

Below is a summary of KCB Group's FY'2024 performance:

Balance Sheet Items	FY'2023	FY'2024f	y/y change
Government Securities	348.9	302.8	(13.2%)
Net Loans and Advances	1,095.9	990.4	(9.63%)
Total Assets	2,170.9	1,962.3	(9.6%)
Customer Deposits	1,690.9	1,382.0	(18.3%)
Deposits/Branch	2.8	2.6	(9.4%)
Total Liabilities	1,935.3	1,679.3	(13.2%)
Shareholders' Funds	227.5	274.9	20.8%

Balance Sheet Ratios	FY'2023	FY'2024f	% y/y change
Loan to Deposit Ratio	64.8%	71.7%	6.9%
Government Securities to Deposit Ratio	20.6%	21.9%	1.3%
Return on average equity	17.5%	24.6%	7.1%
Return on average assets	2.0%	3.0%	1.0%

Income Statement (Kshs Bn)	FY'2023	FY'2024f	y/y change
Net Interest Income	107.3	137.3	28.0%
Net non-Interest Income	57.9	67.5	16.6%
Total Operating income	165.2	204.9	24.0%
Loan Loss provision	(33.6)	(30.0)	(11.0%)
Total Operating expenses	(116.8)	(122.9)	5.2%
Profit before tax	48.5	82.0	69.2%
Profit after tax	37.5	61.8	64.9%
Core EPS	11.7	19.2	64.9%
Dividend Per Share	0.0	3.0	-
Dividend Payout Ratio	0.0	15.6%	-
Dividend Yield	0.0%	7.5%	-

Income Statement Ratios	FY'2023	FY'2024f	y/y change
Yield from interest-earning assets	10.3%	12.1%	1.7%
Cost of funding	4.0%	4.6%	0.7%
Net Interest Spread	6.4%	7.4%	1.1%
Net Interest Margin	6.6%	7.8%	1.2%
Cost of Risk	20.4%	14.6%	(5.7%)
Net Interest Income as % of operating income	65.0%	67.0%	2.1%
Non-Funded Income as a % of operating income	35.0%	33.0%	(2.1%)
Cost to Income Ratio	70.7%	60.0%	(10.7%)

Cost to Income Ratio (without LLP)	50.3%	45.4%	(5.0%)
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Capital Adequacy Ratios	FY'2023	FY'2024f	% points change
Core Capital/Total Liabilities	14.2%	19.4%	5.2%
Minimum Statutory ratio	8.0%	8.0%	0.0%
Excess	6.2%	11.4%	5.2%
Core Capital/Total Risk Weighted Assets	12.2%	16.8%	4.6%
Minimum Statutory ratio	10.5%	10.5%	0.0%
Excess	1.7%	6.3%	4.6%
Total Capital/Total Risk Weighted Assets	17.8%	19.4%	1.6%
Minimum Statutory ratio	14.5%	14.5%	0.0%
Excess	3.3%	4.9%	1.6%
Liquidity Ratio	43.5%	47.6%	4.1%
Minimum Statutory ratio	20.0%	20.0%	0.0%
Excess	23.5%	27.6%	4.1%

Income Statement

- Core earnings per share grew by 64.9% to Kshs 19.2, from Kshs 11.7 in FY'2023, driven by the 24.0% increase in total operating income to Kshs 204.9 bn, from Kshs 165.2 bn in FY'2023, which outpaced the 5.2% increase in total operating expenses to Kshs 122.9 bn from Kshs 116.8 bn in FY'2023,
- The 24.0% increase in total operating income was mainly driven by a 28.0% growth in Net Interest Income (NII) to Kshs 137.3 bn, from Kshs 107.3 bn in FY'2023, coupled with the 16.6% increase in Non- Interest Income (NFI) to Kshs 67.5 bn from Kshs 57.9 bn in FY'2023,
- Interest income grew by 26.9% to Kshs 213.4 bn from Kshs 168.2 bn in FY'2023, mainly driven by a 26.3% growth in interest income from loans and advances to Kshs 153.6 bn, from Kshs 121.6 bn in FY'2023, coupled with a 17.6% increase in interest income from government securities to Kshs 50.2 bn, from Kshs 42.7 bn in FY'2023. As such, the Yield on Interest-Earning Assets (YIEA) increased by 1.8% points to 12.1% from 10.3% recorded in FY'2023, attributable to the faster 26.9% growth in trailing interest income to Kshs 213.4 bn, from Kshs 168.2 bn in FY'2023, compared to a slower 8.8% Increase in average interest earning assets to Kshs 1770.3 bn, from Kshs 1,626.8 bn in FY'2023,
- Interest expenses rose by 25.0% to Kshs 76.1 bn from Kshs 60.8 bn in FY'2023, mainly driven by a 32.5% increase in interest expense on customer deposits to Kshs 55.4 bn from Kshs 41.8 bn in FY'2023, coupled with a 9.2% increase in interest expense from placements to Kshs 20.3 bn, from Kshs 18.5 bn recorded in FY'2023. Consequently, Cost of funds (COF) increased by 0.6% points to 4.6% from 4.0% recorded in FY'2023, owing to a faster 25.0 % increase in Trailing interest expense to Kshs 76.1 bn from Kshs 60.8 bn recorded in FY'2023, compared to a 7.2% increase in average interest bearing liabilities to Kshs 1,642.4 bn from Kshs 1,532.3 bn in FY'2023. Trailing interest expense refers to the performance of the interest expense for the past 12 consecutive months. Net Interest Margin (NIM) increased by 1.2% points to 7.8% from 6.6% in FY'2023, attributable to a faster 28.0% increase in trailing net interest income to Kshs 137.3 bn from Kshs 107.3 bn recorded in FY'2023, which outpaced the 8.8% growth in average interest earning assets,

