



**NCBA Group
Q3'24 Earnings
Note**





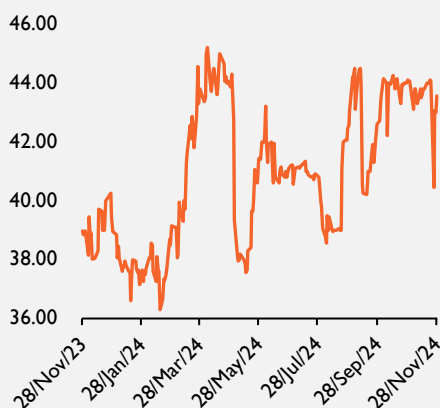
NCBA Group Q3'24 Earnings Note

November 29th, 2024

Ticker Information

NSE Code:	NCBA
Issued Shares (Bn):	1.65
52-week high:	KES 45.20
52-week low:	KES 36.30

Chart 1: Price Trend (Last 12 Months)



Source: NSE, AIB-AXYS Research

Historical Share Performance

Last	1M	3M	6M	12M
Change	-1.0%	2.6%	5.2%	11.7%

Source: NSE, AIB-AXYS Research

Analyst

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Recommendation

BUY

Current Price

KES 43.55

Target Price

KES 49.86

Summary

- **NCBA Group clocked below in-house expectations over the first nine months of 2024 recording a mild 3.1% y/y growth in net earnings to KES 15.10Bn.** Revenue growth was subdued at 0.6% y/y, largely buoyed by the enhanced performance of non-banking subsidiaries. Net interest margin contracted 30bps y/y to 5.4% reflecting mounting pressure from escalating funding costs that outpaced yields on interest earning assets. Trailing return on equity increased by 480bps y/y to 23.3% while the trailing return on assets increased by 80bps y/y to 3.2%.

Key Highlights

- **Core Performance Under Strain:** Net Interest Income contracted 3.1% y/y to KES 25.14Bn primarily grounded by the substantial 53.7% y/y surge in interest expenses which offset the 22.3% y/y rise in interest income. Non-Funded Income expanded by 5.2% y/y to KES 21.82Bn despite the notable 15.6% y/y decrease in forex trading income. Operating income recorded a modest 0.6% y/y increase to KES 46.96Bn as higher costs pressured profitability. The average yield on interest earning assets paced up by 200bps y/y to 13.0%. However, this was eclipsed by a steeper 230bps y/y rise in the cost of funds, highlighting intensified pressure on margins. As a result, the net interest margin contracted by 30bps y/y to 5.4%.
- **Strengthened Asset Quality:** Gross Non-Performing Loans (NPLs) eased by 430bps y/y to KES 41.15Bn. This reduction contributed to a slight improvement in the gross NPL ratio, which eased by 30bps y/y to 13.0%. The lenders proactive risk management efforts were evident in the 200bps y/y increase in NPL coverage to 59.7%. Management reduced credit loss provisions by a notable 32.8% y/y to KES 4.08 Bn, reflecting enhanced portfolio performance and disciplined credit management.

Balance Sheet Dynamics

Customer deposits contracted notably by 6.0% y/y to KES 515.11Bn. Similarly, the loan book contracted by 1.7% y/y to KES 303.45Bn indicating a selective and risk-conscious lending strategy. Management strategically trimmed its allocation to government securities by 5.7% y/y to KES 217.51Bn - a move driven by attractive margins on customer assets. Furthermore, the lender successfully minimized fair value losses, benefiting from favorable movements in market yields.

Suboptimal Efficiency

Operating efficiency declined as evidenced by the rise in the Cost-to-Income ratio (excluding loan-loss provisions) by 490bps y/y to 52.1%. This decline was attributed to a sharper 11.0% y/y increase in pre-provisioning expenses, which outpaced the modest 0.6% y/y growth in operating income. The uptick in expenses was driven by significant investments in digital channel enhancements, branch network expansion, and personnel growth, highlighting the bank's strategic focus on scaling its operational capacity despite near-term cost pressures.

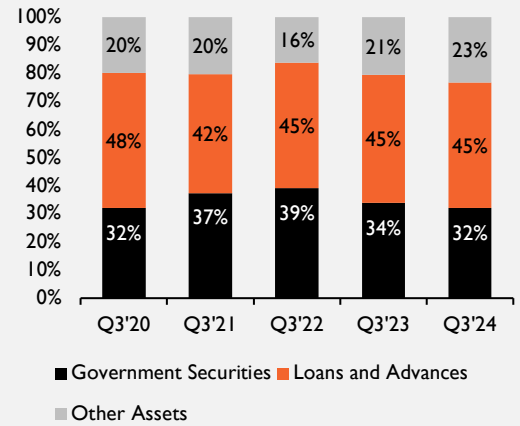
Outlook

We anticipate NCBA Group's growth to be fueled by a robust focus on core banking operations and the strategic expansion of its non-banking subsidiaries, particularly in asset financing. We believe the AIG Insurance acquisition will enhance bancassurance capabilities and diversify revenue streams. We foresee accelerated growth through digital banking platforms like Fuliza and M-Shwari, supported by advanced risk-based pricing models. We expect continued loan portfolio expansion and organic growth of subsidiaries in Tanzania, Uganda, and Rwanda.

