



Earnings Note

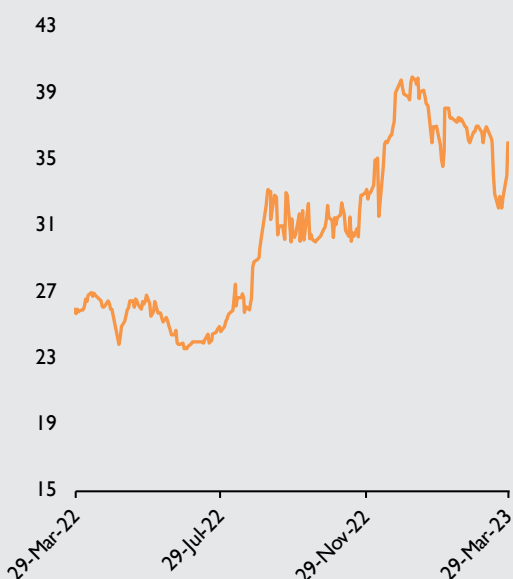


Company details

Bloomberg Ticker	NCBA:KN
NSE Code:	NCBA
Issued Shares (Bn)	1.65
52-week high:	40.00
52-week Low	23.60

As at 29th March 2023

Price chart – Last 12 Months



AIB-AXYS Research, NSE

Historical Price Performance

	1m	3m	6m	12m
Absolute	-1.77%	-9.42%	18.20%	38.65%

AIB-AXYS Research, NSE

Analysts

Solomon Kariuki

ks@aib-axysafrica.com

Faith Sang

fsang@aib-axysafrica.com

March 29th 2023

NCBA Group FY'22 Earnings Note

Recomm: BUY

Current Price: KES 35.00

Target Price: KES 44.10

Summary

- NCBA Group released their FY'22 earnings results posting a 34.77% climb in EPS & PAT** to KES 8.36/share and KES 13.78Bn respectively driven by a 13.47% increase in net interest income and a 36.82% growth in non-interest income. Trailing ROaE & ROaA improved to 17.19% & 2.28% respectively in FY'22. NIMs remained adequate at 5.89% while the profit margin edged up 181bps y/y to 22.61%. In line with our expectation, the board of directors recommended a final dividend of KES 2.25 in FY'22 taking the total dividend paid out in FY'22 to KES 4.25 representing a 41.67% increase from KES 3.00 paid out in FY'21. The book closure of the dividends is set for 28th April 2023 while payment date is set for 31st May 2023
- Loan book grew 14.29% y/y to KES 278.92Bn faster than the 6.98% y/y growth in the customer deposits to KES 502.68Bn** leading to a 355bps growth in the loan deposit ratio to 55.49%. We observed considerable growth in Total Assets of the group (+4.83%) to 619.66Bn, (+24.80%) in digital loans disbursement to KES 729.00Bn from KES 584.00Bn in FY'21 and a 5.85% increase in shareholder funds to 82.42Bn from KES 77.63Bn recorded the prior year. NCBA Investment Bank recorded a 13.20% jump in PAT to KES 268.28Mn from 236.99Mn in FY'21. The dollar Investment Fund under the Unit trust business recorded a 19.72x loss in PAT to (KES 948.06Mn) from KES 50.66Mn recorded in FY'21 mainly attributable to the weakening of the shilling against the dollar. Allocation to government securities grew 456bps y/y to 228.78Bn in FY'22 driven by hunt for higher yields

