	4Q16	FY16	1Q17	2Q17	3Q17	% chg y/y	% 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	5,007,257	4,848,725	4,870,074	4,294,619	19,020,675	4,312,231	4,499,237	4,679,031	-3.9%	4.0%
Interest Expense	2,052,454	1,728,414	1,548,694	1,522,516	6,852,078	1,605,110	1,807,453	2,041,043	31.8%	12.9%
Net Interest Income	2,954,803	3,120,311	3,321,380	2,772,103	12,168,597	2,707,121	2,691,784	2,637,988	-20.6%	-2.0%
Foreign Exchange Income	305,109	272,245	287,859	239,934	1,105,147	300,718	283,350	322,114	11.9%	13.7%
Gross Fees and Commission	505,612	520,675	514,721	469,343	2,010,351	554,045	560,147	617,147	19.9%	10.2%
Other Income	326,758	226,687	114,003	236,613	904,061	134,223	176,514	213,392	87.2%	20.9%
Non Interest Income	1,137,479	1,019,607	916,583	945,890	4,019,559	988,986	1,020,011	1,152,653	25.8%	13.0%
Total Operating Income	4,092,282	4,139,918	4,237,963	3,717,993	16,188,156	3,696,107	3,711,795	3,790,641	-10.6%	2.1%
Total Operating Expenses	1,377,899	1,525,951	1,631,456	1,736,371	6,271,677	1,452,245	1,591,566	1,618,754	-0.8%	1.7%
Loan Loss Provision Expense	1,315,115	794,553	1,085,928	553,934	3,749,530	875,234	570,469	698,929	-35.6%	22.5%
Operating Profit	1,399,268	1,819,414	1,520,579	1,427,688	6,166,949	1,368,628	1,549,760	1,472,958	-3.1%	-5.0%
Profit Before Tax	1,399,268	1,819,414	1,520,579	1,427,688	6,166,949	1,368,628	1,549,760	1,472,958	-3.1%	-5.0%
Current Tax	408,479	505,101	461,775	1,850,980	3,226,335	416,592	472,033	183,348	-60.3%	-61.2%
Profit After Tax	990,789	1,314,313	1,058,804	966,490	4,330,396	952,036	1,077,727	1,289,610	21.8%	19.7%
EPS (KES)	1.55	2.05	1.66	1.51	6.77	1.49	1.68	2.02	21.7%	20.2%
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Balance Sheet										
Total Shareholders' Equity	27,115,560	28,289,935	29,551,617	30,345,364	30,345,364	31,022,766	32,567,413	33,874,551	14.6%	4.0%
Deposits due to Banks & Financial Institutions	5,756,289	5,877,891	4,656,169	2,775,926	2,775,926	2,141,065	2,588,622	4,123,748	-11.4%	59.3%
Borrowed Funds	15,232,609	20,412,988	14,755,486	19,965,484	19,965,484	20,002,325	18,967,950	18,928,890	28.3%	-0.2%
Customer Deposits	110,331,939	112,000,727	108,358,276	111,824,685	111,824,685	117,841,957	133,158,753	131,429,568	21.3%	-1.3%
Total Liabilities	133,785,620	140,768,400	135,717,861	139,113,621	139,113,621	142,801,551	156,922,411	161,820,486	19.2%	3.1%
Total Equity and Liabilities	160,901,180	169,058,335	165,269,478	169,458,985	169,458,985	173,824,317	189,489,824	195,695,037	18.4%	3.3%
Cash and CBK Balances	10,400,155	8,117,105	8,435,060	7,263,501	7,263,501	8,878,687	10,135,442	11,380,489	34.9%	12.3%
Balances due from Banks & Financial Institutions	5,981,317	13,237,433	4,812,264	9,682,208	9,682,208	9,945,596	10,247,516	5,337,497	10.9%	-47.9%
Government and Other Securities	25,571,332	29,063,685	34,589,735	30,470,895	30,470,895	31,078,256	44,328,933	51,787,859	49.7%	16.8%
Net Loans and advances	111,987,605	112,150,830	110,470,843	114,466,274	114,466,274	116,323,035	116,769,833	118,552,625	7.3%	1.5%
Fixed Assets	1,007,252	1,067,345	1,080,168	1,043,497	1,043,497	1,023,268	1,024,797	1,073,145	-0.7%	4.7%
Total Assets	160,901,181	169,058,335	165,269,478	169,458,985	169,458,985	173,824,317	189,489,824	195,695,037	18.4%	3.3%
Key Ratios										
Gross NPL (KES M)	13,391,635	12,565,456	14,251,802	13,587,912	13,587,912	13,800,506	14,341,928	14,702,521	3.2%	2.5%
Interest In Suspense (KES M)	1,461,626	553,456	676,464	704,080	704,080	1,334,166	1,688,021	1,916,878	183.4%	13.6%
Total NPL (KES M)	11,930,009	12,012,000	13,575,338	12,883,832	12,883,832	12,466,340	12,653,907	12,785,643	-5.8%	1.0%
Loan Loss Provision (KES M)	3,732,017	3,952,895	4,978,105	5,022,089	5,022,089	4,643,679	5,132,699	5,151,061	3.5%	0.4%
Net NPL	8,197,992	8,059,105	8,597,233	7,861,743	7,861,743	7,822,661	7,521,208	7,634,582	-11.2%	1.5%
NPL Ratio	11.6%	10.8%	12.3%	11.4%	11.4%	11.4%	11.8%	11.9%		
Coverage Ratio	27.9%	31.5%	34.9%	37.0%	37.0%	33.6%	35.8%	35.0%		
Cost of Risk	4.7%	2.8%	3.9%	1.9%	3.3%	3.0%	2.0%	2.4%		
Loan to Deposits	101.5%	100.1%	101.9%	102.4%	102.4%	98.7%	87.7%	90.2%		
Yield on Interest Earning Assets	14.0%	12.6%	13.0%	11.1%	12.3%	11.0%	10.5%	10.7%		
Cost of Funds	6.3%	5.0%	4.8%	4.5%	5.1%	4.6%	4.7%	5.3%		
NIM	7.7%	7.6%	8.1%	6.6%	7.2%	6.4%	5.8%	5.4%		
Non Funded/Total Income	27.8%	24.6%	21.6%	25.4%	24.8%	26.8%	27.5%	30.4%		
Cost to Income Ratio	33.7%	36.9%	38.5%	46.7%	38.7%	39.3%	42.9%	42.7%		
ROE	14.6%	18.6%	14.3%	12.7%	14.3%	12.3%	13.2%	15.2%		
ROA	2.5%	3.1%	2.6%	2.3%	2.6%	2.2%	2.3%	2.6%		
Core Capital/TRWA	15.2%	16.7%	17.2%	18.7%	18.7%	17.9%	17.7%	17.7%		
Total Capital/TRWA	21.4%	22.8%	23.0%	23.0%	23.0%	21.9%	21.6%	21.6%		
Liquidity Ratio	31.6%	38.6%	34.0%	38.7%	38.7%	39.0%	45.7%	45.7%		
P/E (x)								5.5		
P/B (x)								0.7		
Dividend Yield								2.7%		

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