

DYER & BLAIR INVESTMENT BANK

EARNINGS UPDATE

Founder Member of the Nairobi Securities Exchange

28th May 2020



DYER & BLAIR
INVESTMENT BANK

WE KNOW. YOU KNOW.

ABSA BANK: 1Q20 EARNINGS UPDATE

Dear All,

ABSA Bank announced its 1Q20 results reporting a 3.0% y-o-y increase in profit after tax (PAT) to KES 2.0 BN. Earnings per share (EPS) for the period closed at KES 0.36, 4.2% higher y-o-y. The BOD has maintained the recommendation of a final dividend of KES 0.90 for FY19 to shareholders on register by COB June 03, 2020. The virtual AGM will be held on June 19, 2020.

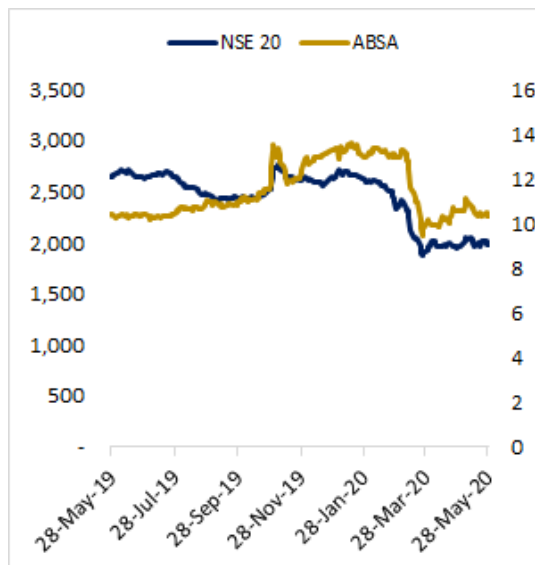
Key highlights:

Net interest income rose 4.5% y-o-y to KES 5.6 BN courtesy of a 2.8% y-o-y increase in interest income to KES 7.6 BN and a 1.9% y-o-y decline in interest expense to KES 2.0 BN. Annualized yield on interest earning assets declined 71 bps y-o-y to 8.9% whereas annualized cost of funds declined 32 bps y-o-y to 2.5%. As a result, the bank's annualized net interest margin (NIM) declined 39 bps to 6.4%.

Interest income from loans and advances rose 1.0% y-o-y to KES 5.5 BN, partly on account of the 12.4% y-o-y loan book growth to KES 203.0 BN (+ 4.1% y-o-y). This placed the annualized yield on loans for the period at 11.4%, 111 bps down y-o-y. Interest income from government securities rose 7.5% y-o-y to KES 2.1 BN placing the annualized yield on government securities at 10.1%, 25 bps down y-o-y. Interest expense from customer deposits declined 13.2% y-o-y to KES 1.5 BN placing the annualized cost of deposits at 2.6%, 73 bps down y-o-y.

Non-funded income (NFI) rose 15.8% y-o-y to KES 3.0 BN, partly attributable to a 47.4% y-o-y increase in net income from forex dealings to KES 1.1 BN, plausibly due to increased volatility in the markets. Fees and commissions income declined 0.2% y-o-y to KES 1.5 BN, ascribable to a 3.0% y-o-y decline in other fees and commissions to KES 1.1 BN and a 8.8% y-o-y increase in fees on loans to KES 0.4 BN. As a result, funded income reliance declined by 228 bps y-o-y to 65.5%. ABSA's trading desk has a fair chance of offsetting the threat of a weaker NFI position which is posed by fee waivers on digital transactions between mobile wallets and bank accounts, Timiza and PesaLink.

ABSA BANK: 52 WEEK PRICE PERFORMANCE



(Source: NSE, DBIB Research)

PRICE	ABSOLUTE	EXCESS
RETURN	RETURN	RETURN
3 month (%)	(17.9)	0.5
6 month (%)	(12.2)	12.6
12 month (%)	4.4	30.5

KEY METRICS

Current Price (KES)	10.75
52 week high (KES)	13.60
52 week low (KES)	9.44
YTD Return (%)	(19.5)
Issued Shares (MN)	5,431.5
Market Cap (USD MN)	545.6

Recommendation	HOLD
Target price	Under review
Trailing EPS (KES)	1.38
NAV (KES)	7.79
P/E (x)	7.8
P/B (x)	1.4
Div Yld (%)	-

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Operating expenses (less loan provisions) declined 5.4% y-o-y to KES 4.1 BN. Staff costs rose 6.6% y-o-y to KES 2.5 BN whereas other operating expenses declined by 18.4% y-o-y to KES 1.1 BN. On account of this, pre-provision operating profit rose 24.0% y-o-y to KES 4.5 BN. The bank's cost to income ratio declined 677 bps y-o-y to 47.1%.