Key Highlights

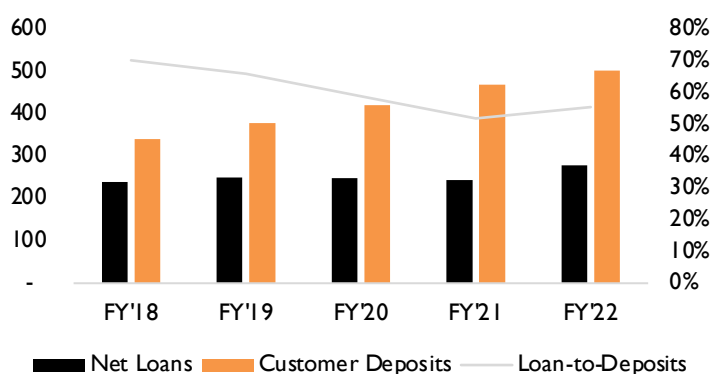
- Net Interest income lags Non-funded Income:** Net Interest Income grew 13.47% y/y to 30.68Bn slower than a 36.82% y/y increase in Non-Funded income to KES 30.26Bn mainly driven by a 4.29% y/y jump in income from loan fees and commissions. Furthermore, the impact of the prevailing dollar shortage and Kenya shilling depreciation challenges were seen in the Forex trading income growth of 1.47x to KES 12.50Bn from KES 5.06Bn in FY'21, as the bid/ask spreads have widened to between 5-8.00% of the CBK indicative rate. On a trailing basis, Yield on assets grew 39ps y/y to 10.06% as income from government papers grew faster than interest earning assets in the year. Cost of funds edged up 15bps to 4.33% y/y from 4.18% in FY'21. Subsequently, profitability margin increased 181bps y/y to 22.61% and the Net Interest Margin (NIM) grew 27bps y/y to 5.89%
- Digital transactions boosts efficiency:** The Cost to Income ratio less impairment fell 139bps on a year-on-year basis to 40.80% from 46.99% mainly attributed to faster operating income growth (+23.97% y/y) to KES 60.94Bn compared to a 13.37% y/y increase in operating expenses to KES 37.92Bn from KES 33.45Bn in FY'21. Contrary to FY'21 industry trend, Loan loss provisions grew albeit marginally 2.72% y/y to KES 13.06Bn indicating increased lending risk.
- Asset Quality improves:** Gross NPLs declined 11.75% y/y to KES 39.13Bn lower than loan book growth, leading to the NPL ratio declining 3bps y/y to 12.97% slightly lower than the latest industry average of 13.30%. Additionally, the NPL Coverage declined 152bps y/y to 58.47% from 73.64% in FY'21. We expect the asset quality to continue under pressure given the heightened political risks slowing economic growth.

Outlook – Efficiency improvements are an indication that investments made in digital transaction channels have been fruitful. We expect future growth to be driven by; 1) Expected continued growth of Digital loan product business Fuliza and M-shwari. 2) Reintroduction of Bank to Wallet transactions that'll contribute to loan book growth 3) Expected approval of the lender's risk-based pricing model that'll facilitate loan book growth. However, Deteriorating local & global macroeconomic conditions will lead to continuous pressure on the company's loan book.

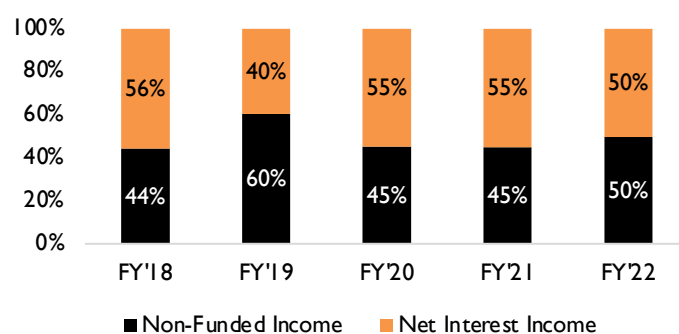
Valuation- NCBA is currently trading at a P/B multiple of 0.72x against an industry median of 0.77x. The counter closed today's trading at KES 35.00, which represented a 2.91% decline from the previous trading session. We expect the impressive results and attractive dividend to excite investors and is likely lead to a share price recovery in the coming days. As such, we maintain our **BUY** recommendation on the counter given the upside potential as well as the dividend yield of 12.14%.

NCBA Group FY'22 Earnings Charts

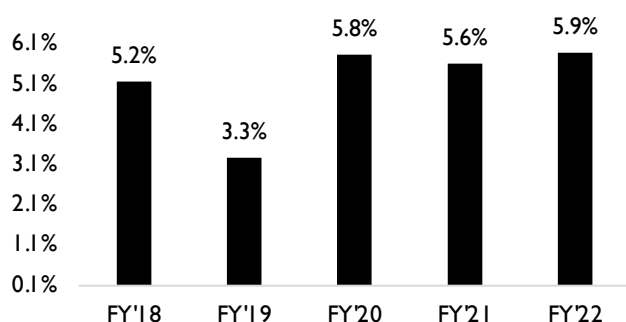
Graph 1: Customer Deposits continue to drive Balance sheet growth



