



# Nairobi Metropolitan Area Commercial Office Report 2023, & Cytonn Weekly #11/2023

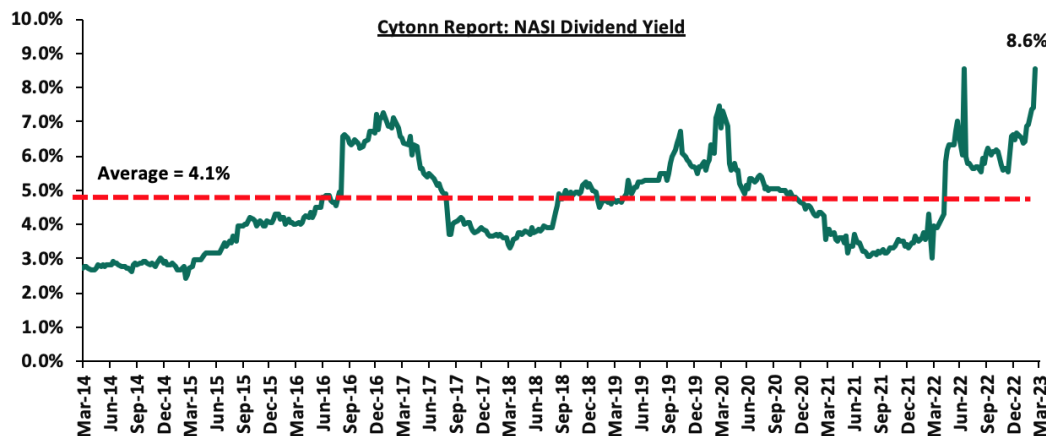
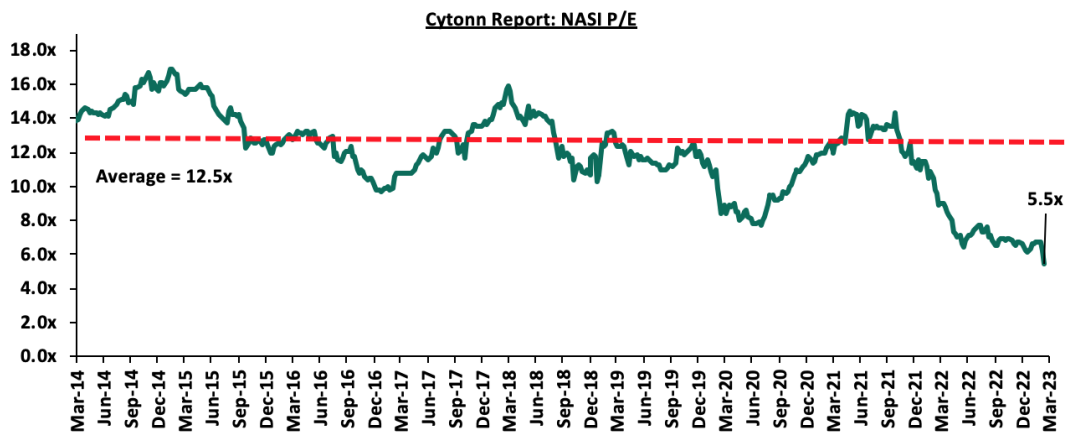
## Equities

### Market Performance:

During the week, the equities market remained on a downward trajectory, with NASI, NSE 20 and NSE 25 declining by 12.3%, 4.9% and 9.7%, respectively, taking the YTD performance to losses of 18.8%, 8.7%, and 13.8% for NASI, NSE 20, and NSE 25, respectively. The equities market performance was mainly driven by losses recorded by large cap stocks such as Safaricom of 20.6%, whose market cap is 41.0% of the entire bourse, and banking stocks such as KCB Group, Equity Group and NCBA of 17.2%, 11.3%, and 7.5%, respectively. The equities market performance was mainly attributable to massive capital flight as foreign investors moved to developed markets with the European Central Bank raising the **European Interest Base Rate (ECB)** by 50.0 bps to 3.50% from 3.00% on 16<sup>th</sup> March 2023. Further, the U.S. Federal Reserve Board is expected to hike their interest from the range of 4.50%-4.75% in the next sitting scheduled for 22<sup>nd</sup> March 2023. The losses in the equities market were however marginally mitigated by gains recorded by other large cap stocks such as Stanbic Holdings and EABL of 1.6% and 0.4%, respectively.

During the week, equities turnover increased by 90.6% to USD 22.5 mn from USD 11.8 mn recorded the previous week taking the YTD turnover to USD 138.1 mn. Foreign investors remained net sellers, recording a significant net selling position of USD 8.0 mn, from a net selling position of USD 2.9 mn recorded the previous week, taking the YTD net selling position to USD 36.0 mn.

The market is currently trading at a price to earnings ratio (P/E) of 5.5x, 56.2% below the historical average of 12.5x and marks a new trough valuation. The dividend yield stands at 8.6%, 4.5% points above the historical average of 4.1%. Key to note, NASI's PEG ratio currently stands at 0.8x, an indication that the market is undervalued relative to its future growth. A PEG ratio greater than 1.0x indicates the market is overvalued while a PEG ratio less than 1.0x indicates that the market is undervalued. The charts below indicate the historical P/E and dividend yields of the market;



## Weekly highlight

### a. First Community Bank Limited (FCB) Acquisition by Premier Bank Limited-Somalia (PBLs)

During the week, the Central Bank of Kenya (CBK) announced that Premier Bank Limited Somalia (PBLs) had completed acquisition of 62.5% shareholding of First Community Bank Limited (FCB) effective 27<sup>th</sup> March 2023. This comes after receiving regulatory approvals from the CBK and the Cabinet Secretary for the National Treasury. FCB, which has been in operation since June 2008, is classified as a tier 3 bank in Kenya with 18 branches and a market share of 0.3% as at December 2022. The acquisition by Premier Bank Limited Somalia (PBLs), comes at a time when FCB has been struggling to meet regulatory Capital adequacy requirements.

FCB's asset base stood at Kshs 22.1 bn in Q3'2022 with net loans coming in at Kshs 18.2 bn. Customer deposits came in at Kshs 18.2 bn as well, translating to a loan to deposit ratio of 100.0% reflecting the bank's current inability to amass deposits. Profits after tax came in at Kshs 205.7 mn in Q3'2022, a 8.2% y/y decline from Kshs 224.1 mn in Q3'2021, driven by a faster 15.9% increase in operating expenses to Kshs 1.1 bn from Kshs 1.0 bn in Q3'2021 which outpaced the 6.9% increase in operating income to Kshs 1.4 bn from Kshs 1.3 bn in Q3'2021. Key capital ratios such as the Core capital to deposit liabilities ratio came in at 9.1% in Q3'2022, only 1.1% points above the regulatory limit of 8.0%. The core capital to risk weighted assets came in at 7.1% in Q3'2022, 3.4% points below the regulatory limit of 10.5%. Similarly, the Capital adequacy ratio came in at 11.0% in Q3'2022, 3.5% points below the regulatory requirement of 14.5%, and 8.0% below the sector average of 19.0% in Q3'2022. The liquidity ratio came in 14.5%, 5.5% points below the regulatory requirement of 20.0%. Further, other ratios have also been adverse, such as the asset quality, with the bank's Non-Performing loan (NPL) ratio coming in at 26.1% in Q3'2022, 12.4% points above the banking sector

average of 13.7% during the same period. The table below summarizes FCB's financials and ratios;

