



ABSA GROUP: FY20 EARNINGS UPDATE

Dear All,

ABSA Group announced its FY20 results reporting a **44.2% y-o-y decline in profit after tax (PAT) to KES 4.2 BN**. The group recorded an 8.5% y-o-y increase in pre-provision operating profit to KES 17.9 BN. However, this growth was wiped off by a 114.9% y-o-y increase in the group's bad debt charge to KES 9.0 BN. Earnings per share (EPS) for the period stood at KES 0.77 compared to KES 1.37 in FY19. No dividend was recommended.

Key highlights:

Net interest income rose 0.9% y-o-y to KES 23.4 BN, on the back of a 1.3% y-o-y increase in interest income to KES 31.4 BN. Interest expense increased 2.7% y-o-y to KES 8.0 BN. Yield on interest earning assets declined 23 bps y-o-y to 9.2% whereas cost of funds increased 5 bps y-o-y to 2.6%. As a result, the group's net interest margin (NIM) declined 28 bps y-o-y to 6.6%.

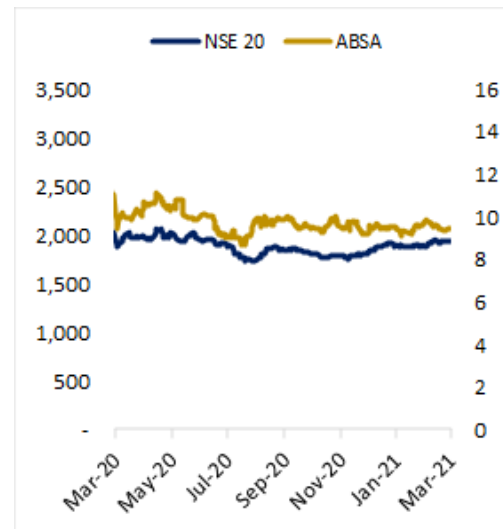
Non-funded income (NFI) rose 5.2% y-o-y to KES 11.1 BN, partly attributable to a 22.2% y-o-y increase in net income from forex dealings to KES 4.4 BN and a 42.0% y-o-y increase in other operating income to KES 1.2 BN. Fees and commissions income declined 9.9% y-o-y to KES 5.5 BN.

Operating expenses (less loan loss provisions) declined 3.7% y-o-y to KES 16.6 BN, owing to a 3.9% y-o-y decline in staff costs to KES 9.8 BN. The cost-to-income ratio in turn improved by 297 bps y-o-y to 48.2% compared to FY19's 51.2%.

The bank's loan loss provision expense saw a 114.9% y-o-y upsurge to KES 9.0 BN, spiking the cost of risk to 4.3%, up 217 bps y-o-y.

Total assets rose 1.5% y-o-y to KES 379.4 BN (-2.2% q-o-q). Customer loans and advances saw a 7.2% y-o-y increase to KES 208.8 BN (-0.2% q-o-q). The group's investments in government securities rose 13.2% y-o-y to KES 89.7 BN (-5.3% q-o-q) whereas the held for dealing securities declined 16.9% y-o-y to KES 36.4 BN (-7.6% q-o-q).

ABSA BANK: 52 WEEK PRICE PERFORMANCE



(Source: NSE, DBIB Research)

PRICE RETURN	ABSOLUTE RETURN	EXCESS RETURN
3 month (%)	2.6	(4.0)
6 month (%)	(4.1)	(7.0)
12 month (%)	(7.5)	(6.1)

KEY METRICS

Current Price (KES)	9.44
52 week high (KES)	11.15
52 week low (KES)	8.62
YTD Return (%)	(2.3)
Issued Shares (MN)	5,431.5
Market Cap (USD MN)	466.7

Target price	Under review
EPS (KES)	0.77
NAV (KES)	8.6
P/E (x)	12.3
P/B (x)	1.1
Div Yld (%)	-

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On the funding side, customer deposits rose 6.7% y-o-y to KES 253.6 BN (+2.9% q-o-q), placing the loans to deposits ratio at 82.3%, +37 bps up y-o-y. Deposits due to other banks remained relatively unchanged y-o-y at KES 4.1 BN (-63.2% q-o-q) whilst balances due to the group declined 19.1% y-o-y to KES 58.2 BN (-14.8% q-o-q). As such, the group's loans to deposits and borrowed funds ratio improved by 400 bps y-o-y to 66.1%.

Gross non-performing loans (NPLs) rose 23.2% y-o-y to KES 17.1 BN (+2.0% q-o-q). Interest in suspense declined 16.8% y-o-y to KES 2.4 BN (-1.8% q-o-q). As such, total NPLs rose 33.9% y-o-y to KES 14.7 BN (+2.6% q-o-q). The NPL ratio rose 108 bps y-o-y to 7.6%. Cumulative loan loss provisions rose 21.7% y-o-y to KES 9.7 BN (+15.7% q-o-q), thus pivoting the NPL coverage ratio to 66.3%, 523 bps down y-o-y.

ABSA Bank's core capital ratio (Core capital/TRWA) edged up 80 bps y-o-y to 14.7%, above the statutory minimum of 10.5%. Total capital ratio (Total capital/TRWA) edged up 90 bps y-o-y to 17.5%, above the statutory minimum of 14.5%. Liquidity ratio declined 110 bps y-o-y to 38.7%, above the statutory minimum of 20.0%.

ABSA is trading at a P/E multiple of 12.3x and a P/B multiple of 1.1x, above sector medians of 6.5x and 0.7x respectively. Its ROE stands at 8.9% against a sector median of 11.0% whereas its ROA stands at 1.1%, against a sector median of 1.8%.

