ABSA BANK KENYA PLC FY2024 EARNINGS UPDATE

ABSA Bank released **FY2024** financial results posting **27.5%** growth in **profit after tax** to KES 29.7BBn attributable to strong growth in both net interest income and non-interest income. This resulted in a **27.6%** increase in earnings per share (EPS) to KES 3.84, and a return on equity (ROE) of **24.5%.**

The bank declared a higher final dividend of **KES 1.55** per share, bringing the total dividend for the year to **KES 1.75**, up from **KES 1.55** in the previous year. This represents a payout ratio of 46% and a dividend yield of 9%.

Absa delivered a solid double-digit revenue growth of **14%**, driven largely by effective revenue diversification, which contributed to strong bottom-line expansion. This performance stands out against the broader 2023 operating environment, where the non-performing loan (NPL) ratio showed an uptick. Looking ahead, growth is expected to be propelled by continued digital transformation, enhanced operational efficiency, and an expanding distribution network.

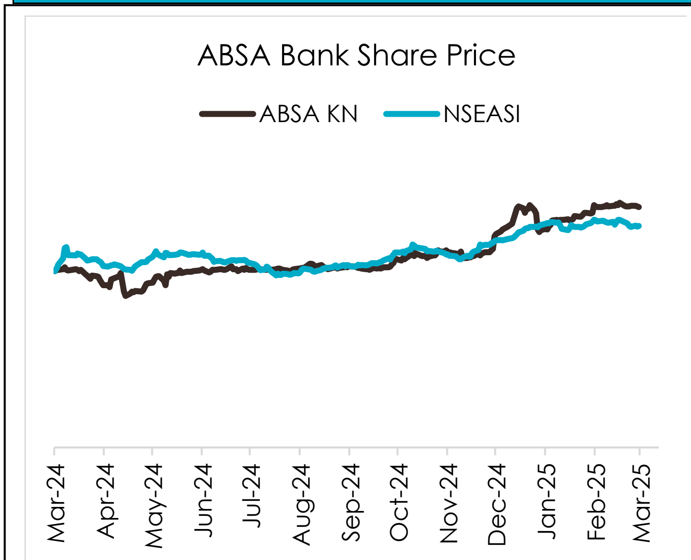
At the current market price of **KES 18.95**, the stock is trading within its fair value range. However, with consistent dividend payouts, strong operational efficiency, and significant growth potential, Absa represents an appealing investment opportunity. We maintain a **Neutral** stance on the stock, with an upside potential of **2.4%** against a target price of KES 19.40.

PERFORMANCE HIGHLIGHTS

- **Earnings:** Net interest income increased by **15.4%** to **KES 46.2Bn**, driven by a **19.3%** rise in gross interest income, primarily fueled by a 20.6% growth in loan income and a 2.3% increase in income from government securities.

- Non-interest income rose by **10.8%** to **KES 16.1Bn**, driven by a diverse mix of traditional revenue sources and strong growth in new revenue streams, including payments, lending, asset management, and brokerage services. This

Share Data	ABSA Bank Kenya
Ticker	ABSA KN
Recommendation	NEUTRAL
Current Price (KES)	18.95
Target Price (KES)	19.40
Upside	2.40%
52WK High (KES)	19.95
52WK Low (KES)	10.00
No. of shares issued (Bn)	5.43
Market Cap (KES Bn)	102.93
EPS (Annualized)	KES 3.84
DPS (FY24)	*1.75*
Dividend yield	*9.2%*
P/E	*6.30X*
P/B	*1.49x*
Current Price = VWAP as at 20th Mar 2025	



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growth was achieved despite a decline in fees on loans and advances by 8.8% and forex income by 7.1%.

- The lender achieved a **14% revenue growth**, reaching KES 62.3Bn, with the **consumer business contributing 48% (KES 29.9Bn)** and the **wholesale bank accounting for 52% (KES 32.4Bn)**. This balanced revenue distribution highlights a well-diversified income stream, with both retail and corporate banking playing pivotal roles in the bank's financial performance.

