



Absa Kenya Q1'25 Earnings Note

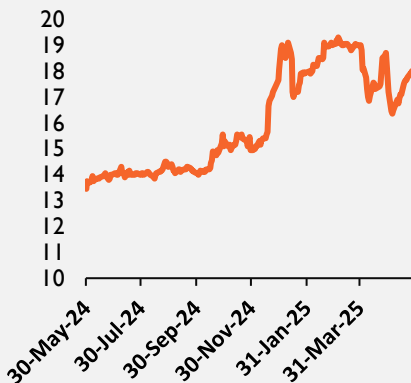
ABSA Bank Q1'25 Earnings Note

June 3rd, 2025

Ticker Information

NSE Code:	ABSA
Issued Shares (Bn):	5.43
52-week high:	KES 19.30
52-week low:	KES 13.45

Chart 1: Price Trend (Last 12 Months)



Source: NSE, AIB-AXYS Research

Historical Share Performance

Last	1M	3M	6M	12M
Change	-0.8%	-5.3%	17.6%	33.8%

Source: NSE, AIB-AXYS Research

Recommendation

BUY

Current Price

KES 18.30

Target Price

KES 21.42

Summary

- **ABSA Bank reported a 3.7% y/y growth in net earnings for the first three months of the year, reaching KES 6.17 Bn.** This performance was chiefly buoyed by improved efficiency, reflected in a significant 12.5% y/y decline in total operating expenses. Additionally, a substantial 39.0% y/y reduction in impairment provisions further boosted earnings. Notably, net interest income remained subdued during the period, declining by 1.1% y/y, as interest rates continued to soften following the government's dovish shift on monetary policy since August last year.
- Key to note, trailing average return on equity improved by 0.2%. Additionally, as Non-Performing Loans continued to pile the lender remained vigilant by increasing the coverage to 65.2%

Key Highlights

- **Soft Net Interest Performance as Dovish Policy Bites:** Net interest income (NII), a key driver of earnings, dipped slightly by 1.1% y/y to KES 11.26 Bn amid declining lending rates, compounded by a 5.6% y/y drop in loans and advances. Notably, interest income from loans fell sharply by 14.7% y/y to KES 11.49 Bn, while government securities delivered a robust 45.3% y/y rebound to KES 3.2 Bn. Non-Funded Income declined 11.1% y/y to KES 4.51 Bn, pressured by a 28.3% y/y contraction in FX trading income to KES 1.54 Bn as a stable Kenyan shilling squeezed trading margins. Additionally, fees and commissions on loans plummeted 29.3% y/y. Notably, the cost of funds remained stable at 4.5%
- **Deteriorating Asset Quality:** Gross Non-Performing Loans (NPLs) rose 13.4% y/y to KES 44.0 Bn, reflecting persistent borrower challenges in a tough macroeconomic environment. This pushed the NPL ratio up 2.0% points to 13.1%. The bank maintained vigilance against the rising NPLs, improving its NPL coverage ratio by 290 bps y/y to 65.2%, supported by a 16.1% increase in provisions to KES 21.0 Bn

Balance Sheet Dynamics

Total assets grew 4.5% y/y to KES 520.20 Bn, with government securities surging 68.0% to KES 144.05 Bn as the bank prioritized safer investments amid borrower challenges in meeting debt obligations. The loan book contracted 5.6% y/y to KES 308.38 Bn despite low interest rates, reflecting the bank's caution on asset quality following rising NPLs; we anticipate loan book expansion as lending rates remain attractive, however at a slower pace than the growth in government securities placement. On the liabilities side, customer deposits rose 4.6% y/y to KES 427.65 Bn. Despite this growth, deposit interest expenses fell 20.5% y/y to KES 3.38 Bn, we expect this to stabilize funding costs through the year.

Operating Efficiency

Operating efficiency weakened slightly, with the cost-to-income ratio (ex-provisions) rising 110bps y/y to 35.0%. This was driven by a sharp 4.2% y/y decline in operating income, which outpaced the modest 1.0% reduction in pre-provision operating expenses. Notably, staff costs fell 2.6% y/y to KES 2.91 Bn, reflecting the bank's ongoing payroll optimization efforts.

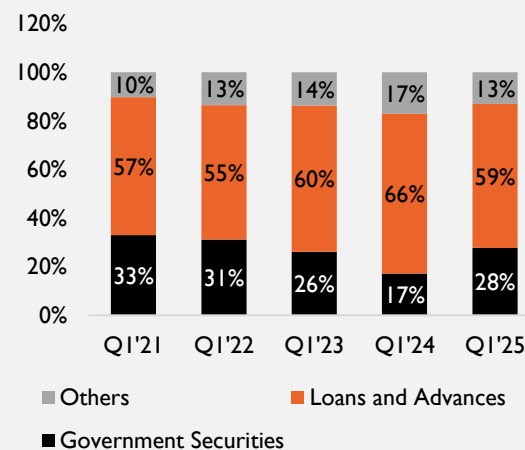
Outlook

Looking ahead, we expect ABSA Bank's strong core business to sustain its growth trajectory. Diversification will be a critical growth driver, particularly through subsidiary expansion and a resilient asset management segment. We expect innovation and digitization to accelerate growth as the bank continues introducing customer-centric digital products to expand its market reach. These initiatives, combined with ongoing operational efficiency improvements, will support margin expansion. We anticipate loan book growth, supported by attractive lending rates and digital lending platforms like Timiza. Additionally, the bank's prudent risk management is evident in its NPL ratio, which remains below the industry average.

