



**Absa Kenya
FY'24 Earnings
Note**



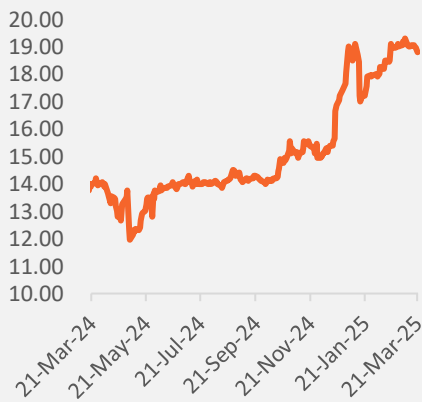
ABSA Bank FY'24 Earnings Note

March 24th, 2024

Ticker Information

NSE Code:	ABSA
Issued Shares (Bn):	5.43
52-week high:	KES 19.95
52-week low:	KES 10.00

Chart 1: Price Trend (Last 12 Months)



Source: NSE, AIB-AXYS Research

Historical Share Performance

	Last	1M	3M	6M	12M
Change	-0.8%	11.6%	31.5%	34.3%	

Source: NSE, AIB-AXYS Research

Recommendation

BUY

Current Price

KES 18.80

Target Price

KES 21.20

Summary

- **ABSA Bank registered a notable 27.5% y/y growth in net earnings to KES 20.88Bn in FY'24. Growth was augmented by a 15.4% y/y increase in total operating income, with the wealth and consumer banking propositions each recording double-digit growth.** Net interest margins widened by 80bps to 9.6%, buoyed by high reinvestment returns on interest earnings assets, with the bank capitalizing on the elevated yields offered by government securities in the high-interest environment. The trailing return on equity increased 80bps to 24.5% while the training return on assets rose 80bps to 4.1%.

Key Highlights

- **Strong Core Banking Performance:** Net Interest Income surged notably by 15.4% y/y to KES 46.23Bn underpinned by a 20.6% y/y increase in interest income from loans and advances, with the elevated interest rate environment prompting the bank to adjust lending rates higher in line with the risk-based pricing model. On the other hand, the elevated interest environment saw the cost of deposit mobilization rise, with the cost of funds witnessing a 110bps increase to 4.9%. Despite the rise in the cost of funds, the bank's net interest margin expanded by 80bps to 9.6%, driven by a shift in the deposit structure. Term deposits decreased by 500bps to 40% of total deposits during the year, helping to contain the cost of funds. Non-funded income registered a 10.8% y/y growth to KES 16.10Bn, driven by improved fees and commission income, further supplementing total operating income growth.
- **Asset Quality Under Pressure:** Gross Non-Performing Loans (NPLs) continued to expand significantly by 20.4% y/y to KES 42.5Bn – driving a 280bps increase in the gross NPL ratio to 12.6%. We believe the deterioration in asset quality was primarily caused by rising credit costs, which left many borrowers struggling to manage their high-interest repayments. Despite, the rise in NPLs, the NPL coverage improved by 20bps to 66.0%. Loan loss provision noted a 1.6% y/y decline to KES 9.10Bn, driven by foreign exchange benefits and increased recoveries, however, a contraction in the loan book saw the loan loss ratio rising to 2.9%.

Balance Sheet Dynamics

Customer deposits expanded marginally by 1.2% y/y to KES 367.11Bn, an increase the bank attributed to its expanding agency network and enhanced customer acquisition efforts. Conversely, the loan book contracted by 7.9%y/y to KES 309.10Bn, with the appreciation of the shilling leading to a devaluation of foreign-denominated credit. Additionally, we opine that the rise in default rates witnessed in FY'24 prompted the bank to be more conservative in its lending approach contributing to the decline. Asset allocation to government securities witnessed a 37.2%y/y rise to KES 130.59Bn, with the bank opting to capitalize on the attractive yields offered by the securities in the elevated interest rate environment.

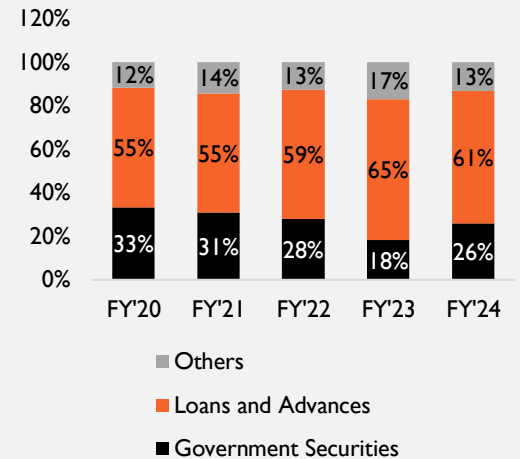
Outlook

We expect earnings momentum in the near term to be driven by improved consumer lending, supported by declining lending rates that are likely to stimulate credit growth. The lender is also expected to utilize its digital loan propositions to drive short-term loan growth, with its platform Timiza already realizing a 21% y/y increase in loan distribution to KES 25Bn. However, the upside potential for further lending growth may be constrained by the bank's adoption of stricter lending standards as it is expected to focus on enhancing its asset quality. Additionally, we expect interest income growth to face additional pressure from declining yields on interest-earning assets, as the central bank continues its monetary easing cycle, potentially leading to a compression in net interest margins in the short term. On a positive note, the bank's subsidiaries are projected to maintain their contribution to earnings growth, providing diversified revenue streams that support overall profitability.

