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# KCB Group FY'24 Earnings Note

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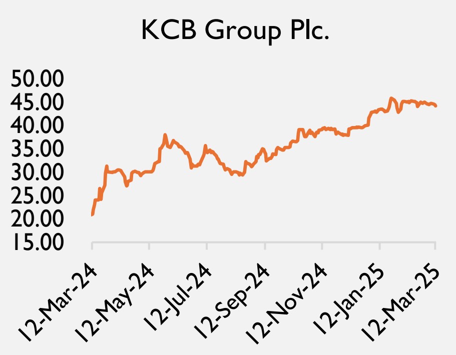
# KCB Group FY'24 Earnings Note

March 14th, 2025

| Ticker Information | |
|---|---|
| **NSE Code:** | KCB |
| **Bloomberg Ticker** | KNCB:KN |
| **Issued Shares (Bn):** | 3.21 |
| **52-week high:** | KES 47.00 |
| **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 | -1.8% | 12.4% | 30.1% | 110.0% |

*Source: NSE, AIB-AXYS Research*

| Recommendation | Current Price | Target Price |
|---|---|---|
| *BUY* | KES 40.11 | KES 49.14 |


## Summary

- **KCB Group reported an impressive 64.9% y/y surge in net earnings to KES 61.77Bn in their FY'24 results.** This strong performance was underpinned by a 28.0% y/y jump in net interest income coupled with a 16.6% y/y surge in non-interest income. Net interest margin edged up modestly by 110bps y/y to 7.5%, driven by an improved asset yield that netted off the rise in cost of funds. Trailing return on equity increased 680bps y/y to 24.6% while trailing return on assets increased marginally by 100bps to 3.0%. **The Board of Directors recommended a final dividend of KES 1.50, raising the total dividend for FY'24 to KES 3.00.**


## Key Highlights

- **Net-Interest Income Powers Revenue Surge:** Net Interest Incomes surged 28.0% y/y to KES 137.34Bn driven by interest income from government securities and placements, as the group capitalized on the attractive yields offered due to the elevated interest environment. Similarly, Non-Funded Income expanded 16.6% y/y to KES 57.90Bn supported by a 61.7% y/y surge in forex trading income. Consequently, total operating income grew 24.0% y/y to KES 204.87Bn. The average yield on interest-earning assets paced up 180bps y/y to 12.1% reflecting improved reinvestment returns specifically in government securities across subsidiaries. This offset the 70bps y/y increase in the cost of funds to 4.6%, as the high-interest environment increased the costs of deposit mobilization.
- **Pressurized Asset Quality:** The stock of Gross Non-Performing Loans (NPLs) accelerated by 8.35% y/y to KES 225.7Bn- arising largely from increased downgrades in manufacturing, real estate, and construction sectors. This pushed the gross NPL ratio up by 180bps y/y to 19.2%. Management continues to implement various NPL resolution strategies alongside prudent provisioning, driving a 260bps y/y increase in NPL coverage to 65.1%, with a target of reaching 70%. Additionally, management remains optimistic about the potential issuance of a KES 135Bn bond by the Kenya Roads Board, aimed at clearing pending road sector bills, which could reduce the group's bad debt stock by approximately KES 30Bn.

## Balance Sheet Dynamics

KCB Group's total deposits contracted by 18.3% y/y to KES 1.38Tn primarily influenced by shilling appreciation effects, deconsolidation of NBK, and ceding of market share for G2G. Notably, the proportion of term and call deposits increased to 32% from 27%, further showcasing demand for better returns from depositors, contributing to the uptick in funding costs pressures. The lender continued to maintain a well-diversified deposit base across retail and corporate segments throughout its regional operations, with 66% of deposits denominated in local currency.

On the lending front, the loan book contracted by 9.6% y/y to KES 990.41Bn. This decline was similarly attributable to the appreciation of the shilling that lowered the value of foreign-denominated facilities, however, on constant currency terms, loan growth was reported at 10.5% y/y. We anticipate an uptick in lending growth going forward, as declining lending rates are expected to stimulate credit demand.