- Non-Funded Income (NFI) increased by 16.6% to Kshs 67.5 bn from Kshs 57.9 bn in FY'2023, mainly driven by a 61.7% increase in forex trading income to Kshs 17.5 bn, from Kshs 10.8 bn in FY'2023, highlighting the bank's increased foreign exchange margins. Total fees and commissions also increased by 10.1% to Kshs 42.3 bn from Kshs 38.4 bn in FY'2023. The revenue mix shifted to 67:33, from 65:35 for the funded to Non-funded income owing to the faster 28.0% growth in Funded Income compared to a 16.6% increase in the Non-Funded Income,
- Total operating expense increased by 5.2% to Kshs 122.9 bn in FY'2024, from Kshs 116.8 bn in FY'2023, mainly attributable to 4.5% increase in staff cost to Kshs 39.9 bn, from Kshs 38.1 bn in FY'2023, coupled with the 17.9% increase in other operating expenses to 53.1 bn from 45.0 in FY 2023 . Notably, loan loss provisions expense declined by 11.0% to Kshs 30.0 bn, from 33.6 bn in FY'2023. The decrease in provisioning comes amid improved business environment and reduced credit risk as evidenced by the average FY'2024 Purchasing Managers Index (PMI) of 49.6, up from an average of 48.1 in FY'2023,
- Cost to Income Ratio (CIR) decreased by 10.7% points to 60.0% from 70.7% in FY'2023, owing to the slower 5.2% increase in total operating expenses, which was outpaced by the 24.0% increase in total operating income. Notably, CIR without LLP decreased by 4.9% points to 45.4%, from 50.3% recorded in FY'2023,
- Profit before tax increased by 69.2% to Kshs 82.0 bn, from Kshs 48.5 bn recorded in FY'2023, with effective tax rate increasing to 24.6% in FY'2024, from 22.7% in FY'2023, leading to a 64.9% increase in profit after tax to Kshs 61.8 bn in FY'2024, from Kshs 37.5 bn in FY'2023.
- The Board of Directors recommended a final dividend of Kshs 1.5 per share, in addition to an interim dividend of Kshs 1.5 paid during the year, leading to a total dividend of Kshs 3.0 per share in FY'2024, from a total dividend of 0.0 in FY'2023. The payout ratio and dividend yield came in at 15.6% and 7.5% respectively in FY'2024.

Balance Sheet

- The balance sheet recorded a contraction as total assets declined by 9.6% to Kshs 1,962.3 bn, from Kshs 2,170.9 bn in FY'2023, mainly driven by a 13.2% decrease in governments securities holdings to Kshs 302.8 bn, from 348.9 bn in FY'2023 coupled with a 9.6% decrease in net loans and advances to Kshs 990.4 bn, from Kshs 1,095.9 bn in FY'2023. Additionally, investment in government securities declined by 13.2% to Kshs 302.8 bn from Kshs 348.9 bn in FY' 2023. Total liabilities declined by 13.2% to Kshs 1,679.3 bn from Kshs 1,935.3 bn in FY'2023, mainly driven by a 18.3% decrease in customer deposits to Kshs 1,382.0 bn, from Kshs 1,690.9 bn in FY'2023, coupled with the 21.9% decline in borrowings to Kshs 69.3 bn, from Kshs 88.7 bn in FY'2023. With 536 branches, compared to 594 branches in FY'2023, deposits per branch decreased by 9.4% to Kshs 2.6 bn, from Kshs 2.8 bn in FY'2023,
- The 18.3% decline growth in customer deposits, which outpaced the 9.6% decline in net loans led to an increase in the loan to deposits ratio to 71.7%, from 64.8% in FY'2023,
- The bank's Asset Quality deteriorated, with Gross NPL ratio increasing to 19.8% in FY'2024, from 17.0% in FY'2023, attributable to a 8.4% increase in Gross non-performing loans to Kshs 225.7 bn, from Kshs 208.3 bn in FY'2023, relative to the 7.2% decrease in gross loans to Kshs 1,137.2 bn, from Kshs 1,226.1 bn recorded in FY'2023,
- General Provisions (LLP) increased by 8.6% to Kshs 116.5 bn in FY'2024 from Kshs 107.3 bn in FY'2023. The NPL coverage increased to 65.1% in FY'2024, from 62.5% in FY'2023, attributable to the 8.6% increase in general provisions coupled with the 32.6% increase in interest in suspense to Kshs 30.3 bn from 22.9 bn in FY 2023 which was outpaced by the 8.4% increase in Gross Non-performing Loans to Kshs 225.7 bn, from Kshs 208.3 bn in FY'2023.

