

# Company Update Report

## Absa Group Limited

### Financials

#### Analyst thesis

Our recommendation is based on:

As at: 21 May 2026

- Absa Group Limited (ABG) benefits from a diversified earnings base across retail, business, corporate, and investment banking operations in South Africa and selected African markets. The group's domestic franchise supports resilient earnings and capital generation, while its African operations provide exposure to faster-growing banking, payments, and lending markets that support longer-term growth opportunities.
- ABG benefits from improving South African operating conditions, including easing load-shedding, moderating inflation and lower interest rates, supporting consumer activity, transactional volumes, and credit demand. Structural banking growth opportunities across Africa also remain supportive. However, subdued South African GDP growth (~1.6%), elevated unemployment, competitive pressures, and foreign exchange (FX) as well as sovereign risks across African operations remain key constraints on earnings growth.
- Strong capital generation and resilient profitability: ABG continues to deliver solid returns, supported by disciplined risk management, improving operational efficiency, and a diversified funding base. Capital levels remain robust, supporting dividend distributions, balance-sheet flexibility, and continued investment in digital banking capabilities across the group.
- ABG currently trades broadly in line with our intrinsic value of R240 per share, suggesting that improving operational execution, resilient earnings, and the medium-term growth outlook are largely reflected in the valuation.

#### Latest company and market insights

##### Key highlights

In this report, we review the FY25 results released in March 2026:

##### Financial results at a glance:

- Net interest income (NII): NII increased by 4.0% from R71.1 billion in FY24 to R73.9 billion, supported by loan growth and higher average interest-bearing assets. The net interest margin compressed by 10 basis points (bps) to 453 bps, reflecting deposit margin pressure and lower policy rates across key markets.
- Non-interest revenue (NIR): NIR rose by 7.5% from R38.8 billion to R41.8 billion, underpinned by stronger trading income, fees and commissions, and gains from investment activity.
- The insurance business delivered a softer performance in FY25, with the insurance service result declining by 2.8% from R2.1 billion to R2.07 billion, and Insurance SA headline earnings falling 6.6% from R1.1 billion to R1.0 billion, primarily driven by higher claims experience, margin compression in the short-term insurance book, and weaker underwriting performance in parts of the retail insurance portfolio.
- Credit impairment charges declined by 6.3% from R14.3 billion in FY24 to R13.4 billion, reflecting improved collections, better portfolio trends, and lower impairments across personal and private banking, and corporate and investment banking.
- Operating expenses grew by 6.4% from R58.5 billion to R62.2 billion, driven by higher staff costs, continued investment in digital capabilities, marketing costs, and equipment costs.
- Group ROE improved to 15.0% (FY24: 14.8%). Total dividends rose from 1 460 cents per share in FY24 to 1 635 cents per share, representing a 12.0% increase.
- Corporate and investment banking (CIB) delivered the strongest growth, with headline earnings rising by 13.9% from R11.4 billion in FY24 to R13 billion. Personal and private banking (PPB) increased by 7.1% from R7.0 billion in FY24 to R7.5 billion, while business banking (BB) declined by 8.2% from R4.2 billion to R3.9 billion.

##### Sector outlook

South Africa's banking sector remains well capitalised but constrained by low domestic growth of ~1.6% expected in 2026, with structural challenges continuing to limit near-term upside despite gradual reform progress. However, broader Sub-Saharan African growth of ~4%-4.5% is expected to provide a meaningful diversification tailwind for regional banking operations, supporting more resilient earnings across the franchise. Overall, profitability remains driven by net interest income trends, credit quality normalisation, and cost discipline in a still-moderate growth environment.

Ticker	ABG-ZA
Share price	R235
Intrinsic value	R240
Upside/(Downside)	2%
Recommendation	Hold

