



Earnings Note

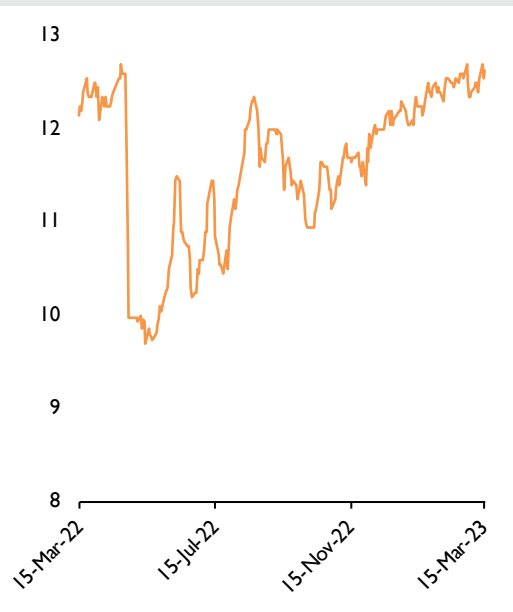


Company details

Bloomberg Ticker	ABSA:KN
NSE Code:	ABSA
Issued Shares (Bn)	5.43
52-week high:	12.70
52-week Low	9.70

As at 15th March 2023

Price chart – Last 12 Months



AIB-AXYS Research, NSE

Historical Price Performance

	1m	3m	6m	12m
Absolute	1.45%	4.81%	11.28%	3.10%

AIB-AXYS Research, NSE

Analysts

Solomon Kariuki

ks@aib-axysafrica.com

Faith Sang

fsang@aib-axysafrica.com

March 16th 2023

Absa Bank Kenya FY'22 Earnings Note

Recomm: BUY

Current Price: KES 12.63

Target Price: KES 14.83

Summary

- ABSA Group released their FY'22 earnings results posting a 34.28% & 34.20% climb in EPS & PAT respectively to KES 2.69/share and KES 14.59Bn respectively** driven by a 27.91% increase in net interest income and a 17.24% growth in non-interest income. Trailing ROaE & ROaA improved to 24.30% & 3.22% respectively in FY'22. NIMs remained adequate at 7.69% while the profit margin edged up 228bps y/y to 31.72%. In line with our expectation, the board of directors recommended a final dividend of KES 1.15 (Our estimates were KES 1.20) taking the total dividend paid out in FY'22 to KES 1.35 representing a 22.73% increase from KES 1.10 paid out in FY'21. The book closure of the dividends is set for 28th April 2023 while payment is expected to be made on 25th May 2023.
- Loan book grew 21.07% y/y to KES 283.58Bn faster than the 13.04% y/y growth in the customer deposits to KES 303.75Bn** leading to a 619bps growth in the loan deposit ratio to 93.36% from 87.17% recorded in FY'21. Despite a minimum statutory requirement of 20%, its liquidity ratio dropped 470bps to close FY'22 at 33.60% from 38.30% recorded the prior year pointing to rising liquidity risk. We observed a notable jump in income from the Consumer Banking Business (+19.00% to 3.78Bn), Corporate Business(+37.00% to 2.36Bn), Business banking (26.00% to 1.74Bn) and the Financial Services business (+29.00% to 1.18Bn) highlighting improved performance. Allocation to government securities grew 69bps y/y to 133.49Bn in FY'22 driven by hunt for higher yields. Fair Value changes through OCI recorded a 1.96x growth y/y to 2.92Bn highlighting the negative impact of rising yields on banks' government paper holdings.