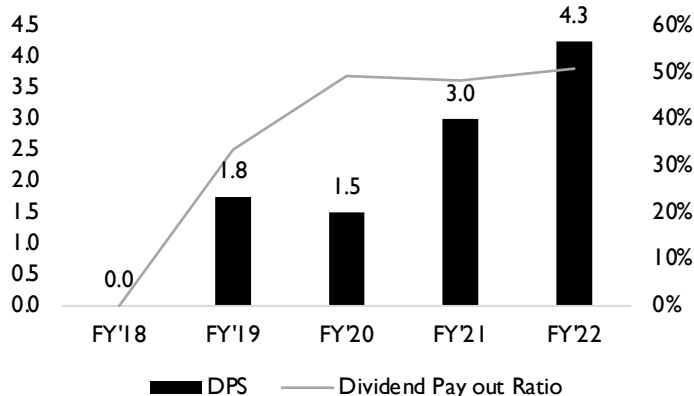
Graph 2: Revenue mix continues to favor Net Interest Income



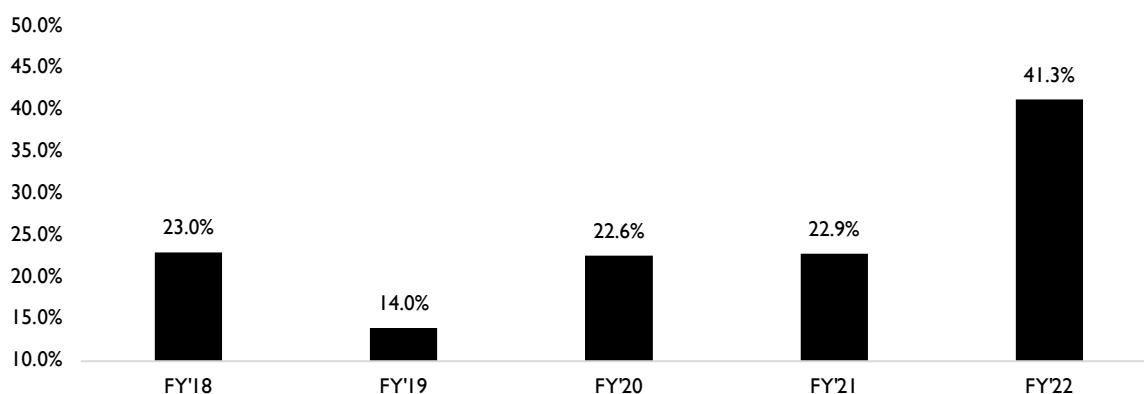
Graph 3: We observed an uptick in Net Interest Margins



Graph 4: Dividend Payout Ratio improved marginally



Graph 5: Forex Income as a % of Net Income edged up



Source: Company Filings, AIB-AXYS Analyst Estimates

Financial Statement Summary

I. Statement of Profit and Loss

Income Statement	FY20	FY'21	Q1'22	Q2'22	Q3'22	FY'22	y/y % Change	FY'22e	Variance
Net Interest Income	25,493.29	27,036.95	7,092.93	14,799.97	23,247.38	30,678.53	13.47%	31,021.19	-1.10%
Net non-Interest Income	20,943.36	22,114.30	6,056.96	14,182.46	22,538.67	30,256.63	36.82%	28,545.64	5.99%
Total Operating income	46,436.65	49,151.26	13,149.88	28,982.43	45,786.05	60,935.16	23.97%	59,566.83	2.30%
Provision for Impairment	(20,441.27)	(12,716.52)	(2,525.05)	(5,556.49)	(8,327.25)	(13,062.53)	2.72%	(11,005.51)	18.69%
Total Operating expenses	(40,033.43)	(33,449.89)	(8,116.88)	(17,077.60)	(26,867.57)	(37,922.27)	13.37%	(34,697.72)	9.29%
Profit before tax	4,981.92	15,034.99	4,848.34	11,180.27	18,193.91	22,491.53	49.59%	24,113.24	-6.73%
Profit after tax	4,570.87	10,223.64	3,411.48	7,770.64	12,803.50	13,778.03	34.77%	16,396.76	-15.97%
Core EPS	2.77	6.21	2.07	4.72	7.77	8.36	34.77%	9.95	-15.97%
DPS	1.50	3.00	-	2.00	-	4.25	41.67%	2.00	12.50%

