

Below is a summary of KCB Group's Q3'2024 performance:

Balance Sheet Items	Q3'2023	Q3'2024	y/y change
Government Securities	371.3	361.1	(2.7%)
Net Loans and Advances	1,047.9	1,053.2	0.51%
Total Assets	2,099.5	1,993.1	(5.1%)
Customer Deposits	1,656.4	1,538.4	(7.1%)
Deposits per branch	2.7	2.6	(5.7%)
Total Liabilities	1,873.4	1,736.4	(7.3%)
Shareholders' Funds	218.8	249.0	13.8%

Key Ratios	Q3'2023	Q3'2024	% point change
Loan to Deposit ratio	63.3%	67.8%	4.5%
Government Securities to Deposits ratio	22.4%	23.5%	1.1%
Return on Average Equity	20.2%	22.4%	2.3%
Return on Average Assets	2.4%	2.6%	0.1%

Income Statement	Q3'2023 (Kshs bn)	Q3'2024 (Kshs bn)	y/y change
Net interest Income	74.9	92.8	23.9%
Net non-interest income	42.4	50.1	18.3%
Total Operating income	117.3	142.9	21.9%
Loan loss provision	(15.8)	(17.8)	12.2%
Total Operating expenses	(76.7)	(85.5)	11.5%
Profit before tax	40.6	57.4	41.5%
Profit after tax	30.7	45.8	49.0%
Core EPS	9.6	14.2	49.0%

Income Statement Ratios	Q3'2023	Q3'2024	y/y change
Yield from interest-earning assets	10.1%	11.3%	1.2%
Cost of funding	3.5%	4.6%	1.1%
Net Interest Spread	6.6%	6.7%	0.1%
Net Interest Margin	6.8%	7.0%	0.2%
Cost of Risk	13.5%	12.4%	(1.1%)
Net Interest Income as % of operating income	63.9%	64.9%	1.1%
Non-Funded Income as a % of operating income	36.1%	35.1%	(1.1%)
Cost to Income Ratio	65.4%	59.8%	(5.6%)
Cost to Income Ratio (without LLP)	51.9%	47.4%	(4.5%)

Capital Adequacy Ratios	Q3'2023	Q3'2024	% points change
Core Capital/Total Liabilities	13.0%	14.5%	1.5%
Minimum Statutory ratio	8.0%	8.0%	0.0%
Excess	5.0%	6.5%	1.5%
Core Capital/Total Risk Weighted Assets	14.5%	16.5%	2.0%
Minimum Statutory ratio	10.5%	10.5%	0.0%
Excess	4.0%	6.0%	2.0%
Total Capital/Total Risk Weighted Assets	17.8%	19.3%	1.5%
Minimum Statutory ratio	14.5%	14.5%	0.0%
Excess	3.3%	4.8%	1.5%
Liquidity Ratio	50.3%	47.2%	(3.1%)
Minimum Statutory ratio	20.0%	20.0%	0.0%

Excess	30.3%	27.2%	(3.1%)
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Income Statement

