

Below is a summary of Absa Bank Kenya Plc H1'2024 performance:

Balance Sheet Items	H1'2023	H1'2024	y/y change
Government Securities	80.7	63.7	(21.0%)
Net Loans and Advances	317.9	316.4	(0.5%)
Total Assets	503.7	481.4	(4.4%)
Customer Deposits	332.6	353.3	6.2%
Deposits per branch	4.4	4.2	(5.0%)
Total Liabilities	440.0	408.4	(7.2%)
Shareholders' Funds	63.7	73.0	14.6%

Balance Sheet Ratios	H1'2023	H1'2024	% points change
Loan to Deposit Ratio	95.6%	89.5%	(6.1%)
Government Securities to Deposit Ratio	24.3%	18.0%	(6.2%)
Return on average equity	27.7%	27.5%	(0.2%)
Return on average assets	3.5%	3.8%	0.3%

Income Statement	H1'2023	H1'2024	y/y change
Net Interest Income	19.2	23.0	19.7%
Net non-Interest Income	8.1	8.8	8.4%
Total Operating income	27.4	31.8	16.3%
Loan Loss provision	(5.2)	(5.2)	0.3%
Total Operating expenses	(15.3)	(16.6)	8.3%
Profit before tax	12.1	15.3	26.5%
Profit after tax	8.3	10.7	28.9%
Core EPS	1.5	2.0	28.9%
Dividend per share	0.20	0.20	0.0%
Dividend Yield (Annualized)	3.4%	2.8%	(0.6%)
Dividend Payout Ratio	13.1%	10.1%	(2.9%)

Income Statement Ratios	H1'2023	H1'2024	% points change
Yield from interest-earning assets	11.5%	14.2%	2.7%
Cost of funding	3.3%	5.0%	1.7%
Net Interest Spread	1.8%	2.6%	0.8%
Net Interest Margin	9.0%	10.1%	1.1%
Cost of Risk	18.8%	16.2%	(2.6%)
Net Interest Income as % of operating income	70.3%	72.3%	2.0%
Non-Funded Income as a % of operating income	29.7%	27.7%	(2.0%)
Cost to Income Ratio	55.9%	52.0%	(3.9%)
Cost to Income Ratio (without LLPs)	37.0%	35.8%	(1.3%)

Capital Adequacy Ratios	H1'2023	H1'2024	% points change
Core Capital/Total Liabilities	17.3%	18.3%	1.0%
Minimum Statutory ratio	8.0%	8.0%	0.0%
Excess	9.3%	10.3%	1.0%
Core Capital/Total Risk Weighted Assets	13.5%	14.8%	1.3%
Minimum Statutory ratio	10.5%	10.5%	0.0%
Excess	3.0%	4.3%	1.3%
Total Capital/Total Risk Weighted Assets	17.7%	18.6%	0.9%
Minimum Statutory ratio	14.5%	14.5%	0.0%
Excess	3.2%	4.1%	0.9%
Liquidity Ratio	28.7%	35.2%	6.5%
Minimum Statutory ratio	20.0%	20.0%	0.0%
Excess	8.7%	15.2%	6.5%

