



## Earnings Note

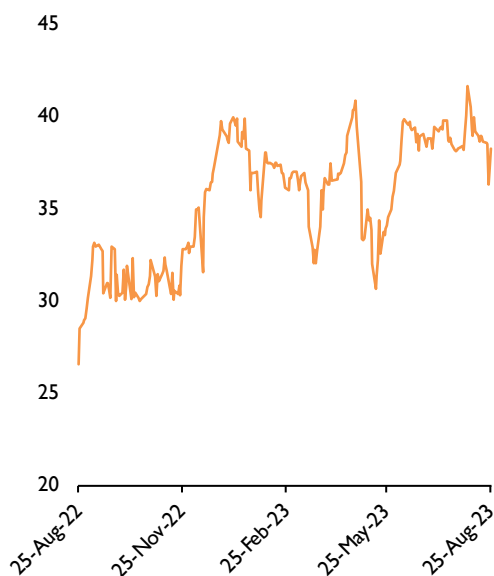


## Company details

<b>Bloomberg Ticker</b>	NCBA:KN
<b>NSE Code:</b>	NCBA
<b>Issued Shares (Bn)</b>	1.65
<b>52-week high:</b>	41.70
<b>52-week Low</b>	26.60

As at 25<sup>th</sup> August 2023

### Price chart – Last 12 Months



AIB-AXYS Research, NSE

### Historical Price Performance

	1m	3m	6m	12m
<b>Absolute</b>	<b>0.39%</b>	<b>12.15%</b>	<b>6.15%</b>	<b>43.98%</b>

AIB-AXYS Research, NSE

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August 28<sup>th</sup> 2023

## NCBA Group HY'23 Earnings Note

**Recomm: BUY**

**Current Price: KES 38.30**

**Target Price: KES 45.57**

### Summary

- NCBA Group released their HY'23 earnings results posting a 20.30% climb in EPS & PAT** to KES 5.67/share and KES 9.35Bn respectively driven by a 16.29% increase in net interest income and a 20.96% decline in Loan loss provisioning. Notably, subsidiary contribution to PBT increased with Kenya and Investment banking reducing their contribution. Trailing ROaE & ROaA improved to 18.23% & 2.43% respectively in HY'23. NIMs remained adequate at 5.99% while the profit margin edged up 332bps y/y to 30.13%. In line with our expectation, the board of directors recommended an interim dividend of KES 1.75 in HY'23 which was 12.50% lower than HY'22 interim DPS of KES 2.00. The book closure of the interim dividend is set for 14<sup>th</sup> September 2023 while payment date is set for 28<sup>th</sup> September 2023.
- Loan book grew 16.72% y/y to KES 292.38Bn faster than the 10.28% y/y growth in the customer deposits to KES 516.64Bn** leading to a 312bps growth in the loan deposit ratio to 56.59%. On a q/q basis, the loan book grew by 1.82% while customer deposits grew by 3.38%. We observed considerable growth in (+35.10% y/y) in digital loans disbursement to KES 458.00Bn from KES 339.00Bn in HY'22 driven by Fuliza disbursements at KES 391.00Bn (+35.76% y/y). If digital loans disbursement maintains the current pace in FY'23, we are likely to see a higher than the KES 729.00Bn disbursed in FY'22. Allocation to government securities declined marginally by 54bps y/y to KES 231.68Bn in HY'23 driven by portfolio reorganization and hunt for higher yields.