- Core earnings per share grew by 49.0% to Kshs 14.2, from Kshs 9.6 in Q3’2023, driven by the 21.9% increase in total operating income to Kshs 142.9 bn, from Kshs 117.3 bn in Q3’2023. However, the performance was weighed down by an 11.5% increase in total operating expenses to Kshs 85.5 bn from Kshs 76.7 bn in Q3’2023,
- The 21.9% increase in total operating income was mainly driven by a 23.9% growth in Net Interest Income (NII) to Kshs 92.8 bn, from Kshs 74.9 bn in Q3’2023, coupled with the 18.3% increase in Non Interest Income (NFI) to Kshs 50.1 bn from Kshs 42.4 bn in Q3’2023,
- Interest income grew by 30.8% to Kshs 149.0 bn from Kshs 113.9 bn in Q3’2023, mainly driven by a 27.1% growth in interest income from loans and advances to Kshs 104.1 bn from Kshs 81.9 bn in Q3’2023, coupled with a 27.0% increase in interest income from government securities to Kshs 37.9 bn, from Kshs 29.8 bn in Q3’2023. As such, the Yield on Interest-Earning Assets (YIEA) increased to 11.3% from 10.1% recorded in Q3’2023, mainly attributable to the faster 37.2% growth in trailing interest income to Kshs 203.3 bn, from Kshs 148.1 bn in Q3’2023 compared to a 22.4% increase in average interest earning assets to Kshs 1,796.6 bn, from Kshs 1,468.1 bn in Q3’2023,
- Interest expenses rose by 44.0% to Kshs 56.2 bn from Kshs 39.1 bn in Q3’2023, mainly driven by a 46.8% increase in interest expense on customer deposits to Kshs 40.7 bn from Kshs 27.8 bn in Q3’2023, coupled with a 38.3% increase in interest expense from placements to Kshs 15.2 bn, from Kshs 11.0 bn recorded in Q3’2023. Consequently, Cost of funds (COF) increased by 1.1% points to 4.6% from 3.5% recorded in Q3’2023, owing to a faster 61.9% increase in Trailing interest expense to Kshs 78.0 bn from Kshs 48.2 bn recorded in Q3’2023, compared to a 21.8% increase in average interest bearing liabilities to Kshs 1,692.9 bn from Kshs 1,390.2 bn in Q3’2023. Trailing interest expense refers to the performance of the interest expense for the past 12 consecutive months. Net Interest Margin (NIM) increased by 0.2% points to 7.0% from 6.8% in Q3’2023, attributable to a faster 25.3% increase in trailing net interest income to Kshs 125.3 bn from Kshs 99.9 bn recorded in Q3’2023 which outpaced the 22.4% growth in average interest earning assets,
- Non-Funded Income (NFI) increased by 18.3% to Kshs 50.1 bn from Kshs 42.4 bn in Q3’2023, mainly driven by a 68.0% increase in forex trading income to Kshs 13.8 bn , from Kshs 8.2 bn in Q3’2023, highlighting the bank’s increased foreign exchange margins, coupled with a 11.5% increase in income from other fees and commissions to Kshs 9.0 bn, from 8.1 bn in Q3’2023. Total fees and commissions also increased by 10.7% to Kshs 31.1 bn from Kshs 28.1 bn in Q3’2023. The revenue mix shifted to 65:35 from 64:36 for the funded to Non-funded income owing to the faster 23.9% growth in Funded Income compared to a 18.3% increase in the Non Funded Income,
- Total operating expenses increased by 11.5% to Kshs 85.5 bn from Kshs 76.7 bn in Q3’2023, driven by a 12.4% increase in other operating expenses to Kshs 38.4 bn from Kshs 34.1 bn recorded in Q3’2023, coupled with a 12.2% increase in loan loss provisions to Kshs 17.8 bn, from Kshs 15.8 bn recorded in Q3’2023 together with the 10.0% increase in staff costs to Kshs 29.3 bn, from Kshs 26.7 bn recorded in Q3’2023. The increase in provisioning comes amid the increased credit risk as a result of deteriorated business environment during the period as evidenced by the average Q3’2024 Purchasing Managers Index (PMI) of 47.8, down from an average of 48.0 in Q3’2023,
- Cost to Income Ratio (CIR) decreased by 5.6% points to 59.8% from 65.4% in Q3’2023, owing to the slower 11.5% increase in total operating expenses, which was outpaced by the 21.9% increase in total operating income. Notably, CIR without LLP decreased by 4.5% points to 47.4% from 51.9% recorded in Q3’2023, and,
- Profit before tax increased by 41.5% to Kshs 57.4 bn, from Kshs 40.6 bn recorded in Q3’2023, with effective tax rate decreasing to 20.3% in Q3’2024 from 24.3% in Q3’2023, leading to an 49.0% increase in profit after tax to Kshs 45.8 bn in Q3’2024, from Kshs 30.7 bn in Q3’2023.

