Stanbic Holdings – FY'2023
6th March, 2024

Below is a summary of Stanbic Holding's FY'2023 performance:

Balance Sheet	FY'2022 (Kshs bn)	FY'2023 (Kshs bn)	y/y change
Net Loans and Advances	236.0	260.5	10.4%
Kenya Government Securities	58.0	42.1	(27.4%)
Total Assets	**399.8**	**459.3**	**14.9%**
Customer Deposits	282.1	330.9	17.3%
Deposits Per Branch	10.1	10.0	(0.5%)
Total Liabilities	**337.6**	**390.7**	**15.7%**
Shareholders' Funds	**62.2**	**68.6**	10.2%

Key Ratios	FY'2022	FY'2023	% point change
Loan to Deposit ratio	83.7%	78.7%	(5.0%)
Government Securities to Deposits ratio	20.6%	12.7%	(7.9%)
Return on Average Equity	15.3%	18.6%	3.3%
Return on Average Assets	2.5%	2.8%	0.3%

Income Statement	FY'2022 (Kshs bn)	FY'2023 (Kshs bn)	y/y change
Net interest Income	18.9	25.6	35.4%
Net non-interest income	13.1	15.7	19.3%
Total Operating income	**32.1**	**41.3**	**28.8%**
Loan loss provision	(4.9)	(6.2)	26.1%
Total Operating expenses	**(19.9)**	**(24.2)**	**21.7%**
Profit before tax	12.2	17.1	40.4%
Profit after tax	**9.1**	**12.2**	**34.2%**
Core EPS	**22.9**	**30.8**	**34.2%**

Income Statement Ratios	FY'2022	FY'2023	y/y change
Yield from interest-earning assets	8.2%	11.7%	3.5%
Cost of funding	2.6%	3.9%	1.3%
Net Interest Margin	6.0%	7.9%	1.9%
Net Interest Income as % of operating income	59.1%	62.1%	3.0%
Non-Funded Income as a % of operating income	40.9%	37.9%	(3.0%)
Cost to Income Ratio	62.1%	58.6%	(3.5%)
Cost to Income without LLP	46.7%	43.5%	(3.2%)
Cost to Assets	3.7%	3.9%	0.2%

Capital Adequacy Ratios	FY'2022	FY'2023	% points change
Core Capital/Total Liabilities	16.5%	15.1%	(1.4%)
Minimum Statutory ratio	8.0%	8.0%	
Excess	**8.5%**	**7.1%**	**(1.4%)**
Core Capital/Total Risk Weighted Assets	13.8%	13.0%	(0.8%)
Minimum Statutory ratio	10.5%	10.5%	
Excess	**3.3%**	**2.5%**	**(0.8%)**
Total Capital/Total Risk Weighted Assets	16.8%	16.6%	(0.2%)
Minimum Statutory ratio	14.5%	14.5%	
Excess	**2.3%**	**2.1%**	**(0.2%)**
Liquidity Ratio	45.2%	40.3%	(4.9%)
Minimum Statutory ratio	20.0%	20.0%	
Excess	**25.2%**	**20.3%**	**(4.9%)**

