

ABSA BANK KENYA PLC HY2025 EARNINGS UPDATE

ABSA Bank Kenya reported a 9.1% y/y growth in profit after tax to **KES 11.68Bn**, driven by improved efficiency from lower loan loss provisions and an 11.5% decline in operating expenses. This translated to a 9.1% rise in earnings per share (EPS) to **KES 2.15**.

As anticipated, the bank declared an interim dividend of **KES 0.20 per share**, matching the HY2024 payout. The dividend will be paid on 15 October 2025 to shareholders on record as of the 19 September 2025 book closure date. We maintain our expectation for a total year dividend of KES 1.80 per share.

However, revenue performance was softer, with a 1.2% decline to **KES 31.46Bn**, attributed to narrower interest margins that saw net interest income drop by 2.9%. This was partially offset by a 3.3% increase in non-interest income.

Looking ahead, growth prospects remain anchored on continued digital transformation, enhanced operational efficiency, and an expanding distribution network.

Valuation & Recommendation

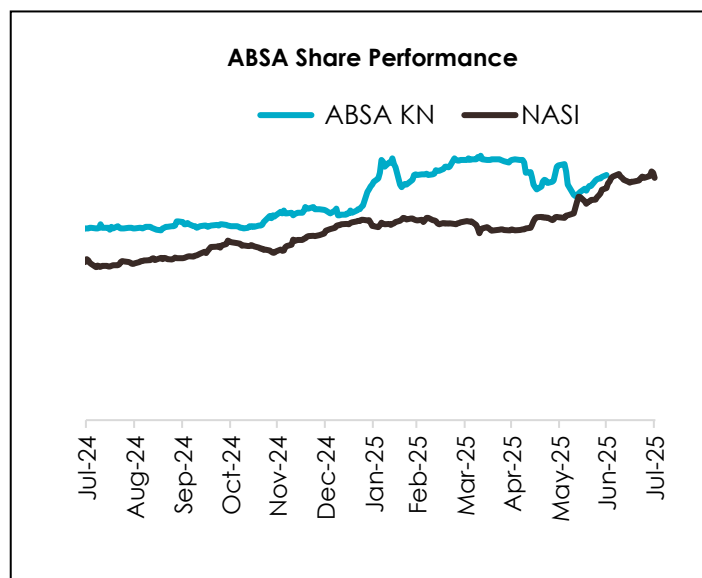
At the current market price of **KES 19.95**, ABSA is trading at a discount to its fair value of **KES 23.62**, implying an upside potential of **18.40%**. With consistent dividend payouts, strong operational efficiency, and significant growth potential, the bank represents an appealing investment opportunity.

We maintain a **Neutral** stance, with a potential leaning towards investing on price weakness given the attractive upside.

PERFORMANCE HIGHLIGHTS

- **Earnings:** Net interest income declined by **9.4%** to **KES 22.34Bn**, on the back of an 8.3% decline in gross interest income, primarily fueled by an 18.2% ease in loan income. However, this performance was mitigated by a 53.7% increase in income from government securities during the period.

Share Data	ABSA Bank Kenya
Ticker	ABSA KN
Recommendation	NEUTRAL
Current Price (KES)	19.95
Target Price (KES)	23.62
Upside	18.40%
52WK High (KES)	20.00
52WK Low (KES)	10.00
No. of shares issued (Bn)	5.43
Market Cap (KES Bn)	108.36
EPS (Annualized)	KES 4.30
Interim DPS (HY25)	0.20
P/E(Annualized)	4.64X
P/B	1.22x
Current Price = VWAP as at 12th August 2025	