Balance Sheet

- The balance sheet recorded a contraction as total assets declined by 5.1% to Kshs 1,993.1 bn, from Kshs

2,099.5 bn in Q3’2024, driven by a 2.7% decrease in governments securities holdings to Kshs 361.1 bn, from 371.3 bn in Q3’2023. This was however anchored by a 0.5% increase in net loans and advances to Kshs 1,053.2 bn, from Kshs 1,047.9 bn in Q3’2023,

- Total liabilities declined by 7.3% to Kshs 1,736.4 bn from Kshs 1,873.4 bn in Q3’2024, driven by a 7.1% decrease in customer deposits to Kshs 1,538.4 bn, from Kshs 1,656.4 bn in Q3’2023, coupled with the 16.9% decline in borrowings to Kshs 58.3 bn, from Kshs 70.2 bn in Q3’2023. With 594 branches, compared to 603 branches in Q3’2023, deposits per branch decreased by 2.6% to Kshs 2.6 bn, from Kshs 2.7 bn in Q3’2023,
- The 7.1 % decline growth in customer deposits as compared to the 0.5% increase in loans led to an increase in the loan to deposits ratio to 67.8%, from 63.3% in Q3’2023,
- The bank’s Asset Quality deteriorated, with Gross NPL ratio increasing to 18.1% in Q3’2024, from 16.1% in Q3’2023, attributable to a 15.1% increase in Gross non-performing loans to Kshs 215.3 bn, from Kshs 187.0 bn in Q3’2023, compared to the 2.3% increase in gross loans to Kshs 1,190.5 bn, from Kshs 1,164.0 bn recorded in Q3’2023,
- General Provisions (LLP) increased by 13.7% to Kshs 109.9 bn in Q3’2024 from Kshs 96.7 bn in Q3’2023. The NPL coverage ratio increased to 63.8% in Q3’2024, from 62.1% in Q3’2023, attributable to the 13.7% increase in general provisions which was outpaced by the 40.9% increase in interest in suspense to Kshs 27.4 bn, from Kshs 19.4 bn in Q3’2023, coupled with the 15.1% increase in gross non performing loans,
- Shareholders’ funds increased by 13.8% to Kshs 249.0 bn in Q3’2024, from Kshs 218.8 bn in Q3’2023, supported by a 35.0% increase in retained earnings to Kshs 236.9 bn, from Kshs 175.5 bn in Q3’2023,
- KCB Group remains capitalized with a core capital to risk-weighted assets ratio of 16.5%, 6.0% points above the statutory requirement of 10.5%. In addition, the total capital to risk-weighted assets ratio came in at 16.3%, exceeding the statutory requirement of 14.5% by 4.8% points, and,
- The bank currently has a Return on Average Assets (ROaA) of 2.6%, and a Return on Average Equity (ROaE) of 22.4%.

Key Take-Outs:

- 1. Increased earnings** - Core earnings per share (EPS) grew by 49.0% to Kshs 14.2, from Kshs 9.6 in Q3’2023, driven by the 21.9% increase in total operating income to Kshs 142.9 bn, from Kshs 117.3 bn in Q3’2023, which outpaced the 11.5% increase in total operating expenses to Kshs 85.5 bn from Kshs 76.7 bn in Q3’2023
- 2. Deteriorated asset quality** –The bank’s Asset Quality deteriorated, with Gross NPL ratio increasing to 18.1% in Q3’2024, from 16.1% in Q3’2023, attributable to a 15.1% increase in Gross non-performing loans to Kshs 215.3 bn, from Kshs 187.0 bn in Q3’2023, compared to the 2.3% increase in gross loans to Kshs 1,190.5 bn, from Kshs 1,164.0 bn recorded in Q3’2023.
- 3. Contracted Balanced sheet** - The balance sheet recorded a contraction as total assets declined by 5.1% to Kshs 1,993.1 bn, from Kshs 2,099.5 bn in Q3’2024, driven by a 2.7% decrease in governments securities holdings to Kshs 361.1 bn, from 371.3 bn in Q3’2023.

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 Q3’2024, 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 50.3 representing an upside of 28.8%,

from the current price of 39.1 as of 22nd November 2024

- KCB Group is currently trading at a P/TBV of 0.5x and a P/E of 2.8x vs an industry average of 0.9x and 4.2x respectively.