

ABSA BANK KENYA FY'2022 EARNINGS UPDATE

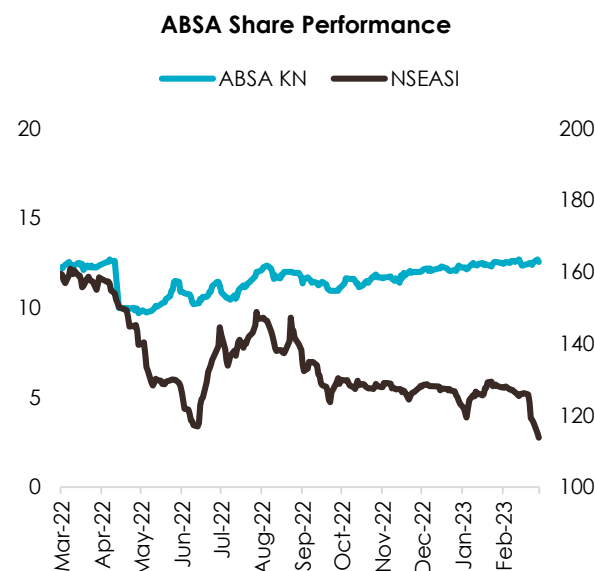
ABSA released its financial results posting a **34%** surge in profit after tax attributable to 28% increase in net interest income and 17% increase in non-interest income. The **Return on Equity** and Return on Assets rose to **24.3%** and 3.2%, respectively. **Earnings per share** increased to **KES 2.69** from KES 2.00 recorded in the previous financial year. The Board of directors recommended payment of a **KES 1.15** final dividend, taking the total dividend paid out in FY'22 to KES 1.35 which translates to **10.7%** dividend yield.

FY2022 Performance – % y/y performance

- **Earnings:** Operating income grew by 25% mainly driven by a 28% growth in interest income largely attributable to the uptick in interest rates. Non-funded income rose by 17% to KES 13.7Bn driven by growth in foreign exchange trading income as the bank leveraged on wider spreads. Interest income outpaced the growth in non-interest income driven by the 33% increase in interest from loans and advances to customers
- **Loan book:** The bank's loans and advances to customers grew by 21% to KES 283.6Bn faster than the 13% growth in deposits to KES 303.8Bn. The loan to deposit ratio rose to 93% from 87% in FY2021 indicating that the bank leveraged more on deposits to fund its loans and advances to customers.
- **Customer deposits** increased by 13% to KES 303.8Bn supported by growth in the various business segments; 37% growth in the corporate business, 26% growth in business banking, and 19% growth in retail banking.
- **Government securities** recorded 3% growth to KES 90.6Bn albeit lower than industry as the lender shifted its strategy towards aggressive lending and revenue diversification.
- **Efficiency:** Cost to income ratio excluding provisions improved to 41% from 45% following cost optimization by the lender. Cost to income ratio including provisions reduced to 55% from 58%. This was largely driven by automation of processes, 92% of transactions in the year were performed via digital channels.
- **Asset Quality:** Gross NPLs increased by 14% to KES 22.5Bn. Credit impairment charges increased to KES 6.5Bn from KES 4.7Bn in 2021. The NPL ratio however, improved to 7.4% lower than the industry average of 13.70% – reflective of effective credit risk management by the lender.

Share Data	ABSA Bank Kenya
Ticker	ABSA KN
RECOMMENDATION	BUY
Current Price (KES)	12.65
Target Price (KES)	14.52
Dividend Yield	10.8%
Upside(Inc. Div. Yield)	26%
52WK High (KES)	13.00
52WK Low (KES)	9.02
Market Cap (KES Bn)	68.70
Free Float	30.5%
P/B	1.1x
P/E	5.3x
Current Price = as of 15th March 2023	

Source: Bloomberg, NSE, NCBA IB Research



Source: NSE, NCBA IB Research

Financial Summary

ABSA Bank Kenya	Key Metrics Y/Y
Loans and Advances	Up 21% to KES 283.6Bn
Customer Deposits	Up 13% to KES 303.8Bn
Government Securities	Up 3% to KES 90.6Bn
Net Interest Income	Up 28% to KES 32.3Bn
Non-Funded Income	Up 17% to KES 13.7Bn
Forex trading income	Up 60% to KES 6.6Bn
Loan Loss Provisions	Down 38% to KES 6.5Bn
PBT	Up 34% to KES 20.8Bn
PAT	Up 34% to KES 14.6Bn
EPS	Up 34% to KES 2.69
DPS	Up 23% to KES 1.35

Source: Company financials, NCBA IB Research

ABSA Bank Kenya	Key Ratios Y/Y
Loan Deposit ratio	Up to 93% from 87%
Net Interest Margin	Up to 7% from 6%
Cost to Income	Down to 41% from 45%
NPL Ratio	Down to 7.4% from 7.8%
Cost of Risk	Up to 2.3% from 2.0%
ROE	Up to 24% from 18%
Current Market Price	KES 12.65
P/E	4.7x
P/B	1.1x
Dividend payout	50.2%
Dividend Yield	10.7%