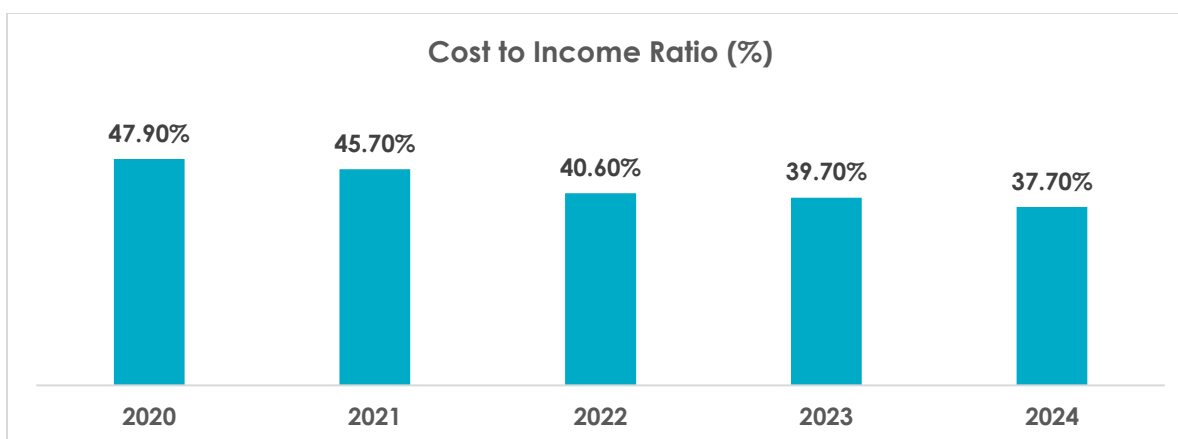


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- On the other hand, **non-interest income** rose by **3.3%** to **KES 9.12Bn**, supported by a diversified mix of traditional revenue streams and strong growth in emerging segments such as payments, lending, asset management, custody services, and brokerage. This performance was achieved despite a **16.6%** drop in fees on loans and advances and a **14.0%** decline in forex income.
- Total revenue fell by **1.2%** to **KES 31.46Bn**, with the consumer and wholesale banking divisions contributing almost equally. This balanced mix underscores ABSA's well-diversified income base, with both retail and corporate banking making significant contributions to overall performance.
- Loan book:** Loans and advances fell by 3.6% to KES 304.94Bn, even as total assets grew by **10.4%** to KES 531.58Bn. The loan-to-deposit ratio eased to 84.39% from 89.54%, reflecting modest deposit growth (+2.3%) alongside the contraction in loans. The softer loan growth was largely a result of slow credit expansion to the private sector amid a challenging macroeconomic environment, mirroring the broader industry trend.
- Customer Deposits:** Customer deposits rose **2.3%** to **KES 361.34Bn**, outpacing the decline in loans. This was driven by strong deposit mobilization initiatives and an expanded retail footprint, supported by a wider agency network, enhanced digital banking solutions, and robust customer acquisition efforts.
- Interest Expense & Funding Base:** Despite higher deposit mobilization, interest expenses fell **21.3%**, benefiting from the easing interest rate environment. The resulting growth in liabilities has strengthened the bank's funding base, providing a stable platform to support lending activities and overall business growth.
- Government Securities:** Holdings in government securities surged **70.3%** to **KES 162.36Bn**, boosting interest income from this segment by **53.7%** to **KES 6.62Bn**.
- Operational Efficiency:** The cost-to-income ratio (excluding provisions) inched up to **36.39%** from **35.77%**, driven primarily by strategic investments in talent and technology, while still reflecting sustained cost optimization. Total operating expenses fell **11.5%**, highlighting disciplined cost management despite ongoing business expansion.



Source: Company Financials, NCBA IB Research

- **Asset Quality:** The bank's gross NPLs increased by 12.3%, reaching KES 44.25Bn, which resulted in an NPL ratio of **12.7%**, remaining below the industry average of 17.6%. The decline in asset quality can be attributed to the challenging macroeconomic conditions in Kenya. However, total loan provisions decreased by 37.9% to KES 3.21Bn, driven by an improved portfolio quality, recoveries and forex benefits.

FINANCIAL SUMMARY

HY 25 Absa Bank Kenya PLC	Key Metrics Y/Y
Loans and Advances	Down 3.6% to KES 304.93Bn
Customer Deposits	Up 2.3% to KES 361.34Bn
Government Securities	Up 70.3% to KES 321.22Bn
Net Interest Income	Down 2.9% to KES 22.34Bn
Non-Funded Income	Up 3.3% to KES 9.12Bn
Forex trading income	Down 14.0% to KES 3.14Bn
Loan Loss Provisions	Down 37.9% to KES 3.21Bn
PBT	Up 10.0% to KES 16.80Bn
PAT	Up 9.1% to KES 11.68Bn
EPS	Up 9.1% to KES 2.15

Absa Bank Kenya	Key Ratios Y/Y
Loan Deposit ratio	Down to 84.39% from 89.54%
Net Interest Margin	Down to 4.20% from 4.78%
Cost to Income	Up to 36.39% from 35.77%
NPL Ratio	Up to 12.67% from 11.07%
Cost of Risk	Down to 1.05% from 1.63%
Current Market Price	KES 19.95
P/E(Annualized)	4.74x
P/B	1.22x
Interim Dividend (H1)	KES 0.20

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 is modernizing the core banking technology and 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.
- **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 NPL bank's ratio of 12.67% is commendable compared to the industry average of 17.6%. 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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