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Earnings Note

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Stock Update

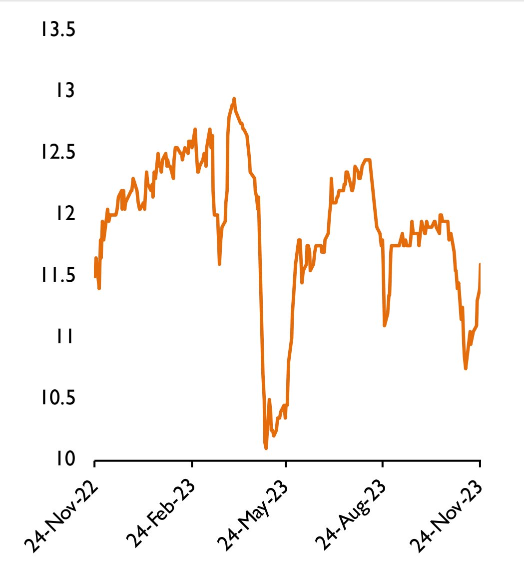
Result Update

Company details

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

As at 24th November 2023

Price chart – Last 12 Months



AIB-AXYS Research, NSE

Historical Price Performance

	1m	3m	6m	12m
Absolute	**-2.93%**	**0.00%**	**11.00%**	**0.87%**

AIB-AXYS Research, NSE

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November 27th 2023

Absa Bank Kenya Q3'23 Earnings Note

Recommendation:	Current Price:	Target Price:
BUY	**KES 11.60**	**KES 14.72**

Summary

- **ABSA Group released their Q3'23 net earnings results posting a 14.86% and climb in PAT** to KES 12.31Bn. The trailing EPS however eased 250bps to KES 2.98 per share over the quarter. Performance was driven by a 25.99% surge in net interest income and a 6.41% increase in non-interest income. Trailing ROaE and ROaA improved to 25.77% and 3.28% respectively in Q3'23. The group's net interest margin (NIM) trimmed 11bps q/q to 8.40% while profit margin edged down by 29bps to 30.71%.

- **Customer deposits grew 26.06% y/y to KES 353.31Bn faster than the 14.33% y/y growth in the loan book to KES 330.93Bn** leading to a 958bps y/y decrease in the loan deposit ratio to 93.40% from 102.98% recorded in Q3'22. Similarly on a q/q basis, we observed 2.44% faster growth in customer deposits compared to loan book expansion - attributable in part, to enhanced efficiency in deposit mobilization. Despite the 23.76% y/y decline in the stock of government securities, we noted a counterintuitive 66bps y/y rise in income from government securities – implying bond portfolio restructuring to prune away lower-yielding securities.

Key Highlights

- **Net Interest Income Growth Outpaced Non-Funded Income:** Net interest income grew 25.99% y/y to KES 29.32Bn faster than the 6.41% y/y increase in non funded income to KES 10.83Bn primarily driven by increase interest income from loans following the implementation of risk-based pricing model. Incomes from forex trading declined 2.28% y/y to KES 4.86Bn on account of a decline in FX volumes over the period. Net interest income growth was driven by a 62.18% y/y surge in interest income compared to the 33.46% y/y jump in interest expenses. Growth in interest income came largely on the back of organic growth in lending and upward loan repricing under the risk-based lending regime. On a trailing basis, yield on interest earning assets accelerated 211bps y/y to 11.66% - reflecting rising reinvestment returns. The overall cost of funds rose marginally by 54bps y/y to 3.27% - signaling inexpensive deposit mobilization over the period. Consequently, the Group's net interest margins (NIM) widened 156bps y/y to 8.40%.

