Cytonn INVESTMENTS

NCBA Group– Q3’2024

29th November, 2024

Below is a summary of NCBA Group’s Q3’2024 performance:

Balance Sheet	Q3'2023 (Kshs bn)	Q3'2024 (Kshs bn)	y/y change
Net Loans and Advances	308.7	303.5	(1.7%)
Government Securities	200.8	178.4	(11.1%)
Total Assets	**678.8**	**678.8**	**0.01%**
Customer Deposits	548.1	515.1	(6.0%)
Deposits per Branch	5.0	4.4	(11.7%)
Total Liabilities	590.3	579.0	(1.9%)
Shareholders’ Funds	**88.5**	**99.8**	**12.8%**

Key Ratios	Q3'2023	Q3'2024	% point change
Loan to Deposit Ratio	56.3%	58.9%	2.6%
Government Securities to Deposit ratio	36.6%	34.6%	(2.0%)
Return on average equity	18.4%	23.3%	4.8%
Return on average assets	2.5%	3.2%	0.8%

Income Statement	Q3'2023 (Kshs bn)	Q3'2024 (Kshs bn)	y/y change
Net Interest Income	26.0	25.1	(3.1%)
Net non-Interest Income	20.7	21.8	5.2%
Total Operating income	**46.7**	**47.0**	**0.6%**
Loan Loss provision	6.1	4.1	(32.8%)
Total Operating expenses	**28.1**	**28.6**	**1.6%**
Profit before tax	18.6	18.4	(0.9%)
Profit after tax	**14.6**	**15.1**	**3.1%**
Core EPS	**8.9**	**9.2**	**3.1%**

Income Statement Ratios	Q3'2023	Q3'2024	y/y change
Yield from interest-earning assets	10.9%	13.0%	2.0%
Cost of funding	5.2%	7.6%	2.3%
Net Interest Margin	6.0%	5.8%	(0.2%)
Net Interest Income as % of operating income	55.6%	53.5%	(2.0%)
Non-Funded Income as a % of operating income	44.4%	46.5%	2.0%
Cost to Income Ratio	60.2%	60.8%	0.6%
Cost to Income without LLP	47.2%	52.1%	4.9%

Capital Adequacy Ratios	Q3'2023	Q3'2024	% points change
Core Capital/Total Liabilities	15.6%	18.5%	2.9%
Minimum Statutory ratio	8.0%	8.0%	
Excess	**7.6%**	**10.5%**	**2.9%**
Core Capital/Total Risk Weighted Assets	17.2%	19.6%	2.4%
Minimum Statutory ratio	10.5%	10.5%	
Excess	**6.7%**	**9.1%**	**2.4%**
Total Capital/Total Risk Weighted Assets	17.2%	19.7%	2.4%
Minimum Statutory ratio	14.5%	14.5%	
Excess	**2.7%**	**5.2%**	**2.4%**
Liquidity Ratio	52.5%	53.7%	1.2%
Minimum Statutory ratio	20.0%	20.0%	
Excess	**32.5%**	**33.7%**	**1.2%**

