

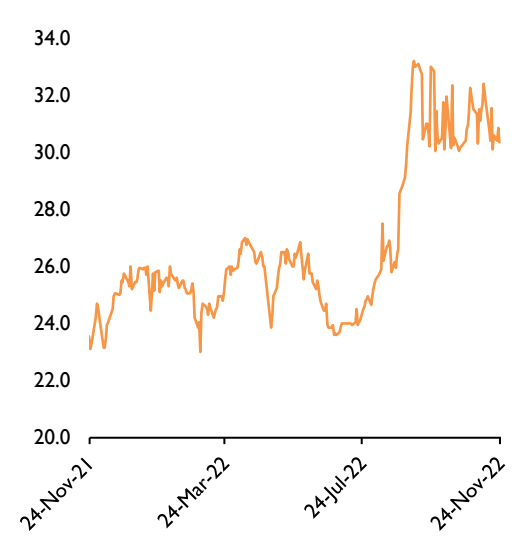


Company details

Bloomberg Ticker	NCBA:KN
NSE Code:	NCBA
Issued Shares (Bn)	1.65
Market Cap (Bn)	50.83
52-week high:	33.20
52-week Low	23.00

As at 24th November 2022

Price chart – Last 12 Months



AIB-AXYS Research, NSE

Historical Price Performance

	1m	3m	6m	12m
Absolute	0.33%	16.96%	16.73%	28.87%

AIB-AXYS Research, NSE

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NCBA Group PLC Earnings Note

Recomm: BUY **Current Price: KES 31.95** **Target Price: KES 36.12.**

Summary

- ◆ **NCBA Group released their Q3'22 earnings posting a 96.21% & 96.20% climb in EPS & PAT** to KES 7.77 and KES 12.80Bn respectively driven by a 15.07% increase in net interest income and a 40.14% growth in non-interest income. Trailing ROaE & ROaA improved to 21.19% & 2.85% respectively. NIMs remained adequate at 5.96% while the profit margin edged up 429bps q/q to 27.96%. Factoring in the growth from previous quarters, we foresee the lender closing FY'22 with a PAT of between KES 14.00 - 17.00 Bn.
- ◆ **Loan book grew 11.73% y/y to KES 266.11Bn faster than the 3.24% y/y growth in the customer deposits to KES 462.11Bn** leading to an 823bps growth in the loan-to-deposit ratio to 57.59%. Allocation to government securities grew 10.42% y/y to 232.65Bn in 3Q22. Fair Value change is a percentage of government securities was 1.26% in Q3'22 vs 0.23% recorded in Q3'21.

Key Highlights

- **Non-Funded Income grows faster than Net interest Income:** Non-Funded Income grew 40.14% y/y to 22.54Bn against a 15.07% y/y increase in net interest income to 23.25Bn mainly driven by increased income from fees and commissions on loans and advances. The ongoing dollar shortfall on the forex market has created market inefficiencies for the lenders, as seen by the significant growth of forex trading income of 162.88% year over year. Yield on assets fell 99bps y/y to 10.12% as income from government papers grew slower than interest earning assets in the quarter. Cost of funds fell 696bps to 4.43% y/y. Subsequently, profitability margin increased 429bps y/y to 27.96% while the Net Interest Margin (NIM) declined 208bps y/y to 5.96%
- **Staff costs weighs down on efficiency:** The Cost to Income ratio less impairment declined 698bps on a year-on-year basis to 14.00% mainly attributed to faster-operating income growth (+26.18% y/y) compared to a 19.89% y/y increase in staff costs to 7.06Bn. In line with industry trend, Loan loss provisions fell 9.18% y/y to KES 8.33 Bn indicating reduced lending risk.
- **Asset quality still a concern:** Gross NPLs fell 20.85% y/y to KES 36.41Bn, leading to the NPL ratio declining 25.88% y/y to 12.60% below the latest industry average of 13.80%. NPL coverage further declined 702bps to 62.25% from 70.18% in 3Q21.

Valuation - The growth in non-funded income, reduced loan loss provisions and reduced gross Non-performing Loans all attributed to the bank's performance. Digital lending is expected to be a key driver of interest income due to the quick churn and high interest charge nature of the loans. By 1Q23, NCBA anticipates hitting Ghana's digital market, and it is also intending to enter eight other African markets this is also expected to drive the bank's top line upwards. At the Current Market Price, the stock is trading at 4.89x P/E above the industry median of 3.60x and a P/TB multiple of 0.66x. Furthermore, the lack of an interim dividend is likely to provide minimal upside potential until the release of FY'22 where we expect a KES 3.00-4.00 DPS. Nevertheless, we recommend a **BUY** position with a revised price target of **KES 36.72**.