**Cytonn report: Summary of First Community Bank (FCB) Financials**

|                                           | <b>FY'2018</b> | <b>FY'2019</b> | <b>FY'2020</b> | <b>FY'2021</b> | <b>Q3'2022</b> |
|-------------------------------------------|----------------|----------------|----------------|----------------|----------------|
| <b>Balance Sheet Summary (Kshs bn)</b>    |                |                |                |                |                |
| Net Loans                                 | 9.0            | 9.9            | 12.6           | 17.2           | 18.2           |
| <b>Total Assets</b>                       | <b>17.9</b>    | <b>18.8</b>    | <b>21.9</b>    | <b>24.7</b>    | <b>22.1</b>    |
| Customer Deposits                         | 14.6           | 16.1           | 18.8           | 21.5           | 18.2           |
| <b>Total Liabilities</b>                  | <b>16.6</b>    | <b>17.3</b>    | <b>19.9</b>    | <b>22.2</b>    | <b>18.9</b>    |
| Shareholders' Funds                       | 1.3            | 1.5            | 2.1            | 2.5            | 3.2            |
| <b>Income Statement Summary (Kshs bn)</b> |                |                |                |                |                |
| Total Operating income                    | 1.2            | 1.2            | 1.3            | 2.2            | 1.4            |
| Total Operating expenses                  | (1.5)          | (1.0)          | (1.1)          | (1.6)          | (1.1)          |
| <b>Profit After Tax (PAT)</b>             | <b>(0.3)</b>   | <b>0.2</b>     | <b>0.2</b>     | <b>0.6</b>     | <b>0.3</b>     |
| <b>Balance Sheet Ratios</b>               |                |                |                |                |                |
| Loan to Deposit                           | 61.8%          | 61.5%          | 67.1%          | 80.1%          | 99.9%          |
| ROaE                                      | (14.2%)        | 14.0%          | 10.6%          | 17.1%          | 13.5%          |
| ROaA                                      | (1.2%)         | 1.0%           | 0.9%           | 1.7%           | 1.7%           |
| <b>Income Statement Ratios:</b>           |                |                |                |                |                |
| Yield on Interest Earning Assets          | 7.2%           | 7.4%           | 6.5%           | 9.1%           | 10.9%          |
| Net Interest Margin                       | 5.2%           | 5.6%           | 5.6%           | 8.7%           | 10.2%          |
| Cost to Income Ratio                      | 98.1%          | 55.6%          | 79.0%          | 49.1%          | 75.2%          |
| <b>Capital Adequacy Ratios:</b>           |                |                |                |                |                |
| Core Capital liabilities ratio            | 5.3%           | 3.8%           | 4.4%           | 5.2%           | 9.1%           |
| Minimum Statutory requirement             | 8.0%           | 8.0%           | 8.0%           | 8.0%           | 8.0%           |
| <b>Excess/Deficit</b>                     | <b>(2.7%)</b>  | <b>(4.2%)</b>  | <b>(3.6%)</b>  | <b>(2.8%)</b>  | <b>1.1%</b>    |
| Core Capital risk weighted assets ratio   | 6.5%           | 4.4%           | 4.8%           | 5.2%           | 7.1%           |
| Minimum Statutory requirement             | 10.5%          | 10.5%          | 10.5%          | 10.5%          | 10.5%          |
| <b>Excess/Deficit</b>                     | <b>(4.0%)</b>  | <b>(6.1%)</b>  | <b>(5.7%)</b>  | <b>(5.3%)</b>  | <b>(3.4%)</b>  |
| Total Capital risk weighted ratio         | 9.1%           | 8.1%           | 9.3%           | 8.9%           | 11.0%          |
| Minimum Statutory requirement             | 14.5%          | 14.5%          | 14.5%          | 14.5%          | 14.5%          |
| <b>Excess/Deficit</b>                     | <b>(5.4%)</b>  | <b>(6.4%)</b>  | <b>(5.2%)</b>  | <b>(5.6%)</b>  | <b>(3.5%)</b>  |
| <b>Liquidity ratios:</b>                  |                |                |                |                |                |

## Cytonn report: Summary of First Community Bank (FCB) Financials

|                                 | FY'2018      | FY'2019      | FY'2020      | FY'2021     | Q3'2022       |
|---------------------------------|--------------|--------------|--------------|-------------|---------------|
| Cash Reserve Ratio              | 15.5%        | 19.5%        | 8.6%         | 7.1%        | 6.6%          |
| Minimum Statutory requirement   | 5.3%         | 5.3%         | 4.3%         | 4.3%        | 4.3%          |
| <b>Excess/Deficit</b>           | <b>10.2%</b> | <b>14.2%</b> | <b>4.3%</b>  | <b>3.8%</b> | <b>2.3%</b>   |
| Liquidity ratio                 | 41.1%        | 42.3%        | 37.2%        | 21.0%       | 14.5%         |
| Minimum Statutory requirement   | 20.0%        | 20.0%        | 20.0%        | 20.0%       | 20.0%         |
| <b>Excess/Deficit</b>           | <b>21.1%</b> | <b>22.3%</b> | <b>17.2%</b> | <b>1.0%</b> | <b>(5.5%)</b> |
| <b>Asset quality ratios:</b>    |              |              |              |             |               |
| Gross Non-Performing Loan Ratio | 46.2%        | 39.7%        | 34.8%        | 27.4%       | 26.1%         |
| NPL Coverage Ratio              | 33.7%        | 40.9%        | 47.5%        | 51.7%       | 55.0%         |

We expect the completed acquisition to boost FCB's capital adequacy and liquidity ratios to above the minimum statutory requirements and positively impact the bank's operations. The acquisition is also a welcome move as it ensures that the bank's customer deposits are protected and will bring stability to the bank. Going forward, we expect to see more consolidation activities in the Kenya's banking sector as larger banks with a sufficient capital base take over smaller and weaker banks.

Below is a summary of the deals in the last 10 years that have either happened, been announced or expected to be concluded:

| Acquirer                      | Bank Acquired                | Book Value at Acquisition (Kshs bn) | Transaction Stake | Transaction Value (Kshs bn) | P/Bv Multiple | Date     |
|-------------------------------|------------------------------|-------------------------------------|-------------------|-----------------------------|---------------|----------|
| Premier Bank Limited          | First Community Bank Limited | 3.2                                 | 62.5%             | Undisclosed                 | N/A           | Mar-23   |
| Commercial International Bank | Mayfair Bank Limited         | 4.3                                 | 49.0%             | 5.0                         | 2.3x          | Jan-23   |
| Equity Group                  | Spire Bank                   | 0.01                                | Undisclosed       | Undisclosed                 | N/A           | Sep-22   |
| KCB Group                     | Trust Merchant Bank          | 12.4                                | 85.0%             | 15.7                        | 1.5x          | Aug-22   |
| Access Bank PLC               | Sidian Bank                  | 4.1                                 | 83.4%             | 4.3                         | 1.1x          | June-22* |
| KCB Group                     | Banque Populaire du Rwanda   | 5.3                                 | 100.0%            | 5.6                         | 1.1x          | Aug-21   |
| I&M Holdings PLC              | Orient Bank Limited Uganda   | 3.3                                 | 90.0%             | 3.6                         | 1.1x          | Apr-21   |
| KCB Group**                   | ABC Tanzania                 | Unknown                             | 100.0%            | 0.8                         | 0.4x          | Nov-20*  |
| Co-operative Bank             | Jamii Bora Bank              | 3.4                                 | 90.0%             | 1                           | 0.3x          | Aug-20   |
| Commercial International Bank | Mayfair Bank Limited         | 1.0                                 | 51.0%             | 3.8                         | 7.1x          | Apr-20   |
| Access Bank PLC (Nigeria)     | Transnational Bank PLC.      | 1.9                                 | 100.0%            | 1.4                         | 0.7x          | Feb-20*  |
| Equity Group **               | Banque Commerciale Du Congo  | 8.9                                 | 66.5%             | 10.3                        | 1.2x          | Nov-19*  |
| KCB Group                     | National Bank of Kenya       | 7.0                                 | 100.0%            | 6.6                         | 0.9x          | Sep-19   |
| CBA Group                     | NIC Group                    | 33.5                                | 53% : 47%         | 23                          | 0.7x          | Sep-19   |

