

Absa Bank (K) Profits Jump up 19.8% in Q3-2024

Absa Bank Kenya plc reported KES 21.06Bn in profits before tax (PBT) as at Q3-2024, representing an 18.1% rise from that of KES 17.84Bn reported similar period in 2023. The Lender's performance was strongly supported by double digit growths in both funded and non-funded revenue lines. A hiked interest rate environment saw the Bank's interest income contribution to total income grow from 73.0% to 73.8% to remain among the best interest earning tier 1 banks. Quarter on quarter, the performance slowed down on what appears to be impact from the banks quick reaction to the first interest rate cut that happened in early August 2024.

Profits after tax (PAT) jumped 19.8% year-on-year (y-y) from KES 12.31Bn in Q3-2023 to KES 14.75Bn in Q3-2024 supported by a marginal decline in effective tax rate from 31.0% in Q3-2023 to 30.0% in Q3-2024.

The Bank's earnings per share (EPS) rose to 2.71 in Q3-2024, annualized to 3.61 compared to 2.27 of Q3-2024 and 3.01 of full year 2023 (FY-2023).

We recommend a HOLD on counter's share price with a price target of KES 16.41, a 7.5% upside from the current price of KES 15.45 per share as of Monday, 18th November 2024.

Income Statement

Absa's net interest income (NII) expanded 17.7% y-y from KES 29.32Bn to KES 34.53Bn elevated by a faster rise in total interest income compared the Bank's total interest expense on higher lending rates witnessed in the period. Total interest income accelerated up 24.3% from KES 39.14Bn to KES 48.64Bn heavily supported by interest income from loans and advances.

Interest income from loans and advances soared up 28.4% from KES 31.61Bn of Q3-2023 to KES 40.59Bn in Q3-2024, reaping off from the heightened lending rate whose base stood at 12.75% by lend of Q3-2024 compared to a base of 10.5% similar period in 2023. AS a result, yield on loans and advances went up from 13.7% in Q3-2023 to 16.7% in Q3-2024. This is even as the performance defied a 5.9% y-y decline in loan book from KES 317.95Bn to KES 311.46Bn.

Interest income from government securities book declined 6.3% y-y from KES 7.03Bn to KES 6.59Bn largely impacted by a 6.7% drop in government securities book from KES 77.68Bn to 72.45Bn. The yield on government securities books however went up from 11.1% in Q3-2023 to 11.9% in Q3-2024 on the prevailing better rates in the period.

Non-funded income (NFI) surged up 13.0% y-y from KES 10.83Bn to KES 12.23Bn driven by other operating income supported by the Lender's digital lending. Other operating income climbed 331.4% from KES 0.44Bn to KES 1.89Bn.

The Bank's operating expenses ballooned 15.2% y-y up from KES 22.31Bn to KES 25.70Bn largely on higher loan loss provisions and staff expenses. Loan loss provisions expanded 18.7% to KES 8.03Bn in relation to KES 6.67Bn of Q3-2023.

Bloomberg Ticker	ABSA KE
Recommendation	HOLD
Share Statistics	
Valuation Price	16.41
Current Price (KES)	15.45
Upside/Downside	7.5%
3 Months Avg	14.51
6 Months Avg	14.00
12 Months Avg	13.28
52 Week High - Low	15.55 - 10.75
Issued shares (Mn)	5431.54
Market Cap (KES Mn)	83,917.23
Market Cap (USD Mn)	647.98
PE	4.3
Bvps	14.2
PB	1.1
Current EPS	2.71
EPS (annualized)	3.61

ABSA Vs Nasi Price movement		
Period	ABSA	NASI
MTM	3.7%	-0.4%
3-Months	9.6%	11.5%
6-Months	18.8%	5.3%
YTD	33.8%	24.1%
Y-Y	39.2%	26.3%



- NNI +17.7.0% Y/Y
- Provisions +18.7% Y/Y
- Opex. +15.2% Y/Y
- Opex. Excl Provisions +13.7% Y/Y
- PBT +18.1% Y/Y
- PAT +19.8% Y/Y
- Govt. Securities -6.7% Y/Y
- Loans -5.9% Y/Y
- Deposits -0.7% Y/Y
- Shareholder's Funds +18.4% Y/Y

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Excluding loan loss provisions operating expenses were contained at 13.7% growths mainly on the staff costs which escalated 13.8% up from KES 8.63Bn to KES 9.81Bn.

