Stanbic Bank Earnings Note- H1'2021

13th August 2021

Below is a summary of Stanbic Bank's H1'2021 performance;

Balance Sheet (bns)	H1'2020	H1'2021	y/y change
Net Loans and Advances	235.1	207.6	(11.7%)
Total Assets	364.5	329.5	(9.6%)
Customer Deposits	**287.0**	**260.0**	(9.4%)
Total Liabilities	**312.2**	**276.0**	(11.6%)
Shareholders' Funds	**49.3**	**53.5**	8.4%

Balance sheet ratios	H1'2020	H1'2021	% point change
Loan to Deposit Ratio	81.9%	79.9%	(2.0%)
Return on average equity	10.9%	11.9%	1.0%
Return on average assets	1.5%	1.8%	0.3%

Income Statement(mns)	H1'2020	H1'2021	y/y change
Net Interest Income	6.3	6.9	9.5%
Net non-Interest Income	5.0	5.5	10.5%
Total Operating income	**11.3**	**12.4**	**9.9%**
Loan Loss provision	(2.0)	(1.5)	(24.2%)
Total Operating expenses	**(5.2)**	**(6.1)**	**17.6%**
Profit before tax	4.1	4.8	16.7%
Profit after tax	**2.6**	**3.5**	**37.2%**

Income statement ratios	H1'2020	H1'2021	% point change
Yield from interest-earning assets	3.2%	3.2%	(0.0%)
Cost of funding	1.3%	1.2%	(0.1%)
Net Interest Margin	4.5%	4.4%	(0.1%)
Cost to Income	45.7%	48.9%	3.2%
Cost to Assets	0.7%	0.9%	0.2%
Net Interest Income as % of operating income	56.0%	55.7%	(0.3%)
Non-Funded Income as a % of operating income	44.0%	44.3%	0.3%

Capital Adequacy Ratios	H1'2020	H1'2021
Core Capital/Total Liabilities	15.1%	18.2%
Minimum Statutory ratio	8.0%	8.0%
Excess	**7.1%**	**10.2%**
Core Capital/Total Risk Weighted Assets	15.4%	16.1%
Minimum Statutory ratio	10.5%	10.5%
Excess	**4.9%**	**5.6%**
Total Capital/Total Risk Weighted Assets	17.9%	18.1%
Minimum Statutory ratio	14.5%	14.5%
Excess	**3.4%**	**3.6%**
Liquidity Ratio	58.4%	53.3%
Minimum Statutory ratio	20.0%	20.0%
Excess	**38.4%**	**33.3%**
Adjusted Core Capital/Total Liabilities	15.6%	18.4%
Adjusted Core Capital/Total RWA	15.9%	16.2%
Adjusted Total Capital/Total RWA	18.4%	18.3%

Key Highlights H1’2021

- In light of the COVID-19 pandemic, Stanbic bank focused on client needs in the changing business environment by enhancing digital solutions such as the Stanbic Chama app for lending and managing finances and consequently disbursed over Kshs 3.0 bn using the platform in Q2’2021. In a bid to support customer growth, the bank continued to extend the waiver on digital banking transactions even after the government withdrew the mandatory waiver on cash transfers. This has saved its customers a total of Kshs 101.0 mn in H1’2021. In addition, Stanbic bank committed Kshs 3.0 bn through the credit guarantee scheme to enable access to affordable credit for its customers in a bid to help both businesses and households recover from the effects of the pandemic.

Income Statement

- Profit after tax increased by 37.2% to Kshs 3.5 bn in H1’2021, from Kshs 2.6 bn in H1’2020. The performance was driven by a 9.9% increase in total operating income to Kshs 12.4 bn in H1’2021, from Kshs 11.3 bn in H1’2020. The increase was however weighed down by the 17.6% increase in total operating expenses to Kshs 6.1 bn, from Kshs 5.2 bn in H1’2020,
- Total operating income increased by 9.9% to Kshs 12.4 bn in H1’2021, from Kshs 11.3 bn in H1’2020, mainly driven by a 10.5% increase in Non-Funded Income (NFI) to Kshs 5.5 bn in H1’2021, from Kshs 5.0 bn in H1’2020, coupled with a 9.5% increase in Net Interest Income (NII) to Kshs 6.9 bn, from Kshs 6.3 bn in H1’2020,
- The bank’s interest income grew by 2.1% to Kshs 9.8 bn in H1’2021, from Kshs 9.6 bn in H1’2020. This was largely due to a 24.2% increase on interest income from government securities to Kshs 2.4 bn, from Kshs 2.0 bn in H1’2020. The growth in interest income was however weighed down by a 0.4% decline in interest income from loans and advances to Kshs 7.10 bn, from Kshs 7.13 bn in H1’2020, coupled with a 49.7% decline in interest income from deposits with banking institutions to Kshs 0.3 bn in H1’2021, from Kshs 0.5 bn in H1’2020. The yield on interest-earning assets declined marginally to 3.19%, from 3.22% in H1’2020, following the 3.0% growth in the average interest earning assets, which outpaced the 2.1% increase in interest income,
- Stanbic Bank’s interest expense declined by 9.9% to Kshs 3.3 bn, from Kshs 3.6 bn in H1’2020, following a 23.8% decline in interest expenses on Deposits and placements from banking institutions to Kshs 0.2 bn, from Kshs 0.3 bn in H1’2020. The decline was however weighed down by the 0.6% increase in the interest expense on customer deposits to Kshs 2.83 bn, from Kshs 2.8 bn in H1’2020. Cost of funds, on the other hand, declined marginally to 1.2%, from 1.3% in H1’2020, owing to the 9.9% decline in interest expense, coupled with the 3.4% growth in average interest bearing liabilities. Net Interest Margin declined to 4.4%, from 4.5% in H1’2020 on the back of the 3.0% increase in the average interest earning assets to Kshs 306.7 bn from Kshs 297.7 bn in H1’2020, which outpaced the 0.7% increase in trailing Interest Income to Kshs 13.4 bn in H1’2021 from Kshs 13.3 bn,
- Non-Funded Income (NFI) rose by 10.5% to Kshs 5.5 bn, from Kshs 5.0 bn in H1’2020 driven by an 11.2% increase in Foreign Exchange trading income to Kshs 2.9 bn, from Kshs 2.6 bn in H1’2020. Fees and Commissions on loans declined by 24.4% to Kshs 103.9 mn, from Kshs 137.4 mn in H1’2020. Total fees and commission increased by 3.0%, to Kshs 1.9 bn in H1’2021, from Kshs 1.8 bn in H1’2020. The revenue mix remained unchanged at 56:44, funded to non-funded income, owing to the 10.5% increase in Non-Funded Income (NFI) compared to the 9.5% increase in Net interest income (NII) to Kshs 6.9 bn, from Kshs 6.3 bn in H1’2020,
- Total operating expenses increased by 17.6% to Kshs 6.1 bn in H1’2021, from Kshs 5.2 bn in H1’2020, largely driven by a 7.0% increase in staff costs to Kshs 2.9 bn, from Kshs 2.7 bn in H1’2020. Notably, Loan loss provisions decreased by 31.1% to Kshs 1.2 bn, from Kshs 1.7 bn in H1’2020,

