



**KCB Group
HY'24 Earnings
Note**



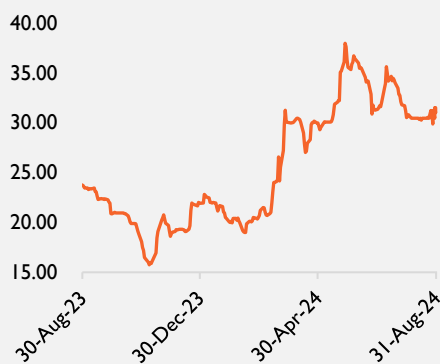
KCB Group HY'24 Earnings Note

September 2nd, 2024

Ticker Information

NSE Code:	KCB
Bloomberg Ticker	KNCB:KN
Issued Shares (Bn):	3.21
52-week high:	KES 39.50
52-week low:	KES 15.00

Chart 1: Price Trend (Last 12 Months)



Source: NSE, AIB-AXYS Research

Historical Share Performance

Last	1M	3M	6M	12M
Change	4.9%	-8.5%	52.4%	13.3%

Source: NSE, AIB-AXYS Research

Analysts

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Recommendation

BUY

Current Price

KES 32.30

Target Price

KES 44.25

Summary

- **KCB Group HY'24 earnings surpassed in-house expectations to post an outsized 86.4% y/y surge in net earnings to KES 29.92Bn and an impressive 1020bps jump in the Group return on equity to 26.1% over the first half of 2024.** Performance was largely driven by a 34.8% jump in net interest incomes coupled with a 20.8% growth in non-interest incomes.
- **The Board of Directors elected to resume dividends in HY'24 after six consecutive quarters of a pause to resolve capital adequacy concerns in KCB Bank Kenya.** The dividend will be paid on or about 30th October 2024 to shareholders on register as of 12th September 2024.

Key Highlights

- **Burning Both Ends of the Candle:** Net Interest Incomes soared 34.9% y/y to KES 61.32Bn driven by accelerated loan demand and ongoing price optimization. Non-funded income grew 20.8% y/y to KES 14.53Bn. Total operating expenses (excluding provisions) however grew mildly by 11.7% to KES 56.51Bn – leading to an 850bps y/y improvement in the cost-to-income ratio to 46.8%. The widening of Operating JAWS was supported by a retracement of one-off expenses recorded in the previous fiscal year as well as a surge in interest incomes from customer assets and investment securities.
- **Snowballing Pressure on Asset Quality:** The stock of Gross Non-Performing Loans (NPLs) accelerated to 16.5% y/y to KES 212.08Bn – arising largely from increased downgrades in the SME and Micro enterprise sectors. NPLs were highest in the agriculture, energy and construction sectors. In response to the 110bps y/y rise in the NPL ratio to 18.5%, management jacked up credit impairment provisions by 19.7% y/y – signaling a cautious approach.

Balance Sheet Dynamics

KCB Group's total deposits grew 1.3% y/y to KES 1.49Tn – even as organic deposit mobilization was weighed down by regional currency depreciation. Notably, the proportion of term and call deposits increased from 27% to 31% - signaling renewed pressures on the overall cost of funds. While the deposit mix between retail and corporate segment was broadly balanced across the region, 68% of the deposits were denominated in local currency. The bulk of additional lending was channeled towards households and businesses in trade, tourism and manufacturing sectors – which unluckily witnessed elevated delinquency rates.

Gross loans extended grew by 9.6% to KES 1.15Tn with the bulk of loans extended to the corporate sector. The proportion of Stage 1 loans increased from 65.8% to 66.9% of total gross loans. The bulk of the loans were extended to households and businesses in the trade, tourism and manufacturing sectors.

The average yield on interest earning assets paced up 170bps y/y to 11.5% - on account of higher market reinvestment yields and improved credit pricing power. The cost of funds however quickened 130bps y/y across subsidiaries to 4.6% owing to the rising rate landscape. Consequently, the trailing net interest margin widened 40bps y/y to 6.9%.