Key Highlights

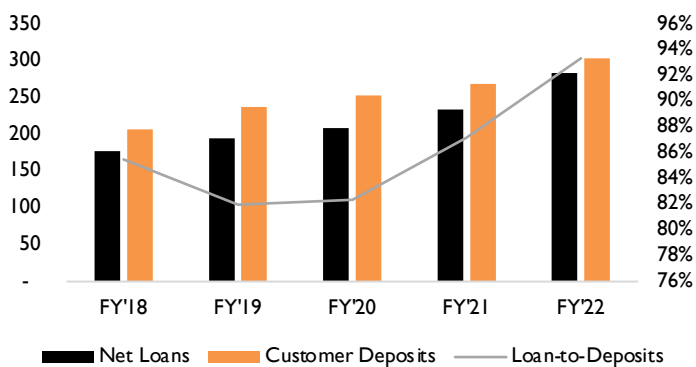
- Net interest Income Growth Outpaced Non-Funded Income:** Net Interest Income grew 27.91% y/y to 32.31Bn faster than a 17.24% y/y increase in Non-Funded income to 13.67Bn primarily driven by increased income from loans and advances, as well as interest income from government securities due to a recent uptick in government yields. The ongoing dollar shortage on the forex market has created market arbitrage for the lenders, as seen by the growth of forex trading income of 55.05% y/y to 6.45Bn. On a trailing basis, Yield on assets grew 115bps y/y to 10.17% as income from government papers grew faster than interest earning assets in the year. Cost of funds increased 62bps to 3.10% y/y attributable to the subordinated debt acquired in the 2H'22 totaling USD 50.00Bn.
- Digital transactions boosts efficiency:** The Cost to Income ratio less impairment fell 4.56% on a year-on-year basis to 40.57% mainly attributed to faster-operating income growth (+24.56% y/y) compared to a 11.16% y/y increase in staff costs to 10.49Bn. Contrary to FY'21 industry trend, Loan loss provisions grew 37.59% y/y to KES 6.48Bn indicating increased lending risk.
- Asset Quality Concerns persist:** Gross NPLs edged up 13.62% y/y to KES 22.52Bn, leading to the NPL ratio declining 47bps y/y to 7.46% albeit lower than the latest industry average of 13.30%. NPL coverage further improved 281bps to 80.55% from 77.73% in FY'21. Cost of risk was up 27bps to close FY'22 at 2.28% vs 2.01% recorded in FY'21 driven by larger provisioning.

Outlook – Efficiency improvements are an indication that investments made in digital transaction channels have been fruitful. We expect future growth to be driven by; 1) Expected partnerships in deposit mobilization and lending specifically the Timiza Digital Loans product 2) Harmonization of the entire ecosystem such that customers are able to access all business segments under one roof i.e the reintroduction of the custody business and perpetual growth in the wealth management unit 3) Implementation of the risk-based pricing that will grow the loan book.

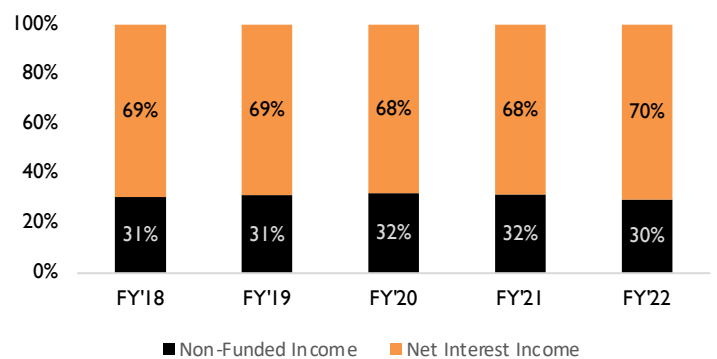
Valuation - ABSA Bank Kenya recorded a 3.7% improvement in ROE to 22.93%. The counter is currently trading at a P/B multiple of 1.07x compared to a sector average of 0.77x. The counter closed its trading at KES 12.63, a YTD gain of 2.68%. Therefore, we maintain our **BUY** recommendation on the counter as we believe the current price provides an attractive entry point for investors coupled with the 10.76% dividend yield.

Absa Bank FY'22 Earnings Charts

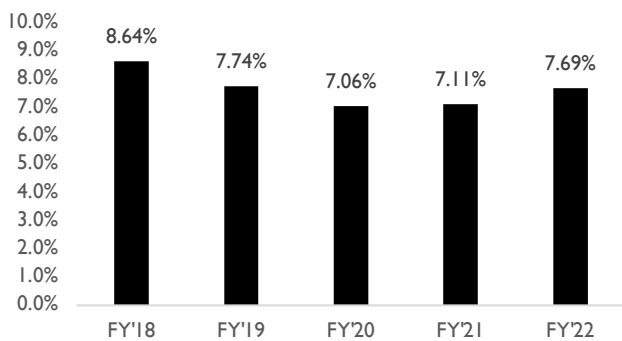
Graph 1: Customer Deposits continue to drive Balance sheet growth