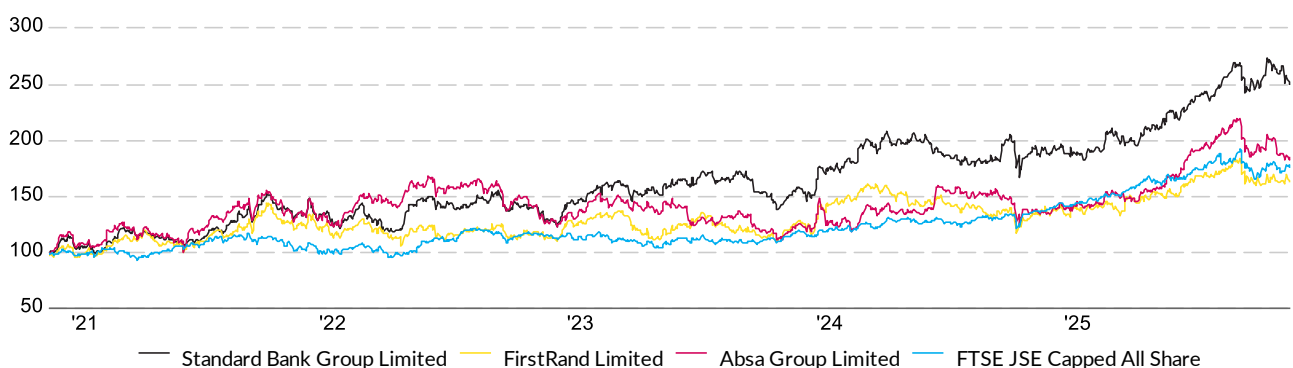


**Table 1: Qualitative summary**

Factor	Rating	Description
Growth	★★★★☆	Expected three-year revenue CAGR is 6.0%, and expected three-year EPS CAGR is 13.9%. Revenue growth reflects balance-sheet expansion across South African and African operations, supported by NII recovery as lending grows and NIR momentum from fees. EPS growth benefits from positive operating jaws and lower credit impairments.
Valuation	★★★★☆	The share price is trading at a 2% discount to the intrinsic value (IV). The current NTM P:E of 6.9x is trading at a 10% premium to the five-year average NTM P:E of 6.3x.
Dividend	★★★★☆	LTM dividend yield of 7.1%. NTM dividend yield of 7.8%.
Issuance	★★★★☆	Shares issued have remained stable over the past five years.
Catalyst		Improving South African macro environment: Easing inflation and potential SARB rate cuts remain supportive, but are increasingly contingent on external shocks, particularly elevated oil prices and inflation risks. This creates a more uncertain near-term rate path, with the timing and magnitude of cuts less predictable. Credit cycle normalisation: Stabilising impairments and improving arrears trends should support earnings recovery and return on equity, particularly in secured retail lending portfolios. Pan-African growth diversification: Exposure to higher-growth Sub-Saharan African markets supports corporate lending, trade finance, and SME growth, partially offsetting weaker domestic conditions.
Quality of earnings	★★★★☆	Five-year average ROE 11.5%. Five-year average net profit margin 11.1%. The group has recorded positive earnings growth in seven of the past 10 years. ABG's ROE has remained structurally higher over the past five years compared to pre-Covid levels, with management guiding further improvement to around 16% in FY26 (FY25: 15%).
Moat	★★★★☆	Switching costs and relationship depth: Clients are embedded across transactional banking, lending, and payments ecosystems, with deep integration into payroll, SME banking, and retail credit products, creating meaningful switching frictions and supporting stable franchise relationships. Funding and scale advantage: A strong retail deposit base provides stable, relatively low-cost funding, supporting net interest margin resilience and enabling consistent balance-sheet deployment through cycles. Intangible assets and regulatory barriers: Established brand trust in South Africa, built through a long operating history, combined with stringent banking regulation under the SARB and capital adequacy requirements, creates high barriers to entry and limits new competition.
Management and governance	★★★★☆	Kenny Fihla was appointed group Chief Executive Officer (CEO) of Absa Group Limited in 2025, bringing extensive banking experience from his previous role as CEO of Standard Bank South Africa, as well as senior leadership positions across corporate and investment banking.
Balance sheet	★★★★☆	Loans-to-deposits ratio of 80.3%. CET1 of 12.7%, in line with the five-year average of 12.7%.
Risks		Credit and macro risks: Weak South African growth, high unemployment, and inflation risks may pressure credit quality and loan growth, while African currency volatility adds earnings volatility. Competitive risk: Fintechs and digital banks are intensifying competition in payments and SME banking, which could pressure fee income and margins amid ongoing payments reform. Operational and cyber risk: A large digital and multi-country footprint increases exposure to cyberattacks, system outages, and fraud risk. Execution risk: Exposure to African markets drives volatility from currency swings, sovereign risk, and political/regulatory instability. Regulatory and political risk: Continued Basel III implementation, regulatory oversight by the SARB and FSCA, and the transition from the JIBAR to ZARONIA are expected to increase compliance costs and may gradually affect funding conditions, pricing dynamics, and product economics.