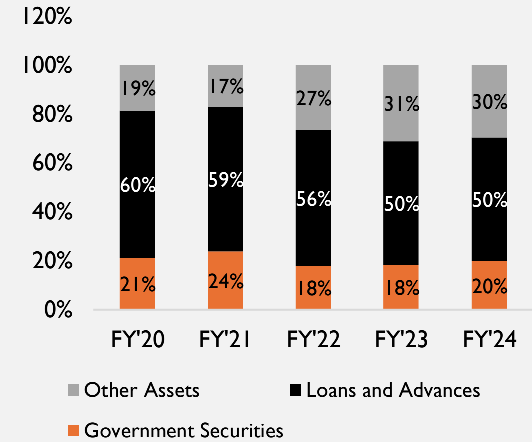
## Outlook

We anticipate the group's performance will be driven by growth in net interest income, as falling interest rates reduce the cost of funds. However, the extent to which this benefit is passed on to borrowers will depend on the bank's risk-based pricing strategy, which may constrain credit growth in the short term. We also expect, the bank's ongoing investment in technology to further enhance cost efficiency, evident in the decline of the cost-to-income ratio to 45.4% from 50.3% in FY'24. Additionally, continued capital injections into subsidiaries are expected to yield results in the medium term, potentially supporting dividend growth. However, the timeline for realization remains uncertain. We also remain cautiously optimistic about the success of the acquisition of NBK by Access Bank, with this acquisition potentially strengthening the group's loan book, given that NBK holds the highest NPLs among KCB subsidiaries.

# Recommendation

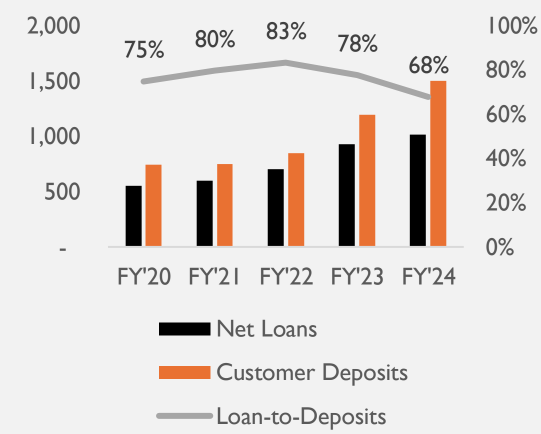
- **We maintain our *BUY* recommendation on KCB Group underpinned by the successful execution of its strategic transformation and demonstrated growth in earnings momentum.** At the current market price, the stock is trading at a P/E ratio of 3.8x and a P/B ratio of 0.8x. Our one-year target price for KCB Group currently stands at KES 49.14 per share - representing a c. 22.5% upside potential from current levels.

