NCBA Group– Q1’2024
23rd May, 2024

Below is a summary of NCBA Group’s Q1’2024 performance:

Balance Sheet	Q1'2023 (Kshs bn)	Q1'2024 (Kshs bn)	y/y change
Net Loans and Advances	287.2	320.5	11.6%
Kenya Government Securities	207.1	178.0	(14.0%)
Total Assets	**628.8**	**694.9**	10.5%
Customer Deposits	499.7	548.1	9.7%
Deposits Per Branch	4.9	5.0	1.6%
Total Liabilities	540.9	596.1	10.2%
Shareholders' Funds	**87.9**	**98.8**	**12.4%**

Key Ratios	Q1'2023	Q1'2024	% point change
Loan to Deposit ratio	57.5%	58.5%	1.0%
Government Securities to Deposits ratio	41.4%	32.5%	(9.0%)
Return on Average Equity	18.4%	23.2%	4.9%
Return on Average Assets	2.5%	3.3%	0.7%

Income Statement	Q1'2023 (Kshs bn)	Q1'2024 (Kshs bn)	y/y change
Net interest Income	8.4	8.3	(1.2%)
Net non-interest income	7.2	7.7	7.4%
Total Operating income	**15.5**	**16.0**	**2.8%**
Loan loss provision	2.0	1.4	(30.9%)
Total Operating expenses	**9.2**	**9.4**	**3.1%**
Profit before tax	6.4	6.5	2.2%
Profit after tax	**5.1**	**5.3**	**4.7%**
Core EPS	**3.1**	**3.2**	**4.7%**

Income Statement Ratios	Q1'2023	Q1'2024	y/y change
Yield from interest-earning assets	10.4%	12.2%	1.8%
Cost of funding	4.6%	6.5%	1.9%
Net Interest Margin	6.0%	6.0%	0.0%
Net Interest Income as % of operating income	53.8%	51.7%	(2.1%)
Non-Funded Income as a % of operating income	46.2%	48.3%	2.1%
Cost to Income Ratio	58.9%	59.1%	0.2%
Cost to Income without LLP	46.3%	50.6%	4.3%

Capital Adequacy Ratios	Q1'2023	Q1'2024	% points change
Core Capital/Total Liabilities	16.8%	17.1%	0.3%
Minimum Statutory ratio	8.0%	8.0%	
Excess	**8.8%**	**9.1%**	**0.3%**
Core Capital/Total Risk Weighted Assets	17.7%	18.5%	0.8%
Minimum Statutory ratio	10.5%	10.5%	
Excess	**7.2%**	**8.0%**	**0.8%**
Total Capital/Total Risk Weighted Assets	17.8%	18.6%	0.8%
Minimum Statutory ratio	14.5%	14.5%	
Excess	**3.3%**	**4.1%**	**0.8%**
Liquidity Ratio	53.1%	51.6%	(1.5%)
Minimum Statutory ratio	20.0%	20.0%	
Excess	**33.1%**	**31.6%**	**(1.5%)**

