

National Bank of Kenya – 1H18 Earnings Update

“ Still Struggling”

National Bank woes in 1H18 saw the bank report a loss of KES 282.7M from a profit of KES 59.5M in 1H17, on the back of a 67.6% y/y decline in operating profit.

Net interest income declines attributed to a 16.1% decrease in net loans and advances:

Interest income declined 9.6% y/y to KES 4.1B in tandem with a 16.1% y/y decrease in net loans and advances to KES 47.8B. Similar to other banks, NBK’s loan book has been suppressed by the existing rate cap. Hand in hand, a 3.7% y/y decline in interest income from government securities (+9.8% to KES 41.3B) to KES 2.0B further enhanced the decline in interest income. A 2.8% y/y decline in customer deposits to KES 96.0B saw net interest expense dip 10.9% y/y. This was mainly attributed to a slowdown in government payments to contactors and county government suppliers.

NPL ratio remains too high. The bank’s NPL ratio further inflamed 6.5bps y/y to 49.5% (industry average of 12.0% in 1H18) intensifying the bank’s struggle with non-performing loans despite a dwindling loan book. Given that the figure has remained high for quite some time, we remain cautious of the bank’s debt collection measures.

Writebacks exceed provisions: A reversal in overprovision saw the lender write back KES 47.9M shielding its bottom-line. Coverage ratio edged up 22.2bps y/y to 43.5%, which is fairly decent and highlights the lender’s capability of meeting its financial obligations.

Non-interest income dwindles further aggravating the bottom-line. Given the prevailing rate cap, banks have focused on non-interest income as a revenue driver. NBK’s non-interest income however dipped 13.1% y/y to KES 1.1B due to a 15.7% y/y decline in fees and commissions to KES 657.6M in line with falling net loans and advances. In addition, a 25.5% y/y fall in other income to KES 112.0M caused non-interest income to decline further.

Costs eat into the bank’s bottom-line: Cost to income ratio rose 7.7bps y/y to 95.6% a worrying trend on the bank’s efforts to tame expenses. Costs were driven by a 36.8% y/y increase in depreciation charge to KES 269.5M and a 65.6% y/y surge in amortisation expense to KES 195.6M.

Looking ahead:

Given that the bank has been struggling for some time, we remain weary of the bank’s future in an extremely competitive market. The bank’s core capital ratios; core capital to TRWA ratio of 2.0% and total capital to TRWA ratio of 3.4% fall behind regulatory floors of 10.5% and 14.% respectively. Despite commitment from the Treasury and NSSF to inject capital in the ailing bank, the core capital ratios may continue falling below statutory floors given the Government’s drive to fulfil the Big 4 agenda; while the capital injection is not considered urgent. The loan book may shrink further due to measures put in place to rationalize lending and streamline the group’s balance sheet.

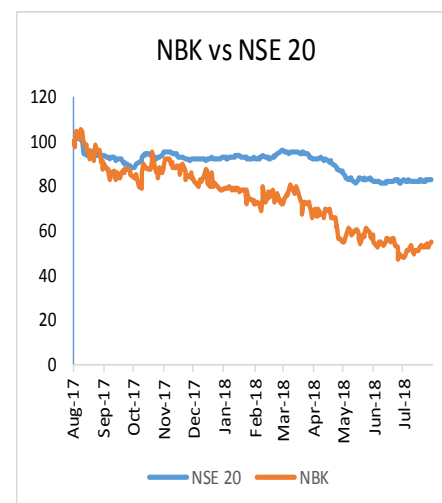
The counter’s share price has dipped 33.7% YTD to KES 6.20 on the back of negative investor sentiments on its prospects. The counter remains unattractive for dividend seeking investors.