Chart 2: Asset Composition



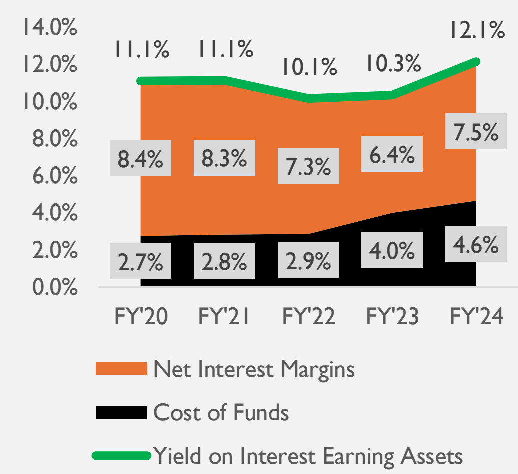

*Source: Company filings, AIB-AXYS Research.*

Chart 3: Slowdown in Deposit Mobilization




*Source: Company filings, AIB-AXYS Research.*

Chart 4: Widening Net Interest Margin




*Source: Company filings, AIB-AXYS Research.*

# KCB Group FY'24 Earnings Note

| Income Statement (KES Mn) | FY'20 | FY'21 | FY'22 | FY'23 | FY'24 | y/y % Change |
|---|---|---|---|---|---|---|
| Net Interest Income | 67,535.9 | 77,694.0 | 86,653.3 | 107,334.0 | 137,346.0 | ▲ 28.0% |
| Net non-Interest Income | 28,450.6 | 30,940.6 | 43,251.5 | 57,904.7 | 67,520.6 | ▲ 16.6% |
| **Total Operating income** | 95,986.5 | 108,634.6 | 129,904.8 | 165,238.7 | 204,866.7 | ▲ 24.0% |
| Provision for Impairment | (27,508.4) | (12,988.1) | (13,206.9) | (33,635.6) | (29,950.4) | ▼ (11.0%) |
| Total Operating expenses | (70,669.3) | (60,820.3) | (72,573.5) | (116,786.6) | (122,894.1) | ▲ 5.2% |
| **Profit before tax** | 25,317.2 | 47,814.3 | 57,331.4 | 48,452.1 | 81,972.6 | ▲ 69.2% |
| **Profit after tax** | 19,201.9 | 34,173.0 | 40,837.7 | 37,461.5 | 61,774.2 | ▲ 64.9% |
| Core EPS Annualized | 5.98 | 10.63 | 12.71 | 11.66 | 25.63 | ▲ 119.9% |

| Balance Sheet (KES Mn) | FY'20 | FY'21 | FY'22 | FY'23 | FY'24 | y/y % Change |
|---|---|---|---|---|---|---|
| Government Securities | 208,764.9 | 270,835.0 | 278,020.3 | 397,202.2 | 389,547.7 | ▼ (1.9%) |
| Loans and Advances | 595,254.3 | 675,480.4 | 863,268.1 | 1,095,933.2 | 990,413.0 | ▼ (9.6%) |
| **Total Assets** | **987,810.3** | **1,139,672.6** | **1,554,030.0** | **2,170,874.0** | **1,962,320.1** | ▼ (9.6%) |
| Customer Deposits | 767,224.5 | 837,141.4 | 1,135,417.4 | 1,690,908.4 | 1,381,975.7 | ▼ (18.3%) |
| Total Liabilities | 845,386.0 | 966,165.0 | 1,347,753.7 | 1,935,313.1 | 1,679,339.0 | ▼ (13.2%) |
| **Shareholder's Funds** | **142,424.3** | **171,713.2** | **200,200.4** | **227,523.0** | **274,889.6** | ▲ 20.8% |

| Ratio Analysis | FY'20 | FY'21 | FY'22 | FY'23 | FY'24 | y/y % Change |
|---|---|---|---|---|---|---|
| **Spreads Analysis** | | | | | | |
| Yield on Assets | 11.1% | 11.1% | 10.1% | 10.3% | 12.1% | ▲ 1.8% |
| Cost of Funds | 2.7% | 2.8% | 2.9% | 4.0% | 4.6% | ▲ 0.7% |
| Net Interest Margin | 8.4% | 8.3% | 7.3% | 6.4% | 7.5% | ▲ 1.1% |
| ROE | 14.1% | 21.8% | 22.0% | 17.8% | 24.6% | ▲ 6.8% |
| ROA | 2.0% | 3.2% | 3.0% | 2.0% | 3.0% | ▲ 1.0% |
| Profit Margin | 20.0% | 31.5% | 31.4% | 22.7% | 30.2% | ▲ 7.5% |
| **Operating Efficiency** | | | | | | |
| Cost to Income Less LLP | 45.0% | 44.0% | 45.7% | 50.3% | 45.4% | ▼ (5.0%) |
| Cost to Assets Less LLP | 4.4% | 4.2% | 3.8% | 3.8% | 4.7% | ▲ 0.9% |
| Loan to Deposit Ratio | 77.6% | 80.7% | 76.0% | 64.8% | 71.7% | ▲ 6.85% |
| **Asset Quality** | | | | | | |
| Total NPL Ratio | 15.1% | 16.9% | 17.3% | 17.4% | 19.2% | ▲ 1.8% |
| NPL Coverage | 59.8% | 52.9% | 52.4% | 62.5% | 65.1% | ▲ 2.6% |
| Cost of Risk | 4.6% | 1.9% | 1.5% | 3.1% | 6.0% | ▲ 3.0% |
| **Capital Adequacy** | | | | | | |
| Core Capital/TRWA | 17.9% | 18.0% | 14.5% | 12.2% | 16.8% | ▲ 4.6% |
| Total Capital /TRWA | 19.5% | 21.7% | 18.1% | 17.4% | 19.4% | ▲ 2.0% |
| Liquidity | 37.3% | 39.1% | 38.5% | 48.5% | 47.6% | ▼ (0.9%) |

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