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FY2018 Earnings Expectations Note

Sector: Banking

Barclays Bank of Kenya

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Barclays Bank (K) Ltd

- We recommend a **HOLD** on Barclays Bank of Kenya (BBK) guided by our fair value estimate of **KES 10.52**, a downside of 6.9% from the current price of KES 11.30.
- The bank operates on a forward P/E of 7.4X, which is above the industry average of 6.2X and a forward P/B of 1.3x, equal to the industry average.
- Interest income should exhibit modest growth (6.3%) to KES.22.6Bn in line with a conservative loan book growth rate of 8% to KES.181.9Bn.
- We anticipate operating expenses to increase to KES.21.8Bn FY2018 as the bank incurs transition and rebranding costs as it separates from Barclays PLC, resulting in a cost to income ratio of 64.7%
- We estimate a 30% increase in holdings of government securities to KES 76.0Bn contributing to an 18.4% growth in total assets.
- We expect the lender to maintain the dividend per share at KES.1.00.

Key Financial Summary

	2017	2018P	% Change
Balance Sheet (KES.Bn)			
Loans & Advances	168.4	181.9	8.0
Government Securities	58.5	76.0	30.0
Total Assets	271.2	321.1	18.4
Customer Deposits	186.0	226.9	21.9
Income Statement (KES.Bn)			
Interest income (Loans & Advances)	21.3	22.6	6.3
Interest income (Gov't Securities)	5.8	8.3	44.1
Total Interest Income	27.2	31.0	14.1
Non-Interest Income	8.5	9.3	9.6
Total Income	30.3	33.7	11.4
Total Operating Expenses	19.9	21.8	9.60
PBT	10.4	11.9	14.9
PAT	6.9	8.2	19.1
Ratios			
Cost to Income Ratio (%)	55.5	64.7	10.2
Loan to Deposit Ratio (%)	90.5	80.2	10.3
NPL Ratio (%)	5.6	6.9	1.3
NFI/Total Income	27.9	30.4	2.5
NII/Total Income	89.8	69.6	20.2
Government Securities/Total Assets	21.6	19.5	2.1

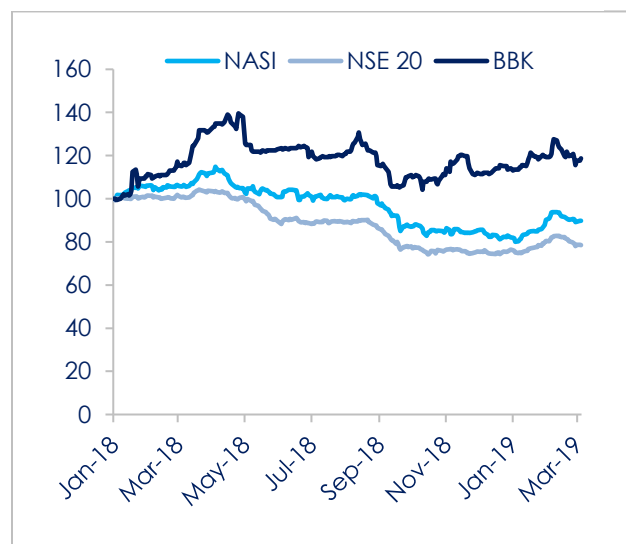
Source: Bank Filings & Sterling Capital Research

Share Summary

Fair Value Estimate (KES)	10.52
Recommendation	HOLD
Current price (KES)	11.30
Upside (%)	-6.9%
Price Change YoY (%)	3.2%
Price Change YTD (%)	5.1%
Dividend yield (%)	10.2%
P/E	7.4x
P/B	1.3x
Issued shares (m)	5,431.5
Market cap (KES. Bn)	61.4
NSE Code	BBK
Bloomberg Code	BCBL:KN

Source: Nairobi Securities Exchange & Sterling Capital Research

Share Price Performance



Source: Nairobi Securities Exchange

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Buy: FV above 10% of CSP

Hold: FV between -10% and 10% around CSP

Sell: FV more than 10% below CSP

NB: The recommendation guide may change depending on the risk free rate.