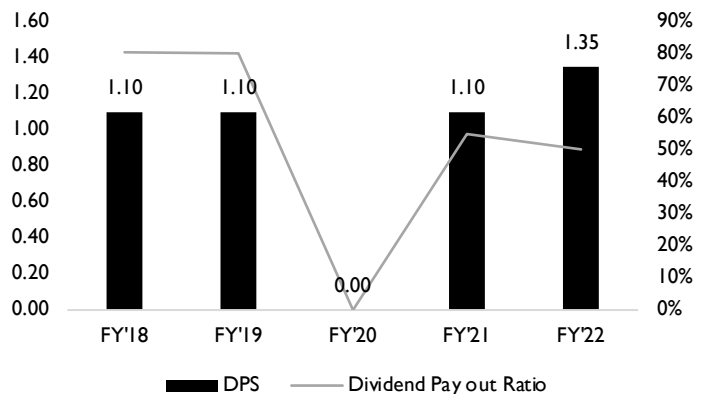
Graph 2: Revenue mix continues to favour Net Interest Income



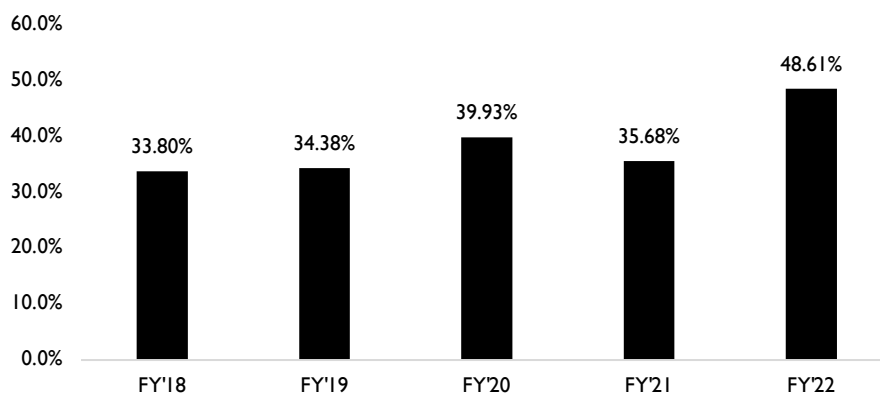
Graph 3: We observed a slight uptick in Net Interest Margins



Graph 4: Dividend Payout Ratio declined moderately



Graph 5: Forex Income as a % of Net Income grew significantly



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

Financial Statement Summary

I. Statement of Profit and Loss

Income Statement	FY20	FY'21	Q1'22	Q2'22	Q3'22	FY'22	y/y % Change	FY'22e	Variance
Net Interest Income	23,381.25	25,256.91	6,881.66	14,429.75	23,274.78	32,315.36	27.95%	29,360.34	10.06%
Net non-Interest Income	11,140.30	11,664.53	3,018.26	6,477.08	10,175.07	13,672.58	17.22%	14,067.74	-2.81%
Total Operating income	34,521.56	36,921.44	9,899.92	20,906.82	33,449.85	45,987.94	24.56%	43,428.08	5.89%
Provision for Impairment	(9,026.77)	(4,709.21)	(1,181.00)	(2,955.67)	(5,034.00)	(6,479.52)	37.59%	(4,889.15)	32.53%
Total Operating expenses	(25,673.34)	(21,372.49)	(5,600.97)	(11,793.72)	(18,309.20)	(25,138.62)	17.62%	(23,116.01)	8.75%
Profit before tax	5,646.23	15,548.95	4,298.94	9,113.10	15,140.65	20,849.31	34.09%	20,312.07	2.64%
Profit after tax	4,162.01	10,869.97	2,953.57	6,294.04	10,713.48	14,587.17	34.20%	15,128.72	-3.58%
Core EPS	0.77	2.00	0.54	1.16	1.97	2.69	34.28%	2.79	-3.58%
DPS	-	1.10	0.00	0.20	0.00	1.35	22.73%	1.60	-15.63%

