

Below is a summary of Stanbic Bank's Q3'2021 performance;

Balance Sheet	Q3'2020	Q3'2021	y/y change
Net Loans	158.9	176.6	11.2%
Total Assets	317.8	295.0	(7.2%)
Deposits	226.0	212.9	(5.8%)
Liabilities	277.5	250.3	(9.8%)
Shareholders' Funds	40.3	44.7	11.0%

Balance sheet ratios	Q3'2020	Q3'2021	% point change
Loan to Deposit ratio	70.3%	83.0%	12.7%
Return on average equity	12.0%	15.8%	6.9%
Return on average assets	1.5%	2.2%	0.7%

Income Statement	Q3'2020	Q3'2021	y/y change
Net interest Income	8.9	10.0	12.2%
Net non-interest income	7.2	7.5	4.2%
Total Operating income	16.1	17.5	8.6%
Loan loss provision	(2.9)	(1.5)	(48.4%)
Total Operating expenses	(10.7)	(10.5)	(2.1%)
Profit before tax	5.4	7.0	29.7%
Profit after tax	3.6	5.1	43.2%

Income Statement Ratios	Q3'2020	Q3'2021	y/y change
Yield from interest-earning assets	7.1%	6.6%	(0.5%)
Cost of funding	2.4%	2.0%	(0.4%)
Net Interest Margin	6.2%	6.2%	0.0%
Net Interest Income as % of operating income	56.0%	57.4%	1.4%
Non-Funded Income as a % of operating income	44.5%	42.6%	(1.9%)
Cost to Income Ratio	66.3%	59.8%	(6.5%)
CIR without LLP	48.1%	51.1%	3.0%

Capital Adequacy Ratios	Q3'2020	Q3'2021
Core Capital/Total Liabilities	17.1%	19.5%
Minimum Statutory ratio	8.0%	8.0%
Excess	9.1%	11.5%
Core Capital/Total Risk Weighted Assets	15.5%	15.5%
Minimum Statutory ratio	10.5%	10.5%
Excess	5.0%	5.0%
Total Capital/Total Risk Weighted Assets	17.7%	17.5%
Minimum Statutory ratio	14.5%	14.5%
Excess	3.2%	3.0%
Liquidity Ratio	61.2%	44.2%
Minimum Statutory ratio	20.0%	20.0%
Excess	41.2%	24.2%
Adjusted Core Capital/Total Deposit Liabilities	17.3%	19.6%
Adjusted Core Capital/Total Risk Weighted Assets	15.7%	15.6%
Adjusted Total Capital/Total Risk Weighted Assets	17.9%	17.6%

Income Statement

- Profit after tax increased by 43.2% to Kshs 5.1 bn in Q3'2021, from Kshs 3.6 bn in Q3'2020. The performance was driven by an 8.6% increase in total operating income to Kshs 17.5 bn in Q3'2021, from Kshs 16.1 bn in Q3'2020, coupled with a 2.1% decrease in total operating expenses to Kshs 10.5 bn, from Kshs 10.7 bn in Q3'2020,
- Total operating income increased by 8.6% to Kshs 17.5 bn in Q3'2021, from Kshs 16.1 bn in Q3'2020, mainly driven by a 12.2% increase in Net-Interest Income (NII) to Kshs 10.0 bn, from Kshs 8.9 bn in Q3'2020, coupled with a 4.2% increase in Non-Funded Income (NFI) to Kshs 7.5 bn, from Kshs 7.2 bn in Q3'2020,
- The bank's interest income grew by 1.6% to Kshs 14.8 bn, from Kshs 14.6 bn in Q3'2020 due to an 11.4% increase on interest income from government securities to Kshs 3.6 bn, from Kshs 3.2 bn in Q3'2020, coupled with a 1.5% growth in interest income from loans and advances to Kshs 10.9 bn, from Kshs 10.7 bn in Q3'2020. The growth in interest income was however weighed down by a 45.6% decline in interest income from deposits with banking institutions to Kshs 0.3 bn, from Kshs 0.6 bn in Q3'2020. The Yield on Interest-Earning Assets (YIEA) declined to 6.6%, from 7.1% in Q3'2020, following the 9.1% growth in the average interest earning assets, which outpaced the 1.6% increase in interest income,
- Stanbic Bank's interest expense declined by 15.2% to Kshs 4.8 bn, from Kshs 5.6 bn in Q3'2020, following a 21.1% decline in interest expenses on Deposits and placements from banking institutions to Kshs 0.3 bn, from Kshs 0.4 bn in Q3'2020, coupled with a 10.5% decline in the interest expense on customer deposits to Kshs 4.1 bn, from Kshs 4.6 bn in Q3'2020. Cost of funds, on the other hand, declined to 2.0%, from 2.4% in Q3'2020, owing to the 15.2% decline in interest expense, coupled with the 0.6% growth in average interest bearing liabilities. Net Interest Margin remained unchanged at 6.2%,
- Non-Funded Income (NFI) rose by 4.2% to Kshs 7.5 bn, from Kshs 7.2 bn in Q3'2020 driven by a 9.6% increase in other fees and commissions on loans and advances to Kshs 2.5 bn in Q3'2021 from Kshs 2.3 bn in Q3'2020. The growth in NFI was however weighed down by a 6.4% decline Foreign Exchange trading income to Kshs 4.1 bn, from Kshs 4.4 bn in Q3'2020, coupled with a 15.2% decline in fees and commissions on loans to Kshs 160.5 mn, from Kshs 189.2 mn in Q3'2020. Total fees and commission increased by 7.7%, to Kshs 2.7 bn in Q3'2021, from Kshs 2.5 bn in Q3'2020. The revenue mix shifted to 57:43, funded to non-funded income, from 56:44 in Q3'2020, owing to the 12.2% increase in Net interest income (NII) compared to the 4.2% increase in Non-Funded Income (NFI) in Q3'2021,
- Total Operating Expenses declined by 2.1% to Kshs 10.5 bn in Q3'2021, from Kshs 10.7 bn in Q3'2020, mainly attributable to a 48.4% reduction in Loans Loss Provisions (LLPs) to Kshs 1.5 bn in Q3'2021, from Kshs 2.9 bn recorded in Q3'2020. Staff costs increased by 12.5% to Kshs 4.5 bn in Q3'2021, from Kshs 4.0 bn in Q3'2020, and,
- Cost to income ratio with LLP improved to 59.8 %, from 66.3% in Q3'2020, attributable to the 8.6% increase in in total operating income coupled with a 2.1% decline in total operating expenses. On the other hand, without LLP, the Cost to income ratio deteriorated to 51.1% in Q3'2021, from 48.1% in Q3'2020, pointing towards deteriorating efficiency in the bank.

