

# KINGDOM SECURITIES

## ABSA Plc Doubles its Net Income at 161.2%

**ABSA Group reported Kes. 10.87Bn profits after tax (PAT) for FY-2021, a 161.2% spike from a PAT of Kes. 4.16Bn recorded in 2020. Profits before tax were Kes. 15.55Bn in comparison to that of Kes. 5.65Bn the year 2020. The profits were up on a 47.8% or Kes. 4.32Bn reduction in loan loss provisions plus a 4.7% growth on the lender's non-funded income.**

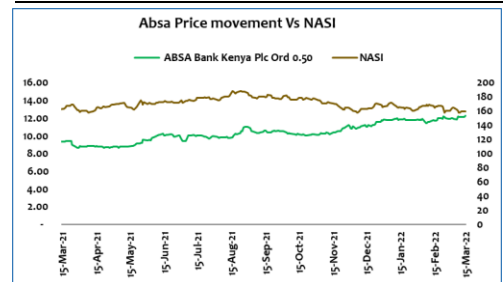
**The lender recommended a Kes. 1.10 dividend payment, a 9.0% dividend yield on its current price of Kes. 12.25 with the book closure and payment dates being 25<sup>th</sup> April and 26<sup>th</sup> May respectively.**

**The counter's EPS edged 157.9% up from 0.77 to 2.00 in FY-2021. We revise our recommendation to a HOLD based on a high loan loss provisions that aided the company's overall profitability which we do not foresee a recurrence in 2022. Our revised valuation is Kes. 11.55 per share, a 5.7% downside.**

- The bank's net interest income grew 1.9% Y/Y from Kes. 31.44Bn to Kes. 32.04Bn reaping off from its growing loan book and reduced interest expenses on cheap deposits. Q/Q performance contributed 26.5% to the NII from a 2.3% Q/Q growth in interest income from Kes. 1.78Bn in Q3 to Kes. 1.84Bn in Q4-2021. Interest expense fell 15.9% Y/Y from Kes. 8.06Bn to Kes. 6.78Bn riding on cheaper deposit placements.
- Income from loans and advances grew 3.6% Y/Y from Kes. 22.30Bn to Kes. 23.10Bn with Q4 contributing the most at 26.0% from a 22.0% Q/Q growth from Kes. 5.99Bn to Kes. 6.10Bn. Interest income from government securities dropped 7.5% from Kes. 8.97Bn to Kes. 8.29Bn lagging on the reduced investment in securities and a shift to loans and advances on better yields.
- Interest expense contracted 15.9% Y/Y from Kes. 8.06Bn to Kes. 6.78Bn gaining from cheaper deposits from banking institutions that appeared to be support from the mother company. Deposits and placements from banking institutions receded 65.5% from Kes. 1.89Bn to Kes. 0.65Bn. Expense on customer deposit however, remained marginally flat with a 0.2% uptick from Kes. 5.98Bn to Kes. 6.00Bn.
- Non-funded revenue stream was 4.7% up from that of Kes. 11.14Bn in FY-2020 to Kes. 11.66Bn in FY-2021, a 31.6% contribution to the total income. This resulted from a 37.7%Y/Y spike on income from fees and commissions income in loans & advances from Kes. 1.28Bn to Kes. 1.26Bn to Kes. 1.73Bn plus growths in the company's digital plus e-credit loans commonly known as Timiza. Digital transactions accounted for 70% of all transactions.
- Forex income dropped 6.4% Y/Y to Kes. 4.16Bn in FY-2021 while Q/Q performance signaled signs of recovery on the weakening shilling.
- Total operating costs dipped 16.8% from Kes. 25.67Bn to Kes. 21.37Bn on contractions in Loan loss provisions which fell 47.8% to Kes. 4.71Bn from Kes. 9.03Bn on the reopened economy and good loan recoveries recorded from reopened economy.
- Excluding loan loss provisions, the bank's operating expenses marginally remained flat at Kes. 16.66Bn from Kes. 16.65Bn in FY-2020. On Q/Q basis, the expenses less loan loss provisions soared by Kes. 0.52Bn or 12.8% on what the lender said compensation for better returns.
- Staff costs were 3.3% Y/Y down from Kes. 9.76Bn to Kes. 9.43Bn on reduction of staff number through digitization efficiency FY-2020 but remained 7.4% up Q/Q on effect of the collective bargaining agreement that was implemented late 2021.

