Below is a summary of Absa Bank Kenya Plc FY'2024 performance:

Balance Sheet Items	FY'2023	FY'2024	y/y change
Government Securities	95.2	130.6	37.2%
Net Loans and Advances	335.7	309.1	(7.9%)
Total Assets	**519.8**	**506.5**	**(2.6%)**
Customer Deposits	362.7	367.1	1.2%
Deposit per Branch	4.8	4.3	(9.5%)
Total Liabilities	450.6	421.3	(6.5%)
Shareholder's Funds	**69.2**	**85.2**	**23.1%**

Balance Sheet Ratios	FY'2023	FY'2024	% points change
Loan to Deposit Ratio	92.5%	84.2%	(8.4%)
Govt Securities to Deposit ratio	26.2%	35.6%	9.3%
Return on average equity	24.6%	27.0%	2.4%
Return on average assets	3.3%	4.1%	0.8%

Income Statement	FY'2023	FY'2024	y/y change
Net Interest Income	40.0	46.2	15.4%
Net non-Interest Income	14.5	16.1	10.8%
Total Operating income	**54.6**	**62.3**	**14.2%**
Loan Loss provision	(9.2)	(9.1)	(1.6%)
Total Operating expenses	(30.9)	(32.6)	5.5%
Profit before tax	23.7	29.7	25.5%
Profit after tax	**16.4**	**20.9**	**27.5%**
Core EPS	**3.0**	**3.8**	**27.5%**
Dividend per Share	**1.55**	**1.75**	**12.9%**
Dividend Yield	**11.3%**	**9.3%**	**(17.4%)**
Dividend Payout Ratio	**51.4%**	**45.5%**	**(11.5%)**

Income Statement Ratios	FY'2023	FY'2024	% points change
Yield from interest-earning assets	12.7%	14.6%	1.9%
Cost of funding	4.1%	4.8%	0.7%
Net Interest Spread	3.8%	4.9%	1.1%
Net Interest Margin	9.4%	10.4%	1.0%
Cost of Risk	16.9%	14.6%	(2.3%)
Net Interest Income as % of operating income	73.4%	74.2%	0.8%
Non-Funded Income as a % of operating income	26.6%	25.8%	(0.8%)
Cost to Income	56.6%	52.3%	(4.3%)
Cost to Income (Without LLPs)	39.7%	37.7%	(2.0%)

Capital Adequacy Ratios	FY'2023	FY'2024	% points change
Core Capital/Total Liabilities	16.7%	19.9%	3.2%
Minimum Statutory ratio	8.0%	8.0%	0.0%
Excess	8.7%	11.9%	3.2%
Core Capital/Total Risk Weighted Assets	13.6%	17.0%	3.4%
Minimum Statutory ratio	10.5%	10.5%	0.0%
Excess	3.1%	6.5%	3.4%
Total Capital/Total Risk Weighted Assets	18.1%	20.7%	2.6%
Minimum Statutory ratio	14.5%	14.5%	0.0%
Excess	3.6%	6.2%	2.6%
Liquidity Ratio	31.1%	42.5%	11.4%
Minimum Statutory ratio	20.0%	20.0%	0.0%
Excess	11.1%	22.5%	11.4%

