# NCBA GROUP – FY'2022
## 31st March, 2023

Below is a summary of NCBA Group FY'2022 performance:

| Balance Sheet Items (Kshs bn) | FY'2021 | FY'2022 | y/y change |
|---|---|---|---|
| Net Loans and Advances | 244.0 | 278.9 | 14.3% |
| Government Securities | 196.1 | 205.4 | 4.8% |
| **Total Assets** | **591.1** | **619.7** | **4.8%** |
| Customer Deposits | 469.9 | 502.7 | 7.0% |
| Deposits per Branch | 4.5 | 5.8 | 29.4% |
| Total Liabilities | 513.1 | 537.2 | 4.7% |
| **Shareholders' Funds** | **77.9** | **82.4** | **5.9%** |

| Balance Sheet Ratios | FY'2021 | FY'2022 | y/y change |
|---|---|---|---|
| Loan to Deposit Ratio | 51.9% | 55.5% | 3.6% |
| Government Securities to Deposit ratio | 41.7% | 40.9% | (0.8%) |
| Return on average equity | 13.6% | 17.2% | 3.6% |
| Return on average assets | 1.8% | 2.3% | 0.4% |

| Income Statement (Kshs bn) | FY'2021 | FY'2022 | y/y change |
|---|---|---|---|
| Net Interest Income | 27.0 | 30.7 | 13.5% |
| Net non-Interest Income | 22.1 | 30.3 | 36.8% |
| **Total Operating income** | **49.2** | **60.9** | **24.0%** |
| Loan Loss provision | 12.7 | 13.1 | 2.7% |
| **Total Operating expenses** | **33.4** | **37.9** | **13.4%** |
| Profit before tax | 15.0 | 22.5 | 49.6% |
| **Profit after tax** | **10.2** | **13.8** | **34.8%** |
| **Core EPS** | **6.2** | **8.4** | **34.8%** |
| Dividend Per Share | 3.0 | 4.3 | 41.7% |
| Dividend payout ratio | 48.3% | 50.8% | 2.5% |

| Income Statement Ratios | FY'2021 | FY'2022 | Y/Y Change |
|---|---|---|---|
| Yield from interest-earning assets | 9.8% | 10.1% | 0.3% |
| Cost of funding | 4.2% | 4.3% | 0.1% |
| Net Interest Spread | 5.6% | 5.7% | 0.1% |
| Net Interest Margin | 5.7% | 5.9% | 0.2% |
| Cost of Risk | 25.9% | 21.4% | (4.5%) |
| Net Interest Income as % of operating income | 55.0% | 50.3% | (4.7%) |
| Non-Funded Income as a % of operating income | 45.0% | 49.7% | 4.7% |
| Cost to Income Ratio | 68.1% | 62.2% | (5.9%) |
| Cost to Income Ratio without LLP | 42.2% | 40.8% | (1.4%) |

| Capital Adequacy Ratios | FY'2021 | FY'2022 | % points change |
|---|---|---|---|
| Core Capital/Total Liabilities | 16.8% | 16.3% | (0.5%) |
| Minimum Statutory ratio | 8.0% | 8.0% | |
| **Excess** | **8.8%** | **8.3%** | **(0.5%)** |
| Core Capital/Total Risk Weighted Assets | 19.0% | 18.4% | (0.6%) |
| Minimum Statutory ratio | 10.5% | 10.5% | |
| **Excess** | **8.5%** | **7.9%** | **(0.6%)** |
| Total Capital/Total Risk Weighted Assets | 19.1% | 18.4% | (0.7%) |
| Minimum Statutory ratio | 14.5% | 14.5% | |
| **Excess** | **4.6%** | **3.9%** | **(0.7%)** |
| Liquidity Ratio | 61.7% | 53.2% | (8.5%) |

| | | | |
|---|---|---|---|
| Minimum Statutory ratio | 20.0% | 20.0% | |
| **Excess** | **41.7%** | **33.2%** | **(8.5%)** |
| Adjusted core capital/ total deposit liabilities | 17.5% | 16.6% | (0.9%) |
| Adjusted core capital/ total risk weighted assets | 19.8% | 18.8% | (1.1%) |
| Adjusted total capital/ total risk weighted assets | 19.9% | 18.8% | (1.1%) |

