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Earnings Note

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Earnings Update

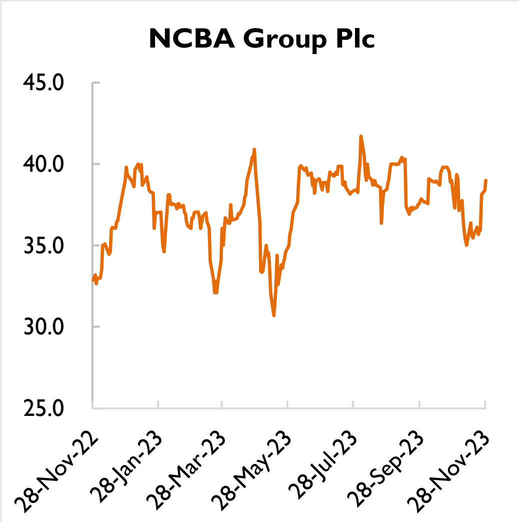
Results Review

Ticker Information

Bloomberg Ticker	NCBA:KN
NSE Code:	NCBA
Issued Shares (Bn)	1.65
52-week high price:	KES 42.00
52-week low price:	KES 28.50

As of 28th November 2023

Price chart – Last 12 Months



Source: NSE, AIB-AXYS Research

Historical Share Price Performance

Past	1m	3m	6m	12m
% Change	0.00%	1.43%	11.43%	18.18%

Source: NSE, AIB-AXYS Research,

Analysts

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November 29th, 2023

NCBA Group Q3'23 Earnings Note

Recommendation:	Current Price:	Target Price:
BUY	KES 39.00	KES 46.75

Summary

- **NCBA Group posted an impressive 14.39% y/y jump in net earnings (PAT) to KES 14.65Bn over the nine months to September 2023**. The trailing earnings per share (EPS) momentum similarly improved 173bps to KES 9.48 over the quarter. Profitability growth momentum was however tempered by a faster growth in pre-provision operating expenses (18.95% y/y), relative to the rise in operating incomes (11.65% y/y). The trailing return on Equity (ROE) nevertheless improved 20bps q/q to 18.44% while the trailing return on assets (ROA) rose 10bps q/q to 2.50%.
- **Strong double-digit growth in customer deposits widened the scope to increase reinvestment returns.** Growth in customer deposits accelerated 830bps q/q to 18.6% y/y on account of a fast-growing retail footprint. Organic growth across regional markets helped lift total deposits to KES 548.13Bn. Net loans and advances grew by 16.00% y/y to clock KES 308.70Bn – driven by upscaled inclusion via digital channels. As anticipated, the Group's net interest margins widened 35bps to 6.09% – driven by a faster (80bps y/y) jump in the yields on interest earning assets (YIEA) relative to the cost of funds (45bps y/y). The upswing in YIEA was driven by a faster rise in reinvestment yields on financial assets relative to average yields on loans and advances over the quarter.

Key Highlights

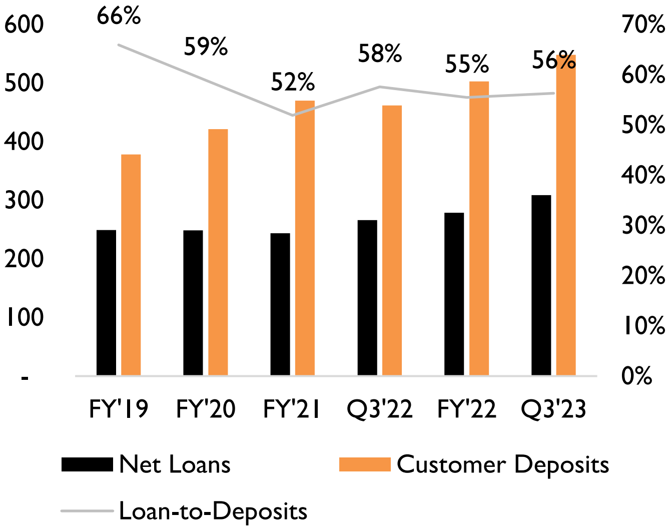
- **Digital for Volumes, Legacy for Funding:** NCBA Group exercised a proactive balance between extending its digital footprint and advancing growth in legacy channels (ATMs and Branches). While the deepening digital uptake supported funded and non-funded income growth through mass volumes, legacy channels increasingly offered avenues to mobilize inexpensive deposits. Furthermore, legacy branches provided channels to accelerate customer acquisition and retention efforts. This backs the case for preserving the classical brick-and-mortar branches, despite the additional operation costs they portend.
- **Agile Reinvestment Returns:** The Group tapped opportunities from soaring market yields to pace up reinvestment returns. Annualized yields on financial securities increased 111bps y/y to 11.57% while annualized yields on loans and advances paced up 115bps to 11.18%. The rising reinvestment yields on financial assets helped to partially offset the 13.27% y/y jump in fair value losses on financial asset holdings to KES 3.33Bn. From our vantage point, we see greater scope to pace up weighted average rates on loans and advances with low sensitivity impact to volumes and asset quality, compared to yields on financial assets.
- **Fading Forex Trading Income Momentum:** NCBA Group recorded an 8.00% y/y decline in non-interest income (non-funded income) – on account of a protracted 34.3% slump in foreign exchange trading income. The decline came despite the group's advantageous top-percentile hard-currency holdings in the region and its affiliate networks with global correspondent banks. We attribute this decline in FX trading income to decreased FX volumes – on account of decelerated trade finance activity over the period. This coupled with diminishing trading margins following the industry-wide restructuring of the FX interbank market, compressed overall non-funded income. However, resilient growth in transaction fees helped mitigate the decline in forex trading income.

