



ABSA BANK: 3Q20 EARNINGS UPDATE

Dear All,

ABSA Bank released its 3Q20 results reporting a **65.4% y-o-y decline in profit after tax (PAT) to KES 1.9 BN**. The group recorded a 6.2% y-o-y increase in pre-provision operating profit to KES 12.9 BN. However, this was eroded by a 146.7% y-o-y increase in the group's bad debt charge to KES 7.6 BN. Earnings per share (EPS) for the period closed at KES 0.35 compared to KES 1.02 in the previous period.

Key highlights:

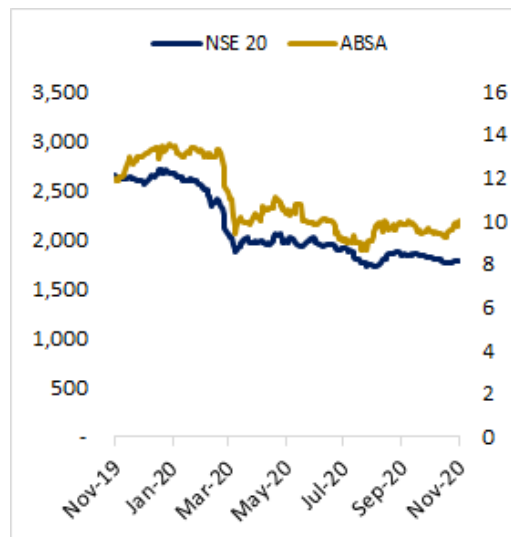
Net interest income rose 1.6% y-o-y to KES 17.1 BN, courtesy of a 1.4% y-o-y increase in interest income to KES 23.2 BN and a 0.8% y-o-y increase in interest expense to KES 6.1 BN. Annualized yield on interest earning assets declined 86 bps y-o-y to 10.0% whereas annualized cost of funds declined 20 bps y-o-y to 2.5%. As a result, the group's annualized net interest margin (NIM) declined 65 bps y-o-y to 7.5%.

Interest income from loans and advances declined 0.8% y-o-y to KES 16.4 BN.

This is a result of the bank's decision to pass down the benefits of the gradual reduction of the CBR to its customers. As such, the annualized yield on loans saw a 99 bps y-o-y decline to 10.8%. Interest income from government securities rose 9.6% y-o-y to KES 6.7 BN placing the annualized yield on government securities at 10.4%, 35 bps down y-o-y. Interest expense from customer deposits declined 4.4% y-o-y to KES 4.8 BN, holding the annualized cost of deposits constant at 2.7%. The bank aims further ease its cost of funds via mobilization of cheaper deposits.

Non-funded income (NFI) rose 4.5% y-o-y to KES 8.3 BN, partly attributable to an 18.8% y-o-y increase in net income from forex dealings to KES 3.2 BN. Other fees and commissions income declined 7.5% y-o-y to KES 3.2 BN due to the waiver on transaction fees between digital wallets whereas fees and commissions on loans saw an 18.6% y-o-y increase to KES 959.9 MN in line with the group's loan book growth (+7.8% y-o-y). As a result, funded income reliance declined 61 bps y-o-y to 67.3%.

ABSA BANK: 52 WEEK PRICE PERFORMANCE



(Source: NSE, DBIB Research)

PRICE RETURN	ABSOLUTE RETURN	EXCESS RETURN
3 month (%)	4.8	1.6
6 month (%)	(4.3)	4.8
12 month (%)	(15.6)	16.0

KEY METRICS

Current Price (KES)	10.00
52 week high (KES)	13.60
52 week low (KES)	8.62
YTD Return (%)	(25.1)
Issued Shares (MN)	5,431.5
Market Cap (USD MN)	496.9

Recommendation	HOLD
Target price	Under review
Trailing EPS (KES)	0.70
NAV (KES)	8.2
P/E (x)	14.2
P/B (x)	1.2
Div Yld (%)	-

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Operating expenses (less loan loss provisions) declined 1.1% y-o-y to KES 12.5 BN, owing to an 8.1% y-o-y decline in other operating expenses to KES 3.7 BN and a 1.9% y-o-y increase in staff costs to KES 7.5 BN. On account of this, pre-provision operating profit rose 6.2% y-o-y to KES 12.9 BN. The group's cost to income ratio improved by 178 bps y-o-y to 49.1%.

The group's loan loss provision expense saw a 146.7% y-o-y upswing to KES 7.6 BN, spiking the annualized cost of risk to 4.8%, 273 bps up y-o-y. The bank has restructured c. KES 63.0 BN of loan value, equivalent to 30.0% of net customer loans and advances.