### Key Highlights

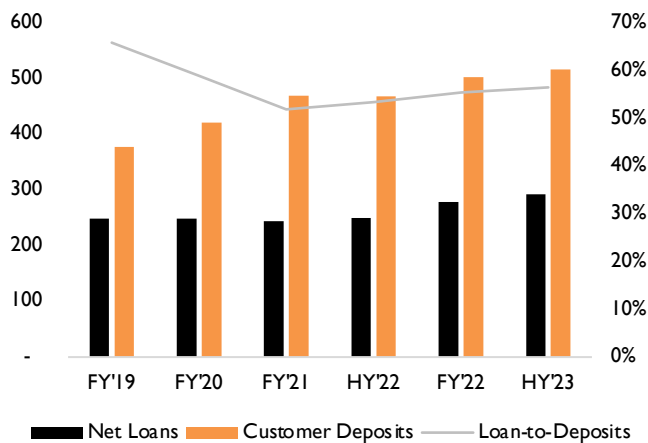
- Non-Funded Income lags Net Interest Income:** Net Interest Income grew 16.29% y/y to KES 17.21Bn faster than a surprise 2.61% y/y decline in Non-Funded income to KES 13.81Bn mainly driven by an 18.41% y/y decline Forex trading income. Forex trading income decline was a surprise given the impact of the prevailing dollar shortage and Kenya shilling depreciation challenges which have created arbitrage opportunities for banking sector players. Net Interest Income growth was slowed by a 29.65% y/y increase in interest expense (vs a 21.72% y/y growth in Interest income) signaling the increased cost of deposit mobilization. On a trailing basis, Yield on assets grew 60ps y/y to 10.47% as interest income grew faster than interest earning assets in the year. Cost of funds edged up 41bps to 4.74% y/y from 4.33% in HY'22 as the CASA/Term mix shifted to 52:48. Subsequently, Net Interest Margin (NIM) grew 27bps y/y to 5.99%.
- Physical Expansion Weighing Down on Efficiency:** The Cost to Income ratio less impairment worsened 625bps on a year-on-year basis to 46.00% from 39.75% mainly attributed to a slower operating income growth (+7.04% y/y) to KES 31.02Bn compared to a 9.29% y/y increase in operating expenses to KES 18.66Bn from KES 17.08Bn in HY'22. Contrary to the industry trend we have observed in 1H'23, Loan loss provisions declined 20.96% y/y to KES 4.39Bn. Lower provisioning indicates an improved lending risk outlook despite the deteriorating macro factors.
- Asset Quality improves:** Gross NPLs increased 14.59% y/y to KES 42.63Bn lower than loan book growth, leading to the NPL ratio declining 15bps y/y to 13.45% lower than the latest industry average of 14.50%. Additionally, the NPL Coverage declined 441bps y/y to 57.83% from 62.24% in HY'22. We expect the asset quality to continue under pressure given the heightened lending risks and challenged macro environment.

**Outlook** – We maintain a positive outlook for H2'23, driven by its core banking and non-banking subsidiaries as well as its increased lending through digital channels. We expect future growth to be driven by; 1) Loan book Growth; Expected continued growth of Digital loan product business Fuliza and M-shwari. The implementation of the lender's risk-based loan pricing model will also drive loan book growth and interest income 2) Non-Funded Income; Reintroduction of Bank to Wallet transactions, challenges in the forex trading market will continue providing trading fee opportunities 3) Physical expansion - We expect that continued network expansion through opening of new physical branches will lead to increased customer deposits and revenue growth. However, new branch network could lead to an increase operating expenses in the short-term but should translate to increased revenues in the long-term. However, Deteriorating local & global macroeconomic conditions will lead to continuous pressure on the company's loan book.

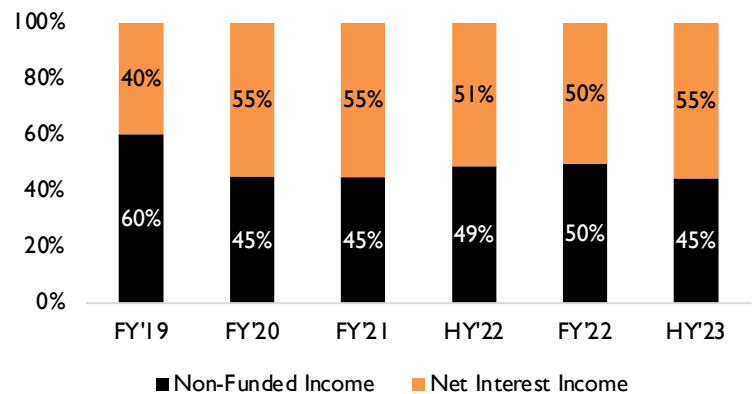
**Valuation**- NCBA is currently trading at a P/B multiple of 0.65x with a P/E of 3.37x, the current average market P/E is at 5.0x. The counter closed last week's trading at KES 38.30, being a YTD decline of 2.67%. We expect the impressive results and the interim dividend to excite investors and is likely lead to a share price mini-rally in the coming days. As such, we maintain our **BUY** recommendation on the counter given the upside potential.

