



# Earnings Note

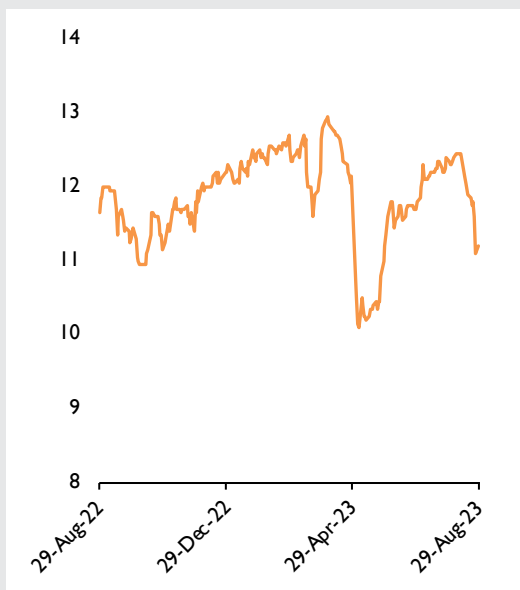


## Company details

|                           |         |
|---------------------------|---------|
| <b>Bloomberg Ticker</b>   | ABSA:KN |
| <b>NSE Code:</b>          | ABSA    |
| <b>Issued Shares (Bn)</b> | 5.43    |
| <b>52-week high:</b>      | 12.95   |
| <b>52-week Low</b>        | 10.10   |

As at 29<sup>th</sup> August 2023

### Price chart – Last 12 Months



AIB-AXYS Research, NSE

### Historical Price Performance

|                 | 1m            | 3m           | 6m            | 12m           |
|-----------------|---------------|--------------|---------------|---------------|
| <b>Absolute</b> | <b>-8.47%</b> | <b>3.18%</b> | <b>-9.20%</b> | <b>-2.58%</b> |

AIB-AXYS Research, NSE

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August 30<sup>th</sup> 2023

## Absa Bank Kenya HY'23 Earnings Note

**Recomm: BUY**

**Current Price: KES 11.35**

**Target Price: KES 14.72**

### Summary

- ABS A Group released their HY'23 earnings results posting a 31.95% and 31.90% climb in PAT and EPS respectively** to KES 8.31Bn and KES 1.53 per share respectively driven by a 33.23% increase in net interest income and a 25.66% increase in non-interest income. Trailing ROaE and ROaA improved to 27.67% and 3.50% respectively in HY'23. NIM's remained adequate at 8.99% while profit margin edged up 25bps y/y to 30.35%. In line with our expectations, the board of directors approved an interim dividend of KES 0.20 similar to the interim dividend paid out in HY'22. The book closure for the interim dividend is set for 21<sup>st</sup> September 2023 while the payment date is set for 12<sup>th</sup> October 2023.
- Loan book grew 21.57% y/y to KES 317.95Bn faster than the 18.08% y/y growth in the customer deposits to KES 332.60Bn** leading to a 274bps y/y increase in the loan deposit ratio to 95.59% from 92.85% recoded in HY'22. On a q/q basis, we observed customer deposits growing by 4.43% faster than the loan book attributable to enhanced efficiency in customer deposit mobilization. Despite a minimum statutory requirement of 20.00%, the lenders liquidity ratio dropped 160bps y/y to close HY'23 at 28.70% pointing to a rising liquidity risk. We observed a 2.11% q/q decline in the balance sheet to KES 503.74Bn attributable to the 13.60% q/q decrease in allocation to government securities. On a y/y basis, allocation to government securities declined 393bps to KES 116.00Bn which we attribute to sovereign risks concerns driving portfolio restructuring.

