

Below is a summary of Stanbic Holding's Q1'2022 performance;

| Balance Sheet (Kshs bns) | Q1'2021 | Q1'2022 | y/y change |
|----------------------------|--------------|--------------|--------------|
| Net Loans | 157.9 | 206.5 | 30.7% |
| Government Securities | 53.8 | 43.9 | 14.6% |
| Total Assets | 317.0 | 331.0 | 4.4% |
| Deposits | 226.6 | 235.1 | 3.7% |
| Total Liabilities | 273.5 | 282.5 | 3.3% |
| Shareholders' Funds | 43.5 | 48.6 | 11.7% |

| Balance sheet ratios | Q1'2021 | Q1'2022 | % points change |
|--------------------------|---------|---------|-----------------|
| Loan to Deposit ratio | 69.7% | 87.8% | 18.1% |
| Return on average equity | 24.8% | 21.6% | (3.2%) |
| Return on average assets | 3.1% | 3.1% | - |

| Income Statement (Kshs bns) | Q1'2021 | Q1'2022 | y/y change |
|---------------------------------|--------------|--------------|--------------|
| Net interest Income | 3.2 | 3.7 | 16.9% |
| Net non-interest income | 2.8 | 3.0 | 9.6% |
| Total Operating income | 6.0 | 6.8 | 13.5% |
| Loan loss provision | (0.6) | (0.5) | (19.4%) |
| Total Operating expenses | (3.4) | (3.8) | 13.4% |
| Profit before tax | 2.6 | 2.9 | 13.7% |
| Profit after tax | 1.9 | 2.1 | 12.0% |

| Income Statement Ratios | Q1'2021 | Q1'2022 | y/y change |
|--|---------|---------|------------|
| Yield from interest-earning assets | 9.3% | 8.7% | (0.6%) |
| Cost of funding | 3.1% | 2.4% | (0.7%) |
| Net Interest Margin | 6.1% | 6.3% | 0.2% |
| Net Interest Income as % of operating income | 53.7% | 55.3% | 1.4% |
| Non-Funded Income as a % of operating income | 46.3% | 44.7% | (1.6%) |
| Cost to Income Ratio | 56.9% | 56.8% | (0.1%) |
| Cost to Income Ratio without LLP | 46.7% | 49.6% | 2.9% |

| Capital Adequacy Ratios | Q1'2021 | Q1'2022 |
|---|--------------|--------------|
| Core Capital/Total Liabilities | 18.3% | 18.2% |
| Minimum Statutory ratio | 8.0% | 8.0% |
| Excess | 10.3% | 10.2% |
| Core Capital/Total Risk Weighted Assets | 15.8% | 14.4% |
| Minimum Statutory ratio | 10.5% | 10.5% |
| Excess | 5.3% | 3.9% |
| Total Capital/Total Risk Weighted Assets | 17.8% | 16.3% |
| Minimum Statutory ratio | 14.5% | 14.5% |
| Excess | 3.3% | 1.8% |
| Liquidity Ratio | 56.4% | 40.0% |
| Minimum Statutory ratio | 20.0% | 20.0% |
| Excess | 36.4% | 20.0% |
| Adjusted Core Capital/Total Deposit Liabilities | 18.4% | 18.2% |
| Adjusted Core Capital/Total Risk Weighted Assets | 15.9% | 14.4% |
| Adjusted Total Capital/Total Risk Weighted Assets | 18.0% | 16.3% |