## NCBA Group HY'23 Earnings Charts

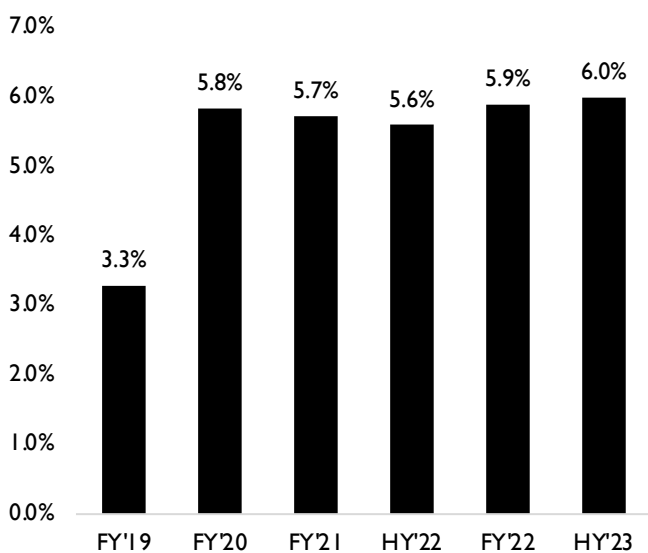
Graph 1: Customer Deposits continue to drive Balance sheet growth



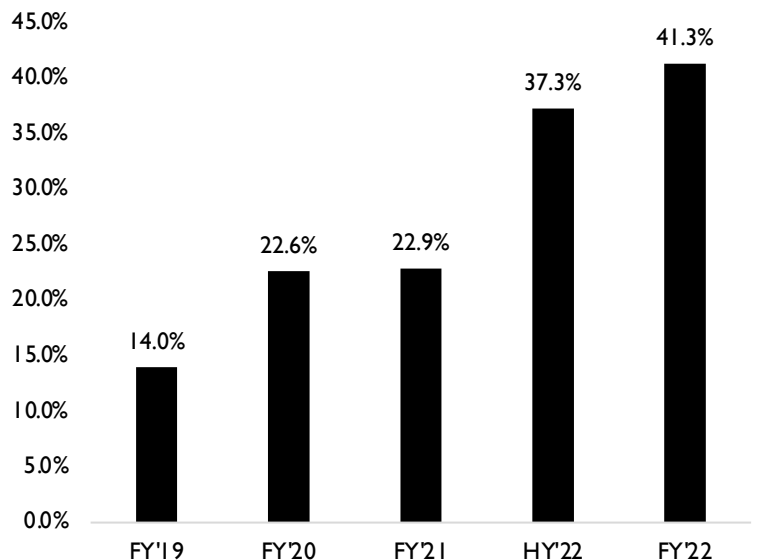
Graph 2: Revenue mix continues to favor Net Interest Income



Graph 3: We observed a marginal uptick in Net Interest Margins



Graph 4: Forex Income Remains a Key Driver of NFI (Forex as a % of NFI)



