Stanbic Holdings – H1'2023
11th June, 2023

Below is a summary of Stanbic Holding's Q1'2023 performance:

(Amounts in Kshs bn)			
Balance Sheet	**H1'2022**	**H1'2023**	**y/y change**
Net Loans and Advances	244.0	281.4	15.3%
Government Securities	49.0	54.0	10.1%
Total Assets	**341.6**	**384.3**	**12.5%**
Customer Deposits	**258.2**	**285.4**	**10.5%**
Deposits Per Branch	**9.9**	**9.5**	**(4.2%)**
Total Liabilities	**283.4**	**320.3**	**13.0%**
Shareholders' Funds	**58.2**	**64.0**	**9.9%**

Key Ratios	H1'2022	H1'2023	% point change
Loan to Deposit ratio	94.5%	98.6%	4.1%
Return on average equity	15.2%	18.5%	3.3%
Return on average assets	2.7%	3.1%	0.4%

(Amounts in Kshs bn)			
Income Statement	**H1'2022**	**H1'2023**	**y/y change**
Net interest Income	8.3	12.1	44.4%
Net non-interest income	6.9	8.9	29.7%
Total Operating income	**15.2**	**20.9**	**37.8%**
Loan loss provision	(1.3)	(2.5)	98.0%
Total Operating expenses	**(7.3)**	**(11.2)**	**52.9%**
Profit before tax	6.6	9.7	47.3%
Profit after tax	**4.8**	**7.1**	**47.0%**
Core EPS	**12.1**	**17.8**	**47.0%**

Income Statement Ratios	H1'2022	H1'2023	% point change
Yield from interest-earning assets	3.8%	5.1%	1.3%
Cost of funding	2.3%	3.1%	0.8%
Net Interest Margin	5.4%	7.1%	1.7%
Net Interest Income as % of operating income	54.9%	57.5%	2.6%
Non-Funded Income as a % of operating income	45.1%	42.5%	(2.6%)
Cost to Income Ratio	48.2%	53.5%	5.3%
CIR without LLP	40.0%	41.6%	1.7%
Cost to Assets	1.8%	2.3%	0.5%

Capital Adequacy Ratios	H1'2022	H1'2023	% points change
Core Capital/Total Liabilities	18.1%	17.5%	(0.6%)
Minimum Statutory ratio	8.0%	8.0%	
Excess	**10.1%**	**9.5%**	**(0.6%)**
Core Capital/Total Risk Weighted Assets	14.0%	13.9%	(0.1%)
Minimum Statutory ratio	10.5%	10.5%	
Excess	**3.5%**	**3.4%**	**(0.1%)**
Total Capital/Total Risk Weighted Assets	16.2%	17.4%	1.2%
Minimum Statutory ratio	14.5%	14.5%	
Excess	**1.7%**	**2.9%**	**1.2%**
Liquidity Ratio	35.9%	35.8%	(0.1%)
Minimum Statutory ratio	20.0%	20.0%	
Excess	**15.9%**	**15.8%**	**(0.1%)**

Income Statement

- Core earnings per share grew by 47.0% to Kshs 17.8, from Kshs 12.1 in H1'2022, driven by the 37.8% growth in total operating income to Kshs 20.9 bn, from Kshs 15.2 bn in H1'2022. However, the performance was weighed down by a 52.9% growth in total operating expenses to Kshs 11.2 bn from Kshs 7.3 bn in H1'2022,
- The 37.8% growth in total operating income was mainly driven by a 44.4% growth in Net Interest Income to Kshs 12.1 bn from Kshs 8.3 bn in H1'2022, coupled with a 29.7% growth in Non Interest Income (NII) to Kshs 8.9 bn, from Kshs 6.9 bn in H1'2022,
- Interest income grew by 46.3% to Kshs 16.4 bn from Kshs 11.2 bn in H1'2022, mainly driven by a 46.2% growth in interest income from loans and advances to Kshs 12.7 bn from Kshs 8.7 bn in H1'2022. As such, the Yield on Interest-Earning Assets (YIEA) increased to 5.0% from 3.8% recorded in H1'2022, mainly attributable to the faster 46.3% growth in interest income compared to a 10.4% increase in average interest earning assets to Kshs 326.3 bn, from Kshs 295.6 bn in H1'2022,
- Interest expenses rose by 51.5% to Kshs 4.8 bn from Kshs 3.2 bn in H1'2022, driven by 34.5% increase in interest expense on customer deposits to Kshs 3.6 bn from Kshs 2.7 bn in H1'2022, coupled with a 140.0% increase in interest expense from deposits and placements to Kshs 0.5 bn in H1'2023 from Kshs 0.2 bn recorded in H1'2022. Consequently, Cost of funds (COF) increased by 0.8% points to 3.1% from 2.3% recorded in H1'2022, owing to a faster 43.1% increase in Trailing interest expense to Kshs 8.8 bn from Kshs 6.2 bn recorded in H1'2022, compared to a 12.7% increase in average interest bearing liabilities to Kshs 297.7 bn from Kshs 264.3 bn in H1'2022.Trailing interest expense refers to the performance of the interest expense for the past 12 consecutive months. Net Interest Margin (NIM) increased by 1.5% points to 6.9% from 5.4% in H1'2022, attributable to a 43.2% increase in trailing net interest income to Kshs 22.7 bn from Kshs 15.8 bn recorded in H1'2022 which outpaced the 10.4% growth in average interest earning assets,
- Non-Funded Income (NFI) increased by 29.7% to Kshs 8.9 bn from Kshs 6.9 bn in H1'2022, mainly driven by a 44.4% increase in the foreign exchange trading income to Kshs 6.0 bn from Kshs 4.2 bn in H1'2022, highlighting the bank's increased foreign exchange margins. Total fees and commissions increase by 22.5% to Kshs 2.6 bn, from Kshs 2.1 bn in H1'2022. The revenue mix shifted to 58:42 from 55:45 for the funded to Non-funded income owing to the 44.4% growth in Funded Income which outpaced 29.7% growth in the Non Funded Income,
- Total operating expenses increased by 52.9% to Kshs 11.2 bn from Kshs 7.3 bn in H1'2022, driven by 98.0% increase in loan loss provisions to Kshs 2.5 bn from Kshs 1.3 bn recorded in H1'2022, and coupled with a 43.5% increase in other expenses to Kshs 8.7 bn from Kshs 6.1 bn in H1'2022. The increase in provisioning is partly attributable to rising credit risk as a result deteriorioted economic environment as evidenced by the average Purchasing Managers Index (PMI) of 48.7 in H1'2023, down from an average of 49.3 in H1'2022,
- Cost to Income Ratio (CIR) increased to 53.5% from 48.2% in H1'2022, owing to the 52.9% increase in total operating expense, which outpaced the 37.8% increase in total operating income. Notably, CIR without LLP increased by 1.7% points to 41.6% from 40.0% recorded in H1'2022, and,
- Profit before tax increased by 47.3% to Kshs 9.7 bn from Kshs 6.6 bn in H1'2022, with effective tax rate increasing to 27.6% in H1'2023 from 27.4% in H1'2022, leading to an 47.0% increase in profit after tax to Kshs 7.1 bn in H1'2023, from Kshs 4.8 bn in H1'2022.