2. Statement of Financial Position

	FY20	FY'21	Q1'22	Q2'22	Q3'22	FY'22	y/y % Change	FY'22e	Variance
Government Securities	163,546.56	218,809.28	223,157.85	232,944.79	232,648.13	228,777.60	4.56%	241,855.65	-5.41%
Loans and Advances	248,497.90	244,037.96	243,899.34	250,498.70	266,110.05	278,920.80	14.29%	277,079.29	0.66%
Total Assets	527,953.98	591,088.04	591,088.04	591,088.04	591,088.04	619,661.64	4.83%	615,571.39	0.66%
Customer Deposits	421,504.45	469,890.08	465,535.87	468,489.12	462,113.33	502,675.95	6.98%	480,402.40	4.64%
Total Liabilities	455,405.68	513,101.01	513,101.01	513,101.01	513,101.01	537,239.95	4.70%	528,110.36	1.73%
Shareholder's Funds	72,348.52	77,863.10	80,181.24	80,178.63	80,884.39	82,421.69	5.85%	86,022.26	-4.19%

3. Key Metrics

	FY'20	FY'21	Q1'22	Q2'22	Q3'22	FY'22
Growth Metrics (y/y)						
Loan book Growth	-0.34%	-1.79%	0.31%	4.55%	11.73%	14.29%
Customer Deposits Growth	11.44%	11.48%	7.21%	7.12%	3.24%	6.98%
PAT Growth	-41.71%	123.67%	20.33%	66.85%	96.20%	34.77%
Spreads Analysis						
Yield on Assets	10.13%	9.67%	9.69%	9.87%	10.12%	10.06%
Cost of Funds	4.40%	4.18%	4.32%	4.33%	4.43%	4.33%
Net Interest Margin	5.84%	5.62%	5.60%	5.72%	5.96%	5.89%
ROaE	6.56%	13.61%	13.97%	17.27%	21.20%	17.19%
ROaA	0.89%	1.83%	1.91%	2.35%	2.86%	2.28%
Profit Margin	9.84%	20.80%	25.94%	26.81%	27.96%	22.61%
Operating Efficiency						
Cost of Income Less LLP	42.19%	42.18%	42.52%	39.75%	40.49%	40.80%
Cost of Assets	3.71%	3.51%	0.95%	1.95%	3.14%	4.01%
Loan to Deposit	58.95%	51.94%	52.39%	53.47%	57.59%	55.49%
Asset Quality						
NPL	14.68%	16.02%	16.32%	13.60%	12.56%	12.97%
NPL Coverage	60.93%	73.64%	72.57%	62.24%	65.25%	58.47%
Cost of Risk	8.23%	5.21%	1.04%	2.22%	3.13%	4.68%
Capital Adequacy						
Core Capital/TRWA	17.31%	19.01%	18.03%	19.75%	18.38%	18.36%
Total Capital /TRWA	17.48%	19.08%	18.04%	19.96%	17.45%	18.42%
Liquidity	55.06%	61.72%	55.06%	55.06%	55.06%	53.20%

Source: Company Filings, AIB-AXYS Estimates



Research Desk

Solomon Kariuki
Research Analyst

Faith Sang
Research Analyst

Equities Dealing

Nina Goswami

Bernard Kung'u

Bernard Gichuru

Brian Tanui

Samuel Githinji

Sheema Shah

Samuel Wachira

Benson Ngugi

Bonds Dealing

Crispus Otieno

Titus Marenye

Aundrina Musyoka

Kenneth Minjire

Email: research@aibaxysafrica.com

Email: trading@aib-axysafrica.com

Disclaimer

AIB-AXYS Africa and its parent company AXYS Group seek to do business with companies covered in their research reports. Consequently, a conflict of interest may arise that could affect the objectivity of this report. This document should only be considered a single factor used by investors in making their investment decisions. The reader should independently evaluate the investment risks and is solely responsible for their investment decisions. The opinions and information portrayed in this report may change without prior notice to investors.

This publication may not be distributed to the public media or quoted or used by the public media without prior and express written consent of AIB-AXYS Africa or AXYS Group.

This document does not constitute an offer, or the solicitation of an offer, for the sale or purchase of any security. Whilst every care has been taken in preparing this document, no representation, warranty or undertaking (express or implied) is given and no responsibility or liability is accepted by AIB-AXYS Africa or any of its employees as to the accuracy of the information contained and opinions expressed in this report.