

DYER & BLAIR INVESTMENT BANK

EARNINGS UPDATE

Founder Member of the Nairobi Securities Exchange

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DYER & BLAIR
INVESTMENT BANK

WE KNOW. YOU KNOW.

ABSA BANK: 1H20 EARNINGS UPDATE

Dear All,

ABSA Bank announced its 1H20 results reporting an 84.8% y-o-y decline in profit after tax (PAT) to KES 589.0 MN. This was on account of a 228.1% y-o-y increase in the loan loss provisioning expense to KES 5.4 BN. Earnings per share (EPS) for the period closed at KES 0.11 compared to KES 0.71 in the previous period.

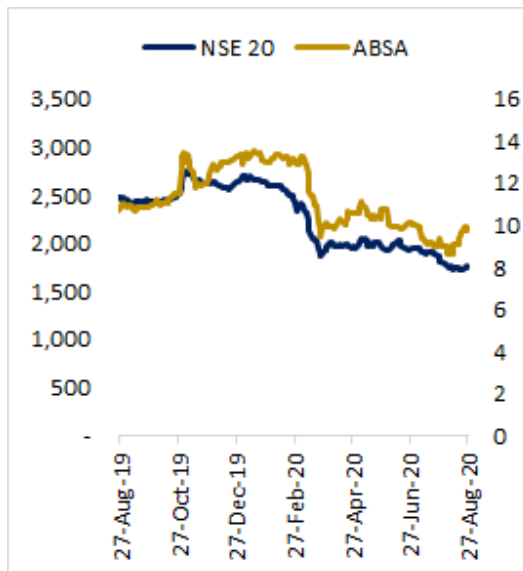
Key highlights:

Net interest income rose 2.5% y-o-y to KES 11.3 BN, courtesy of a 0.9% y-o-y increase in interest income to KES 15.3 BN and a 3.3% y-o-y decline in interest expense to KES 4.0 BN. Annualized yield on interest earning assets declined 78 bps y-o-y to 10.0% whereas annualized cost of funds declined 35 bps y-o-y to 2.4%. As a result, the group's annualized net interest margin (NIM) declined 43 bps to 7.6%.

Interest income from loans and advances declined 0.8% y-o-y to KES 10.9 BN, following the bank's repricing of the rate-capped portfolio in line with the gradual downward revision of the CBR rate i.e. 150 bps down in 1H20. This placed the annualized yield on loans at 11.2%, 90 bps down y-o-y. Interest income from government securities rose 6.3% y-o-y to KES 4.3 BN placing the annualized yield on government securities at 10.0%, 75 bps down y-o-y. Interest expense from customer deposits declined 7.8% y-o-y to KES 3.2 BN placing the annualized cost of deposits at 2.7%, 43 bps down y-o-y. The bank aims to continue attracting cheaper deposits so as to further ease its cost of funds.

Non-funded income (NFI) rose 4.2% y-o-y to KES 5.5 BN, partly attributable to a 20.7% y-o-y increase in net income from forex dealings to KES 2.1 BN. Fees and commissions income declined 8.4% y-o-y to KES 2.8 BN, ascribable to an 11.8% y-o-y decline in other fees and commissions to KES 2.1 BN and a 4.1% y-o-y increase in fees on loans to KES 695.8 MN. As a result, funded income reliance declined 37 bps y-o-y to 67.2%. NFI remained buffered by the trading desk and the banc-assurance business despite erosion from waivers on loan restructuring fees and bank to mobile wallet transfer charges.

