

DYER & BLAIR INVESTMENT BANK

EARNINGS UPDATE

Founder Member of the Nairobi Securities Exchange

24th March 2020



DYER & BLAIR
INVESTMENT BANK

WE KNOW. YOU KNOW.

ABSA KENYA: FY19 EARNINGS UPDATE

Dear All,

ABSA Bank announced its FY19 results, recording a 0.6% y-o-y increase in Profit after Tax (PAT) to KES 7.5 BN partly on account of separation costs of KES 1.5 BN. Thus on a normalized basis, its PAT edged up by 14.8% y-o-y to KES 8.5 BN. Its EPS remained constant at KES 1.37 whilst normalized EPS (separation costs excluded) for the period came in at KES 1.56. Dividends per share (DPS) for the period remained constant at KES 1.10 respectively. The Directors recommend a final dividend of KES 0.90 (Interim dividend – KES 0.20).

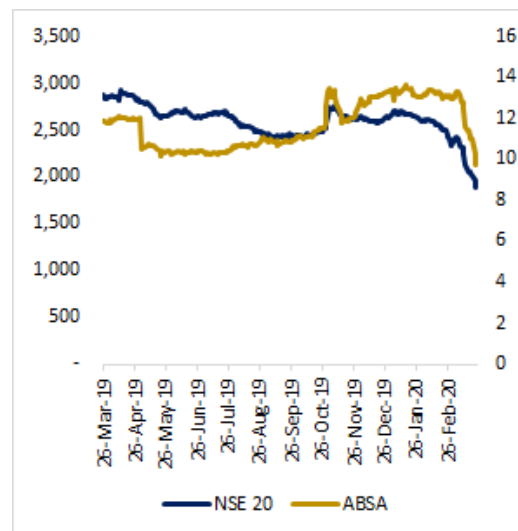
Key highlights:

Net interest income saw a 5.4% y-o-y increase to KES 23.2 BN courtesy of a 6.8% y-o-y increase in interest income to KES 31.0 BN and a 11.0% y-o-y increase in interest expense to KES 7.8 BN. Annualized yield on interest earning assets declined 77 bps y-o-y to 9.4% whereas annualized cost of funds declined 12 bps y-o-y to 2.5%. As a result, annualized net interest margin (NIM) declined 65 bps y-o-y to 6.9%.

Interest income from loans and advances rose 4.7% y-o-y to KES 22.5 BN placing the annualized yield on loans and advances at 12.1%, down 34 bps. Interest income from government securities rose 9.7% y-o-y to KES 8.1 BN, placing annualized yield on average government securities held at 11.4%, down 76 bps y-o-y. Interest expense from customer deposits rose 5.4% y-o-y to KES 6.5 BN, placing the annualized cost of average deposits at 2.9%, down 21 bps y-o-y.

Non-funded income saw a 9.1% y-o-y upswing to KES 10.6 BN attributable to an 8.8% y-o-y increase in fees and commissions to KES 6.1 BN, an 11.0% y-o-y increase in forex income to KES 3.6 BN and a 3.7% y-o-y increase in other operating income to KES 827.0 MN. Under fees and commissions, fees and commissions on loans rose 34.0% y-o-y to KES 1.4 BN whereas other fees and commissions rose 3.0% y-o-y to KES 4.7 BN. Funded income reliance declined 75 bps y-o-y to 68.6%.

ABSA KENYA: 52 WEEK PRICE PERFORMANCE



(Source: NSE, DBIB Research)

PRICE RETURN	ABSOLUTE RETURN	EXCESS RETURN
3 months (%)	(26.21)	1.54
6 months (%)	(10.23)	12.91
12 months (%)	(17.81)	16.03

KEY METRICS

Current Price (KES)	9.74
52 week high (KES)	13.60
52 week low (KES)	9.74
YTD Return (%)	(27.04)
Issued Shares (MN)	5,431.5
Market Cap (USD MN)	496.5

Recommendation	BUY
Target price (KES)	Under Review
Trailing EPS (KES)	1.37
NAV (KES)	8.32
P/E (x)	7.1
P/B (x)	1.2
Div, Yld (%)	11.3

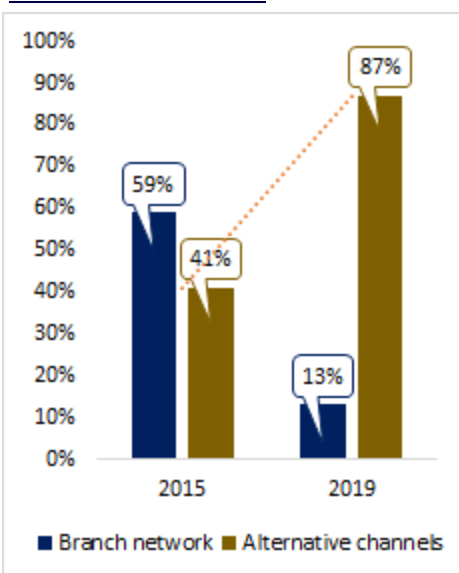
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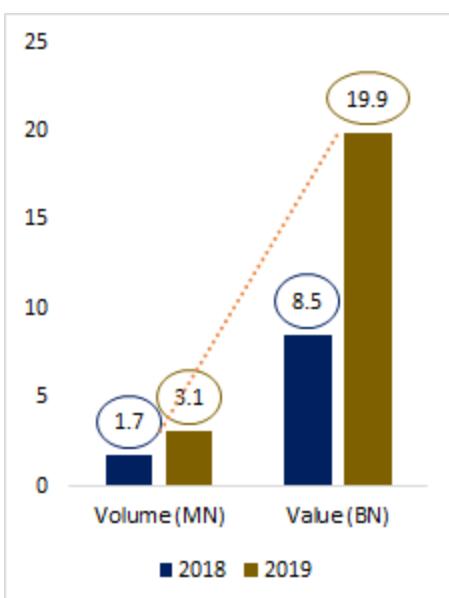
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DISTRIBUTION CHANNELS



(Source: Company Filings, DBIB Research)

TIMIZA: DRIVING NFI



(Source: Company Filings, DBIB Research)

Operating expenses (less loan loss provisions) remained rather flat, registering a marginal 0.6% y-o-y growth to KES 17.3 BN, placing cost to income ratio at 51.2%, down by 301 bps y-o-y. This was partly driven by a 91.9% y-o-y decrease in rental charges to KES 93.4 MN courtesy of the adoption of IFRS 16. Staff costs edged up by 4.0% y-o-y to KES 10.2 BN whilst other operating expenses rose by 9.9% y-o-y to KES 5.4 BN. Loan loss provision expense rose by 8.5% y-o-y to KES 4.2 BN placing annualized cost of risk at 2.2%, down 3 bps y-o-y.

Total assets rose 15.1% y-o-y to KES 374.0 BN (+4.0 q-o-q). Loans and advances rose 9.9% y-o-y to KES 194.9 BN. Available for sale investment securities rose 25.3% y-o-y to KES 79.2 BN whereas securities held for dealing increased by 47.3% y-o-y to KES 43.8 BN.

Customer deposits rose 14.6% y-o-y to KES 237.7 BN (+1.0% q-o-q). The loans to deposits ratio declined 353 bps to 82.0% (-51 bps q-o-q) whereas the loans to deposits and borrowed funds ratio declined 364 bps y-o-y to 62.1% (-285 bps q-o-q).

Gross NPLs declined 7.4% y-o-y to KES 13.5 BN placing the NPL ratio at 6.5%, 79 bps down y-o-y. Total NPLs declined 5.2% y-o-y to KES 10.9 BN on the back of a 15.6% y-o-y decline in interest in suspense to KES 2.6 BN. Loan loss provision rose 8.3% y-o-y to KES 7.8 BN placing NPL coverage ratio at 77.0%, up by 651 bps y-o-y.

The bank's core capital ratio (core capital/TRWA) declined 50 bps y-o-y to 13.9% whereas Total capital/TRWA ratio edged up by 20 bps y-o-y to 16.6%. Both ratios remain above the statutory minimum of 10.5% and 14.5% respectively. Liquidity ratio rose by 410 bps y-o-y to 39.8%, above the statutory minimum of 20.0%.

