Genghis Capital.

ABSA Bank

EARNINGS NOTE.

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ABSA Bank Kenya Plc FY23 Earnings Note

21 March 2024

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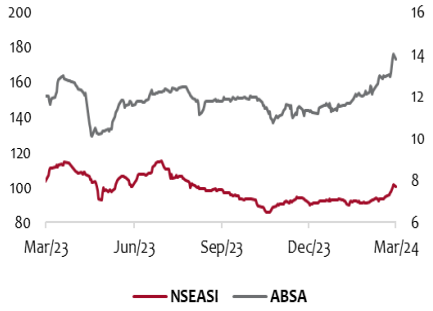
ABSA Bank Kenya Plc (NSE: ABSA) announced an impressive 11.9% y/y rise in FY23 EPS (Earnings Per Share from KES 2.69 (FY22) to KES 3.01. This was on the back of a 19% increase in total operating income that resulted in profit after tax hitting KES 16.4Bn. The increase in operating income was occasioned by a (24% y/y) increase in NII (Net Interest Income) to KES 40Bn and a (6%y/y) increase in NFI (Non-Funded Income) to KES 15Bn. Pre-provision operating expenses increased by 16% y/y to KES 21.6Bn on the back of increased staff costs to KES 11.73Bn (11.8% y/y). The Group witnessed a substantial 42.7% y/y increase in loan loss provisions to KES 9.24Bn as gross NPLs rose by 56.6% y/y to KES 35.25Bn. Customer deposits grew 19.4% y/y to KES 362.75Bn as the loan book garnered an 18.4% y/y rise to KES 335.7Bn. Investment in government securities decreased by 18.7% y/y to stand at KES 73.64Bn. The Group's shareholder funds rose 8.78% y/y to KES 69.2Bn as retained earnings edged upwards to KES 63.6Bn (13.8% y/y).

Key Statistics	
Latest Price (KES)	14.00
Bloomberg Code	ABSA KN
Reuters Code	ABSA.NR
NSE Code	ABSA
Free Float	26.4%
Price Change YTD (%)	22.3%
52 Wk High/Low (KES)	14.00 -10.10
Market Cap (KES Bn)	76.0
Dividend Yield	12.5%
P/B	1.1x

Source: Genghis Research, Bloomberg & NSE



Source: Genghis Research, Bloomberg & NSE

Positives:

1) **Positive Net Interest Income (NII) & NFI (Non-Funded Income):** Net Interest Income (NII) rose 24% y/y to KES 40Bn, supported by a growing loan book (+18.4% y/y) to KES 335.7Bn. However, total interest expense grew to KES 14.22Bn (66.5%y/y). Interest income from loans and advances to customers grew significantly by 44.2% y/y to KES 44.25Bn. NFI rose 6% y/y to KES 14.5Bn, boosted by higher other fees and commissions that rose to KES 5.78Bn (20.6% y/y). Fees and commissions income on loans and advances increased marginally by 11.6% y/y to KES 1.54Bn as foreign exchange trading income witnessed a benign decline of 2.05% y/y to KES 6.5Bn. **We believe that interest income will continue to improve in the subsequent years as the bank continue to diversify its loan book driven by a growth in mortgages, secured lending and trade loans in corporate and business banking.**
2) **Better operational efficiency, Cost-to-income (CTI) at 39.7% (-90bps y/y):** Even though operating expenses before provisions increased to KES 21.6Bn (16% y/y), on the back of a 11.8% y/y increase in staff costs (KES 11.73Bn) the overall growth in revenue exceeded the growth in cost by 300bps.The CTI ratio has been coming off from FY20, improving to 39.7% from 40.6% in FY22. This is a result of continued investment in digitisation by management as it seeks to reduce its reliance on brick and mortar channels. **We opine that the CTI ratio is expected to increase as management seeks to expand operations and outreach with the CTI ratio expected to reach 45% in the medium term.**

Negatives:

1) **Subdued asset quality; NPL ratio at 9.6%, (+230bps y/y):** The NPL ratio stood at 9.6% in FY23, much lower than the industry average of 14.8%. Gross NPLs on the other hand, grew by 56.6% y/y to KES 35.3Bn as the challenging macroeconomic environment took a toll on its customers. The bank thus increased its loan loss provisions to KES 9.25Bn (+42.7% y/y).
2) **Marginal increase in the cost of funds to 3.5% (100bps y/y):** The cost of funding (CoF) on customer deposits increased subsequently following recent rate hikes enacted by the Central Bank (CBK) in a bid to tame rising inflation. The Group's key focus going forward is on acquiring cheap deposits to lower the cost of funding as interest expense on customer deposits increased by (+70.3% y/y) to KES 11.9Bn.

Outlook:

The Group remains committed to furthering its investments in digital transformation aiming to elevate customer experiences and bolster cost efficiencies. Concurrently, the bank is poised to sustain its support on small and medium enterprises (SME's) as it seeks to expand its access to capital to customers. In our view this strategy is set to pay off as macroeconomic headwinds begin to taper off with the economy expected to recover following a drop-in inflation and stabilisation of the local exchange rate with the initiative seeking to grow net-interest income of the bank. The Group also continues in its push to diversify its revenue through its bancassurance asset management arm as well as Timiza which have both witnessed double digit growth in the year. **Following its overall performance, the Board of Directors recommended a final dividend payment in FY23, of KES 1.35 per ordinary share with total dividend offered witnessing a 14.8%y/y increase.**

KEY LINE ITEMS

INCOME STATEMENT

KES Bn	FY19	FY20	FY21	FY22	FY23	Y/Y
Net Interest Income	23.2	23.4	25.3	32.3	40.0	23.9%
Non-Interest Income	10.6	11.1	11.7	13.7	14.5	6.3%
Total Operating Income	**33.8**	**34.5**	**36.9**	**46.0**	**54.6**	**18.7%**
Loan Loss Provisions	4.2	9.0	4.7	6.5	9.2	42.7%
Operating Expenses	21.5	25.7	21.4	25.1	30.9	22.9%
Profit Before Tax	12.3	5.6	15.5	20.8	23.7	13.6%
Profit After Tax	**7.5**	**4.2**	**10.9**	**14.6**	**16.4**	**12.2%**
EPS	**1.37**	**0.77**	**2.0**	**2.7**	**3.0**	**11.9%**

BALANCE SHEET

KES Bn	FY19	FY20	FY21	FY22	FY23	Y/Y
Customer Deposits	237.7	253.6	268.7	303.8	362.7	19.4%
Loans to Customers	194.9	208.9	234.2	283.6	335.7	18.4%
Government Securities	123.0	126.1	132.6	133.5	94.1	-29.5%
Total Assets	**374.0**	**379.4**	**428.7**	**477.2**	**519.8**	**8.9%**

KEY RATIOS

	FY19	FY20	FY21	FY22	FY23
NIM	8.1%	6.3%	6.3%	7.1%	8.9%
NIR/Total Income	68.6%	67.7%	68.4%	70.3%	73.4%
CTI	51.2%	48.2%	45.1%	40.6%	39.7%
NPL Ratio	5.6%	7.0%	7.4%	6.3%	8.8%
LDR	82.0%	82.3%	87.2%	93.4%	92.5%
ROaE	13.3%	7.4%	19.3%	26%	29%
Cost of Risk	2.2%	4.3%	2.0%	2.3%	2.8%

NB: Calculations are based on trailing 12 months data

Source: Genghis Research & Company accounts

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