ABSA BANK: 52 WEEK PRICE PERFORMANCE



(Source: NSE, DBIB Research)

PRICE	ABSOLUTE	EXCESS
RETURN	RETURN	RETURN
3 month (%)	(8.7)	1.2
6 month (%)	(25.0)	1.5
12 month (%)	(11.1)	17.2

KEY METRICS

Current Price (KES)	9.82
52 week high (KES)	13.60
52 week low (KES)	8.62
YTD Return (%)	(26.4)
Issued Shares (MN)	5,431.5
Market Cap (USD MN)	493.2

Recommendation	HOLD
Target price	Under Review
Trailing EPS (KES)	0.77
NAV (KES)	7.92
P/E (x)	12.8
P/B (x)	1.2
Div Yld (%)	-

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Operating expenses (less loan provisions) declined 2.8% y-o-y to KES 8.2 BN, owing to a 16.3% y-o-y decline in other operating expenses to KES 2.3 BN and a 4.9% y-o-y increase in staff costs to KES 5.0 BN. On account of this, pre-provision operating profit rose 9.2% y-o-y to KES 8.6 BN. The group's cost to income ratio declined 291 bps y-o-y to 48.6%.

The group's loan loss provision expense saw a 228.1% y-o-y upswing to KES 5.4 BN, spiking the annualized cost of risk to 5.3%, 357 bps up y-o-y. Management indicated that the portfolio driven impairment (COVID-aside) rose 47.5% y-o-y to KES 2.4 BN, in line with the delinquency in the bank's books as per IFRS 9 requirements. In order to factor in the COVID-19 effects, the bank increased provisions by a further KES 3.0 BN informed by discretionary judgement of the future macro outlook. In the event that macros deteriorate significantly in the future, the bank will have adequately provided for that, but if macros do not deteriorate in the future, the bank plans to release the provision expense back into the P&L.

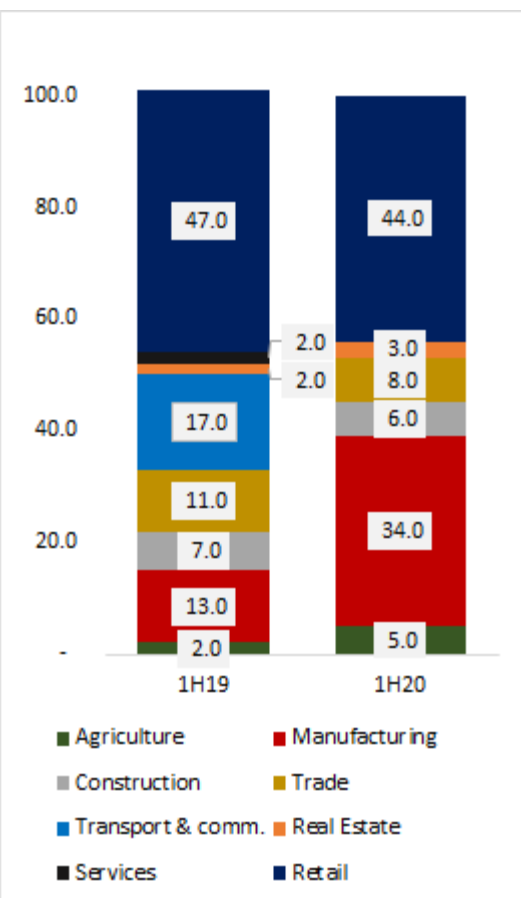
The bank has restructured c. KES 57.0 BN of the loan value, representing 28.2% of the loan book. Repayment holidays on both principal and interest have been extended to over 40.0% of the total loan accounts. Of these accounts; personal loans account for 60.0%, credit cards account for 37.0%, wholesale loans account for 2.0%, and mortgages account of 1.0%. Management relayed that the payment holiday requests have declined by 98.0% since June 2020.

Under the exceptional items, separation costs rose 197.2% y-o-y to KES 1.7 BN. The bank managed to conclude its separation from Barclays PLC having relocated and enhanced 91 systems from Barclays and launched new technology projects. The bank has rebranded 178 locations and all its legal assets. In 2H20, management expects to spend around KES 300.0 MN on rebranding initiatives. As the bank comes to a close of its 3 years of separation, we do not expect any separation costs some FY21.

Total assets rose 10.8% y-o-y to KES 391.9 BN (+2.7 q-o-q). Customer loans and advances saw an 8.2% y-o-y increase to KES 201.9 BN (-0.5% q-o-q). The group's investments in government securities rose 13.3% y-o-y to KES 92.0 BN (+11.8% q-o-q) whereas the held for dealing securities rose 27.4% y-o-y to KES 41.9 BN.

