Bank ABC
Q1 2024 Earnings Investor Call Transcript

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Fatema Yusuf (Bank ABC Group Head of Corporate Communications):

Good afternoon, ladies and gentlemen, valued investors, and shareholders. Thank you for tuning into Bank ABC Group's Q1 earnings call. With us today are Mr. Brendon Hopkins, our Chief Financial Officer, Mr. Suresh Padmanabhan, the Head of Group Finance, and I am Fatema Yusuf, the Group Head of Corporate Communications. Shortly, Mr. Hopkins will commence with a presentation on the results of our first quarter, following that I'll be moderating the Q&A session.

You are welcome to submit your questions via the question feature on Zoom and we will do our best to answer them within the allocated time. I will now hand over to our Group CFO to take us through today's presentation. Over to you, Brendon.

Brendon Hopkins (Bank ABC Group CFO):

Thank you, Fatema. Good afternoon, everyone, and thank you for joining us on our first quarterly investors call for 2024.

Q1 2024 Financial Performance – Key Highlights

I'm pleased to say it's been an excellent start to the year with strong execution of our strategy, continuing the momentum on our financial performance from 2023. Our Q1 revenues have increased by an outstanding 15% year-on-year growth to reach $343 million, and this has led to a surge in our net profits, up by 25% to reach $75 million. This translates into an annualised ROE of 7.3%, which is up 130 basis points year-on-year. Underpinning this, our emphasis on a strong balance sheet is maintained. All capital and liquidity metrics are at robust levels supporting our growth momentum, and I'll now go through the Q1 highlights in some more detail.

Update on Group Strategy

As we've outlined in our previous investor calls, our refreshed strategy is aimed at accelerating growth and delivering higher returns to our shareholders.

It consists of 3 key pillars. First, to accelerate our core businesses of Wholesale Banking, Treasury, Retail and Banco ABC Brasil, our subsidiary in Brazil. Second, to maximise the value of our digital units, our industry leading mobile only digital bank 'ila' and our regional Fintech payments provider 'AFS'. And underpinning this, our third pillar is to Strengthen Our Operating Model, including improvements to our IT infrastructure, our data management, our culture, and many other aspects to improve performance across the group. And by achieving this we aim to realise our strategic intent to be "MENA's International Bank of the Future".

In the first quarter we continued execution of our implementation plan successfully, tracking well against our strategic KPIs. So, we're confident that delivery of our strategic milestones will continue to accelerate.

Sustainability is also an important aspect of our strategic roadmap. We're finalising our first annual group Sustainability Report for 2023 and targeting publication around the end of Q2. This will be a comprehensive report on our Sustainability Strategy, our key objectives and a 3-year roadmap of sustainability initiatives across the group. With an enhanced level of disclosure, it will demonstrate Bank ABC's firm intention to support the transition to a more sustainable low carbon economy.

Another key achievement continues to be the strengthening of the Group's brand and industry recognition. And Q1 brought another round of prestigious awards to the group.

2024 Awards

Recognising historic strengths and continuing innovation into digital trade, Bank ABC continued to receive multiple regional awards. Global Finance awarded us the 'Best Trade Finance Provider in the Middle East'. GTR Leaders in trade also conveyed a similar title, 'Best Trade Finance Bank in the Middle East'. And Global Finance also singled out our market offerings in both Bahrain and Tunisia as being the best trade finance provider in those countries.

ila bank, our digital mobile-only bank, continued its track record of exceptional industry recognition with two new awards: 'Fastest Growing Digital Bank in MENA Central by Mastercard' and the 'Best Digital Bank in Bahrain' by MEED, recognising ila's first-class digital capabilities and service proposition.

On Islamic Finance, Bank ABC also is significantly increasing its profile. Our ABC Islamic subsidiary was recognised as the 'Best Islamic Financial Institution in Bahrain' by Global Finance, and the 'Best Islamic Bank in Bahrain' by IFN.

On top of this, there are also multiple awards received for landmark deals where the bank has acted as JLM and book runners, a testament to our increasingly strong DCM (Debt Capital Markets) capabilities.

