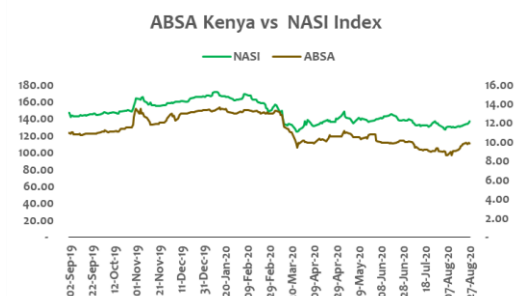


ABSA Bank Kenya Plc – Earnings Update – H1-2020

ABSA Bank Kenya Plc reported 84.8% dip in H1-2020 Profits After Tax (PAT), reducing to KES 0.59Bn from KES 1.83Bn in H1-19. The lender saw Profits before tax (PBT) decline by 72.1% to KES 1.59Bn from KES 2.72Bn in H1-19. The bank reported a Pre-Provision PBT of 9.2%. For the first time in 5 years, the lender failed to pay interim dividends. The counter has shed 28.6% and 13.4% in value on y-t-d and y-y basis.

- The banks top line saw Net Interest Income (NII) increase by 2.5% from KES11.30Bn from KES 11.03Bn in H1-19. The performance was lower historical on quarterly basis at 101.4% growth compared to 105.0% Q1 vs Q2 2019.
- Interest Income increased marginally by 0.9% impacted by CBR impact (cut from 9.0% in H1-19 to 7.0% in H1-2020) on yield and a flat growth on loan book.
- Interest expense eased by 3.3% due to a 7.8% drop in interest on customer deposits with the bank focusing on attracting cheaper deposits.
- Non-Funded Income (NFI) improved by 4.2% boosted by 20.7% growth on forex trading income which were shouldered by volatility of the shilling. Other fees and commission income declined by 11.8% as the company cut cost of merchandise banking and mobile banking cost. The contribution of NFI to total income marginally improved to 32.8% from 32.4% in H1-19.
- Operating expenses were up 34.9% to KES 13.55Bn from KES 10.05Bn. This was caused by a 228.1% jump in provision emanating from restructuring of loans and creation of provision towards potential default of restructured loans on deterioration in macroeconomic variables due to Covid-19 overlay. Expensed loss provisions declined by 2.8% with other expenses declining by 16.3% as staff cost grew at inflation rate of 4.9%.
- Cost to Income (CTI) stood at 80.6% compared to 61.6% in H1-19 and 60.9% in Q1-2020. CTI less provisions eased to 48.6% from 51.5% in H1-19 but marginally increased from 47.6% in Q1-2020.
- Bank sheet saw customer deposits grow by 8.3% y-y and 3.9% Q-Q. Total assets grew by 10.8% y-y. Investment in securities and government papers increased by 13.3% with its contribution to total assets improving to 23.5% from 22.9% in H1-19 and 21.4% in Q1-2020.
- Net loan book was up 8.2% y-y but shrunk marginally by 0.5% Q-Q. This left loans and advances to total assets at 51.5% which was lower compared to 52.8% in H1-19 and 53.2% in Q1-2020. Advance to deposit (AD) ratio remained flat at 81.2% from 81.3% in H1-19 while lower compared to 84.8% Q-Q.
- Net interest margins (NIM) dropped to 7.7% on drop of CBR from 8.3% in H1-19. Cheaper deposits saw cost of funds ease to 2.7% from 3.0% over the same periods.
- In support of their clients, the bank restructured KES 57Bn in loans (28% of loan book).
- Gross non-performing loans (NPLs) stood at KES 17.01Bn, an increase of KES 8.4% from KES 15.70Bn. This was heavily affected by manufacturing whose NPLs contribution increased to 34% from 13%.

Bloomberg Ticker: ABSA KN	
Share Stats	
Current Price (KES)	9.53
52 Week Average	11.25
52 Week High	13.60
52 Week Low	8.62
Issued shares (Mn)	5,431.54
Free Float	31.5%
Market Cap (KES Mn)	51,763
Market Cap (USD Mn)	478.30
EPS (Annualized)	0.22
PE (Annualized)	43.32
PB	1.20



- Gross NPLs eased by 1.5% Q-Q on conclusion of phase one repayment holiday.

Profit and Loss (KES Mn)	H1 2019	Q1-2020	H1 2020	%Δ y-y	%Δ Q-Q
Interest Income	15,183	7,610	15,318	0.9%	101.3%
Interest Expense	4,151	1,997	4,013	-3.3%	100.9%
NII	11,032	5,613	11,304	2.5%	101.4%
NFI	5,287	2,749	5,509	4.2%	100.4%
Total Income	16,319	8,362	16,814	3.0%	101.1%
Provisions	1,641	1,115	5,385	228.1%	383.2%
Expenses	10,046	5,092	13,554	34.9%	166.2%
Expense less Provisions	8,404	3,978	8,169	-2.8%	105.4%
PBT	5,713	2,718	1,593	-72.1%	-41.4%
PAT	3,878	1,834	589	-84.8%	-67.9%
EPS (annualized)	0.71	0.34	0.11	-84.5%	-67.6%

Balance Sheet (KES Mn)	H1 2019	Q1-2020	H1 2020	%Δ y-y	%Δ Q-Q
Investment Securities	81,185	81,850	92,013	13.3%	12.4%
Loans and Advances	186,655	202,960	201,948	8.2%	-0.5%
Total Assets	353,837	381,693	391,879	10.8%	2.7%
Customer Deposit	229,669	239,406	248,746	8.3%	3.9%
Shareholders' Equity	42,387	41,057	42,991	1.4%	4.7%

Key Ratios	H1-2019	Q1-2020	H1-2020
NII Contribution	67.6%	67.1%	67.2%
NFI Contribution	32.4%	32.9%	32.8%
CTI	61.6%	60.9%	80.6%
CTI less Provisions	51.5%	47.6%	48.6%
Advance to Deposit	81.3%	84.8%	81.2%
Investment to Assets	22.9%	21.4%	23.5%
Loans to Assets	52.8%	53.2%	51.5%
Cost of Funds	3.0%		2.7%
Net Interest Margins	8.3%		7.7%
Coverage Ratio	73.0%		64.0%

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Analysts' stock ratings are defined as follows:

- **Buy** – A buy rating reflects 1) An analyst has a bullish conviction on a stock 2) A 30% or greater expected return.
- **Accumulate** – An accumulate rating reflects 1) An analyst has a lesser bullish conviction on a stock 2) Expected return falls between 10% and 30%.
- **Hold** – A hold rating reflects 1) An analyst has a neutral conviction (lack of bullish or bearish conviction) on a stock 2) Expected return falls within the range of 5% to 10%.
- **Speculative Buy** – A speculative buy rating reflects 1) An analyst has a bullish conviction accompanied by a substantially higher than normal risk 2) Expected return falls above 10%.
- **Sell** – A sell rating reflects 1) An analyst has a bearish conviction on a stock 2) Expected return falls below 5%.

*Expected Return (ER) represents the sum total of both capital appreciation and the dividend yield.

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