Absa Bank Plc – Q1'2024
29th May, 2024

Below is a summary of Absa Bank Kenya Plc Q1'2024 performance:

Balance Sheet Items	Q1'2023	Q1'2024	y/y change
Government Securities	87.0	68.6	(21.2%)
Net Loans and Advances	310.0	326.8	5.4%
Total Assets	**514.6**	**497.7**	**(3.3%)**
Customer Deposits	310.8	355.0	14.2%
Deposits per branch	4.1	4.3	5.8%
Total Liabilities	446.6	422.7	(5.4%)
Shareholders' Funds	**68.0**	**75.0**	**10.4%**

Balance Sheet Ratios	Q1'2023	Q1'2024	% points change
Loan to Deposit Ratio	99.7%	92.1%	(7.6%)
Government Securities to Deposit Ratio	28.0%	19.3%	(8.7%)
Return on average equity	25.3%	25.0%	(0.3%)
Return on average assets	3.4%	3.5%	0.2%

Income Statement	Q1'2023	Q1'2024	y/y change
Net Interest Income	9.4	11.4	21.7%
Net non-Interest Income	4.5	5.1	12.7%
Total Operating income	**13.9**	**16.5**	**18.8%**
Loan Loss provision	(2.4)	(2.4)	0.1%
Total Operating expenses	(7.4)	(8.0)	7.3%
Profit before tax	6.4	8.5	32.0%
Profit after tax	**4.5**	**5.9**	**33.6%**
Core EPS	**0.8**	**1.1**	**33.6%**

Income Statement Ratios	Q1'2023	Q1'2024	% points change
Yield from interest-earning assets	10.6%	13.4%	2.8%
Cost of funding	3.1%	4.7%	1.6%
Net Interest Spread	0.9%	1.3%	0.4%
Net Interest Margin	8.3%	9.7%	1.3%
Cost of Risk	17.3%	14.6%	(2.7%)
Net Interest Income as % of operating income	67.5%	69.2%	1.7%
Non-Funded Income as a % of operating income	32.5%	30.8%	(1.7%)
Cost to Income Ratio	53.7%	48.5%	(5.2%)
Cost to Income Ratio (without LLPs)	36.3%	33.9%	(2.4%)

Capital Adequacy Ratios	Q1'2023	Q1'2024	% points change
Core Capital/Total Liabilities	18.6%	18.0%	(0.6%)
Minimum Statutory ratio	8.0%	8.0%	0.0%
Excess	10.6%	10.0%	(0.6%)
Core Capital/Total Risk Weighted Assets	14.1%	14.2%	0.1%
Minimum Statutory ratio	10.5%	10.5%	0.0%
Excess	3.6%	3.7%	0.1%
Total Capital/Total Risk Weighted Assets	18.1%	17.9%	(0.2%)
Minimum Statutory ratio	14.5%	14.5%	0.0%
Excess	3.6%	3.4%	(0.2%)
Liquidity Ratio	28.6%	33.5%	4.9%
Minimum Statutory ratio	20.0%	20.0%	0.0%
Excess	8.6%	13.5%	4.9%