2023 Outlook

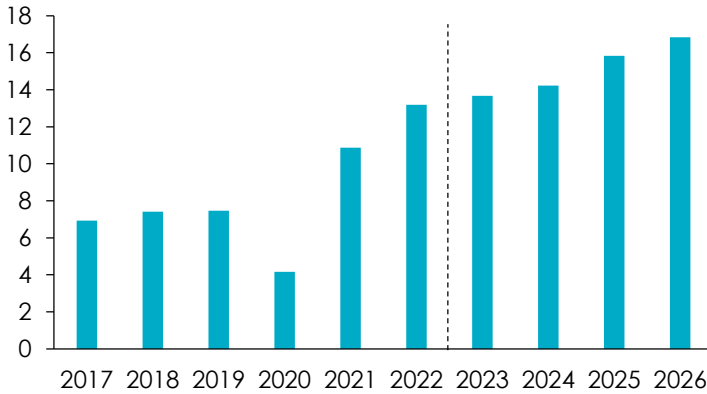
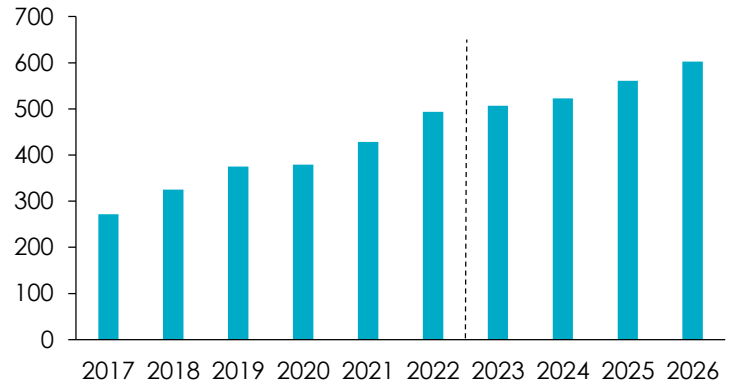
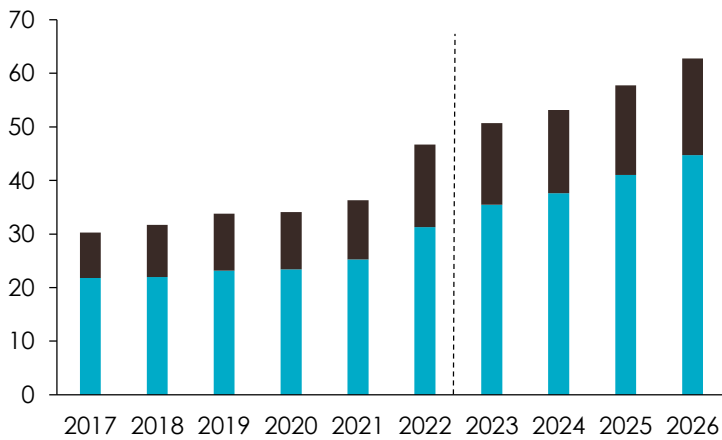
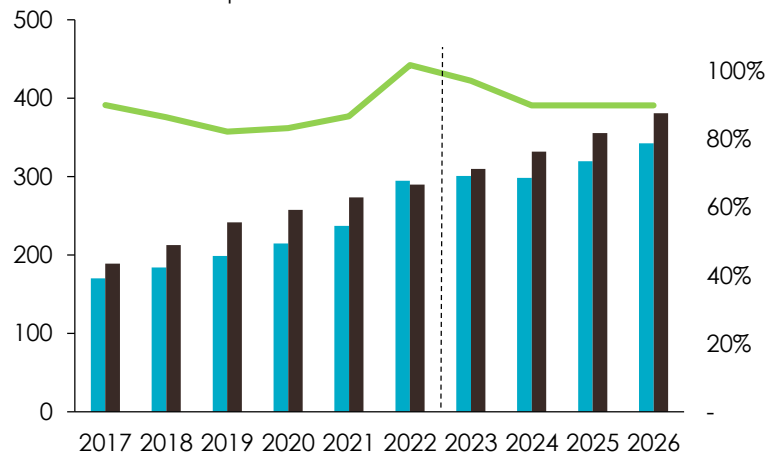
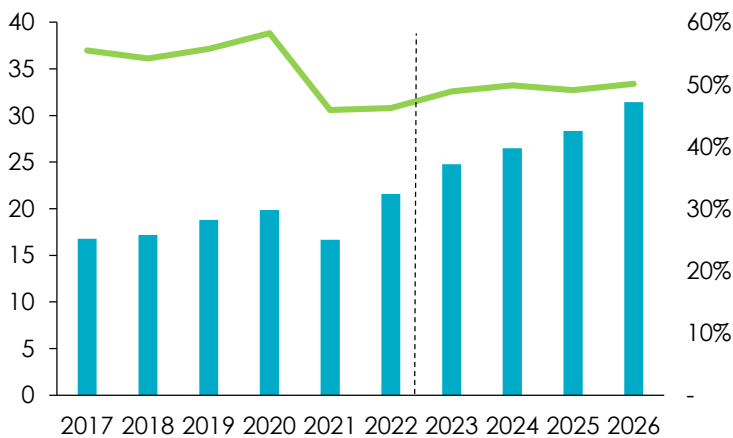
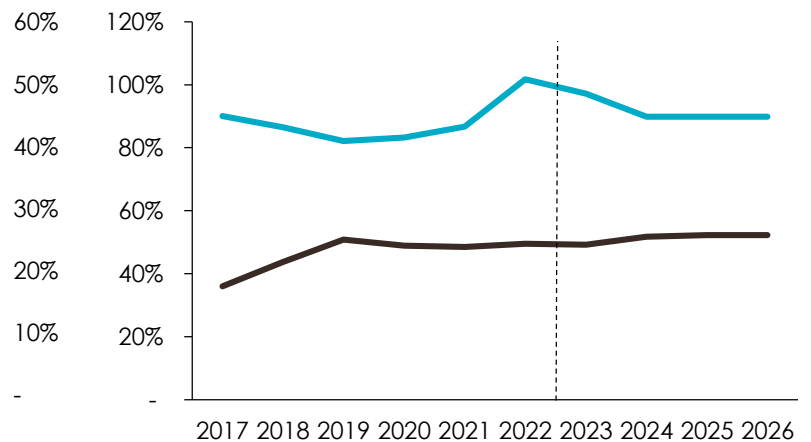
We expect ABSA bank to record steady growth boosted by:

- 1. Revenue Diversification:** Revenue streams such as Corporate banking and business banking and digital lending are delivering double-digit growth. New revenue streams including ABSA asset management and custody business will further scale the company towards a full financial services group.
- 2. Efficiency:** The has the lowest Cost to Income ratio at 41% supported by the ongoing transformation strategy. Currently 52% of back office operations are automated, with scope to grow that further in 2023.
- 3. Improved asset quality:** The has the lowest NPL ratio of 7.4% compared to the 13.7% industry average. This is supported by vigorous credit risk management aligned to the bank's risk appetite. The bank has already received approval for risk-based pricing models and implementation is set to start in June 2023.

Investment recommendation:

At the current market price, the stock presents an opportunity for investors to reap from potential capital gains and an attractive dividend yield.

We expect the bank to continue generating long-term profitability based on cost optimization, aggressive lending strategy, impressive asset quality, and, revenue diversification in the new business lines; custody and asset management.

Financial highlights and forecasts- ABSA Bank Kenya
PAT (KES Bn)

Total Assets (KES Bn)

Non-Funded Income (KES Bn) Net Interest Income (KES Bn)

Net Loans (KES Bn) Deposits (KES Bn)
Loan to Deposits Ratio

Operating Expenses (KES Bn)
Cost to Income Ratio (without LLP)

Loan to Deposits Ratio
Govt. Securities to Deposits Ratio


About NCBA Investment Bank

NCBA Investment Bank is a subsidiary of NCBA Group. The services offered by the brokerage department include equities trading for listed securities, fixed income trading for both corporate and government bonds, Over the Counter (OTC) equity transactions as well as execution of equities transactions across the East African countries. Additionally, NCBA Investment Bank backs these activities with solid advice from the research team to enable investors meet their return objectives. NCBA Investment Bank deploys simple and convenient client driven technologies, robust risk management, highly competent and experienced staff and has the backing of robust research capabilities to differentiate itself from other players in the market.

Physical Address

NCBA Annex,
Hospital Road, Upper Hill, Tel: +254 20 2884444
Mobile: +254 711 056444/+254 732 156444

Certification

The following analyst(s) who prepared this research report: Victoria Mututu hereby certifies(y) that: (i) all of the views and opinions expressed in this research report accurately reflect the research analyst's(s') personal views about the subject investment(s) and companies (y) and (ii) no part of the analyst's(s') compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed by the analyst(s) in this research report.

Rating Definitions

BUY – Total expected 12-month return (incl. dividends) greater than 20%

ACCUMULATE - Total expected 12-month return (incl. dividends) between 10% - 20%

HOLD – Total expected 12-month return (incl. dividends) between 0% -10%

SELL – Total expected 12-month return (incl. dividends) less than 0%

Disclaimer

Any opinion or other information in this document is not an invitation to buy or sell any asset class. Legally binding obligations can only arise for or be entered into on behalf of NCBA Group by means of a written instrument signed by a duly authorized signatory. You are cautioned to ensure that you have made an independent decision in accordance with your own objectives, experience, operational and financial resources and any other appropriate factors including independent professional advice. No guarantee, warranty, or representation is made in respect of the performance or return on any transaction.

Key Contacts: Research Team

ncbaibresearch@ncbagroup.com

victoria.mututu@ncbagroup.com

Key Contacts: Trading Team

dealing@ncbagroup.com