Recommendation

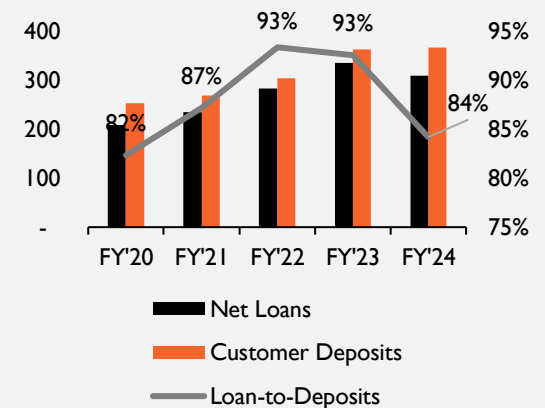
We maintain our BUY recommendation on ABSA Bank Kenya on account of its sustained growth momentum in return on equity, coupled with its resilience in revenue growth. At the current market price, the stock is trading at P/E ratio of 4.4x and a P/B ratio of 1.2x. Our one-year target price for ABSA currently stands at KES 21.20- representing a c.12.8% upside potential from current levels.

Chart 2: Shift in Asset Composition



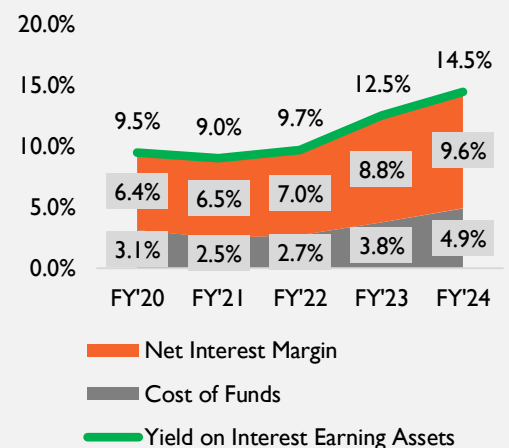
Source: Company filings, AIB-AXYS Research.

Chart 3: Slowdown in Deposit Mobilization



Source: Company filings, AIB-AXYS Research.

Chart 4: Widening Net Interest Margin



Source: Company filings, AIB-AXYS Research.

Income Statement (KES Bn)	FY'20	FY'21	FY'22	FY'23	FY'24	y/y % Change
Net Interest Income	23.38	25.26	32.32	40.04	46.23	▲ 15.4%
Net non-Interest Income	11.14	11.66	13.67	14.53	16.10	▲ 10.8%
Total Operating income	34.52	36.92	45.99	54.57	62.32	▲ 14.2%
Provision for Impairment	(9.03)	(4.71)	(6.48)	(9.24)	(9.10)	▼ (1.6%)
Total Operating expenses	(25.67)	(21.37)	(25.14)	(30.89)	(32.60)	▲ 5.5%
Profit before tax	5.65	15.55	20.85	23.68	29.72	▲ 25.5%
Profit after tax	4.16	10.87	14.59	16.37	20.88	▲ 27.5%
Annualized EPS	0.77	2.00	2.69	3.01	3.84	▲ 27.5%

Balance Sheet (KES Bn)	FY'20	FY'21	FY'22	FY'23	FY'24	y/y % Change
Government Securities	126.06	132.58	133.49	95.15	130.59	▲ 37.2%
Loans and Advances	208.85	234.23	283.58	335.71	309.10	▼ (7.9%)
Total Assets	379.44	428.69	477.23	519.80	506.48	▼ (2.6%)
Customer Deposits	253.63	268.72	303.75	362.75	367.11	▲ 1.2%
Total Liabilities	332.94	372.24	413.62	450.60	421.27	▼ (6.5%)
Shareholder's Funds	46.50	56.45	63.61	69.20	85.20	▲ 23.1%

Ratio Analysis	FY'20	FY'21	FY'22	FY'23	FY'24	y/y % Change
Spreads Analysis						
Yield on Assets	9.5%	9.0%	9.7%	12.5%	14.5%	▲ 1.9%
Cost of Funds	3.1%	2.5%	2.7%	3.8%	4.9%	▲ 1.1%
Net Interest Margin	6.4%	6.5%	7.0%	8.8%	9.6%	▲ 0.8%
ROaE	9.1%	21.1%	24.3%	23.7%	24.5%	▲ 0.8%
ROaA	1.1%	2.7%	3.2%	3.3%	4.1%	▲ 0.8%
Profit Margin	12.1%	29.4%	31.7%	30.0%	33.5%	▲ 3.5%
Operating Efficiency						
Cost to Income Less LLP	48.2%	45.1%	40.6%	39.7%	37.7%	▼ (2.0%)
Cost to Assets Less LLP	4.4%	4.1%	4.1%	4.3%	4.6%	▲ 0.2%
Loan to Deposit Ratio	82.3%	87.2%	93.4%	92.5%	84.2%	▼ (8.4%)
Asset Quality						
Gross NPL Ratio	7.7%	7.9%	7.5%	9.8%	12.6%	▲ 2.8%
NPL Coverage	71.1%	77.7%	80.5%	65.8%	66.0%	▲ 0.2%
Cost of Risk	4.3%	2.0%	2.3%	2.8%	2.9%	▲ 0.2%
Capital Adequacy						
Core Capital/TRWA	14.7%	14.6%	14.6%	13.6%	17.0%	▲ 3.4%
Total Capital /TRWA	17.5%	17.1%	18.6%	18.1%	20.7%	▲ 2.6%
Liquidity	38.7%	38.3%	34.0%	31.1%	42.5%	▲ 11.4%

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