| Acquirer          | Bank Acquired              | Book Value at Acquisition (Kshs bn) | Transaction Stake | Transaction Value (Kshs bn) | P/Bv Multiple | Date   |
|-------------------|----------------------------|-------------------------------------|-------------------|-----------------------------|---------------|--------|
| Oiko Credit       | Credit Bank                | 3.0                                 | 22.8%             | 1                           | 1.5x          | Aug-19 |
| CBA Group**       | Jamii Bora Bank            | 3.4                                 | 100.0%            | 1.4                         | 0.4x          | Jan-19 |
| AfricInvest Azure | Prime Bank                 | 21.2                                | 24.2%             | 5.1                         | 1.0x          | Jan-18 |
| KCB Group         | Imperial Bank              | Unknown                             | Undisclosed       | Undisclosed                 | N/A           | Dec-18 |
| SBM Bank Kenya    | Chase Bank Ltd             | Unknown                             | 75.0%             | Undisclosed                 | N/A           | Aug-18 |
| DTBK              | Habib Bank Kenya           | 2.4                                 | 100.0%            | 1.8                         | 0.8x          | Mar-17 |
| SBM Holdings      | Fidelity Commercial Bank   | 1.8                                 | 100.0%            | 2.8                         | 1.6x          | Nov-16 |
| M Bank            | Oriental Commercial Bank   | 1.8                                 | 51.0%             | 1.3                         | 1.4x          | Jun-16 |
| I&M Holdings      | Giro Commercial Bank       | 3.0                                 | 100.0%            | 5                           | 1.7x          | Jun-16 |
| Mwalimu SACCO     | Equatorial Commercial Bank | 1.2                                 | 75.0%             | 2.6                         | 2.3x          | Mar-15 |
| Centum            | K-Rep Bank                 | 2.1                                 | 66.0%             | 2.5                         | 1.8x          | Jul-14 |
| GT Bank           | Fina Bank Group            | 3.9                                 | 70.0%             | 8.6                         | 3.2x          | Nov-13 |
| <b>Average</b>    |                            |                                     | <b>77.2%</b>      |                             | <b>1.6x</b>   |        |

\* Announcement Date

\*\* Deals that were dropped

## b. Earnings Release

### I. Co-operative Bank of Kenya FY'2022 Performance

During the week, Co-operative Bank of Kenya released their FY'2022 financial results. Below is a summary of the performance:

| Balance Sheet Items (Kshs bn) | FY'2021      | FY'2022      | y/y change  |
|-------------------------------|--------------|--------------|-------------|
| Government Securities         | 184.1        | 173.3        | (5.9%)      |
| Net Loans and Advances        | 310.2        | 339.4        | 9.4%        |
| <b>Total Assets</b>           | <b>579.8</b> | <b>607.2</b> | <b>4.7%</b> |
| Customer Deposits             | 407.7        | 423.8        | 3.9%        |
| Deposits per Branch           | 2.29         | 2.34         | 2.2%        |
| <b>Total Liabilities</b>      | <b>479.0</b> | <b>499.3</b> | <b>4.2%</b> |
| <b>Shareholders' Funds</b>    | <b>100.2</b> | <b>107.7</b> | <b>7.4%</b> |

| Balance Sheet Ratios     | FY'2021 | FY'2022 | y/y change |
|--------------------------|---------|---------|------------|
| Loan to Deposit Ratio    | 76.1%   | 80.1%   | 4.0%       |
| Return on average equity | 17.3%   | 21.2%   | 3.9%       |
| Return on average assets | 3.0%    | 3.7%    | 0.7%       |

| Income Statement (Kshs bn)    | FY'2021     | FY'2022     | y/y change   |
|-------------------------------|-------------|-------------|--------------|
| Net Interest Income           | 41.0        | 45.5        | 10.9%        |
| Non-Interest Income           | 19.4        | 25.7        | 32.7%        |
| <b>Total Operating income</b> | <b>60.4</b> | <b>71.3</b> | <b>17.9%</b> |

| <b>Income Statement (Kshs bn)</b> | <b>FY'2021</b> | <b>FY'2022</b> | <b>y/y change</b> |
|-----------------------------------|----------------|----------------|-------------------|
| Loan Loss provision               | (7.9)          | (8.7)          | 9.4%              |
| Total Operating expenses          | (38.1)         | (42.2)         | 10.9%             |
| Profit before tax                 | 22.6           | 29.4           | 29.9%             |
| <b>Profit after tax</b>           | <b>16.5</b>    | <b>22.0</b>    | <b>33.2%</b>      |
| <b>Earnings per share (Kshs)</b>  | <b>2.4</b>     | <b>3.2</b>     | <b>33.2%</b>      |

| <b>Income Statement Ratios</b>           | <b>FY'2021</b> | <b>FY'2022</b> | <b>Y/Y Change</b> |
|------------------------------------------|----------------|----------------|-------------------|
| Yield from interest-earning assets       | 11.5%          | 12.0%          | 0.5%              |
| Cost of funding                          | 3.3%           | 3.5%           | 0.2%              |
| Net Interest Spread                      | 8.2%           | 8.5%           | 0.3%              |
| Net Interest Income as % of Total Income | 67.9%          | 63.9%          | (4.0%)            |
| Non-Funded Income as a % of Total Income | 32.1%          | 36.1%          | 4.0%              |
| Cost to Income                           | 63.0%          | 59.3%          | (3.7%)            |
| Cost to Income Ratio without provisions  | 49.9%          | 47.1%          | (2.8%)            |
| Cost to Assets                           | 5.2%           | 5.5%           | 0.3%              |
| Net Interest Margin                      | 8.5%           | 8.9%           | 0.4%              |

| <b>Capital Adequacy Ratios</b>                    | <b>FY'2021</b> | <b>FY'2022</b> | <b>% points change</b> |
|---------------------------------------------------|----------------|----------------|------------------------|
| Core Capital/Total deposit Liabilities            | 19.6%          | 21.9%          | 2.3%                   |
| Minimum Statutory ratio                           | 8.0%           | 8.0%           |                        |
| <b>Excess</b>                                     | <b>11.6%</b>   | <b>13.9%</b>   | <b>2.3%</b>            |
| Core Capital/Total Risk Weighted Assets           | 15.6%          | 16.9%          | 1.3%                   |
| Minimum Statutory ratio                           | 10.5%          | 10.5%          |                        |
| <b>Excess</b>                                     | <b>5.1%</b>    | <b>6.4%</b>    | <b>1.3%</b>            |
| Total Capital/Total Risk Weighted Assets          | 17.2%          | 18.0%          | 0.8%                   |
| Minimum Statutory ratio                           | 14.5%          | 14.5%          |                        |
| <b>Excess</b>                                     | <b>2.7%</b>    | <b>3.5%</b>    | <b>0.8%</b>            |
| Liquidity Ratio                                   | 53.8%          | 48.3%          | (5.5%)                 |
| Minimum Statutory ratio                           | 20.0%          | 20.0%          |                        |
| <b>Excess</b>                                     | <b>33.8%</b>   | <b>28.3%</b>   | <b>(5.5%)</b>          |
| Adjusted Core Capital/Total Deposit Liabilities   | 16.0%          | 21.9%          | 5.9%                   |
| Adjusted Core Capital/Total Risk Weighted Assets  | 12.8%          | 16.9%          | 4.1%                   |
| Adjusted Total Capital/Total Risk Weighted Assets | 14.3%          | 18.0%          | 3.7%                   |