Income Statement

- Core earnings per share grew by 3.1% to Kshs 9.2, from Kshs 8.9 in Q3'2023, driven by the 0.6% increase in total operating income to Kshs 47.0 bn, from Kshs 46.7 bn in Q3'2023, coupled with a decrease in effective tax rate to 18.0%, from 21.1% in Q3'2023. However, the performance was weighed down by a 1.6% increase in total operating expenses to Kshs 28.6 bn from Kshs 28.1 bn in Q3'2023,
- The 0.6% increase in total operating income was mainly driven by a 5.2% increase in Non Interest Income (NFI) to Kshs 21.8 bn from Kshs 20.7 bn in Q3'2023, which outpaced the 3.1% decline in Net Interest Income (NII) to Kshs 25.1 bn, from Kshs 26.0 bn in Q3'2023,
- Interest income grew by 22.3% to Kshs 57.4 bn from Kshs 47.0 bn in Q3'2023, mainly driven by a 36.3% growth in interest income from loans and advances to Kshs 35.3 bn from Kshs 25.9 bn in Q3'2023, coupled with a 174.1% increase in interest income from deposits and placements to Kshs 2.6 bn, from Kshs 1.0 bn in Q3'2023. As such, the Yield on Interest-Earning Assets (YIEA) increased to 13.0% from 10.9% recorded in Q3'2023, mainly attributable to the faster 24.9% growth in Trailing interest income compared to a 5.2% increase in average interest earning assets to Kshs 583.5 bn, from Kshs 554.8 bn in Q3'2023,
- Interest expenses rose by 53.7% to Kshs 32.3 bn from Kshs 21.0 bn in Q3'2023, mainly driven by a 55.7% increase in interest expense on customer deposits to Kshs 30.2bn from Kshs 19.4 bn in Q3'2023, coupled with a 23.2% increase in interest expense from placements to Kshs 1.4 bn, from Kshs 1.1 bn in Q3'2023. Consequently, Cost of funds (COF) increased by 2.3% points to 7.6% from 5.2% recorded in Q3'2023, owing to a faster 54.0% increase in Trailing interest expense to Kshs 41.9 bn from Kshs 27.2 bn recorded in Q3'2023, compared to a 6.2% increase in average interest bearing liabilities to Kshs 554.0 bn from Kshs 521.5 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) decreased by 0.2% points to 5.8% in Q3'2024, from 6.0% in Q3'2023, attributable to a slower 1.2% increase in trailing net interest income to Kshs 33.8 bn from Kshs 33.4 bn recorded in Q3'2023, which was outpaced the 5.2% growth in average interest earning assets,
- Non-Funded Income (NFI) increased by 5.2% to Kshs 21.8 bn from Kshs 20.7 bn in Q3'2023, mainly driven by a 61.7% increase in other income to Kshs 3.0 bn, from Kshs 1.9 bn in Q3'2023, coupled with a 6.9% increase in total fees income to Kshs 13.7 bn, from Kshs 12.8 bn in Q3'2023, which outpaced the 15.6% decline in forex trading income to Kshs 5.1 bn , from Kshs 6.0 bn in Q3'2023, highlighting the bank's decreased foreign exchange margins following the strengthening of the Shilling. The revenue mix shifted to 54:46 from 56:44 in Q3'2023, for the funded to Non-funded income owing to the 5.2% growth in Non Funded Income compared to a 3.1% decrease in the Funded Income,
- Total operating expenses increased by 1.6% to Kshs 28.6 bn from Kshs 28.1 bn in Q3'2023, driven by 9.6% increase in staff costs to Kshs 10.1 bn from Kshs 9.3 bn recorded in Q3'2023, coupled with a 12.1% increase in other operating expenses to Kshs 14.3 bn, from Kshs 12.8 bn recorded in Q3'2023, which outpaced the 32.8% decrease in loan loss provisions to Kshs 4.1 bn, from Kshs 6.1 bn recorded in Q3'2023. The decrease in provisioning is partly attributable to reducing credit risk as a result improved economic environment as evidenced by Purchasing Managers Index (PMI) of 49.7 as of end of Q3'2024, up from 47.8 in September 2023,
- Cost to Income Ratio (CIR) increased by 0.6% points to 60.8% from 60.2% in Q3'2023, owing to the faster 1.6% growth in total operating expenses, which outpaced the 0.6% growth in total operating income. Notably, CIR without LLP increased by 4.9% points to 52.1% from 47.2% recorded in Q3'2023, and,
- Profit before tax decreased by 0.9% to Kshs 18.4 bn in Q3'2024, from Kshs 18.6 bn in Q3'2023, with effective tax rate decreasing to 18.0% in Q3'2024, from 21.1% in Q3'2023, leading to a 3.1% increase in profit after tax to Kshs 15.1 bn in Q3'2024, from Kshs 14.6 bn in Q3'2023.

Balance Sheet

- The balance sheet remained stable, as total assets remained unchanged at Kshs 678.8 bn, same to what was recorded in Q3'2023. Notably, Net loans and advances decreased by 1.7% to Kshs 303.5 bn, from Kshs 308.7 bn in Q3’2023, while the Group’s holdings in Kenya government securities recorded an 11.1% decrease to Kshs 178.4 bn, from Kshs 200.8 bn in Q3’2023. The decline was however muted by a 30.8% increase other financial investment securities to Kshs 39.1 bn, from Kshs 29.9 bn in Q3’2023.

