

ABSA BANK KENYA Q1 2023 EARNINGS UPDATE

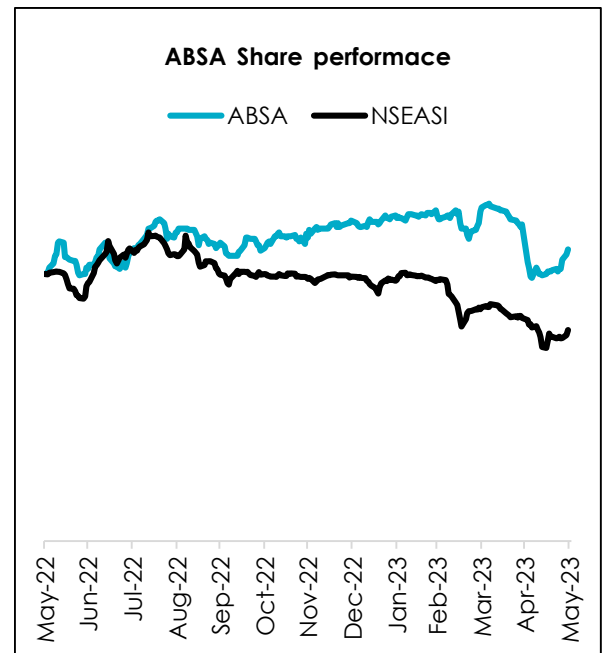
ABSA released its Q1 2023 financial results posting a **50.7%** surge in profit after tax largely attributable to 49.3% y/y increase in non-funded income to KES 4.50Bn driven by 79.9% y/y increase in FX income to KES 2.20Bn and a 36.0% increase in net interest income to KES 9.35Bn. The **Return on Equity** increased to **7.0%**. **Earnings per share** rose to **KES 0.82** from KES 0.54 in the previous financial year.

Q1 2023 Performance – % y/y performance

- **Earnings:** Operating income grew by 40.0% to KES 13.86Bn driven by 49.3% growth in non-interest income, to KES 4.50Bn. This was largely attributable to foreign exchange trading income that grew by 79.9% to KES 2.20Bn as the bank leveraged on wider spreads. Interest income grew by 38.3% to KES 12.14Bn driven by 36% increase in interest from loans and advances to KES 9.35Bn.
- **Loan book:** The bank's loans and advances to customers grew by 27.7% to KES 309.9Bn faster than the 15.3% growth in deposits to KES 310.8Bn. The loan to deposit ratio rose to 99.7% from 90% in previous financial period indicating that the bank leveraged more on deposits to fund its loans and advances to customers.
- **Customer deposits** increased by 15.3% to KES 310.8Bn supported by growth in the various business segments driven by the lender's extensive network of 84 branches, 208 ATMs countrywide, and 60 cash deposit machines supported by internet and mobile banking channels.
- **Government securities** declined by 1.8% to KES 134.2Bn with an aim to reduce the exposure to manage the risks arising from government's tight liquidity position.
- **Efficiency:** Cost to income ratio including provisions saw a drop to 53.7% from 56.6% recorded in 2022. Cost to income ratio excluding provisions saw a decline to 36.3% from 44.6%, driven by operating model redesign and transformational investments, which has significantly reduced the lenders structural costs and supported reinvestments for growth.
- **Asset Quality:** Gross NPLs increased by 59.7% to KES 31.1Bn while loan loss provisions shot up substantially by 103.3% to KES 2.40Bn from KES 1.18Bn in the previous year. This was largely attributable to NPL's in corporate business the lender's main driver. The NPL ratio stands at 9.1% 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)	11.20
Target Price (KES)	14.52
Dividend Yield	12.05%
Upside	29.6%
52WK High (KES)	13.00
52WK Low (KES)	9.02
Market Cap (KES Bn)	60.83
Free Float	30.37%
P/B	0.9x
P/E	13.7x
Current Price = as of 30 th May 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 27.7% to KES 309.97Bn
Customer Deposits	Up 15.3% to KES 310.83Bn
Government Securities	Down 1.8% to KES 134.26Bn
Net Interest Income	Up 36.0% to KES 9.36Bn
Non-Funded Income	Up 49.3% to KES 4.50Bn
Forex trading income	Up 79.9% to KES 2.20Bn
Loan Loss Provisions	Up 103.3% to KES 2.40Bn
PBT	Up 49.4% to KES 6.42Bn
PAT	Up 50.7% to KES 4.45Bn
EPS	Up 51.9% to KES 0.82

Source: Company financials, NCBA IB Research

Absa Bank Kenya	Key Ratios Y/Y
Loan Deposit ratio	Up to 99.7% from 90.0%
Net Interest Margin	Up to 1.8% from 1.6%
Cost to Income	Down to 36.3% from 44.6%
NPL Ratio	Up to 9.1% from 7.4%
Cost of Risk	up to 0.8% from 0.5%
ROE	Up to 7.0% from 4.6%
Current Market Price	KES 11.2
P/E	13.7x
P/B	0.9x
Target price	KES 14.52

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, custody business and bancassurance will further scale the company towards a full financial services group.
- 2. Loans growth:** The lender's key focus on its established products, namely trade loans, mortgages, unsecured lending and overdrafts will continue to record material year-on-year growth. ABSA's focus on digital lending through its evolution of Timiza into a Mobile Financial Services business and Wezesh Biashara will support NFI line growth. The bank's strategy on co-creating solutions with the Affluent segment, advance its relevance in core middle segment and penetrate the mass and youth segments to secure the next generation of core middle customer.
- 3. Digital transformation:** The Fintech/digital capabilities of the Group continued to be strengthened by the successful rollout of the Timiza for SMEs, Timiza for retail, Novo App, which allows to make international payments anytime, anywhere, for free a move that will increase the banks transactional volumes and income. 92% of the lender's customers are digitally active.

Investment recommendation:

Going forward the bank will leverage on technology to scale up retail business. The lender will continue to focus on executing its strategy to build a consumer banking business that is digitally enabled to drive reach and invest in areas of competitive strength.

The stock presents an opportunity for long-term investors to earn **capital gains** and an attractive dividend yield.

We expect ABSA Bank to deliver long-term profitability based on its focus on digital transformation and strong customer base.

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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%

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