## **Key Take outs**

**Earnings Growth-** Core earnings per share rose by 33.2% to Kshs 3.2 from Kshs 2.4 in FY'2021, higher than our expectations of a 19.0% increase to Kshs 2.9, with the variance stemming from the 17.9% increase in total operating income, which was higher than our projection of an 11.5% increase. The performance was driven by a 17.9% increase in total operating income to Kshs 71.3 bn in FY'2022, from Kshs 60.4 bn in FY'2021, which outpaced the 10.9% increase in the total operating expenses to Kshs 42.2 bn in FY'2022, from Kshs 38.1 bn in FY'2021,

The Group's directors recommended a first and final dividend per share of Kshs 1.5 in FY'2022, representing a dividend yield of 12.2% as of 17<sup>th</sup> March, 2023. This is a 50.0% increase from the dividend per share of Kshs 1.0 issued in FY'2021. Similarly, the dividend payout ratio increased to 39.9% in FY'2022, from 35.5% in FY'2021,

**Increased Lending compared to a decline in Government Security** - The Group's net loans and advances increased by 9.4% to Kshs 339.4 bn in FY'2022, from Kshs 310.2 bn in FY'2021. On the other hand, government securities declined by 5.9% to Kshs 173.3 bn, from Kshs 184.1 bn recorded in FY'2021, indicating a management shift to increased lending as compared to allocation to government securities following the improvement in business environment towards the end of the year,

**Improvement in Asset Quality** - The group's asset quality improved, with the NPL ratio reducing to 14.0% in FY'2022, from 14.6% in FY'2021, owing to the 9.4% growth in gross loans to Kshs 373.5 bn, from Kshs 341.3 bn in FY'2021, which outpaced the 5.2% increase in gross non-performing loans. The improved asset quality was attributable to the proactive credit management strategies that have seen increased loan repayments as well as the robust increase in lending, and,

**Improved Efficiency** - The group enhanced their efficiency levels evidenced by an improvement in Cost to Income Ratio (CIR) improving to 59.3% in FY'2022, from 63.0% in FY'2021 owing to the 17.9% increase in the total operating income which outpaced the 10.9% increase in the total operating expenses. Without LLP, the Cost to Income ratio improved as well to 47.1%, from 49.9% in FY'2021.

For a comprehensive analysis, please see our Co-operative Bank of Kenya FY'2022 Earnings Note

## **II. ABSA Bank Kenya's FY'2022 Performance**

During the week, ABSA Bank Kenya released their FY'2022 financial results. Below is a summary of the performance;

| <b>Balance Sheet Items</b> | <b>FY'2021</b> | <b>FY'2022</b> | <b>y/y change</b> |
|----------------------------|----------------|----------------|-------------------|
| Government Securities      | 132.6          | 133.5          | 0.7%              |
| Net Loans and Advances     | 234.2          | 283.6          | 21.1%             |
| <b>Total Assets</b>        | <b>428.7</b>   | <b>477.2</b>   | <b>11.3%</b>      |
| Customer Deposits          | 268.7          | 303.8          | 13.0%             |
| Deposits per Branch        | 3.2            | 3.7            | 14.4%             |
| <b>Total Liabilities</b>   | <b>372.2</b>   | <b>413.6</b>   | <b>11.1%</b>      |
| <b>Shareholder's Funds</b> | <b>56.4</b>    | <b>63.6</b>    | <b>12.7%</b>      |

| <b>Balance sheet ratios</b> | <b>FY'2021</b> | <b>FY'2022</b> | <b>% point change</b> |
|-----------------------------|----------------|----------------|-----------------------|
| Loan to Deposit Ratio       | 87.2%          | 93.4%          | 6.2%                  |
| Return on average equity    | 21.1%          | 24.3%          | 3.2%                  |
| Return on average assets    | 2.7%           | 3.2%           | 0.5%                  |

| <b>Income Statement Items</b>   | <b>FY'2021</b> | <b>FY'2022</b> | <b>y/y change</b> |
|---------------------------------|----------------|----------------|-------------------|
| Net Interest Income             | 25.3           | 32.3           | 27.9%             |
| Net non-Interest Income         | 11.7           | 13.7           | 17.2%             |
| <b>Total Operating income</b>   | <b>36.9</b>    | <b>46.0</b>    | <b>24.6%</b>      |
| Loan Loss provision             | (4.7)          | (6.5)          | 37.6%             |
| <b>Total Operating expenses</b> | <b>(21.4)</b>  | <b>(25.1)</b>  | <b>17.6%</b>      |
| Profit before tax               | 15.5           | 20.8           | 34.1%             |
| <b>Profit after tax</b>         | <b>10.9</b>    | <b>14.6</b>    | <b>34.2%</b>      |
| <b>Core EPS</b>                 | <b>2.0</b>     | <b>2.7</b>     | <b>34.2%</b>      |

| <b>Income statement ratios</b>               | <b>FY'2021</b> | <b>FY'2022</b> | <b>% point change</b> |
|----------------------------------------------|----------------|----------------|-----------------------|
| Yield from interest-earning assets           | 9.0%           | 10.3%          | 1.3%                  |
| Cost of funding                              | 2.6%           | 2.9%           | 0.3%                  |
| Net Interest Spread                          | 2.5%           | 2.8%           | 0.3%                  |
| Cost of risk                                 | 12.8%          | 14.1%          | 1.3%                  |
| Net Interest Margin                          | 7.1%           | 8.2%           | 1.1%                  |
| Cost to Income                               | 57.9%          | 54.7%          | (3.2%)                |
| Cost to income (Without LLPs)                | 45.1%          | 40.6%          | (4.5%)                |
| Cost to Assets                               | 3.9%           | 3.9%           | 0.0%                  |
| Net Interest Income as % of operating income | 68.4%          | 70.3%          | 1.9%                  |
| Non-Funded Income as a % of operating income | 31.6%          | 29.7%          | (1.9%)                |

| <b>Capital Adequacy Ratios</b>           | <b>FY'2021</b> | <b>FY'2022</b> | <b>% Points change</b> |
|------------------------------------------|----------------|----------------|------------------------|
| Core Capital/Total Liabilities           | 17.9%          | 18.4%          | 0.5%                   |
| Minimum Statutory ratio                  | 8.0%           | 8.0%           | -                      |
| <b>Excess</b>                            | <b>9.9%</b>    | <b>10.4%</b>   | <b>0.5%</b>            |
| Core Capital/Total Risk Weighted Assets  | 14.6%          | 14.6%          | 0.0%                   |
| Minimum Statutory ratio                  | 10.5%          | 10.5%          | -                      |
| <b>Excess</b>                            | <b>4.1%</b>    | <b>4.1%</b>    | <b>0.0%</b>            |
| Total Capital/Total Risk Weighted Assets | 17.1%          | 18.6%          | 1.5%                   |
| Minimum Statutory ratio                  | 14.5%          | 14.5%          | -                      |
| <b>Excess</b>                            | <b>2.6%</b>    | <b>4.1%</b>    | <b>1.5%</b>            |
| Liquidity Ratio                          | 38.3%          | 33.6%          | (4.7%)                 |



| <b>Capital Adequacy Ratios</b>                 | <b>FY'2021</b> | <b>FY'2022</b> | <b>% Points change</b> |
|------------------------------------------------|----------------|----------------|------------------------|
| Minimum Statutory ratio                        | 20.0%          | 20.0%          | -                      |
| <b>Excess</b>                                  | <b>18.3%</b>   | <b>13.6%</b>   | <b>(4.7%)</b>          |
| <b>Adjusted Core Capital/Total Liabilities</b> | <b>18.0%</b>   | <b>18.4%</b>   | <b>0.4%</b>            |
| <b>Adjusted Core Capital/Total RWA</b>         | <b>14.7%</b>   | <b>14.6%</b>   | <b>(0.1%)</b>          |
| <b>Adjusted Total Capital/Total RWA</b>        | <b>17.2%</b>   | <b>18.6%</b>   | <b>1.4%</b>            |

