

## Absa Bank Kenya Plc – Earnings Update Q3-2020

Heavy restructuring, 30% of the net loan book, saw Absa Bank loss provisions surge by 146.7% Y-Y compelling the bank to post KES 3.39Bn in Q3-2020 Profit before tax (PBT), a 58.6% Y-Y dip from KES 8.18Bn in Q3-19. Profits after tax (PAT) declined by 65.4% to KES 1.92Bn from KES 5.56Bn in Q3-19. The bank reported an expense of KES 1.94Bn towards transition to Absa Kenya. Performance excluding provision saw a PBT growth of 6.2% and a PAT decline of 4.1% on Y-Y. Quarterly performance excluding provisions saw PBT and PAT grow by 49.6% and 64.7%. the bank share has been trading near the 6-month average of KES 9.67 per share.

### On the positive

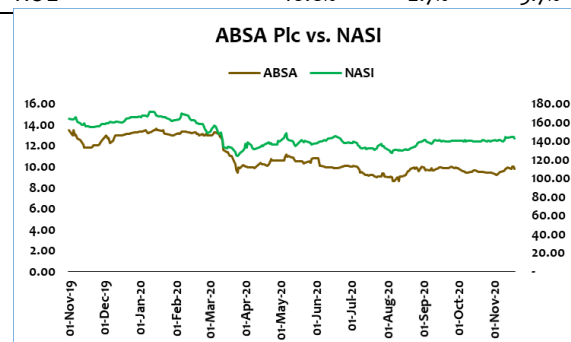
- The Q-Q PAT and PBT were up 226.5% and 112.9% respectively boosted by slower Q3-2020 growth in provisioning at 41.1%.
- Topline performance saw a positive trend with Net Interest Income (NII) growing by 1.6% Y-Y and 51.3% Q-Q. The performance was boosted by a 9.6% Y-Y growth on interest from governments securities.
- Interest expense had a marginal upside of 0.8% boosted by a 4.4% decline on interest expense from customer deposit despite a 4.7% Y-Y rise in customer deposit.
- Non-Funded Income (NFI) was up 4.5% Y-Y and 52.3% Q-Q. NFI benefited from 18.8% Y-Y upside performance in forex trading income as the global economy was reopened and depreciation of the shilling against major currencies.
- Operating Expenses was down 1.1% Y-Y. Slower growth in staff cost of 1.9% Y-Y (48.1% Q-Q) coupled by an 8.1% dip in other liabilities aided expense, excluding provisions, to increase marginally by 1.1%.
- A successful completion of the transition from Barclays to Absa left the lender with a KES 1.94Bn bill which was reported under exceptional item. PBT excluding provisions and exceptional item grew by 4.5%, based on corporate tax of 30%, showing benefits to be clawed back post transition.

### The Negatives:

- Interest income from loans and advances were down 4.4% while the loan book grew by 7.8% Y-Y. The quarterly performance was up by 51.6% compared to 50.8% growth in same period in 2019.
- Government regulation on zero cost on bank to wallet and wallet to bank transactions, internet banking and mobile loan uptake left fees and commission down 11.0%. This forced a slow growth of 49.4% on Q-Q basis.
- Slowdown on loan dispersal led to fees and commission from loans and advances with a downgrowth of 9.8% Y-Y and a Q-Q growth of 38.0%.
- Loan loss provisions increased by 146.7% with the bank opting to restructure close to KES 63Bn or 30% of net loan book which were affected by economic condition fronted by Covid-19 Pandemic.
- Gross NPLs in increased by 20.8% Y-Y while eased by 1.4% Q-Q. Gross NPL to net loan ratio was at 7.1% in Q3-2020 from 5.9% in Q3-19 and 7.3% in Q2-2020.

