



NIC BANK – 1Q2013 Results Note

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Analyst:

William Githui

E-mail: william.githui@fib.co.ke

Crawford Business Park,
Ground floor
State House Road
Tel: 0207606026-37

www.fib.co.ke

P.O Box 45236, 00100
Nairobi.

We place a **BUY RECOMMENDATION**

Summary

We place a **BUY RECOMMENDATION** on NIC Bank.

This based on our valuation of **KES 65.68** per share representing a **20.5% upside** from the current share price of KES 54.50 (13TH May 2013). We arrived at our price target using the trailing P/B and forecasted 2013 BVPS.

Key Highlights:

- **Slight increase in interest income:** Interest income increased by 2.9% to KES 2.8 billion (1Q2013) from KES 2.7 billion (1Q2012).
- **Interest expense dropped due to lower cost of funds:** Total interest expenses dropped by 28.0% to KES 1.1 billion (1Q2013) from KES 1.5 billion (1Q2012).
- **Other operating income boosted by increase in fees and commissions on loans:** Total non-interest income increased by 6.8% to KES 742 million (1Q2013) from KES 695 million (1Q2012).
- **Total assets decreased by 4.7%:** Loans and advances to customers dropped by 1.3% to KES 70.6 billion

NIC BANK 1Q2013 Earnings Update

Income Statement	1Q2012	1Q2013	% Change
Interest income	2,696,505	2,774,980	2.9%
Interest expense	1,518,423	1,093,013	-28.0%
Net Interest Income	1,178,082	1,681,967	42.8%
Other operating income	694,822	741,850	6.8%
Total Income	1,872,904	2,423,817	29.4%
Operating expenses	839,898	1,185,153	41.1%
Loan loss provision	66,459	142,028	113.7%
Profit before tax (PBT)	1,033,006	1,238,664	19.9%
Profit after tax (PAT)	723,043	867,782	20.0%
Total comprehensive income for the year	885,790	914,066	3.2%
Earnings Per Share (EPS)	1.33	1.60	20.3%
Cost/Income ratio	44.8%	48.9%	

Balance Sheet	FY2012	1Q2013	% Change
ASSETS			
Kenya Government Securities (Held to maturity)	9,194,971	4,588,247	-50.1%
Kenya Government Securities (Available for sale)	7,027,460	10,289,659	46.4%
Deposits and balances due from local banking institutions	2,205,588	1,956,464	-11.3%
Deposits and balances due from foreign banking institutions	5,983,128	2,587,310	-56.8%
Loans and advances to customers (net)	71,540,092	70,603,886	-1.3%
Total Assets	108,348,593	103,283,469	-4.7%
LIABILITIES			
Customer Deposits	83,379,576	78,387,595	-6.0%
Deposits and balances due to local banking institutions	598,531	2,290,982	282.8%
Borrowed funds	3,655,414	3,649,354	-0.2%
Total Liabilities	92,866,971	87,076,864	-6.2%
Shareholders' Funds	15,481,622	16,206,605	4.7%
Loan/deposit ratio	85.8%	90.1%	
Liquidity ratio	35.4%	33.9%	

Source: Company Release

NIC Bank announced a 19.9% increase in Profit before tax (PBT) to KES 1.2 billion (1Q2013) from KES 1.0 billion (1Q2012). Profit after tax (PAT) grew by 20.0% to KES 868 million (1Q2013) from KES 723 million (1Q2012).

Slight increase in interest income: Interest income increased by 2.9% to KES 2.8 billion (1Q2013) from KES 2.7 billion (1Q2012). The growth was mainly attributable to an increase in interest income from government securities and other interest income. Interest income from government securities increased by 98.9% to KES 490 million (1Q2013) from KES 247 million (1Q2012). Other interest income edged up 35.7% to KES 18 million (1Q2013). Yield on government securities was however maintained at 3.3% in 1Q2013 compared to a similar period the previous year.

Interest income on loans and advances dropped by 6.5% to KES 2.2 billion (1Q2013) from KES 2.4 billion (1Q2012). Consequently, yield on loans and advances dropped 100 bps to 3.2% (1Q2013) from 4.2% (1Q2012).