**Income Statement**

- Core earnings per share rose by 34.8% to Kshs 8.4 from Kshs 6.2 in FY'2021, slightly higher than our expectations of a 31.8% increase to Kshs 13.5, with the variance stemming from the 24.0% increase in total operating income, which was higher than our projection of a 13.5% increase. The overall performance was mainly driven by a 24.0% increase in total operating income to Kshs 60.9 bn, from Kshs 49.2 bn in FY'2021, which outpaced the 13.4% increase in the total operating expenses to Kshs 37.9 bn, from Kshs 33.4 bn in FY'2021,
- Total operating income rose by 24.0% to Kshs 60.9 bn, from Kshs 49.2 bn, mainly driven by a 13.5% increase in Net Interest Income (NII) to Kshs 30.7 bn, from Kshs 27.0 bn in FY'2021 coupled with a 36.8% growth in Non-Funded Income (NFI) to Kshs 30.3 bn, from Kshs 22.1 bn in FY'2021,
- Interest income rose by 12.7% to Kshs 52.4 bn, from Kshs 46.5 bn in FY'2021, driven by a 21.8% increase in interest income from government securities to Kshs 24.8 bn, from Kshs 20.3 bn in FY'2021, coupled with 5.1% increase in interest income from loans and advances to Kshs 26.8 bn from Kshs 25.5 bn in FY'2021. Consequently, the Yield on Interest-Earning Assets increased by 0.3% points to 10.1%, from 9.8% in FY'2021 due to a faster 12.7% growth in trailing interest income, which outpaced the 9.5% growth in average interest earning assets. Trailing Interest Income refers to the performance of the interest income for the past 12 consecutive months,
- Interest expense increased by 11.5% to Kshs 21.7 bn, from Kshs 19.5 bn in FY'2021, largely due to a 12.0% growth in interest expense on customer deposits to Kshs 20.8 bn, from Kshs 18.5 bn in FY'2021, coupled with 156.7% increase in interest expenses on deposits and placements to Kshs 0.7 bn, from Kshs 0.3 bn in FY'2021. Consequently, Cost of funds (COF) marginally increased by 0.1% points to 4.3%, from 4.2% recorded in FY'2021, owing to the 11.5% increase in trailing interest expense which outpaced the 3.7% growth in average interest bearing liabilities. On the other hand, Net Interest Margin (NIM) increased by 0.2% points to 5.9% from 5.7% in FY'2021, attributable to the 13.5% growth trailing Net Interest Income which outpaced the 9.5% growth in average interest-earning assets,
- Non-Funded Income increased by 36.8% to Kshs 30.3 bn, from Kshs 22.1 bn in FY'2021, mainly driven by a 147.1% increase in foreign exchange income to Kshs 12.5 bn, from Kshs 5.1 bn FY'2021, coupled with a 4.3% increase in fees and commissions from loans and advances to Kshs 11.3 bn, from Kshs 10.8 bn in FY'2021. Other fees and commissions also increased by 6.9% to Kshs 4.0 bn, from Kshs 3.7 bn in FY'2021. As such, NCBA Group's total fees and commissions increased by 5.0% to Kshs 15.3 bn, from Kshs 14.5 bn in FY'2021. The revenue mix shifted to 50:50, funded to non-funded income, from 55:45, funded to non-funded recorded in FY'2021, owing to the 36.8% increase in NFI which outpaced the 13.5% growth in NII,
- Total operating expenses increased by 13.4% to Kshs 37.9 bn, from Kshs 33.4 bn in FY'2021, largely driven by 27.2% increase in staff costs to Kshs 10.1 bn, from Kshs 8.0 bn in FY'2021, coupled with a 15.4% increase in other operating expenses to Kshs 14.7 bn, from Kshs 12.8 bn in FY'2021. Loan Loss Provisions (LLP) also increased by 2.7% to Kshs 13.1 bn from, Kshs 12.7 bn in FY'2021,
- The Cost to Income Ratio (CIR) improved to 62.2%, from 68.1% in FY'2021, owing to the 24.0% increase in the total operating income which outpaced the 13.4% increase in the total operating expenses. Similarly, Cost to Income ratio without LLP improved to 40.8%, from 42.2% in FY'2021, an indication of improving efficiency levels,
- Profit before tax rose by 49.6% to Kshs 22.5 bn, from Kshs 15.0 bn in FY'2021. Similarly, the Group recorded a 34.8% increase in profit after tax to Kshs 13.8 bn, from Kshs 10.2 bn in FY'2021, with the effective tax rate increasing to 38.7%, from 32.0% seen in FY'2021,and,

- NCBA Group board recommended the payment of a final dividend for the year of Kshs 2.25 per share which added to the interim dividend of Kshs 2.00 per share paid on 30th September 2022, bringing the total dividend for the year 2022 to Kshs 4.25 per share, and a dividend yield of 11.8%. The total dividends for FY'2022 represent a 41.7% increase from the total dividend of Kshs 3.00 per share paid in 2021. Additionally, the dividend payout ratio increased to 50.8%, from 48.3% in FY'2021.

