

### **Valuation Summary**

- We are of the view that the BBK stock is a “Lighten” with a target price of Kshs 7.9 representing an upside of 1.1%, from the current price of Kshs 8.6, as at 26<sup>th</sup> May, inclusive of a dividend yield of 9.2%
- Barclays Bank is currently trading at a P/B of 1.1x and a P/E of 6.7x, vs an industry average of 1.3x and 7.1x, respectively.

### **Key highlights during Q1'2017**

- The bank launched a marine insurance program, which will cover goods while on transit from overseas and will be offered through its subsidiary, Barclays Bank Insurance Agency (BBIA) in partnership with First Assurance
- Barclays Bank of Kenya launched a partnership with China UnionPay, which will allow UnionPay cardholders to transact at Barclays' 220 ATMs and 4,200 point-of-sale devices through its merchants across the country

### **Income Statement**

- Core Earnings Per Share (EPS) declined by 19.8% in line with our expectations, to Kshs 0.3 from Kshs 0.4 in Q1'2016 driven by a 7.3% decline in operating income despite a decline of 1.2% in operating expenses,
- Total operating income declined by 7.3% to Kshs 7.4 bn from Kshs 8.0 bn in Q1'2016, higher than our estimate of 3.9% decline. This was attributed to a decline of 7.1% in Net Interest Income and a 7.8% decline in Non-Funded Income,
- Net Interest Income declined by 7.1% to Kshs 5.0 bn from Kshs 5.4 bn in Q1'2016 attributed to a 5.0% decline in interest Income to Kshs 6.4 bn from Kshs 6.7 bn in Q1'2016, which outpaced a 3.4% decline in interest expense to Kshs 1.4 bn from Kshs 1.3 bn in Q1'2016. The Net Interest Margin, however, remained stable at 10.2% from 10.4% in Q1'2016,
- Non-funded income (NFI) recorded a decline of 7.8% to Kshs 2.4 bn from Kshs 2.5 bn in Q1'2016. The decline in NFI is attributable to a 59.4% drop in fees and commissions on loans and advances to Kshs 0.2 bn from Kshs 0.4 bn in Q1'2016. The current revenue mix stands at 68:32 funded to non-funded income,
- Total operating expenses declined by 1.2% attributable to a 2.9% drop in in loan loss provisions to Kshs 0.77 bn from Kshs 0.79 bn in Q1'2016 and an 8.4% decline in other expenses to Kshs 1.1 bn from Kshs 1.0 bn in Q1'2016. Staff costs remained stable at Kshs 2.5 bn,
- Cost to Income ratio worsened to 66.0% from 61.9% in Q1'2016. Without LLP, Cost to Income ratio came in at 55.5% from 51.9% in Q1'2016,
- Profit after tax declined by 19.8% to Kshs 1.7 bn from Kshs 2.2 bn in Q1'2016.

### **Balance Sheet**

- The balance sheet recorded an expansion in Q1'2017, with total assets increasing by 7.9% to Kshs 260.8 bn from Kshs 241.6 bn in Q1'2016 driven by a rise of 10.7% in the loan book,
- The Loan book grew by 10.7% to Kshs 168.7 bn from Kshs 152.4 bn in Q1'2016, in line with our projection of 10.3%
- Total liabilities increased by 8.7% to Kshs 216.7 bn from Kshs 199.3 bn in Q1'2016 in line with our projections of a 10.7% increase, while shareholders' funds increased by 4.1% to Kshs 44.0 bn from Kshs 42.3 bn,
- Customer deposits grew by 7.6% to Kshs 181.8 bn from Kshs 168.9 bn in Q1'2016 driven by growing savings and transactions accounts owing to the bank's efforts to strengthen its network channels through opening up an additional 181 service outlets across the country to boost its deposit mobilisation capabilities. This led to the loan to deposit ratio rising to 92.8% from 90.2% in Q1'2016,
- Gross non-performing loans grew by 48.4% to Kshs 11.7 bn from Kshs 8.0 bn in Q1'2016, which led to an increase in the NPL ratio to 6.6% from 5.0% in Q1'2016,
- The yield on interest earning assets declined to 12.9% from 13.0% in Q1'2016, while the cost of funds rose to 3.3% from 3.2%,
- Barclays Bank Kenya is currently sufficiently capitalized with a core capital to risk weighted assets ratio at 15.7%, 5.2% above the statutory requirement, with total capital to total risk weighted assets exceeding statutory requirement by 3.3% to close the period at 17.8%,
- Barclays Bank currently has a ROaA of 2.9% and a ROaE of 17.4%.