Income Statement

- Core earnings per share increased by 27.5% to Kshs 3.8, from Kshs 3.0 in FY'2023, mainly driven by the 14.2% increase in total operating income to Kshs 62.3 bn, from Kshs 54.6 bn in FY'2023 which outpaced the 5.5% increase in total operating expenses to Kshs 32.6 bn, from Kshs 30.9 bn in FY'2023,
- The 14.2% growth in total operating income was mainly driven by a 15.4% growth in Net Interest Income to Kshs 46.2 bn, from Kshs 40.0 bn in FY'2023, coupled with a 10.8% growth in Non funded Income (NFI) to Kshs 16.1 bn, from Kshs 14.5 bn in FY'2023,
- Interest income grew by 19.3% to Kshs 64.7 bn from Kshs 54.3 bn in FY'2023, mainly driven by a 134.5% growth in interest income from deposits and placements to Kshs 2.0 bn, from Kshs 0.8 bn in FY'2023 coupled with a 20.6% increase in interest income from loans and advances to Kshs 53.4 bn from Kshs 44.3 bn in FY'2023. Similarly, the Yield on Interest-Earning Assets (YIEA) increased by 1.8% points to 14.2% from 12.3% recorded in FY'2023, mainly attributable to the 19.3% growth in trailing interest income to Kshs 64.7 bn, from Kshs 54.3 bn in FY'2023 compared to the 3.7% increase in average interest earning assets to Kshs 457.4 bn, from Kshs 440.9 bn in FY'2023,
- Interest expenses rose by 30.1% to Kshs 18.5 bn, from Kshs 14.2 bn in FY'2023, driven by 51.2% increase in interest from customer deposits to Kshs 18.0 bn, from Kshs 11.9 bn in FY'2023, coupled with a 49.5% increase in other interest expenses to Kshs 0.3 bn in FY'2024, from Kshs 0.2 bn recorded in FY'2023. The growth in interest expense was however weighed down by a 86.9% decrease in interest expense from deposits and placements to Kshs 0.3 bn, from Kshs 2.2 bn in FY'2023. Consequently, Cost of funds (COF) increased by 0.7% points to 4.5%, from 3.9% recorded in FY'2023, owing to a faster 30.1% increase in Trailing interest expense to Kshs 18.5 bn, from Kshs 14.2 bn in FY'2023, compared to the 11.3% increase in average interest bearing liabilities to Kshs 407.4 bn from Kshs 365.9 bn in FY'2023. Trailing interest expense refers to the performance of the interest expense for the past 12 consecutive months. Net Interest Margin (NIM) increased by 1.0% points to 10.1% from 9.1% in FY'2023, attributable to the 15.4% growth in trailing net interest income to Kshs 46.2 bn, from Kshs 40.0 bn recorded in FY'2023, which outpaced the 3.7% increase in average interest earning assets to Kshs 457.4 bn, from Kshs 440.9 bn in FY'2023,
- Non-Funded Income (NFI) increased by 10.8% to Kshs 16.1 bn from Kshs 14.5 bn in FY'2023, mainly driven by a 4.5% increase in other fees and commissions to 6.0 bn from 5.8 bn in FY'2023, however, weighed down by the 8.8% decrease in the fees and commissions to Kshs 1.4 bn from Kshs 1.5 bn in FY'2023, and a 7.1% decrease in the foreign exchange trading income to Kshs 6.0 bn from Kshs 6.5 bn in FY'2023, highlighting the bank's reduced foreign exchange margins. The revenue mix shifted to 74:26 from 73:27 in FY'2023 for the funded to non-funded income owing to the 15.4% growth in Funded Income faster than the 10.8% growth in the Non Funded Income,
- Total operating expenses increased by 5.5% to Kshs 32.6 bn from Kshs 30.9 bn in FY'2023, driven by a 11.0% increase in staff costs to Kshs 13.0 bn from Kshs 11.7 bn in FY'2023 coupled with the 5.7% increase in other operating expenses to Kshs 10.5 bn from Kshs 9.9 bn in FY'2023, but was however weighed down by the 1.6% decrease in loan loss provisions to Kshs 9.1 bn from Kshs 9.2 bn in FY'2023. The decrease in provisioning comes amid the alleviated credit risk as a result of improved business environment during the period as evidenced by the average FY'2024 Purchasing Managers Index (PMI) of 49.6, up from an average of 48.1 in FY'2023,
- Cost to Income Ratio (CIR) decreased to 52.3% from 56.6% in FY'2023, owing to the 14.2% increase in total operating income, which outpaced the 5.5% increase in total operating expenses. Similarly, CIR without LLP decreased by 2.0% points to 37.7% from 39.7% recorded in FY'2023, and,
- Profit before tax increased by 25.5% to Kshs 29.7 bn from Kshs 23.7 bn in FY'2023, with effective tax rate decreasing to 29.8% in FY'2024 from 30.9% in FY'2023. As such, profit after tax increased by 27.5% to Kshs 20.9 bn, from Kshs 16.4 bn in FY'2023.