Income Statement

- Core earnings per share grew by 4.7% to Kshs 3.2, from Kshs 3.1 in Q1’2023, driven by the 2.8% increase in total operating income to Kshs 16.0 bn, from Kshs 15.5 bn in Q1’2023. However, the performance was weighed down by a 3.1% increase in total operating expenses to Kshs 9.4 bn from Kshs 9.2 bn in Q1’2023,
- The 2.8% increase in total operating income was mainly driven by a 7.4% increase in Non Interest Income (NFI) to Kshs 7.7 bn from Kshs 7.2 bn in Q1’2023, which outpaced the 1.2% decline in Net Interest Income (NII) to Kshs 8.3 bn, from Kshs 8.4 bn in Q1’2023,
- Interest income grew by 29.8% to Kshs 19.1 bn from Kshs 14.7 bn in Q1’2023, mainly driven by a 48.0% growth in interest income from loans and advances to Kshs 11.6 bn from Kshs 7.8 bn in Q1’2023, coupled with a 236.5% increase in interest income from deposits and placements to Kshs 0.7 bn, from Kshs 0.2 bn in Q1’2023. As such, the Yield on Interest-Earning Assets (YIEA) increased to 12.2% from 10.4% recorded in Q1’2023, mainly attributable to the faster 26.7% growth in Trailing interest income compared to a 7.7% increase in average interest earning assets to Kshs 571.4 bn, from Kshs 530.6 bn in Q1’2023,
- Interest expenses rose by 70.8% to Kshs 10.8 bn from Kshs 6.3 bn in Q1’2023, mainly driven by a 74.0% increase in interest expense on customer deposits to Kshs 10.3 bn from Kshs 5.9 bn in Q1’2023, coupled with a 67.2% increase in interest expense from placements to Kshs 0.4 bn, from Kshs 0.2 bn in Q1’2023. Consequently, Cost of funds (COF) increased by 1.9% points to 6.5% from 4.6% recorded in Q1’2023, owing to a faster 52.7% increase in Trailing interest expense to Kshs 35.1 bn from Kshs 23.0 bn recorded in Q1’2023, compared to a 8.6% increase in average interest bearing liabilities to Kshs 539.7 bn from Kshs 497.1 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 marginally by 1.5 bps to remain unchanged at 6.0% recorded in Q1’2023, attributable to a 8.0% increase in trailing net interest income to Kshs 34.5 bn from Kshs 32.0 bn recorded in Q1’2023 which slightly outpaced the 7.7% growth in average interest earning assets,
- Non-Funded Income (NFI) increased by 7.4% to Kshs 7.7 bn from Kshs 7.2 bn in Q1’2023, mainly driven by a 16.9% increase in total fees income to Kshs 4.7 bn, from Kshs 4.0 bn in Q1’2023, which outpaced the 11.9% decline in forex trading income to Kshs 2.3 bn , from Kshs 2.7 bn in Q1’2023, highlighting the bank’s decreased foreign exchange margins. The revenue mix shifted to 52:48 from 54:46 in Q1’2023, for the funded to Non-funded income owing to the 7.4% growth in Non Funded Income compared to a 1.2% decrease in the Funded Income,
- Total operating expenses increased by 3.1% to Kshs 9.4 bn from Kshs 9.2 bn in Q1’2023, driven by 11.4% increase in staff costs to Kshs 3.3 bn from Kshs 2.9 bn recorded in Q1’2023, coupled with a 13.0% increase in other operating expenses to Kshs 4.8 bn, from Kshs 4.3 bn recorded in Q1’2023, which outpaced the 30.9% decrease in loan loss provisions to Kshs 1.4 bn, from Kshs 2.0 bn recorded in Q1’2023. The decrease in provisioning is partly attributable to reducing credit risk as a result improved economic environment as evidenced by the average Q1’2024 Purchasing Managers Index (PMI) of 50.3, up from an average of 49.3 in Q1’2023,
- Cost to Income Ratio (CIR) increased by 0.2% points to 59.1% from 58.9% in Q1’2023, owing to the faster 3.1% growth in total operating expenses, which outpaced the 2.8% growth in total operating income. Notably, CIR without LLP increased by 4.3% points to 50.6% from 46.3% recorded in Q1’2023, and,
- Profit before tax increased by 2.2% to Kshs 6.5 bn in Q1’2024, from Kshs 6.4 bn in Q1’2023, with effective tax rate decreasing to 18.9% in Q1’2024, from 20.8% in Q1’2023, leading to a 4.7% increase in profit after tax to Kshs 5.3 bn in Q1’2024, from Kshs 5.1 bn in Q1’2023.

Balance Sheet

- The balance sheet recorded an expansion as total assets grew by 10.5% to Kshs 694.9 bn, from Kshs 628.8 bn in Q1’2024, driven by a 11.6% growth in net loans and advances to Kshs 320.5 bn, from 287.2 bn in Q1’2023, coupled with a 106.9% increase in placements to Kshs 59.5 bn, from Kshs 28.8 bn in Q1’2023, which outpaced the 14.0% decline in investment in government securities to Kshs 178.0 bn, from Kshs 207.1 bn in Q1’2023,