Balance Sheet

Total assets dropped 4.1% from KES 504.92Bn to KES 484.35Bn on effect from declined in both the loan book and government securities book.

High cost of borrowing saw the bank's loan book shrink 5.9% y-y from KES 330.93Bn in Q3-2023 to KES 311.46Bn in Q3-2024. The impact was an industry issue impacting other banks as customers and businesses shied away from high cost of financing.

Unlike peers in the industry whose government securities book expanded, Absa Kenya's securities book thinned 6.8% y-y from KES 76.66Bn to KES 71.44Bn on reductions on its available to sale government bonds.

Customers deposits declined marginally at 0.7% from KES 354.31Bn to 351.80Bn but remained sufficient to manage the reduced loan book.

Shareholders' funds however improved 18.4% y-y from KES 65.31Bn to KES 77.32Bn supported by faster growths in the bank's retained earnings which is purely supported by income growths. Retained earnings were up 15.5% from KES 66.90Bn to KES 77.26Bn.

The Bank's borrowings dropped 16.5% from KES 4.35Bn to KES 3.64Bn as the bank went slow in financing a shrinking loan book slowed down by low disbursements that were outweighed by repayments.

Key Ratios

Return on average assets (ROaA) improved from 3.3% to 3.9% as the return on average equity (ROaE) also went up from 25.5% to 26.8%, all strongly supported by a faster growth in revenues compared to that of assets and shareholders' funds.

Faster growth in the bank's asset yield from 13.2% in Q3-2023 to 16.0% in Q3-2024, saw the net interest margins (NMs) flourish from 9.5% in Q3-2023 to 10.9% in Q3-2024.

General rise in interest rates in the market saw the bank's cost of funds soar from 3.8% to 5.1%. This was as customer demanded more returns from their deposits since they could obtain better rates from government securities.

P&L (KES Mn)	Q3-2023	Q2-2024	Q3-2024	%Δ Q-Q-	%Δ y-y
Interest Income	39,142	32,624	48,642	-2.2%	24.3%
Interest Expense	9,818	9,619	14,114	-5.5%	43.8%
NII	29,324	23,005	34,528	-0.8%	17.7%
NFI	10,827	8,825	12,234	-9.0%	13.0%
Total Income	40,151	31,830	46,763	-2.8%	16.5%
Loan Loss Provisions	6,762	5,170	8,026	3.3%	18.7%
Operating Expense	22,311	16,556	25,701	6.7%	15.2%
Opex Excl Provisions	15,549	11,386	17,675	8.3%	13.7%
PBT	17,841	15,274	21,062	-14.8%	18.1%
PAT	12,305	10,709	14,746	-15.2%	19.8%
EPS	2.27	1.97	2.71	-15.9%	19.4%

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Balance Sheet (KES Mn)	Q3-2023	Q2-2024	Q3-2024	%Δ Q-Q-	%Δ y-y
Investments	77,680	63,747	72,447	13.6%	-6.7%
Loans and Advances	330,932	316,370	311,461	-1.6%	-5.9%
Total Asset	504,924	481,421	484,350	0.6%	-4.1%
Customer Deposit	354,312	353,337	351,797	-0.4%	-0.7%
Borrowings	4,352	3,771	3,636	-3.6%	-16.5%
Shareholders' Fund	65,313	73,025	77,322	5.9%	18.4%

Ratios	Q3-2023	Q2-2024	Q3-2024
NII % of Total Income	73.0%	72.3%	73.8%
NFI % of Total Income	27.0%	27.7%	26.2%
CTI	55.6%	52.0%	55.0%
CTI exc Provision	38.7%	35.8%	37.8%
AD Ratio (Loans to Deposits)	93.4%	89.5%	88.5%
Advances to Assets	65.5%	65.7%	64.3%
Investments Securities to Assets	15.4%	13.2%	15.0%
Yield on Advances	13.7%	16.8%	16.7%
Yield on Government Securities	11.1%	12.5%	11.9%
Cost of Funds	3.8%	5.2%	5.1%
Net Interest Margins	9.5%	11.0%	10.9%
ROA	3.3%	4.3%	3.9%
ROE	25.5%	30.1%	26.8%
Cost of Risk	2.9%	3.2%	3.3%

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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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