### Key Highlights

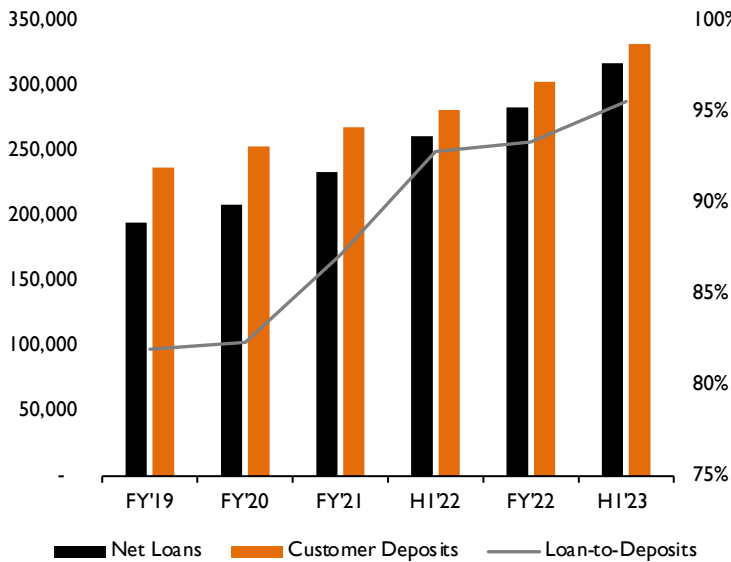
- Net Interest Income Growth Outpaced Non-Funded Income:** Net interest income grew 33.23% y/y to KES 19.22Bn faster than the 25.66% y/y increase in non-funded income to KES 8.14Bn primarily driven by increased income from loans following the implementation of risk-based pricing model. The ongoing dollar shortage in the forex market has created arbitrage for the lender leading to an 80.21% y/y growth in forex trading income to KES 3.76Bn. Net interest income growth was weighed down by a 50.33% y/y increase in interest expense compared to the 36.94% y/y growth in interest income signaling an increased cost of deposit mobilization. On a trailing basis, Yield on assets grew 189bps y/y to 11.54% as interest income grew faster than interest earning assets in the year. Cost of funds edged up 40bps y/y to 3.03% given the rising interest environment. Consequently, NIMs increase 141bps y/y to 8.99%.
- Digital Channels Boosts Efficiency:** The Cost to Income ratio less impairment improved by 523bps on a year-on-year basis to 37.05% from 42.27%. CTI improvement was attributable to a faster growth in operating income by 30.88% y/y to KES 27.36Bn compared to a 29.66% y/y climb in operating expenses to KES 15.29Bn. We noted managements commitment to forward looking provisioning. As such, loan loss provisions increased 74.42% y/y to KES 5.16Bn indicating increased lending risk outlook despite the implementation of risk-based lending.
- Asset Quality Concerns persist:** Gross NPLs sharply increased by 62.59% y/y to KES 32.18Bn, faster than the loan book growth, leading to the NPL ratio increasing by 231bps y/y to 9.46%, lower than the latest industry average of 14.50%. NPL coverage deteriorated 919bps to 69.35% from 78.54% in HY'22. Cost of risk was up 49bps y/y to 1.62% driven by larger provisioning. We expect asset quality to remain challenged by the tough operating and macro environment which weighs down on borrowers' ability to payback.

**Outlook** – We maintain a positive outlook for the lender’s H2’23 driven by strong performance in its core banking business as well as increased lending through digital channels. We expect the lenders future growth to be driven by 1) Enhanced digital channels driving customer deposit mobilization and lending specifically from Timiza Digital Loans product 2) Implementation of the risk-based pricing which will continue to drive loan book growth and interest income 3) Non-Funded Income growth will be driven by forex trading income and fees and commissions from asset management and bancassurance business lines. However, we remain concerned about the lenders declining asset quality.

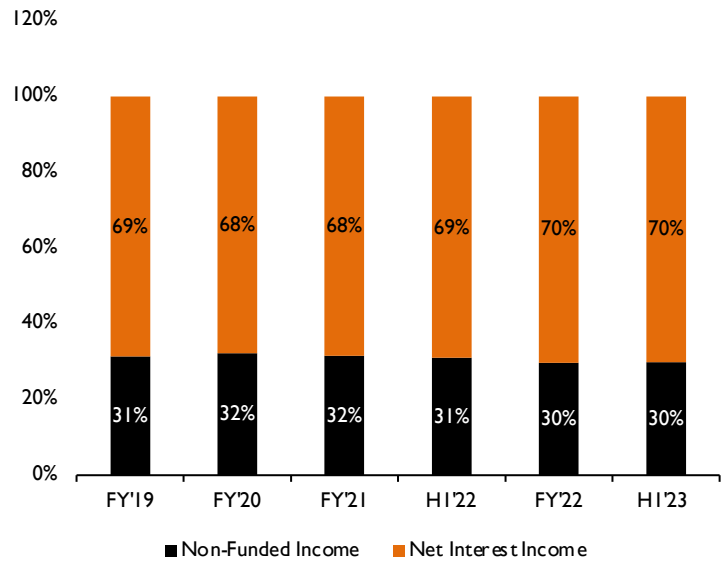
**Valuation** – ABSA is currently trading at P/B multiple of 0.97x with a P/E 3.71x. The counter closed yesterday's trading at KES 11.35 being a YTD decline of 7.72%. We expect the impressive results and the interim dividend to excite investors and is likely to lead to a share price rally in the coming days. As such, we maintain our BUY recommendation on the counter given the upside potential.