Business Segment	Percentage (%)	Revenue (KES Bn)
Consumer	48%	29.9
Wholesale Bank	52%	32.4
- Corporate Bank	23%	14.33
- Business Bank	19%	11.84
- Markets	10%	6.23
Total Revenue	**100%**	**62.3**

Source: Company Financials, NCBA IB Research

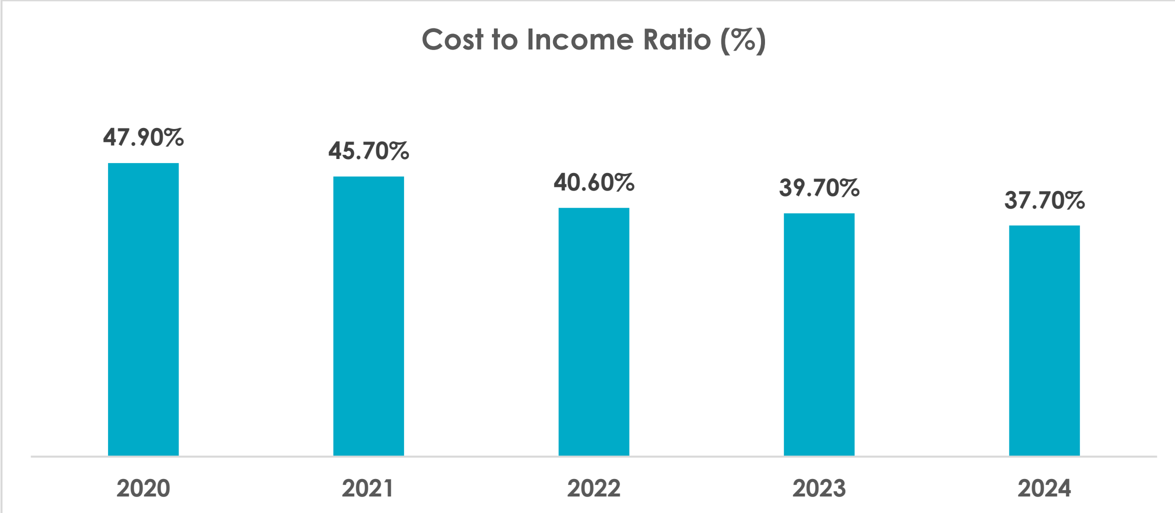
- **Loan book:** During the period, loans and advances declined by **7.9%** to KES 309.1Bn, while total assets fell by 2.6% to KES 506.5Bn. The loan to deposit ratio dropped to **84.2%** from 92.6%, driven by a modest 1.2% growth in deposits compared to a 7.9% decline in loans. The decline in the loan book was largely influenced by the appreciation of the Kenyan shilling, as 32% of loans were denominated in foreign currency. On a constant currency basis, the loan book contracted by just 1%. Additionally, the adverse macroeconomic environment contributed to sluggish loan growth across the industry.

- **Customer Deposits:** Customer deposits increased by 1.2% to KES 309.1Bn, outpacing the 7.9% decline in loans. This growth was driven by effective deposit mobilization efforts and the scaling up of the retail business. On a constant currency basis, deposits grew by 7%, excluding currency fluctuations. Key drivers of this growth included an expanded agency network, enhanced digital offerings, and robust customer acquisition strategies.

- However, the increased deposit mobilization led to a 30.1% rise in interest expenses, with the cost of funding standing at 5.1%, influenced by the prevailing interest rate environment. The growth in liabilities has provided a strong and stable funding base, enabling further lending and supporting overall business expansion.

- **Government Securities:** Investments in government securities saw a significant increase of 37.6%, reaching KES 130.6Bn. This contributed to a 2.4% rise in interest income from government securities, which amounted to KES 9.4Bn. It's worth noting that interest rates have begun to ease after reaching high levels in 2024.

- **Operational Efficiency:** Cost-to-income ratio, excluding provisions, improved to 37.7% from 39.7%, reflecting successful cost optimization efforts. This marks a consistent decline in the cost-to-income ratio from 47.9% in 2020 to 37.7% in 2024, signaling significant improvements in operational efficiency. Operating expenses rose by 5.5%, a slower rate than revenue growth, further demonstrating effective management of costs relative to business expansion.



