

## KCB Bank Kenya – FY17 Earnings Update

“ The best way out is always through ”

**KCB Bank stood strong posting impressive, largely flat, FY17 net earnings of KES 19.7B (-0.1% y/y), in a challenging business environment induced by a tough election-eering period in 4Q17 and the prevailing interest rate cap. Net interest income rose (+1.4% y/y) to KES 63.7B while non funded income was up 2.5% y/y to KES 23.0B as the loan loss provision expense surged 54.7% y/y to KES 5.9B. The lender maintained a total dividend of KES 3.00, marking a dividend yield of 6.1%.**

**Total interest income increased 1.4%/y/y (+3.1%q/q) to KES 63.7B** on the back of a 13.8% y/y increase in interest income on government securities. On the other hand, interest income on loans and advances declined marginally (-0.7% y/y) despite a loan book growth of 9.6% y/y to KES 422.7B due to low yields on interest earning assets; an effect of the lending rate cap.

**Total interest expenses contracted 3.1%/y/y (+8.3%q/q) to KES 15.3B** a result of a 6.0% y/y decrease in interest expenses from customer deposits. This was despite a 11.6% y/y increase in customer deposits to KES 499.5B with non– interest bearing deposits remaining flat at 65.0 % of total deposits. The groups net interest margin dipped 20bps y/y to 8.2% .

**Non-funded income was up 2.5%/y/y (-8.0%q/q) to KES 23.0B** despite a drop in foreign exchange income (-15.1% y/y) due to the effects of foreign exchange translations in South Sudan with persistence of hyper inflation. A positive outlook was however prevalent in 4Q17, with foreign exchange income rising (+4.7% q/q) as the inflation in South Sudan was reviewed downwards to below 150%.

**Operating expenses eased slightly to KES 36.4B (-0.6% y/y, -10.0% q/q)** riding on the lender’s digitization of transactions and alternative channels. Alternative channels accounted for 87% of transactions with mobile banking taking the bulk at 57% (+40bps y/y) while agency and POS contributed 20%. The lenders cost-to-income ratio dipped 17bps y/y to 50.9% mainly due to an exit scheme for employees in line with its restructuring program. The group spent an average of KES 2.0B to cater for staff restructures with 386 staff exits.

**Loan loss provision expense increased 54.7%/y/y (+147.%q/q)** in line with a 17.9% y/y (+8.0%q/q) rise in gross non-performing loans to KES 37.5B. The cost of risk rose to 1.4% (+40bps/y) while the NPL ratio was up 8.5% (+60bps y/y). The banks coverage ratio improved to 54.3% (+26bps y/y) highlighting the lender’s prudent provisioning.

**Looking ahead:** The Group’s strategy remains pegged on generating higher returns for investors with a target ROE of 21.1% for FY18 from the current 18.6%. Growth focus is on digitization of transactions with no plans of expansion in the region. With growth of customers to 15.7M and demand for digitalized services, the bank is developing a new mobile banking app with better transactions capacity to be released later in the year. The bank is also focusing on use of artificial intelligence for customer profiling and credit analysis in lending on mobile banking platforms. In compliance with IFRS 9, the lender is committed to effecting changes immediately. The counter currently trades at KES 49.25, 7.7x P/E, 1.4x P/B and a dividend yield of 6.1%.

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

Share Statistics	
Current Price (KES)	49.25
Issued shares (M)	3066.1
Market cap (USD M)	1431.3
Year end	Dec
Foreign ownership (%)	29.4
Free float (%)	74.9
Av daily trading vol (USDk)	840.6