Outlook - We anticipate the lender's growth to be accelerated by the deepening digital uptake coupled with organic growth of its fast-growing subsidiaries – notably the Tanzania, Uganda and Rwanda units. We also expect the group's competitive edge in asset finance to propel demand growth over coming years. We expect loan portfolio growth – and topline interest revenues - to be supported largely by interest rate markups under the risk-based credit-pricing regime. In our view, the ongoing mobilization of inexpensive deposits will drive a widening of net interest margins given the prevailing reinvestment returns. However, we remain concerned about the diminishing capital buffers - especially in the Kenyan banking unit.

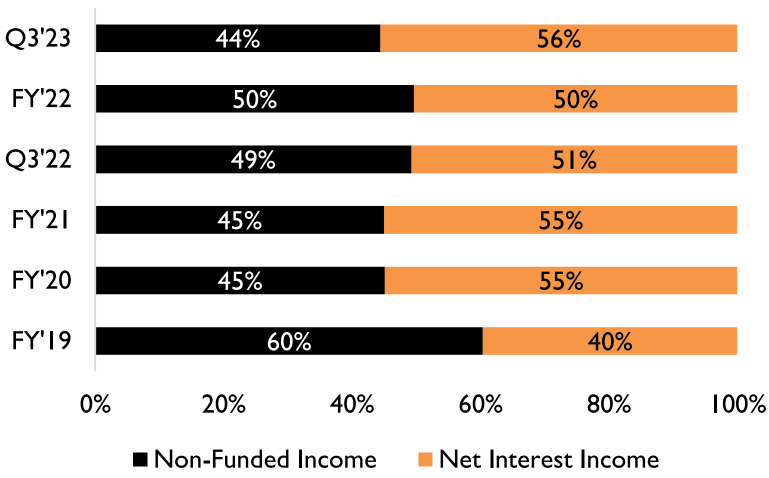
Valuation – The counter is currently trading at a P/E ratio of 4.11x and a P/B ratio of 0.73x. The counter closed yesterday's trading at KES 39.00 – representing an 18.18% y/y gain. We maintain our 12-month **BUY** recommendation on the counter with a target price of KES 46.75 representing an upside of 19.87% from yesterday's closing price.

NCBA Group Q3'23 Earnings Charts

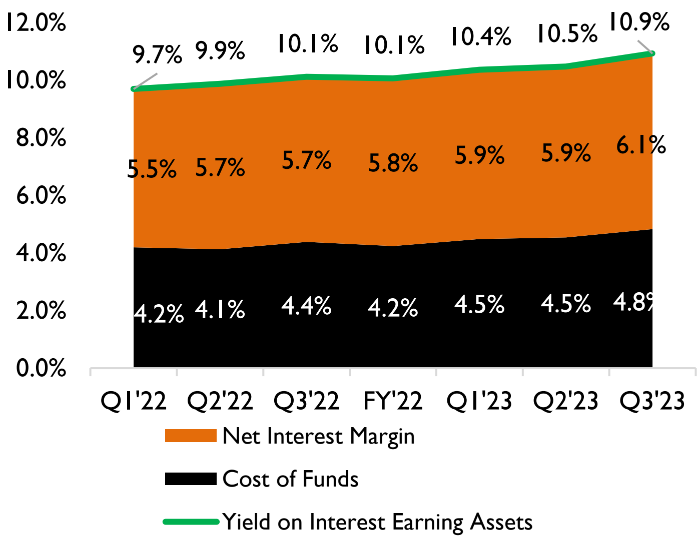
Graph 2: Faster growth in deposits, driving balance sheet expansion



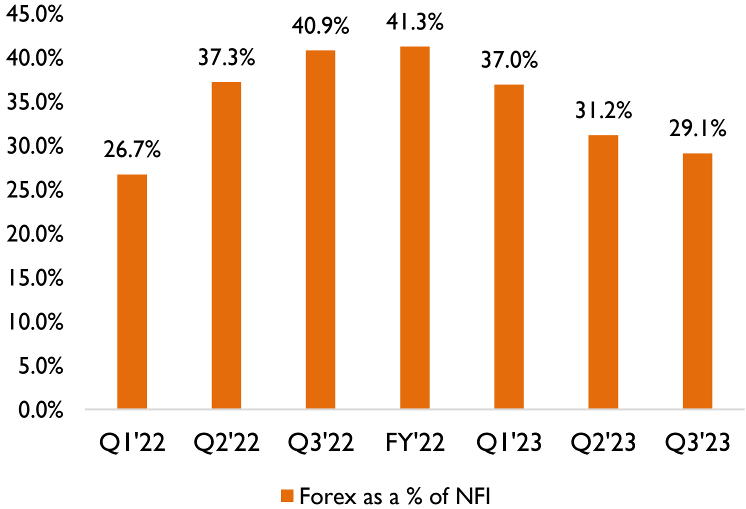
Graph 3: Revenue Mix Tilted in Favor of Net Interest Income