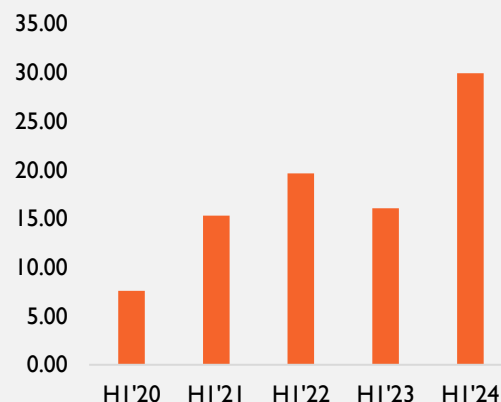
Subsidiary Performance

The Group recorded a broad-based improvement in performance across all subsidiaries except KCB Burundi and KCB Uganda. The Group weighted average ROE improved to 15.9% to 26.1%. Subsidiaries posted remarkable growth over the first half of 2024 led by South Sudan – which posted a 98% growth in revenues while the ROE shot up to 51% from 25.2% a year prior. Operating revenues in Kenya similarly surged 32% to KES 59.5Bn. whereas Trust Merchant Bank in DRC, posted a 29% y/y revenue growth to KES 25.8Bn.

Recommendation

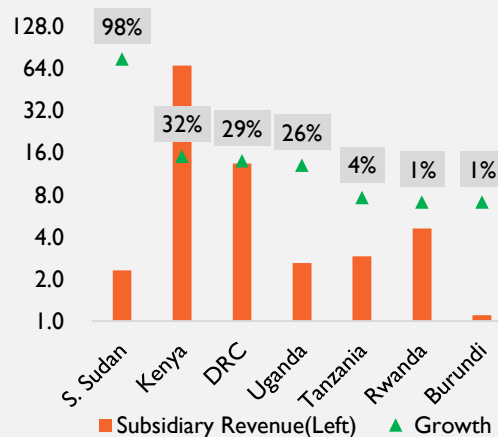
- **We maintain our BUY recommendation on KCB Group on account of its strategic turnaround and a bounce back into accelerated profitability.** At the current market price, the stock is trading at P/E ratio of 1.8x and a P/B ratio of 0.4x. Our one-year target price for KCB Group currently stands at KES 44.25 per share - representing a c.37.0% upside potential from current levels.

Chart 2: Group Net Profitability Trends



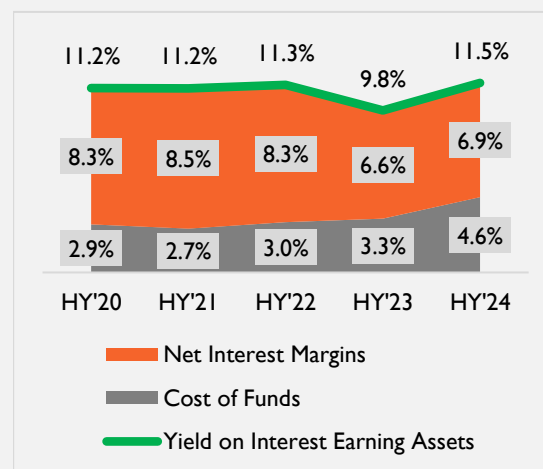
Source: Company filings, AIB-AXYS Research.

Chart 3: Agile Subsidiary Revenue Growth



Source: Company filings, AIB-AXYS Research.

Chart 4: Shrinking Net Interest Margin



Source: Company filings, AIB-AXYS Research.