Growth in interest income attributable to interest income from government securities

Interest income on loans dropped by 6.5%

Interest income from deposits and placements with other banks dropped by 31.9% to KES 33 million (1Q2013) from KES 49 million in a prior comparable period. This is due to an 11.3% and 56.8% drop in deposits and balances due from local and foreign banking institutions respectively.

Interest expense on customer deposits dropped by 28.7% to KES 1.0 billion

Interest expense dropped due to lower cost of funds: Total interest expenses dropped by 28.0% to KES 1.1 billion (1Q2013) from KES 1.5 billion (1Q2012). Interest expense on customer deposits dropped by 28.7% to KES 1.0 billion (1Q2013) from KES 1.4 billion (1Q2012). This was as a result of lower cost of funds experienced during the period after the cut in the Central Bank Rate. Cost of customer deposits dropped by 70 bps from 2.0% (1Q2012) to 1.3% (1Q2013). Other interest expenses grew by 385.2% to KES 21 million (1Q2013) from KES 4 million (1Q2012).

Fees and commissions on loans and advances increased by 11.5%

Other operating income boosted by increase in fees and commissions on loans: Total non-interest income increased by 6.8% to KES 742 million (1Q2013) from KES 695 million (1Q2012). Fees and commissions on loans and advances increased by 11.5% to KES 141 million (1Q2013) in line with growth in loans and advances to customers. Other fees and commissions dropped by 22.2% to KES 98 million (1Q2013) while other income grew by 54.1% to KES 152 million (1Q2013).

21.3% increase in staff costs to KES 516 million

Staff costs push up operating expenses: Total operating expenses increased by 41.1% to KES 1.2 billion (1Q2013) from KES 840 million (1Q2012). The increase in operating expenses is mainly due to a 21.3% increase in staff costs to KES 516 million. Other operating expenses increased by 43.2% to KES 317 million (1Q2013).

Loan loss provision increased by 113.7% to KES 142 million

Increase in loan loss provision: Loan loss provision increased by 113.7% to KES 142 million (1Q2013) from KES 66 million (1Q2012). Gross non-performing loans/loan book stood at 5.3% as compared to 5.4% in the prior comparable period (1Q2012).

Slight drop in operating efficiency: The cost/income ratio increased by 4.1% to 48.9% in 1Q2013 due to expenses incurred in opening new branches.

Loans and advances to customers dropped by 1.3% to KES 70.6 billion

Total assets decreased by 4.7%: Kenya government securities (Held to maturity) decreased by 50.1% to KES 4.6 billion (1Q2013) from KES 9.2 billion (FY2012). Kenya government securities (Available for sale) increased by 46.4% to KES 10.3 billion. Deposits and balances due from foreign banking institutions dropped by 56.8% to KES 2.6 billion.

6.0% drop in customer deposits to KES 78.4 billion

Loans and advances to customers dropped by 1.3% to KES 70.6 billion while deposits and balances due from local banking institutions dropped by 11.3% to KES 5.4 billion.

Drop in customer deposits: Total liabilities decreased by 6.2% to KES 87.1 billion in 1Q2013 from KES 92.9 billion in FY2012. This was mainly due to a 6.0% drop in customer deposits to KES 78.4 billion and a 0.2% decrease in borrowed funds to KES 3.6 billion.

The loan/deposit ratio stood at 90.1% in 1Q2013 compared to 85.8% in FY2012.

Capital adequacy: Core capital/Total risk weighted assets increased to 16.7% (1Q2013) from 16.3% (FY2012). Core capital increased by 2.7% to KES 14.5 billion. Total capital/Total risk weighted assets increased to 17.5% (1Q2013) from 17.1% (FY2012).

Outlook

The bank has benefited from high interest spreads resulting from a reduction in cost of funds. With the recent cut in the Central Bank Rate to 8.5%, we are

optimistic that the bank will grow its loan book especially in asset finance. Though there may be room for growth, the regional subsidiaries in Uganda and Tanzania are yet to make a significant contribution to the group income.

Valuation and recommendation

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