Bloomberg Ticker:	ABSA KN
<b>Share Stats</b>	
Current Price (KES)	9.76
6 Month Average	9.67
12 Month Average	10.48
52 Week High – Low	13.60 - 8.62
Issued shares (Mn)	5,431.54
Free Float	31.1%
Market Cap (KES Mn)	53,012
Market Cap (USD Mn)	484.93
EPS	0.47
PE	20.91
PB	1.19

Key Ratios	Q3-2019	Q2-2020	Q3-2020
NII Contribution	67.9%	67.2%	67.3%
NFI Contribution	32.1%	32.8%	32.7%
CTI	63.3%	80.6%	79.0%
CTI less Provisions	50.9%	48.6%	49.1%
Advance to Deposit	82.5%	81.2%	84.9%
Investment to Assets	21.4%	23.5%	24.4%
Loans to Assets	54.0%	51.5%	53.9%
Cost of Funds	2.8%	2.7%	2.5%
Net Interest Margins	8.9%	7.7%	8.0%
ROA	2.2%	0.3%	0.7%
ROE	16.8%	2.7%	5.7%



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## Balance sheet:

- Total asset grew by 7.8% Y-Y while it eased marginally by 0.1% Q-Q. The company shift investments to government securities saw the line grow the line by 23.2% Y-Y and 2.9% Q-Q. Loans and advances inched 7.8% higher and 3.6% Q-Q. Customer deposits was up 4.7% Y-Y.
- The Q-Q decline in government securities was due to the need to finance the loan book as customer deposits declined by 0.9% Q-Q.

## The Ratio:

- NII contribution remained stable at 67.3% and NFI gave 32.7% compared to 67.9% and 67.9% in Q3-19. Cost to Income (CTI) was at 79.0% from 63.3% in Q3-2019. CTI less provisions declined by 49.1% vs. 50.9% over the period.
- Advances to Deposit (AD) improved to 84.9% from 82.5% Y-Y. Investment to assets increased to 24.4% from 21.4% while loans to assets was flat at 53.9% vs. 54.0%.
- Cheaper deposits left cost of funds at 2.5% from 2.8% in Q3-2019 and 2.7% in Q2-2020. Net interest margins worsened to 8.0% from 8.9% Y-Y but improved compared to 7.7% seen in Q2-2020.
- ROaA stood at 0.7% from 2.2% in Q3-2019 and 0.3% in Q2-2020. ROaE was 5.7% compared to 16.8% in Q3-19 and 2.7% in Q2-2020.

## Our View:

- The management has gone through a great effort to grow the performance of the bank. The completion of the transition, performance is bound to aid containments of cost.
- The 48.1% Q-Q increase in provisions compared to 166% increase in Q2-2020 has shown a slowdown on restructured loans with KES 57Bn restructured as of end of Q2 compared to KES 63Bn at the end of Q3.
- Reversal of government directive on zero cost on wallet to bank and bank to wallet transfers will improve NFI revenues boosting the bottom line.
- We do not anticipate the bank will pay dividends in FY-2020 as it manages cash reserves to aid with future business growth post Covid-19 pandemic era.

Profit and Loss (KES Mn)	Q3-2019	Q2-2020	Q3-2020	%Δ y-y	%Δ Q-Q	Balance Sheet (KES Mn)					
						Q3-2019	Q2-2020	Q3-2020	Y-Y	Q-Q	
Interest Income	22,895	15,318	23,215	1.4%	51.6%	Investment Securities	76,845	92,013	94,664	23.2%	2.9%
Interest Expense	6,065	4,013	6,114	0.8%	52.3%	Loans and Advances	194,194	201,948	209,248	7.8%	3.6%
NII	16,831	11,304	17,101	1.6%	51.3%	Total Assets	359,765	391,879	387,867	7.8%	-1.0%
NFI	7,953	5,509	8,309	4.5%	50.8%	Customer Deposit	235,410	248,746	246,551	4.7%	-0.9%
Total Income	24,784	16,814	25,410	2.5%	51.1%	Shareholders' Equity	43,998	42,991	44,622	1.4%	3.8%
Provisions	3,079	5,385	7,597	146.7%	41.1%						
Expenses	15,691	13,554	20,075	27.9%	48.1%						
Expense less Provisions	12,612	8,169	12,478	-1.1%	52.7%						
PBT	8,183	1,593	3,391	-58.6%	112.9%						
PAT	5,559	589	1,923	-65.4%	226.5%						
PBT less Provisions	12,172	8,644	12,933	6.2%	49.6%						
PAT less Provisions	7,750	4,316	7,108	-8.3%	64.7%						
PAT less Provisions and Extraordinary items	8,660	5,983	9,053	4.5%	51.3%						
EPS	1.02	0.11	0.35	-65.7%	218.2%						

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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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