- Cost to income ratio with LLP deteriorated to 48.9%, from 45.7% in H1'2020, attributable to the faster 17.6% increase in total operating expenses, compared to the 9.9% increase in total operating income. On the other hand, without LLP, the Cost to income ratio improved to 36.8% in H1'2021, from 24.3% in H1'2020, pointing towards improving efficiency in the bank, and,
- Notably, the board recommend an interim dividend payment of Kshs 1.7 for each ordinary share of Kshs 5.0 on the issued and paid up share capital upon book closure on 6th September 2021.

Balance Sheet

- The balance sheet recorded a contraction as total assets declined by 9.6% to Kshs 329.5 bn, from Kshs 364.5 bn in H1'2020. The decline was largely driven by an 11.7% decline in the net loans to Kshs 207.6 bn, from Kshs 235.2 bn in H1'2020, coupled with a 2.7% decline in investment securities to Kshs 82.2 bn from Kshs 84.5 bn recorded in H1'2020,
- Total liabilities declined by 11.6% to Kshs 276.0 bn, from Kshs 312.2 bn in H1'2020, largely driven by a 9.4% decrease in customer deposits Kshs 260.0 bn in H1'2021, from Kshs 287.0 bn in H1'2020. Deposits per branch decreased by 9.4% to Kshs 10.4 bn, from Kshs 11.5 bn in H1'2020, as the number of branches remained unchanged at 25,
- The bank's Gross Non-Performing Loans (NPLs) declined by 2.3% to Kshs 20.7 bn in H1'2021, from Kshs 21.1 bn in H1'2020 taking the NPL ratio to 9.5% in H1'2021, from 8.5% in H1'2020. The deterioration in the group's asset quality is attributable to the slower 2.3% decline in Gross Non-Performing Loans (NPLs), compared to the 12.3% decline in Gross Loans,
- General Loan Loss Provisions declined by 15.4% to Kshs 7.3 bn, from Kshs 8.6 bn in H1'2020. The NPL coverage ratio declined to 51.2% in H1'2021, from 64.8% in H1'2020, due to the faster 15.4% decline in General Loan Loss provisions, which outpaced the 2.3% decline in Gross Non-Performing Loans,
- Shareholders' funds rose by 8.4% to Kshs 53.5 bn in H1'2021, from Kshs 49.3 bn in H1'2020, largely due to the 12.4% increase in the retained earnings to Kshs 37.6 bn, from Kshs 33.4 bn in H1'2020,
- Stanbic Bank is currently sufficiently capitalized with a core capital to risk weighted assets ratio of 16.1%, 5.6% points above the statutory requirement of 10.5%. In addition, the total capital to risk weighted assets ratio was 18.1%, exceeding the statutory requirement of 14.5% by 3.6% points. Adjusting for IFRS 9, core capital to risk weighted assets ratio was at 16.2% while total capital to risk weighted assets was 18.3%, indicating that the bank's total capital relative to its risk-weighted assets declined by 0.2% points due to the implementation of IFRS 9, and,
- Stanbic Holdings currently has a return on average assets of 1.8% and a return on average equity of 11.9%.

Key Take-Outs:

i. **Asset Quality:** The bank's asset quality deteriorated, with the NPL ratio rising to 9.5% in H1'2021 from 8.5% in H1'2020. The performance in the NPL ratio is attributable to the slower 2.3% decline in Gross Non-Performing Loans (NPLs), compared to the 12.3% decline in Gross Loans, and,
ii. **Revenue diversification:** The bank recorded a relatively stronger performance in both funded and non-funded segments where Net Interest Income grew by 9.5% while Non-Funded Income grew by 10.5%, which can be attributed to the resumption of normalcy in most economies considering the pandemic. The bank's lending is still under pressure due to the resurgence of COVID-19 and the emergence of new variants of the virus but there is growth, albeit at a slower pace.

Valuation Summary

- We are of the view that Stanbic Holdings is a "**Lighten**" with a target price of Kshs 89.1, representing an upside of 3.6%, from the current price of Kshs 86.0 as of 13th August 2021, and,
- Stanbic Holdings is currently trading at P/TBV of 0.6x and a P/E of 5.5x vs an industry average of 0.6x and 5.5x, respectively.