Bloomberg Ticker: FIBR <GO>
www.faidastocks.com

Barclays Bank of Kenya: FY2012 Results Note

February 15th, 2013

Analyst(s):

Bernard Kiarie

bernard.kiarie@fib.co.ke

Head Office

Crawford Business Park, Ground Floor

State House Road

Tel: (254-20) 7606026

www.fib.co.ke

P.O Box 45236, 00100

Nairobi.

RECOMMENDATION: NEUTRAL

Rating	**2**
Current Price-14.02.13	**16.15**
Target Price (KES)	**18.89**
Upside Potential	**16.9%**

Share Statistics

Current Price (Kshs)-14.02.13	16.15
Issued Shares (Mn)	5,432
Market Cap (Kshs Mn)	87,727
Market Cap (USD Mn)	1,004.40
Free Float	26.50%

Source: NSE

Summary

We revise our earlier recommendation rating from a SELL to NEUTRAL, with a price target of KES 18.89 from our previous target of KES 13.29.

Key results highlight include the following:

- **Surprise increase in customer deposits:** Customers deposits recorded during the year in review were 9.4% higher than our forecasted customer deposits (as per our Banking Sector Report 2012 dubbed 'The Innovative Imperative' released in October 25, 2012).
- **Deposit mobilization mainly in the 4Q2012:** Most of these customer deposits (KES 12.3 billion) were mobilized in the last quarter of 2012.
- **Majority of customer deposits not deployed into lending:** Despite raising significant amount of deposits in 4Q2012, the loan book did not grow in tandem
- **A KES 0.50 drop in dividend payment:** Our dividend payment outlook still remains the same

Year to 31 Dec	2011A	2012A	2013F
Net Income (Kshs Mn)	8,073	8,741	9,266
EPS (Kshs)	1.49	1.61	1.71
BVPS (Kshs)	5.4	5.4	6.4
P/E x	10.87	10.04	9.47
P/B x	3.0	3.0	2.5
ROE	27.6%	29.5%	26.8%
ROA	4.8%	4.7%	4.7%
C/I Ratio	51.6%	52.0%	50.0%

Income Statement (KES '000)	FY2011 (Restated)	FY2012	% Change
Interest income	17,632,272	21,041,003	19.3%
Interest expense	1,296,149	2,895,835	123.4%
Net Interest Income	**16,336,123**	**18,145,168**	**11.1%**
Non-interest income	10,001,966	9,279,219	-7.2%
Total Income	**26,338,089**	**27,424,387**	**4.1%**
Operating expenses	13,538,854	14,260,267	5.3%
Loan loss provision	728,680	144,376	-80.2%
PBT	**12,070,555**	**13,019,744**	**7.9%**
PAT	**8,112,637**	**8,740,703**	**7.7%**
EPS	***1.49***	***1.61***	
DPS	***1.50***	***1.00***	
Cost/Income Ratio	***52.0%***	***52.0%***	
Return on Equity (ROE) Ratio	**27.6%**	**29.5%**	

Source: Company Release

Balance Sheet (KES '000)	3Q2011 (Restated)	FY2012	% Change
ASSETS			
Kenya government securities	34,344,765	47,535,593	38.4%
Loans & advances to customers	104,334,776	104,204,295	-0.1%
Total Assets	**167,821,628**	**184,825,892**	**10.1%**
LIABILITIES			
Customer deposits	125,560,803	137,915,391	9.8%
Deposits from local banking institutions	-	1,575,000	-
Other liabilities	10,369,351	11,604,562	11.9%
Total Liabilities	**140,007,347**	**155,242,443**	**10.9%**
Shareholders' Funds	**27,814,281**	**29,583,448**	**6.4%**
Loan /deposit Ratio	***82.7%***	***74.6%***	
Total Capital/Total Risk-Weighted Assets	**22.3%**	**25.8%**	
Liquidity Ratio	**39.6%**	**46.8%**	

Source: Company Release

PBT grew by 7.9% to KES 13.0bn (Close to our KES 12.2bn forecast)

Barclays Bank of Kenya (BBK) released its FY2012 results and recorded a 7.9% growth in profit before tax (PBT) from KES 12.1 billion in FY2011 to KES 13.0 billion in FY2012. This was only a 7.1% variance from our forecasted FY2012 PBT of KES 12.2 billion.

PAT grew by 7.7% to KES 8.7bn (in line with our KES 8.5bn forecast)

Profit after tax (PAT) grew by 7.7% to KES 8.7 billion in FY2012 from KES 8.1 billion in FY2011. This was in line with our forecasted PAT of KES 8.5 billion (a 2.0% variance).

Actual FY2012 were characterized by the following:

Surprise in mobilized customer deposits

Surprise increase in customer deposits: BBK recorded an 11.0% increase in customer deposits to KES 137.9 billion (FY2012) compared to KES 124.2 billion (FY2011). This was 9.4% higher than our forecasted customer deposits (as per our Banking Sector Report 2012 dubbed 'The Innovative Imperative' released in October 25, 2012).