Financial Statement Summary

I. Statement of Profit and Loss

	FY18	FY19	FY20	Q3'21	FY21	Q3'22	Y/Y Change (%)
Net Interest Income	20,282.96	13,337.89	25,493.29	20,203.53	27,036.95	23,247.38	15.07%
Net non-Interest Income	16,135.52	20,321.83	20,943.36	16,082.53	22,114.30	22,538.67	40.14%
Total Operating income	36,418,476	33,659,726	46,436,653	36,286,053	49,151,256	45,786,048	26.18%
Provision for Impairment	(6,063.21)	(6,250.27)	(20,441.27)	(9,168.51)	(12,716.52)	(8,327.25)	-9.18%
Total Operating expenses	(24,145.40)	(20,357.33)	(40,033.43)	(24,677.64)	(33,449.89)	(26,867.57)	8.87%
Profit before tax	12,273.07	11,313.56	4,981.92	11,061.43	15,034.99	18,193.91	64.48%
Profit after tax	8,947.71	7,841.78	4,570.87	6,525.70	10,223.64	12,803.50	96.20%
Core EPS	12.71	11.14	2.77	3.96	6.21	7.77	96.21%

2. Statement of Financial Position

	FY18	FY19	FY20	Q3'21	FY21	Q3'22	Y/Y Change (%)
Government Securities	129,726.93	145,021.45	163,546.56	210,701.97	218,809.28	232,648.13	10.42%
Loans and Advances	239,575.08	249,355.41	248,497.90	238,165.54	244,037.96	266,110.05	11.73%
Total Assets	453,606.45	494,843.40	527,953.98	562,630.90	591,088.04	595,417.14	5.83%
Customer Deposits	341,028.78	378,237.04	421,504.45	447,622.94	469,890.08	462,113.33	3.24%
Total Liabilities	387,213.50	427,583.58	455,405.68	487,652.54	513,101.01	514,492.42	5.50%
Shareholder's Funds	66,033.14	66,992.61	72,348.52	74,824.93	77,863.10	80,924.72	8.15%

3. Key Metrics

	Q1'21	Q2'21	Q3'21	FY'21	Q1'22	Q2'22	Q3'22
Growth Metrics							
Loan book Growth	-1.10%	-3.51%	-4.62%	-1.79%	0.31%	4.55%	11.73%
Customer Deposits Growth	11.19%	12.00%	11.18%	11.48%	7.21%	7.12%	3.24%
PAT Growth	60.18%	89.77%	192.05%	201.79%	25.27%	50.80%	64.48%
Spreads Analysis							
Yield on Assets	9.99%	10.16%	10.02%	9.67%	9.69%	9.88%	10.12%
Cost of Funds	4.23%	4.18%	4.14%	4.18%	4.32%	4.33%	4.43%
Net Interest Margin	5.90%	6.11%	6.09%	5.62%	5.60%	5.73%	5.96%
ROaE	8.08%	9.14%	11.81%	13.61%	13.97%	17.27%	21.19%
ROaA	1.10%	1.25%	1.59%	1.83%	1.91%	2.33%	2.85%
Profit Margin	23.96%	19.30%	17.98%	20.80%	25.94%	26.81%	27.96%
Operating Efficiency							
Cost of Income Less LLP	43.34%	43.13%	42.74%	42.18%	42.52%	39.75%	40.49%
Cost of Assets	0.95%	1.92%	2.76%	3.51%	0.95%	1.91%	3.11%
Loan to Deposit	56.00%	54.79%	53.21%	51.94%	52.39%	53.47%	57.59%
Asset Quality							
NPL	14.72%	16.67%	17.01%	16.02%	16.32%	13.48%	12.56%
NPL Coverage	65.01%	67.97%	70.18%	73.64%	72.57%	62.78%	65.25%
Cost of Risk	22.30%	24.53%	25.27%	25.87%	19.20%	19.17%	18.19%
Capital Adequacy							
Core Capital/TRWA	18.19%	19.22%	19.01%	19.01%	18.03%	19.75%	18.38%
Total Capital /TRWA	18.34%	19.40%	19.08%	19.08%	18.04%	21.83%	18.43%
Liquidity	58.70%	55.06%	55.06%	61.72%	55.06%	55.06%	55.58%



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