

NBK share price surges to four-year high



Photo: NBK's Harambee Avenue branch, Nairobi.

The National Bank of Kenya's share price has surged to a four-year high as investors rush for the stock ahead of release of the full-year trading results — which are also expected to give details of a dividend payout after a 12 year wait.

The stock was selling at Sh47.50 at the close of Thursday's trading — the highest since January 2007.

Analysts expect the bank to announce a double digit growth in profitability.

Head of research at Dyer and Blair Investment Bank John Kamunya attributed the strong surge of the stock to the anticipated cash dividend payout, which the bank's management has confirmed.

"Local investors have a preference for counters that pay dividends," said Mr Kamunya, who also anticipates strong growth in the bank's performance.

A dividend payout is set to catapult NBK's share price, in a move that is likely to take its price-to-earnings ration closer to its industry peers.

The Big Business Story



The NBK share is currently the cheapest stock in the financial and investments market segment.

Its price-to-earnings ratio, the measure that tracks the share price relative to the last earnings reported, is currently 8.1, while its peers like Housing Finance, Equity and Co-operative Bank stand at 27.5, 26.1 and 23.8 respectively.

"We can expect that the stock will catch up with the others, but the pace will depend on the investors' perception about the bank's business model," said Mr Samuel Gichohi, the head of research at Standard Investment Bank.

Strong growth

Both market players have confirmed that the share will experience strong growth, in line with recovery of the local stock market to at least match the sector average price to earnings ratio of 17.8.

This puts the market value of the stock at less than half the sector average.

Though NBK started making profits seven years ago, years of accumulated losses have denied shareholders the chance to earn dividends as the lender was still in a negative capital position making it unattractive to investors.

The bank's accumulated losses topped Sh5.9 billion in 2002 after individuals and institutions it had extended credit to defaulted serially to push the bank into the loss-making zone.

NBK has over the years retained all earnings made in a bid to deflate the swollen accumulated losses books, and was not able to clear it until the first quarter of the 2009 financial year.

Increased lending

In the same year, the bank paid a dividend but in the form of a bonus issue in the ratio of two for every five shares held, marking a turning point for investors in the bank.

For the nine months to September, the lender's net profits had grown by about 40 per cent to Sh1.3 billion mainly attributable to increased lending.

A portion of government securities held by the bank matured last year, untying additional funds for the lender.

Treasury converted Sh20 billion of bad debts owed to the lender by State corporations into bonds, which have different maturity timelines.

Last year was the second straight financial period that the bank reported positive accumulated profits, after ending 2008 in a negative capital position of Sh1.3 billion.