Recommendation

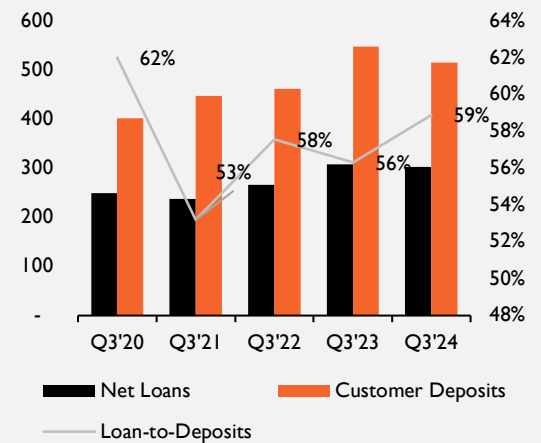
- **We maintain our BUY recommendation on NCBA Group underpinned by the promising growth trajectory.** At the current market price, the stock is trading at P/E ratio of 3.3x and a P/B ratio of 0.7x. Our one-year target price for NCBA Group currently stands at KES 49.86 - representing a c.14.5% upside potential from current levels.

Chart 2: Asset Composition



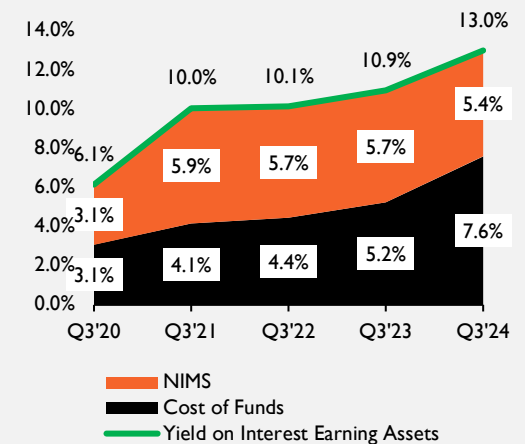
Source: Company filings, AIB-AXYS Research.

Chart 3: Faster Deposit Mobilization



Source: Company filings, AIB-AXYS Research.

Chart 4: Narrowing NIMS



Source: Company filings, AIB-AXYS Research.

Income Statement (KES Bn)	Q3'20	Q3'21	Q3'22	Q3'23	Q3'24	% y/y Change
Net Interest Income	16.96	20.20	23.25	25.96	25.14	▼ (3.1%)
Non-Interest Income	16.11	16.08	22.54	20.74	21.82	▲ 5.2%
Total Operating income	33.07	36.29	45.79	46.70	46.96	▲ 0.6%
Provision for Impairment	(13.35)	(9.17)	(8.33)	(6.07)	(4.08)	▼ (32.8%)
Total Operating expenses	(28.62)	(24.68)	(26.87)	(28.13)	(28.57)	▲ 1.6%
Profit before tax	3.79	11.06	18.19	18.57	18.41	▼ (0.9%)
Profit after tax	2.52	6.53	12.80	14.65	15.10	▲ 3.1%
Core EPS Annualized	2.04	5.28	10.36	11.85	12.22	▲ 3.1%

Balance Sheet (KES Bn)	Q3'20	Q3'21	Q3'22	Q3'23	Q3'24	% y/y Change
Government Securities	166.16	210.70	232.65	230.65	217.51	▼ (5.7%)
Loans and Advances	249.69	238.17	266.11	308.70	303.45	▼ (1.7%)
Total Assets	519.17	562.63	595.42	678.79	678.83	▲ 0.0%
Customer Deposits	402.63	447.62	462.11	548.13	515.11	▼ (6.0%)
Total Liabilities	448.54	487.65	514.49	590.28	579.02	▼ (1.9%)
Shareholder's Funds	70.41	74.82	80.88	88.51	99.81	▲ 12.8%

Ratio Analysis	Q3'20	Q3'21	Q3'22	Q3'23	Q3'24	% y/y Change
Spreads Analysis						
Yield on Assets	6.1%	10.0%	10.1%	10.9%	13.0%	▲ 2.0%
Cost of Funds	3.1%	4.1%	4.4%	5.2%	7.6%	▲ 2.3%
Net Interest Margin	3.1%	5.9%	5.7%	5.7%	5.4%	▼ (0.3%)
ROaE	3.9%	11.8%	21.2%	18.4%	23.3%	▲ 4.8%
ROaA	0.5%	1.6%	2.8%	2.5%	3.2%	▲ 0.8%
Profit Margin	7.6%	18.0%	28.0%	31.4%	32.2%	▲ 0.8%

Operating Efficiency	Q3'20	Q3'21	Q3'22	Q3'23	Q3'24	% y/y Change
Cost to Income Less LLP	46.2%	42.7%	40.5%	47.2%	52.1%	▲ 4.9%
Cost to Assets Less LLP	2.9%	2.8%	3.1%	3.2%	3.6%	▲ 0.4%
Loan to Deposit	62.0%	53.2%	57.6%	56.3%	58.9%	▲ 2.6%

Asset Quality	Q3'20	Q3'21	Q3'22	Q3'23	Q3'24	% y/y Change
Gross NPL Ratio	14.5%	17.5%	12.9%	13.3%	13.0%	▼ (0.3%)
NPL Coverage	58.3%	70.2%	65.3%	57.7%	59.7%	▲ 2.0%
Cost of Risk	5.3%	3.8%	3.1%	2.0%	1.3%	▼ (0.6%)

Capital Adequacy	Q3'20	Q3'21	Q3'22	Q3'23	Q3'24	% y/y Change
Core Capital/TRWA	18.1%	19.0%	18.4%	17.2%	19.6%	▲ 2.4%
Total Capital /TRWA	18.6%	19.1%	17.5%	17.2%	19.7%	▲ 2.4%
Liquidity	53.2%	55.1%	55.1%	52.5%	53.7%	▲ 1.2%



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