**Balance Sheet**

- The balance sheet recorded an expansion as total assets grew by 4.8% to Kshs 619.7 bn, from Kshs 591.1 bn in FY'2021, mainly attributable to the 14.3% growth in net loans and advances to Kshs 278.9 bn, from Kshs 244.0 bn in FY'2021, coupled with a 4.8% increase in government securities to Kshs 205.4 bn, from Kshs 196.1 bn recorded in FY'2021. The increase lending as compared to allocation to government securities indicated reduced credit risk following the improvement in business environment towards the end of the year,
- Total liabilities grew by 4.7% to Kshs 537.2 bn, from Kshs 513.1 bn in FY'2021, largely attributable to a 7.0% rise in customer deposits to Kshs 502.7 bn in FY'2022 from Kshs 469.9 bn in FY'2021 and a 9.4% growth in other liabilities to Kshs 24.4 bn from Kshs 22.3 bn recorded in FY'2021. However, placements due to other banks declined by 60.0% to Kshs 5.9 bn in FY'2022 from Kshs 14.8 bn Kshs in FY'202. Furthermore, the lender's borrowings dropped by 31.0% to Kshs 4.2 bn in FY'2022 from Kshs 6.1 bn in FY'2021. Deposits per branch increased by 29.4% to Kshs 5.8 bn from Kshs 4.5 bn in FY'2021, with the number of branches dropping to 86 in FY'2022 from 104 in FY'2021,
- The higher 14.3% growth in net loans and advances compared to the 7.0% growth in deposits, led to an increase in the loan to deposit ratio to 55.5% from 51.9% in FY'2021,
- Gross Non-Performing Loans (NPLs) declined by 11.7% to Kshs 39.1 bn, from Kshs 44.3 bn in FY'2021, while Gross Loans increased by 9.1% to Kshs 301.8 bn, from Kshs 276.7 bn in FY'2021. Consequently, the asset quality improved with the NPL ratio significantly declining by 3.0% points to 13.0%, from 16.0% in FY'2021. On the other hand, the NPL coverage declined to 58.5%, from 73.6% in FY'2021, owing to a larger decline of 36.1% in General Loan Loss Provisions to Kshs 15.6 bn, from Kshs 24.4 bn in FY'2021, compared to a 11.7% decline in Gross Non-Performing Loans (NPLs), an indication of reducing credit risk in the bank loan portfolio.
- Shareholders' funds increased by 5.9% to Kshs 82.4 bn, from Kshs 77.9 bn in FY'2021, mainly supported by a 16.0% increase in the retained earnings to Kshs 51.3 bn, from Kshs 44.2 bn in FY'2021,
- NCBA Group remains sufficiently capitalized with a core capital to risk-weighted assets ratio of 18.4%, 7.9% points above the statutory requirement of 10.5%. The total capital to risk-weighted assets ratio came in at 18.4%, exceeding the statutory requirement of 14.5% by 3.9% points. Adjusting for IFRS 9, the core capital to risk-weighted assets stood at 18.8%, similarly, total capital to risk-weighted assets came in at 18.8%, and,
- The bank currently has a Return on Average Assets (ROaA) of 2.3%, and a Return on Average Equity (ROaE) of 17.2%.

**Key Take-Outs:**

1. **Earnings Growth-** Core earnings per share rose by 34.8% to Kshs 8.4 from Kshs 6.2 in FY'2021, slightly higher than our expectations of a 31.8% increase to Kshs 8.2, with the variance stemming from the 24.0% increase in total operating income which was higher than our projection of a 13.5% increase. The performance was driven by a 24.0% increase in total operating income to Kshs 60.9 bn, from Kshs 49.2 bn in FY'2021, which outpaced the 13.4% increase in the total operating expenses to Kshs 37.9 bn in FY'2022, from Kshs 33.4 bn in FY'2021**,**
2. **Growth in non-funded income** – The total non-funded income grew by 36.8% to Kshs 30.3 bn in FY'2022 from Kshs 22.1 bn in FY'2021, which was higher than the 13.5% increase in net interest

income. The growth was mainly driven by a 147.1% increase in foreign exchange income to Kshs 12.5 bn from Kshs 5.1 bn in FY'2021 attributed to increased demand for the dollar amid widening margins. As such, the revenue mix for funded to non-funded income shifted to 50:50 from 55:45,

3. **Improvement in Asset Quality** – The group's asset quality improved, with the NPL ratio dropping by 3.0% points to 13.0% from 16.0% in FY'2021, owing to the 11.7% decline in gross non-performing loans to Kshs 39.1 bn in FY'2022 from Kshs 44.3 bn in FY'2021, while gross loans increased by 9.1% to Kshs 301.8 bn in FY'2022 from 276.7 bn in FY'2021. However, the NPL ratio increase on a q/q from 12.6% recorded in Q3'2022. The y/y decline in gross non-performing loans is an indication of reducing credit risk in the bank loan portfolio.

Going forward, we expect the bank's growth to be driven by:

I. **Diversification through Digitization**: The bank has continued to leverage on mobile based lending through its digital lending platform Mshwari and Fuliza. The bank digital loan disbursement increased by 145.0 bn to a cumulative of Kshs 729.0 bn in FY'2022, from a cumulative of Kshs 584.0 bn in FY'2021. The bank also continues to partner with other telecommunication companies in other markets in order to offer mobile based credit facilities across different markets. As such, we expect this to drive the banks revenue growth, as well as aid in its expansion regionally.

**Valuation Summary**

- We are of the view that NCBA Group is an "Accumulate" with a target price of Kshs 40.0, representing an upside of 20.3%, from the current price of Kshs 36.7 as of 31st March 2023, inclusive of a dividend yield of 11.6%,
- NCBA Group is currently trading at a P/TBV of 0.8x and a P/E of 3.7x vs an industry average of 0.8x and 4.3x, respectively.