- **Sustained Operational Efficiency:** The cost to income ratio (excluding loan-loss provisions) eased 96bps y/y to 38.72% from 39.69% - attributable to a faster growth in operating incomes by 29.46% y/y to KES 40.15Bn compared to the 17.12% y/y climb in pre-provision operating costs to KES 15.55Bn. We noted management's commitment to dial up forward loan-loss provisions by 34.33% y/y to KES 6.76Bn - signaling a cautious credit risk outlook despite the ongoing implementation of risk-based lending.

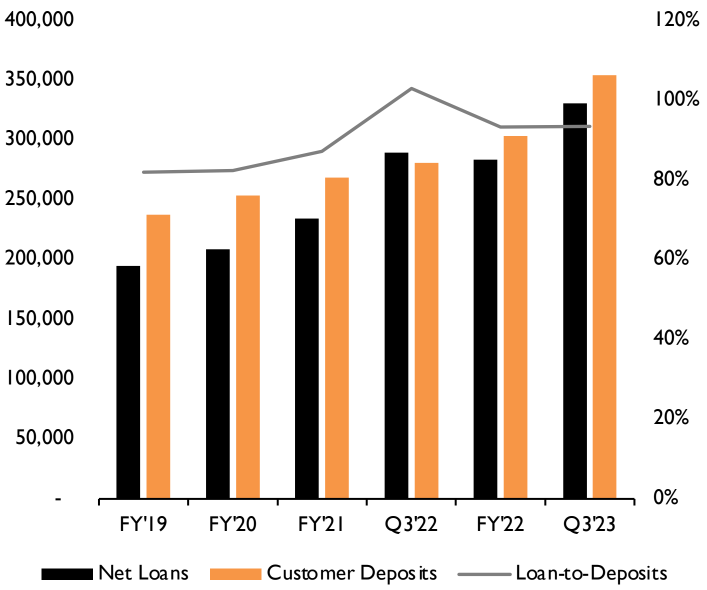
- **Asset Quality Under Pressure:** Gross NPLs surged by 72.41% y/y to KES 34.55Bn, faster than the 14% loan book growth leading to a 277bps y/y acceleration in the NPL ratio to 8.81% - albeit lower than the latest industry average of 15.00%. NPL coverage significantly deteriorated by 12.54% y/y to 67.44% from 79.99% in Q3'22. Cost of risk marginally increased by 30bps y/y to 2.04% driven by augmented provisioning. We expect asset quality to remain challenged amid a tough operating environment - weighing down on borrowers' repayment ability.

Outlook – We maintain a positive outlook for the lender's FY'23 primarily fueled by strong performance in its core banking business and a rise in lending through digital channels. We anticipate the lenders future growth to be driven by 1) Increased customer deposit mobilization and lending through enhanced digital channels, particularly the Timiza Digital Loans product; 2) Implementation of the risk-based pricing which will continue to drive loan book expansion and interest income growth 3) We expect non-funded income (NFI) growth to be driven by fees and commissions from asset management and bancassurance business lines. However, we remain concerned about the lender's pressurized asset quality.

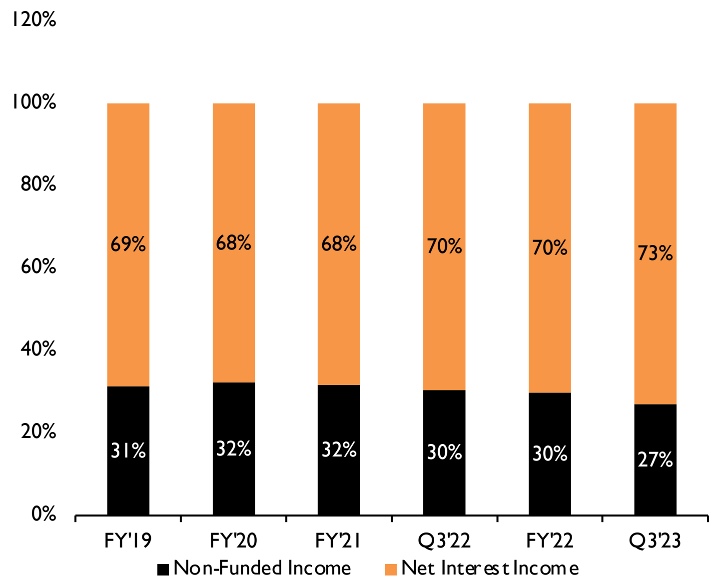
Valuation – ABSA is currently trading at P/B multiple of 0.96x with a P/E 4.10x. The counter closed the last trading session at KES 11.60 being a YTD decline of 5.69%. We maintain our **BUY** recommendation on the counter with a target price of KES 14.72 representing a 26.90% upside from the last trading session's closing price.

