

Below is a summary of ABSA Bank Kenya Plc Q3'2023 performance:

Balance Sheet Items (Kshs bn)	Q3'2022	Q3'2023	y/y change
Government Securities	92.2	77.7	(15.7%)
Net Loans and Advances	289.4	330.9	14.3%
Total Assets	481.3	504.9	4.9%
Customer Deposits	281.1	354.3	26.1%
Deposits per branch	3.3	4.2	24.6%
Total Liabilities	421.1	439.6	4.4%
Shareholders' Funds	60.3	65.3	8.4%

Balance Sheet Ratios	Q3'2022	Q3'2023	% y/y change
Loan to Deposit Ratio	103.0%	93.4%	(9.6%)
Govt Securities to Deposit ratio	32.8%	21.9%	(10.9%)
Return on average equity	23.2%	25.8%	2.5%
Return on average assets	3.0%	3.3%	0.3%

Income Statement (Kshs bn)	Q3'2022	Q3'2023	y/y change
Net Interest Income	23.3	29.3	26.0%
Net non-Interest Income	10.2	10.8	6.4%
Total Operating income	33.4	40.2	20.0%
Loan Loss provision	(5.0)	(6.8)	34.3%
Total Operating expenses	(18.3)	(22.3)	21.9%
Profit before tax	15.1	17.8	17.8%
Profit after tax	10.7	12.3	14.9%
Core EPS (Kshs)	2.0	2.3	14.9%

Income Statement Ratios	Q3'2022	Q3'2023	% y/y change
Yield from interest-earning assets	9.6%	11.7%	2.1%
Cost of funding	2.8%	3.7%	0.9%
Net Interest Spread	2.1%	2.7%	0.6%
Net Interest Margin	7.6%	8.8%	1.3%
Cost of Risk	15.0%	16.8%	1.8%
Net Interest Income as % of operating income	69.6%	73.0%	3.5%
Non-Funded Income as a % of operating income	30.4%	27.0%	(3.5%)
Cost to Income Ratio	54.7%	55.6%	0.8%

Capital Adequacy Ratios	Q3'2022	Q3'2023	% y/y change
Core Capital/Total Liabilities	18.8%	16.5%	(2.3%)
Minimum Statutory ratio	8.0%	8.0%	0.0%
Excess	10.8%	8.5%	(2.3%)
Core Capital/Total Risk Weighted Assets	13.8%	13.4%	(0.4%)
Minimum Statutory ratio	10.5%	10.5%	0.0%
Excess	3.3%	2.9%	(0.4%)
Total Capital/Total Risk Weighted Assets	16.2%	17.7%	1.5%
Minimum Statutory ratio	14.5%	14.5%	0.0%
Excess	1.7%	3.2%	1.5%
Liquidity Ratio	25.8%	29.8%	4.0%
Minimum Statutory ratio	20.0%	20.0%	0.0%
Excess	5.8%	9.8%	4.0%