### Key Take-Outs:

**Earnings Growth-** Core earnings per share increased by 34.2% to Kshs 2.7 in FY'2022, from Kshs 2.0 in FY'2021, slightly higher than our projections of a 28.7% growth to Kshs 2.6. The performance was driven by a 24.6% increase in total operating income to Kshs 46.0 bn, from Kshs 36.9 bn recorded in FY'2021. However, the growth was weighed down by the 17.6% increase in total operating expenses, to Kshs 25.1 bn, from Kshs 21.4 bn recorded in FY'2021,

The Group's directors recommended a final dividend per share of Kshs 1.15 in FY'2022, adding to the interim dividend per share of Kshs 0.20 issued in Q3'2022. The total dividend of Kshs 1.35 per share represents a dividend yield of 11.3% as of 17<sup>th</sup> March, 2023. This is a 22.7% increase from the dividend per share of Kshs 1.10 issued in FY'2021. Notably, the dividend payout ratio declined to 50.3% in FY'2022, from 55.0% in FY'2021,

**Improved deposit gathering capacity** - The Bank recorded double digit growth in deposits at 13.0% y/y growth in FY'2022 as compared to the 5.9% growth recorded in FY'2021. Consequently, the increased deposits have helped to bring down the loan to deposit to 93.4% in FY'2022, from a high of 103.0% in Q3'2022,

**Improved Lending** - The Bank increased its lending in FY'2022 with Loans and advances recording a 21.1% growth, highlighting the Bank's aggressive lending despite the tough operating business environment,

**Improvement in Asset Quality** - The bank's asset quality improved, with the NPL ratio declining by 0.4% points to 7.5% in FY'2022, from 7.9% in FY'2021, owing to the faster 20.9% growth in Gross Loans, as compared to the 13.6% increase in Gross Non-Performing Loans (NPLs). However, on q/q, the asset quality deteriorated as evidenced by the NPL ratio which rose by 0.9% points from 6.6% recorded in Q3'2022, mainly attributable to 12.4% increase in Gross Non-Performing Loans, coupled with 1.2% decline in Gross Loans,

**Improved efficiency levels** - The Banks's cost to income ratio without LLP improved, declining by 4.5% to 40.6%, from 45.1% in FY'2021, an indication of improved efficiency.

For a comprehensive analysis, please see our ABSA Bank Kenya FY'2022 Earnings Note

### III. KCB Group's FY'2022 Performance

During the Week, KCB Group released their FY'2022 financial results. Below is a summary of the performance:

| <b>Balance Sheet Items</b> | <b>FY'2021</b> | <b>FY'2022</b> | <b>y/y change</b> |
|----------------------------|----------------|----------------|-------------------|
| Net Loans and Advances     | 675.5          | 863.3          | 27.8%             |
| Government Securities      | 270.8          | 278.0          | 2.7%              |

| <b>Balance Sheet Items</b> | <b>FY'2021</b> | <b>FY'2022</b> | <b>y/y change</b> |
|----------------------------|----------------|----------------|-------------------|
| <b>Total Assets</b>        | <b>1,139.7</b> | <b>1,554.0</b> | <b>36.4%</b>      |
| Customer Deposits          | 837.1          | 1,135.4        | 35.6%             |
| Deposits per branch        | 2.36           | 2.29           | (3.0%)            |
| <b>Total Liabilities</b>   | <b>966.2</b>   | <b>1,347.8</b> | <b>39.5%</b>      |
| <b>Shareholders' Funds</b> | <b>171.7</b>   | <b>200.2</b>   | <b>16.6%</b>      |

| <b>Balance Sheet Ratios</b> | <b>FY'2021</b> | <b>FY'2022</b> | <b>% y/y change</b> |
|-----------------------------|----------------|----------------|---------------------|
| Loan to Deposit Ratio       | 80.7%          | 81.3%          | 0.6%                |
| Return on average equity    | 21.8%          | 22.0%          | 0.2%                |
| Return on average assets    | 3.2%           | 3.0%           | (0.2%)              |

| <b>Income Statement</b>       | <b>FY'2021</b> | <b>FY'2022</b> | <b>y/y change</b> |
|-------------------------------|----------------|----------------|-------------------|
| Net Interest Income           | 77.7           | 86.7           | 11.5%             |
| Net non-Interest Income       | 30.9           | 43.3           | 39.8%             |
| <b>Total Operating income</b> | <b>108.6</b>   | <b>129.9</b>   | <b>19.6%</b>      |
| Loan Loss provision           | (13.0)         | (13.2)         | 1.7%              |
| Total Operating expenses      | (60.8)         | (72.6)         | 19.3%             |
| Profit before tax             | 47.8           | 57.3           | 19.9%             |
| <b>Profit after tax</b>       | <b>34.2</b>    | <b>40.8</b>    | <b>19.5%</b>      |
| <b>Core EPS</b>               | <b>10.63</b>   | <b>12.7</b>    | <b>19.5%</b>      |

| <b>Income Statement Ratios</b>               | <b>FY'2021</b> | <b>FY'2022</b> | <b>y/y change</b> |
|----------------------------------------------|----------------|----------------|-------------------|
| Yield from interest-earning assets           | 11.1%          | 10.1%          | (1.0%)            |
| Cost of funding                              | 2.8%           | 2.9%           | 0.1%              |
| Net Interest Spread                          | 8.3%           | 7.3%           | (1.0%)            |
| Net Interest Margin                          | 8.4%           | 7.5%           | (0.9%)            |
| Cost of Risk                                 | 12.0%          | 10.2%          | (1.8%)            |
| Net Interest Income as % of operating income | 71.5%          | 66.7%          | (4.8%)            |
| Non-Funded Income as a % of operating income | 28.5%          | 33.3%          | 4.8%              |
| Cost to Income Ratio                         | 56.0%          | 55.9%          | (0.1%)            |

| <b>Capital Adequacy Ratios</b>           | <b>FY'2021</b> | <b>FY'2022</b> | <b>% points change</b> |
|------------------------------------------|----------------|----------------|------------------------|
| Core Capital/Total Liabilities           | 18.7%          | 15.3%          | (3.4%)                 |
| Minimum Statutory ratio                  | 8.0%           | 8.0%           |                        |
| <b>Excess</b>                            | <b>10.7%</b>   | <b>7.3%</b>    | <b>(3.4%)</b>          |
| Core Capital/Total Risk Weighted Assets  | 18.0%          | 13.9%          | (4.1%)                 |
| Minimum Statutory ratio                  | 10.5%          | 10.5%          |                        |
| <b>Excess</b>                            | <b>7.5%</b>    | <b>3.4%</b>    | <b>(4.1%)</b>          |
| Total Capital/Total Risk Weighted Assets | 21.7%          | 17.1%          | (4.6%)                 |
| Minimum Statutory ratio                  | 14.5%          | 14.5%          |                        |

| <b>Capital Adequacy Ratios</b> | <b>FY'2021</b> | <b>FY'2022</b> | <b>% points change</b> |
|--------------------------------|----------------|----------------|------------------------|
| <b>Excess</b>                  | <b>7.2%</b>    | <b>2.6%</b>    | <b>(4.6%)</b>          |
| Liquidity Ratio                | 39.1%          | 40.9%          | 1.8%                   |
| Minimum Statutory ratio        | 20.0%          | 20.0%          |                        |
| <b>Excess</b>                  | <b>19.1%</b>   | <b>20.9%</b>   | <b>1.8%</b>            |