Source: FactSet

**Graph 1: Five-year price (Indexed to 100)**



Source: FactSet

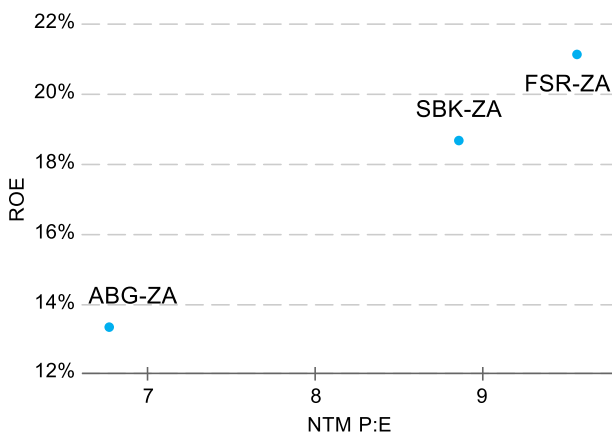


**Table 2: Price performance versus benchmark and peers**

Period	YTD	MTD	3M	6M	1Y	2Y	3Y	5Y	10Y
ABG-ZA	-2.3%	0.3%	-10.7%	12.8%	39.1%	54.3%	47.8%	87.5%	69.8%
FSR-ZA	-1.4%	1.4%	-5.8%	7.2%	21.6%	35.1%	45.3%	68.0%	113.2%
SBK-ZA	6.1%	-3.8%	-1.8%	13.7%	33.4%	65.7%	97.3%	152.5%	164.9%
JSE All Share	1.5%	1.9%	-3.1%	5.5%	28.0%	49.7%	51.6%	77.9%	119.5%

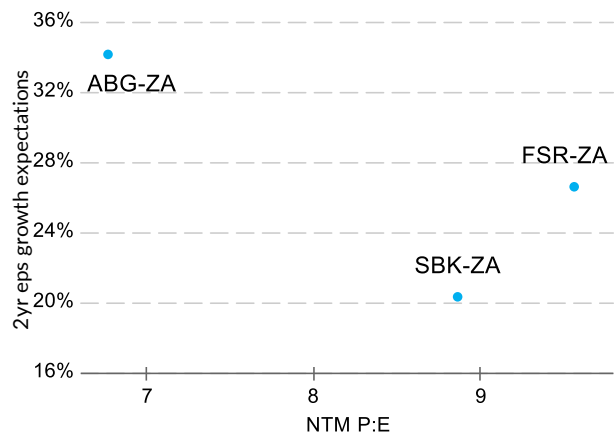
Source: FactSet

**Graph 2: P:E vs 2Y average ROE**



Source: FactSet

**Graph 3: P:E vs EPS 2Y CAGR forecast**



Source: FactSet

## Valuation

The valuation of ABG is based on forecast earnings per share and a forward P:E multiple that captures the group's diversified banking and financial services operations. Earnings forecasts incorporate loan growth, net interest margin trends, and credit loss normalisation aligned with management guidance. The valuation multiple is anchored to ABG's historical trading range, consistent with the group's medium-term growth, return profile, and capital position. Bear, base, and bull scenarios are considered, with probability weightings reflecting potential macroeconomic outcomes and capital return assumptions.

**Table 3: Valuation summary**

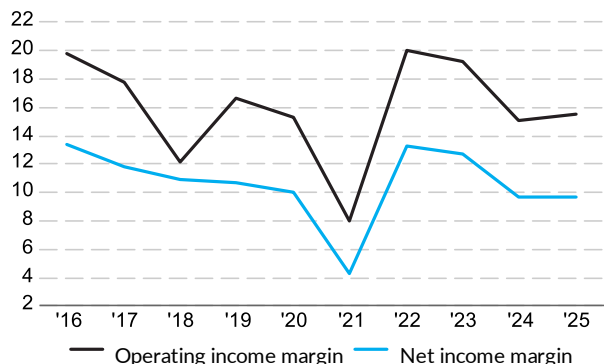
Valuation probabilities			
	Bear	Base	Bull
P:E multiple	7x	8x	9x
Probability	15%	65%	20%
Implied share price	R185	R237	R290
<b>Weighted intrinsic value</b>	<b>R240</b>		
<b>Upside/(Downside)</b>	<b>2%</b>		