Overview of Q1 2024 Financial Performance

So let me now turn to the bank's excellent first quarter financial performance. Our top line growth has been strong across the ABC franchise. Most of our markets and business lines have contributed very positively to the year-on-year revenue growth of 15%. One of ABC's major strengths is a diversified income generation across the franchise. Brazil contributed 32%, MENA subsidiaries around 20%, International Wholesale around 23% and Group Treasury 9%. Notably, another 17% came from other income, which includes our digital units ila and AFS, which both had a strong start to the year.

Our net interest income grew by 4% year-on-year to $233 million supported by robust loan volumes which were up on an average basis $600 million or 3% year-on-year, and the net interest margins also were positive, staying around the 2.7% level.

Another key highlight was our other operating income, up 45%, driven by increase in cross-sell and ancillary, fee-based revenues.

Turning to our efficiency metrics, the bank continues to improve its cost to income ratios. The group experienced positive jaws of 1% during Q1 with revenue growth of 15% outstripping our cost growth of 14%. So, the cost to income ratio improved around 50 basis points to 57.8% on a headline basis. And, moreover, on an underlying basis if we exclude our digital units, the cost of income ratio stands at 52.8%. And while we continue to enforce our cost discipline, we're not compromising on investment into the Group's transformation. We continue to invest into digitising our Wholesale Bank, and our retail offerings. Also, through our award-winning ABC labs, we're developing our roadmap to invest into AI capabilities. Our strategic infrastructure is also being strengthened by upgrading our core banking system to modernise our platforms, our data management and improve our future agility.

Turning to cost of risk, our business growth is being prudently managed by our robust risk appetite and risk management framework. The cost of risk showed an improving trend to 75 basis points on a headline basis. Although we are cautious on the outlook for the remainder of 2024 given the regional uncertainties, our business volumes, our income and net profits are diversified our underwriting standards are strong. We're not experiencing headwinds from the ongoing high interest rate environment and economic pressures in some of our markets.

On the balance sheet, our emphasis on maintaining robust buffers and ratios remains. The capital, liquidity ratios are strong and support our future business growth. Ratios are well above the regulatory minimum, with our Total CAR 15.9%, Tier 1 ratio at 14.8%, and our CET1 ratio being the majority of Tier 1, at 13%. And it's also worth reminding that our shareholders have approved Additional Tier 1 issuance of up to $400 million which we're considering to launch later in the year, probably during Q4, depending on our volume growth trajectory. So, we're certainly well placed to continue to maintain strong capital buffers to support our future growth.

Our balance sheet is well diversified and liquid. Total assets were at $41.4 billion at the end of the quarter. That's up 20% year on year, although down a bit on the year end, reflecting some short-term asset and liability movements. Our loans comprise more than 40% of total assets, which results in a loan deposit ratio of 80%. As I mentioned earlier, on an average basis when we look quarter-on-quarter, our loan growth was 3% up against the first quarter of 2023. When we look at the year-end there's been a bit of a reduction, but that's primarily driven by the currency depreciation in both Egypt and Brazil. Our expectations for loan growth are for it to steadily pick up across the course of 2024, having a strong deal pipeline across our franchise. And finally, from an overall liquidity and funding perspective, our LCR and NSFR ratios were at healthy levels of 260% and 126% respectively. So again, good strong liquidity buffers supporting our growth potential.

So, in summary, we're extremely pleased with our strong Q1 performance. It shows that delivery of our refreshed Group strategy is well underway. The revenue growth is a strong 15%. The operating costs and cost of risk are well controlled. This has led to an excellent net profit growth of 25% to $75 million and a 1.3% improvement in ROE on an annualised basis to 7.3%. And looking ahead to the rest of 2024, we expect our momentum to continue primarily from core business growth. All in all, we're hoping to continue to focus on the execution and delivery of our refreshed strategy and we're targeting another hopefully remarkable year of growth for the group.

I'll now hand over to Fatema who will be moderating the Q&A session.