Under the exceptional items, separation costs rose 113.6% y-o-y to KES 1.9 BN. The bank has concluded its transition to Absa on time and on budget, having rebranded all its business assets and seamlessly migrated all its technology systems. As such, the bank will not incur further separation costs in FY21 and will instead reinvest back into core business operations so as to increase efficiency, and in turn boost profitability.

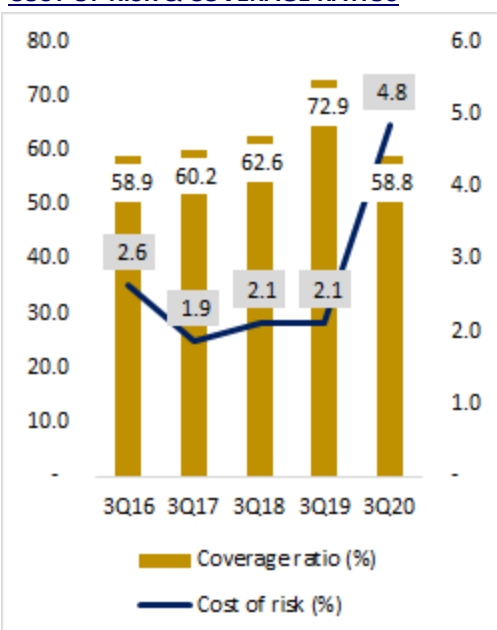
Total assets rose 7.8% y-o-y to KES 387.9 BN (-1.0% q-o-q). Customer loans and advances saw a 7.8% y-o-y increase to KES 209.2 BN (+3.6% q-o-q). The group's investments in government securities rose 23.2% y-o-y to KES 94.7 BN (+2.9% q-o-q) whereas the held for dealing securities declined 5.5% y-o-y to KES 39.4 BN (-6.0% q-o-q).

On the funding side, customer deposits rose 4.7% y-o-y to KES 246.6 BN (-0.9% q-o-q), placing the loans to deposits ratio at 84.9%, 238 bps up y-o-y. Deposits due to other banks rose 225.8% y-o-y to KES 11.1 BN (+79.7% q-o-q) whilst balances due to the group rose 13.7% y-o-y to KES 68.4 BN (-9.4% q-o-q). As such, the group's loans to deposits and borrowed funds ratio declined 77 bps y-o-y to 64.2%.

Gross non-performing loans (NPLs) rose 20.8% y-o-y to KES 17.0 BN (-1.4% q-o-q), mainly on the back of exposure from single names in the wholesale segment. Interest in suspense declined 15.3% y-o-y to KES 2.5 BN (+1.5% q-o-q). As such, total NPLs rose 30.5% y-o-y to KES 14.3 BN (-1.9% q-o-q). The NPL ratio rose 75 bps y-o-y to 7.4%. Loan loss provisions rose 5.2% y-o-y to KES 8.4 BN (+0.3% q-o-q), thus pivoting the NPL coverage ratio to 58.8%, 1,412 bps down y-o-y.

ABSA Bank's core capital ratio (Core capital/TRWA) edged down 50 bps y-o-y to 13.7%, above the statutory minimum of 10.5%. Total capital ratio (Total capital/TRWA) edged up 40 bps y-o-y to 16.5%, above the statutory minimum of 14.5%. Liquidity ratio declined 320 bps y-o-y to 36.4%, above the statutory minimum of 20.0%.

COST OF RISK & COVERAGE RATIOS



(Source: Company filings, DBIB Research)

On a trailing basis, ABSA is trading at a P/E multiple of 14.2x and a P/B multiple of 1.2x, above sector medians of 4.7x and 0.6x respectively. Its ROE stands at 8.6%, against a sector median of 12.0% whereas its ROA stands at 1.0%, against a sector median of 1.7%. Dividend yield stands at 9.0%, above the sector median of 5.4%. We maintain a **HOLD** recommendation.

PROFIT AND LOSS SUMMARY (KES MN)

