Stanbic Holdings – Q3'2024
22nd November, 2024

Below is a summary of Stanbic Holding's Q3'2024 performance:

Balance Sheet	Q3'2023 (Kshs bn)	Q3'2024 (Kshs bn)	y/y change
Net Loans and Advances	251.0	218.8	(12.8%)
Kenya Government Securities	37.0	54.6	47.4%
Total Assets	**414.3**	**462.6**	**11.7%**
Customer Deposits	**305.7**	**327.8**	**7.3%**
Deposits Per Branch	**10.9**	**10.9**	**0.1%**
Total Liabilities	**358.6**	**401.0**	11.8%
Shareholders' Funds	**55.7**	**61.5**	10.6%

Key Ratios	Q3'2023	Q3'2024	% point change
Loan to Deposit ratio	82.1%	66.7%	(15.4%)
Government securities to deposits ratio	12.1%	16.7%	4.5%
Return on average equity	21.4%	22.2%	0.8%
Return on average assets	2.9%	3.0%	0.1%

Income Statement	Q3'2023 (Kshs bn)	Q3'2024 (Kshs bn)	y/y change
Net interest Income	18.1	19.0	4.8%
Non-interest income	12.6	10.4	(17.8%)
Total Operating income	**30.7**	**29.3**	**(4.5%)**
Loan loss provision	(4.5)	(2.7)	(40.2%)
Total Operating expenses	**(17.8)**	**(15.3)**	**(13.9%)**
Profit before tax	13.0	14.1	8.4%
Profit after tax	**9.3**	**10.1**	**9.3%**
Core EPS	**23.5**	**25.7**	**9.3%**

Income Statement Ratios	Q3'2023	Q3'2024	y/y change
Yield from interest-earning assets	9.9%	13.3%	3.4%
Cost of funding	3.3%	6.7%	3.5%
Net Interest Margin	7.1%	7.0%	(0.1%)
Net Interest Income as % of operating income	59.0%	64.7%	5.7%
Non-Funded Income as a % of operating income	41.0%	35.3%	(5.7%)
Cost to Income Ratio	57.8%	52.1%	(5.7%)
CIR without LLP	43.2%	42.9%	(0.3%)
Cost to Assets	3.2%	2.7%	(0.5%)

Capital Adequacy Ratios	Q3'2023	Q3'2024	% points change
Core Capital/Total Liabilities	15.7%	16.5%	0.8%
Minimum Statutory ratio	8.0%	8.0%	
Excess	**7.7%**	**8.5%**	**0.8%**
Core Capital/Total Risk Weighted Assets	13.2%	14.7%	1.5%
Minimum Statutory ratio	10.5%	10.5%	
Excess	**2.7%**	**4.2%**	**1.5%**
Total Capital/Total Risk Weighted Assets	16.9%	17.8%	0.9%
Minimum Statutory ratio	14.5%	14.5%	
Excess	**2.4%**	**3.3%**	**0.9%**
Liquidity Ratio	40.5%	50.0%	9.5%
Minimum Statutory ratio	20.0%	20.0%	
Excess	**20.5%**	**30.0%**	**9.5%**