- Total liabilities rose by 10.2% to Kshs 596.1 bn from Kshs 540.9 bn in Q1'2024, driven by a 9.7% growth in customer deposits to Kshs 548.1 bn, from Kshs 499.7 bn in Q1'2023, coupled with a 34.1% increase in placements to 12.8 bn from Kshs 9.6 bn recorded in Q1'2023, and a further 17.5% increase in borrowings to Kshs 5.0 bn, from Kshs 4.2 bn in Q1'2023. With 109 branches countrywide, compared to 101 branches in Q1'2023, deposits per branch increased by 1.6% to Kshs 5.0 bn, from Kshs 4.9 bn in Q1'2023,
- The faster 11.6% growth in loans as compared to the 9.7% growth in customer deposits led to an increase in the loan to deposits ratio to 58.5%, from 57.5% in Q1'2023,
- The bank's Asset Quality improved, with Gross NPL ratio decreasing to 11.7% in Q1'2024, from 12.8% in Q1'2023, attributable to the slower 1.1% increase in Gross non-performing loans to Kshs 40.2 bn, from Kshs 39.7 bn in Q1'2023, compared to the 10.7% increase in gross loans to Kshs 342.9 bn, from Kshs 309.7 bn recorded in Q1'2023,
- General Provisions (LLP) decreased by 13.3% to Kshs 12.6 bn in Q1'2024 from Kshs 14.5 bn in Q1'2023. The NPL coverage decreased to 55.7% in Q1'2024, from 56.8% in Q1'2023, attributable to the 13.3% decrease in general provision and 1.1% increase in Gross non-performing loans, which outpaced the 21.8% increase in interest in suspense to Kshs 9.8 bn, from Kshs 8.1 bn in Q1'2023,
- Shareholders' funds increased by 12.4% to Kshs 98.8 bn in Q1'2024, from Kshs 87.9 bn in Q1'2023, supported by a 24.6% increase in retained earnings to Kshs 70.2 bn, from Kshs 56.3 bn in Q1'2023,
- NCBA Bank remains capitalized with a core capital to risk-weighted assets ratio of 18.5%, 8.0% points above the statutory requirement of 10.5%. In addition, the total capital to risk-weighted assets ratio came in at 18.6%, exceeding the statutory requirement of 14.5% by 4.1% points, and,
- The bank currently has a Return on Average Assets (ROaA) of 3.3%, and a Return on Average Equity (ROaE) of 23.2%.

<u>Key Take-Outs:</u>

1. **Increased earnings -** Core earnings per share (EPS) grew by 4.7% to Kshs 3.2, from Kshs 3.1 in Q1'2023, driven by the 2.8% growth in total operating income to Kshs 16.0 bn, from Kshs 15.5 bn in Q1'2023.
2. **Improved asset quality –** The bank's gross NPL ratio decreased to 11.7% in Q1'2024, from 12.8% in Q1'2023, attributable to the slower 1.1% increase in Gross non-performing loans to Kshs 40.2 bn, from Kshs 39.7 bn in Q1'2023, compared to the 10.7% increase in gross loans to Kshs 342.9 bn, from Kshs 309.7 bn recorded in Q1'2023,
3. **Reduced Provisioning** - On the back of reduced credit risk occassioned by improving business environment, the bank decreased its provisions holdings meant to cover for anticipated losses in the future, with its general provisions decreasing by 13.3% to Kshs 12.6 bn, from Kshs 14.4 bn recorded in Q1'2023. Further, loan loss provisions expense reduced by 30.9% to Kshs 1.4 bn, from Kshs 2.0 bn recorded in Q1'2023.

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

- **Digital transformation**. The lender has capitalized on digital innovation for service delivery over the past years to improve its operational efficiency, which has been a key factor in its financial performance. In March 2024, the lender disclosed that they had disbursed a total of Kshs 930.0 bn via digital banking avenues, including Fuliza, Mshwari and Loop, remaining a market leader in digital lending.

- **Revenue diversification**. The lender has also capitalized on revenue diversification and increasing the bottom line contribution of all the business lines. Notably, subsidiary contribution to group's profitability has increased over the period, standing at Kshs 4.0 bn in FY'2023. Further, the planned 100.0% acquisition of AIG Kenya Insurance is set to increase the non-funded revenue base more.

<u>Valuation Summary</u>

- We are of the view that NCBA Group is a "buy" with a target price of Kshs 52.7 representing an upside of 28.4%, from the current price of 41.1 as of 24th May 2024, inclusive of a dividend yield of 11.6%.

- NCBA group is currently trading at a P/TBV of 0.8x and a P/E of 3.1x vs an industry average of 0.8x and 3.7x respectively