Stanbic Holdings Plc – FY'2020
5th March, 2021

Valuation Summary

- We are of the view that Stanbic Holdings Plc is a "**SELL**" with a target price of Kshs 78.3, representing a downside of 2.9%, from the current price of Kshs 84.5 as of 5th March 2021, inclusive of a dividend yield of 4.5%,
- Stanbic Holdings Plc is currently trading at a P/TBV of 0.8x and a P/E of 6.4x vs an industry average of 0.7x and 5.3x, respectively.

Key Highlights FY'2020

- The Central Bank of Kenya (CBK) revealed that loans amounting to Kshs 1.6 tn had been restructured as of December 2020, representing 54.2% of the banking sector's loan book of Kshs 3.0 tn. This is in line with the CBK's emergency measures announced on March 18th 2020 to provide relief to borrowers during the pandemic. The effect of the pandemic on banks' loan books was also evidenced in the gross Non-Performing Loans (NPL) ratio increasing by 2.1% points to 14.1% in December 2020, compared to 12.0% as at December 2019;

- Stanbic Bank Kenya's parent firm Stanbic Africa Holdings Limited (SAHL) announced it has raised its stake in Stanbic Holdings Kenya to 71.2% from 69.1% by acquiring an additional 8.1 mn shares in November 2020. The share purchase is in line with the parent firm's objective of raising its stake in Stanbic holdings to just under 75.0%, amounting to the acquisition of a maximum of 14.9 mn shares by the end of 2021 after receiving exemption from the Capital Markets Authority to proceed with the transaction. SAHL began the process of raising its's stake in Stanbic holdings in 2018. