

Below is a summary of Absa Bank Kenya Plc Q1'2025 performance:

Balance Sheet Items	Q1'2024 (Kshs bn)	Q1'2025 (Kshs bn)	y/y change
Government Securities	85.7	144.0	68.0%
Net Loans and Advances	326.8	308.4	(5.6%)
Total Assets	497.7	520.2	4.5%
Customer Deposits	355.0	371.2	4.6%
Deposit per Branch	4.7	4.4	(6.5%)
Total Liabilities	422.7	427.7	1.2%
Shareholder's Funds	69.2	92.5	33.7%

Balance Sheet Ratios	Q1'2024	Q1'2025	% points change
Loan to Deposit Ratio	92.1%	83.1%	(9.0%)
Govt Securities to Deposit ratio	24.2%	38.8%	14.7%
Return on average equity	25.0%	25.2%	0.2%
Return on average assets	3.5%	4.1%	0.6%

Income Statement	Q1'2024 (Kshs bn)	Q1'2025 (Kshs bn)	y/y change
Net Interest Income	11.4	11.3	(1.1%)
Net non-Interest Income	5.1	4.5	(11.1%)
Total Operating income	16.5	15.8	(4.2%)
Loan Loss provision	(2.4)	(1.5)	(39.0%)
Total Operating expenses	(8.0)	(7.0)	(12.5%)
Profit before tax	8.5	8.8	3.6%
Profit after tax	5.9	6.2	3.7%
Core EPS (Kshs)	1.1	1.1	3.7%

Income Statement Ratios	Q1'2024	Q1'2025	% points change
Yield from interest-earning assets	13.0%	13.9%	0.8%
Cost of funding	4.5%	4.4%	(0.2%)
Net Interest Spread	1.2%	0.9%	(0.3%)
Net Interest Margin	9.4%	10.1%	0.7%
Cost of Risk	14.6%	9.3%	(5.3%)
Net Interest Income as % of operating income	69.2%	71.4%	2.2%
Non-Funded Income as a % of operating income	30.8%	28.6%	(2.2%)
Cost to Income	48.5%	44.3%	(4.2%)
Cost to Income (Without LLPs)	33.9%	35.0%	1.1%

Capital Adequacy Ratios	Q1'2024	Q1'2025	% points change
Core Capital/Total Liabilities	18.0%	20.5%	2.5%
Minimum Statutory ratio	8.0%	8.0%	0.0%
Excess	10.0%	12.5%	2.5%
Core Capital/Total Risk Weighted Assets	14.2%	17.3%	3.1%
Minimum Statutory ratio	10.5%	10.5%	0.0%
Excess	3.7%	6.8%	3.1%
Total Capital/Total Risk Weighted Assets	17.9%	20.4%	2.5%
Minimum Statutory ratio	14.5%	14.5%	0.0%
Excess	3.4%	5.9%	2.5%
Liquidity Ratio	33.5%	46.9%	13.4%
Minimum Statutory ratio	20.0%	20.0%	0.0%
Excess	13.5%	26.9%	13.4%