**Key Take outs:**

- During the quarter the bank registered a loan book growth of 10.7%, however, loan book impairment remained within forecast despite early adoption of IFRS 9 by the bank, which requires banks to provide for loans in a more conservative approach given their aggressive lending.
- Barclays Bank registered a slight decline contribution from NFI, with NFI to total income at 32.0%, down from 32.2% in Q1'2016, which is an indication that despite the bank having benefited from its growing alternative channels, Barclays bank needs to improve its position to market its alternative channels and innovation.

**Moving forward Barclays Bank's growth will be propelled by;**

- Continued investment in the automation and digitization of systems, processes and solutions in a bid enhance efficiency as well as to provide their customers with convenient access to products and solutions
- Revenue diversification with new business lines such as Barclays Financial Services Limited (BFSL), Bancassurance and agency banking will see the bank leveraged highly on this to spur growth

**Below is a summary of the key line items in the balance sheet and income statement:**

*Figures in Kshs billions unless otherwise stated*

Balance Sheet	Q1'2016	Q1'2017	y/y change	Q1'2017e	Expected y/y change	Variance in Actual Growth vs. Expected
Government Securities	51.7	49.5	(4.2%)	50.6	(2.0%)	(2.2%)
Net Loans and Advances	152.4	168.7	10.7%	168.2	10.3%	0.3%
<b>Total Assets</b>	<b>241.6</b>	<b>260.8</b>	<b>7.9%</b>	<b>264.7</b>	<b>9.6%</b>	<b>(1.6%)</b>
Customer Deposits	168.9	181.8	7.6%	180.9	7.1%	0.6%
Total Liabilities	199.3	216.7	8.7%	220.6	10.7%	(1.9%)
<b>Shareholders' Funds</b>	<b>42.3</b>	<b>44.0</b>	<b>4.1%</b>	<b>44.1</b>	<b>4.3%</b>	<b>(0.2%)</b>

Balance sheet ratios	Q1'2016	Q1'2017	% y/y change
Loan to Deposit Ratio	90.2%	92.8%	2.6%
Return on average equity	20.5%	17.4%	(3.1%)
Return on average assets	3.6%	2.9%	(0.7%)

Income Statement	Q1'2016	Q1'2017	y/y change	Q1'2017e	Expected y/y change	Variance in Actual Growth vs Expected
Net Interest Income	5.4	5.0	(7.1%)	5.1	(6.7%)	(0.4%)
Net non-Interest Income	2.6	2.4	(7.8%)	2.6	1.9%	(9.7%)
<b>Total Operating income</b>	<b>8.0</b>	<b>7.4</b>	<b>(7.3%)</b>	<b>7.7</b>	<b>(3.9%)</b>	<b>(3.4%)</b>
Loan Loss provision	(0.8)	(0.8)	(2.9%)	(1.0)	20.6%	(23.5%)
Total Operating expenses	(4.9)	(4.9)	(1.2%)	(5.2)	4.7%	(6.0%)
<b>Profit before tax</b>	<b>3.0</b>	<b>2.5</b>	<b>(17.2%)</b>	<b>2.5</b>	<b>(18.0%)</b>	<b>0.8%</b>
<b>Profit after tax</b>	<b>2.2</b>	<b>1.7</b>	<b>(19.8%)</b>	<b>1.7</b>	<b>(20.0%)</b>	<b>0.2%</b>
<b>Core EPS</b>	<b>0.4</b>	<b>0.3</b>	<b>(19.8%)</b>	<b>0.3</b>	<b>(20.0%)</b>	<b>0.2%</b>

Income statement ratios	Q1'2016	Q1'2017	% y/y change
Yield from interest-earning assets	13.0%	12.9%	(0.0%)
Cost of funding	3.2%	3.3%	0.1%
Net Interest Margin	2.7%	2.3%	(0.4%)
Cost to Income	61.9%	66.0%	4.1%
Cost to Assets	1.7%	1.6%	(0.1%)
Net Interest Income as % of operating income	68.8%	70.6%	1.8%
Non-Funded Income as a % of operating income	32.2%	32.0%	(0.2%)

Capital Adequacy Ratios	Q1'2016	Q1'2017
Core Capital/Total Liabilities	21.90%	21.40%
Minimum Statutory ratio	8.00%	8.00%
<b>Excess</b>	<b>13.90%</b>	<b>13.40%</b>
Core Capital/Total Risk Weighted Assets	16.00%	15.70%
Minimum Statutory ratio	10.50%	10.50%
<b>Excess</b>	<b>5.50%</b>	<b>5.20%</b>
Total Capital/Total Risk Weighted Assets	18.20%	17.80%
Minimum Statutory ratio	14.50%	14.50%
<b>Excess</b>	<b>3.70%</b>	<b>3.30%</b>
Liquidity Ratio	33.20%	29.60%
Minimum Statutory ratio	20.00%	20.00%
<b>Excess</b>	<b>13.20%</b>	<b>9.60%</b>