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Bank on it, diversifying is key to growth

By DINEO FAKU

● As a spike in credit impairments by battered South African consumers hurts banks, their corporate and investment units and Africa operations are having to save the day.

With Absa and Standard Bank reporting a surge in bad debt locally, exceptional performances on the continent lifted both institutions' group earnings.

Charles Russon, CEO of Absa's corporate and investment banking (CIB), told Business Times its Absa Regional Operations (ARO) division was contributing almost 50% of bottom-line profits.

In the six months to June, Absa CIB added 273 new clients; 225 are based on the continent, while 48 are in South Africa.

"Our businesses outside South Africa now represent 44% of our bottom-line profitability. That is very different from where we were four or five years ago. That's pushing up towards 50% of our business now from outside South Africa.

"It talks to the beauty of a diversified franchise. If you are dependent on one country, and that country has some issues, it materially affects your overall performance. The more diversification we have the better," he said.

Headline earnings for the ARO retail and business banking arm increased 84% to R905m, while CIB headline earnings grew by 32% to R5.9bn.

This helped to offset a grim set of numbers in the local division. While the group reported a headline earnings increase of 2% at R10.1bn, earnings were down 17% in the South African operation, driven by a 68% hike in bad debt provisions.

Russon said the impressive performance outside South Africa showed strong commitment to the continent was paying off.

"We set out to be a leading pan-African CIB franchise. Barclays had lost its risk appetite to grow in Africa. As they went away, we said we want to grow. We want to grow in Africa with our clients, with our communities, with our countries and have a commensurate risk appetite, and with the right returns on the back of it. Absa has stayed true to our strategy of five years ago to be a pan-African CIB," he said, adding that the unit has more than doubled in size since 2019, on the back of sustained momentum.

While Absa CIB was strong in East and Southern Africa, it does not have a strong presence in West Africa and is not represented in the north at all, Russon said.

Economies in East and West Africa are growing at a faster pace than South Africa, where GDP is forecast to increase by just 0.4% in 2023 as power outages, logistics constraints and crime hamper growth.

Russon said the bank was buoyed by the recovery of its operations post-Covid.

"If we look back to 2019 and the first half of 2019, which was pre-Covid, we are now more than double the size of the business we were in 2019, so it has been sustained growth through this period."

Standard Bank, which also released half-year results on Thursday, said its corporate and investment bank delivered headline earnings of R10.69bn, 41% higher than the previous period.

It said this growth happened despite higher than average interest rates, limited corporate activity, exchange rate volatility and electricity outages in South Africa.

Speaking at the interim results announcement, Margaret Nienaber, Standard Bank's COO, said a diverse footprint was a boost for the bank.

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Charles Russon
CEO, Absa corporate and investment banking

"Because of the diversification we have on the continent, the growth of our multinational clients has been very strong for our CIB portfolio because we have been able to service them in all of those countries."

Standard Bank Group CEO Sim Tshabalala said all business units in the CIB division did exceptionally well, including the biggest business, which is global markets.

"They did well in helping people manage their risks in respect of foreign exchange, interest rates and commodities. They were helping people hedge and protect themselves against those risks," Tshabalala said.

Meyrick Barker, investment analyst for Camissa Asset Management, said a greater proportion of earnings is generated by non-South African sources within corporate franchises, but warned this may not be sustainable.

"This is particularly true for the likes of Absa and Standard Bank. The currency dislocations in certain countries across the continent resulted in very profitable trading opportunities for certain banks, though not all of this will be sustainable".

Meanwhile, as South Africa prepares to host the Brics summit this week, Russon has warned that friendly overtures towards countries sanctioned by the West could jeopardise trade relations with our traditional partners.

"It is imperative to us that we are able to transact and that we never put our licence at risk. You have to look at where the majority of our flows come from; as the South African economy they are materially from the Western world at this point in time. We certainly do not want to jeopardise those relationships as we go forward.

"We have no option but to be compliant, not only with our own policies, but within the broader regulatory environment that we have a licence to operate within," Russon said.