Bloomberg Ticker : NBKL.KN
Reuters Ticker: NBK.NR

Share Statistics

Current Price (KES)	6.20
Issued shares (M)	338.8
Market cap (USD M)	30.7
Year end	Dec
Foreign ownership (%)	0.5
Free float (%)	32.9
<u>Av daily trading vol (USDk)</u>	<u>2.2</u>

Price Trend



Source: Bloomberg

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	FY16	1H17	FY17	1H18	% chg y/y
	KES '000	KES '000	KES '000	KES '000	
Income Statement					
Interest Income	12,100,827	4,561,677	9,962,495	4,122,463	-9.6
Interest Expense	4,308,945	1,699,235	3,237,573	1,513,922	-10.9
Net Interest Income	7,791,882	2,862,442	6,724,922	2,608,541	-8.9
Foreign Exchange Income	363,863	281,260	526,963	284,978	1.3
Gross Fees and Commission	1,453,236	779,931	1,435,462	657,600	-15.7
Other Income	1,039,938	150,380	464,448	111,972	-25.5
Non Interest Income	2,857,037	1,213,377	2,428,679	1,054,550	-13.1
Total Operating Income	10,648,919	4,075,819	9,153,601	3,663,091	-10.1
Total Operating Expenses	8,154,027	3,583,674	7,611,779	3,503,663	-2.2
Loan Loss Provision Expense	2,415,001	235,256	756,740	-47,873	
Operating Profit	2,494,892	492,145	1,541,822	159,428	-67.6
Profit Before Tax	79,891	256,889	785,082	159,428	-37.9
Current Tax	-8,938	77,067	-374,299	20,266	-73.7
Profit After Tax	70,953	179,822	410,783	-282,736	
EPS (KES)	0.21	0.53	1.21	-0.83	
DPS (KES)	0.00	0.00	0.00	0.00	
Balance Sheet					
Total Shareholders' Equity	6,910,450	11,430,531	7,233,908	5,849,310	-48.8
Deposits due to Banks & Financial Institutions	3,591,824	2,528,571	5,620,120	6,836,611	170.4
Customer Deposits	93,870,288	98,785,964	94,275,768	95,990,899	-2.8
Total Liabilities	105,175,680	105,198,361	102,639,233	107,492,143	2.2
Total Equity and Liabilities	112,086,130	116,628,892	109,873,141	113,341,453	-2.8
Cash and CBK Balances	8,559,339	8,562,033	7,500,172	8,993,077	5.0
Balances due from Banks & Financial Institutions	1,311,975	2,339,428	2,460,142	2,720,452	16.3
Government and Other Securities	34,545,832	37,622,418	35,718,032	41,311,935	9.8
Net Loans and Advances	55,019,784	57,023,483	52,361,043	47,815,704	-16.1
Fixed Assets	4,111,684	4,032,241	3,710,949	3,518,652	-12.7
Total Assets	112,086,130	116,628,892	109,873,141	113,341,453	-2.8
Key Ratios					
Gross NPL (KES M)	29,987,342	29,396,477	27,657,893	30,143,893	
Interest In Suspense (KES M)	3,218,351	3,285,558	3,779,813	4,155,894	
Total NPL (KES M)	26,768,991	26,110,919	23,878,080	25,987,999	
Loan Loss Provision (KES M)	9,027,363	6,260,677	12,011,898	13,114,296	
Net NPL	17,741,628	19,850,242	11,866,182	12,266,911	
NPL Ratio	46.8%	46.5%	43.0%	49.5%	
Coverage Ratio	30.1%	21.3%	43.4%	43.5%	
Cost of Risk	4.4%	0.8%	1.4%	0.0%	
Loan to Deposits	58.6%	57.7%	55.5%	49.8%	
Yield on Interest Earning Assets	13.3%	9.4%	11.0%	9.0%	
Cost of Funds	4.4%	3.4%	3.2%	2.9%	
NIM	8.9%	5.0%	7.8%	5.5%	
Non Funded/Total Income	26.8%	29.8%	26.5%	28.8%	
Cost to Income Ratio	76.6%	87.9%	83.2%	95.6%	
ROE	1.0%	0.3%	5.7%	-0.5%	
ROA	0.1%	0.3%	0.4%	-0.5%	
Core Capital/TRWA	6.5%	11.3%	4.0%	2.0%	
Total Capital/TRWA	7.2%	11.7%	5.4%	3.4%	
Liquidity Ratio	32.6%	35.2%	36.3%	39.9%	
P/E (x)			7.4		
P/B (x)			0.4		

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