Income Statement

- Core earnings per share increased by 14.9% to Kshs 2.3, from Kshs 2.0 in Q3'2022, driven by the 20.0% growth in total operating income to Kshs 40.2 bn, from Kshs 33.4 bn in Q3'2022, which outweighed the 21.9% growth in total operating expenses to Kshs 22.3 bn, from Kshs 18.3 bn in Q3'2022,
- The 20.0% growth in total operating income was mainly driven by a 26.0% growth in Net Interest Income to Kshs 29.3 bn, from Kshs 23.3 bn in Q3'2022, coupled with a 6.4% growth in Non funded Income (NFI) to Kshs 10.8 bn, from Kshs 10.2 bn in Q3'2022,
- Interest income increased by 20.6% to Kshs 29.3 bn, from Kshs 23.3 bn in Q3'2022, mainly driven by a 45.5% growth in interest income from loans and advances to Kshs 31.6 bn from Kshs 21.7 bn in Q3'2022. The Yield on Interest-Earning Assets (YIEA) increased by 2.1% points to 11.7% from 9.6% recorded in Q3'2022, mainly attributable to the faster 33.9% growth in trailing interest income to Kshs 50.7 bn, from Kshs 37.8 bn in Q3'2022 compared to a 9.7% increase in average interest earning assets to Kshs 434.4 bn, from Kshs 396.1 bn in Q3'2022,
- Interest expenses rose by 62.2% to Kshs 9.8 bn, from Kshs 6.1 bn in Q3'2022, driven by 58.7% increase in interest expense on customer deposits to Kshs 8.0 bn, from Kshs 5.0 bn in Q3'2022, coupled with a 83.6% increase in interest expense from deposits and placements to Kshs 1.7 bn in Q3'2023, from Kshs 0.9 bn recorded in Q3'2022. Consequently, Cost of funds (COF) increased by 0.9% points to 3.7% from 2.8% recorded in Q3'2022, owing to a 55.9% increase in Trailing interest expense to Kshs 12.3 bn, from Kshs 7.9 bn recorded in Q3'2022, which outpaced the 17.8% increase in average interest bearing liabilities to Kshs 334.9 bn from Kshs 284.4 bn in Q3'2022. 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 8.8% from 7.6% in Q3'2022, attributable to a 28.1% increase in trailing net interest income to Kshs 38.4 bn, from Kshs 30.0 bn in Q3'2022 which outpaced the 9.7% growth in average interest earning assets to Kshs 434.4 bn, from Kshs 396.1 bn recorded in Q3'2022,
- Non-Funded Income (NFI) increased by 6.4% to Kshs 10.8 bn from Kshs 10.2 bn in Q3'2022, mainly driven by a 25.5% increase in other fees and commissions to Kshs 4.4 bn from Kshs 3.5 bn in Q3'2022, coupled by a 6.6% growth in fees and commissions on loan to Kshs 1.1 bn from Kshs 1.0 bn in Q3'2022. However, the growth in NFI was weighed down by the 2.3% decrease in the foreign exchange trading income to Kshs 4.9 bn from Kshs 5.0 bn in Q3'2022, highlighting the bank's decline in foreign exchange margins. The revenue mix shifted to 73:27 in Q3'2023 from 70:30 for the funded to Non-funded income in Q3'2023 owing to the 26.0% growth in Funded Income which outpaced the 6.4% growth in the Non Funded Income,
- Total operating expenses increased by 21.9% to Kshs 22.3 bn from Kshs 18.3 bn in Q3'2022, driven by 34.3% increase in loan loss provisions to Kshs 6.8 bn from Kshs 5.0 bn recorded in Q3'2022, coupled with a 16.1% increase in staff costs to Kshs 8.6 bn from Kshs 7.4 bn in Q3'2022. The increase in provisioning is partly attributable to rising credit risk as a result deteriorated economic environment as evidenced by the average Purchasing Managers Index (PMI) of 48.0 in Q3'2023, which was below 50 point, despite the slight improvement from an average of 47.4 in Q3'2022,
- Cost to Income Ratio (CIR) increased marginally to 55.6% from 54.7% in Q3'2022, owing to the 21.9% increase in total operating expense, which outpaced the 20.0% increase in total operating income. Notably, CIR without LLP decreased by 1.0% points to 38.7% from 39.7% recorded in Q3'2022, and,
- Profit before tax increased by 17.8% to Kshs 17.8 bn from Kshs 15.1 bn in Q3'2022, with effective tax rate increasing to 31.0% in Q3'2023 from 29.2% in Q3'2022. Consequently, profit after tax increased by 14.9% to Kshs 12.3 bn, from Kshs 10.7 bn in Q3'2022.

Balance Sheet

- The balance sheet recorded an expansion as total assets grew by 4.9% to Kshs 504.9 bn, from Kshs 481.3 bn in Q3'2022, driven by a 14.3% loan book expansion to Kshs 330.9 bn, from Kshs 289.4 bn in Q3'2022. However, the expansion in total assets was weighed down by the 15.7% decline investment in government securities to Kshs 77.7 bn from Kshs 92.2 bn in Q3'2022,