Income Statement

- Core earnings per share increased by 28.9% to Kshs 2.0, from Kshs 1.5 in H1'2023, mainly driven by the 16.3% increase in total operating income to Kshs 31.8 bn, from Kshs 27.4 bn in H1'2023 which outpaced the 8.3% increase in total operating expenses to Kshs 16.6 bn, from Kshs 15.3 bn in H1'2023,
- The 16.3% growth in total operating income was mainly driven by a 19.7% growth in Net Interest Income to Kshs 23.0 bn, from Kshs 19.2 bn in H1'2023, coupled with an 8.4% growth in Non funded Income (NFI) to Kshs 8.8 bn, from Kshs 8.1 bn in H1'2023,
- Interest income grew by 29.3% to Kshs 32.6 bn from Kshs 25.2 bn in H1'2023, mainly driven by a 211.3% growth in interest income from deposits and placements to Kshs 1.0 bn, from Kshs 0.3 bn in H1'2023 coupled with a 35.3% increase in interest income from loans and advances to Kshs 27.4 bn from Kshs 20.2 bn in H1'2023. Similarly, the Yield on Interest-Earning Assets (YIEA) increased by 2.7% points to 14.2% from 11.5% recorded in H1'2023, mainly attributable to the faster 29.4% growth in trailing interest income to Kshs 61.7 bn, from Kshs 47.7 bn in H1'2023 compared to the 4.8% increase in average interest earning assets to Kshs 432.9 bn, from Kshs 412.9 bn in H1'2023,
- Interest expenses rose by 60.1% to Kshs 9.6 bn, from Kshs 6.0 bn in H1'2023, driven by 118.6% increase in other interest expenses to Kshs 0.1 bn, from Kshs 0.06 bn in H1'2023, coupled with an 89.9% increase in interest expense from customer deposits to Kshs 8.8 bn in H1'2024, from Kshs 4.7 bn recorded in H1'2023. The growth in interest expense was however weighed down by a 50.1% decrease in interest expense from deposits and placements to Kshs 0.6 bn, from Kshs 1.3 bn in H1'2023. Consequently, Cost of funds (COF) increased by 1.7% points to 5.0%, from 3.3% recorded in H1'2023, owing to a faster 69.0% increase in Trailing interest expense to Kshs 17.8 bn, from Kshs 10.5 bn in H1'2023, compared to the 12.5% increase in average interest bearing liabilities to Kshs 358.0 bn from Kshs 318.3 bn in H1'2023. Trailing interest expense refers to the performance of the interest expense for the past 12 consecutive months. Net Interest Margin (NIM) increased by 1.1% points to 10.1% from 9.0% in H1'2023, attributable to the 18.1% growth in trailing net interest income to Kshs 43.8 bn, from Kshs 37.1 bn recorded in H1'2023, which outpaced the 4.8% increase in average interest earning assets to Kshs 432.9 bn, from Kshs 412.9 bn in H1'2023,
- Non-Funded Income (NFI) increased by 8.4% to Kshs 8.8 bn from Kshs 8.1 bn in H1'2023, mainly driven by a 2.3% increase in fees and commissions to 0.71 bn from 0.70 bn in H1'2023, however, weighed down by the 2.9% decrease in the foreign exchange trading income to Kshs 3.7 bn from Kshs 3.8 bn in H1'2023, highlighting the bank's reduced foreign exchange margins. The revenue mix shifted to 72:28 from 70:30 in H1'2023 for the funded to non-funded income owing to the 19.7% growth in Funded Income faster than the 8.4% growth in the Non Funded Income,
- Total operating expenses increased by 8.3% to Kshs 16.6 bn from Kshs 15.3 bn in H1'2023, driven by the 15.1% increase in other operating expenses to Kshs 5.2 bn from Kshs 4.5 bn in H1'2023, coupled with a 10.1% increase in staff costs to Kshs 6.2 bn from Kshs 5.6 bn in H1'2023 as well as the marginal 0.3% increase in loan loss provisions to remain relatively unchanged at Kshs 5.2 bn. The increase in provisioning is partly attributable to the sustained credit risk despite the improvement in economic environment as evidenced by the H1'2024 Purchasing Managers Index (PMI) which averaged 50.0, up from an average of 48.7 in H1'2023,
- Cost to Income Ratio (CIR) decreased to 52.0% from 55.9% in H1'2023, owing to the 16.3% increase in total operating income, which outpaced the 8.3% increase in total operating expenses. Similarly, CIR without LLP decreased by 1.3% points to 35.8% from 37.0% recorded in H1'2023, and,
- Profit before tax increased by 26.5% to Kshs 15.3 bn from Kshs 12.1 bn in H1'2023, with the effective tax rate decreasing to 29.9% in H1'2024 from 31.2% in H1'2023. As such, profit after tax increased by 28.9% to Kshs 10.7 bn, from Kshs 8.3 bn in H1'2023.

Balance Sheet

- The balance sheet recorded a contraction as total assets declined by 4.4% to Kshs 481.4 bn, from Kshs 503.7 bn in H1'2023, driven by a 21.0% decrease in investment in government securities to Kshs 63.7 bn from Kshs 80.7 bn in H1'2023. The performance was further weighed down by a 0.5% loan book contraction to Kshs 316.4 bn, from Kshs 317.9 bn in H1'2023,
- Total liabilities declined by 7.2% to Kshs 408.4 bn from Kshs 440.0 bn in H1'2023, driven by a 5.1% decrease in placements to Kshs 10.8 bn, from Kshs 11.4 bn in H1'2023, coupled with a 10.3% decrease in borrowings to 3.8 bn, from Kshs 4.2 bn recorded in H1'2023. The decline in total liabilities was however anchored by the 6.2% growth in customer deposits to Kshs 353.3 bn, from Kshs 332.6 bn in H1'2023. With 85 branches countrywide compared to 76 branches in H1'2023, deposits per branch decreased by 5.0% to Kshs 4.2 bn, from Kshs 4.4 bn in H1'2023,
- The faster 6.2% growth in customer deposits as compared to the 0.5% decline in loans led to a 6.1% points decline in the loan to deposits ratio to 89.5%, from 95.6% in H1'2023,
- The bank's Asset Quality deteriorated, with Gross NPL ratio increasing to 11.5% in H1'2024, from 9.5% in H1'2023, attributable to the 22.4% increase in gross non-performing loans to Kshs 39.4 bn, from Kshs 32.2 bn in H1'2023, relative to the 0.8% increase in gross loans to Kshs 343.0 bn, from Kshs 340.3 bn recorded in H1'2023,
- General Provisions (LLP) increased by 13.1% to Kshs 20.0 bn in H1'2024 from Kshs 17.7 bn in H1'2023. The NPL coverage decreased to 67.7% in H1'2024, from 69.4% in H1'2023, attributable to the 22.4% growth in gross non-performing loans to Kshs 39.4 bn from Kshs 32.2 bn recorded in H1'2023, which outpaced the 13.1% increase in general provisions to Kshs 20.0 bn, from Kshs 17.7 bn in H1'2023,
- Shareholders' funds increased by 14.6% to Kshs 73.0 bn in H1'2024, from Kshs 63.7 bn in H1'2023, supported by a 16.4% increase in retained earnings to Kshs 73.2 bn, from Kshs 62.9 bn in H1'2023,
- Absa Bank Kenya remained capitalized with a core capital to risk-weighted assets ratio of 14.8%, 4.3% points above the statutory requirement of 10.5%. In addition, the total capital to risk-weighted assets ratio came in at 18.6% exceeding the statutory requirement of 14.5% by 4.1% points, and,
- The bank currently has a Return on Average Assets (ROaA) of 3.8%, and a Return on Average Equity (ROaE) of 27.5%.

Key Take-Outs:

1. **Increased earnings** - Core earnings per share increased by 28.9% to Kshs 2.0, from Kshs 1.5 in H1'2023, mainly driven by the 16.3% increase in total operating income to Kshs 31.8 bn, from Kshs 27.4 bn in H1'2023 which outpaced the 8.3% increase in total operating expenses to Kshs 16.6 bn, from Kshs 15.3 bn in H1'2023,
2. **Declined asset quality** – The bank's Gross NPL ratio increased to 11.5% in H1'2024, from 9.5% in H1'2023, attributable to the 22.4% increase in gross non-performing loans to Kshs 39.4 bn, from Kshs 32.2 bn in H1'2023, relative to the 0.8% increase in gross loans to Kshs 343.0 bn, from Kshs 340.3 bn recorded in H1'2023,
3. **Decreased Lending** – The bank's loan book recorded a contraction of 0.5% to Kshs 316.4 bn, from Kshs 317.9 bn in H1'2023,
4. **Declaration of Dividends** - The Board of Directors declared an interim dividend of Kshs 0.2 per share for H1'2024, a similar amount to that in H1'2023. This translates to a dividend payout ratio of 10.1% and an annualized dividend yield of 2.8% as of 30th August 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 diversifies the bank's revenue streams but also provides 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 18.1 representing an upside of 28.1%, from the current price of Kshs 14.3 as of 30th August 2024, inclusive of a dividend yield of 1.4%
- Absa Bank Kenya is currently trading at a P/TBV of 1.1x and a P/E of 4.3x vs an industry average of 0.8x and 3.7x respectively.