

KINGDOM SECURITIES

ABSA Bank Kenya Plc released Q1-23 results posting KES 6.42Bn in profits before tax (PBT), a 49.4% y-y compared to KES 4.30Bn in Q1-22. The bank posted a 50.7% growth in profits after tax (PAT) to KES 4.45Bn from KES 2.95Bn. The performance was supported by a 36.0% y-y rise in net interest income (NII).

The lender continues to implement its consumer banking model that has seen growth of retail business and wealth management. This has helped to increase the non-funded income to 32.5% from 30.5% seen in Q1-22.

The counter is currently trading at a 7.0% discount to 6-month and y-t-d prices. PE stand at 3.8x against Kenya industry PE 3.3x. It has a PB of 0.9x. We expect the board to retain the traditional interim dividend in H1-23 results.

- Net interest income increased by 36.0% y-y to KES 9.36Bn from KES 9.88Bn with drive coming from a 38.3% rise in interest income. Overall contribution to total capital stood at 67.5% from 69.5% in Q1-22.
- A 51.4% rise in interest from loans and advances aided in pushing interest income up by 38.3% y-y to KES 12.14Bn from KES 8.78Bn. The returns on loans and advances were boosted by a 21.1% y-y growth in net loan book and yields improved by 12.9% from 10.6% s due to the repricing of the loan book in line with the operating environment.
- Interest expenses were up 46.8% y-y to KES 279Bn from KES 1.90Bn. This was affected by a 32.2% y-y on customer deposits which pushed the cost of deposit up to 2.8% from 2.4%. The expenses came under pressure from the increase in cost of subordinated debt and other borrowed funds. This saw other interest expenses increase by 8.0% y-y. The cost of funds was up to 2.7% from 2.4% on faster rising expenses.
- Non-funded income (NFI) improved by 49.3% y-y from KES 3.02Bn to KES 4.51Bn supported by a 79.9% rise in income from foreign currency trading. Other fees can commission improved by 36.5% due to improved mobile loans, trade finance and reintroduction of charges for transactions between mobile wallets and bank accounts, which were waived in March 2020. Contribution to total income increased to 32.5% from 30.5%.
- Expenses were at KES 7.44Bn, 32.8% higher than KES 5.60Bn. the levels were elevated by a 103.3% y-y rise in loan loss provision (LLP). Cost to income ratio (CTI) was at 53.7% from 56.6%. Expense less provision was up 14.0% to KES 5.04% from KES 4.42Bn. The largest contributor was an 18.8% rise in staff costs. CTI less provision eased to 36.3% from 44.6%.

Balance Sheet

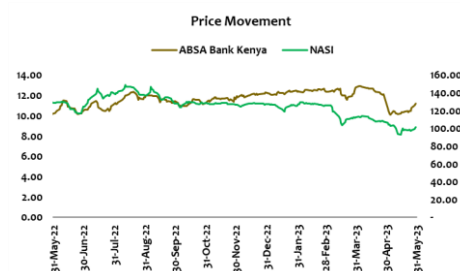
- Balance Sheet had total assets of grew by 17.4% y-y. Investment in government securities marginally eased by 0.9% y-y to KES 87.03Bn from KES 87.81Bn weakening its contributing to total assets to 16.9% from 20.0% in Q1-22.
- Net loan book expanded 309.79Bn, a 27.7% y-y growth from KES 242.67Bn. The bank purposely improved the business loan products with trade loans, mortgages, unsecured lending, and overdrafts.

ABSA Bank Kenya Earnings Update Q1-2023

Bloomberg Ticker:	ABSA KN
Share Stats	
Current Price (KES)	11.20
3-Monts Avg	11.74
6-Month Avg	12.00
Y-T-D Avg	11.99
52 Week Average	11.65
52 Week High-Low	12.95 - 10.10
Issued shares (Mn)	5,431.54
Free Float	31.1%
Market Cap (KES Mn)	60,833
Market Cap (USD Mn)	439.26
EPS LTM	2.97
PE	3.8
BVPS	12.52
PB	0.9

