

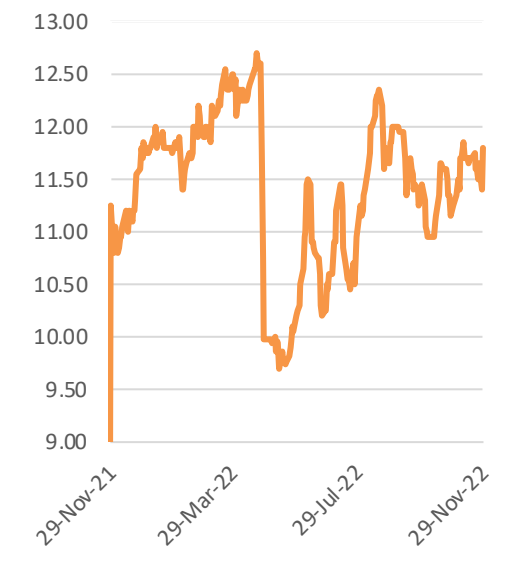


Company details

Bloomberg Ticker	ABSA:KN
NSE Code:	ABSA
Issued Shares (Bn)	5.43
Market Cap (Bn)	61.92
52-week high:	12.70
52-week Low	9.70

As at 29th November 2022

Price chart – Last 12 Months



AIB-AXYS Research, NSE

Historical Price Performance

	1m	3m	6m	12m
Absolute	5.83%	1.29%	17.41%	4.89%

AIB-AXYS Research, NSE

Analysts

- Solomon Kariuki
ks@aib-axysafrica.com
- Faith Sang
fsang@aib-axysafrica.com

Absa Group PLC Earnings Note

Recomm: BUY	Current Price: KES 11.80	Target Price: KES 14.10
--------------------	---------------------------------	--------------------------------

Summary

- ◆ **ABSA Group released their Q3'22 earnings results posting a 29.61% & 30.07% climb in EPS & PAT respectively** to KES 1.97/share and KES 10.71Bn respectively driven by a 25.30% increase in net interest income and a 16.44% growth in non-interest income. Trailing ROaE & ROaA improved to 11.56% & 1.49% respectively in 3Q22. NIMs remained adequate at 7.09% while the profit margin edged up 638bps q/q to 32.03% in 3Q22. Factoring in the growth from previous quarters, we foresee the lender closing the year with a PAT of between KES 11.00Bn – 14.00Bn
- ◆ **Loan book grew 26.35% y/y to KES 289.45Bn faster than the 4.55% y/y growth in the customer deposits to KES 281.06Bn** leading to a 20.84% growth in the loan deposit ratio to 102.98% and despite a minimal need of 20%, its liquidity ratio is 25.8%, indicating a rising liquidity risk. Allocation to government securities grew 10.43% y/y to 139.83Bn in 3Q22. Fair Value change is a percentage of government securities was 2.24% Q3'22 vs 0.25% recorded in Q3'21.

Key Highlights

- **Net Interest Income grows faster than Non-Funded Income :** Non-Funded Income grew 16.44% y/y to 10.18Bn against a 25.30% y/y increase in net interest income to 23.27Bn primarily driven by increased income from loans and advances, as well as interest income from government securities due to a recent increase 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 59.97% year over year albeit lower than recent industry median. Yield on assets grew 706bps y/y to 9.56% as income from government papers grew faster than interest earning assets in the quarter. Cost of funds edged up 880bps to 2.72% y/y. Subsequently, profitability margin increased 620bps y/y to 32.03% and the Net Interest Margin (NIM) grew 143bps y/y to 7.09%
- **Digital transactions boosts efficiency:** The Cost to Income ratio less impairment fell 10% on a year-on-year basis to 39.69% mainly attributed to faster-operating income growth (+22.46% y/y) compared to a 8.75% y/y increase in staff costs to 7.43Bn. Contrary to industry trend, Loan loss provisions grew 47.92% y/y to KES 50.34 Bn indicating increased lending risk.
- **Asset quality still a concern:** Gross NPLs grew 2.05% y/y to KES 20.04Bn, leading to the NPL ratio declining 812bps y/y to 6.56% albeit lower than the latest industry average of 13.80%. NPL coverage however edged up 806ps to 67.00% from 62.00% in 3Q21.

Valuation - At the Current Market Price, the stock is trading at 5.70x P/E above the industry median of 3.60x and a P/TB multiple of 1.04x. Efficiency improvements are an indication that investments in digital transaction channels are paying off. Earnings growth for FY'22 is anticipated to be boosted by advancements from the regional subsidiaries and revenue from non-banking operations. The dollar shortage and additional local currency depreciation are likely to keep driving up forex trading revenue. However, the company's loan book would continue under pressure because to the deteriorating local and global macroeconomic conditions. Furthermore, the lack of an interim dividend is likely to provide minimal upside potential. Nevertheless, we maintain a **BUY** recommendation with a revised price target of **KES 14.10**.