The bank's loan loss provision expense saw a 75.2% y-o-y upswing to KES 1.1 BN placing the annualized cost of risk at 2.2%, up 79 bps y-o-y. Management asserted that the bank is offering loan repayment reliefs of up to twelve months as per CBK's directive. In accordance to IFRS 9, the bank is expected to adequately provide for the new stage 2 loans that are as a result of restructuring of its loan book. Thus, we foresee that cost of risk will edge up in 2Q20 and the subsequent quarters if the novel strain of coronavirus continues to distress businesses across the key sectors, either directly or indirectly.

Under the exceptional items, separation costs rose 126.8% y-o-y to KES 0.6 BN attributable to rebranding costs. We expect a similar trend for two years or so, as the bank continues to make relocations and substantial investments in technological systems as well as acquisitions of various services from Barclays PLC.

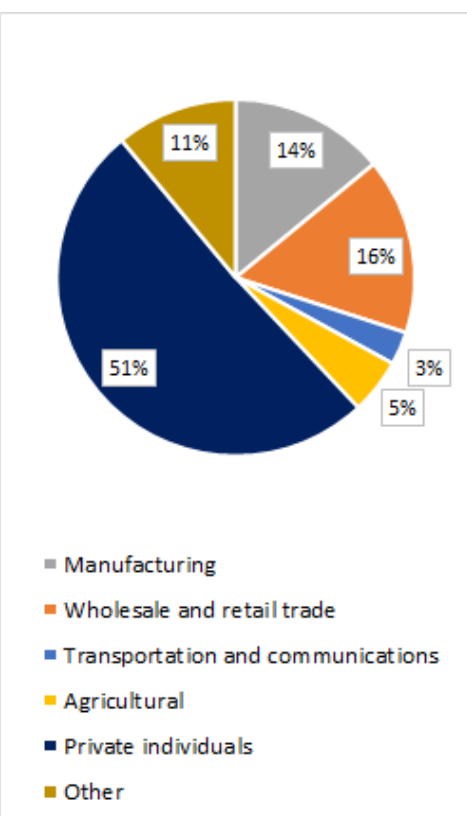
Total assets rose 10.4% y-o-y to KES 381.5 BN (+2.0 q-o-q). Customer loans and advances saw a 12.4% y-o-y increase to KES 203.0 BN (+4.1% q-o-q). Amidst the depressed economic environment, overall subdued demand for credit from customers as well as a reserved appetite for risk will be key themes that will plague the banking sector in FY20. The group's investments in government securities declined 1.0% y-o-y to KES 82.3 BN (+3.8% q-o-q).

On the funding side, customer deposits rose 6.6% y-o-y to KES 238.7 BN (+0.4% q-o-q). Deposits due to other banks declined 32.4% y-o-y to KES 4.9 BN (+19.9% q-o-q) whilst balances due to the group rose 32.7% y-o-y to 73.8 BN (+2.6 q-o-q). The bank's loans to deposits ratio rose 444 bps y-o-y to 85.0%. In parallel, loans to deposits and borrowed funds ratio rose 38 bps y-o-y to 64.9%.

Gross non-performing loans (NPLs) rose 12.4% y-o-y to KES 17.3 BN whereas interest in expense declined 20.6% y-o-y to KES 2.4 BN. As such, total NPLs stood at KES 15.0 BN, 20.4% up y-o-y. The NPL ratio remained flat y-o-y to 7.9%. Loan loss provisions declined 18.0% y-o-y to KES 8.8 BN (+12.6% q-o-q). The NPL coverage ratio declined 122 bps y-o-y to 58.8%. We foresee further deterioration of asset quality across the sector in 2Q20.

ABSA Bank's core capital ratio (Core capital/TRWA) edged down 80 bps y-o-y to 13.8%, above the statutory minimum of 10.5%. Total capital ratio (Total capital/TRWA) remained flat y-o-y at 16.5%, above the statutory minimum of 14.5%. Liquidity ratio declined 320 bps y-o-y to 37.9%, above the statutory minimum of 20.0%.

ABSA: SECTOR RISK CONCENTRATIONS*



Source: (Company Filings, DBIB Research)

*As per the most recent published Annual Report (2018)

On a trailing basis, the counter is trading at a P/E multiple of 7.8x and a P/B multiple of 1.4x, above the sector medians of 5.3x and 0.7x respectively. Its ROE stands at 17.8%, above the sector median of 17.1% whereas its ROA stands at 2.0% below the sector median of 2.3%. Currently, its dividend yield stands at 10.2%, above the sector median of 7.3%. We maintain a **HOLD** recommendation.