Price Movement		
Period	ABSA Bank Kenya	NASI
30-May-23	11.20	101.80
3-Months	11.74	108.76
6-Months	12.00	117.52
Y-T-D	11.99	115.61
Y-Y	11.65	125.25
52-Wk Max	12.95	13.00
52-Wk Min	10.10	109.97

Price Return		
Period	ABSA Bank Kenya	NASI
30-May-23	11.20	101.80
3-Months	-10.40%	-19.19%
6-Months	-3.86%	-19.51%
Y-T-D	-8.20%	-20.06%
Y-Y	9.80%	-21.50%



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- To fuel the drive, there was a 15.3% y-y growth in customer deposits to KES 514.60Bn from KES 438.50Bn. This was advances to deposit ratios up 60.2% from 55.3% and indicating increase in risk appetite.
- To sustain business, the bank increased its borrowing need with a USD 60Mn subordinate loans to grow trade finance and KES 3.0Bn from the Kenya Mortgage Refinance Company to support mortgage lending. This grew the liabilities by 126.9Y y-y to KES 9.10Bn from KES 4.01Bn. This pushed the debt to equities up to 13.4% from 6.8%.
- Shareholders funds were up 14.9% y-y to KES 67.98Bn from KES 59.15Bn supported by 20.4% rise in retained earnings.

Key Ratios

- Gross non-performing loans (NPL) increased by 59.7% to KES 31.14Bn from KES 31.14Bn on growth. This saw the NPL ratio rise to 8.6% from 7.1%.
- Net interest margins shot to 9.7% from 8.4% of better performing asset yields.
- Return on average assets (ROaA) improved to 3.6% from 2.7% while return on average equities (ROaE) jumped to 27.1% from 20.4%.
- The sharp rise in loan loss provision saw cost of risk up to 3.2% from 2.0% in line with the growing net loan book.

Profit and Loss (KES Mn)	Q1-2022	Q1-2023	%Δ y-y
Interest Income	8,781	12,143	38.3%
Interest Expense	1,900	2,788	46.8%
NII	6,882	9,356	36.0%
NFI	3,018	4,505	49.3%
Total Income	9,900	13,861	40.0%
Provisions	1,181	2,401	103.3%
Expenses	5,601	7,439	32.8%
Expense less Provisions	4,420	5,038	14.0%
PBT	4,299	6,422	49.4%
PAT	2,954	4,452	50.7%
EPS	0.54	0.82	51.9%

Balance Sheet (KES Mn)	Q1-2022	Q1-2023	%Δ y-y
Investment Securities	87,811	87,027	-0.9%
Loans and Advances	242,672	309,973	27.7%
Total Assets	438,500	514,604	17.4%
Customer Deposit	269,537	310,831	15.3%
Borrowed Funds	4,011	9,100	126.9%
Shareholders Equity	59,150	67,981	14.9%

NPLs KES Mn	Q1-2022	Q1-2023	%Δ y-y
Gross NPLs	19,499	31,143	59.7%

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ABSA Bank Kenya Earnings Update Q1-2023

Total NPL	17,134	26,621	55.4%
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Key Ratios	Q1-2022	Q1-2023	%Δ y-y
NII Contribution	69.5%	67.5%	-2.0%
NFI Contribution	30.5%	32.5%	2.0%
CTI	56.6%	53.7%	-2.9%
CTI less Provisions	44.6%	36.3%	-8.3%
NPL	7.1%	8.6%	1.5%
Yield on Advances	10.6%	12.9%	2.3%
Yield on Securities	10.1%	10.9%	0.8%
Cost of Deposit	2.4%	2.8%	0.4%
Cost of Funds	2.2%	2.7%	0.5%
Net Interest Margins	8.4%	9.7%	1.3%
Cost of Risk	2.0%	3.2%	1.2%
ROaA	2.7%	3.6%	0.9%
ROaE	20.4%	27.1%	6.7%
Investment to Assets	20.0%	16.9%	-3.1%
Loans to Assets	55.3%	60.2%	4.9%
Advance to Deposit	90.0%	99.7%	9.7%
Debt to Equity	6.8%	13.4%	6.6%

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Recommendation Guide:

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 of both capital appreciation and the dividend yield.

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