### 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 '000	KES '000	
<b>Income Statement</b>							
Interest Income	62,806,075	14,113,676	16,249,808	16,400,930	16,908,682	63,673,096	1.4% 3.1%
Interest Expense	15,779,430	3,768,865	3,445,468	3,877,016	4,196,974	15,288,323	-3.1% 8.3%
<b>Net Interest Income</b>	<b>47,026,645</b>	<b>10,344,811</b>	<b>12,804,340</b>	<b>12,523,914</b>	<b>12,711,708</b>	<b>48,384,773</b>	<b>2.9% 1.5%</b>
Foreign Exchange Income	5,493,696	1,285,092	1,359,604	987,088	1,033,714	4,665,498	-15.1% 4.7%
Gross Fees and Commission	12,624,566	3,455,147	3,754,711	4,021,738	3,462,838	14,694,434	16.4% -13.9%
Other Income	4,331,744	823,553	809,609	987,383	1,019,970	3,640,515	-16.0% 3.3%
Non Interest Income	22,450,006	5,563,792	5,923,924	5,996,209	5,516,522	23,000,447	2.5% -8.0%
<b>Total Operating Income</b>	<b>69,476,651</b>	<b>15,908,603</b>	<b>18,728,274</b>	<b>18,520,113</b>	<b>18,228,593</b>	<b>71,385,583</b>	<b>2.7% -1.6%</b>
Total Operating Expenses	36,561,765	8,358,451	9,513,697	9,730,411	8,754,501	36,357,060	-0.6% -10.0%
<b>Loan Loss Provision Expense</b>	<b>3,823,759</b>	<b>958,134</b>	<b>1,054,513</b>	<b>1,124,258</b>	<b>2,777,416</b>	<b>5,914,321</b>	<b>54.7% 147.0%</b>
<b>Operating Profit</b>	<b>32,914,886</b>	<b>7,550,152</b>	<b>9,214,577</b>	<b>8,789,702</b>	<b>9,474,092</b>	<b>35,028,523</b>	<b>6.4% 7.8%</b>
<b>Profit Before Tax</b>	<b>29,091,126</b>	<b>6,592,018</b>	<b>8,160,064</b>	<b>7,665,444</b>	<b>6,696,676</b>	<b>29,114,202</b>	<b>0.1% -12.6%</b>
Current Tax	9,368,678	2,049,691	2,441,509	2,850,032	2,067,839	9,409,071	0.4% -27.4%
<b>Profit After Tax</b>	<b>19,722,448</b>	<b>4,542,327</b>	<b>5,718,555</b>	<b>4,815,412</b>	<b>4,628,837</b>	<b>19,705,131</b>	<b>-0.1% -3.9%</b>
<b>EPS (KES)</b>	<b>6.43</b>	<b>1.48</b>	<b>1.87</b>	<b>1.57</b>	<b>1.51</b>	<b>6.43</b>	<b>-0.1% -3.9%</b>
<b>DPS (KES)</b>	<b>3.00</b>		<b>1.00</b>		<b>2.00</b>	<b>3.00</b>	<b>0.0%</b>
<b>Balance Sheet</b>							
Total Shareholders' Equity	96,565,775	101,215,736	98,331,261	103,193,001	105,965,873	105,965,873	9.7% 2.7%
Deposits due to Banks & Financial Institutions	13,122,786	8,359,207	15,418,525	10,501,394	11,038,750	11,038,750	-15.9% 5.1%
<b>Customer Deposits</b>	<b>448,173,797</b>	<b>456,815,151</b>	<b>482,844,611</b>	<b>496,305,024</b>	<b>499,549,179</b>	<b>499,549,179</b>	<b>11.5% 0.7%</b>
<b>Total Liabilities</b>	<b>498,673,867</b>	<b>504,539,050</b>	<b>532,276,778</b>	<b>540,639,808</b>	<b>540,703,066</b>	<b>540,703,066</b>	<b>8.4% 0.0%</b>
<b>Total Equity and Liabilities</b>	<b>595,239,642</b>	<b>605,754,786</b>	<b>630,608,039</b>	<b>643,832,809</b>	<b>646,668,939</b>	<b>646,668,939</b>	<b>8.6% 0.4%</b>
Cash and CBK Balances	29,430,129	31,867,877	29,892,911	42,523,946	29,090,547	29,090,547	-1.2% -31.6%
Balances due from Banks & Financial Institutions	43,507,143	38,858,626	43,271,021	42,279,530	43,334,902	43,334,902	-0.4% 2.5%
Government and Other Securities	102,470,849	105,972,949	115,794,815	103,647,021	110,007,338	110,007,338	7.4% 6.1%
<b>Net Loans and Advances</b>	<b>385,745,331</b>	<b>395,491,270</b>	<b>406,975,972</b>	<b>419,494,427</b>	<b>422,684,637</b>	<b>422,684,637</b>	<b>9.6% 0.8%</b>
Fixed Assets	9,372,955	9,453,613	9,493,791	9,307,081	10,454,253	10,454,253	11.5% 12.3%
<b>Total Assets</b>	<b>595,239,643</b>	<b>605,754,786</b>	<b>630,608,039</b>	<b>643,832,809</b>	<b>646,668,939</b>	<b>646,668,939</b>	<b>8.6% 0.4%</b>
<b>Key Ratios</b>							
Gross NPL (KES M)	31,812,856	32,151,386	33,248,978	34,731,290	37,496,454	37,496,454	17.9% 8.0%
Interest In Suspense (KES M)	4,609,881	4,746,065	4,918,816	3,761,805	5,125,304	5,125,304	11.2% 36.2%
Total NPL (KES M)	27,202,975	27,405,321	28,330,162	30,969,485	32,371,150	32,371,150	19.0% 4.5%
Loan Loss Provision (KES M)	16,460,084	19,250,483	19,103,631	19,832,149	20,350,677	20,350,677	23.6% 2.6%
Net NPL	10,742,891	8,154,838	9,226,531	11,137,336	12,020,472	12,020,472	11.9% 7.9%
NPL Ratio	7.9%	7.8%	7.8%	7.9%	8.5%	8.5%	60bps 60bps
Coverage Ratio	51.7%	59.9%	57.5%	57.1%	54.3%	54.3%	260bps -280bps
Cost of Risk	1.0%	1.0%	1.0%	1.1%	2.6%	1.4%	40bps 150bps
Loan to Deposits	86.1%	86.6%	84.3%	84.5%	84.6%	84.6%	-150bps 10bps
Yield on Interest Earning Assets	11.8%	10.4%	11.5%	11.6%	11.7%	11.1%	-70bps 10bps
Cost of Funds	3.4%	3.2%	2.8%	3.1%	3.3%	3.0%	-40bps 20bps
NIM	8.4%	7.2%	8.7%	8.5%	8.5%	8.1%	-30bps 0bps
Non Funded/Total Income	32.3%	35.0%	31.6%	32.4%	30.3%	32.2%	-10bps -210bps
Cost to Income Ratio	52.6%	52.5%	50.8%	52.5%	48.0%	50.9%	-170bps -450bps
ROE	20.4%	18.0%	23.3%	18.7%	17.5%	18.6%	-180bps -120bps
ROA	1.6%	3.0%	3.6%	3.0%	2.9%	3.0%	140bps -10bps
Core Capital/TRWA	15.3%	17.4%	17.4%	17.4%	15.4%	15.4%	10bps -200bps
Total Capital/TRWA	18.0%	18.7%	18.7%	18.7%	16.6%	16.6%	-140bps -210bps
Liquidity Ratio	37.5%	38.7%	35.7%	37.7%	29.0%	29.0%	850bps -870bps
<b>P/E (x)</b>						<b>7.7</b>	
<b>P/B (x)</b>						<b>1.4</b>	
<b>Dividend Yield (%)</b>						<b>6.1</b>	

Source: Company Filings, ApexAfrica Research

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