PROFIT AND LOSS SUMMARY (KES MN)

Year End: December	1Q20	1Q19	4Q19	y-y%ch	q-q% ch
Interest income	7,620	7,416	8,128	2.8	(6.3)
Interest expense	1,988	2,027	1,781	(1.9)	11.6
Net interest income	5,633	5,389	6,348	4.5	(11.3)
Other operating income	309	269	208	14.9	49.0
Fees and commission income	1,516	1,519	1,498	(0.2)	1.2
Net income from forex dealings	1,143	776	929	47.4	23.0
Total non-interest income	2,969	2,564	2,635	15.8	12.7
Total income	8,601	7,954	8,983	8.1	(4.2)
Less operating expenses	4,055	4,288	4,673	(5.4)	(13.2)
Operating profit	4,546	3,665	4,310	24.0	5.5
Bad debt charge	1,116	637	1,122	75.2	(0.5)
Exceptional items	552	243	618	126.8	(10.7)
Profit before income tax	2,878	2,785	2,570	3.3	12.0
Less tax	922	886	5,920	4.2	(84.4)
Profit after tax	1,956	1,900	1,898	3.0	3.1

(Source: Company, DBIB Research)

BALANCE SHEET SUMMARY (KES MN)

Year End: December	1Q20	FY19	1Q19	y-y% ch	q-q%ch
Total shareholder's equity	42,286	45,189	46,055	(8.2)	(6.4)
Minority interest	-	-	-	-	-
Total Equity	42,286	45,189	46,055	(8.2)	(6.4)
Deposits due to other banks	4,897	4,083	7,245	(32.4)	19.9
Customer deposits	238,714	237,739	223,983	6.6	0.4
Balances due to group	73,847	71,978	55,639	32.7	2.6
Other liabilities	21,777	14,993	12,507	74.1	45.3
Total equity and liabilities	381,521	373,982	345,428	10.4	2.0
Central bank balances	22,324	28,808	22,078	1.1	(22.5)
Deposits due from banks	14,700	12,506	11,702	25.6	17.5
AFS securities	82,267	79,221	83,110	(1.0)	3.8
Held for dealing securities	43,115	43,774	33,840	27.4	(1.5)
Customer loans and advances	202,960	194,895	180,499	12.4	4.1
Other assets	12,272	11,270	10,226	20.0	8.9
Intangible assets	532	618	805	(33.9)	(13.8)
Fixed assets	3,350	2,889	3,167	5.7	15.9
Total assets	381,521	373,982	345,428	10.4	2.0

(Source: Company, DBIB Research)

INVESTMENT RETURN

	1Q20*	FY19	1Q19*	y-y bps ch	q-q bps ch
ROA (%)	2.1	2.0	2.2	(15)	6
ROIC (%)	2.2	2.1	2.3	(11)	7
ROE (%)	18.5	16.5	16.5	200	20

(Source: Company, DBIB Research)

*Annualized

CAPITAL ADEQUACY, LIQUIDITY & ASSET QUALITY

	1Q20	FY19	1Q19	y-y bps ch	q-q bps ch
Core capital/TRWA (%)	13.8	13.9	14.6	(80)	(10)
Min. Statutory Ratio (%)	10.5	10.5	10.5	0	0
Total capital/TRWA (%)	16.5	16.6	16.5	0	(10)
Min. Statutory Ratio (%)	14.5	14.5	14.5	0	0
Liquidity Ratio (%)	37.9	39.8	41.1	(320)	(190)
Min. Statutory Ratio (%)	20.0	20.0	20.0	0	0
Leverage Ratio (%)	11.1	12.1	13.3	(225)	(100)
Equity-to-Loans Ratio (%)	20.8	23.2	25.5	(468)	(235)
NPL Ratio (%)**	7.9	6.5	7.9	0	138
NPL Coverage Ratio (%)**	58.8	71.5	60.0	(122)	(1272)
L.T. Debt to Total Liabilities and Equity (%)	19.4	0.2	16.1	325	1916
NTA/share (KES)	7.7	8.2	8.3	(64)	(52)
Book value/share (KES)	7.8	8.3	8.5	(69)	(53)

(Source: Company, DBIB Research)

**Total Loan Portfolio net of Interbank Lending

OPERATING PERFORMANCE

	1Q20	FY19	1Q19	y-y bps ch	q-q bps ch
Yield on interest earning assets (%)*	8.9	9.4	9.6	(71)	(50)
Cost of funds (%)*	2.5	2.5	2.8	(32)	0
Net Interest Margin (%)*	6.4	6.9	6.8	(39)	(51)
Loan-to-Deposits ratio (%)	85.0	82.0	80.6	444	304
Loan-to-Dep.& Borrowed Funds ratio (%)	64.9	62.1	64.6	38	283
Funded Income Generating Potential (%)	78.6	76.6	79.7	(109)	197
Funded Income Reliance (%)	65.5	68.6	67.8	(228)	(316)
Cost to income ratio (%)	47.1	51.2	53.9	(677)	(404)
Cost of risk (%)*	2.2	0.6	1.4	79	162
Pre-tax margin (%)	33.5	31.8	35.0	(156)	162
PAT margin (%)	22.7	22.1	23.9	(115)	66

(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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