- Shareholders' funds increased by 20.4% to Kshs 274.9 bn in FY'2024, from Kshs 228.3 bn in FY'2023, supported by a 24.1% increase in retained earnings to Kshs 243.4 bn, from Kshs 196.2 bn in FY'2023,
- KCB Group remains capitalized with a core capital to risk-weighted assets ratio of 16.8%, 6.3% points above the statutory requirement of 10.5%. In addition, the total capital to risk-weighted assets ratio came in at 19.4%, exceeding the statutory requirement of 14.5% by 4.9% points, and,
- The bank currently has a Return on Average Assets (ROaA) of 3.0%, and a Return on Average Equity (ROaE) of 24.6%.

Key Take-Outs:

- 1. Increased earnings** - Core earnings per share (EPS) grew by 64.9% to Kshs 19.2, from Kshs 11.7 in FY'2023, driven by the 24.0% increase in total operating income to Kshs 204.9 bn, from Kshs 165.2 bn in FY'2023, which outpaced the 5.2% increase in total operating expenses to Kshs 122.9 bn from Kshs 116.8 bn in FY'2023,
- 2. Deteriorated asset quality** –The bank's Asset Quality deteriorated, with Gross NPL ratio increasing to 19.8% in FY'2024, from 17.0% in FY'2023, attributable to a 8.4% increase in Gross non-performing loans to Kshs 225.7 bn, from Kshs 208.3 bn in FY'2023, compared to the 7.2% decline in gross loans to Kshs 1,137.2 bn, from Kshs 1,226.1 bn recorded in FY'2023,
- 3. Contracted Balanced sheet** - The balance sheet recorded a contraction as total assets declined by 9.6% to Kshs 1,962.3 bn, from Kshs 2,170.9 bn in FY'2024, mainly attributable to the 9.6% decline in net loans to customers to Kshs 990.4 bn, from Kshs 1,095.9 bn in FY'2024, coupled with a 13.2% decrease in governments securities holdings to Kshs 302.8 bn, from 348.9 bn in FY'2023,
- 4. Declaration of dividends** - The directors of KCB Group recommended a final dividend of 1.5, in addition to an interim dividend of 1.5 paid during the year, leading a to a total dividend of 3.0 in 2024, translating to a dividend yield of 7.5% and payout ratio of 15.6%, from zero dividends in FY'2023, and,
- 5. Reduced lending**- Customer net loans and advances decreased by 9.6% to Kshs 990.4 bn in FY'2024, from Kshs 1,095.9 bn in FY'2023 attributed to increased credit risk with high NPLs in the industry, with the lender preferring to limit customer lending.

Going forward, the factors that would drive the bank's growth would be:

- **Continued Digitization** - The Group has sustained its focus on digital transformation. As of FY'2024, 99.0% of the transactions by number were done through the non-branch channels. Notably, the Group witnessed growth in the value of mobile loans disbursed mainly driven by Fuliza, introduction of term loans on KCB Mobi and new mobile lending products for small businesses. Mobile loans continue to play a significant role, contributing to the growth in non-interest income. Notably, the bank's mobile and digital capabilities saw continued adoption across customer segments, reinforcing convenience and accessibility.

Valuation Summary

- We are of the view that KCB Group is a “buy” with a target price of Kshs 50.4 representing an upside of 33.2%, from the current price of 40.1 as of 14th March 2025, inclusive of a dividend yield of 7.5%
- KCB Group is currently trading at a P/TBV of 0.5x and a P/E of 2.1x vs an industry average of 1.1x and 4.9x respectively.