Absa Group Q3'23 Earnings Charts

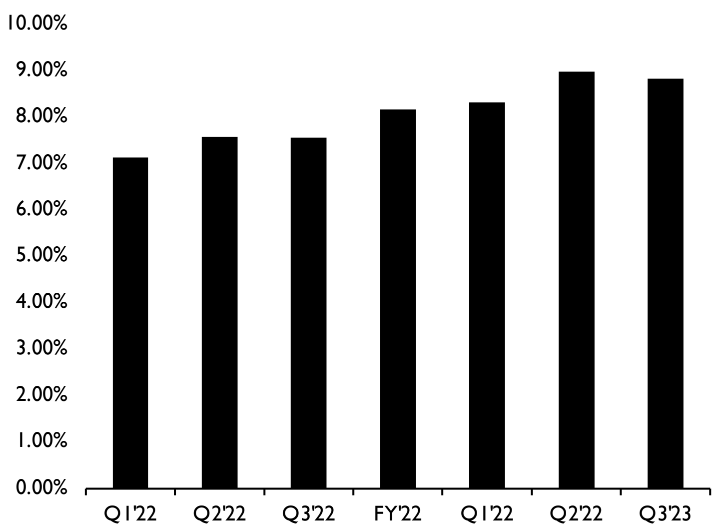
Graph 1: Customer Deposits continue to drive balance sheet growth



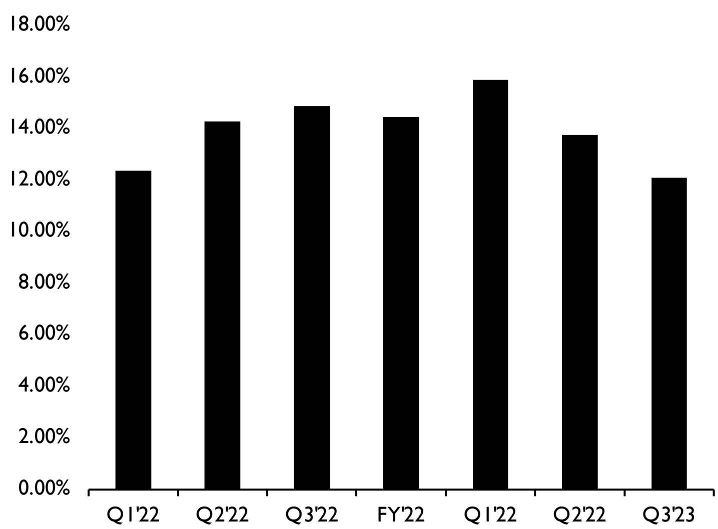
Graph 2: Revenue mix tilted in favor of Net Interest Income