## ABSA KENYA PLC Earnings Update – FY 2021

Bloomberg Ticker	ABSA KE
Recommendation	HOLD
Share Statistics	
Valuation Price	11.55
Current Price (KES)	12.25
Upside/Downside	-5.7%
3 Months Avr	11.78
6 Months Avr	11.13
12 Months Avr	10.36
52 Week High - Low	12.25 - 8.62
Issued shares (Mn)	5431.54
Market Cap (KES Mn)	66,536.32
Market Cap (USD Mn)	582.48
EPS	2.00
PE	6.1
Bvps	10.4
PB	1.2
DPS	1.10
Dividend Payout	55.0%
Div Yield	9.0%



ABSA Vs NasI Price movement		
Period	ABSA	NASI
MTM	4.7%	-3.4%
3-Months	10.9%	-2.2%
6-Months	15.6%	-11.3%
YTD	3.4%	-3.0%
Y-Y	30.9%	-1.9%

NNI + 8.0% Y/Y

Provisions – 47.8% Y/Y

Opex. – 16.8 Y/Y

PBT + 175.4% Y/Y

PAT + 161.2% Y/Y

Loans + 12.2% Y/Y

Deposits + 5.9% Y/Y

Shareholder's Funds + 21.4 Y/Y

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- Change of corporate tax from 24% to 30% also saw the overall income depressed.

### Balance Sheet

- Total assets grew 13.0% Y/Y from Kes. 379.44Bn to Kes. 428.69Bn with a quarterly average growth of 3.1%. Q4-2021 contributed the most at 35.1% of the total Kes. 49.25Bn addition.
- Lending shift to loans and advances left investment in government securities 1.5% Y/Y lower to Kes. 88.38Bn as advances and loans flourished 12.2% up from Kes. 208.85Bn to Kes. 234.23Bn.
- Overall Customer deposits jumped 5.9% up from Kes. 253.63Bn to Kes. 268.72Bn helping support the rising loan book above.

### Ratios

- Cost of funds improved from 3.2% to 2.6% on reduced interest expense on loans on better utilization of cheaper deposits.
- Return on assets 50bps from 2.2% in 2020 to 2.7% on the rising profits recorded by the employer as return on average equity hit the 21.1% on a faster rise on PAT than that of investor's equity.
- Gross non-performing loans grew 15.9% from Kes. 17.10Bn to Kes. 19.82Bn on the growing loan book pushing the NPL ratio 20bps up from 7.50% to 7.7%. This however, remained low compared to the industry NPL of 13.1% for the same period on a better loan book.

P&L (KES Mn)	FY-2020	FY-2021	Y-Y Δ%	Q3-2021	Q4-2021	Q-Q Δ%
Interest Income	31,440	32,038	1.9%	8,329	8,519	2.3%
Interest Expense	8,059	6,781	-15.9%	1,748	1,838	5.1%
NII	23,381	25,257	8.0%	6,581	6,681	1.5%
NFI	11,140	11,665	4.7%	2,893	2,926	1.1%
Total Income	34,522	36,921	7.0%	9,474	9,607	1.4%
Loan Loss Provisions	9,027	4,709	-47.8%	1,461	1,306	-10.6%
Operating Expense	25,673	21,372	-16.8%	5,555	5,923	6.6%
Opex Excl Provisions	16,647	16,663	0.1%	4,094	4,617	12.8%
PBT	5,646	15,549	175.4%	3,919	3,685	-6.0%
PAT	4,162	10,870	161.2%	2,665	2,633	-1.2%
EPS	0.77	2.00	159.7%	0.49	0.48	-2.0%

Balance Sheet (KES Mn)	FY-2020	FY-2021	Y-Y Δ%	Q3-2021	Q4-2021	Q-Q Δ%
Investments	94,664	77,064	-18.6%	81,665	88,380	8.2%
Loans and Advances	208,855	234,234	12.2%	229,080	234,234	2.2%
Total Asset	379,441	428,690	13.0%	411,418	428,690	4.2%
Customer Deposit	253,630	268,717	5.9%	268,816	268,717	0.0%
Shareholders' Fund	46,504	56,447	21.4%	54,623	56,447	3.3%

Ratios	FY 2020	Q3-2021	FY 2021
NII % of Total Income	67.7%	69.5%	68.4%
NFI % of Total Income	32.3%	30.5%	31.6%
CTI	74.4%	58.6%	57.9%
CTI exc Provision	48.2%	45.1%	45.1%
Yield on Advances	10.7%	7.4%	9.9%
Yield on Government Securities	10.0%	7.5%	9.4%
Cost of Funds	3.2%	2.5%	2.6%
Net Interest Margins	7.6%	7.6%	7.6%
ROA	1.1%	2.8%	2.7%
ROE	9.1%	21.7%	21.1%
Gross NPL to Net Loans	7.5%	7.8%	7.7%
AD Ratio	82.3%	85.2%	87.2%
Investments Securities to Assets	24.9%	19.8%	20.6%
Advances to Assets	55.0%	55.7%	54.6%

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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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