Source: Company Filings, AIB-AXYS Analyst Estimates

## Financial Statement Summary

### I. Statement of Profit and Loss

	FY'19	FY'20	FY'21	HY'22	FY'22	HY'23	% y/y Change
Net Interest Income	13.34	25.49	27.04	14.80	30.68	17.21	16.29%
Net non-Interest Income	20.32	20.94	22.11	14.18	30.26	13.81	-2.61%
<b>Total Operating income</b>	<b>33.66</b>	<b>46.44</b>	<b>49.15</b>	<b>28.98</b>	<b>60.94</b>	<b>31.02</b>	<b>7.04%</b>
Provision for Impairment	(6.25)	(20.44)	(12.72)	(5.56)	(13.06)	(4.39)	-20.96%
Total Operating expenses	(20.36)	(40.03)	(33.45)	(17.08)	(37.92)	(18.66)	9.29%
<b>Profit before tax</b>	<b>11.31</b>	<b>4.98</b>	<b>15.03</b>	<b>11.18</b>	<b>22.49</b>	<b>12.36</b>	<b>10.54%</b>
<b>Profit after tax</b>	<b>7.84</b>	<b>4.57</b>	<b>10.22</b>	<b>7.77</b>	<b>13.78</b>	<b>9.35</b>	<b>20.30%</b>
Core EPS	11.14	2.77	6.21	9.43	8.36	11.35	20.30%
DPS	1.75	1.50	3.00	2.00	4.25	1.75	-12.50%

### 2. Statement of Financial Position

	FY'19	FY'20	FY'21	HY'22	FY'22	HY'23	% y/y Change
Government Securities	145.02	163.55	218.81	232.94	228.78	231.68	-0.54%
Loans and Advances	249.36	248.50	244.04	250.50	278.92	292.38	16.72%
<b>Total Assets</b>	<b>494.84</b>	<b>527.95</b>	<b>591.09</b>	<b>604.30</b>	<b>619.66</b>	<b>660.32</b>	<b>9.27%</b>
Customer Deposits	378.24	421.50	469.89	468.49	502.68	516.64	10.28%
Total Liabilities	427.58	455.41	513.10	524.04	537.24	572.01	9.15%
Shareholder's Funds	66.99	72.35	77.86	80.18	82.42	88.32	10.15%

### 3. Key Metrics

	FY'19	FY'20	FY'21	HY'22	FY'22	HY'23
<b>Growth Metrics (y/y)</b>						
Loan book Growth	4.08%	-0.34%	-1.79%	4.55%	14.29%	16.72%
Customer Deposits Growth	10.91%	11.44%	11.48%	7.12%	6.98%	8.12%
PAT Growth	-7.82%	-55.97%	201.79%	50.80%	49.59%	10.54%
<b>Spreads Analysis</b>						
Yield on Assets	6.28%	10.13%	9.67%	9.87%	10.06%	10.47%
Cost of Funds	3.08%	4.40%	4.18%	4.33%	4.33%	4.74%
Net Interest Margin	3.28%	5.84%	5.62%	5.72%	5.89%	5.99%
ROaE	11.79%	6.56%	13.61%	17.27%	17.19%	18.23%
ROaA	1.65%	0.89%	1.83%	2.33%	2.28%	2.43%
Profit Margin	23.30%	9.84%	20.80%	26.81%	22.61%	30.13%
<b>Operating Efficiency</b>						
Cost of Income Less LLP	41.91%	42.19%	42.18%	39.75%	40.80%	46.00%
Cost of Assets	2.85%	3.71%	3.51%	1.91%	4.01%	2.16%
Loan to Deposit	65.93%	58.95%	51.94%	53.47%	55.49%	53.47%
<b>Asset Quality</b>						
NPL	12.55%	14.68%	16.02%	13.60%	12.97%	13.45%
NPL Coverage	55.89%	60.93%	73.64%	62.24%	58.47%	57.83%
Cost of Risk	2.51%	8.23%	5.21%	4.44%	4.68%	3.00%
<b>Capital Adequacy</b>						
Core Capital/TRWA	16.61%	17.31%	19.01%	19.75%	18.36%	17.91%
Total Capital /TRWA	17.34%	17.48%	19.08%	19.96%	18.42%	17.96%
Liquidity	51.83%	55.06%	61.72%	55.06%	55.06%	55.06%

Source: Company Filings, AIB-AXYS Estimates



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