



KCB

**KCB Group
Q3'24 Earnings
Note**





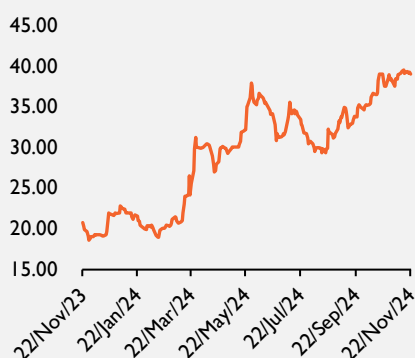
KCB Group Q3'24 Earnings Note

November 25th, 2024

Ticker Information

NSE Code:	KCB
Bloomberg Ticker	KNCB:KN
Issued Shares (Bn):	3.21
52-week high:	KES 39.55
52-week low:	KES 18.61

Chart 1: Price Trend (Last 12 Months)



Source: NSE, AIB-AXYS Research

Historical Share Performance

Last	1M	3M	6M	12M
Change	0.0%	21.1%	21.3%	88.1%

Source: NSE, AIB-AXYS Research

Analyst

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Recommendation

BUY

Current Price

KES 39.05

Target Price

KES 41.72

Summary

- KCB Group reported an impressive 49.0% y/y surge in net earnings to KES 45.76Bn over the first nine months of 2024.** This strong performance was underpinned by a 23.9% y/y jump in net interest income coupled with an 18.3% y/y surge in non-interest income. Net interest margin edged up modestly by 10bps y/y to 6.7%, reflecting the lenders' ability to optimize its yield generation despite heightened cost of funding pressures. Trailing return on equity increased 230bps y/y to 22.4% while trailing return on assets increased marginally by 10bps to 2.6%.

Key Highlights

- Margin Momentum Powers Revenue Surge:** Net Interest Incomes surged 23.9% y/y to KES 92.80Bn driven by increased loan uptake amid ongoing price optimization. Non-Funded income expanded 18.3% y/y to KES 50.15Bn supported by a remarkable 68.0% y/y surge in forex trading income. Consequently, total operating income grew 21.9% y/y to KES 142.95Bn. The average yield on interest earning assets paced up 120bps y/y to 11.3%, reflecting improved reinvestment returns. This offset the 110bps y/y increase in the cost of funds to 4.6%, attributed to the prevailing high interest rate environment. As a result, net interest margin widened marginally by 10bps y/y to 6.7%.
- Pressurized Asset Quality:** The stock of Gross Non-Performing Loans (NPLs) accelerated by 15.1% y/y to KES 215.30Bn – arising largely from increased downgrades in agriculture, manufacturing and trade sectors. This pushed the gross NPL ratio up by 220bps y/y to 18.5%. Management responded proactively to these headwinds by strengthening loss absorption capacity, as evidenced by a 170 bps y/y improvement in NPL coverage to 63.8%. The conservative stance is further reflected in the 12.2% y/y increase in credit impairment provisions to KES 17.78Bn demonstrating a prudent approach to risk management amid challenging market conditions.

Balance Sheet Dynamics

KCB Group's total deposits contracted by 7.1% y/y to KES 1.54Tn primarily influenced by shilling appreciation effects. Notably, the proportion of term and call deposits increased to 33% from 27%, indicating heightened competition for stable funding and subsequent pressure on funding costs. The lender maintained a well-diversified deposit base across retail and corporate segments throughout its regional operations, with 61% of deposits denominated in local currency.

On the lending front, the loan book expanded modestly by 0.5% y/y to KES 1.05Tn. The proportion of Stage I loans decreased to 67.7% from 68.9% of the total gross loans signaling a slight shift in the risk profile of the loan book. The majority of loans were extended to households and businesses in the trade, tourism, and manufacturing sectors.

Subsidiary Performance

The Group delivered robust performance across all subsidiaries. The Group weighted average ROE improved to 25.6% from 19.9%. Subsidiaries posted remarkable growth over the first nine months of 2024 led by South Sudan – which posted a remarkable 110% y/y growth in revenues while ROE shot up to 145.6% from 43.8% a year prior. In addition, operating revenue in Uganda rose by 25% y/y, while Kenya and Rwanda reported revenue growth of 24% y/y and 13% y/y, respectively.

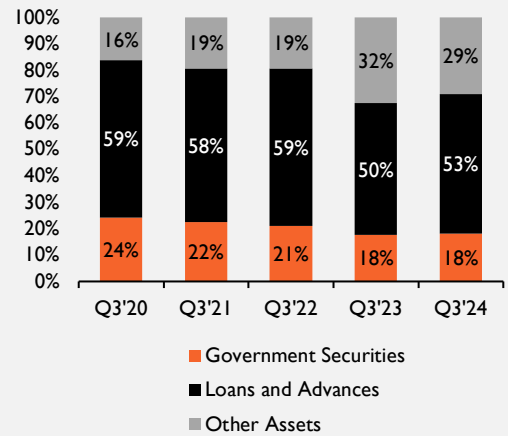
Outlook

We expect digital banking adoption and regional expansion to remain key growth catalysts, supported by the bank's strategic focus on demographic opportunities across its markets. We anticipate improved asset quality metrics driven by enhanced recovery mechanisms and more stringent underwriting standards on new credit facilities.

