

## KCB Group – 1Q18 Earnings Update

### “ Start Strong, Finish Fast”

**KCB Group posted a 14.1% y/y (+12.0% q/q) rise in net profits to KES 5.2B riding on a revamp in the business environment in 2018 due to recovery in the political environment, improved inflation, and a stable shilling. The lenders net interest income was up 10.5% y/y (-10.1% q/q) to KES 11.4B while non funded income marginally declined 0.4% y/y (+0.4% q/q) to KES 5.5B.**

**Net loans and advances growth slow on account of the rate cap.** In line with expectations, the lender remained stringent in lending with loan book growth standing at 5.8% y/y (-1.0% q/q) to KES 418.6B. Investment in government securities rose 5.8% y/y (+1.9% q/q) to KES 112.1B as the bank diversified its revenue streams. This resulted in an 11.0% y/y (-7.3% q/q) increase in interest income to KES 15.7B.

NPLs stood at 9.8% of total loan book against an industry average of 12.0% while the NPL coverage ratio was 46.9%.

**Customer deposits grew 8.7% y/y to KES 496.4B despite slow private sector credit growth** (1.8% in January 2018) that strained disposable income. Borrowed funds rose 51.2% q/q to KES 22.5B on account of the first tranche of KES 8.0B of the KES 10.0B loan from African Development Bank (AfDB). Consequently, interest expense rose 12.6% y/y to KES 4.2B.

**NFI declined marginally (-0.4% y/y) to KES 5.5B.** Income growth from trade finance grew 95.0% y/y followed by channels +45.0% y/y. Branch fees grew 31.0% y/y while fees from money transfers, branch transactions and lending declined 11.0% y/y, 26.0% y/y and 3.0% y/y respectively.

**Innovation and digitization of transactions saw 87% of transactions conducted outside the branch.** Mobile money transactions contributed 57.0% (+1700 bps y/y) with branch transactions at 13.0% (-800bps y/y). Mobile loan disbursement grew 64.0% y/y to KES 9.2B. Cost to income ratio remained flat at 52.4% (+10bps y/y).

#### Looking ahead:

We anticipate a rebound in loan book growth and non-funded income mirroring expected robust growth in the economy with the onset of rains, an end of the election period and repeal of the lending rate cap. The lender is focused on digitizing its transactions and the launch of the Huawei platform is expected to see about 80.0% of all new transactions conducted outside the branch and 6.5M customers borrowing by mobile by the end of the year. This is expected to translate to robust top line growth and decreased operational costs propelling the bottom line.

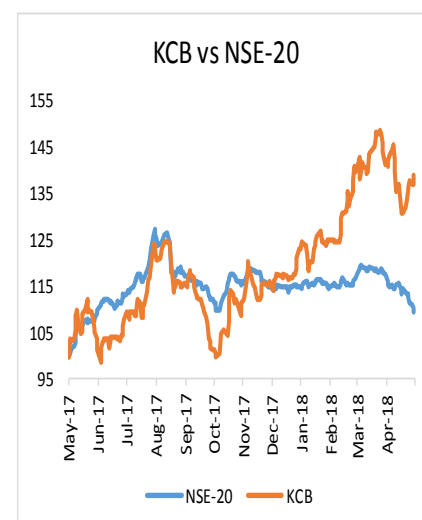
Increased focus on subsidiaries supported by a stable microeconomic environment in the East African region is expected to diversify revenue streams for the lender boosting revenue. The lender is also revamping its marketing of its lending platform KCB Mpesa with an aim to gain a competitive edge on non-bank fintech players. This is expected to boost its market share in the fintech space.