Graph 4: Widening Net Interest Margins (JAWS)



Graph 5: Slowing Contribution of Forex Income to Non-funded income



Source: Company Fillings, AIB-AXYS Research

Summary of Financial Statements

1. Statement of Profit and Loss

Consolidated Results (KES Mn)	FY'19	FY'20	FY'21	Q3'22	FY'22	Q3'23	% y/y change
Net Interest Income	13.34	25.49	27.04	23.25	30.68	25.96	11.66%
Non-Interest Income	20.32	20.94	22.11	22.54	30.26	20.74	-7.98%
Total Operating income	**33.66**	**46.44**	**49.15**	**45.79**	**60.94**	**46.70**	**1.99%**
Loan-Loss Provisions	(6.25)	(20.44)	(12.72)	(8.33)	(13.06)	(6.07)	-27.07%
Total Operating expenses	(20.36)	(40.03)	(33.45)	(26.87)	(37.92)	(28.13)	4.69%
Profit before tax	11.31	4.98	15.03	18.19	22.49	18.57	2.07%
Profit after tax	**7.84**	**4.57**	**10.22**	**12.80**	**13.78**	**14.65**	**14.39%**
Annualized EPS	11.14	2.77	6.21	10.36	8.36	11.85	14.39%

2. Statement of Financial Position

Group Balance Sheet (KES Mn)	FY'19	FY'20	FY'21	Q3'22	FY'22	Q3'23	% y/y change
Financial Assets	145.02	163.55	218.81	121.84	228.78	230.65	89.30%
Loans and Advances	249.36	248.50	244.04	266.11	278.92	308.70	16.00%
Total Assets	**494.84**	**527.95**	**591.09**	**595.42**	**619.66**	**678.79**	**14.00%**
Customer Deposits	378.24	421.50	469.89	462.11	502.68	548.13	18.61%
Total Liabilities	427.58	455.41	513.10	514.49	537.24	590.28	14.73%
Shareholder's Funds	**66.99**	**72.35**	**77.86**	**80.88**	**82.42**	**88.51**	**9.43%**

3. Key Metrics

	Q1'22	Q2'22	Q3'22	FY'22	Q1'23	Q2'23	Q3'23
Growth Metrices (y/y)							
Loan book Growth	0.31%	4.55%	11.73%	14.29%	17.73%	16.72%	16.00%
Customer Deposits Growth	7.21%	7.12%	3.24%	6.98%	7.35%	10.28%	18.61%
Net Profit (PAT) Growth	20.33%	66.85%	96.20%	34.77%	48.51%	20.30%	14.39%
Spreads Analysis							
Yield on Interest-Earning Assets	9.69%	9.87%	10.12%	10.06%	10.36%	10.47%	10.92%
Cost of Funds	4.19%	4.12%	4.38%	4.24%	4.48%	4.53%	4.83%
Net Interest Margin (NIM)	5.50%	5.74%	5.74%	5.83%	5.88%	5.93%	6.09%
Trailing Return on Equity (ROaE)	13.97%	17.27%	21.20%	17.19%	18.36%	18.23%	18.44%
Trailing Return on Assets (ROaA)	1.91%	2.33%	2.85%	2.28%	2.54%	2.43%	2.45%
Profit Margin	21.40%	24.70%	28.13%	22.61%	24.37%	24.38%	25.26%
Operating Effiency							
Cost to Income (Less loan provisions)	42.52%	39.75%	40.49%	40.80%	46.30%	46.00%	47.23%
Cost to Assets Ratio	0.95%	1.91%	3.11%	4.01%	1.14%	2.16%	3.25%
Loan to Deposit Ratio	52.39%	53.47%	57.59%	55.49%	57.46%	56.59%	56.32%
Asset Quality							
Non-Performing Loan (NPL) Ratio	14.99%	11.39%	11.08%	11.42%	11.17%	11.50%	10.70%
NPL Coverage	72.57%	62.24%	65.25%	58.47%	56.26%	57.83%	57.68%
Cost of Risk	5.17%	4.93%	4.46%	4.68%	4.35%	4.07%	3.50%
Capital Adequency							
Core Capital/RWA	18.03%	19.75%	18.38%	18.36%	17.74%	17.91%	17.17%
Total Capital /RWA	18.04%	19.96%	17.45%	18.42%	17.80%	17.96%	17.23%
Liquidity	55.06%	55.06%	55.06%	55.06%	55.06%	55.06%	52.49%

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