KCB Group – Q1'2024
24th May, 2024

Below is a summary of KCB Group Q1'2024 performance:

Balance Sheet Items	Q1'2023	Q1'2024	y/y change
Government Securities	252.1	351.9	39.6%
Net Loans and Advances	928.8	1,017.4	9.5%
Total Assets	**1,630.6**	**1,996.2**	**22.4%**
Customer Deposits	1,196.6	1,501.0	25.4%
Deposits per branch	2.0	2.5	27.3%
Total Liabilities	1,415.8	1,757.6	24.1%
Shareholders' Funds	**208.1**	**231.5**	**11.2%**

Balance Sheet Ratios	Q1'2023	Q1'2024	% points change
Loan to Deposit Ratio	77.6%	67.8%	(9.8%)
Government Securities to Deposit Ratio	21.1%	23.4%	2.4%
Return on average equity	20.9%	20.1%	(0.8%)
Return on average assets	2.9%	2.4%	(0.5%)

Income Statement	Q1'2023	Q1'2024	y/y change
Net Interest Income	22.1	31.1	40.8%
Net non-Interest Income	14.8	17.4	17.8%
Total Operating income	**36.9**	**48.5**	**31.6%**
Loan Loss provision	(4.1)	(6.3)	53.4%
Total Operating expenses	(23.0)	(27.3)	18.8%
Profit before tax	13.9	21.2	52.7%
Profit after tax	**9.8**	**16.5**	**69.0%**
Core EPS	**3.0**	**5.1**	**69.0%**

Income Statement Ratios	Q1'2023	Q1'2024	% points change
Yield from interest-earning assets	10.2%	11.6%	1.4%
Cost of funding	3.2%	4.6%	1.4%
Net Interest Spread	7.1%	7.0%	(0.1%)
Net Interest Margin	7.3%	7.4%	0.1%
Cost of Risk	11.2%	13.0%	1.9%
Net Interest Income as % of operating income	59.9%	64.1%	4.2%
Non-Funded Income as a % of operating income	40.1%	35.9%	(4.2%)
Cost to Income Ratio	62.4%	56.4%	(6.0%)
Cost to Income Ratio (without LLPs)	51.2%	43.3%	(7.9%)

Capital Adequacy Ratios	Q1'2023	Q1'2024	% points change
Core Capital/Total Liabilities	15.0%	15.6%	0.6%
Minimum Statutory ratio	8.0%	8.0%	0.0%
Excess	**7.0%**	**7.6%**	**0.6%**
Core Capital/Total Risk Weighted Assets	13.6%	17.6%	4.0%
Minimum Statutory ratio	10.5%	10.5%	0.0%
Excess	**3.1%**	**7.1%**	**4.0%**
Total Capital/Total Risk Weighted Assets	17.0%	20.0%	3.0%
Minimum Statutory ratio	14.5%	14.5%	0.0%
Excess	**2.5%**	**5.5%**	**3.0%**
Liquidity Ratio	43.7%	47.9%	4.2%
Minimum Statutory ratio	20.0%	20.0%	0.0%
Excess	**23.7%**	**27.9%**	**4.2%**