Fatema Yusuf (Bank ABC Group Head of Corporate Communications):

Thank you very much, Brendon, for the informative presentation, and I'd like to take this opportunity to congratulate all the teams across our international network on the delivery of these outstanding results. We will now be answering some of the questions that we have received ahead and during the call.

Starting with the first question, Brendon, the question is inquiring about the main drivers of revenue growth in the first quarter of 2024, and our expectations of the impact of interest rates this year as well?

Brendon Hopkins (Bank ABC Group CFO):

Thank you, Fatema, that's a good question. As I mentioned earlier, the revenues grew by about 15% with our net interest income growing by about 4% and our other operating income by 45%, an exceptional growth. There are many factors behind that, obviously, but I'll just pick out three in particular. First of all, we've been growing the core business with a strong deal pipeline across the group, underpinned by new to bank client acquisition and increased cross-sell. As I mentioned, the average loan growth is up 3% year on year, which was particularly driving the net interest income, but on the other income side we've been developing and building our strong capital light product revenues. For example, increasing trade, capital markets, syndications, treasury products through the MENA region, Brazil, US and Europe. And this is leading to a better fee based and higher returning business. A third factor, is our digital units ila and AFS, both having a strong start to the year improving their revenues. This, along with many good performances across our markets and the elevated interest rate, has led to the excellent Q1 growth and does give us good confidence for the rest of the year.

On the second part of the question on interest rates, our view on this has shifted somewhat. Earlier in the year, we were expecting rates probably to start to fall towards the mid-year. With the more persistent inflation outlook (I'm talking about US rates now which are most material for the bank) with a more persistent inflation outlook, US rates now appear more likely to stay higher for longer and so we feel that a first cut is not likely before the fourth quarter of the year and maybe even into 2025, as some commentators are now predicting. In terms of the impact of that, given the shape of our balance sheet, higher interest rates are generally good for ABC in terms of margins on our business and our cash management activities and so far, given the robust asset quality and underwriting, the higher rate environment is not creating any particular pressure on our cost of risk, as you can see from the from the Q1 levels. So overall, we do expect to see a beneficial impact from the rates during 2024, which will average higher than 2023, if our assumptions are correct.

Fatema Yusuf (Bank ABC Group Head of Corporate Communications):

Thank you very much, Brendon. The second question is about Egypt inquiring about their economic outlook and the impact of the devaluation of the Egyptian pound on Bank ABC.

Brendon Hopkins (Bank ABC Group CFO):

I think the first thing to say on Egypt, as we've said in previous calls, is that we firmly believe in the long-term fundamental potential of the Egyptian market and achieving better scale in Egypt is a strategic imperative for ABC. As we mentioned in our last call, we completed the integration of ABC Egypt and Blom Egypt in March, which places us well to accelerate our growth more strongly. In terms of the outlook, the regional geopolitical situation is taking some toll on the economic activity. A big positive during the first quarter was the strong external support from the IMF, the ECB and other GCC countries, such as the UAE, which in total amount to around $60 billion or 15% of GDP, coming into the country in the form of dollars. So, although GDP growth may be a bit slower this year, we expect it to rebound next year, probably back up to the 4% to 5% levels. Another positive factor to mention is the structural report reforms which are being implemented. This has led to a more positive view on the sustainability of government debt. Sovereign ratings have, of course, stabilised as well. So then, coming onto the Central Bank actions, yes, one of the conditions for the IMF was to get to the more flexible exchange rate policy. This led to the Q1 devaluation where the pound went from about 31 to the dollar to about 47, 48 to the dollar, but that was also accompanied by a hike in the interest rates to try and stabilise things and to combat inflation where rates were lifted to about 27%. So, for ABC, the weaker pound does translate to a lower dollar impact, but also the interest rates have boosted our returns on securities and other margin-based lending and the availability of foreign currency has improved, which has also helped our trade business. So actually, the overall impact, for 2024 will be neutral to positive as the impact on the P&L from the FX devaluation is actually offset by the higher interest rates. Going back to the subject of ABC Egypt, the integration also created much more scale. So, we're now well positioned for future cost and revenue synergies, and that's going to drive a faster local profit contribution.