Graph 3: We observed a mild q/q narrowing in Net Interest Margins



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



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

Financial Statement Summary

1. Statement of Profit and Loss

Income Statement	FY'19	FY'20	FY'21	Q3'22	FY'22	Q3'23	y/y % Change
Net Interest Income	23,178.54	23,381.25	25,256.91	23,274.78	32,315.36	29,324.24	25.99%
Net non-Interest Income	10,588.31	11,140.30	11,664.53	10,175.07	13,672.58	10,827.18	6.41%
Total Operating income	33,766.85	34,521.56	36,921.44	33,449.85	45,987.94	40,151.41	20.03%
Provision for Impairment	(4,200.59)	(9,026.77)	(4,709.21)	(5,034.00)	(6,479.52)	(6,762.36)	34.33%
Total Operating expenses	(21,485.62)	(25,673.34)	(21,372.49)	(18,309.20)	(25,138.62)	(22,310.86)	21.86%
Profit before tax	12,281.24	5,646.23	15,548.95	15,140.65	20,849.31	17,840.56	17.83%
Profit after tax	7,456.08	4,162.01	10,869.97	10,713.48	14,587.17	12,305.39	14.86%
Core EPS Annualized	1.37	0.77	2.00	2.47	2.69	2.83	14.86%

2. Statement of Financial Position

	FY'19	FY'20	FY'21	Q3'22	FY'22	Q3'23	y/y % Change
Government Securities	122,995.77	126,057.21	132,576.10	139,826.10	133,490.05	106,606.25	-23.76%
Loans and Advances	194,894.94	208,854.69	234,234.08	289,446.84	283,578.54	330,932.45	14.33%
Total Assets	373,981.79	379,440.68	428,689.60	481,347.40	477,233.94	504,924.10	4.90%
Customer Deposits	237,738.65	253,630.11	268,716.65	281,058.60	303,751.00	354,311.71	26.06%
Total Liabilities	328,792.38	332,936.74	372,242.21	421,086.04	413,620.92	439,611.31	4.40%
Shareholder's Funds	45,189.42	46,503.94	56,447.39	60,261.36	63,613.02	65,312.79	8.38%

3. Key Metrics

	Q1'22	Q2'22	Q3'22	FY'22	Q1'22	Q2'22	Q3'23
Growth Metrices (y/y)							
Loan book Growth	11.18%	19.49%	26.35%	21.07%	27.73%	21.57%	14.33%
Customer Deposits Growth	4.85%	6.72%	4.55%	13.04%	15.32%	18.08%	26.06%
PAT Growth	22.05%	12.96%	30.07%	34.20%	50.75%	31.95%	14.86%
Spreads Analysis							
Yield on Assets	9.05%	9.65%	9.56%	10.32%	10.58%	11.54%	11.66%
Cost of Funds	2.57%	2.63%	2.72%	2.69%	2.89%	3.03%	3.27%
Net Interest Margin	6.48%	7.02%	6.83%	7.63%	7.69%	8.51%	8.40%
ROaE	21.16%	21.43%	23.23%	24.30%	25.31%	27.67%	25.77%
ROaA	2.77%	2.75%	2.99%	3.22%	3.38%	3.50%	3.28%
Profit Margin	30.00%	28.99%	31.00%	31.72%	32.21%	31.65%	30.71%
Operating Effiency							
Cost of Income Less LLP	44.65%	42.27%	39.69%	40.57%	36.35%	37.05%	38.72%
Cost of Assets Less LLP	1.07%	2.10%	2.97%	4.12%	1.06%	2.14%	3.15%
Loan to Deposit	90.03%	92.85%	102.98%	93.36%	99.72%	95.59%	93.40%
Asset Quality							
NPL	7.06%	6.64%	6.03%	6.25%	8.59%	8.66%	8.81%
NPL Coverage	76.18%	78.54%	79.99%	80.55%	63.87%	69.35%	67.44%
Cost of Risk	1.85%	2.19%	2.19%	2.28%	2.48%	2.73%	2.48%
Capital Adequency							
Core Capital/TRWA	14.50%	14.00%	13.80%	14.60%	14.10%	13.50%	13.40%
Total Capital /TRWA	17.00%	16.40%	16.20%	18.60%	18.10%	17.70%	17.70%
Liquidity	36.70%	30.30%	25.80%	34.00%	28.60%	28.70%	29.80%

Source: Company Fillings, AIB-AXYS Estimates

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