Income Statement

- Core earnings per share increased by 33.6% to Kshs 1.1, from Kshs 0.8 in Q1’2023, mainly driven by the 18.8% increase in total operating income to Kshs 16.5 bn, from Kshs 13.9 bn in Q1’2023 which outpaced the 7.3% increase in total operating expenses to Kshs 8.0 bn, from Kshs 7.4 bn in Q1’2023,
- The 18.8% growth in total operating income was mainly driven by a 21.7% growth in Net Interest Income to Kshs 11.4 bn, from Kshs 9.4 bn in Q1’2023, coupled with a 12.7% growth in Non funded Income (NFI) to Kshs 5.1 bn, from Kshs 4.5 bn in Q1’2023,
- Interest income grew by 33.8% to Kshs 16.2 bn from Kshs 12.1 bn in Q1’2023, mainly driven by a 284.9% growth in interest income from deposits and placements to Kshs 0.6 bn, from Kshs 0.1 bn in Q1’2023 coupled with a 40.7% increase in interest income from loans and advances to Kshs 13.5 bn from Kshs 9.6 bn in Q1’2023. Similarly, the Yield on Interest-Earning Assets (YIEA) increased by 2.8% points to 13.4% from 10.6% recorded in Q1’2023, mainly attributable to the faster 32.0% growth in trailing interest income to Kshs 58.4 bn, from Kshs 44.2 bn in Q1’2023 compared to the 4.2% increase in average interest-earning assets to Kshs 435.7 bn, from Kshs 418.0 bn in Q1’2023,
- Interest expenses rose by 74.4% to Kshs 4.9 bn, from Kshs 2.8 bn in Q1’2023, driven by 121.2% increase in other interest expenses to Kshs 0.1 bn, from Kshs 0.03 bn in Q1’2023, coupled with a 99.7% increase in interest expense from customer deposits to Kshs 4.2 bn in Q1’2024, from Kshs 2.1 bn recorded in Q1’2023. The growth in interest expense was however weighed down by a 13.2% decrease in interest expense from deposits and placements to Kshs 0.5 bn, from Kshs 0.6 bn in Q1’2023. Consequently, Cost of funds (COF) increased by 1.6% points to 4.7%, from 3.1% recorded in Q1’2023, owing to a faster 32.0% increase in Trailing interest expense to Kshs 58.4 bn, from Kshs 44.2 bn in Q1’2023, compared to the 4.2% increase in average interest bearing liabilities to Kshs 435.7 bn from Kshs 418.0 bn in Q1’2023. Trailing interest expense refers to the performance of the interest expense for the past 12 consecutive months. Net Interest Margin (NIM) increased by 1.3% points to 9.7% from 8.3% in Q1’2023, attributable to the 20.9% growth in trailing net interest income to Kshs 42.1 bn, from Kshs 34.8 bn recorded in Q1’2023, which outpaced the 4.2% increase in average interest-earning assets to Kshs 435.7 bn, from Kshs 418.0 bn in Q1’2023,
- Non-Funded Income (NFI) increased by 12.7% to Kshs 5.1 bn from Kshs 4.5 bn in Q1’2023, mainly driven by a 23.9% increase in fees and commissions to 0.4 bn from 0.3 bn in Q1’2023, however, weighed down by the 2.5% decrease in the foreign exchange trading income to Kshs 2.1 bn from Kshs 2.2 bn in Q1’2023, highlighting the bank’s reduced foreign exchange margins. The revenue mix shifted to 69:31 from 67:33 in Q1’2023 for the funded to Non-funded income owing to the 21.7% growth in Funded Income faster than the 12.7% growth in the Non Funded Income,
- Total operating expenses increased by 7.3% to Kshs 8.0 bn from Kshs 7.4 bn in Q1’2023, driven by the 11.5% increase in staff costs to Kshs 3.0 bn from Kshs 2.7 bn in Q1’2023, coupled with a 10.0% increase in other operating expenses to Kshs 2.6 bn from Kshs 2.4 bn in Q1’2023 as well as the marginal 0.1% increase in loan loss provisions to remain relatively unchanged at Kshs 2.4 bn. The increase in provisioning is partly attributable to the sustained credit risk despite the improvement in the economic environment as evidenced by the Q1’2024 Purchasing Managers Index (PMI) which averaged 50.3, up from an average 49.3 in Q1’2023,
- Cost to Income Ratio (CIR) decreased to 48.5% from 53.7% in Q1’2023, owing to the 18.8% increase in total operating income, which outpaced the 7.3% increase in total operating expenses. Similarly, CIR without LLP decreased by 2.4% points to 33.9% from 36.3% recorded in Q1’2023, and,
- Profit before tax increased by 32.0% to Kshs 8.5 bn from Kshs 6.4 bn in Q1’2023, with the effective tax rate decreasing to 29.9% in Q1’2024 from 30.7% in Q1’2023. As such, profit after tax increased by 33.6% to Kshs 5.9 bn, from Kshs 4.5 bn in Q1’2023.