Fatema Yusuf (Bank ABC Group Head of Corporate Communications):

Thank you very much, Brendon. And before I move to the next question, I'd like to remind our guests online that they're very much welcome to submit any question that they may have on the chat feature on Zoom.

So, moving to the next question, it's inquiring about the impact of the geopolitical uncertainty on Bank ABC?

Brendon Hopkins (Bank ABC Group CFO):

We've obviously seen rising geopolitical risks in the region over the last few months and certainly in this quarter. Like everyone else we're hoping that a more peaceful and normal situation will return as 2024 progresses. In terms of the impact on Bank ABC, the group's diversified portfolio of businesses, the short-term nature of our balance sheet and robust risk management, give us confidence that our business can weather any challenges. We've had some markets that are more affected than others for example, Jordan, and Egypt with tourism and Suez Canal receipts affected. But this is affecting levels of new business as opposed to any direct impact on the ECL on the current book. While we remain cautious on the outlook for the rest of the year, we do believe that our geographic and business diversification will enable us to continue to grow assets and revenues on a selected basis over 2024.

Fatema Yusuf (Bank ABC Group Head of Corporate Communications):

Thank you, Brendon. One more question about our expectation on the performance of the bank for 2024.

Brendon Hopkins (Bank ABC Group CFO):

Another good question. Well, let me answer it this way, the trend from Q1 is strong, we've got 15% revenue growth, 25% net profit growth and ROE is up 1.3%. These are all trending very well, giving us good expectations for 2024. We see strong business pipelines in our core business units across Wholesale, Treasury, Retail and Brazil, and the growth in our market shares in our digital units ila and AFS is also very positive. As I mentioned earlier, the interest rate outlook for us is net positive, given the shape of our balance sheet. So, if the momentum continues, if we can continue to convert the pipelines into real business, we look set for another strong year-on-year increase in revenues, profits, and ROE. We're very much hoping that we can continue the trends for Q1 through the rest of the year.

Fatema Yusuf (Bank ABC Group Corporate Communications):

Thank you, Brendon. We've got two additional questions.

Suresh Padmanabhan (Bank ABC Head of Group Finance):

This is from Mr. Ahmed AbdulGhaffar. With regards to the share price and share liquidity, during the AGM we asked the CEO if cross listing was an option that the bank would consider, and we were informed that this is something that is considered by management. Is there any progress or updates with regards to this matter?

Brendon Hopkins (Bank ABC Group CFO):

We're certainly continuing to evaluate the options on matters like cross listing. As we also explained, at the AGM, we are focused on improving our investor relations. We see the continuing performance momentum of the bank as being the best way to improve profits, improve ROE, improve dividends and lead to an improvement in the share price. But we do recognise the limitations in liquidity in the Bahrain Bourse and the option of another listing remains under consideration. But we don't have any firm plans to announce on that yet.

Suresh Padmanabhan (Bank ABC Head of Group Finance):

There's another question. AFS have increased losses. Do you think the latest capital increase will improve the company.

Brendon Hopkins (Bank ABC Group CFO):

We certainly believe that the value proposition from AFS over the longer term is going to be positive. We're seeing very good revenue growth in the first quarter, as I've mentioned. It is in investment phase, it's been building out its businesses across different markets and into the merchant acquiring business, as well as it's more traditional business of bank business processing. Over the longer term we're expecting to see that those dynamics shift and it returns to positive EBITDA and positive profitability. So yes, we do expect the capital increase to have a positive benefit, as we continue to invest into AFS.

Fatema Yusuf (Bank ABC Group Head of Corporate Communications):

Thank you very much, Brendon, Thank you Suresh. With this we conclude our Q&A session. Thank you once again for taking the time to join us. Before we close, I would like to remind everyone they're very much welcome to submit any question they have on email id investorrelations@bank-abc.com, and hopefully, we're going to be seeing you in the next quarter. Thank you very much.

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