Recommendation

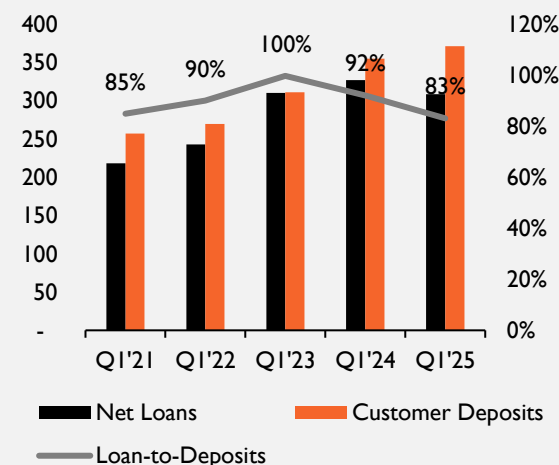
- **We maintain our BUY recommendation on ABSA Bank Kenya on account of strong return on equity, revenue growth momentum and impressive operational efficiency.** At the current market price, the stock is trading at P/E ratio of 4.7x and a P/B ratio of 1.1x. Our one-year target price for ABSA currently stands at KES 21.42- representing a c.17.1% upside potential from current levels.

Chart 2: Asset Composition



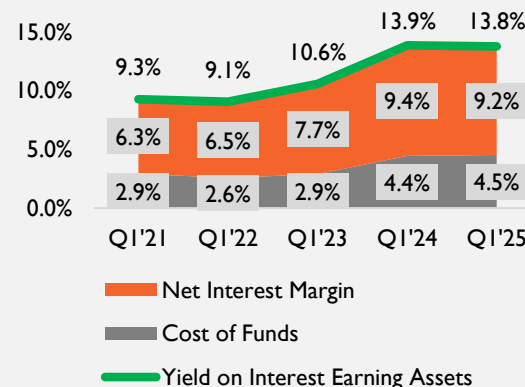
Source: Company filings, AIB-AXYS Research.

Chart 3: Faster Deposit Mobilization



Source: Company filings, AIB-AXYS Research.

Chart 4: Shrinking Net Interest Margin



Source: Company filings, AIB-AXYS Research.

Income Statement (KES Bn)	Q1'21	Q1'22	Q1'23	Q1'24	Q1'25	y/y % Change
Net Interest Income	5.96	6.88	9.36	11.39	11.26	▼ (1.1%)
Net non-Interest Income	2.85	3.02	4.50	5.08	4.51	▼ (11.1%)
Total Operating income	8.82	9.90	13.86	16.46	15.77	▼ (4.2%)
Provision for Impairment	(1.39)	(1.18)	(2.40)	(2.40)	(1.47)	▼ (39.0%)
Total Operating expenses	(5.41)	(5.60)	(7.44)	(7.98)	(6.99)	▼ (12.5%)
Profit before tax	3.41	4.30	6.42	8.48	8.78	▲ 3.6%
Profit after tax	2.42	2.95	4.45	5.95	6.17	▲ 3.7%
Annualized EPS	1.78	2.18	3.28	4.38	4.54	▲ 3.7%

Balance Sheet (KES Bn)	Q1'21	Q1'22	Q1'23	Q1'24	Q1'25	y/y % Change
Government Securities	126.74	136.73	134.26	85.73	144.05	▲ 68.0%
Loans and Advances	218.27	242.67	309.97	326.84	308.38	▼ (5.6%)
Total Assets	384.09	438.50	514.60	497.68	520.20	▲ 4.5%
Customer Deposits	257.07	269.54	310.83	354.96	371.19	▲ 4.6%
Total Liabilities	335.43	379.35	446.62	422.65	427.65	▲ 1.2%
Shareholder's Funds	48.66	59.15	67.98	75.02	92.55	▲ 23.4%

Ratio Analysis	Q1'21	Q1'22	Q1'23	Q1'24	Q1'25	y/y % Change
Spreads Analysis						
Yield on Assets	9.3%	9.1%	10.6%	13.9%	13.8%	▼ (0.1%)
Cost of Funds	2.9%	2.6%	2.9%	4.4%	4.5%	▲ 0.1%
Net Interest Margin	6.3%	6.5%	7.7%	9.4%	9.2%	▼ (0.2%)
ROaE	10.2%	21.2%	25.3%	25.0%	25.2%	▲ 0.2%
ROaA	1.2%	2.8%	3.4%	3.5%	4.1%	▲ 0.6%
Profit Margin	27.5%	29.8%	32.1%	36.1%	39.1%	▲ 3.0%

Operating Efficiency						
Cost to Income Less LLP	45.5%	44.6%	36.3%	33.9%	35.0%	▲ 1.1%
Cost to Assets Less LLP	1.0%	1.1%	1.1%	1.1%	1.1%	▼ (0.0%)
Loan to Deposit Ratio	84.9%	90.0%	99.7%	92.1%	83.1%	▼ (9.0%)

Asset Quality						
Gross NPL Ratio	7.5%	7.6%	7.5%	11.1%	13.1%	▲ 2.0%
NPL Coverage	73.4%	76.2%	80.5%	62.3%	65.2%	▲ 2.9%
Cost of Risk	0.6%	0.5%	2.3%	0.7%	0.5%	▼ (0.3%)

Capital Adequacy						
Core Capital/TRWA	14.4%	14.5%	14.6%	14.2%	17.3%	▲ 3.1%
Total Capital /TRWA	17.0%	17.0%	18.6%	17.9%	20.4%	▲ 2.5%
Liquidity	38.3%	36.7%	34.0%	33.5%	46.9%	▲ 13.4%

CONTACTS**Research Desk**Email: research@aib-axysafrica.com**Equities Dealing**Email: trading@aib-axysafrica.com**Bond Dealing**Email: trading@aib-axysafrica.com**Derivatives Trading**Email: Derivapplications@aib-axysafrica.com**Disclaimer**

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