Income Statement (KES Mn)	HY'20	HY'21	HY'22	HY'23	HY'24	y/y % Change
Net Interest Income	31,069.6	36,416.3	40,591.5	45,508.3	61,327.2	▲ 34.8%
Net non-Interest Income	13,963.6	14,793.6	19,215.6	27,560.0	33,294.3	▲ 20.8%
Total Operating income	45,033.2	51,209.9	59,807.1	73,068.4	94,621.4	▲ 29.5%
Provision for Impairment	(11,027.2)	(6,583.2)	(4,318.7)	(10,191.4)	(12,199.8)	▲ 19.7%
Total Operating expenses	(32,208.4)	(29,294.2)	(31,628.8)	(50,611.0)	(56,509.3)	▲ 11.7%
Profit before tax	12,824.8	21,915.7	28,178.4	22,457.4	38,112.1	▲ 69.7%
Profit after tax	7,577.6	15,300.9	19,646.6	16,057.4	29,923.5	▲ 86.4%
Core EPS Annualized	4.72	9.52	12.23	9.99	18.62	▲ 86.4%
Dividend Per Share	3.50	1.00	2.00	2.00	0.00	▼ (100.0%)

Balance Sheet (KES Mn)	HY'20	HY'21	HY'22	HY'23	HY'24	y/y % Change
Government Securities	208,523.0	213,040.1	277,844.0	307,787.5	357,065.2	▲ 16.0%
Loans and Advances	559,884.3	606,967.4	730,335.5	964,808.7	1,032,170.3	▲ 7.0%
Total Assets	953,071.5	1,022,153.0	1,210,107.5	1,864,591.1	1,976,856.2	▲ 6.0%
Customer Deposits	758,241.3	786,035.1	908,573.1	1,471,246.4	1,490,592.6	▲ 1.3%
Total Liabilities	820,932.8	869,233.4	1,028,357.8	1,646,593.6	1,728,602.7	▲ 5.0%
Shareholder's Funds	132,138.7	152,919.6	179,113.2	211,232.0	241,006.8	▲ 14.1%

Ratio Analysis	HY'20	HY'21	HY'22	HY'23	HY'24	y/y % Change
Spreads Analysis						
Yield on Assets	11.2%	11.2%	11.3%	9.8%	11.5%	▲ 1.7%
Cost of Funds	2.9%	2.7%	3.0%	3.3%	4.6%	▲ 1.3%
Net Interest Margin	8.3%	8.5%	8.3%	6.6%	6.9%	▲ 0.4%
ROE	16.0%	18.9%	23.2%	19.1%	22.7%	▲ 3.6%
ROA	2.4%	2.7%	3.5%	2.4%	2.7%	▲ 0.2%
Profit Margin	16.8%	29.9%	32.8%	22.0%	31.6%	▲ 9.6%

Operating Efficiency	HY'20	HY'21	HY'22	HY'23	HY'24	y/y % Change
Cost to Income Less LLP	47.0%	44.3%	45.7%	55.3%	46.8%	▼ (8.5%)
Cost to Assets Less LLP	2.2%	2.2%	2.3%	2.2%	2.2%	▲ 0.1%
Loan to Deposit Ratio	73.8%	77.2%	80.4%	65.6%	69.2%	▲ 3.7%

Asset Quality	HY'20	HY'21	HY'22	HY'23	HY'24	y/y % Change
Total NPL Ratio	14.1%	14.6%	21.8%	17.5%	18.6%	▲ 1.1%
NPL Coverage	56.9%	61.6%	45.8%	51.1%	65.9%	▲ 14.8%
Cost of Risk	2.0%	1.1%	0.6%	1.1%	1.2%	▲ 0.1%

Capital Adequacy	HY'20	HY'21	HY'22	HY'23	HY'24	y/y % Change
Core Capital/TRWA	17.9%	18.2%	17.7%	15.0%	17.8%	▲ 2.8%
Total Capital /TRWA	19.5%	21.8%	21.6%	18.4%	20.3%	▲ 1.9%
Liquidity	40.0%	0.0%	39.0%	52.1%	47.9%	▼ (4.2%)



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