Income Statement

- Profit after tax increased by 12.0% to Kshs 2.1 bn in Q1'2022, from Kshs 1.9 bn in Q1'2021. The performance was driven by a 13.5% increase in total operating income to Kshs 6.8 bn in Q1'2022, from Kshs 6.0 bn in Q1'2021. The increase was however weighed down by the 13.4% increase in total operating expenses to Kshs 3.8 bn, from Kshs 3.4 bn in Q1'2021,
- The 13.5% increase in total operating income to Kshs 6.8 bn in Q1'2022 from Kshs 6.0 bn in Q1'2021 was mainly driven by a 16.9% increase in Net-Interest Income (NII) to Kshs 3.7 bn, from Kshs 3.2 bn in Q1'2021, coupled with a 9.6% increase in Non-Funded Income (NFI) to Kshs 3.0 bn, from Kshs 2.8 bn in Q1'2021,
- The bank's interest income grew by 9.5% to Kshs 5.3 bn, from Kshs 4.8 bn in Q1'2021 mainly attributable to a 16.0% increase on interest income from loans and advances to Kshs 4.1 bn, from Kshs 3.6 bn in Q1'2021, coupled with a 242.2% growth in interest income from interest income from deposits with banking institutions to Kshs 105.4 mn, from Kshs 28.9 mn in Q1'2021. The growth in interest income was however weighed down by a 15.1% decline in interest income from government securities to Kshs 1.0 bn, from Kshs 1.2 bn in Q1'2021. The Yield on Interest-Earning Assets (YIEA) declined to 8.7%, from 9.3% in Q1'2021 following the 11.8% growth in the average interest earning assets, which outpaced the 4.3% increase in trailing interest income. Trailing Interest Income refers to the performance of the interest income for the past 12 consecutive months,
- Stanbic Bank's interest expense declined by 5.2% to Kshs 1.5 bn, from Kshs 1.6 bn in Q1'2021, attributable to the bank's ability to mobilise cheaper deposits with interest expense from customer deposits declining by 7.0% to Kshs 1.3 bn, from Kshs 1.4 bn in Q1'2021, coupled with a 18.9% decline in interest expenses on Deposits and placements from banking institutions to Kshs 109.3 mn, from Kshs 134.7 mn in Q1'2021. Cost of funds, on the other hand, declined to 2.4%, from 3.1% in Q1'2021, owing to the 16.8% decline in trailing interest expense, coupled with the 4.9% increase in average interest bearing liabilities. Net Interest Margin increased to 6.3%, from 6.1% in Q1'2021 on the back of the 15.2% increase in the trailing Net Interest Income to Kshs 14.9 bn from Kshs 12.9 bn in Q1'2021, which outpaced the 11.8% increase in average interest earning assets to Kshs 237.8 bn in Q1'2022 from Kshs 212.6 bn in Q1'2021,
- Non-Funded Income (NFI) rose by 9.6% to Kshs 3.0 bn, from Kshs 2.8 bn in Q1'2021 driven by a 13.0% increase in other fees and commissions income to Kshs 1.1 bn from Kshs 0.9 bn in Q1'2021, coupled with a 9.5% increase in foreign exchange trading income to Kshs 1.7 bn in Q1'2022 from Kshs 1.6 bn in Q1'2021. Additionally, income from fees and commissions on loans and advances increased by 34.7% to Kshs 66.8 mn, from Kshs 49.6 mn in Q1'2021. Total fees and commission increased by 21.8% to Kshs 1.2 bn in Q1'2022, from Kshs 1.0 bn in Q1'2021. The revenue mix shifted to 55:45, funded to non-funded income, from 54:46 in Q1'2021, owing to the faster 16.9% increase in Net interest income (NII) compared to the 9.6% increase in Non-Funded Income (NFI) in Q1'2022,
- Total Operating Expenses increased by 13.4% to Kshs 3.8 bn in Q1'2022, from Kshs 3.4 bn in Q1'2021, attributable to an 27.9% increase in the bank's staff costs to Kshs 1.7 bn in Q1'2022, from Kshs 1.3 bn recorded in Q3'2020 coupled with a 14.0% increase in other expenses to Kshs 1.7 bn, from Kshs 1.5 bn in Q1'2021. The increase in total operating expenses was however mitigated by a 19.4% decline in Loan Loss Provisions (LLP) to Kshs 0.5 bn in Q1'2022, from Kshs 0.6 bn in Q1'2021, and,
- Cost to income ratio with LLP improved slightly to 56.8%, from 56.9% in Q1'2021, attributable to the 13.5% increase in in total operating income, which outpaced the 13.4% increase in total

operating expenses. On the other hand, without LLP, the Cost to income ratio deteriorated to 49.6% in Q1'2022, from 46.7% in Q1'2021, pointing towards deteriorating efficiency in the bank.