KES 12.3bn in customer deposits mobilized in 4Q2012

Deposit mobilization mainly in the 4Q2012: Most of these customer deposits (KES 12.3 billion) were mobilized in the last quarter of 2012. Between 1Q2012 and 3Q2012, the bank managed to mobilize only KES 1.4 billion.

Majority of customer deposits deployed into government securities

Majority of customer deposits not deployed into lending: Despite raising significant amount of deposits in 4Q2012, the loan book did not grow in tandem. We believe that most of these funds were deployed into government securities.

Slow growth in loan book, in line with our expectation

Slow growth in loan book, in line with our forecast: The loan book grew by 5.2% from KES 99.1 billion (FY20011) to KES 104.2 billion (FY2012), in line with our forecast of KES 105.2 billion for 2012. It is important to note that most of the new lending in 2012 took place on 1Q2012 (KES 1.2 billion) and 3Q2012 (KES 3.2 billion).

Interest income growth in line with our forecast

Slow growth in interest income, as a result: Due to a relatively lower level of lending, BBK managed to grow its total interest income by 19.3% from KES (17.6 billion) to KES 21.0 billion (FY2012). This was in line with our forecasted 2012 interest income of KES 20.4 billion.

The average interest income yield announced was 13.5%, same as what we had projected in our initiation of coverage report.

In addition, the average cost of funds at 2.0% was the same as what we had anticipated. BBK had to pay a little bit more to mobilize more deposits during the year. But with the cost of funds expected to decline in the medium term, we expect pressure on the cost of funds to ease off.

7.2% drop in non-funded income

Non-funded income declined: The non-funded income recorded a 7.2% drop from KES 10.0 billion (FY2011) to KES 9.3 billion (FY2012). The fee and commission income on loans and advances was down by 19.5% to KES 1.6 billion in FY2012. We attribute this to the bank's inability to write new loans. The income from forex trading was also down by 8.9% to KES 2.4 billion. However, fees and commission income on various bank transactions rose by a marginal 1.2% (to KES 5.0 billion in FY2012).

The bank needs to do a lot more in growing non-funded income

In our view, the bank will need to do a lot more in growing the non-funded income.

4.9% surge in OpEx to KES 14.3bn

A 4.9% surge in OpEx: The total operating expenses rose by 4.9% to KES 14.3 billion (FY2012) from KES 13.6 billion (FY2011). This was mainly attributed to a 6.4% rise in staff costs (to KES 7.8 billion in FY2012), a 3.4% increase in other operating expenses to KES 4.2 billion and an 11.8% jump in rental charges to KES 1.0 billion in FY2012. As a result, the cost/income ratio was maintained at 52.0% in the year under review. We expect management to focus more on cost-cutting measures, in trying to bring the C/I ratio down, as opposed to growing income levels.

80.2% decline in loan loss provision, improving loan book quality due its slow growth

Significant drop in loan loss provision: The loan loss provision improved by 80.2% (KES 729 million in FY2011 to KES 144 million in FY2012). In our view, this was attributed to declining risk in the loan book portfolio because of its slow growth. The bank has continued to maintain a conservative approach to growing the loan book. Although the loan book expanded by 5.2% year-on-year (y-o-y), the performance was not so good from a quarter-on-quarter (q-o-q) perspective. The loan book actually shrank by 0.1% despite raising substantial amounts of customer deposits in 4Q2012, as earlier mentioned.

The gross non-performing loans declined by 31.2% to KES 3.8 (FY2012) from KES 5.5 billion (FY2011).

Deterioration of key capital adequacy ratios

Slight deterioration of capital adequacy: During the year in review, we noted that the core capital reduced by KES 684 million. As a result, key capital adequacy ratios deteriorated. The core capital/total deposit liabilities decline from 23.3% (FY2011) to 20.3% (FY2012). The core capital/total risk-weighted assets shrank from 24.1% (FY2011) to 22.7% (FY2012). The total capital/total risk-weighted assets also dropped from 27.8% (FY2011) to 25.8% (FY2012).

Additional capital requirements to put more pressure on dividend payment going forward

In light of the additional capital requirements by the Central Bank of Kenya (CBK), which also mirrors the requirements under the Basel II and Basel III, we expect some pressure on the dividend payout going forward. Slow growth in income, further exacerbates this situation, in our view.

Outlook

We remain concerned about BBK's ability to grow funded income

We remain concerned about the ability of the bank to grow its income, especially the funded income. Barclays has a wide network coverage in terms of ATMs (229) and branches (119 by the end of 2011).

We are still not optimistic of the bank's strategy, or lack of it thereof, in growing this top line income.

We remain bearish on dividend payment going forward

We remain bearish in our outlook on dividend payment going forward, especially in light of additional capital requirements regulations. BBK reduced the dividend payment, as we expected, to KES 1.00 (FY2012) from KES 1.50 paid in FY2011.

In addition, we are yet to see the impact the integration of African operations will have on the local outfit.

Based on our outlook for FY2013, we revise our rating recommendation from a SELL to NEUTRAL.