Income Statement

- Core earnings per share grew by 9.3% to Kshs 25.7, from Kshs 23.5 in Q3’2023, driven by the 13.9% decrease in total operating expenses, which outpaced the 4.5% decrease in total operating income to Kshs 29.3 bn from Kshs 30.7 bn in Q3’2023,
- The 4.5% decrease in total operating income was mainly driven by a 17.8% decrease in Non Interest Income (NFI) to Kshs 10.4 bn from Kshs 12.6 bn in Q3’2023, which outpaced the 4.8% growth in Net Interest Income (NII) to Kshs 19.0 bn, from Kshs 18.1 bn in Q3’2023,
- Interest income grew by 48.6% to Kshs 38.8 bn from Kshs 26.1 bn in Q3’2023, mainly driven by a 33.2% growth in interest income from loans and advances to Kshs 26.9 bn from Kshs 20.2 bn in Q3’2023, coupled with a 148.3% increase in interest income from deposits and placements to Kshs 5.1 bn, from Kshs 2.1 bn in Q3’2023. Additionally, interest income from government securities increased by 70.4% to Kshs 6.6 bn, from Kshs 3.9 bn in Q3’2023. As such, the Yield on Interest-Earning Assets (YIEA) increased to 13.3% from 9.9% recorded in Q3’2023, mainly attributable to the faster 48.3% growth in trailing interest income compared to a 10.6% increase in average interest earning assets to Kshs 381.0 bn, from Kshs 344.6 bn in Q3’2023,
- Interest expenses rose by 147.4% to Kshs 19.8 bn from Kshs 8.0 bn in Q3’2023, mainly driven by a 171.9% increase in interest expense on customer deposits to Kshs 16.6 bn from Kshs 6.1 bn in Q3’2023, coupled with a 110.6% increase in interest expense from other interest expenses to Kshs 2.1 bn in Q3’2024 from Kshs 1.0 bn recorded in Q3’2023. Consequently, Cost of funds (COF) increased by 3.4% points to 6.7% from 3.3% recorded in Q3’2023, owing to a faster 134.7% increase in Trailing interest expense to Kshs 24.2 bn from Kshs 10.3 bn recorded in Q3’2023, compared to a 13.8% increase in average interest bearing liabilities to Kshs 358.4 bn from Kshs 314.9 bn in Q3’2023.Trailing interest expense refers to the performance of the interest expense for the past 12 consecutive months. Net Interest Margin (NIM) decreased by 0.1% points to 7.0% from 7.1% in Q3’2023, attributable to a 8.9% increase in trailing net interest income to Kshs 26.5 bn from Kshs 24.3 bn recorded in Q3’2023 which was outpaced by the 10.6% growth in average interest earning assets,
- Non-Funded Income (NFI) decreased by 17.8% to Kshs 10.4 bn from Kshs 12.6 bn in Q3’2023, mainly driven by a 15.0% decrease in foreign exchange trading income to Kshs 6.2 bn , from Kshs 7.2 bn in Q3’2023, indicating reduced foreign exchange margins following the apprteciation of the Shilling, couped with a 59.3% decrease in other non interest income to Kshs 0.7 bn, from 1.8 bn in Q3’2023. Additionally, total fees and commissions decreased by 3.1% to Kshs 3.5 bn, from Kshs 3.6 bn in Q3’2023. The revenue mix shifted to 65:35 from 59:41 for the funded to Non-funded income owing to the 17.8% decline in Non-funded Income which outpaced the 4.8% growth in Funded Income,
- Total operating expenses decreased by 13.9% to Kshs 15.3 bn from Kshs 17.8 bn in Q3’2023, driven by 40.2% decrease in loan loss provisions to Kshs 2.7 bn from Kshs 4.5 bn recorded in Q3’2023, coupled with a 12.5% decrease in other operating costs to Kshs 6.4 bn from Kshs 7.3 bn in Q3’2023, which outpaced the 4.1% increase in staff costs to Kshs 6.2 bn, from Kshs 6.0 bn in Q3’2023. The decrease in provisioning is partly attributable to reducing credit risk as a result of improving economic environment as evidenced by the September 2024 Purchasing Managers Index (PMI) of 49.7, up from an average of 47.8 in September2023, as well as easing borrowing costs in the market,
- Cost to Income Ratio (CIR) decreased to 52.1% from 57.8% in Q3’2023, owing to the 13.9% decrease in total operating expenses, which outpaced the 4.5% decrease in total operating income. Notably, CIR without LLP decreased by 0.3% points to 42.9% from 43.2% recorded in Q3’2023, and,
- Profit before tax increased by 8.4% to Kshs 14.1 bn from Kshs 13.0 bn in Q3’2023, with effective tax rate decreasing to 27.9% in Q3’2024 from 28.4% in Q3’2023, leading to a 9.3% increase in profit after tax to Kshs 10.1 bn in Q3’2024, from Kshs 9.3 bn in Q3’2023.