2. Statement of Financial Position

	FY20	FY'21	Q1'22	Q2'22	Q3'22	FY'22	y/y % Change	FY'22e	Variance
Government Securities	126,057.21	132,576.10	136,731.26	120,755.91	139,826.10	133,490.05	0.69%	145,147.74	-8.03%
Loans and Advances	208,854.69	234,234.08	242,672.13	261,535.62	289,446.84	283,578.54	21.07%	289,532.39	-2.06%
Total Assets	379,440.68	428,689.60	438,499.64	445,288.35	481,347.40	477,233.94	11.32%	491,647.54	-2.93%
Customer Deposits	253,630.11	268,716.65	269,537.30	281,668.66	281,058.60	303,751.00	13.04%	290,295.48	4.64%
Total Liabilities	332,936.74	372,242.21	379,349.60	389,048.61	421,086.04	413,620.92	11.12%	428,761.88	-3.53%
Shareholder's Funds	46,503.94	56,447.39	59,150.04	56,239.74	60,261.36	63,613.02	12.69%	62,885.66	1.16%

3. Key Metrics

	FY'20	FY'21	Q1'22	Q2'22	Q3'22	FY'22
Growth Metrics (y/y)						
Loan book Growth	7.16%	12.15%	11.18%	19.49%	26.35%	21.07%
Customer Deposits Growth	6.68%	5.95%	4.85%	6.72%	4.55%	13.04%
PAT Growth	-44.18%	161.17%	22.05%	12.96%	30.07%	34.20%
Spreads Analysis						
Yield on Assets	9.49%	9.02%	8.89%	9.49%	9.40%	10.17%
Cost of Funds	3.13%	2.48%	3.04%	3.07%	3.13%	3.10%
Net Interest Margin	7.06%	7.11%	6.62%	7.06%	7.09%	7.69%
ROaE	9.08%	21.12%	21.16%	21.43%	23.23%	24.30%
ROaA	1.10%	2.69%	2.77%	2.75%	2.99%	3.22%
Profit Margin	12.06%	29.44%	29.83%	30.11%	32.03%	31.72%
Operating Efficiency						
Cost of Income Less LLP	48.22%	45.13%	44.65%	42.27%	39.69%	40.57%
Cost of Assets	4.42%	4.12%	1.07%	2.10%	2.97%	4.12%
Loan to Deposit	82.35%	87.17%	90.03%	92.85%	102.98%	93.36%
Asset Quality						
NPL	7.74%	7.94%	7.57%	7.14%	6.56%	7.46%
NPL Coverage	71.09%	77.73%	76.18%	78.54%	79.99%	80.55%
Cost of Risk	4.32%	2.01%	0.49%	1.13%	1.74%	2.28%
Capital Adequacy						
Core Capital/TRWA	14.70%	14.60%	14.60%	14.60%	14.60%	14.60%
Total Capital /TRWA	17.50%	17.00%	16.40%	16.20%	18.60%	0.00%
Liquidity	38.70%	38.30%	36.70%	30.30%	25.80%	33.60%

Source: Company Filings, AIB-AXYS Estimates



Research Desk

Solomon Kariuki
Research Analyst

Faith Sang
Research Analyst

Equities Dealing

Nina Goswami

Bernard Kung'u

Bernard Gichuru

Brian Tanui

Samuel Githinji

Sheema Shah

Samuel Wachira

Benson Ngugi

Bonds Dealing

Crispus Otieno

Titus Marenye

Aundrina Musyoka

Kenneth Minjire

Email: research@aibaxysafrica.com

Email: trading@aib-axysafrica.com

Disclaimer

AIB-AXYS Africa and its parent company AXYS Group seek to do business with companies covered in their research reports. Consequently, a conflict of interest may arise that could affect the objectivity of this report. This document should only be considered a single factor used by investors in making their investment decisions. The reader should independently evaluate the investment risks and is solely responsible for their investment decisions. The opinions and information portrayed in this report may change without prior notice to investors.

This publication may not be distributed to the public media or quoted or used by the public media without prior and express written consent of AIB-AXYS Africa or AXYS Group.

This document does not constitute an offer, or the solicitation of an offer, for the sale or purchase of any security. Whilst every care has been taken in preparing this document, no representation, warranty or undertaking (express or implied) is given and no responsibility or liability is accepted by AIB-AXYS Africa or any of its employees as to the accuracy of the information contained and opinions expressed in this report.