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# **FY2018 Earnings Expectations Note**

## **Sector: Banking**

### **KCB Group Plc**

## KCB Group Plc

- We recommend a **BUY** on KCB Group Plc (KCB Bank) guided by our fair value estimate of **KES 50.29** with P/E and P/B multiples of 5.6x and 1.2x respectively which are below the industry average of 6.2x and 1.3x.
- Our fair value estimate has an upside of 19.3% based on the current share price of KES 42.15.
- KCB Bank has remained resilient throughout the tough business environment with stable earnings and strong business fundamentals.
- Increased investment in digital banking business and growing presence in the fintech space {KCB M-Pesa market share at 12% second after M-Shwari which has a market share of 29% (Source: FSD Kenya)} will also drive business growth.
- We expect the bank to maintain a similar dividend payout ratio as FY2016 and FY2017 (46.7%) and therefore expect an increase in the final dividend to KES.3.50 from KES.3 FY2017.

### Key Financial Summary

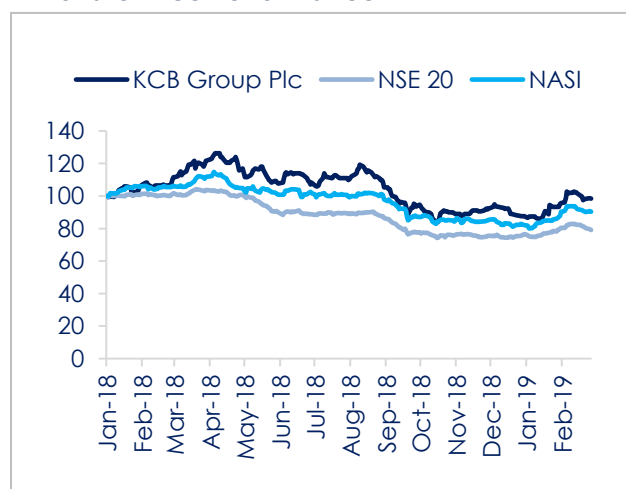
	2017	2018P	% Change
<b>Income Statement (KES.Bn)</b>			
Loans & Advances	422.7	443.9	5.0
Government Securities	110.0	118.2	7.5
Total Assets	646.7	683.8	5.7
Customer Deposits	499.6	530.0	6.1
<b>Balance Sheet (KES.Bn)</b>			
Interest income (Loans & Advances)	50.8	51.4	1.2
Interest income (Gov't Securities)	12.4	11.9	4.0
Total Interest Income	63.7	63.8	0.2
Non-Interest Income	23.0	24.2	5.2
Total Income	65.5	69.6	6.3
Total Operating Expenses	35.0	35.1	0.3
PBT	29.1	33.2	14.1
PAT	19.7	23.2	17.8
<b>Ratios</b>			
Cost to Income Ratio	49.0	48.2	0.8
Loan to Deposit Ratio	84.6	83.8	0.8
NPL Ratio	8.0	8.0	0.0
NFI/Total Income	32.2	33.3	1.1
Cost of Funds	3.1	2.9	0.2
Government Securities/Total Assets	17.0	17.3	0.3

Source: Bank Filings & Sterling Capital Research

<b>Share Summary</b>	
<b>Fair Value Estimate (KES)</b>	<b>50.29</b>
<b>Recommendation</b>	<b>BUY</b>
Current price (KES)	42.15
Upside (%)	19.3
Price Change YoY (%)	↓ 7.4
Price Change YTD (%)	↑ 13.6
Dividend yield (%)	8.4
P/E	5.6
P/B	1.2
Issued shares (m)	3,773.8
Free Float (%)	74.9
Market cap (KES. Bn)	129.1
NSE Code	KCB
Bloomberg Code	KNCB: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.**

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