

Below is a summary of Stanbic Holding's H1'2022 performance;

Balance Sheet	H1'2021	H1'2022	y/y change
Net Loans	207.6	244.0	17.5%
Total Assets	329.5	341.6	3.7%
Deposits	260.0	258.2	(0.7%)
Liabilities	276.0	283.4	2.7%
Shareholders' Funds	53.5	58.2	8.8%

Balance sheet ratios	H1'2021	H1'2022	% point change
Loan to Deposit ratio	79.9%	94.5%	14.6%
Return on average equity	17.6%	20.1%	2.5%
Return on average assets	2.8%	3.3%	0.5%

Income Statement (Kshs bns)	H1'2021	H1'2022	y/y change
Net interest Income	6.9	8.3	20.9%
Net non-interest income	5.5	6.9	25.1%
Total Operating income	12.4	15.2	22.8%
Loan loss provision	(1.5)	(1.3)	(16.1%)
Total Operating expenses	(7.6)	(8.6)	13.7%
Profit before tax	4.8	6.6	37.1%
Profit after tax	3.5	4.8	36.9%

Income Statement Ratios	H1'2021	H1'2022	y/y change
Yield from interest-earning assets	3.2%	3.8%	0.6%
Cost of funding	2.6%	2.3%	(0.3%)
Net Interest Margin	4.4%	5.4%	1.0%
Net Interest Income as % of operating income	55.7%	54.9%	(0.8%)
Non-Funded Income as a % of operating income	44.3%	45.1%	0.8%
Cost to Income Ratio	48.9%	48.2%	(0.7%)
Cost to Income Ratio without LLP	36.8%	40.0%	3.2%

Capital Adequacy Ratios	H1'2021	H1'2022
Core Capital/Total Liabilities	18.2%	18.1%
Minimum Statutory ratio	8.0%	8.0%
Excess	10.2%	10.1%
Core Capital/Total Risk Weighted Assets	16.1%	14.0%
Minimum Statutory ratio	10.5%	10.5%
Excess	5.6%	3.5%
Total Capital/Total Risk Weighted Assets	18.1%	16.2%
Minimum Statutory ratio	14.5%	14.5%
Excess	3.6%	1.7%
Liquidity Ratio	53.3%	35.9%
Minimum Statutory ratio	20.0%	20.0%
Excess	33.3%	15.9%
Adjusted Core Capital/Total Deposit Liabilities	18.4%	18.1%
Adjusted Core Capital/Total Risk Weighted Assets	15.9%	14.0%
Adjusted Total Capital/Total Risk Weighted Assets	18.0%	16.2%

Income Statement

- Profit after tax increased by 36.9% to Kshs 4.8 bn in H1'2022, from Kshs 3.5 bn in H1'2021. The performance was driven by a 22.8% increase in total operating income to Kshs 15.2 bn in H1'2022, from Kshs 12.4 bn in H1'2021. The increase was however weighed down by the 13.7% increase in total operating expenses to Kshs 8.6 bn, from Kshs 7.6 bn in H1'2021,
- The 22.8% increase in total operating income to Kshs 15.2 bn in H1'2022 from Kshs 12.4 bn in H1'2021 was mainly driven by a 20.9% increase in Net-Interest Income (NII) to Kshs 8.3 bn, from Kshs 6.9 bn in H1'2021, coupled with a 25.9% increase in Non-Funded Income (NFI) to Kshs 6.9 bn, from Kshs 5.5 bn in H1'2021,
- The bank's interest income grew by 14.8% to Kshs 11.2 bn, from Kshs 9.8 bn in H1'2021 mainly attributable to a 22.0% increase in interest income from loans and advances to Kshs 8.7 bn, from Kshs 7.1 bn in H1'2021. The growth in interest income was however weighed down by a 6.9% decline in interest income from government securities to Kshs 2.3 bn, from Kshs 2.4 bn in H1'2021. The Yield on Interest-Earning Assets (YIEA) increased to 3.8%, from 3.2% in H1'2021 following the 8.3% growth in the trailing interest income coupled with the 4.3% decline in average interest earning assets. Trailing Interest Income refers to the performance of the interest income for the past 12 consecutive months,
- Stanbic Bank's interest expenses declined by 2.2% to Kshs 3.18 bn, from Kshs 3.25 bn in H1'2021, with interest expense on customer deposits declining by 4.5% to Kshs 2.7 bn, from Kshs 2.8 bn in H1'2021. Consequently, the cost of funds, declined to 2.3%, from 2.6% in H1'2021, owing to the 14.0% decline in trailing interest expense which outpaced the 5.0% decline in average interest bearing liabilities. Net Interest Margin increased to 5.4%, from 4.4% in H1'2021 on the back of the 18.1% increase in the trailing Net Interest Income to Kshs 15.8 bn from Kshs 13.4 bn in H1'2021 coupled with the 4.3% decline in average interest earning assets to Kshs 293.4 bn in H1'2022 from Kshs 306.7 bn in H1'2021,
- Non-Funded Income (NFI) rose by 25.1% to Kshs 6.9 bn, from Kshs 5.5 bn in H1'2021 driven by a 46.1% increase in foreign exchange trading income to Kshs 4.2 bn in H1'2022 from Kshs 2.9 bn in H1'2021, coupled with a 12.3% increase in other fees and commissions income to Kshs 2.0 bn from Kshs 1.8 bn in H1'2021, coupled with. Total fees and commission increased by 11.1% to Kshs 2.1 bn in H1'2022, from Kshs 1.9 bn in H1'2021. The revenue mix shifted to 55:45, funded to non-funded income, from 56:44 in H1'2021, owing to the faster 25.1% increase in Non-Funded Income (NFI) which outpaced the 20.9% increase in Net interest income (NII) in H1'2022,
- Total Operating Expenses increased by 13.7% to Kshs 8.6 bn in H1'2022, from Kshs 7.6 bn in H1'2021, attributable to an 18.1% increase in the bank's staff costs to Kshs 3.5 bn in H1'2022, from Kshs 2.9 bn recorded in H1'2021 coupled with a 20.1% increase in other expenses to Kshs 3.6 bn, from Kshs 3.0 bn in H1'2021. The increase in total operating expenses was however mitigated by a 16.1% decline in Loan Loss Provisions (LLP) to Kshs 1.3 bn in H1'2022, from Kshs 1.5 bn in H1'2021, and,
- Cost to income ratio with LLP improved to 48.2%, from 48.9% in H1'2021, attributable to the 22.8% increase in total operating income to Kshs 15.2 bn in H1'2022, from Kshs 12.4 bn in H1'2021 which outpaced the 13.7% increase in total operating expenses to Kshs 8.6 bn, from Kshs 7.6 bn in H1'2021. However, without LLP, the Cost to income ratio deteriorated to 40.0% in H1'2022, from 36.8% in H1'2021, pointing towards deteriorating efficiency in the bank.