**Graph 4: NTM P:E relative to benchmark**



Source: FactSet

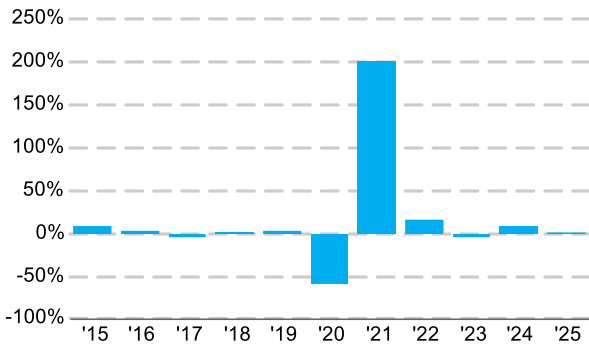
**Graph 5: Profit margins (%)**



Source: FactSet

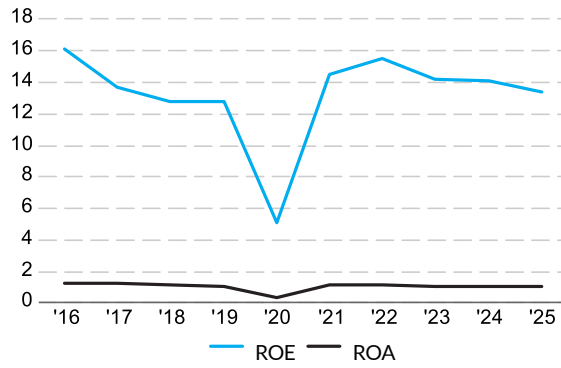


**Graph 6: 10Y EPS year-on-year change**



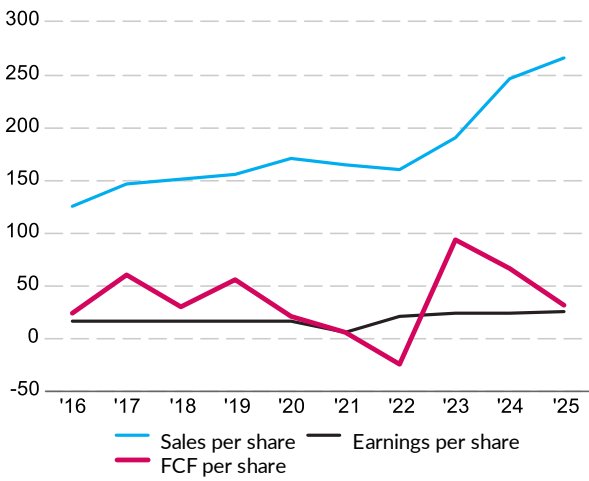
Source: FactSet

**Graph 7: ROE and ROA (%)**



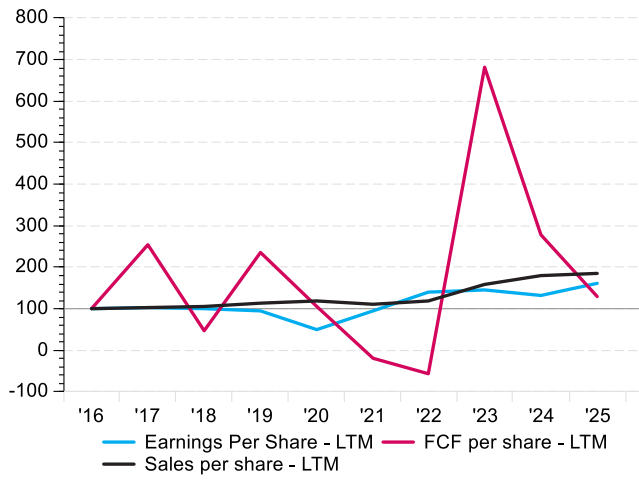
Source: FactSet

**Graph 8: Sales, earnings, and FCF per share (ZAR)**



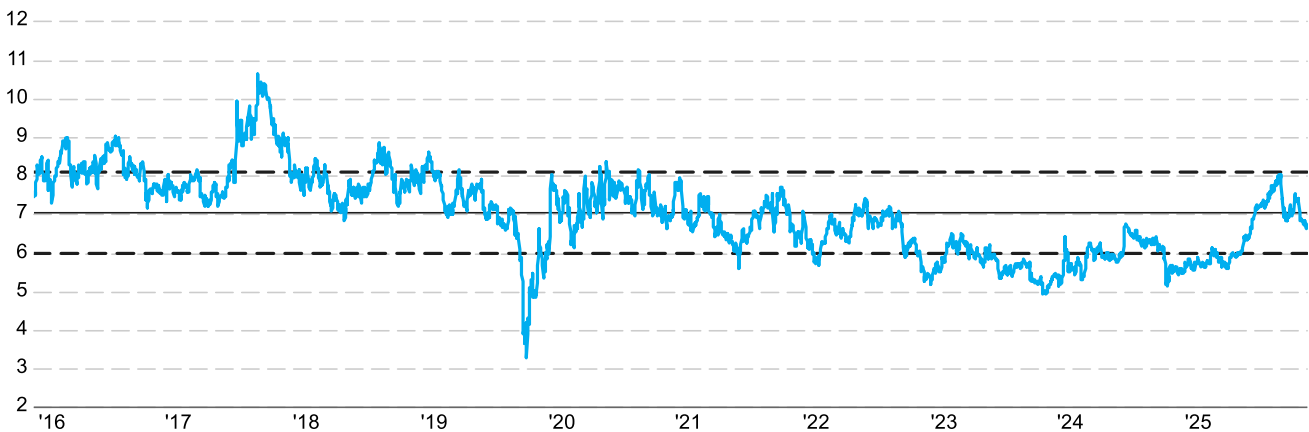
Source: FactSet

**Graph 9: Sales, earnings, and FCF per share indexed**



Source: FactSet

**Graph 10: NTM P:E**



Source: FactSet



**Table 4: Financials and ratios**

Income statement (RMn)	Dec 21	Dec 22	Dec 23	Dec 24	Dec 25	1Y Growth	3Y CAGR	5Y CAGR
Net interest income	53 322	60 498	68 055	71 105	73 941	4%	7%	9%
Provision for credit losses	-8 499	-13 703	-15 535	-14 304	-13 410	-6%	-1%	-8%
Non-interest income	32 551	36 338	36 587	38 844	41 756	7%	5%	5%
Operating and other expenses	-49 527	-51 719	-58 857	-62 422	-67 603	8%	9%	6%
Net operating income	27 847	31 414	30 250	33 223	34 684	4%	3%	27%
Net income	20 243	23 173	22 563	24 903	25 602	3%	3%	29%
EPS (ZAR)	21.4	24.4	24.0	26.0	26.8	3%	3%	30%
Balance sheet (RMn)	Dec 21	Dec 22	Dec 23	Dec 24	Dec 25	1Y Growth	3Y CAGR	5Y CAGR
