Absa, Standard may re-ignite share prices

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The share prices of Absa and Standard Bank have fallen well behind FirstRand and Nedbank this year, but analysts believe the two laggards have an opportunity to use their exposure in the rest of Africa to ignite investor confidence in the future.

Absa, which is the largest retail bank in SA with close to 12m customers, has had the weakest share price returns among the big-four banks, rising by about 0.5% this year.

Absa's share price suffered after its interim results showed diluted headline earnings per share declined by 6% in the six months to the end of June.

"Investors will only take comfort if they feel that the negative 'surprise' in the form of credit impairments on the mortgage book is 'once-off' in nature and that there are no further impairments in future," said Adrian Cloete, an equity analyst at Cadiz.

He added that the investors would have to take a view on the strength of the earnings recovery expected in 2013.

Cloete pointed out that Absa's non-performing loans cover ratio in the home loan unit had increased from 17,1% to 22.6%.

He added that it would "be key for Barclays to sell its African operations to Absa at an attractive price from the perspective of the Absa minority shareholders".

"When the deal is successfully consummated, Absa will have a very significant exposure to the exciting growth markets in Africa," said Cloete

The deal could see Absa and Barclays merge operations in Tanzania, Botswana, Zambia, Ghana and Kenya.

Johann Scholtz, head of research at Afrifocus Securities, said he was quite bullish about Absa and had a "buy" recommendation on the bank.

"My motivation for investments is that Absa, together with FirstRand, are the best capitalised banks in the sector," said Scholtz.

In the six months to end December Absa Group's core tier 1 capital adequacy ratio was 13.2% and FirstRand had core tier 1 ratio of 12.3% for the year to June. This compares with 10.3% at Standard Bank in the six months to June and 10.6% for Nedbank.

Standard Bank, which is Africa's largest bank by earnings, revenue and market capitalisation, has had a share price increase of about 10% this year.

This compares with Nedbank's share price rise of 24% and FirstRand's 46% rise. Both Nedbank and FirstRand grew earnings by over 20% respectively, the only big-four banks to deliver such numbers.

"As Standard Bank allocates more and more of its capital to the high returns in SA and the rest of Africa its return on equity will expand and this should drive share price performance," Cloete said.

Scholtz added that Standard Bank, which operates in 18 African countries, was ahead of its peers in Africa and a further improvement in return on equity would provide some investor confidence.

In the six months to June, Standard Bank's return on equity in Africa sat at 10.6%, an improvement from 6.9% in the previous period.