On a trailing basis: ABSA Bank is trading at a P/E multiple of 7.1x above the sector median of 4.6x and a P/B multiple of 1.2x above the sector median of 0.8x. Currently, its ROE stands at 16.5%, above the sector median of 15.7% whereas ROA stands at 2.0%, below the sector median of 2.4%. Dividend yield stands at 11.3%, above the sector median of 7.6%.

Going forward: Owing to the successful execution of the Barclays to ABSA transition, the bank has managed to grasp widespread visibility amongst key stakeholders, as an agile, aggressive and forward-looking financial provider. The strong organic performance (Normalized PAT growth of 14.8%) whilst still facing rebranding complexities, arguably inspires confidence for future growth as management redirects focus to the core growth drivers. However, as the macroeconomic outlook remains uncertain on the back of the COVID-19 pandemic, we expect to see lower earnings and hence market volatility in the short to medium term. All factors weighed, we maintain our **BUY** recommendation on account of a consistent dividend payout policy (highest dividend yield in the banking sector currently).

PROFIT AND LOSS SUMMARY (KES MN)

Year End: December	FY19	FY18	y-y%ch	4q19	3q19	4q18	y-y% ch	q-q% ch
Interest income	31,024	29,061	6.8	8,128	7,712	7,387	10.0	5.4
Interest expense	7,845	7,069	11.0	1,781	1,914	1,891	(5.8)	(7.0)
Net interest income	23,179	21,992	5.4	6,348	5,798	5,497	15.5	9.5
Other operating income	827.0	798	3.7	208	(2,291)	193	7.8	(109.1)
Fees and commission income	6,121	5,625	8.8	1,498	3,954	1,394	7.5	(62.1)
Net income from forex dealings	3,641	3,280	11.0	929	1,004	757	22.8	(7.4)
Total non-interest income	10,588	9,702	9.1	2,635	2,666	2,343	12.5	(1.2)
Total income	33,767	31,694	6.5	8,983	8,465	7,840	14.6	6.1
Less operating expenses	17,285	17,178	0.6	4,673	4,208	3,874	20.6	11.1
Operating profit	16,482	14,516	13.5	4,310	4,257	3,966	8.7	1.2
Bad debt charge	(4,201)	(3,871)	8.5	(1,122)	(1,438)	(1,042)	7.7	(22.0)
Exceptional items	-1,528	-	na	(618)	(1,471)	0	0.0	-
Profit before income tax	10,753	10,646	1.0	2,570	2,470	2,925	(12.1)	4.1
Less tax	(3,296)	(3,230)	2.1	(673)	(788)	(944)	(28.7)	(14.7)
Profit after tax	7,457	7,416	0.6	1,898	1,682	1,981	(4.2)	12.8
Attributable Income	7,457	7,416	0.6	1,898	1,682	1,981	(4.2)	12.8
EPS (KES)	1.37	1.37	0.2	0.35	0.31	0.37	(5.4)	11.4
DPS (KES)	1.10	1.10	0.0	1.10	(0.20)	1.10	0.0	-

(Source: Company, DBIB Research)

BALANCE SHEET SUMMARY (KES MN)

Year End: December	FY19	3Q19	FY18	y-y% ch	q-q%ch
Total shareholder's equity	45,189	43,998	44,207	2.2	2.7
Minority interest	-	-	-	na	na
Total Equity	45,189	43,998	44,207	2.2	2.7
Deposits due to other banks	4,083	3,397	5,308	(23.1)	20.2
Customer deposits	237,739	235,410	207,408	14.6	1.0
Balances due to group	71,978	60,138	57,034	26.2	19.7
Other liabilities	14,993	16,822	10,883	37.8	(10.9)
Total equity and liabilities	373,982	359,765	324,840	15.1	4.0
Central bank balances	28,808	22,855	23,531	22.4	26.0
Deposits due from banks	12,506	10,231	15,698	(20.3)	22.2
AFS securities	79,221	76,845	63,230	25.3	3.1
Held for dealing securities	43,774	41,650	29,708	47.3	5.1
Customer loans and advances	194,895	194,194	177,354	9.9	0.4
Other assets	11,270	10,509	12,103	(6.9)	7.2
Intangible assets	618	678	878	(29.6)	(8.9)
Fixed assets	2,889	2,802	2,337	23.7	3.1
Total assets	373,982	359,765	324,840	15.1	4.0