On the funding side, customer deposits rose 8.3% y-o-y to KES 248.7 BN (+4.2% q-o-q), placing the loans to deposits ratio at 81.2%, 8 bps down y-o-y. Deposits due to other banks declined 21.3% y-o-y to KES 6.2 BN (+25.8% q-o-q) whilst balances due to the group rose 24.2% y-o-y to 75.4 BN (+2.2% q-o-q). As such, the group's loans to deposits and borrowed funds ratio declined 146 bps

ABSA: GROSS NPLS PER SECTOR 1H19 VS 1H20



Source: (Company Filings, DBIB Research)

Gross non-performing loans (NPLs) rose 8.4% y-o-y to KES 17.0 BN (-1.9% q-o-q), mainly on the back of exposure from single names in the wholesale segment. Interest in suspense declined 19.2% y-o-y to KES 2.4 BN (+2.6% q-o-q). As such, total NPLs rose 15.0% y-o-y to KES 14.6 BN (-2.6% q-o-q). The NPL ratio rose 1 bp y-o-y to 7.8%. Loan loss provisions rose 0.2% y-o-y to KES 8.4 BN (-4.7% q-o-q), thus pivoting the NPL coverage ratio to 57.5%, 848 bps down y-o-y.

ABSA Bank's core capital ratio (Core capital/TRWA) edged down 30 bps y-o-y to 13.8%, above the statutory minimum of 10.5%. Total capital ratio (Total capital/TRWA) edged up 50 bps y-o-y at 16.5%, above the statutory minimum of 14.5%. Liquidity ratio rose 40 bps y-o-y to 39.1%, above the statutory minimum of 20.0%.

On a trailing basis, ABSA is trading at a P/E multiple of 12.8x and a P/B multiple of 1.2x, above the sector medians of 4.8x and 0.6x respectively. Its ROE stands at 9.7% whereas its ROA stands at 1.1%. Dividend yield stands at 9.2%, above the sector median of 5.3%. Save for the short-term hit on profitability, we believe that the bank will remain resilient in the medium-term. As such, we maintain a **HOLD** recommendation.

PROFIT AND LOSS SUMMARY (KES MN)

Year End: December	1H20	1H19	y-y%ch	2q20	1q20	2q19	y-y%ch	q-q%ch
Interest income	15,318	15,183	0.9	7,697	7,620	7,767	(0.9)	1.0
Interest expense	4,013	4,151	(3.3)	2,025	1,988	2,124	(4.6)	1.9
Net interest income	11,304	11,032	2.5	5,672	5,633	5,643	0.5	0.7
Other operating income	632	506	24.9	322	309	236	36.4	4.2
Fees and commission income	2,816	3,074	(8.4)	1,299	1,516	1,554	(16.4)	(14.3)
Net income from forex dealings	2,062	1,708	20.7	919	1,143	932	(1.4)	(19.6)
Total non-interest income	5,509	5,287	4.2	2,540	2,969	2,723	(6.7)	(14.4)
Total income	16,814	16,319	3.0	8,212	8,601	8,366	(1.8)	(4.5)
Less operating expenses	8,169	8,404	(2.8)	4,114	4,055	4,116	(0.1)	1.4
Operating profit	8,644	7,915	9.2	4,098	4,546	4,250	(3.6)	(9.8)
Bad debt charge	5,385	1,641	228.1	4,269	1,116	1,005	324.9	282.7
Exceptional items	1,667	561	197.2	1,115	552	317	-	101.9
Profit before income tax	1,593	5,713	(72.1)	(1,286)	2,878	2,928	(143.9)	(144.7)
Less tax	1,004	1,835	(45.3)	81	922	950	(91.4)	(91.2)
Profit after tax	589	3,878	(84.8)	(1,367)	1,956	1,978	(169.1)	(169.9)
Attributable Income	1,476	3,878	(61.9)	(505)	1,981	1,834	(127.5)	(125.5)

(Source: Company, DBIB Research)

BALANCE SHEET SUMMARY (KES MN)