## Absa Bank HY’23 Earnings Charts

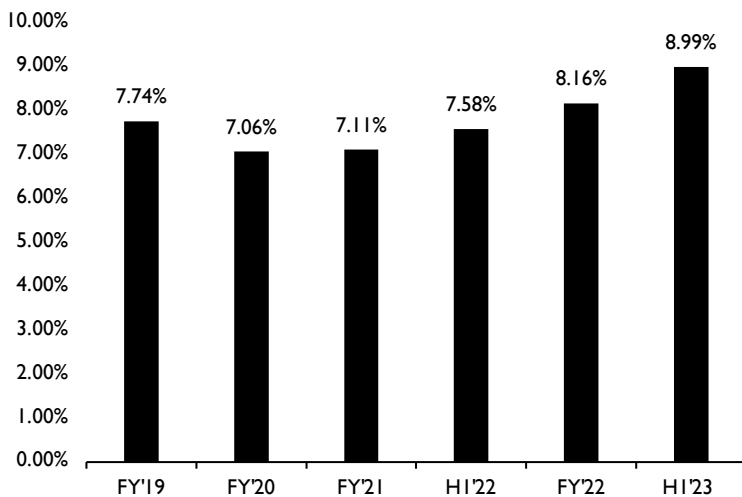
Graph 1: Customer Deposits continue to drive Balance sheet growth



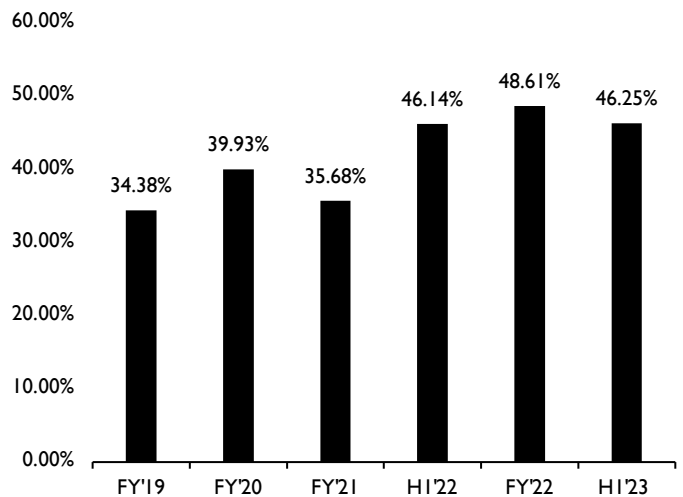
Graph 2: Revenue mix continues to favour Net Interest Income



Graph 3: We observed a slight uptick in Net Interest Margins



Graph 4: Forex Income as a % of Non-Funded Income grew significantly



Source: NSE, CBK, Company Filings, AIB-AXYS Analyst Estimates

## Financial Statement Summary

### I. Statement of Profit and Loss

| Income Statement              | FY'19            | FY'20            | FY'21            | HI'22            | FY'22            | HI'23            | y/y % Change  |
|-------------------------------|------------------|------------------|------------------|------------------|------------------|------------------|---------------|
| Net Interest Income           | 23,178.54        | 23,381.25        | 25,256.91        | 14,429.75        | 32,315.36        | 19,224.65        | 33.23%        |
| Net non-Interest Income       | 10,588.31        | 11,140.30        | 11,664.53        | 6,477.08         | 13,672.58        | 8,138.83         | 25.66%        |
| <b>Total Operating income</b> | <b>33,766.85</b> | <b>34,521.56</b> | <b>36,921.44</b> | <b>20,906.82</b> | <b>45,987.94</b> | <b>27,363.49</b> | <b>30.88%</b> |
| Provision for Impairment      | (4,200.59)       | (9,026.77)       | (4,709.21)       | (2,955.67)       | (6,479.52)       | (5,155.42)       | 74.42%        |
| Total Operating expenses      | (21,485.62)      | (25,673.34)      | (21,372.49)      | (11,793.72)      | (25,138.62)      | (15,292.25)      | 29.66%        |
| <b>Profit before tax</b>      | <b>12,281.24</b> | <b>5,646.23</b>  | <b>15,548.95</b> | <b>9,113.10</b>  | <b>20,849.31</b> | <b>12,071.24</b> | <b>32.46%</b> |
| <b>Profit after tax</b>       | <b>7,456.08</b>  | <b>4,162.01</b>  | <b>10,869.97</b> | <b>6,294.04</b>  | <b>14,587.17</b> | <b>8,305.18</b>  | <b>31.95%</b> |
| Core EPS (Adjusted)           | 1.37             | 0.77             | 2.00             | 2.32             | 2.69             | 3.06             | 31.95%        |
| DPS                           | 1.10             | -                | 1.10             | 0.20             | 1.35             | 0.20             | 0.00%         |