Total assets	1 639 532	1 792 101	1 874 876	2 068 695	2 239 479	8%	8%	8%
Total shareholders' equity	143 506	150 099	164 397	183 276	191 409	4%	8%	8%
Total liabilities	1 496 026	1 642 002	1 710 479	1 885 419	2 048 070	9%	8%	8%
Ratios	Dec 21	Dec 22	Dec 23	Dec 24	Dec 25	5Y Avg		
Cost-to-income ratio	56.6%	52.1%	53.2%	53.2%	53.8%	53.8%		
CET1	12.8%	12.8%	12.5%	12.6%	12.7%	12.7%		

Source: FactSet

**Table 5: Standard finance and investment abbreviations**

Abbreviation	Definition
ABG-ZA	Absa Group Limited
CAGR	Compounded annual growth rate
CET1	Common equity tier 1
DCF	Discounted cash flow
EPS	Earnings per share
FCF	Free cash flow
FSCA	Financial Conduct Authority
FSR-ZA	FirstRand Limited
FY	Financial year
JIBAR	Johannesburg Interbank Average Rate
LCR	Liquidity coverage ratio
LTM	Last twelve months (also known as trailing)
M	Month
MTD	Month-to-date
NTM	Next twelve months (also known as forward)
P:E	Price-to-earnings
ROA	Return on assets
ROE	Return on equity
SARB	South African Reserve Bank
SBK-ZA	Standard Bank Group Limited
SME	Small and medium-sized enterprises
Y/y	Year(s)
YoY	Year-on-year
YTD	Year-to-date
ZAR or R	South African rand
ZARONIA	South African Rand Overnight Index Average



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\*Share price as at closing.

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