Income Statement

- Core earnings per share increased by 3.7% to Kshs 1.14, from Kshs 1.09 in Q1'2024, mainly driven by the 12.5% decrease in total operating expenses to Kshs 7.0 bn, from Kshs 8.0 bn in Q1'2024 which outpaced the 4.2% decrease in total operating income to Kshs 15.8 bn, from Kshs 16.5 bn in Q1'2024,
- The 4.2% decline in total operating income was mainly driven by a 11.1% decrease in Non funded Income (NFI) to Kshs 4.5 bn, from Kshs 5.1 bn in Q1'2024, coupled with a 1.1% decline in Net Interest Income to Kshs 11.3 bn, from Kshs 11.4 bn in Q1'2024,
- Interest income declined by 7.4% to Kshs 15.1 bn from Kshs 16.2 bn in Q1'2024, mainly driven by a 35.7% decrease in interest income from deposits and placements to Kshs 0.4 bn, from Kshs 0.6 bn in Q1'2024 coupled with a 14.7% decrease in interest income from loans and advances to Kshs 11.5 bn from Kshs 13.5 bn in Q1'2024. However, the Yield on Interest-Earning Assets (YIEA) increased by 0.8% points to 13.9% from 13.0% recorded in Q1'2024, mainly attributable to the 8.8% growth in trailing interest income to Kshs 63.5 bn, from Kshs 58.4 bn in Q1'2024 compared to the 2.2% increase in average interest earning assets to Kshs 457.8 bn, from Kshs 448.0 bn in Q1'2024,
- Interest expenses declined by 21.9% to Kshs 3.8 bn, from Kshs 4.9 bn in Q1'2024, driven by 20.5% decrease in interest from customer deposits to Kshs 3.4 bn, from Kshs 4.2 bn in Q1'2024, coupled with a 34.1% decrease in interest expenses from deposits and placements to Kshs 0.4 bn in Q1'2025, from Kshs 0.5 bn recorded in Q1'2024. Consequently, Cost of funds (COF) decreased by 0.2% points to 4.4%, from 4.5% recorded in Q1'2024, owing to a slower 7.0% increase in Trailing interest expense to Kshs 17.4 bn, from Kshs 16.3 bn in Q1'2024, compared to the 10.9% increase in average interest bearing liabilities to Kshs 400.2 bn from Kshs 361.0 bn in Q1'2024. Trailing interest expense refers to the performance of the interest expense for the past 12 consecutive months. Net Interest Margin (NIM) increased by 0.7% points to 10.1% from 9.4% in Q1'2024, attributable to the 9.6% growth in trailing net interest income to Kshs 46.1 bn, from Kshs 42.1 bn recorded in Q1'2024, which outpaced the 2.2% increase in average interest earning assets to Kshs 457.8 bn, from Kshs 448.0 bn in Q1'2024,
- Non-Funded Income (NFI) decreased by 11.1% to Kshs 4.5 bn from Kshs 5.1 bn in Q1'2024, mainly driven by a 29.3% decrease in fees and commissions to 0.3 bn from 0.4 bn in Q1'2024, however, supported by the 12.7% increase in other fees and commissions to Kshs 1.8 bn from Kshs 1.6 bn in Q1'2024. Foreign exchange trading income declined by 28.3% to Kshs 1.5 bn from Kshs 2.1 bn in Q1'2024, highlighting the bank's reduced foreign exchange margins. The revenue mix shifted to 71:29 from 69:31 in Q1'2024 for the funded to non-funded income owing to the 1.1% decline in Funded Income slower than the 11.1% decline in the Non Funded Income,
- Total operating expenses decreased by 12.5% to Kshs 7.0 bn from Kshs 8.0 bn in Q1'2024, driven by a 39.0% decrease in loan loss provisions to Kshs 1.5 bn from Kshs 2.4 bn in Q1'2024 coupled with the 2.6% decrease in staff costs to Kshs 2.9 bn from Kshs 3.0 bn in Q1'2024. 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 Q1'2025 Purchasing Managers Index (PMI) of 50.9, up from an average of 50.3 in Q1'2024,
- Cost to Income Ratio (CIR) decreased to 44.3% from 48.5% in Q1'2024, owing to the 12.5% decrease in total operating expenses, which outpaced the 4.2% decrease in total operating income. However, CIR without LLP increased by 1.1% points to 35.0% from 33.9% recorded in Q1'2024, and,
- Profit before tax increased by 3.6% to Kshs 8.8 bn from Kshs 8.5 bn in Q1'2024, with effective tax rate decreasing to 29.8% in Q1'2025 from 29.9% in Q1'2024. As such, profit after tax increased by 3.7% to Kshs 6.2 bn, from Kshs 5.9 bn in Q1'2024.