### 2. Statement of Financial Position

|                            | FY'19             | FY'20             | FY'21             | HI'22             | FY'22             | HI'23             | y/y % Change  |
|----------------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|---------------|
| Government Securities      | 122,995.77        | 126,057.21        | 132,576.10        | 120,755.91        | 133,490.05        | 116,004.40        | -3.93%        |
| Loans and Advances         | 194,894.94        | 208,854.69        | 234,234.08        | 261,535.62        | 283,578.54        | 317,946.67        | 21.57%        |
| <b>Total Assets</b>        | <b>373,981.79</b> | <b>379,440.68</b> | <b>428,689.60</b> | <b>445,288.35</b> | <b>477,233.94</b> | <b>503,738.99</b> | <b>13.13%</b> |
| Customer Deposits          | 237,738.65        | 253,630.11        | 268,716.65        | 281,668.66        | 303,751.00        | 332,599.69        | 18.08%        |
| Total Liabilities          | 328,792.38        | 332,936.74        | 372,242.21        | 389,048.61        | 413,620.92        | 439,998.33        | 13.10%        |
| <b>Shareholder's Funds</b> | <b>45,189.42</b>  | <b>46,503.94</b>  | <b>56,447.39</b>  | <b>56,239.74</b>  | <b>63,613.02</b>  | <b>63,740.66</b>  | <b>13.34%</b> |

### 3. Key Metrics

|                             | FY'19  | FY'20   | FY'21   | HI'22  | FY'22  | HI'23  |
|-----------------------------|--------|---------|---------|--------|--------|--------|
| <b>Growth Metrics (y/y)</b> |        |         |         |        |        |        |
| Loan book Growth            | 9.89%  | 7.16%   | 12.15%  | 19.49% | 21.07% | 21.57% |
| Customer Deposits Growth    | 14.62% | 6.68%   | 5.95%   | 6.72%  | 13.04% | 18.08% |
| PAT Growth                  | 0.54%  | -44.18% | 161.17% | 12.96% | 34.20% | 31.95% |
| <b>Spreads Analysis</b>     |        |         |         |        |        |        |
| Yield on Assets             | 10.37% | 9.49%   | 9.02%   | 9.65%  | 10.32% | 11.54% |
| Cost of Funds               | 3.45%  | 3.13%   | 2.48%   | 2.63%  | 2.69%  | 3.03%  |
| Net Interest Margin         | 7.74%  | 7.06%   | 7.11%   | 7.58%  | 8.16%  | 8.99%  |
| ROaE                        | 16.68% | 9.08%   | 21.12%  | 21.43% | 24.30% | 27.67% |
| ROaA                        | 2.13%  | 1.10%   | 2.69%   | 2.75%  | 3.22%  | 3.50%  |
| Profit Margin               | 22.08% | 12.06%  | 29.44%  | 30.11% | 31.72% | 30.35% |
| <b>Operating Efficiency</b> |        |         |         |        |        |        |
| Cost of Income Less LLP     | 51.19% | 48.22%  | 45.13%  | 42.27% | 40.57% | 37.05% |
| Cost of Assets              | 4.95%  | 4.42%   | 4.12%   | 2.10%  | 4.12%  | 2.14%  |
| Loan to Deposit             | 81.98% | 82.35%  | 87.17%  | 92.85% | 93.36% | 95.59% |
| <b>Asset Quality</b>        |        |         |         |        |        |        |
| NPL                         | 6.58%  | 7.74%   | 7.94%   | 7.14%  | 7.46%  | 9.46%  |
| NPL Coverage                | 77.00% | 71.09%  | 77.73%  | 78.54% | 80.55% | 69.35% |
| Cost of Risk                | 2.16%  | 4.32%   | 2.01%   | 1.13%  | 2.28%  | 1.62%  |
| <b>Capital Adequacy</b>     |        |         |         |        |        |        |
| Core Capital/TRWA           | 13.90% | 14.70%  | 14.60%  | 14.00% | 14.60% | 13.50% |
| Total Capital /TRWA         | 16.60% | 17.50%  | 17.10%  | 16.40% | 18.60% | 17.70% |
| Liquidity                   | 39.80% | 38.70%  | 38.30%  | 30.30% | 34.00% | 28.70% |

Source: Company Filings, AIB-AXYS Estimates



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