### Key Take-Outs

**Earnings Growth** - Core earnings per share rose by 19.5% to Kshs 12.7 from Kshs 10.6 in FY'2021, higher than our expectations of a 16.2% increase to Kshs 12.4, with the variance stemming from the 19.6% increase in total operating income, which was slightly higher than our projection of a 17.7% increase. The performance was driven by the 19.6% growth in total operating income to Kshs 129.9 bn, from Kshs 108.6 bn in FY'2021, which outpaced the 19.3% growth in total operating expenses to Kshs 72.6 bn, from Kshs 60.8 bn in FY'2021,

The Group's directors recommended a final dividend per share of Kshs 1.0 in FY'2022, adding to the interim dividend per share of Kshs 1.0 issued in Q3'2022. The total dividend of Kshs 2.0 per share represents a dividend yield of 6.5% as of 17<sup>th</sup> March, 2023. This is a 33.3% decline from the dividend per share of Kshs 3.0 issued in FY'2021. Additionally, the dividend payout ratio declined to 15.7% in FY'2022, from 28.2% in FY'2021,

Key to note, the decline in recommended dividends for FY'2022 drove a decline in KCB's share price to Kshs 31.0 per share as at 17<sup>th</sup> March 2023, a 17.2% from Kshs 37.5 per share the previous week,

**Increased Customer Deposit** - KCB Group's customer deposits base increased significantly by 35.6% to Kshs 1,135.4 bn from Kshs 837.1 bn in FY'2021 and is the second banking group in Kenya after Equity Group to cross the Kshs 1.0 tn mark, mainly attributable to the completion of the acquisition of TMB Bank and the organic growth in the existing business,

**Deteriorated Asset Quality** - KCB group's asset quality deteriorated y/y to 17.0% from 16.6% in FY'2021 driven by a 31.2% increase in gross non-performing loans to Kshs 161.2 bn, from Kshs 122.9 bn in FY'2021, which outpaced the 28.0% growth in gross loans. The increase in gross non-performing loans was driven by a 40.0% increase in KCB-Kenya's gross NPLs to Kshs 129.1 bn from Kshs 92.2 bn in FY'2021 following an increase in NPL stock and reclassifications in sectors such as building and construction, manufacturing, and Transport and communication during the year. As such KCB-Kenya's NPL ratio deteriorated to 19.1% in FY'2022 from 16.0% in FY'2021, 5.8% points higher than the Kenya's banking sector NPL ratio which came in at 13.3% in FY'2022. Similarly, National Bank of Kenya's NPL ratio continued to weigh down the group, coming in at 22.1%, despite being an improvement from 31.9% from FY'2021. However, on a q/q basis, the asset quality improved, with the NPL ratio improving to 17.0% in FY'2022 from 17.8% in Q3'2022,

**Impaired Yield on Interest Earning Assets ratio** - The group recorded a 1.0% decline in its Yield on Interest Earning Ratio to 10.1% from 11.1% driven by the faster 26.3% growth in Average Interest Earning Assets (AIEA) following the acquisition of TMB Bank in DRC which outpaced the 15.1% growth in trailing interest income with the group yet to optimize the TMB Balance sheet to generate interest income.

For a comprehensive analysis, please see our KCB Group FY'2022 Earnings Note

## IV. Standard Chartered Bank Kenya FY'2022 Performance

Below is a summary of Standard Chartered Bank Kenya FY'2022 performance:

| <b>Balance Sheet Items</b> | <b>FY'2021</b> | <b>FY'2022</b> | <b>y/y change</b> |
|----------------------------|----------------|----------------|-------------------|
| Net loans                  | 126.0          | 139.4          | 10.7%             |
| Government Securities      | 95.6           | 105.7          | 10.6%             |
| <b>Total Assets</b>        | <b>334.9</b>   | <b>381.3</b>   | <b>13.9%</b>      |
| Customer Deposits          | 265.5          | 278.9          | 5.1%              |
| Deposits per Branch        | 7.4            | 8.7            | 18.2%             |
| <b>Total Liabilities</b>   | <b>281.7</b>   | <b>325.1</b>   | <b>15.4%</b>      |

| <b>Balance Sheet Ratios</b> | <b>FY'2021</b> | <b>FY'2022</b> | <b>y/y change</b> |
|-----------------------------|----------------|----------------|-------------------|
| Loan to deposit ratio       | 47.5%          | 50.0%          | 2.5%              |
| Return on Average Equity    | 17.4%          | 22.1%          | 4.7%              |
| Return on Average Assets    | 2.7%           | 3.4%           | 0.6%              |

| <b>Income Statement</b>         | <b>FY'2021</b> | <b>FY'2022</b> | <b>y/y change</b> |
|---------------------------------|----------------|----------------|-------------------|
| Net Interest Income             | 18.8           | 22.2           | 18.1%             |
| Net non-Interest Income         | 10.4           | 11.8           | 13.5%             |
| <b>Total Operating income</b>   | <b>29.2</b>    | <b>34.0</b>    | <b>16.5%</b>      |
| Loan Loss provision             | 2.1            | 1.3            | (36.2%)           |
| <b>Total Operating expenses</b> | <b>16.6</b>    | <b>16.9</b>    | <b>1.9%</b>       |
| Profit before tax               | 12.6           | 17.1           | 35.8%             |
| <b>Profit after tax</b>         | <b>9.0</b>     | <b>12.1</b>    | <b>33.3%</b>      |
| <b>Core EPS</b>                 | <b>23.5</b>    | <b>31.5</b>    | <b>34.0%</b>      |

| <b>Income Statement Ratios</b>               | <b>FY'2021</b> | <b>FY'2022</b> | <b>y/y change</b> |
|----------------------------------------------|----------------|----------------|-------------------|
| Yield from interest-earning assets           | 7.6%           | 8.0%           | 0.4%              |
| Cost of funding                              | 1.3%           | 1.2%           | (0.1%)            |
| Net Interest Spread                          | 6.2%           | 6.8%           | 0.6%              |
| Net Interest Margin                          | 6.4%           | 7.0%           | 0.6%              |
| Cost of Risk                                 | 7.1%           | 3.9%           | (3.2%)            |
| Net Interest Income as % of operating income | 64.5%          | 65.4%          | 0.9%              |
| Non-Funded Income as a % of operating income | 35.5%          | 34.6%          | (0.9%)            |
| Cost to Income Ratio                         | 56.8%          | 49.7%          | (7.1%)            |
| Cost to Income Ratio without LLP             | 49.7%          | 45.8%          | (3.9%)            |
| Cost to Assets                               | 4.4%           | 4.3%           | (0.1%)            |