Year End: December	3Q20	3Q19	y-y% ch	3q20	2q20	3q19	y-y% ch	q-q% ch
Interest income	23,215	22,895	1.4	7,897	7,697	7,712	2.4	2.6
Interest expense	6,114	6,065	0.8	2,100	2,025	1,914	9.7	3.7
Net interest income	17,101	16,831	1.6	5,797	5,672	5,798	(0.0)	2.2
Other operating income	962	619	55.3	330	322	114	190.0	2.4
Fees and commission income	4,126	4,622	(10.7)	1,311	1,299	1,549	(15.4)	0.9
Net income from forex dealings	3,221	2,711	18.8	1,159	919	1,004	15.5	26.2
Total non-interest income	8,309	7,953	4.5	2,800	2,540	2,666	5.0	10.2
Total income	25,410	24,784	2.5	8,597	8,212	8,465	1.6	4.7
Less operating expenses	12,478	12,612	(1.1)	4,309	4,114	4,208	2.4	4.7
Operating profit	12,933	12,172	6.2	4,288	4,098	4,257	0.7	4.6
Bad debt charge	(7,597)	(3,079)	146.7	(2,212)	(4,269)	(1,438)	53.9	(48.2)
Exceptional items	(1,944)	(910)	113.6	(277)	(1,115)	(349)	(20.6)	(75.1)
Profit before income tax	3,391	8,183	(58.6)	1,799	(1,286)	2,470	(27.2)	(239.9)
Less tax	(1,468)	(2,623)	(44.0)	(2,471)	(81)	(4,458)	(44.6)	2943.5
Profit after tax	1,923	5,559	(65.4)	1,334	(1,367)	1,682	(20.7)	(197.6)
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	3Q20	1H20	3Q19	y-y% ch	q-q%ch
Total shareholder's equity	44,622	42,991	43,998	1.4	3.8
Minority interest	-	-	-	0.0	0.0
Total Equity	44,622	42,991	43,998	1.4	3.8
Deposits due to other banks	11,070	6,160	3,397	225.8	79.7
Customer deposits	246,551	248,746	235,410	4.7	(0.9)
Balances due to group	68,375	75,441	60,138	13.7	(9.4)
Other liabilities	17,249	18,541	16,822	2.5	(7.0)
Total equity and liabilities	387,867	391,879	359,765	7.8	(1.0)
Central bank balances	18,994	26,006	22,855	(16.9)	(27.0)
Deposits due from banks	5,767	12,189	10,231	(43.6)	(52.7)
Kenya government securities	94,664	92,013	76,845	23.2	2.9
Held for dealing securities	39,357	41,857	41,650	(5.5)	(6.0)
Customer loans and advances	209,248	201,948	194,194	7.8	3.6
Other assets	16,473	14,195	10,509	56.7	16.0
Intangible assets	370	441	678	(45.5)	(16.1)
Fixed assets	2,994	3,229	2,802	6.8	(7.3)
Total assets	387,867	391,879	359,765	7.8	(1.0)

(Source: Company, DBIB Research)

INVESTMENT RETURN

	3Q20	1H20	3Q19	y-y bps ch	q-q bps ch
ROA (%)*	0.7	0.3	2.1	(140)	36
ROIC (%)*	0.7	0.3	2.2	(147)	38
ROE (%)*	5.7	2.7	16.8	(1,110)	301

(Source: Company, DBIB Research)

*Annualized

CAPITAL ADEQUACY, LIQUIDITY & ASSET QUALITY

	3Q20	1H20	3Q19	y-y bps ch	q-q bps ch
Core capital/TRWA (%)	13.7	13.8	14.2	(50)	(10)
Min. Statutory Ratio (%)	10.5	10.5	10.5	-	-
Total capital/TRWA (%)	16.5	16.5	16.1	40	-
Min. Statutory Ratio (%)	14.5	14.5	14.5	-	-
Liquidity Ratio (%)	36.4	39.1	39.6	(320)	(270)
Min. Statutory Ratio (%)	20.0	20.0	20.0	-	-
Leverage Ratio (%)	11.5	11.0	12.2	(72)	53
Equity-to-Loans Ratio (%)	21.3	21.3	22.7	(133)	4
NPL Ratio (%)**	7.4	7.8	6.7	75	(35)
NPL Coverage Ratio (%)**	58.8	57.5	72.9	(1,412)	131
IFRS 9 Coverage Ratios (%) **	64.9	63.6	78.6	(1,374)	130
Long Term Debt to Total Liabilities and Equity (%)	17.6	19.3	16.7	91	(162)
NTA/share (KES)	8.1	7.3	8.0	17	83
Book value/share (KES)	8.2	7.9	8.1	12	30

(Source: Company, DBIB Research)

**Total Loan Portfolio net of Interbank Lending

OPERATING PERFORMANCE

	3Q20	1H20	3Q19	y-y bps ch	q-q bps ch
Yield on interest earning assets (%)*	10.0	10.0	10.9	(86)	(1)
Cost of funds (%)*	2.5	2.4	2.7	(20)	7
Net Interest Margin (%)*	7.5	7.6	8.1	(65)	(8)
Loan-to-Deposits ratio (%)	84.9	81.2	82.5	238	368
Loan-to-Dep.& Borrowed Funds ratio (%)	64.2	61.1	65.0	(77)	306
Funded Income Generating Potential (%)	79.8	78.1	78.2	166	172
Funded Income Reliance (%)	67.3	67.2	67.9	(61)	7
Cost to income ratio (%)	49.1	48.6	50.9	(178)	52
Cost of risk (%)*	4.8	5.3	2.1	273	387
Pre-tax margin (%)	13.3	9.5	33.0	(1,967)	407
PAT margin (%)	7.6	3.5	22.4	(1,486)	-
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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