



**NCBA Group
FY'23 Earnings
Note**





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April 2nd, 2024

Ticker Information

NSE Code:	NCBA
Issued Shares (Bn):	1.65
52-week high:	KES 44.55
52-week low:	KES 30.70

Recommendation Current Price Target Price

BUY	KES 43.80	KES 50.80
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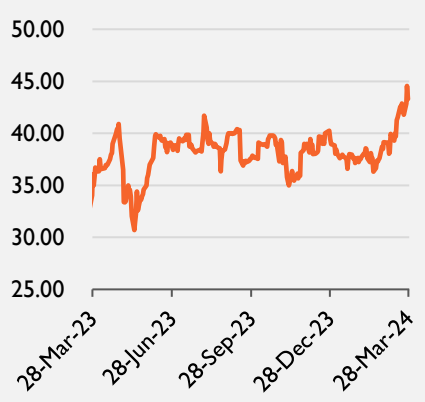
Summary

- **NCBA Group surpassed in-house expectations to post an outsized 55.7% y/y growth in net earnings to KES 21.46Bn throughout 2023.** Revenue growth was propelled by balanced performance across regional core banking and non-banking subsidiaries. Net interest margins narrowed 20bps to 5.5%, as soaring cost of funds more than offset the lagged growth in yields on interest-earning assets.
- **The Board of Directors recommend a final dividend of KES 3.00 per share.** In addition to the earlier issued interim dividend of KES 1.75, this raises the total FY'23 dividend to KES 4.75. This distribution fell within our expectation – translating to a dividend payout ratio of 36.5%. The dividend will be payable on 29th May 2024 to shareholders on register as of 30th April 2024.

Key Highlights

- **Resilient Core Banking Performance:** Net Interest Income surged by 12.8% y/y to KES 34.60Bn fueled by organic demand growth and upward credit pricing whereas non-funded income contracted by 3.9% y/y to KES 29.08Bn mainly grounded by the margin-induced decline in forex trading income. The average Yield on Interest Earning Assets paced up by 102bps y/y to 11.08% - albeit slower than the surge in cost of funds which soared 121bps y/y to 5.54% mirroring the rising interest rate landscape. The lagged return in reinvestment returns owed to slower loan book repricing and longer average duration of existing investment securities.
- **Enhanced Asset Quality:** Gross Non-Performing Loans (NPLs) lifted moderately by 13.9% y/y to KES 44.55Bn, slower than healthy loans underwritten - prompting a decline of the NPL ratio by 60bps to 12.6%. The contained NPL ratio outcome stemmed from a significant write-down of legacy credit delinquencies, despite a comparable surge in downgrades in the period. Management nevertheless contracted credit impairment provisions by 29.9% y/y, signaling confidence in their credit portfolio performance over coming quarters.

Chart 1: Price Trend (Last 12 Months)



Source: NSE, AIB-AXYS Research

Historical Share Performance

Last	1M	3M	6M	12M
Change	11.9%	11.0%	16.2%	21.5%

Source: NSE, AIB-AXYS Research

Analysts

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Balance Sheet Dynamics

Customer deposits surged 15.3% y/y to KES 579.40Bn driven by accelerated customer onboarding and retention efforts. The bulk of the growth emerged from term deposits, which tilted the CASA ratio to 52:48. Notably, foreign currency-denominated deposits experienced a remarkable 40.0% y/y increase, contrasting with the modest 5.0% y/y growth in local currency deposits. The Loan book grew 20.8% to KES 337.02Bn driven by accelerated digital disbursements which grew increased 27.0% y/y to KES 930Bn. At present, 88% of the credit portfolio is performing. Management also announced the receipt of a USD 50Mn facility from *Proparco* to mobilize funding towards sustainable financing.

Pressurized Efficiency

The Cost-to-Income ratio (excluding loan-loss provisions) increased 487bps y/y to 45.7%. The rise in operating expenses was fueled by augmented investments in enhancing the digital banking infrastructure as well as talent acquisition and reward strategies. Management reaffirmed their target to optimize their cost-to-income ratio at 45% in 2024, emphasizing the ongoing commitment to maintaining operational efficiency in spite of ongoing strategic investments.

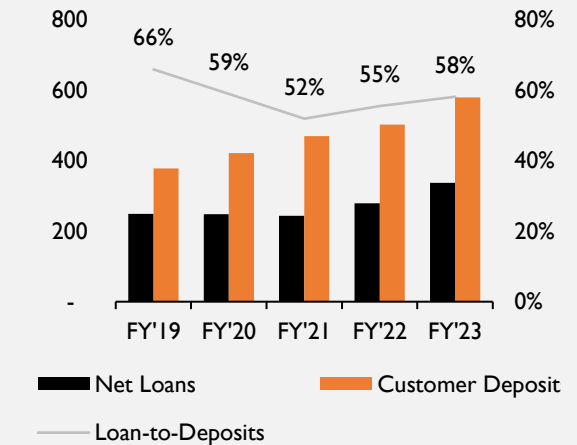
Outlook

We foresee the lender's growth being driven by balanced growth across both core banking and non-banking subsidiaries. We anticipate increasing returns to scale from the deepening digital uptake across regional markets such as Tanzania, Uganda, and Rwanda and Ivory Coast. We expect ongoing expansion of the loan book, mediated via digital distribution channels. Further, we anticipate the acquisition of AIG Insurance Kenya later in the year to ramp up overall earnings from increased underwriting and cross-selling via existing product lines such as asset finance.