Year End: December	1H20	1Q20	1H19	y-y% ch	q-q%ch
Total shareholder's equity	42,991	42,286	42,387	1.4	1.7
Minority interest	-	-	-	-	-
Total Equity	42,991	42,286	42,387	1.4	1.7
Deposits due to other banks	6,160	4,897	7,828	(21.3)	25.8
Customer deposits	248,746	238,714	229,669	8.3	4.2
Balances due to group	75,441	73,847	60,727	24.2	2.2
Other liabilities	18,541	21,777	13,225	40.2	(14.9)
Total equity and liabilities	391,879	381,521	353,837	10.8	2.7
Central bank balances	26,006	22,324	25,444	2.2	16.5
Deposits due from banks	12,189	14,700	13,573	(10.2)	(17.1)
AFS securities	92,013	82,267	81,185	13.3	11.8
Held for dealing securities	41,857	43,115	32,862	27.4	(2.9)
Customer loans and advances	201,948	202,960	186,655	8.2	(0.5)
Other assets	14,195	12,272	10,437	36.0	15.7
Intangible assets	441	532	740	(40.4)	(17.2)
Fixed assets	3,229	3,350	2,940	9.8	(3.6)
Total assets	391,879	381,521	353,837	10.8	2.7

(Source: Company, DBIB Research)

INVESTMENT RETURN

	1H20	1Q20	1H19	y-y bps ch	q-q bps ch
ROA (%) *	0.3	2.1	2.2	(189)	(178)
ROIC (%) *	0.3	2.2	2.3	(196)	(189)
ROE (%) *	2.7	18.7	18.3	(1,556)	(1,600)

(Source: Company, DBIB Research)

*Annualized

CAPITAL ADEQUACY, LIQUIDITY & ASSET QUALITY

	1H20	1Q20	1H19	y-y bps ch	q-q bps ch
Core capital/TRWA (%)	13.8	13.8	14.1	(30)	-
Min. Statutory Ratio (%)	10.5	10.5	10.5	-	-
Total capital/TRWA (%)	16.5	16.5	16.0	50	-
Min. Statutory Ratio (%)	14.5	14.5	14.5	-	-
Liquidity Ratio (%)	39.1	37.9	38.7	40	120
Min. Statutory Ratio (%)	20.0	20.0	20.0	-	-
Leverage Ratio (%)	11.0	11.1	12.0	(101)	(11)
Equity-to-Loans Ratio (%)	21.3	20.8	22.7	(142)	45
NPL Ratio (%) **	7.8	7.9	7.8	1	(10)
NPL Coverage Ratio (%) **	57.5	58.8	66.0	(848)	(131)
IFRS 9 Coverage Ratios (%) **	63.6	65.7	66.9	(333)	(208)
Long Term Debt to Total Liabilities and Equity (%)	19.3	19.4	17.2	209	(10)
NTA/share (KES)	7.8	7.7	7.7	17	15
Book value/share (KES)	7.9	7.8	7.8	11	13

(Source: Company, DBIB Research)

**Total Loan Portfolio net of Interbank Lending

OPERATING PERFORMANCE

	1H20	1Q20	1H19	y-y bps ch	q-q bps ch
Yield on interest earning assets (%) *	10.0	8.9	10.8	(78)	112
Cost of funds (%) *	2.4	2.5	2.8	(35)	(7)
Net Interest Margin (%) *	7.6	6.4	8.0	(43)	120
Loan-to-Deposits ratio (%)	81.2	85.0	81.3	(8)	(384)
Loan-to-Dep. & Borrowed Funds ratio (%)	61.1	64.9	62.6	(146)	(380)
Funded Income Generating Potential (%)	78.1	78.6	79.5	(141)	(49)
Funded Income Reliance (%)	67.2	65.5	67.6	(37)	175
Cost to income ratio (%)	48.6	47.1	51.5	(291)	144
Cost of risk (%)*	5.3	2.2	1.8	357	313
Pre-tax margin (%)	9.5	33.5	35.0	(2,553)	(2,399)
PAT margin (%)	3.5	22.7	23.8	(2,026)	(1,924)

(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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