Balance Sheet

- The balance sheet recorded an expansion as total assets grew by 11.7% to Kshs 462.6bn, from Kshs 414.3 bn in Q3'2023, driven by a by a 65.7% increase in balances due from the group's banking institutions to Kshs 104.0 bn, from Kshs 62.8 bn in Q3'2023, which outpaced the 12.8% contraction of the loan book to Kshs 218.8 bn, from Kshs 251.0 bn in Q3'2023,

- Total liabilities rose by 11.8% to Kshs 401.0 bn from Kshs 358.6 bn in Q3'2023, driven by a 7.3% growth in customer deposits to Kshs 327.8 bn, from Kshs 305.7 bn in Q3'2023, coupled with a 11.4% increase in placements to 30.2 bn from Kshs 27.2 bn recorded in Q3'2023. With 29 branches countrywide and 1 branch in South Sudan, compared to 28 branches in Q3'2023, deposits per branch inreased marginally by 0.1% to remain unchanged at Kshs 10.9 bn,
- The faster 7.3% growth in deposits as compared to the 12.8% decline in loans led to an decrease in the loan to deposits ratio to 66.7%, from 82.1% in Q3'2023,
- The bank's Asset Quality deteriorated, with Gross NPL ratio increasing to 10.4% in Q3'2024 from 9.0% in Q3'2023, attributable to the 3.2% increase in Gross non-performing loans to Kshs 24.8 bn, from Kshs 24.0 bn in Q3'2023, compared to the 10.9% decrease in gross loans to Kshs 237.7 bn, from Kshs 266.9 bn recorded in Q3'2023,
- General Provisions (LLP) increased by 19.4% to Kshs 13.0 bn in Q3'2024 from Kshs 10.9 bn in Q3'2023. The NPL coverage increased to 76.5% in Q3'2024, from 66.3% in Q3'2023, attributable to the 19.4% increase in general provisions, coupled with 18.1% increase in interest in suspense to Kshs 6.0 bn, from 5.1 bn in Q3'2023, which outpaced the 3.2% growth in gross non-performing loans,
- Shareholders' funds increased by 10.6% to Kshs 61.5 bn in Q3'2024, from Kshs 55.7 bn in Q3'2023, supported by a 13.2% increase in retained earnings to Kshs 56.2 bn, from Kshs 49.6 bn in Q3'2023,
- Stanbic bank remains capitalized with a core capital to risk-weighted assets ratio of 14.7%, 4.2% points above the statutory requirement of 10.5%. In addition, the total capital to risk-weighted assets ratio came in at 17.8%, exceeding the statutory requirement of 14.5% by 3.3% points, and,
- The bank currently has a Return on Average Assets (ROaA) of 3.0%, and a Return on Average Equity (ROaE) of 22.2%.

Key Take-Outs:

1. **Improved efficiency –** The bank's total operating expenses decreased by 13.9% to Kshs 15.3 bn, from Kshs 17.8 bn in Q3'2023, mainly attributed to a 40.2% decrease in loan loss provisions and 12.5% decrease in other operating expenses to Kshs 6.4 bn, from Kshs 7.3 bn, which outpaced the 4.1% increase in staff costs,
2. **Improved earnings -** Core earnings per share (EPS) grew by 9.3% to Kshs 25.7, from Kshs 23.5 in Q3'2023, driven by the 13.9% decrease in total operating expenses, which outpaced the 4.5% decrease in total operating income,
3. **Deteriorated asset quality –** The bank's gross NPL ratio increased to 10.4% in Q3'2024 from 9.0% in Q3'2023, attributable to the 3.2% increase in Gross non-performing loans to Kshs 24.8 bn, from Kshs 24.0 bn in Q3'2023, compared to the 10.9% decrease in gross loans to Kshs 237.7 bn, from Kshs 266.9 bn recorded in Q3'2023,

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 June 2023, the lender disclosed that 98.0% of accounts were opened digitally. 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 145.3 representing an upside of 25.8%, from the current price of 127.8 as of 22nd November 2024, inclusive of a dividend yield of 12.0%.
- Stanbic Bank is currently trading at a P/TBV of 0.8x and a P/E of 3.9x vs an industry average of 0.9x and 4.2x respectively.