

Valuation Summary

- We recommend an accumulate for the Barclays Kenya stock with a target price of Kshs 10.3, representing an upside of 11.6% from the current price of Kshs 10.1 as at 30th May 2016, inclusive of a dividend yield of 9.7%
- Barclays Bank is currently trading at a P/B of 1.3x and a P/E of 6.6x, versus an industry average of 1.6x and 7.4x, respectively

Key highlights during the quarter

- Barclays has been facing negative sentiment on account of the impending exit of Barclays Plc from its African holdings with the CEO issuing a statement on the continuation of the Kenyan business regardless
- Barclays launched the first to market Mobile Point of Sale (mPOS) payment solution. This is a solution that enables customers to pay for products and services using their debit or credit cards on the go

Income Statement:

- Core earnings per share increased by 2.6% to Kshs 0.40 per share, driven by an 8.4% growth in operating revenue which was outpaced by operating expenses which grew by 16.4%
- Operating revenue grew by 8.4% to Kshs 8.0 bn from Kshs 7.4 bn in Q1'2015, supported by growth in non-interest income of 9.8% and a 5.4% growth in interest income resulting into a revenue mix of 68:32 funded to non-funded income
- Operating expenses grew by 16.4% to Kshs 4.9 bn from Kshs 4.2 bn in Q1'2015 driven by (i) 127.3% growth in loan loss provisions to Kshs 0.8 bn from Kshs 0.4bn in Q1'2015, and (ii) a 6.4% growth in staff costs to Kshs 2.4 bn from Kshs 2.3 bn in Q1'2015. The higher growth in expenses resulted to an increase in the cost to income ratio to 61.9% from 57.7% in Q1'2015
- PAT growth came in at 3.1% to Kshs 2.2 bn from Kshs 2.1 bn in Q1'2015 in line with our projections of a 3.4% increase

Balance Sheet:

- The balance sheet recorded a relatively low growth with total assets increasing by 4.6% to Kshs 241.6 bn in Q1'2016 from Kshs 230.9 bn in Q1'2015. Customer deposits grew by 8.3% to Kshs 168.9 bn from Kshs 165.1 bn in Q1'2015, slightly lower than our growth projection of a 10.0% while loan growth came in at 21.7% to Kshs 152.4 bn from Kshs 145.4 bn in Q1'2015 supported by the retail and SME business lines. Loan to deposit ratio increased to 90.2% from 80.3% in Q1'2015, higher than the industry average of 83.2%
- Non-performing loans grew by 30.4% to Kshs 7.9 bn from Kshs 6.0 bn compared to an increase in gross loans of 23.7%, which led to an increase in non-performing loans ratio to 5.0% from 3.0% in Q1'2015
- Yield on interest earning assets increased to 13.0% in Q1'2016 from 12.4% in Q1'2015 while the cost of funds increased to 3.0% in Q1'2016 from 2.3% in Q1'2015, highlighting the impact of high cost deposits from the high rate environment in 2015 that rolled over to the first quarter. This led to a decline in net interest margin to 10.9% from 11.6% in Q1'2015
- Shareholders' funds increased by 5.1% y/y to Kshs 42.3 bn in Q1'2016 from Kshs 40.3 bn in Q1'2015
- Return on equity declined to 20.5% from 22.9% in Q1'2015, while return on assets came in lower at 3.6% from 4.0% in Q1'2015

Going forward the Barclays' growth will be hinged on:

- Expense management to reduce the rising cost to income levels
- Adopting other deposit and loan mobilization strategies such as agency banking to give customers easier access to services as well as compete favourably with other tier one banks

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	FY'2015	Q1'2015	Q1'2016	y/y change	Q1'2016e	% y/y change	Variance in Growth Actual vs. Expected
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Government Securities	48.1	63.6	51.7	(18.7%)	42.9	(32.5%)	13.8%
Net Loans and Advances	145.4	125.3	152.4	21.7%	147.7	17.8%	3.8%
Total Assets	240.9	230.9	241.6	4.6%	235.2	1.9%	2.8%
Customer Deposits	165.1	156.1	168.9	8.3%	171.7	10.0%	(1.8%)
Total Liabilities	201.2	190.6	199.3	4.6%	193.3	1.4%	3.2%
Shareholders' Funds	39.7	40.3	42.3	5.1%	41.9	4.1%	1.0%

Income Statement	FY'2015	Q1'2015	Q1'2016	y/y change	FY'2016e	% y/y change	Variance in Growth Actual vs. Expected
Net Interest Income	20.4	5.1	5.4	5.4%	5.1	(0.3%)	5.6%
Net non-Interest Income	9.1	2.2	2.6	15.4%	2.4	9.8%	5.6%
Total Operating income	29.5	7.4	8.0	8.4%	7.6	2.8%	5.6%
Loan Loss provision	(1.8)	(0.4)	(0.8)	127.3%	(0.3)	(2.8%)	130.1%
Total Operating expenses	(17.4)	(4.2)	(4.9)	16.4%	(4.4)	4.7%	11.7%
Profit before tax	12.1	3.1	3.0	(2.5%)	3.1	0.2%	(2.7%)
Profit after tax	8.4	2.1	2.2	3.1%	2.2	3.4%	(0.3%)
Core EPS	1.6	0.4	0.4	2.6%			

Balance sheet ratios	FY'2015	Q1'2015	Q1'2016	y/y change
Loan to Deposit Ratio	88.1%	80.3%	90.2%	12.4%
Return on average equity	21.6%	22.9%	20.5%	(10.5%)
Return on average assets	3.6%	4.0%	3.6%	(9.7%)

Income statement ratios	FY'2015	Q1'2015	Q1'2016	y/y change
Yield from interest-earning assets	12.9%	12.4%	13.0%	4.3%
Cost of funding	2.7%	2.3%	3.0%	29.2%
Cost to Income	59.0%	57.7%	61.9%	7.4%
Net Interest Income as % of operating income	69.3%	69.8%	67.8%	(2.8%)
Non-Funded Income as a % of operating income	30.7%	30.2%	32.2%	6.5%

Capital Adequacy Ratios	Q1'15	Q1'16
Core Capital/Total Liabilities	21.7%	21.9%
Minimum Statutory ratio	10.5%	10.5%
Excess	11.2%	11.4%
Core Capital/Total Risk Weighted Assets	15.7%	16.0%
Minimum Statutory ratio	10.5%	10.5%
Excess	5.2%	5.5%
Total Capital/Total Risk Weighted Assets	18.0%	18.2%
Minimum Statutory ratio	14.5%	14.5%
Excess	3.5%	3.7%
Liquidity Ratio	45.4%	33.2%
Minimum Statutory ratio	20.0%	20.0%
Excess	25.4%	13.2%