Balance Sheet

- The balance sheet recorded a contraction as total assets declined by 3.3% to Kshs 497.7 bn, from Kshs 514.6 bn in Q1’2023, driven by a 21.2% decrease in investment in government securities to Kshs 68.6 bn from Kshs 87.0 bn in Q1’2023. The performance was however supported by a 5.4% loan book expansion to Kshs 326.8 bn, from Kshs 310.0 bn in Q1’2023,
- Total liabilities declined by 5.4% to Kshs 422.7 bn from Kshs 446.6 bn in Q1’2023, driven by a 24.8% decrease in placements to Kshs 8.6 bn, from Kshs 11.4 bn in Q1’2023, coupled with a 7.2% decrease in borrowings to 3.9 bn, from Kshs 4.2 bn recorded in Q1’2023. The decline in total liabilities was however anchored by the 14.2% growth in customer deposits to Kshs 355.0 bn, from Kshs 310.8 bn in Q1’2023. With 82 branches countrywide compared to 76 branches in Q1’2023, deposits per branch increased by 5.8% to Kshs 4.3 bn, from Kshs 4.1bn in Q1’2023,
- The faster 14.2% growth in customer deposits as compared to the 5.4% growth in loans led to a 7.6% points decline in the loan to deposits ratio to 92.1%, from 99.7% in Q1’2023,
- The bank’s Asset Quality deteriorated, with Gross NPL ratio increasing to 11.1% in Q1’2024, from 9.4% in Q1’2023, attributable to the 24.7% increase in gross non-performing loans to Kshs 38.8 bn, from Kshs 31.1 bn in Q1’2023, relative to the 6.4% increase in gross loans to Kshs 351.0 bn, from Kshs 329.9 bn recorded in Q1’2023,
- General Provisions (LLP) increased by 17.5% to Kshs 18.1 bn in Q1’2024 from Kshs 15.4 bn in Q1’2023. The NPL coverage decreased to 62.3% in Q1’2024, from 63.9% in Q1’2023, attributable to the 24.7% growth in gross non-performing loans to Kshs 38.8 bn from Kshs 31.1 bn recorded in Q1’2023, which outpaced the 17.5% increase in general provisions to Kshs 18.1 bn, from Kshs 15.4 bn in Q1’2023,
- Shareholders’ funds increased by 10.4% to Kshs 75.0 bn in Q1’2024, from Kshs 68.0 bn in Q1’2023, supported by a 15.6% increase in retained earnings to Kshs 69.6 bn, from Kshs 60.4 bn in Q1’2023,
- Absa Bank Kenya remained capitalized with a core capital to risk-weighted assets ratio of 14.2%, 3.7% points above the statutory requirement of 10.5%. In addition, the total capital to risk-weighted assets ratio came in at 17.9% exceeding the statutory requirement of 14.5% by 3.4% points, and,
- The bank currently has a Return on Average Assets (ROaA) of 3.5%, and a Return on Average Equity (ROaE) of 25.0%.

Key Take-Outs:

1. **Increased earnings -** Core earnings per share (EPS) increased by 33.6% to Kshs 1.1, from Kshs 0.8 in Q1’2023, mainly driven by the 18.8% increase in total operating income to Kshs 16.5 bn, from Kshs 13.9 bn in Q1’2023 which outpaced the 7.3% increase in total operating expenses to Kshs 8.0 bn, from Kshs 7.4 bn in Q1’2023,
2. **Declined asset quality –** The bank’s Gross NPL ratio increased to 11.1% in Q1’2024 from 9.4% in Q1’2023, attributable to 24.7% increase in Gross non-performing loans to Kshs 38.8 bn, from Kshs 31.1 bn in Q1’2023, compared to the 6.4% increase in gross loans to Kshs 351.0 bn, from Kshs 329.9 bn recorded in Q1’2023, and,
3. **Improved Lending –** The bank’s loan book recorded an expansion of 5.4% to Kshs 326.8 bn, from Kshs 310.0 bn in Q1’2023.

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

- **Continued Digitization and Improved Branding-** 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 Timiza Insurance, significantly contributing to its financial performance. Additionally, in February 2024, the bank introduced a new brand promise, 'Your Story Matters,' to ensure that Absa’s entire range of services and offerings aligns with a more human-centered and empathetic banking ethos across the continent.

Valuation Summary

- We are of the view that Absa Bank Kenya is a “Buy” with a target price of Kshs 17.3 representing an upside of 25.8%, from the current price of Kshs 13.8 as of 31st May 2024, inclusive of a dividend yield of 11.3%, and,
- Absa Bank Kenya is currently trading at a P/TBV of 1.0x and a P/E of 4.2x vs an industry average of 0.8x and 3.7x respectively.