Balance Sheet

- The balance sheet recorded an expansion as total assets grew by 4.4% to Kshs 331.0 bn, from Kshs 317.0 bn in Q1'2021. The increase was largely driven by a 30.7% increase in net loans to Kshs 206.5 bn, from Kshs 158.0 bn in Q1'2021, as Stanbic focused more on lending in Q1'2022 due to an improvement in the business environment as evidenced by the 19.4% reduction in the group's Loan Loss Provisions (LLPs). The increase was however weighed down by a 14.6% decline in investment securities to Kshs 45.9 bn, from Kshs 53.8 bn in Q1'2021,
- Total liabilities increased by 3.3% to Kshs 282.5 bn, from Kshs 273.5 bn in Q1'2021, largely driven by a 3.7% increase in the bank's deposits to Kshs 235.1 bn, from Kshs 226.6 bn in Q1'2021 coupled with a 23.1% increase in borrowings to Kshs 12.2 bn from Kshs 9.9 bn in Q1'2021. Deposits per branch increased by 7.9% to Kshs 9.4 bn, from Kshs 8.7 bn in Q1'2021, as the number of branches decreased to 25, from 26 in Q1'2021,
- The bank's Gross Non-Performing Loans (NPLs) declined by 7.1% to Kshs 24.6 bn, from Kshs 26.4bn in Q1'2021, taking the NPL ratio to 11.1% in Q1'2022, from 15.1% in Q1'2021. The improvement in the group's asset quality is attributable to the 7.1% decline in Gross Non-Performing Loans (NPLs) coupled with the 26.4% increase in Gross Loans,
- General Loan Loss Provisions declined by 11.0% to Kshs 9.8 bn, from Kshs 11.0 bn in Q1'2021. Consequently, the NPL coverage ratio declined to 59.1% in Q1'2022, from 63.9% in Q1'2021, an indication of reduced provisioning levels by the bank,
- Shareholders' funds rose by 11.7% to Kshs 48.6 bn in Q1'2022, from Kshs 43.5 bn in Q1'2021, largely due to the 9.7% increase in the retained earnings to Kshs 40.2 bn, from Kshs 36.7 bn in Q1'2021,
- Stanbic Bank is currently sufficiently capitalized with a core capital to risk weighted assets ratio of 14.4%, 3.9% points above the statutory requirement of 10.5%. In addition, the total capital to risk weighted assets ratio stood at 16.3%, exceeding the statutory requirement of 14.5% by 1.8% points. Adjusting for IFRS 9, core capital to risk weighted assets ratio was at 14.4% while total capital to risk weighted assets came in at 16.3%, and,
- Stanbic Bank currently has a return on average assets of 3.1% and a return on average equity of 21.6%.

Key Take-Outs:

- Asset Quality:** The bank's asset quality improved, with the NPL ratio declining to 11.1% in Q1'2022, from 15.1% in Q1'2021. The improvement in the group's asset quality is attributable to the 7.1% decline in Gross Non-Performing Loans (NPLs) coupled with the 26.4% increase in Gross Loans, and,
- Revenue diversification:** The bank recorded a relatively stronger performance in both funded and non-funded segments where Net Interest Income grew by 16.9% while Non-Funded Income grew by 9.6%.

Valuation Summary

- We are of the view that Stanbic Holdings is a "**Accumulate**" with a target price of Kshs 109.4, representing an upside of 14.7%, from the current price of Kshs 103.3 as of 13th May 2022,
- Stanbic Holdings is currently trading at P/TBV of 0.8x and a P/E of 4.2x vs an industry average of 0.6x and 3.9x, respectively.