- Total liabilities declined by 1.9% to Kshs 579.0 bn from Kshs 590.3 bn in Q3’2024, mainly driven by a 6.0% decline in customer deposits to Kshs 515.1 bn, from Kshs 548.1 bn in Q3’2023, which outpaced the 199.1% increase in borrowings to 11.7 bn from Kshs 3.9 bn recorded in Q3’2023, coupled with a 57.1% increase in placements to Kshs 17.8 bn, from Kshs 11.3 bn in Q3’2023. With 116 branches countrywide, compared to 109 branches in Q3’2023, deposits per branch decreased by 11.7% to Kshs 4.4 bn, from Kshs 5.0 bn in Q3’2023,
- The faster 6.0% decline in deposits as compared to the 1.7% decline in loans led to an increase in the loan to deposits ratio to 58.9%, from 56.3% in Q3’2023,
- The bank’s Asset Quality improved, with Gross NPL ratio decreasing to 12.5% in Q3’2024, from 12.9% in Q3’2023, attributable to the 4.3% decrease in Gross non-performing loans to Kshs 41.1 bn, from Kshs 43.0 bn in Q3’2023, compared to the slower 1.6% decrease in gross loans to Kshs 328.0 bn, from Kshs 333.5 bn recorded in Q3’2023,
- General Provisions (LLP) decreased by 14.6% to Kshs 12.7 bn in Q3’2024 from Kshs 14.8 bn in Q3’2023. The NPL coverage increased to 59.7% in Q3’2024, from 57.7% in Q3’2023, attributable to the 4.3% decrease in gross non-performing loans, compared to the 19.3% increase in interest in suspense to Kshs 11.9 bn, from Kshs 10.0 bn in Q3’2023,
- Shareholders’ funds increased by 12.8% to Kshs 99.8 bn in Q3’2024, from Kshs 88.5 bn in Q3’2023, supported by a 21.0% increase in retained earnings to Kshs 76.3 bn, from Kshs 63.0 bn in Q3’2023,
- NCBA Bank remains capitalized with a core capital to risk-weighted assets ratio of 19.6%, 9.1% points above the statutory requirement of 10.5%. In addition, the total capital to risk-weighted assets ratio came in at 19.7%, exceeding the statutory requirement of 14.5% by 5.2% points, and,
- The bank currently has a Return on Average Assets (ROaA) of 3.2%, and a Return on Average Equity (ROaE) of 23.3%.

Key Take-Outs:

1. **Increased earnings -** Core earnings per share (EPS) grew by 3.1% to Kshs 9.2, from Kshs 8.9 in Q3’2023, driven by the 0.6% growth in total operating income to Kshs 47.0 bn, from Kshs 46.7 bn in Q3’2023.
2. **Improved asset quality –** The bank’s gross NPL ratio decreased to 12.5% in Q3’2024, from 12.9% in Q3’2023, attributable to the 4.3% decrease in Gross non-performing loans to Kshs 41.1 bn, from Kshs 43.0 bn in Q3’2023, compared to the slower 1.6% decrease in gross loans to Kshs 328.0 bn, from Kshs 333.5 bn recorded in Q3’2023,
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 14.6% to Kshs 12.7 bn, from Kshs 14.8 bn recorded in Q3’2023. Further, loan loss provisions expense reduced by 32.8% to Kshs 4.1 bn, from Kshs 6.1 bn recorded in Q3’2023.
4. **Reduced lending-** Net loans and advances to customers reduced by 1.7% to Kshs 303.5 bn, from Kshs 308.7 bn in Q3’2023 owing to increased default rates in the industry.

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 100.0% acquisition of AIG Kenya Insurance is set to increase the non-funded revenue base more.

Valuation Summary

- We are of the view that NCBA Group is a “buy” with a target price of Kshs 52.7 representing an upside of 33.1%, from the current price of 43.2 as of 29th Novemember 2024, inclusive of a dividend yield of 11.0%.
- NCBA group is currently trading at a P/TBV of 0.8x and a P/E of 3.3x vs an industry average of 0.9x and 4.1x respectively