PROFIT AND LOSS SUMMARY (KES MN)

Year End: December	FY20	FY19	y-y%ch	4q20	3q20	4q19	y-y% ch	q-q% ch
Interest income	31,440	31,024	1.3	8,225	7,897	8,128	1.2	4.1
Interest expense	8,059	7,845	2.7	1,945	2,100	1,781	9.2	(7.4)
Net interest income	23,381	23,179	0.9	6,280	5,797	6,348	(1.1)	8.3
Other operating income	1,175	827	42.0	213	330	208	2.5	(35.6)
Fees and commission income	5,518	6,121	(9.9)	1,391	1,311	1,498	(7.1)	6.2
Net income from forex dealings	4,448	3,641	22.2	1,227	1,159	929	32.0	5.9
Total non-interest income	11,140	10,588	5.2	2,831	2,800	2,635	7.4	1.1
Total income	34,522	33,767	2.2	9,111	8,597	8,983	1.4	6.0
Less operating expenses	16,647	17,285	(3.7)	4,169	4,309	4,673	(10.8)	(3.3)
Operating profit	17,875	16,482	8.5	4,942	4,288	4,310	14.7	15.3
Bad debt charge	(9,027)	(4,201)	114.9	(1,430)	(2,212)	(1,122)	27.5	(35.4)
Exceptional items	(3,202)	(1,528)	109.5	(1,258)	(277)	(618)	0.0	-
Profit before income tax	5,646	10,753	(47.5)	2,255	1,799	2,570	(12.3)	25.4
Less tax	(1,484)	(3,296)	(55.0)	(16)	(2,471)	(673)	(97.6)	(99.3)
Profit after tax	4,162	7,457	(44.2)	2,239	1,334	1,898	18.0	67.8
Attributable Income	4,162	7,457	(44.2)	2,239	1,334	1,898	18.0	67.8

(Source: Company, DBIB Research)

BALANCE SHEET SUMMARY (KES MN)

Year End: December	FY20	3Q20	FY19	y-y% ch	q-q%ch
Total shareholder's equity	46,504	44,622	45,189	2.9	4.2
Minority interest	-	-	-	-	-
Total Equity	46,504	44,622	45,189	2.9	4.2
Deposits due to other banks	4,076	11,070	4,083	(0.2)	(63.2)
Customer deposits	253,630	246,551	237,739	6.7	2.9
Balances due to group	58,240	68,375	71,978	(19.1)	(14.8)
Other liabilities	16,991	17,249	14,993	13.3	(1.5)
Total equity and liabilities	379,441	387,867	373,982	1.5	(2.2)
Central bank balances	18,260	18,994	28,808	(36.6)	(3.9)
Deposits due from banks	8,324	5,767	12,506	(33.4)	44.3
AFS securities	89,682	94,664	79,221	13.2	(5.3)
Held for dealing securities	36,375	39,357	43,774	(16.9)	(7.6)
Customer loans and advances	208,855	209,248	194,895	7.2	(0.2)
Other assets	14,675	16,473	11,270	30.2	(10.9)
Intangible assets	414	370	618	(32.9)	12.1
Fixed assets	2,856	2,994	2,889	(1.2)	(4.6)
Total assets	379,441	387,867	373,982	1.5	(2.2)

(Source: Company, DBIB Research)

INVESTMENT RETURN

	FY20	3Q20	FY19	y-y bps ch	q-q bps ch
ROA (%)	1.1	0.7	2.0	(90)	44
ROIC (%)	1.2	0.7	2.1	(94)	47
ROE (%)	8.9	5.7	16.5	(755)	320

(Source: Company, DBIB Research)

*Annualized

CAPITAL ADEQUACY, LIQUIDITY & ASSET QUALITY

	FY20	3Q20	FY19	y-y bps ch	q-q bps ch
Core capital/TRWA (%)	14.7	13.7	13.9	80	100
Min. Statutory Ratio (%)	10.5	10.5	10.5	-	-
Total capital/TRWA (%)	17.5	16.5	16.6	90	100
Min. Statutory Ratio (%)	14.5	14.5	14.5	-	-
Liquidity Ratio (%)	38.7	36.4	39.8	(110)	230
Min. Statutory Ratio (%)	20.0	20.0	20.0	-	-
Leverage Ratio (%)	12.3	11.5	12.1	17	75
Equity-to-Loans Ratio (%)	22.3	21.3	23.2	(92)	94
NPL Ratio (%)	7.6	7.4	6.5	108	15
NPL Coverage Ratio (%)	66.3	58.8	71.5	(523)	748
Long Term Debt to Total Liabilities and Equity (%)	15.3	17.6	19.2	(390)	(228)
NTA/share (KES)	8.5	8.1	8.2	28	34
Book value/share (KES)	8.6	8.2	8.3	24	35

(Source: Company, DBIB Research)

OPERATING PERFORMANCE

	FY20	3Q20	FY19	y-y bps ch	q-q bps ch
Yield on interest earning assets (%)	9.2	10.0	9.4	(23)	(84)
Cost of funds (%)	2.6	2.5	2.5	5	5
Net Interest Margin (%)	6.6	7.5	6.9	(28)	(89)
Loan-to-Deposits ratio (%)	82.3	84.9	82.0	37	(252)
Loan-to-Dep. & Borrowed Funds ratio (%)	66.1	64.2	62.1	400	192
Funded Income Generating Potential (%)	80.9	79.8	76.6	423	103
Funded Income Reliance (%)	67.7	67.3	68.6	(91)	43
Cost to income ratio (%)	48.2	49.1	51.2	(297)	(88)
Pre-tax margin (%)	16.4	13.3	31.8	(1549)	301
PAT margin (%)	12.1	7.6	22.1	(1003)	449

(Source: Company, DBIB Research)

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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