| <b>Capital Adequacy Ratios</b>          | <b>FY'2021</b> | <b>FY'2022</b> | <b>% Change</b> |
|-----------------------------------------|----------------|----------------|-----------------|
| Core Capital/Total Liabilities          | 15.4%          | 15.1%          | (0.3%)          |
| Minimum Statutory ratio                 | 8.0%           | 8.0%           | 0.0%            |
| <b>Excess</b>                           | <b>7.4%</b>    | <b>7.1%</b>    | <b>(0.3%)</b>   |
| Core Capital/Total Risk Weighted Assets | 15.5%          | 15.4%          | (0.2%)          |
| Minimum Statutory ratio                 | 10.5%          | 10.5%          | 0.0%            |

| <b>Capital Adequacy Ratios</b>                            | <b>FY'2021</b> | <b>FY'2022</b> | <b>% Change</b> |
|-----------------------------------------------------------|----------------|----------------|-----------------|
| <b>Excess</b>                                             | <b>5.0%</b>    | <b>4.9%</b>    | <b>(0.2%)</b>   |
| Total Capital/Total Risk Weighted Assets                  | 17.8%          | 17.3%          | (0.5%)          |
| Minimum Statutory ratio                                   | 14.5%          | 14.5%          | 0.0%            |
| <b>Excess</b>                                             | <b>3.3%</b>    | <b>2.8%</b>    | <b>(0.5%)</b>   |
| Liquidity Ratio                                           | 70.7%          | 73.0%          | 2.3%            |
| Minimum Statutory ratio                                   | 20.0%          | 20.0%          | 0.0%            |
| <b>Excess</b>                                             | <b>50.7%</b>   | <b>53.0%</b>   | <b>2.3%</b>     |
| <b>Adjusted core capital/ total deposit liabilities</b>   | <b>15.4%</b>   | <b>15.1%</b>   | <b>(0.3%)</b>   |
| <b>Adjusted core capital/ total risk weighted assets</b>  | <b>15.6%</b>   | <b>15.4%</b>   | <b>(0.2%)</b>   |
| <b>Adjusted total capital/ total risk weighted assets</b> | <b>17.8%</b>   | <b>17.3%</b>   | <b>(0.5%)</b>   |

### Key Take-Outs

**Earnings Growth** - Core earnings per share rose by 34.0% to Kshs 31.5, from Kshs 23.5 registered in FY'2021, higher than our expectations of a 20.9% increase to Kshs 28.4, with the variance stemming from the 1.9% decline in total operating expense to Kshs 16.9, which was lower than our projection of a 19.1% increase to Kshs 19.7 bn in FY2022. The performance was driven by the 16.5% growth in total operating income to Kshs 34.0 bn, from Kshs 29.2 bn in FY'2021, against the relatively lower 1.9% growth in total operating expenses to Kshs 16.9 bn from Kshs 16.6 bn in FY'2021,

The Group's directors recommended a final dividend per share of Kshs 16.0 in FY'2022, adding to the interim dividend per share of Kshs 6.0 issued in Q3'2022. The total dividend of Kshs 22.0 per share represents a dividend yield of 13.2% as of 17<sup>th</sup> March, 2023. This is a 15.8% increase from the dividend per share of Kshs 19.0 issued in FY'2021. Key to note, the dividend payout ratio declined to 69.9% in FY'2022, from 80.9% in FY'2021,

**Improvement in Asset Quality** - The group's asset quality improved significantly, with the NPL ratio improving to 14.2% in FY'2022, from 16.0% recorded in FY'2021. The improvement in asset quality was attributable to the 3.0% decline in gross non-performing loans, coupled with a 9.2% increase in gross loans. Key to note, on a q/q basis, Standard Chartered Bank's Asset quality improved by 1.2% points to 14.2% as end of FY'2022, from 15.4% recorded in Q3'2022,

**Sustained operating efficiency levels** - The bank's operating efficiency has recorded sustained improvement with cost to income ratio without LLP improving to 45.8% from 49.7% in FY'2021, similar to the trend witnessed in Q3'2022 financial performance where cost to income LLP improved by 0.6% points to 47.4% in Q3'2022 from 48.0% in Q3'2021, and,

**Cautious Lending** - FY'2022 was characterized by cautious lending to the public attributable to the high credit risks brought about by the deteriorated business environment mainly as a result of the elevated inflationary pressures during the year. As such, the bank turned to lending to the government resulting in government securities registering a 10.6% growth to Kshs 105.7 bn, from 95.6 bn in FY'2021.

For a comprehensive analysis, please see our **Standard Chartered Bank Kenya FY'2022 Earnings Note**

## Asset Quality

The table below is a summary of the listed banks that have released their FY'2022 results:

|                             | FY'2022 NPL Ratio* | FY'2021 NPL Ratio** | % point change in NPL Ratio | FY'2022 NPL Coverage* | FY'2021 NPL Coverage** | % point change in NPL Coverage |
|-----------------------------|--------------------|---------------------|-----------------------------|-----------------------|------------------------|--------------------------------|
| ABSA Bank Kenya             | 7.5%               | 7.9%                | (0.4%)                      | 80.5%                 | 77.7%                  | 2.8%                           |
| Stanbic Holdings            | 10.0%              | 9.3%                | 0.7%                        | 63.1%                 | 58.1%                  | 5.0%                           |
| Co-operative Bank           | 14.0%              | 14.6%               | (0.6%)                      | 69.3%                 | 62.6%                  | 6.7%                           |
| SCBK                        | 14.2%              | 16.0%               | (1.8%)                      | 87.1%                 | 84.4%                  | 2.7%                           |
| KCB Group                   | 17.0%              | 16.6%               | 0.4%                        | 52.4%                 | 52.9%                  | (0.5%)                         |
| <b>Mkt Weighted Average</b> | <b>13.2%</b>       | <b>12.3%</b>        | <b>0.9%</b>                 | <b>69.0%</b>          | <b>65.5%</b>           | <b>3.5%</b>                    |

\*Market cap weighted as at 17/03/2023

\*\*Market cap weighted as at 14/04/2022

Key take-outs from the table include;

- Asset quality for the listed banks that have released deteriorated during the year, with market weighted average NPL increasing by 0.9% points to 13.2%, from a 12.3% in FY'2021. The deterioration was driven by a deterioration in Stanbic holdings' and KCB Group's asset quality with their NPL ratios increasing by 0.7% and 0.4% points to 10.0% and 17.0%, respectively in FY'2022, and,
- Market weighted average NPL Coverage for the listed banks increased by 3.5% points to 69.0% in FY'2022, from 65.5% recorded in FY'2021. However, KCB Group's NPL coverage declined by 0.5% points to 52.4% in FY'2022 from 52.9% in FY'2021, attributable to a 31.2% increase in gross non-performing loans to Kshs 161.2 bn, from Kshs 122.9 bn in FY'2021, despite a 35.0% increase in provision to Kshs 70.6 bn from Kshs 52.3 bn in FY'2021, coupled with a marginal growth in interest suspense to Kshs 14.0 bn, up from Kshs 13.0 bn in Fy'2021.