Income Statement

- Core earnings per share increased by 69.0% to Kshs 5.1, from Kshs 3.0 in Q1'2023, mainly driven by the 31.6% increase in total operating income to Kshs 48.5 bn, from Kshs 36.9 bn in Q1'2023 which outpaced the 18.8% increase in total operating expenses to Kshs 27.3 bn, from Kshs 23.0 bn in Q1'2023,
- The 31.6% growth in total operating income was mainly driven by a 40.8% growth in Net Interest Income to Kshs 31.1 bn, from Kshs 22.1 bn in Q1'2023, coupled with a 17.8% growth in Non funded Income (NFI) to Kshs 17.4 bn, from Kshs 14.8 bn in Q1'2023,
- Interest income grew by 46.0% to Kshs 49.1 bn from Kshs 33.6 bn in Q1'2023, mainly driven by a 1446.0% growth in interest income from deposits and placements to Kshs 2.1 bn, from Kshs 0.1 bn in Q1'2023 coupled with a 36.2% interest income from loans and advances to Kshs 33.6 bn from Kshs 24.7 bn in Q1'2023. Similarly, the Yield on Interest-Earning Assets (YIEA) increased by 1.4% points to 11.6% from 10.2% recorded in Q1'2023, mainly attributable to the faster 47.2% growth in trailing interest income to Kshs 183.7 bn, from Kshs 124.7 bn in Q1'2023 compared to the 29.9% increase in average interest earning assets to kshs 1,581.4 bn, from kshs 1,217.8 bn in Q1'2023,
- Interest expenses rose by 56.0% to Kshs 18.0 bn, from Kshs 11.6 bn in Q1'2023, driven by 67.6% increase in interest expense on customer deposits to Kshs 13.1 bn, from Kshs 7.8 bn in Q1'2023, coupled with a 32.7% increase in interest expense from deposits and placements to Kshs 4.8 bn in Q1'2024, from Kshs 3.7 bn recorded in Q1'2023. Consequently, Cost of funds (COF) increased by 1.4% points to 4.6%, from 3.2% recorded in Q1'2023, owing to a faster 88.2% increase in Trailing interest expense to Kshs 67.3 bn, from Kshs 35.8 bn in Q1'2023, compared to the 7.4% increase in average interest bearing liabilities to Kshs 1,208.1 bn from Kshs 1,124.6 bn in Q1'2023. Trailing interest expense refers to the performance of the interest expense for the past 12 consecutive months. Net Interest Margin (NIM) increased by 0.1% points to 7.4% from 7.3% in Q1'2023, attributable to the 30.8% growth in trailing net interest income to Kshs 116.3 bn, from Kshs 88.9 bn recorded in Q1'2023, which outpaced the 29.9% increase in average interest earning assets to kshs 1,581.4 bn, from kshs 1,217.8 bn in Q1'2023,
- Non-Funded Income (NFI) increased by 17.8% to Kshs 17.4 bn from Kshs 14.8 bn in Q1'2023, mainly driven by a 2.4% increase in total fees and commissions to 10.0 bn from 9.8 bn in Q1'2023, coupled with the 81.2% increase in the foreign exchange trading income to Kshs 4.8 bn from Kshs 2.6 bn in Q1'2023, highlighting the bank's improved foreign exchange margins. The revenue mix shifted to 64:36 from 60:40 in Q1'2023 for the funded to Non-funded income owing to the 40.8% growth in Funded Income faster than the 17.8% growth in the Non Funded Income,
- Total operating expenses increased by 18.8% to Kshs 27.3 bn from Kshs 23.0 bn in Q1'2023, driven by the 53.4% increase in loan loss provisions to Kshs 6.3 bn from Kshs 4.1 bn in Q1'2023 an indication of increased provisioning, coupled with a 19.4% increase in other operating expenses to Kshs 11.4 bn from Kshs 9.5 bn in Q1'2023. The increase in provisioning is partly attributable to the sustained credit risk despite the improvement in economic environment as evidenced by the Q1'2024 Purchasing Managers Index (PMI) which averaged at 50.3, up from an average of 49.3 in Q1'2023,
- Cost to Income Ratio (CIR) decreased to 56.4% from 62.4% in Q1'2023, owing to the 31.6% increase in total operating income, which outpaced the 18.8% increase in total operating expenses. Similarly, CIR without LLP decreased by 7.6% points to 43.3% from 51.2% recorded in Q1'2023, and,
- Profit before tax increased by 52.7% to Kshs 21.2 bn from Kshs 13.9 bn in Q1'2023, with effective tax rate decreasing to 22.1% in Q1'2024 from 29.6% in Q1'2023. As such, profit after tax increased by 69.0% to kshs 16.5 bn, from kshs 9.8 bn in Q1'2023.