Financial Statement Summary

I. Statement of Profit and Loss

(000)	FY18	FY19	FY20	Q3'21	FY21	Q3'22	Y/Y Change (%)
Net Interest Income	21,992.41	23,178.54	23,381.25	18,575.79	25,256.91	23,274.78	25.30%
Net non-Interest Income	9,702.07	10,588.31	11,140.30	8,738.29	11,664.53	10,175.07	16.44%
Total Operating income	31,694.48	33,766.85	34,521.56	27,314.08	36,921.44	33,449.85	22.46%
Provision for Impairment	(3,870.76)	(4,200.59)	(9,026.77)	(3,403.17)	(4,709.21)	(5,034.00)	47.92%
Total Operating expenses	(21,048.75)	(21,485.62)	(25,673.34)	(15,449.88)	(21,372.49)	(18,309.20)	18.51%
Profit before tax	10,645.73	12,281.24	5,646.23	11,864.20	15,548.95	15,140.65	27.62%
Profit after tax	7,416.04	7,456.08	4,162.01	8,236.91	10,869.97	10,713.48	30.07%
Core EPS	1.37	1.37	0.77	1.52	2.00	1.97	29.61%

2. Statement of Financial Position

	FY18	FY19	FY20	Q3'21	FY21	Q3'22	Y/Y Change (%)
Government Securities	92,938.67	122,995.77	126,057.21	126,569.85	132,576.104	139,826.10	10.47%
Loans and Advances	177,353.97	194,894.94	208,854.69	229,080.22	234,234.08	289,446.84	26.35%
Total Assets	324,839.67	373,981.79	379,440.68	411,417.68	428,689.60	481,347.40	17.00%
Customer Deposits	207,407.83	237,738.65	253,630.11	268,815.87	268,716.65	281,058.60	4.55%
Total Liabilities	280,632.72	328,792.38	332,936.74	356,794.82	372,242.21	421,086.04	18.02%
Shareholder's Funds	44,206.94	45,189.42	46,503.94	54,622.86	56,447.39	60,261.36	10.32%

3. Key Metrics

	Q1'21	Q2'21	Q3'21	FY'21	Q1'22	Q2'22	Q3'22
Growth Metrics							
Loan book Growth	7.54%	8.38%	9.48%	12.15%	11.18%	19.49%	26.35%
Customer Deposits Growth	7.69%	6.11%	9.03%	5.95%	4.85%	6.72%	4.55%
PAT Growth	23.73%	846.01%	328.27%	161.17%	22.05%	12.96%	30.07%
Spreads Analysis							
Yield on Assets	9.26%	9.15%	8.93%	9.02%	8.89%	9.65%	9.56%
Cost of Funds	2.93%	2.68%	2.50%	2.48%	3.04%	2.63%	2.72%
Net Interest Margin	6.99%	7.03%	6.99%	7.11%	6.62%	7.06%	7.09%
ROaE	10.17%	19.26%	21.11%	21.12%	8.71%	9.03%	11.56%
ROaA	1.21%	2.32%	2.62%	2.69%	1.14%	1.16%	1.49%
Profit Margin	27.45%	31.23%	30.16%	29.44%	29.83%	30.11%	32.03%
Operating Efficiency							
Cost of Income Less LLP	45.53%	44.58%	44.10%	45.13%	44.65%	42.27%	39.69%
Cost of Assets	1.05%	2.01%	3.01%	4.12%	1.07%	2.10%	2.97%
Loan to Deposit	84.90%	82.92%	85.22%	87.17%	90.03%	92.85%	102.98%
Asset Quality							
NPL	7.48%	7.91%	7.14%	7.94%	7.57%	7.14%	6.56%
NPL Coverage	73.36%	70.86%	73.36%	77.73%	76.18%	78.54%	79.99%
Cost of Risk	15.81%	10.89%	12.46%	12.75%	11.93%	14.14%	15.05%
Capital Adequacy							
Core Capital/TRWA	14.40%	14.70%	14.40%	14.60%	14.50%	14.00%	13.80%
Total Capital /TRWA	17.30%	17.00%	17.10%	17.00%	16.40%	16.20%	0.00%
Liquidity	38.30%	38.30%	39.70%	38.30%	36.70%	30.30%	25.80%



Research Desk

Solomon Kariuki
Research Analyst

Faith Sang
Research Analyst

Equities Dealing

Nina Goswami

Bernard Kung'u

Benard Gichuru

Brian Tanui

Samuel Githinji

Sheema Shah

Samuel Wachira

Research Desk

Crispus Otieno

Titus Marenye

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.