## Summary performance

The table below highlights the performance listed banks, showing the performance using several metrics:

| Bank                                | Core EPS Growth | Interest Income Growth | Interest Expense Growth | Net Interest Income Growth | Net Interest Margin | Non-Funded Income Growth | NFI to Total Operating Income | Growth in Total Fees & Commissions | Deposit Growth | Growth in Government Securities | Loan to Deposit Ratio | Loan Growth  | Return on Average Equity |
|-------------------------------------|-----------------|------------------------|-------------------------|----------------------------|---------------------|--------------------------|-------------------------------|------------------------------------|----------------|---------------------------------|-----------------------|--------------|--------------------------|
| ABSA                                | 34.2%           | 27.5%                  | 25.9%                   | 27.9%                      | 8.2%                | 17.2%                    | 29.7%                         | 0.3%                               | 13.0%          | 0.7%                            | 93.4%                 | 21.1%        | 24.3%                    |
| SCBK                                | 34.0%           | 14.3%                  | 6.5%                    | 18.1%                      | 7.0%                | 13.5%                    | 34.6%                         | (17.7%)                            | 5.1%           | 10.6%                           | 50.0%                 | 10.7%        | 22.1%                    |
| Co-op                               | 33.2%           | 11.0%                  | 11.0%                   | 10.9%                      | 8.9%                | 32.7%                    | 36.1%                         | 31.8%                              | 3.9%           | (5.9%)                          | 80.1%                 | 9.4%         | 21.2%                    |
| Stanbic                             | 25.7%           | 31.8%                  | 15.2%                   | 31.8%                      | 5.9%                | 23.7%                    | 40.9%                         | (0.5%)                             | 19.5%          | 42.9%                           | 87.8%                 | 16.4%        | 15.3%                    |
| KCB                                 | 19.5%           | 15.3%                  | 27.1%                   | 11.5%                      | 7.5%                | 11.5%                    | 33.3%                         | 18.6%                              | 35.6%          | 2.7%                            | 81.3%                 | 27.8%        | 22.0%                    |
| <b>FY'22 Mkt Weighted Average*</b>  | <b>28.5%</b>    | <b>18.9%</b>           | <b>18.4%</b>            | <b>18.5%</b>               | <b>7.6%</b>         | <b>18.5%</b>             | <b>34.4%</b>                  | <b>8.2%</b>                        | <b>17.5%</b>   | <b>7.5%</b>                     | <b>78.4%</b>          | <b>18.4%</b> | <b>21.4%</b>             |
| <b>FY'21 Mkt Weighted Average**</b> | <b>82.9%</b>    | <b>13.8%</b>           | <b>11.5%</b>            | <b>15.2%</b>               | <b>7.1%</b>         | <b>10.9%</b>             | <b>34.7%</b>                  | <b>16.6%</b>                       | <b>13.5%</b>   | <b>18.1%</b>                    | <b>69.7%</b>          | <b>13.5%</b> | <b>20.2%</b>             |

\*Market cap weighted as at 17/03/2023

\*\*Market cap weighted as at 14/04/2022

Key take-outs from the table include;

- The listed banks recorded a 28.5% growth in core Earnings per Share (EPS) in FY'2022, compared to the weighted average growth of 82.9% in FY'2021, an indication of sustained performance despite the tough operating environment experienced in FY'2022,

- ii. The listed Banks' Interest income grew by 18.9% compared to the market weighted average growth of 13.8% in FY'2021. The growth in interest income is attributable to the 18.4% weighted average growth in the loan book in FY'2022 which was higher than the 13.5% growth in FY'2021. The higher loan book growth took the loan to deposit ratio to 78.4% from the 69.7% market weighted average loan to deposit ratio in FY'2021.
- iii. Non-Funded Income grew by 18.5% compared to market weighted average growth of 10.9% in FY'2021, pointing to increased revenue diversification efforts by the banking sector, and,
- iv. The Banks recorded a deposit growth of 17.5%, higher than the market weighted average deposit growth of 13.5% in FY'2021, highlighting increased investment risk in the business environment.

#### Universe of coverage:

| Company               | Price as at 10/03/2024 | Price as at 17/03/2024 | w/w change | YTD Change | Year Open 2023 | Target Price* | Current Dividend Yield | Upside/Downside** | P/TBv Multiple | Recommendation |
|-----------------------|------------------------|------------------------|------------|------------|----------------|---------------|------------------------|-------------------|----------------|----------------|
| Jubilee Holdings      | 175.8                  | 151.5                  | (13.8%)    | (23.8%)    | 198.8          | 305.9         | 9.2%                   | 111.2%            | 0.3x           | Buy            |
| KCB Group***          | 37.5                   | 31.0                   | (17.2%)    | (19.2%)    | 38.4           | 52.5          | 6.5%                   | 75.8%             | 0.5x           | Buy            |
| Kenya Reinsurance     | 1.7                    | 1.6                    | (6.5%)     | (15.0%)    | 1.9            | 2.5           | 6.3%                   | 64.2%             | 0.1x           | Buy            |
| Equity Group***       | 43.0                   | 38.2                   | (11.3%)    | (15.3%)    | 45.1           | 58.4          | 7.9%                   | 60.8%             | 0.9x           | Buy            |
| Britam                | 4.9                    | 4.6                    | (7.5%)     | (12.5%)    | 5.2            | 7.1           | 0.0%                   | 56.5%             | 0.8x           | Buy            |
| Liberty Holdings      | 4.5                    | 4.8                    | 6.4%       | (4.8%)     | 5.0            | 6.8           | 0.0%                   | 40.6%             | 0.4x           | Buy            |
| ABSA Bank***          | 12.6                   | 12.0                   | (4.4%)     | (1.6%)     | 12.2           | 15.5          | 11.3%                  | 40.0%             | 1.0x           | Buy            |
| Co-op Bank***         | 12.5                   | 12.3                   | (1.6%)     | 1.7%       | 12.1           | 15.5          | 12.2%                  | 38.0%             | 0.6x           | Buy            |
| Sanlam                | 8.7                    | 8.7                    | 0.0%       | (9.0%)     | 9.6            | 11.9          | 0.0%                   | 36.6%             | 0.9x           | Buy            |
| NCBA***               | 36.8                   | 34.1                   | (7.5%)     | (12.6%)    | 39.0           | 43.4          | 8.8%                   | 36.2%             | 0.8x           | Buy            |
| I&M Group***          | 18.0                   | 17.1                   | (5.3%)     | 0.0%       | 17.1           | 20.8          | 8.8%                   | 30.9%             | 0.4x           | Buy            |
| Diamond Trust Bank*** | 49.7                   | 48.5                   | (2.5%)     | (2.8%)     | 49.9           | 57.1          | 6.2%                   | 24.1%             | 0.2x           | Buy            |
| CIC Group             | 2.0                    | 1.9                    | (3.6%)     | (0.5%)     | 1.9            | 2.3           | 0.0%                   | 22.1%             | 0.7x           | Buy            |
| Stanbic Holdings      | 108.8                  | 110.5                  | 1.6%       | 8.3%       | 102.0          | 112.0         | 11.4%                  | 12.8%             | 1.0x           | Accumulate     |
| Standard Chartered*** | 167.0                  | 167.0                  | 0.0%       | 15.2%      | 145.0          | 166.3         | 13.2%                  | 12.7%             | 1.1x           | Accumulate     |
| HF Group              | 3.5                    | 3.5                    | (0.3%)     | 10.8%      | 3.2            | 3.4           | 0.0%                   | (1.7%)            | 0.2x           | Sell           |

\*Target Price as per Cytonn Analyst estimates

\*\*Upside/ (Downside) is adjusted for Dividend Yield

\*\*\*For Disclosure, these are stocks in which Cytonn and/or its affiliates are invested in

*We are “Neutral” on the Equities markets in the short term due to the current adverse operating environment and huge foreign investor outflows, and, “Bullish” in the long term due to current cheap valuations and expected global and local economic recovery.*

*With the market currently trading at a discount to its future growth (PEG Ratio at 0.8x), we believe that investors should reposition towards value stocks with strong earnings growth and that are trading at discounts to their intrinsic value. We expect the current*

***high foreign investors sell-offs to continue weighing down the equities outlook in the short term.***

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Liason House, StateHouse Avenue

The Chancery, Valley Road

[www.cytonn.com](http://www.cytonn.com)

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