(Source: Company, DBIB Research)

INVESTMENT RETURN

	FY19	3Q19	FY18	y-y bps ch	q-q bps ch
ROA (%)	2.0	2.1	2.3	(29)	(7)
ROIC (%)	2.1	2.2	2.4	(30)	(6)
ROE (%)	16.5	16.8	16.8	(27)	(35)

(Source: Company, DBIB Research)

*Annualized

CAPITAL ADEQUACY, LIQUIDITY & ASSET QUALITY

	FY19	3Q19	FY18	y-y bps ch	q-q bps ch
Core capital/TRWA (%)	13.9	14.2	14.4	(50)	(30)
Min. Statutory Ratio (%)	10.5	10.5	10.5	0	0
Total capital/TRWA (%)	16.6	16.1	16.4	20	50
Min. Statutory Ratio (%)	14.5	14.5	14.5	0	0
Liquidity Ratio (%)	39.8	39.6	35.7	410	20
Min. Statutory Ratio (%)	20.0	20.0	20	0	0
Leverage Ratio (%)	12.1	12.2	13.6	(153)	(15)
Equity-to-Loans Ratio (%)	23.2	22.7	24.9	(174)	53

NPL Ratio (%)	6.5	6.7	7.3	(79)	(18)
NPL Coverage Ratio (%)	71.5	72.9	60.5	1107	(141)
Long Term Debt to Total Liabilities and Equity (%)	0.2	16.7	0.2	2	(1652)
NTA/share (KES)	8.2	8.0	8.0	23	23
Book value/share (KES)	8.3	8.1	8.1	18	22
Payout ratio (%)	80.1	0.0	80.6	(44)	8012

(Source: Company, DBIB Research)

****Total Loan Portfolio net of Interbank Lending**

OPERATING PERFORMANCE

	FY19	3Q19	FY18	y-y bps ch	q-q bps ch
Yield on interest earning assets (%)	9.4	10.9	10.2	(77)	(146)
Cost of funds (%)	2.5	2.7	2.6	(12)	(20)
Net Interest Margin (%)	6.9	8.1	7.5	(65)	(126)
Loan-to-Deposits ratio (%)	82.0	82.5	85.5	(353)	(51)
Loan-to-Dep. & Borrowed Funds ratio (%)	62.1	65.0	65.7	(364)	(285)
Funded Income Generating Potential (%)	76.6	78.2	78.9	(225)	(154)
Funded Income Reliance (%)	68.6	67.9	69.4	(75)	73
Cost to income ratio (%)	51.2	50.9	54.2	(301)	30
Pre-tax margin (%)	31.8	33.0	33.6	(174)	(117)
PAT margin (%)	22.1	22.4	23.4	(132)	(35)
PAT margin (%)	22.4	23.8	22.8	(35)	(133)

(Source: Company, DBIB Research)

* Annualized

APPENDIX

COMPANY INVESTMENT RATINGS

Buy: Share price may generate more than 15.0% upside over the next 12 months

Overweight: Share price may generate between 10.0% and 15.0% upside over the next 12 months

Hold: Share price may fall within the range of +/- 10% over the next 12 months

Take Profit: Target price has been attained. Look to accumulate at lower levels. Company fundamentals however remain strong

Underweight: Share price may generate between 10.0% and 15.0% downside over the next 12 months

Sell: Share price may generate more than 15.0% downside over the next 12 months, significant business and/or financial risks present, industry concerns

Not Rated: Counter is not within regular research coverage

SECTOR INVESTMENT RATINGS

Overweight: Industry performance better than that of the whole market

Equal weight: Industry performance about the same as that of the whole market

Underweight: Industry performance worse than that of the whole market

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