

Barclays Bank Kenya – FY17 Earnings Update

“ Keeping the Momentum Strong”

Barclays announced rather decent FY17 net earnings of KES 6.9B (-6.4% y/y, -10.7% q/q) given the challenging operating environment 2017 presented with the looming rate cap and a stretched electioneering period in 4Q17. Net interest income dipped marginally (-2.5% y/y) to KES 21.8B while non funded income took a beating of 9.5% y/y to KES 8.5B. In line with our expectations, the lender maintained a total dividend of KES 1.00, securing the best dividend yield of 9.1% in the banking sector.

Total interest income slid 3.4% y/y (+0.7% q/q) to KES 27.2B primarily due to a 98.9% y/y fall in other interest income. On the brighter side, interest income from loans and advances to customers rose 3.1% y/y to KES 21.3B even as loan book growth was stagnant at KES 168.4B (-0.1% y/y, +0.7% q/q). Interest income from government securities shot up 3.4% y/y on the back of a surge in the stock of government securities held by the bank (+21.5% y/y to KES 68.1B).

Interest expenses trickled down 6.7% y/y (+2.0% q/q) to KES 5.4B even though interest expenses from customer deposits inched up 6.2% y/y to KES 4.8B. The latter was due to a 4.5% y/y (-3.5% q/q) increase in customer deposits to KES 185.9B with significant contribution coming from transactional accounts (68% of total deposits) following the launch of new products. Corporate accounts contributed to 19% of total deposits, an increase of 4.0% y/y. The deacceleration in interest expenses was faster than the drop in interest income, which saw net interest income shrink 2.5% y/y (+0.4% q/q) to KES 21.8B. Given the effects of the rate cap, Barclay’s net interest margin has contracted to 8.8% (-60 bps y/y).

Non-funded income dropped 9.5% y/y (-2.9% q/q) to KES 8.5B driven by adjustments in an accounting system which saw a part of it be re-classified to interest income. Although, FX booked solid gains of 9.3% y/y to KES 2.9B.

Operating expenses eased slightly to KES 16.8B (-0.7% y/y, +2.2% q/q) on the back of the lender’s digitization programme of upgrading I.T platforms and moving a bulk of its transactions from branch levels to alternative online avenues. Non-branch transactions stood at 45% from 65% y/y. Barclay’s cost-to-income ratio surged +420bps y/y to 45.2% mainly due to a voluntary Exit Scheme for employees in line with its restructuring program.

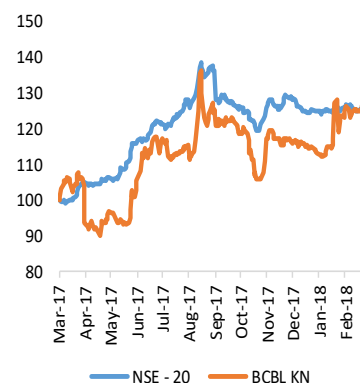
Loan loss provision expenses decreased 20.7% y/y (-20.1% q/q) in contrast to a 10.0% y/y (+5.7% q/q) rise in gross non-performing loans to KES 12.6B. Barclay’s efficient credit scoring has seen its cost of risk lower to 1.8% (-50bps y/y) and NPL ratio comfortably hover at 7.3% (-70bps). Barclays presents a bright future in its quest to rebrand to ABSA Group in the long term and cater better to the African markets. Its multiples remain favourable-trading at 1.4x FY17 book value, 8.6x FY17 earnings and a strong dividend yield of 9.1%.