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

#### Share Statistics

Current Price (KES)	50.50
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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	1Q17	4Q17	1Q18	% chg y/y	% chg q/q
	KES '000	KES '000	KES '000		
<b>Income Statement</b>					
Interest Income	14,113,676	16,908,682	15,668,381	11.0%	-7.3%
Interest Expense	3,768,865	4,196,974	4,242,048	12.6%	1.1%
<b>Net Interest Income</b>	<b>10,344,811</b>	<b>12,711,708</b>	<b>11,426,333</b>	<b>10.5%</b>	<b>-10.1%</b>
Foreign Exchange Income	1,285,092	1,033,714	1,032,393	-19.7%	-0.1%
Gross Fees and Commission	3,455,147	3,462,838	3,622,186	4.8%	4.6%
Other Income	823,553	1,019,970	886,387	7.6%	-13.1%
Non Interest Income	5,563,792	5,516,522	5,540,966	-0.4%	0.4%
<b>Total Operating Income</b>	<b>15,908,603</b>	<b>18,228,593</b>	<b>16,967,299</b>	<b>6.7%</b>	<b>-6.9%</b>
Total Operating Expenses	8,358,451	8,754,501	8,882,833	6.3%	1.5%
<b>Loan Loss Provision Expense</b>	<b>958,134</b>	<b>2,777,416</b>	<b>600,297</b>	<b>-37.3%</b>	<b>-78.4%</b>
<b>Operating Profit</b>	<b>7,550,152</b>	<b>9,474,092</b>	<b>8,084,466</b>	<b>7.1%</b>	<b>-14.7%</b>
<b>Profit Before Tax and After Exceptional Items</b>	<b>6,592,018</b>	<b>6,696,676</b>	<b>7,484,169</b>	<b>13.5%</b>	<b>11.8%</b>
Current Tax	2,049,691	2,067,839	2,300,661	12.2%	11.3%
<b>Profit After Tax</b>	<b>4,542,327</b>	<b>4,628,837</b>	<b>5,183,508</b>	<b>14.1%</b>	<b>12.0%</b>
<b>EPS (KES)</b>	<b>1.48</b>	<b>1.51</b>	<b>1.69</b>	<b>14.1%</b>	<b>12.0%</b>
<b>Balance Sheet</b>					
Total Shareholders' Equity	101,215,736	105,965,873	99,633,478	-1.6%	-6.0%
Deposits due to Banks & Financial Institutions	8,359,207	11,038,750	9,522,074	13.9%	-13.7%
<b>Customer Deposits</b>	<b>456,815,151</b>	<b>499,549,179</b>	<b>496,366,083</b>	<b>8.7%</b>	<b>-0.6%</b>
<b>Total Liabilities</b>	<b>504,539,050</b>	<b>540,703,066</b>	<b>547,840,437</b>	<b>8.6%</b>	<b>1.3%</b>
<b>Total Equity and Liabilities</b>	<b>605,754,786</b>	<b>646,668,939</b>	<b>647,473,915</b>	<b>6.9%</b>	<b>0.1%</b>
Cash and CBK Balances	31,867,877	29,090,547	33,787,778	6.0%	16.1%
Balances due from Banks & Financial Institutions	38,858,626	43,334,902	37,077,990	-4.6%	-14.4%
Government and Other Securities	105,973,949	110,007,338	112,115,545	5.8%	1.9%
<b>Net Loans and Advances</b>	<b>395,491,270</b>	<b>422,684,637</b>	<b>418,618,183</b>	<b>5.8%</b>	<b>-1.0%</b>
Fixed Assets	9,453,613	10,454,253	10,989,869	16.3%	5.1%
<b>Total Assets</b>	<b>605,754,786</b>	<b>646,668,939</b>	<b>647,473,915</b>	<b>6.9%</b>	<b>0.1%</b>
<b>Key Ratios</b>					
Gross NPL (KES M)	32,151,386	37,496,454	43,774,880	36.2%	16.7%
Interest In Suspense (KES M)	4,746,065	5,125,304	5,118,839	7.9%	-0.1%
Total NPL (KES M)	27,405,321	32,371,150	38,656,041	41.1%	19.4%
Loan Loss Provision (KES M)	19,250,483	20,350,677	20,543,885	6.7%	0.9%
Net NPL	8,154,838	12,020,472	18,112,156	122.1%	50.7%
NPL Ratio	7.8%	8.5%	10.0%		
Coverage Ratio	59.9%	54.3%	46.9%		
Cost of Risk	1.0%	2.6%	0.6%		
Loan to Deposits	86.6%	84.6%	84.3%		
Yield on Interest Earning Assets	10.4%	11.7%	11.0%		
Cost of Funds	3.2%	3.3%	3.4%		
NIM	7.2%	8.5%	7.7%		
Non Funded/Total Income	35.0%	30.3%	32.7%		
Cost to Income Ratio	52.5%	48.0%	52.4%		
ROE	18.0%	17.5%	20.8%		
ROA	3.0%	2.9%	3.2%		
Core Capital/TRWA	17.4%	15.4%	15.1%		
Total Capital/TRWA	18.7%	16.6%	15.3%		
Liquidity Ratio	38.7%	29.0%	33.9%		
<b>P/E (x)</b>			<b>7.6</b>		
<b>P/B (x)</b>			<b>1.6</b>		

Source: Company Filings, ApexAfrica Research

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