Income Statement

- Core earnings per share grew by 34.2% to Kshs 30.8, from Kshs 22.9 in FY'2022, driven by the 28.8% growth in total operating income to Kshs 41.3 bn, from Kshs 32.1 bn in FY'2022. However, the performance was weighed down by a 21.7% growth in total operating expenses to Kshs 24.2 bn from Kshs 19.9 bn in FY'2022,
- The 28.8% growth in total operating income was mainly driven by a 35.4% growth in Net Interest Income (NII) to Kshs 25.6 bn from Kshs 18.9 bn in FY'2022, coupled with a 19.3% growth in Non Interest Income (NFI) to Kshs 15.7 bn, from Kshs 13.1 bn in FY'2022,
- Interest income grew by 48.0% to Kshs 37.9 bn from Kshs 25.6 bn in FY'2022, mainly driven by a 51.3% growth in interest income from loans and advances to Kshs 29.4 bn from Kshs 19.5 bn in FY'2022, coupled with a 256.4% increase in interest income from deposits and placements to Kshs 3.4 bn, from Kshs 1.0 bn in FY'2022. As such, the Yield on Interest-Earning Assets (YIEA) increased to 11.7% from 8.2% recorded in FY'2022, mainly attributable to the faster 35.4% growth in interest income compared to a 3.6% increase in average interest-earning assets to Kshs 325.4 bn, from Kshs 314.2 bn in FY'2022,
- Interest expenses rose by 71.7% to Kshs 12.4 bn from Kshs 7.2 bn in FY'2022, mainly driven by a 65.7% increase in interest expense on customer deposits to Kshs 9.8 bn from Kshs 5.9 bn in FY'2022, coupled with a 119.9% increase in interest expense from other interest expenses to Kshs 1.4 bn in FY'2023 from Kshs 0.6 bn recorded in FY'2022. Consequently, Cost of funds (COF) increased by 1.3% points to 3.9% from 2.6% recorded in FY'2022, owing to a faster 71.7% increase in Trailing interest expense to Kshs 12.4 bn from Kshs 7.2 bn recorded in FY'2022, compared to a 15.1% increase in average interest-bearing liabilities to Kshs 317.9 bn from Kshs 276.3 bn in FY'2022. Trailing interest expense refers to the performance of the interest expense for the past 12 consecutive months. Net Interest Margin (NIM) increased by 1.9% points to 7.9% from 6.0% in FY'2022, attributable to a 35.4% increase in trailing net interest income to Kshs 25.7 bn from Kshs 18.9 bn recorded in FY'2022 which outpaced the 3.6% growth in average interest-earning assets,
- Non-Funded Income (NFI) increased by 19.3% to Kshs 15.7 bn from Kshs 13.1 bn in FY'2022, mainly driven by a 347.3% increase in other income to Kshs 2.2 bn, from Kshs 0.5 bn in FY'2022, coupled with a 33.5% increase in income from other fees and commissions to Kshs 4.7 bn, from 3.5 bn in FY'2022. Additionally, the foreign exchange trading income increased by 5.0% to Kshs 9.0 bn from Kshs 8.6 bn in FY'2022, highlighting the bank's increased foreign exchange margins. Total fees and commissions increased by 31.9% to Kshs 4.8 bn, from Kshs 3.7 bn in FY'2022. The revenue mix shifted to 62:38 from 59:41 for the funded to Non-funded income owing to the 35.4% growth in Funded Income which outpaced the 19.3% growth in the Non Funded Income,
- Total operating expenses increased by 21.7% to Kshs 24.2 bn from Kshs 19.9 bn in FY'2022, driven by a 26.1% increase in loan loss provisions to Kshs 6.2 bn from Kshs 4.9 bn recorded in FY'2022, coupled with a 21.0% increase in staff costs to Kshs 8.3 bn from Kshs 6.9 bn in FY'2022. The increase in provisioning is partly attributable to rising credit risk as a result deteriorated economic environment as evidenced by the December 2023 Purchasing Managers Index (PMI) of 48.8, down from an average of 51.6 in December 2022,
- Cost to Income Ratio (CIR) decreased to 58.6% from 62.1% in FY'2022, owing to the 28.8% increase in total operating income, which outpaced the 21.7% increase in total operating expenses. Notably, CIR without LLP decreased by 3.2% points to 43.5% from 46.7% recorded in FY'2022, and,
- Profit before tax increased by 40.4% to Kshs 17.1 bn from Kshs 12.2 bn in FY'2022, with the effective tax rate increasing to 28.9% in FY'2023 from 25.6% in FY'2022, leading to a 34.2% increase in profit after tax to Kshs 12.2 bn in FY'2023, from Kshs 9.1 bn in FY'2022.