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

| Share Statistics | |
|-----------------------------|---------|
| Current Price (KES) | 11.00 |
| Issued shares (M) | 5,431.5 |
| Market cap (USD M) | 597.5 |
| Year end | Dec |
| Foreign ownership (%) | 72.7 |
| Free float (%) | 31.5 |
| Av daily trading vol (USDk) | 89.9 |

Price Trend

BBK vs NSE-20



Source: Bloomberg

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| | FY16 | 1Q17 | 2Q17 | 3Q17 | 4Q17 | FY17 | % chg y/y | % chg q/q |
|---|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------|--------------|
| Income Statement | KES '000 | KES '000 | KES '000 | KES '000 | KES '000 | KES '000 | FY17 vs FY16 | 4Q17 vs 3Q17 |
| Interest Income | 28,121,189 | 6,402,215 | 6,734,598 | 6,993,433 | 7,040,968 | 27,171,214 | -3.4% | 0.7% |
| Interest Expense | 5,786,958 | 1,367,363 | 1,225,350 | 1,388,409 | 1,415,670 | 5,396,792 | -6.7% | 2.0% |
| Net Interest Income | 22,334,231 | 5,034,852 | 5,509,248 | 5,605,024 | 5,625,298 | 21,774,422 | -2.5% | 0.4% |
| Foreign Exchange Income | 2,620,337 | 805,170 | 675,063 | 682,691 | 700,670 | 2,863,594 | 9.3% | 2.6% |
| Gross Fees and Commission | 5,770,491 | 1,458,117 | 1,255,308 | 1,297,714 | 1,261,280 | 5,272,419 | -8.6% | -2.8% |
| Other Income | 959,053 | 106,982 | 93,836 | 80,747 | 39,551 | 321,116 | -66.5% | -51.0% |
| Non Interest Income | 9,349,881 | 2,370,269 | 2,024,207 | 2,061,152 | 2,001,501 | 8,457,129 | -9.5% | -2.9% |
| Total Operating Income | 31,684,112 | 7,405,121 | 7,533,455 | 7,666,176 | 7,626,799 | 30,231,551 | -4.6% | -0.5% |
| Total Operating Expenses | 16,904,568 | 4,110,551 | 4,322,388 | 4,129,089 | 4,220,431 | 16,782,459 | -0.7% | 2.2% |
| Loan Loss Provision Expense | 3,927,137 | 774,707 | 578,763 | 979,497 | 782,146 | 3,115,113 | -20.7% | -20.1% |
| Operating Profit | 14,779,544 | 3,294,570 | 3,211,067 | 3,537,087 | 3,406,368 | 13,449,092 | -9.0% | -3.7% |
| Profit Before Tax | 10,852,407 | 2,519,862 | 2,632,305 | 2,557,590 | 2,651,222 | 10,360,979 | -4.5% | 3.7% |
| Current Tax | 3,453,011 | 770,295 | 839,234 | 770,314 | 1,054,817 | 3,434,660 | -0.5% | 36.9% |
| Profit After Tax | 7,399,396 | 1,749,567 | 1,793,071 | 1,787,276 | 1,596,405 | 6,926,319 | -6.4% | -10.7% |
| EPS (KES) | 1.36 | 0.32 | 0.33 | 0.33 | 0.30 | 1.28 | -6.4% | -9.1% |
| DPS (KES) | 1.00 | | 0.20 | | 0.80 | 1.00 | | |
| Balance Sheet | | | | | | | | |
| Total Shareholders' Equity | 42,388,242 | 44,047,037 | 40,786,729 | 42,543,436 | 44,099,136 | 44,099,136 | 4.0% | 3.7% |
| Deposits due to Banks & Financial Institutions | 3,263,679 | 1,667,191 | 3,993,984 | 1,708,467 | 3,059,455 | 3,059,455 | -6.3% | 79.1% |
| Balances due to banking institutions in the group | 24,895,103 | 22,182,392 | 21,575,265 | 22,679,534 | 28,831,238 | 28,831,238 | 15.8% | 27.1% |
| Customer Deposits | 178,179,795 | 181,535,911 | 188,652,234 | 200,370,484 | 185,977,380 | 185,977,380 | 4.4% | -7.2% |