Balance Sheet

- The balance sheet recorded an expansion as total assets grew by 12.5% to Kshs 384.3 bn, from Kshs 341.6 bn in H1'2022, driven by a 15.3% loan book expansion to Kshs 281.4 bn, from Kshs 244.0 bn in H1'2022, coupled with a 10.1% increase investment in government securities to Kshs 54.0 bn from Kshs 49.0 bn in H1'2022,
- Total liabilities rose by 13.0% to Kshs 320.3 bn from Kshs 283.4 bn in H1'2022, driven by a 10.5% growth in customer deposits to Kshs 285.4 bn, from Kshs 258.3 bn in H1'2022, coupled with a 104.2% increase in borrowings to 12.3 bn from Kshs 6.0 bn recorded in H1'2022. With 29 branches countrywide and 1 branch in

South Sudan, compared to 26 branches in H1’2022, deposits per branch decreased by 4.2% to Kshs 9.5 bn, from Kshs 9.9 bn in H1’2022,
- The faster 15.3% growth in loans as compared to the 10.5% growth in deposit led to an increase in the loan to deposits ratio to 98.6%, from 94.5% in H1’2022,
- The bank’s Asset Quality improved, with Gross NPL ratio decreasing to 8.1% in H1’2023 from 9.4% in H1’2022, attributable to 1.2% decrease in Gross non-performing loans to Kshs 23.8 bn, from Kshs 24.1 bn in H1’2022, compared to the 14.6% increase in gross loans to Kshs 295.1 bn, from Kshs 257.5 bn recorded in H1’2022,
- General Provisions (LLP) decreased marginally by 0.4% to Kshs 8.8 bn in H1’2023 from Kshs 8.9 bn in H1’2022. The NPL coverage increased to 57.4% in H1’2023, from 56.0% in H1’2022, attributable to the 4.7% increase in interest in suspense to Kshs 4.8 bn from 4.6 bn in H1’2022,
- Shareholders’ funds increased by 9.9% to Kshs 64.0 bn in H1’2023, from Kshs 58.2 bn in H1’2022, supported by a 14.7% increase in retained earnings to Kshs 45.1 bn, from Kshs 39.3 bn in H1’2022,
- Stanbic bank remains capitalized with a core capital to risk-weighted assets ratio of 13.9%, 3.4% points above the statutory requirement of 10.5%. In addition, the total capital to risk-weighted assets ratio came in at 17.4%, exceeding the statutory requirement of 14.5% by 2.9% points, and,
- The bank currently has a Return on Average Assets (ROaA) of 3.1%, and a Return on Average Equity (ROaE) of 18.5%.

Key Take-Outs:

1. **Strong earnings growth -** Core earnings per share (EPS) grew by 47.0% to Kshs 17.8, from Kshs 12.1 in H1’2022, driven by the 37.8% growth in total operating income to Kshs 20.9 bn, from Kshs 15.2 bn in H1’2022.
2. **Improved asset quality –** The bank’s gross NPL ratio decreased to 8.1% in H1’2023 from 9.4% in H1’2022, attributable to 1.2% decrease in Gross non-performing loans to Kshs 23.8 bn, from Kshs 24.1 bn in H1’2022, compared to the 14.6% increase in gross loans to Kshs 295.1 bn, from Kshs 257.5 bn recorded in H1’2022,
3. **Dividends**: The directors of Stanbic Holdings declared an interim dividend of Kshs 1.15 per share, with the book closure date set for September 4, 2023.

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 two years to improve its operational efficiency, which has been a key factor in its financial performance. In FY’2022, the lender disclosed that 93.0% of customer’s transactions in 2022 were conducted through its digital channels. In 2022 the bank introduced borderless banking, allowing its customers across East Africa to conduct transaction smoothly and in real time.

Valuation Summary

- We are of the view that Stanbic bank is a “buy” with a target price of Kshs 140.9 representing an upside of 27.9%, from the current price of 120.0 as of 11th August 2023, inclusive of a dividend yield of 10.5%.
- Stanbic Holdings is currently trading at a P/TBV of 0.8x and a P/E of 4.2x vs an industry average of 0.8x and 3.7x respectively.