Source: Company Financials, NCBA IB Research

- **Asset Quality:** The bank's gross NPLs increased by 20.5%, reaching KES 42.5Bn, which resulted in an NPL ratio of **12.1%,** up from 9.5% the previous year. Despite this increase, the ratio remains below the industry average of 16.4%. The decline in asset quality can be attributed to the challenging macroeconomic conditions in Kenya. However, total loan provisions decreased by 1.6% to KES 9.1Bn, driven by an improved portfolio quality, forex gains, and the recovery of KES 0.8Bn in previously impaired loans. The NPL coverage ratio stood at 66%, nearly the same as the previous year, reflecting a consistent approach to managing asset quality.

- **Credit Risk Profile:** The bank faces significant credit risks in certain sectors mostly in Building & Construction (despite lower loan exposure) and Manufacturing. Personal Household loans, while substantial, have an NPL ratio close to the industry average. The Trade sector remains important, though its 7.3% NPL ratio signals some challenges, yet still significantly lower than the industry average.

Sector	Contribution to Gross Loans (%)	Sector NPL Ratio (%)	Industry NPL (%)
Personal Household	40.00%	13.30%	13.60%
Trade	22.80%	7.30%	17.00%
Manufacturing	15.30%	26.30%	19.60%
Real Estate	5.40%	13.80%	19.50%
Agriculture	4.30%	5.50%	9.25%
Transport & Communication	4.00%	2.40%	14.40%
Energy & Water	4.00%	0.00%	25.90%
Financial Services	2.70%	0.00%	26.20%
Tourism & Hotels	1.00%	2.70%	6.90%
Building & Construction	0.30%	66.10%	11.50%
Mining & Quarrying	0.30%	8.10%	11.30%

Source: Company Financials, NCBA IB Research

FINANCIAL SUMMARY

Absa Bank Kenya FY'2024 Results		
Key Metrics Y/Y		
Metric	**Y/Y %**	**Amount**
Loans & Advances	(7.9%)	KES 309.1Bn
Customer Deposit	1.2%	KES 367.1Bn
Net Interest Income	15.4%	KES 46.2Bn
Non-Funded Income	10.8%	KES 16.1Bn
Loan Loss Provision	(1.6%)	KES 9.1Bn
PBT	25.5%	KES 29.7Bn
PAT	27.5%	KES 20.9Bn
EPS	27.6%	KES 3.84
DPS	12.9%	KES 1.75

Source: Company Financials, NCBA IB Research

Key Ratios					
Ratio	**Q12024**	**Q22024**	**Q32024**	**FY2023**	**FY2024**
Loan Deposit Ratio	92.1%	89.5%	88.5%	92.5%	84.2%
Net Interest Margin	2.3%	4.8%	7.1%	7.7%	9.1%
Cost to Income	48.5%	52.0%	55.0%	56.6%	52.3%
ROE	7.9%	14.7%	19.1%	23.7%	24.5%

Source: Company Financials, NCBA IB Research

OUTLOOK

We expect ABSA Bank to record gradual growth boosted by:

- **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.

- **Digital transformation:** The lender spent KES 3.0Bn in the modernization of the core banking technology and also undertook back office automation to enhance efficiency and timely undertakings. The digitalization journey is also expected to enhance customer onboarding and ease lending hence driving business growth. There has been significant increase in usage of digital solutions with 93.6% of digital transaction volumes and 21% increase in Timiza loan disbursements.

- **Cost Optimization:** The bank is well-positioned to benefit from efficient cost management, with a target to maintain its Cost to Income ratio in the low 40s. This goal will be supported by ongoing digitalization initiatives.

- **Risk Management:** Notably, the banks NPL ratio of 12.1% is commendable compared to the industry average of 16.4%. Proactive data-driven risk analysis with credit risk pricing models in the mainstream loans will boost credit loss and cost of risk ratios.

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