Kina Securities Limited

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ASX/PNGX – Announcement

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BY ELECTRONIC LODGEMENT

Full Year Result 2023 - Solid performance in loan book, cost control and NPBT

HIGHLIGHTS

- Net profit before tax increased by almost 20% to PGK 175.3m, underpinned by loan book growth of almost 20%, an increase in fees and commissions and a 200bps decline in cost to income to 54.2%
- Underlying NPAT was virtually unchanged at PGK 105.2m, with an increased tax rate offsetting Kina's operational growth.
- The final dividend of AUD 6.0 cents/PGK 15.9 toea, brings the full year dividend to AUD 10.0 cents/PGK 25.6 toea.

CEO, Greg Pawson said:
"In 2023 the business successfully negotiated a challenging year by drawing on its diversified revenue streams and its ability to decide and act quickly on operational matters across all key portfolios. This is obvious in our strong lending growth, increased market share, continued delivery of customer led digital products and well capitalized bank that has a disciplined approach to capital allocation. We have been able to neutralize the impact of the increased tax rate, but this lower level of internal capital generation greatly limits our capacity for growth of the business. Regular dialogue continues with the government on reducing the high tax rate, but the discussions have not produced any commitments at this stage. Despite the high tax rate we go into 2024 assured of our capabilities and capacity to make the best of planned and unplanned opportunities."

- Net Fees and Commissions increased by 18% to PGK 137.0m as development and build out of Kina's channel network continued. Organic growth and digital expansion resulted in an increase of 44% in digital channel fees, and 30% year on year growth in transactions due to expanded EFTPOS and terminal of choice strategy.
- The Loan book grew by almost 20% to PGK2.6b.
- Kina grew its deposit customer base by 19%, which delivered solid low-cost transactional deposit growth of 12.0%.

- Cost to income ratio improved by ~200bps to 54.2%, while accommodating further investments in our API layer, cyber security features, core technology and enabling infrastructure.
- Underlying ROE was 16.8%, creditably ahead of plan, despite the dampening effect of the first year of the higher income tax rate.
- Loan impairment cost rose to PGK 9.8m [FY22: K4.8m], but the ratio of provisions to gross loans improved from 2.3% to 2.2%. The higher impairment expense in 2023 arises from the strong 20% loan growth, coupled with increases arising from improvements in our loss model, but the increase was mitigated by a strong focus and good results in our asset recovery program.
- Kina Investment Superannuation Services recorded an increase of 50% in NPAT associated with an increase in total funds under administration to PGK 18.0b and a 5% increase in total membership.
- FX volumes were lower than expected, and at K52.7m, also fell below prior year levels, however there was a noticeable lift in the final quarter of the year, as central bank foreign currency interventions aligned more with KSL's bank customer demand flows.

DETAIL

Kina Securities Limited (ASX:KSL | PNGX:KSL) (Kina) announced today an underlying NPAT of PGK 105.2m, a decrease of 0.8% by comparison to prior corresponding period (PCP) with almost 20% growth in pre-tax profit offset by the tax increase from 1 January 2023.

Kina's FY23 results were underpinned by solid revenue growth in core banking products, notably business lending, and digital services, contributing towards the progress of the 2025 strategic plan.

Kina's underlying ROE remained at 16.8%, and regulatory capital closed the year at a risk-aligned 20.1%, inside our target operating range and above the minimum requirement. This supports and justifies Kina's growth focus.

In addition to the strong performance of loan interest income in 2023, the results also demonstrate Kina's ability to execute a revenue diversification strategy, with close to 50% of income derived from non-interest products.

The Board declared an unfranked final dividend for 2H23 of AUD 6.0 cents per share/PGK 15.9 toea per share. The total dividend per share for the year is 10 cents, with a yield still in excess of 10%. The higher tax on profit has been an important consideration, but the ability to maintain NPAT on par with prior year levels helped to keep the dividend at this level and within the range of the Board's payout ratio.

Kina's CEO and Managing Director, Greg Pawson said that "the result continues to demonstrate Kina's operational and execution alignment with our Strategic plan, successfully delivering diversified income streams, increased revenues in digital channels and solid growth in our core business. The business has also shown agility to adapt when necessary to deal with variability in conditions, such as tax rate changes, foreign currency supply inconsistency, and low domestic securities yields."