Balance Sheet

- The balance sheet recorded a contraction as total assets declined by 7.2% to Kshs 295.0 bn, from Kshs 317.8 bn in Q3'2020. The decline was largely driven by a 17.4% decline in investment securities to Kshs 45.7 bn, from Kshs 55.3 bn in Q3'2020. The decline was however mitigated by an 11.2% growth in net loans to Kshs 176.6 bn, from Kshs 158.9 bn in Q3'2020,

- Total liabilities declined by 9.8% to Kshs 250.3 bn, from Kshs 277.5 bn in Q3'2020, largely driven by a 40.9% decline in Placements to Kshs 3.4 bn, from Kshs 5.8 bn in Q3'2020, coupled with a 5.8% decrease in customer deposits to Kshs 212.9 bn, from Kshs 226.0 bn in Q3'2020. Deposits per branch decreased by 5.8% to Kshs 8.5 bn, from Kshs 9.0 bn in Q3'2020, as the number of branches remained unchanged at 25,
- The bank's Gross Non-Performing Loans (NPLs) increased by 2.5% to Kshs 21.7 bn, from Kshs 21.1 bn in Q3'2020 taking the NPL ratio to 11.5% in Q3'2021, from 12.3% in Q3'2020. The improvement in the group's asset quality is attributable to the faster 9.7% increase in Gross Loans, as compared to the 2.5% increase in Gross Non-Performing Loans (NPLs),
- General Loan Loss Provisions declined by 2.7% to Kshs 8.2 bn, from Kshs 8.0 bn in Q3'2020. Consequently, the NPL coverage ratio declined to 54.9% in Q3'2021, from 61.8% in Q3'2020, an indication of reduced provisional levels by the bank,
- Shareholders' funds rose by 11.0% to Kshs 44.7 bn in Q3'2021, from Kshs 40.3 bn in Q3'2020, largely due to the 14.7% increase in the retained earnings to Kshs 39.3 bn, from Kshs 34.3 bn in Q3'2020,
- Stanbic Bank is currently sufficiently capitalized with a core capital to risk weighted assets ratio of 15.5%, 5.0% points above the statutory requirement of 10.5%. In addition, the total capital to risk weighted assets ratio was 17.5%, exceeding the statutory requirement of 14.5% by 3.0% points. Adjusting for IFRS 9, core capital to risk weighted assets ratio was at 15.6% while total capital to risk weighted assets came in at 17.6%, and,
- Stanbic Holdings currently has a return on average assets of 2.2% and a return on average equity of 15.8%.

Key Take-Outs:

- Asset Quality:** The bank's asset quality improved, with the NPL ratio reducing to 11.5% in Q3'2021 from 12.3% in Q3'2020. The performance in the NPL ratio is attributable to the faster 9.7% increase in Gross Loans, as compared to the 2.5% increase in Gross Non-Performing Loans (NPLs), and,
- Revenue diversification:** The bank recorded a relatively stronger performance in both funded and non-funded segments where Net Interest Income grew by 12.2% while Non-Funded Income grew by 4.2%.

Valuation Summary

- We are of the view that Stanbic Holdings is a "hold" with a target price of Kshs 97.8, representing an upside of 7.4%, from the current price of Kshs 91.0 as of 26th November 2021,
- Stanbic Holdings is currently trading at P/TBV of 0.8x and a P/E of 5.3x vs an industry average of 0.7x and 4.7x, respectively.