- Total liabilities rose by 4.4% to Kshs 439.6 bn from Kshs 421.1 bn in Q3’2022, driven by the 26.1% growth in customer deposits to Kshs 354.3 bn, from Kshs 281.1 bn in Q3’2022, coupled with a 102.9% increase in placements to 18.1 bn, from Kshs 8.9 bn recorded in Q3’2022. With 85 branches countrywide compared to 83 branches in Q3’2022, deposits per branch increased by 23.1% to Kshs 4.2 bn, from Kshs 3.4 bn in Q3’2022,
- The faster growth in customer deposits by 21.6% as compared to the 14.3% growth in net loans and advances led to a decrease in the loan to deposits ratio to 93.4%, from 103.0% in Q3’2022,
- The bank’s Asset Quality deteriorated, with Gross NPL ratio increasing to 9.8% in Q3’2023 from 6.6% in Q3’2022, attributable to 72.4% increase in gross non-performing loans to Kshs 34.5 bn, from Kshs 20.0 bn in Q3’2022, which outpaced the 16.0% increase in gross loans to Kshs 354.2 bn, from Kshs 305.5 bn recorded in Q3’2022,
- General Provisions (LLP) increased by 33.1% to Kshs 17.9 bn in Q3’2023 from Kshs 13.4 bn in Q3’2022. The NPL coverage decreased to 67.4% in Q3’2023, from 80.0% in Q3’2022, attributable to 72.4% increase in gross non-performing loans to Kshs 34.5 bn, from Kshs 20.0 bn in Q3’2022, which outpaced the 33.1% increase in general provisions.
- Shareholders’ funds increased by 8.4% to Kshs 65.3 bn in Q3’2023, from Kshs 60.3 bn in Q3’2022, supported by a 14.7% increase in retained earnings to Kshs 66.9 bn, from Kshs 58.3 bn in Q3’2022,
- ABSA Bank Kenya Plc remained capitalized with a core capital to risk-weighted assets ratio of 13.4%, 2.9% points above the statutory requirement of 10.5%. In addition, the total capital to risk-weighted assets ratio came in at 17.7% exceeding the statutory requirement of 14.5% by 3.2% points, and,
- The bank currently has a Return on Average Assets (ROaA) of 3.3%, and a Return on Average Equity (ROaE) of 25.8%.

Key Take-Outs:

1. **Increased earnings** - Core earnings per share (EPS) increased by 14.9% to Kshs 2.3, from Kshs 2.0 in Q3’2022, driven by the 20.0% growth in total operating income to Kshs 40.2 bn, from Kshs 33.4 bn in Q3’2022, which outweighed the 21.9% growth in total operating expenses to kshs 22.3 bn, from Kshs 18.3 bn in Q3’2022,
2. **Increased Provisioning** – On the back of high credit risk occasioned by the deteriorated business environment, the bank increased its provisions holdings to cover for the anticipated losses in the future, with its provisions increasing by 34.3% to Kshs 6.8 bn from Kshs 5.0 bn recorded in Q3’2022, and,
3. **Improved Lending** – The Group’s loan book increased by 14.3% to kshs 330.9 bn, from kshs 289.4 bn in Q3’2022, which outweighed the 15.7% decline investment in government securities to Kshs 77.7 bn from Kshs 92.2 bn in Q3’2022, highlighting the Group’s strategy to increase lending while shifting in its asset allocation strategy,

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

- **Mordernization of Financial Services** - The bank has continued to maximize on digital transformation and mordernization of its financial services in a bid to broaden its customer base with new initiatives such as the diaspora banking proposition. The bank continues to support SMEs through its Wezesha Biashara proposition.
- **Diversification of revenue sources** – In an effort to expand its revenue sources, the bank has expanded into new business lines such as asset management, digital finance, stock brokerage and bancassurance. The revenue diversification has led to increase in NFI by 6.4% in Q3’2023 to kshs 10.8 bn, from kshs 10.2 bn in Q3’2022.

Valuation Summary

- We are of the view that ABSA Bank is a “buy” with a target price of Kshs 16.0 representing an upside of 38.2%, from the current price of Kshs 11.6, inclusive of a dividend yield of 11.6%.
- ABSA Bank is currently trading at a P/TBV of 0.9x and a P/E of 4.3x vs an industry average of 0.8x and 3.5x respectively.