

ABSA Kenya Posts 32.0% Rise in Profits

ABSA Group reported Kes. 8.31Bn profits after tax (PAT) for HY-2023, a 32.0% yspike from a PAT of Kes. 6.29Bn announced in H1-2022. Profits before tax Improved 32.5% year-on-year(y-y) to KES 12.07Bn on a higher interest income emanating from a continued market penetration in the lending space. The performance remained supported on strong top line growth which saw net interest income (NII) 33.2% y-y up.

The Board of Directors of Absa Bank recommended a KES 0.20 (H1-2022: KES 0.20) per share dividend for the H1-2023, whose book closure and payment dates are set for 21st September and 12th October respectively. The earnings per share increased 31.9% while the book value improved 13.3% at 11.7 as the price to earnings ratio flourished to 1.0x compared to an industry PE of 3.61x.

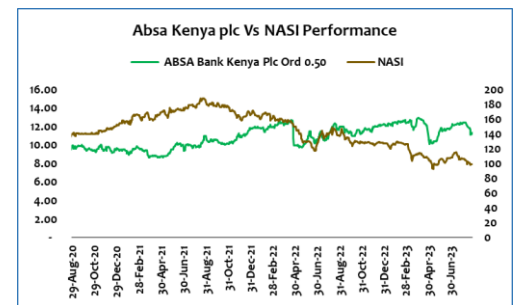
We retain our HOLD recommendation with a revised price of KES 11.86, a 6.3% upside.

- The bank's net interest income (NII) grew 33.2% y-y from Kes. 14.43Bn to Kes. 19.22Bn reaping off from its growing loan book that offset the 50.3% rise in interest expenses. Interest income contribution to total income grew from 69.0% to 70.3% riding on a faster rise in interest income. Quarter-on-quarter (Q-Q) performance saw the NII rise 5.5% with a 73.1% contribution to total income.
- Interest from loans and advances climbed 51.4% y-y on a faster rise in loan book and better returns on the rising interest rates adopted in the period. This was further elevated by the review on its digital lending rates following the upward review of the Central Bank Lending rate in general. Yield on loans improved from 10.8% to 13.4% reflecting of the better returns in the market.
- Returns from government securities increase marginally at 3.6% y-y from KES 4.55Bn to KES 4.71Bn being affected by the shrinking securities book. The lender appeared to focus on growing its loan book while cutting down on the securities book on what we attribute to the rising yields in the bonds market. Yield on government securities however improved from 10.2% to 11.0%. Q-Q income from government securities dropped 5.0% from KES 2.42Bn to KES 2.30Bn.
- Interest expense went up 50.3% from KES 4.00Bn to KES 6.01Bn being eroded by expensive deposits and a KES 4.20Bn loan borrowed in the period to support the ballooning loan book. Cost on customer deposits went up 40.9% to KES 4.66Bn.
- Non funded income (NFI) went up 25.7% y-y from KES 6.48Bn to KES 8.14Bn gaining especially from a weak local currency and from digital lending. Forex trading revenues spiked 27.6% y-y from KES 2.99Bn to KES 3.76Bn as other fees and commissions moved 27.6% up to KES 2.99Bn.
- Operating expenses accelerated 29.7% up from KES 11.79Bn to KES 15.2Bn being heavily eroded by high loan loss provisions to cushion the growing loan book. Loan loss provisions jumped 74.4% up from KES 2.96Bn to KES 5.16Bn. The Q2-2023 provisions accounted for KES 2.75Bn of the total. Operating expenses excluding loan loss provisions was contained at 14.7%.

Balance Sheet

- The first half of 2023 saw the balance sheet growth 13.1% from KES 445.29Bn to KES 503.74Bn being pushed up by the above 26.1% or KES 56.41Bn to the loan book.