Recommendation

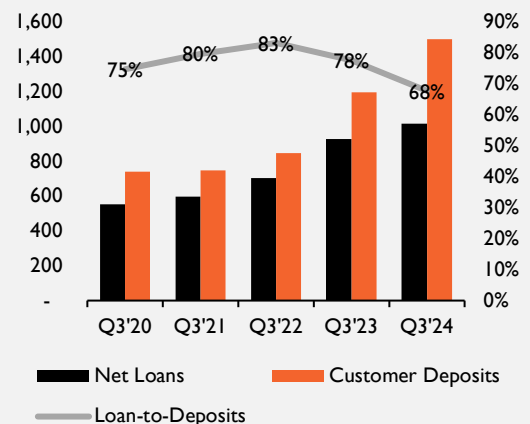
- **We maintain our BUY recommendation on KCB Group underpinned by the successful execution of its strategic transformation and demonstrated earnings momentum.** At the current market price, the stock is trading at P/E ratio of 2.2x and a P/B ratio of 0.5x. Our one-year target price for KCB Group currently stands at KES 41.72 per share - representing a c. 6.8% upside potential from current levels.

Chart 2: Asset Composition



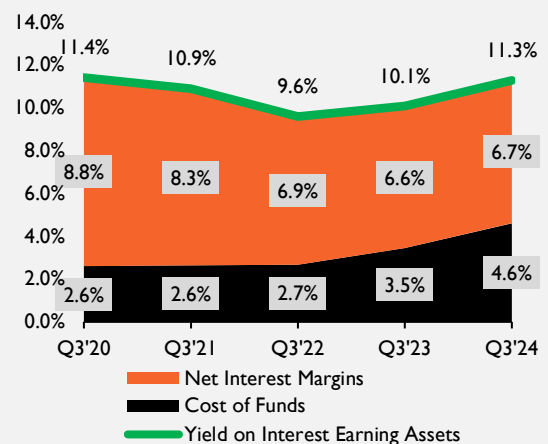
Source: Company filings, AIB-AXYS Research.

Chart 3: Faster Deposit Mobilization



Source: Company filings, AIB-AXYS Research.

Chart 4: Widening Net Interest Margin



Source: Company filings, AIB-AXYS Research.

Income Statement (KES Mn)	Q3'20	Q3'21	Q3'22	Q3'23	Q3'24	y/y % Change
Net Interest Income	47,863.0	56,436.7	61,593.0	74,873.5	92,798.2	▲ 23.9%
Net non-Interest Income	21,279.8	23,469.0	30,550.7	42,388.3	50,147.9	▲ 18.3%
Total Operating income	69,142.8	79,905.7	92,143.7	117,261.9	142,946.1	▲ 21.9%
Provision for Impairment	(20,012.2)	(9,327.8)	(7,267.8)	(15,848.6)	(17,781.2)	▲ 12.2%
Total Operating expenses	(51,999.7)	(44,096.0)	(48,840.7)	(76,667.7)	(85,513.7)	▲ 11.5%
Profit before tax	17,143.1	35,809.6	43,303.0	40,594.1	57,432.4	▲ 41.5%
Profit after tax	10,891.4	25,206.9	30,593.9	30,721.3	45,760.6	▲ 49.0%
Core EPS Annualized	4.52	10.46	12.69	12.75	18.99	▲ 49.0%

Balance Sheet (KES Mn)	Q3'20	Q3'21	Q3'22	Q3'23	Q3'24	y/y % Change
Government Securities	236,247.3	252,445.8	269,887.4	371,273.5	361,111.4	▼ (2.7%)
Loans and Advances	577,505.1	651,816.5	758,816.0	1,047,865.7	1,053,199.4	▲ 0.5%
Total Assets	972,009.3	1,122,464.2	1,276,282.7	2,099,541.1	1,993,055.3	▼ (5.1%)
Customer Deposits	772,662.7	859,103.4	922,303.7	1,656,369.7	1,538,431.9	▼ (7.1%)
Total Liabilities	836,064.2	958,081.1	1,086,064.2	1,873,448.1	1,736,447.8	▼ (7.3%)
Shareholder's Funds	135,945.0	162,990.8	187,771.6	218,818.7	248,952.6	▲ 13.8%

Ratio Analysis	Q3'20	Q3'21	Q3'22	Q3'23	Q3'24	y/y % Change
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Spreads Analysis

Yield on Assets	11.4%	10.9%	9.6%	10.1%	11.3%	▲ 1.2%
Cost of Funds	2.6%	2.6%	2.7%	3.5%	4.6%	▲ 1.1%
Net Interest Margin	8.8%	8.3%	6.9%	6.6%	6.7%	▲ 0.1%
ROE	13.1%	22.4%	22.6%	20.2%	22.4%	▲ 2.3%
ROA	1.9%	3.2%	3.3%	2.4%	2.6%	▲ 0.1%
Profit Margin	15.8%	31.5%	33.2%	26.2%	32.0%	▲ 5.8%

Operating Efficiency

Cost to Income Less LLP	46.3%	43.5%	45.1%	51.9%	47.4%	▼ (4.5%)
Cost to Assets Less LLP	3.3%	3.1%	3.3%	2.9%	3.4%	▲ 0.5%
Loan to Deposit Ratio	74.7%	75.9%	82.3%	63.3%	68.5%	▲ 5.20%

Asset Quality

Total NPL Ratio	15.6%	13.8%	18.1%	16.3%	18.5%	▲ 2.2%
NPL Coverage	58.5%	63.0%	52.8%	62.1%	63.8%	▲ 1.7%
Cost of Risk	3.5%	1.4%	1.0%	1.5%	3.4%	▲ 1.9%

Capital Adequacy

Core Capital/TRWA	17.9%	18.2%	14.5%	14.5%	16.5%	▲ 2.0%
Total Capital /TRWA	19.5%	21.8%	18.1%	17.8%	19.3%	▲ 1.5%
Liquidity	0.0%	41.3%	38.5%	50.3%	47.2%	▼ (3.1%)



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