"We have just passed the half way point of our 2025 strategic plan. Executing sustainable growth on the core lending businesses through a targeted approach to segments has clearly stood out as a market winning plan in 2023. This has enabled our market share to improve by 4% in loans and 2% in deposits with a customer growth of 19%. Our digital revenues were +44% and the trajectory remains positive. We are confident that it will deliver more in the coming years. Merchant fees, online banking fees, EFTPOS usage and other digital led initiatives such as Digibnkr, Niupay and Pei beta, underline this strength."

Operating performance

Banking – Lending

Overall lending was up almost 20% against PCP with the loan book closing at PGK2.6bn. Growth in the Commercial segment was up 18%, this includes a strong year on year SME growth of 25% and Home lending up 8%. Growth in lending market share of 4%, bringing total market share to 16% with over PGK 700m of loans settled during the year. Home loans grew by 8% due to a market leading cash back offer that resonated strongly with our targeted segments. Term loans increased by 22%, with Kina running a very successful Re-Finance offer to onboard corporate and commercial customers. Asset Finance, was up 29%, although off a small base, this segment is set to achieve more impetus as major natural resource projects enter construction phase in the next 24 months.

The interest spread between loans and deposits has risen slightly to 7%, however exceptionally low yields on investments in government securities and bank bills have limited the Net Interest Margin to 5.6% versus 6.0% for the December 2022 year.

Funds Under Administration – Revenue Growth of 56%

Kina's Funds Administration business partnered with a specialist technology provider to deliver features that enhance and modernize core member service platforms, which will enable Superfunds to execute digital solutions and processes in an end-to-end manner. Kina Investment Superannuation Services recorded an increase of 3% in total revenue associated with an increase in total funds under administration to PGK 18.0b and an increase of 5% in total membership.

Operating Expenses – Prudent Investment in Capabilities and operations

Total operating cost as at December 2023 was PGK 219.0m, an overall increase of 3%. Staff, administrative and occupancy costs contributed 40%, 37% and 18% respectively to total operating costs for the year.

Administrative expense increased by 22.0% to PGK 82.0m. The increase was primarily due to continued investment in technology capabilities combined with costs associated with an increase in customer and transactional activity, in line with our core digital strategy. Expenditure was also allocated to the Re-imagining Risk initiative, matching risk culture and management processes to evolving operational risks. Brand and marketing campaigns were launched to promote some new initiatives in digital onboarding and payments.

Staff expenses increased by 0.9% to PGK 86.6m. This reflects the bank's focus in embedding capability in emerging areas of risk and cybersecurity, and responding with resources for short term revenue opportunities presented by volatile market conditions.

PNG Operating Landscape – Corporate Tax implications

The PNG government's increase in Corporate Income Tax for commercial banks from 30% to 45% came into effect on 1 January 2023, and despite indications that further consultations would continue with the banking industry in the first half of 2023, the tax remained in place for the financial year.

In 2023, the impact of the higher tax rate has had an adverse impact on the bank's results, in that Kina's near 20% increase in profit before tax for the year, has been entirely consumed by it.

Delivering on 2025

Strategic Plan – Driving our strategic pillars to deliver prosperity for our communities

Kina Bank is tracking well to deliver on our 2025 strategic plan. Now embedded as the primary challenger brand, our market share and digital footprint continue to grow. Our mission to deliver prosperity for the communities we serve remains central to our purpose, these initiatives include:

- Auditing of all branch locations to ensure our service and product offerings are accessible and inclusive.
- Revamping of flagship branch and key locations to provide a better experience for our customers.
- Enhancing ICT (Information, Communications and Technology) infrastructure and capabilities.
- Expanding our footprint beyond Papua New Guinea.

Investor Briefing: The KSL Investor Briefing is scheduled for Wednesday 28th at 2.00pm (Port Moresby), 3.00pm (Sydney) via the following link https://s1.c-conf.com/diamondpass/10037190-59b6gi.html

For further information:

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