



NCBA Group FY20 Earnings Note

NCBA Group's FY20 net earnings plummeted 41.7% y/y to KES 4.6B on the back of a 227.0% y/y surge in loan loss provisions to KES 20.4B. The Group announced a KES 1.50 dividend per share translating to a dividend yield of 7.8% on the current price of KES 12.80 with book closure slated for 20th April 2021. We maintain a BUY recommendation on NCBA with a target price of KES 30.29 offering a potential upside of 31.1% on the current price.

Flat growth in loans and advances

Below our expectations of a single digit growth, the loan book marginally declined 0.3% y/y to KES 248.5B premised on slow economic activity due to the prevailing pandemic. Interest income however galloped 73.4% y/y boosted by a 83.4% uptick in income from government securities as increased liquidity due to slowed lending saw banks curl towards government paper.

Growing expenses dent bottom-line

Operating expenses grew 38.9% y/y to KES 19.6B premised on a 29.6% y/y rise in staff costs and a 51.1% y/y leap in other operating expenses. On the other hand, interest expenses grew 54.0% y/y ahead of a 11.4% y/y expansion in customer deposits to KES 421.5B which saw cost of funds rise 120bps y/y to 4.4%.

Asset book quality deteriorates

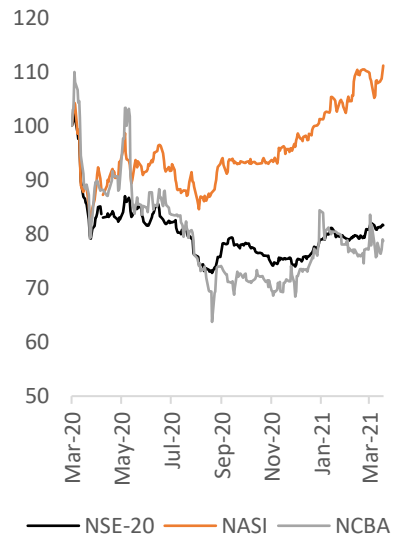
In line with our expectations, NPLs grew 19.0% y/y to KES 40.1B leading to a gross NPL ratio of 16.1%. Loan loss provisions soared 227.0% y/y to KES 19.6B. We anticipate the continued recovery in the general economy coupled with the bank's diverse loan book to support an improvement in the bank's asset quality. However, uncertainty around the recovery of business in some sectors may see the NPL ratio remain high in the short to medium term.

Outlook

We foresee an improvement in performance going forward, falling on an expectation of increased lending as business activities resume. We remain concerned over the high NPL ratio which may remain elevated due to effects of the pandemic. We may continue to see expenses grow in the short to medium term as the group continues to effect restructures to enhance optimization and efficiency following the restructure. We however laud the 42.2% cost to income ratio.

DATE:	18 th March 2021
Target Price:	KES 30.29
Current Price:	KES 23.10
Upside:	31.1%
52 Week Low:	KES 20.00
52 Week High:	KES 41.00

NCBA vs Indices



Source: AIB-AXYS Research

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Financial Statements

	FY19	FY20	chg y/y
	KES M	KES M	
Income Statement			
Interest Income	25,514	44,245	73.4%
Interest Expense	12,176	18,751	54.0%
Net Interest Income	13,338	25,493	91.1%
Non Interest Income	20,322	20,943	3.1%
Total Operating Income	33,660	46,437	38.0%
Total Operating Expenses	14,107	19,592	38.9%
Loan Loss Provision Expense	6,250	20,441	227.0%
Profit Before Tax	11,314	4,982	-56.0%
Tax	2,847	2,896	1.7%
Profit After Tax	7,842	4,571	-41.7%
EPS (KES)	7.45	2.77	-62.8%
Dividend	-	1.50	

Balance Sheet			
Total Shareholders' Equity	67,260	72,548	7.9%
Customer Deposits	378,237	421,504	11.4%
Total Liabilities	427,584	455,406	6.5%
Total Equity and Liabilities	494,843	527,954	6.7%
Government and Other Securities	145,021	163,547	12.8%
Net loans and advances	249,355	248,498	-0.3%
Total Assets	494,843	527,954	6.7%

Key Ratios			
Gross NPL (KES M)	33,659	40,057	19.0%
Gross NPL Ratio	13.5%	16.1%	
Cost of Risk	2.5%	8.2%	
Loan to Deposits	65.9%	59.0%	
Yield on Interest Earning Assets	6.5%	10.7%	
Cost of Funds	3.2%	4.4%	
NIM	3.3%	6.3%	
Non Funded/Total Income	60.4%	45.1%	
Cost to Income Ratio	41.9%	42.2%	
ROE	11.7%	6.3%	
ROA	1.6%	0.9%	
Core Capital/TRWA	17.5%	17.5%	
Total Capital/TRWA	17.7%	18.2%	
Liquidity Ratio	55.1%	51.8%	
P/E (x)		8.3	
P/B (x)		0.5	
Dividend yield		6.5%	

Source: AIB-AXYS Research, company filings



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