| Total Liabilities | 217,303,770 | 216,741,660 | 227,400,119 | 235,426,392 | 227,078,241 | 227,078,241 | 4.5% | -3.5% |
| Total Equity and Liabilities | 259,692,012 | 260,788,697 | 268,186,848 | 277,969,828 | 271,177,377 | 271,177,377 | 4.4% | -2.4% |
| Cash and CBK Balances | 13,378,044 | 19,706,388 | 17,452,600 | 15,618,427 | 16,354,240 | 16,354,240 | 22.2% | 4.7% |
| Balances due from Banks & Financial Institutions | 218,530 | 1,391,618 | 10,009,947 | 6,616,041 | 1,818,113 | 1,818,113 | 732.0% | -72.5% |
| Balances due from banking institutions in the group | 5,971,491 | 5,224,124 | 3,884,354 | 10,095,900 | 3,464,630 | 3,464,630 | -42.0% | -65.7% |
| Government and Other Securities | 56,044,294 | 49,523,954 | 57,469,042 | 64,399,545 | 68,084,258 | 68,084,258 | 21.5% | 5.7% |
| Net Loans and Advances | 168,509,529 | 168,701,793 | 163,782,554 | 167,249,182 | 168,397,417 | 168,397,417 | -0.1% | 0.7% |
| Fixed Assets | 3,080,831 | 3,164,236 | 3,063,790 | 2,907,441 | 46,394 | 46,394 | -98.5% | -98.4% |
| Total Assets | 259,692,012 | 260,788,697 | 268,186,848 | 277,969,828 | 271,177,377 | 271,177,377 | 4.4% | -2.4% |
| Key Ratios | | | | | | | | |
| Gross NPL (KES M) | 11,472,301 | 11,713,284 | 11,999,105 | 11,935,508 | 12,614,723 | 12,614,723 | 10.0% | 5.7% |
| Interest In Suspense (KES M) | 2,689,552 | 2,949,784 | 3,233,288 | 3,027,322 | 3,256,066 | 3,256,066 | 21.1% | 7.6% |
| Total NPL (KES M) | 8,782,749 | 8,763,500 | 8,765,817 | 8,908,186 | 9,358,657 | 9,358,657 | 6.6% | 5.1% |
| Loan Loss Provision (KES M) | 5,149,446 | 5,377,473 | 4,980,517 | 5,359,171 | 5,570,676 | 5,570,676 | 8.2% | 3.9% |
| Net NPL | 3,633,303 | 3,386,027 | 3,785,300 | 3,549,015 | 3,787,981 | 3,787,981 | 4.3% | 6.7% |
| NPL Ratio | 6.6% | 6.7% | 7.1% | 6.9% | 7.3% | 7.3% | | |
| Coverage Ratio | 44.9% | 45.9% | 41.5% | 44.9% | 44.2% | 44.2% | | |
| Cost of Risk | 2.3% | 1.8% | 1.4% | 2.3% | 1.9% | 1.8% | | |
| Loan to Deposits | 94.6% | 92.9% | 86.8% | 83.5% | 90.5% | 90.5% | | |
| Yield on Interest Earning Assets | 12.2% | 11.4% | 11.5% | 11.3% | 11.6% | 11.2% | | |
| Cost of Funds | 2.8% | 2.7% | 2.3% | 2.5% | 2.6% | 2.5% | | |
| NIM | 9.4% | 8.7% | 9.2% | 8.8% | 9.1% | 8.8% | | |
| Non Funded/Total Income | 29.5% | 32.0% | 26.9% | 26.9% | 26.2% | 28.0% | | |
| Cost to Income Ratio | 41.0% | 45.0% | 49.7% | 41.1% | 45.1% | 45.2% | | |
| ROE | 17.5% | 15.9% | 17.6% | 16.8% | 14.5% | 15.7% | | |
| ROA | 2.8% | 2.7% | 2.7% | 2.6% | 2.4% | 2.6% | | |
| Core Capital/TRWA | 15.7% | 15.7% | 15.7% | 15.9% | 15.9% | 15.9% | | |
| Total Capital/TRWA | 17.9% | 17.8% | 17.8% | 18.0% | 18.0% | 18.0% | | |
| Liquidity Ratio | 28.3% | 29.6% | 36.1% | 38.0% | 33.4% | 33.4% | | |
| P/E (x) | | | | | | 8.6 | | |
| P/B (x) | | | | | | 1.4 | | |
| Dividend Yield | | | | | | 9.1% | | |

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