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Analysts:

Renaldo D'Souza

+254 (20) 2222651

Renaldo.DSouza@sterlingib.com

Susan Makena

+254 (20) 2222651

Susan.Makena@sterlingib.com

Elizabeth Njenga

+254 (20) 2222651

Elizabeth.Njenga@sterlingib.com

Justina Vuku

+254 (20) 2222651

Justina.Vuku@sterlingib.com

For queries call: +254 (20) 315414; 2244077 or

Email: research@sterlingib.com

Website: www.sterlingib.com

Bloomberg Code: SCLK <GO>


STERLING CAPITAL LIMITED

March 2019

FY2018 Earnings Expectations Note

Sector: Banking

NIC Group PLC

NIC Group PLC

- We recommend a **BUY** on **NIC Group Plc** based on a fair value estimate of **KES.43.46** a 20.2% upside from the current market price of KES.36.15.
- The bank trades on a forward P/E of 5.8x and a P/B of 0.7x against sector average P/E of 7.4x and P/B of 1.3x.
- Loan book and investment in government securities forecasted to grow by 2.5% and 20.8% y/y respectively thus increasing total interest income by 10.9% to KES.20.4Bn.
- The proposed merger between NIC and Commercial Bank of Africa (CBA) will create the largest asset book with increased interest income expected in the medium and long term.
- However, we are cautious about the short term impact of the merger in terms of merger related costs and the ability of the merged entity to take advantage of the business and operational benefits of the merger.
- In 2017, NIC bank had one of the highest non-performing loans (NPL) ratio at 11.1%. We estimate the NPL ratio to worsen to 12.0% FY2018.
- We expect 7.3% growth in PAT to KES.4.4Bn and the dividend per share to be maintained at KES.1.00.

	2017A	2018E	% Change
Balance Sheet (KES.Bn)			
Loans & Advances	119.8	122.8	2.5
Government Securities	54.2	65.5	20.8
Total Assets	206.2	212.8	3.2
Customer Deposits	138.9	148.6	7.0
Income Statement (KES.Bn)			
Interest income (Loans & Advances)	13.1	13.3	1.5
Interest income (Gov't Securities)	5.2	6.9	32.7
Total Interest Income	18.4	20.4	10.9
Non-Interest Income	4.2	4.6	9.5
Total Income	14.9	16.3	9.4
Total Operating Expenses	9.3	9.9	6.5
PBT	5.6	6.3	12.5
PAT	4.1	4.4	7.3
Ratios (%)			
Cost to Income Ratio	42.6	43.4	0.8
Loan to Deposit Ratio	86.2	82.6	3.6
NPL Ratio	11.1	12.0	0.9
NFI/Total Income	27.9	28.4	0.5
NII/Total Income	72.1	71.6	0.5
Government Securities /Total Assets	26.3	30.8	4.5

Source: Bank Filings & Sterling Capital Research

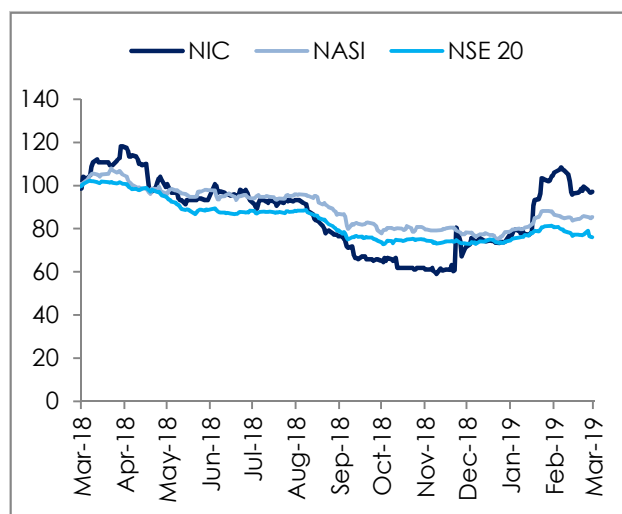
For important disclosures refer to the disclosures section located at the end of this report.

Share Summary

Fair Value Estimate (KES)	43.46
Recommendation	BUY
Current price (KES)	36.15 (14-Mar)
Upside (%)	20.2%
Price Change YoY (%)	↓1.6
Price Change YTD (%)	↑30.7
Dividend yield (%)	2.8%
P/E	5.8x
P/B	0.7x
Issued shares (m)	703.9
Free Float (%)	56.5
Market cap (KES. Bn)	25.7
NSE Code	NIC
Bloomberg Code	NICB:KN

Source: Nairobi Securities Exchange & Sterling Capital Research

Share Price Performance



Source: Nairobi Securities Exchange

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Recommendations guide:

Sterling Capital Limited recommendation guide is based on the difference between the current share price (CSP), and the fair value (FV) of the share as valued by Sterling Capital research. Recommendation categories are defined as follow:

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.