Balance Sheet

- The balance sheet recorded an expansion as total assets grew by 14.9% to Kshs 459.3 bn, from Kshs 399.8 bn in FY'2022, driven by a by a 10.4% expansion of the loan book to Kshs 260.5 bn, from Kshs 236.0 bn in FY'2022, coupled with a 199.3% increase in other assets to Kshs 118.5 bn, from Kshs 39.6 bn in FY'2022, which outpaced the 45.7% decline in investment securities to Kshs 45.3 bn, from Kshs 83.6 bn in FY'2022 and 67.5% decrease in placements to Kshs 5.1 bn, from Kshs 15.7 bn in FY'2022,

- Total liabilities rose by 15.7% to Kshs 390.7 bn from Kshs 337.6 bn in FY'2022, driven by a 17.3% growth in customer deposits to Kshs 330.9 bn, from Kshs 282.1 bn in FY'2022, coupled with a 22.3% increase in placements to 6.9 bn from Kshs 5.6 bn recorded in FY'2022, which outpaced the 13.2% decline in borrowings to Kshs 13.7 bn, from Kshs 15.7 bn in FY'2022. With 32 branches countrywide and 1 branch in South Sudan, compared to 28 branches in FY'2022, deposits per branch decreased by 0.5% to Kshs 10.0 bn, from Kshs 10.1 bn in FY'2022,
- The faster 17.3% growth in customer deposits as compared to the 10.4% growth in loans led to a decrease in the loan to deposits ratio to 78.7%, from 83.7% in FY'2022,
- The bank's Asset Quality improved, with Gross NPL ratio decreasing to 9.5% in FY'2023 from 11.2% in FY'2022, attributable to 7.0% decrease in Gross non-performing loans to Kshs 26.5 bn, from Kshs 28.4 bn in FY'2022, compared to the 9.9% increase in gross loans to Kshs 279.1 bn, from Kshs 254.0 bn recorded in FY'2022,
- General Provisions (LLP) increased by 3.9% to Kshs 12.7 bn in FY'2023 from Kshs 12.2 bn in FY'2022. The NPL coverage increased to 70.4% in FY'2023, from 63.1% in FY'2022, attributable to the 7.0% decrease in Gross non-performing loans to Kshs 26.5 bn, from Kshs 28.4 bn in FY'2022, coupled with the 3.9% increase in both general provisions and interest in suspense,
- Shareholders' funds increased by 10.2% to Kshs 68.6 bn in FY'2023, from Kshs 62.2 bn in FY'2022, supported by an 11.2% increase in retained earnings to Kshs 47.1 bn, from Kshs 42.4 bn in FY'2022,
- Stanbic Bank remains capitalized with a core capital to risk-weighted assets ratio of 13.0%, 2.5% points above the statutory requirement of 10.5%. In addition, the total capital to risk-weighted assets ratio came in at 16.6%, exceeding the statutory requirement of 14.5% by 2.1% points, and,
- The bank currently has a Return on Average Assets (ROaA) of 2.8%, and a Return on Average Equity (ROaE) of 18.6%.

Key Take-Outs:

1. **Strong earnings growth -** Core earnings per share (EPS) grew by 34.2% to Kshs 30.8, from Kshs 22.9 in FY'2022, driven by the 28.8% growth in total operating income to Kshs 41.3 bn, from Kshs 32.1 bn in FY'2022,
2. **Improved asset quality –** The bank's gross NPL ratio decreased to 9.5% in FY'2023 from 11.2% in FY'2022, attributable to 7.0% decrease in Gross non-performing loans to Kshs 26.5 bn, from Kshs 28.4 bn in FY'2022, compared to the 9.9% increase in gross loans to Kshs 279.1 bn, from Kshs 254.0 bn recorded in FY'2022 and,
3. **Increased dividends –** Dividends paid increased by 21.8% to Kshs 15.35 in FY'2023, from Kshs 12.60 in FY'2022

Going forward, the factors that would drive the bank's growth would be:

- **Digital transformation**. The lender has capitalized on digital innovation for service delivery over the past three years to improve its operational efficiency, which has been a key factor in its financial performance. In March 2024, the lender disclosed that 90.0% of transactions happened on digital channels. In 2022 the bank introduced borderless banking, allowing its customers across East Africa to conduct transactions smoothly and in real time, which has registered USD 697.0 mn worth of transactions as of December 2023.

Valuation Summary

- We are of the view that Stanbic Bank is a "buy" with a target price of Kshs 145.3 representing an upside of 20.6%, from the current price of 120.5 as of 8th March 2024, inclusive of a dividend yield of 12.7%.
- Stanbic Holdings is currently trading at a P/TBV of 0.8x and a P/E of 3.9x vs an industry average of 0.6x and 5.1x respectively.