Balance Sheet

- The balance sheet recorded an expansion as total assets grew by 4.5% to Kshs 520.2 bn, from Kshs 497.7 bn in Q1'2024, driven by a 68.0% increase in investment in government securities to Kshs 144.0 bn, from Kshs 85.7 bn in Q1'2024. The performance was however weighed down by a 5.6% loan book contraction to Kshs 308.4 bn from Kshs 326.8 bn in Q1'2024

- Total liabilities grew by 1.2% to Kshs 427.7 bn from Kshs 422.7 bn in Q1'2024, driven by a 4.6% increase in customer deposits to Kshs 371.2 bn, from Kshs 355.0 bn in Q1'2024. The growth in total liabilities was however weighed down by the 17.6% decrease in placements to Kshs 30.2 bn, from Kshs 36.7 bn in Q1'2024. With 85 branches countrywide compared to 76 branches in Q1'2024, deposits per branch decreased by 6.5% to Kshs 4.4 bn, from Kshs 4.7 bn in Q1'2024,
- The 4.6% increase in customer deposits as compared to the 5.6% decline in loans led to a 9.0% points decline in the loan to deposits ratio to 83.1%, from 92.1% in Q1'2024,
- The bank's Asset Quality deteriorated, with Gross NPL ratio increasing to 13.1% in Q1'2025, from 11.1% in Q1'2024, attributable to the 13.4% increase in gross non-performing loans to Kshs 44.0 bn, from Kshs 38.8 bn in Q1'2024, relative to the 4.0% decrease in gross loans to Kshs 337.1 bn, from Kshs 351.0 bn recorded in Q1'2024,
- General Provisions (LLP) increased by 16.1% to Kshs 21.0 bn in Q1'2025 from Kshs 18.1 bn in Q1'2024. The NPL coverage increased to 65.2% in Q1'2025, from 62.3% in Q1'2024, attributable to the 13.4% growth in gross non-performing loans to Kshs 44.0 bn from Kshs 38.8 bn recorded in Q1'2024, which outpaced the 16.1% increase in general provisions to Kshs 21.0 bn, from Kshs 18.1 bn in Q1'2024.
- Shareholders' funds increased by 23.4% to Kshs 92.5 bn in Q1'2025, from Kshs 75.0 bn in Q1'2024, supported by a 16.3% increase in retained earnings to Kshs 80.9 bn, from Kshs 69.6 bn in Q1'2024,
- Absa Bank Kenya remained capitalized with a core capital to risk-weighted assets ratio of 17.3%, 6.8% points above the statutory requirement of 10.5%. In addition, the total capital to risk-weighted assets ratio came in at 20.4% exceeding the statutory requirement of 14.5% by 5.9% points, and,
- The bank currently has a Return on Average Assets (ROaA) of 4.1%, and a Return on Average Equity (ROaE) of 25.2%.

Key Take-Outs:

1. **Decreased earnings** - Core earnings per share increased by 3.7% to Kshs 1.14, from Kshs 1.09 in Q1'2024, mainly driven by the 12.5% decrease in total operating expenses to Kshs 7.0 bn, from Kshs 8.0 bn in Q1'2024 which outpaced the 4.2% decrease in total operating income to Kshs 15.8 bn, from Kshs 16.5 bn in Q1'2024,
2. **Declined asset quality** – The bank's Asset Quality deteriorated, with Gross NPL ratio increasing to 13.1% in Q1'2025, from 11.1% in Q1'2024, attributable to the 13.4% increase in gross non-performing loans to Kshs 44.0 bn, from Kshs 38.8 bn in Q1'2024, relative to the 4.0% decrease in gross loans to Kshs 337.1 bn, from Kshs 351.0 bn recorded in Q1'2024
3. **Decreased Lending** – The bank's loan book recorded a contraction of 5.6% to Kshs 308.4 bn, from Kshs 326.8 bn in Q1'2024.

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 diversify 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 21.0 representing an upside of 14.8%, from the current price of Kshs 18.3 as of 30th May 2025,
- Absa Bank Kenya is currently trading at a P/TBV of 1.1x and a P/E of 3.8x vs an industry average of 0.9x and 3.8x respectively.