Balance Sheet

- The balance sheet recorded a contraction as total assets declined by 2.6% to Kshs 506.5 bn, from Kshs 519.8 bn in FY'2023, driven by a 7.9% loan book contraction to Kshs 309.1 bn from Kshs 335.7 bn in FY'2023. The performance was however supported by a 37.2% increase in investment in government securities to Kshs 130.6 bn, from Kshs 95.2 bn in FY'2023,
- Total liabilities declined by 6.5% to Kshs 421.3 bn from Kshs 450.6 bn in FY'2023, driven by a 38.6% decrease in placements to Kshs 29.3 bn, from Kshs 47.7 bn in FY'2023, coupled with a 81.6% decrease in borrowings to 3.5 bn, from Kshs 4.3 bn recorded in FY'2023. The decline in total liabilities was however supported by the 1.2% increase in customer deposits to Kshs 367.1 bn, from Kshs 362.7 bn in FY'2023. With 85 branches countrywide compared to 76 branches in FY'2023, deposits per branch decreased by 9.5% to Kshs 4.3 bn, from Kshs 4.8 bn in FY'2023,
- The slower 1.2% decrease in customer deposits as compared to the 7.9% decline in loans led to a 8.4% points decline in the loan to deposits ratio to 84.2%, from 92.5% in FY'2023,
- The bank's Asset Quality deteriorated, with Gross NPL ratio increasing to 12.6% in FY'2024, from 9.9% in FY'2023, attributable to the 20.1% increase in gross non-performing loans to Kshs 42.5 bn, from Kshs 35.4 bn in FY'2023, relative to the 6.1% decrease in gross loans to Kshs 337.1 bn, from Kshs 358.9 bn recorded in FY'2023,
- General Provisions (LLP) increased by 19.8% to Kshs 20.8 bn in FY'2024 from Kshs 17.4 bn in FY'2023. The NPL coverage increased to 66.0% in FY'2024, from 65.6% in FY'2023, attributable to the 20.1% growth in gross non-performing loans to Kshs 42.5 bn from Kshs 35.4 bn recorded in FY'2023, which outpaced the 19.8% increase in general provisions to Kshs 20.8 bn, from Kshs 17.4 bn in FY'2023.
- Shareholders' funds increased by 23.1% to Kshs 85.2 bn in FY'2024, from Kshs 69.2 bn in FY'2023, supported by a 17.7% increase in retained earnings to Kshs 74.9 bn, from Kshs 63.6 bn in FY'2023,
- Absa Bank Kenya remained capitalized with a core capital to risk-weighted assets ratio of 17.0%, 6.5% points above the statutory requirement of 10.5%. In addition, the total capital to risk-weighted assets ratio came in at 20.7% exceeding the statutory requirement of 14.5% by 6.2% points, and,
- The bank currently has a Return on Average Assets (ROaA) of 4.1%, and a Return on Average Equity (ROaE) of 27.0%.

Key Take-Outs:

1. **Increased earnings -** Core earnings per share increased by 27.5% to Kshs 3.8, from Kshs 3.0 in FY'2023, mainly driven by the 14.2% increase in total operating income to Kshs 46.2 bn, from Kshs 40.0 bn in FY'2023 which outpaced the 5.5% increase in total operating expenses to Kshs 32.6 bn, from Kshs 30.9 bn in FY'2023.
2. **Declined asset quality –** The bank's Asset Quality deteriorated, with Gross NPL ratio increasing to 12.6% in FY'2024, from 9.9% in FY'2023, attributable to the 20.1% increase in gross non-performing loans to Kshs 42.5 bn, from Kshs 35.4 bn in FY'2023, relative to the 6.1% decrease in gross loans to Kshs 337.1 bn, from Kshs 358.9 bn recorded in FY'2023.
3. **Decreased Lending –** The bank's loan book recorded a contraction of 7.9% to Kshs 309.1 bn, from Kshs 335.7 bn in FY'2023.
4. **Declarationof dividends -** The Board of Directors recommended a final dividend of Kshs 1.55 per share for FY'2024, in addition to the interim dividend of Kshs 0.2 during the year, bringing the total dividend to Kshs 1.75 per share compared to Kshs 1.55 per share FY'2023. This translates to a dividend payout ratio of 45.5% and a dividend yield of 9.3% as of 21st March 2025, compared to to a dividend payout ratio of 51.4% and a dividend yield of 11.3% in a similar period for FY'2023.

Going forward, the factors that would drive the bank's growth would be:

- **Continued Digitization -** The bank has continued to leverage digital transformation as a strategy to enhance financial services and customer experience. This expansion in digital distribution has led to an increase in digital loan disbursements and growth in consumer business through the Timiza digital platform, significantly contributing to its financial performance. Additionally, the lender's subsidiary divisions, particularly asset management and insurance, not only diversifys the bank's revenue streams but also provide additional value-added services to customers, enhancing overall client retention and satisfaction.

Valuation Summary

- We are of the view that Absa Bank Kenya is a "Buy" with a target price of Kshs 24.2 representing an upside of 38.0%, from the current price of Kshs 18.8 as of 21st March 2025, inclusive of a dividend yield of 9.3%.
- Absa Bank Kenya is currently trading at a P/TBV of 0.8x and a P/E of 4.9x vs an industry average of 1.2x and 5.5x respectively.