Bloomberg Ticker	ABSA KE
Recommendation	HOLD
Share Statistics	
Valuation Price	11.86
Current Price (KES)	11.35
Upside/Downside	6.3%
3 Months Avg	11.92
6 Months Avg	11.86
12 Months Avg	11.87
52 Week High - Low	10.10 - 12.95
Issued shares (Mn)	5431.54
Market Cap (KES Mn)	61,647.93
Market Cap (USD Mn)	424.72
EPS (annualized)	3.06
PE	3.7
Bvps	11.7
PB	1.0
DPS	1.10



NNI + 33.2% Y/Y

Provisions + 74.4% Y/Y

Opex. + 29.7% Y/Y

Opex Exc. Loan loss prov. + 14.7% y-y

PBT + 32.5% Y/Y

PAT + 32.0% Y/Y

Govt. Securities - 10% Y/Y

Loans Book + 21.6% Y/Y

Deposits + 18.2% Y/Y

Shareholder's Funds + 13.3% Y/Y

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- Shareholders' funds climbed 13.7% from KES 56.07Bn to KES 63.74Bn benefitting from a 16.6% accumulation on the retained earnings. These resulted from the overall growth in net revenues.
- To support the growing asset loan book the bank's borrowed funds enlarged to KES 4.20Bn unlike H1-2022 where the lender had no borrowings.

Key Ratios

- Better utilization of funds swathe net interest margins (NIMs) rose from 8.0% to 10.2% signaling of a faster rise in interest income compared to the cost of funds. The cost of funds moved from 2.8% to 3.6% while the asset yield improved from 10.8% to 13.8%.
- Return on Average Equity (ROaE) rose from 2.9% to 3.4% y-y but slightly edged down Q-Q from 3.6% in Q1-2023.
- Non-Performing loans (NPLs) grew to 9.9% in H1-2023 from that of 7.5% recorded in H1-2022 but still below the industry NPL of 14.6%.

P&L (KES Mn)	Q2-2022	Q1-2023	Q2-2023	Q-Q Δ%	Y-Y Δ%
Interest Income	18,427	12,143	25,233	7.8%	36.9%
Interest Expense	3,997	2,788	6,008	15.5%	50.3%
NII	14,430	9,356	19,225	5.5%	33.2%
NFI	6,477	4,505	8,139	-19.3%	25.7%
Total Income	20,907	13,861	27,363	-2.6%	30.9%
Loan Loss Provisions	2,956	2,401	5,155	14.7%	74.4%
Operating Expense	11,794	7,439	15,292	5.6%	29.7%
Opex Excl Provisions	8,838	5,038	10,137	1.2%	14.7%
PBT	9,113	6,422	12,071	-12.0%	32.5%
PAT	6,294	4,452	8,305	-13.5%	32.0%
EPS	1.16	0.82	1.53	-13.4%	31.9%
Interim Dividend	0.20	-	0.20		

Balance Sheet (KES Mn)	Q2-2022	Q1-2023	Q2-2023
Investments	89,679	87,027	80,733
Loans and Advances	261,536	309,973	317,947
Total Asset	445,288	446,623	439,998
Customer Deposit	281,669	310,831	332,600
Borrowings	-	4,227	4,203
Shareholders' Fund	56,240	67,981	63,741

Ratios	Q2-2022	Q1-2023	Q2-2023
NII % of Total Income	69.0%	67.5%	70.3%
NFI % of Total Income	31.0%	32.5%	29.7%
CTI	56.4%	53.7%	55.9%
CTI exc Provision	42.3%	36.3%	37.0%
Yield on Advances	10.8%	12.9%	13.4%
Yield on Government Securities	10.2%	10.9%	11.0%
Cost of Funds	2.8%	3.5%	3.6%
Net Interest Margins	8.0%	9.0%	10.2%
ROA	2.9%	3.6%	3.4%
ROE	15.1%	27.1%	26.1%
Gross NPL to Net Loans	7.5%	9.9%	9.9%
AD Ratio	92.9%	99.7%	95.6%
Investments Securities to Assets	20.1%	19.5%	18.3%
Advances to Assets	58.7%	69.4%	72.3%

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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 total of both capital appreciation and the dividend yield.

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