Balance Sheet

- The balance sheet recorded an expansion as total assets grew by 22.4% to Kshs 1,996.2 bn, from Kshs 1,630.6 bn in Q1’2023, driven by a 9.5% loan book expansion to Kshs 1,017.4 bn, from Kshs 928.8 bn in Q1’2023, coupled with a 39.6% increase investment in government securities to Kshs 351.9 bn from Kshs 252.1 bn in Q1’2023,
- Total liabilities rose by 24.1% to Kshs 1,757.6 bn from Kshs 1,415.8 bn in Q1’2023, driven by a 25.4% growth in customer deposits to Kshs 1,501.0 bn, from Kshs 1,196.6 bn in Q1’2023, coupled with a 21.5% increase in borrowings to 76.1 bn, from Kshs 62.6 bn recorded in Q1’2023. With 594 branches countrywide compared to 603 branches in Q1’2023, deposits per branch increased by 27.3% to Kshs 2.5 bn, from Kshs 2.0 bn in Q1’2023,
- The faster 25.4% growth in customer deposits as compared to the 9.5% growth in loans led to a decline in the loan to deposits ratio to 67.8%, from 77.6% in Q1’2023,
- The bank’s Asset Quality deteriorated, with Gross NPL ratio increasing to 17.9% in Q1’2024, from 17.1% in Q1’2023, attributable to the 16.3% increase in gross non-performing loans to Kshs 205.3 bn, from Kshs 176.5 bn in Q1’2023, relative to the 11.2% increase in gross loans to Kshs 1,144.8 bn, from Kshs 1,029.9 bn recorded in Q1’2023,
- General Provisions (LLP) increased by 19.1% to Kshs 102.1 bn in Q1’2024 from Kshs 85.7 bn in Q1’2023. The NPL coverage increased to 62.0% in Q1’2024, from 57.3% in Q1’2023, attributable to the 19.1% growth in general provisions coupled with the 64.9% increase in interest in suspense to Kshs 25.3 bn, from Kshs 15.3 bn in Q1’2023 which outpaced the 16.3% increase in gross non-performing loans to Kshs 205.3 bn from kshs 176.5 bn recorded in Q1’2023.
- Shareholders’ funds increased by 11.2% to Kshs 231.5 bn in Q1’2024, from Kshs 208.1 bn in Q1’2023, supported by a 42.7% increase in retained earnings to Kshs 220.6 bn, from Kshs 154.5 bn in Q1’2023,
- KCB Group remained capitalized with a core capital to risk-weighted assets ratio of 17.6%, 7.1% points above the statutory requirement of 10.5%. In addition, the total capital to risk-weighted assets ratio came in at 20.0% exceeding the statutory requirement of 14.5% by 5.5% points, and,
- The bank currently has a Return on Average Assets (ROaA) of 2.4%, and a Return on Average Equity (ROaE) of 20.4%.

Key Take-Outs:

1. **Increased earnings -** Core earnings per share (EPS) increased by 69.0% to Kshs 5.1, from Kshs 3.0 in Q1’2023, mainly driven by the 31.6% increase in total operating income to Kshs 48.5 bn, from Kshs 36.9 bn in Q1’2023 which outpaced the 18.8% increase in total operating expenses to Kshs 27.3 bn, from Kshs 23.0 bn in Q1’2023,
2. **Increased Provisioning –** On the back of high credit risk still attached to the country despite the improvement in business environment in Q1’2024, the bank increased its provisions holdings to cover for the anticipated losses in the future, with its general provisions increasing by 19.1% to Kshs 102.1 bn from Kshs 85.7 bn recorded in Q1’2023, and,
3. **Improved Lending –** The Group’s loan book recorded an expansion of 9.5% to Kshs 1,017.4 bn, from Kshs 928.8 bn in Q1’2023

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

- **Continued Digitization** - The Group has continued to maximize on digital trasformation. As of Q1’2024, 99.0% of the transactions by number were done through the non-branch channels. Notably, the Group continues to witness 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.
- **Increased Brand Visibility** – Recently, KCB Group achieved a big milestone by being promoted to the Morgan Stanley Capital International (MSCI) Kenya Index. This index measures the performance of large and medium-sized firms, and KCB's inclusion increases the stock's visibility to global investors. The MSCI index is a benchmark for international institutional investors, and being part of it means that KCB is now more prominently featured in investment portfolios worldwide. This heightened visibility is likely to attract foreign investors who are interested in the Kenyan market, thereby driving the growth of KCB.

Valuation Summary

- We are of the view that KCB Group is a “Buy” with a target price of Kshs 45.6 representing an upside of 29.9%, from the current price of Kshs 35.2 as of 24th May 2024
- KCB Group is currently trading at a P/TBV of 0.5x and a P/E of 3.0x vs an industry average of 0.8x and 3.7x respectively.