Balance Sheet

- The balance sheet recorded an expansion as total assets grew by 3.7% to Kshs 341.6 bn, from Kshs 329.5 bn in H1'2021. The increase was largely driven by a 17.5% increase in net loans to Kshs 244.0 bn, from Kshs 207.6 bn in H1'2021, as Stanbic focused more on lending in H1'2022 due to an improvement in the business environment as evidenced by the 16.1% reduction in the group's Loan Loss Provisions (LLPs). The increase was however weighed down by a 36.1% decline in investment securities to Kshs 52.6 bn, from Kshs 82.2 bn in H1'2021,
- Total liabilities increased by 2.7% to Kshs 283.4 bn, from Kshs 276.0 bn in H1'2021, largely driven by a 10.9% increase in borrowings to Kshs 6.0 bn, from Kshs 5.4 bn in H1'2021. However, the bank's deposits declined by 0.7% to Kshs 258.2 bn from Kshs 260.0 bn in H1'2021. Deposits per branch declined by 0.7% to Kshs 10.3 bn, from Kshs 10.4 bn in H1'2021, as the number of branches remained unchanged at 25,
- The bank's Gross Non-Performing Loans (NPLs) increased by 16.3% to Kshs 24.1 bn, from Kshs 20.7 bn in H1'2021, taking the NPL ratio to 9.4% in H1'2022, from 9.5% in H1'2021. The improvement in the group's asset quality is attributable to the 18.0% growth in gross loans which outpaced the 16.3% increase in Gross Non-Performing Loans (NPLs),
- General Loan Loss Provisions increased by 22.2% to Kshs 8.9 bn, from Kshs 7.3 bn in H1'2021. Consequently, the NPL coverage ratio increased to 56.0% in H1'2022, from 51.2% in H1'2021, an indication of increased provisioning levels by the bank,
- Shareholders' funds increased by 8.8% to Kshs 58.2 bn in H1'2022, from Kshs 53.5 bn in H1'2021, largely due to the 12.8% increase in the retained earnings to Kshs 42.4 bn, from Kshs 37.6 bn in H1'2021,
- Stanbic Bank is currently sufficiently capitalized with a core capital to risk weighted assets ratio of 14.0%, 3.5% points above the statutory requirement of 10.5%. In addition, the total capital to risk weighted assets ratio stood at 16.2%, exceeding the statutory requirement of 14.5% by 1.7% points. Adjusting for IFRS 9, core capital to risk weighted assets ratio was at 14.0% while total capital to risk weighted assets came in at 16.2%, and,
- Stanbic Bank currently has a return on average assets of 3.3% and a return on average equity of 20.1%.

Key Take-Outs:

- **Asset Quality:** The bank's asset quality improved, with the NPL ratio declining slightly to 9.4% in H1'2022, from 9.5% in H1'2021. The improvement in the group's asset quality is attributable to the 18.0% growth in gross loans which outpaced the 16.3% increase in Gross Non-Performing Loans (NPLs) as the bank resumed lending following an improvement in the business environment, and,
- i. **Revenue diversification:** The bank recorded a relatively stronger performance in both funded and non-funded segments where Net Interest Income grew by 20.9% while Non-Funded Income grew by 25.1%.

Valuation Summary

- We are of the view that Stanbic Holdings is a "**Accumulate**" with a target price of Kshs 108.0, representing an upside of 9.1%, from the current price of Kshs 99.0 as of 19th August 2022,
- Stanbic Holdings is currently trading at P/TBV of 0.7x and a P/E of 4.0x vs an industry average of 0.6x and 3.7x, respectively.