Recommendation

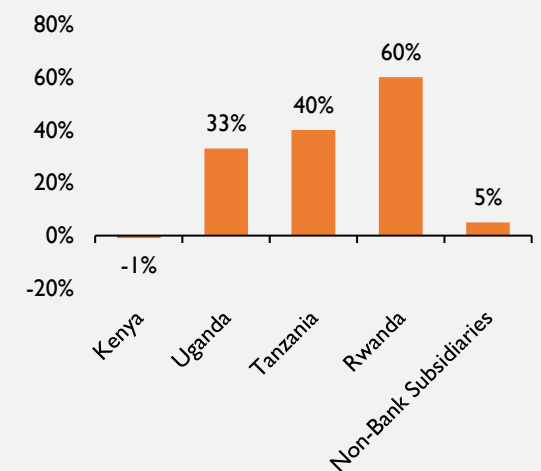
- **We maintain our BUY recommendation on NCBA Group underpinned by its promising return on equity trajectory and robust commercial momentum across business segments.** At the current market price, the stock is trading at P/E ratio of 3.4x and a P/B ratio of 0.7x. Our one-year target price for NCBA currently stands at KES 50.80 - representing a c.16.0% upside potential from current levels.

Chart 2: Faster Loan Book Expansion.



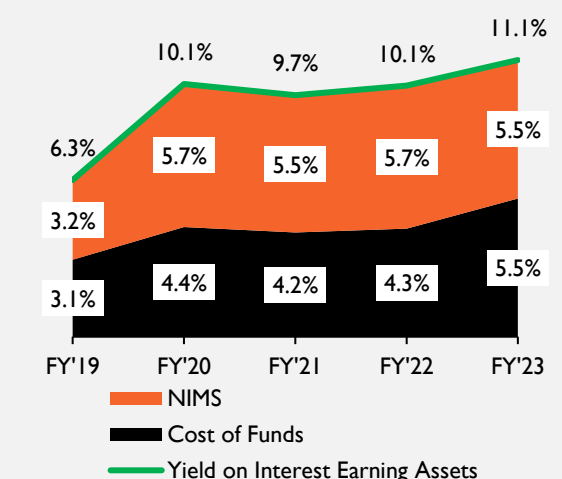
Source: Company filings, AIB-AXYS Research.

Chart 3: Enhanced Subsidiary Revenue Growth



Source: Company filings, AIB-AXYS Research.

Chart 4: Pressurized Net Interest Margins



Source: Company filings, AIB-AXYS Research.

Income Statement (KES Bn)	FY'19	FY'20	FY'21	FY'22	FY'23	% y/y Change
Net Interest Income	13.34	25.49	27.04	30.68	34.60	▲ 12.8%
Non-Interest Income	20.32	20.94	22.11	30.26	29.08	▼ (3.9%)
Total Operating income	33.66	46.44	49.15	60.94	63.68	▲ 4.5%
Provision for Impairment	(6.25)	(20.44)	(12.72)	(13.06)	(9.16)	▼ (29.9%)
Total Operating expenses	(20.36)	(40.03)	(33.45)	(37.92)	(38.24)	▲ 0.8%
Profit before tax	11.31	4.98	15.03	22.49	25.48	▲ 13.3%
Profit after tax	7.84	4.57	10.22	13.78	21.46	▲ 55.7%
Core EPS Annualized	11.14	2.77	6.21	8.36	13.02	▲ 55.7%
DPS	1.75	1.50	3.00	4.25	4.75	▲ 11.8%

Balance Sheet (KES Bn)	FY'19	FY'20	FY'21	FY'22	FY'23	% y/y Change
Investment Securities	145.02	163.55	218.81	228.78	239.78	▲ 4.8%
Loans and Advances	249.36	248.50	244.04	278.92	337.02	▲ 20.8%
Total Assets	494.84	527.95	591.09	619.66	734.62	▲ 18.6%
Customer Deposits	378.24	421.50	469.89	502.68	579.40	▲ 15.3%
Total Liabilities	427.58	455.41	513.10	537.24	637.96	▲ 18.7%
Shareholder's Funds	66.99	72.35	77.86	82.42	96.66	▲ 17.3%

Ratio Analysis	FY'19	FY'20	FY'21	FY'22	FY'23	% y/y Change
Spreads Analysis						
Yield on Assets	6.3%	10.1%	9.7%	10.1%	11.1%	▲ 1.0%
Cost of Funds	3.1%	4.4%	4.2%	4.3%	5.5%	▲ 1.2%
Net Interest Margin	3.2%	5.7%	5.5%	5.7%	5.5%	▼ (0.2%)
ROE	11.8%	6.6%	13.6%	17.2%	24.0%	▲ 6.8%
ROA	1.7%	0.9%	1.8%	2.3%	3.2%	▲ 0.9%
Profit Margin	23.3%	9.8%	20.8%	22.6%	33.7%	▲ 11.1%
Operating Efficiency						
Cost to Income Less LLP	41.9%	42.2%	42.2%	40.8%	45.7%	▲ 4.9%
Cost to Assets Less LLP	2.9%	3.7%	3.5%	4.0%	4.0%	▼ (0.1%)
Loan to Deposit	65.9%	59.0%	51.9%	55.5%	58.2%	▲ 2.7%
Asset Quality						
Gross NPL Ratio	12.9%	15.0%	16.5%	13.3%	12.6%	▼ (0.6%)
NPL Coverage	55.9%	60.9%	73.6%	58.5%	55.2%	▼ (3.3%)
Cost of Risk	18.6%	44.0%	25.9%	21.4%	14.4%	▼ (7.1%)
Capital Adequacy						
Core Capital/TRWA	16.6%	17.3%	19.0%	18.4%	18.0%	▼ (0.4%)
Total Capital /TRWA	17.3%	17.5%	19.1%	18.4%	18.0%	▼ (0.4%)
Liquidity	51.8%	55.1%	61.7%	55.1%	52.9%	▼ (2.2%)



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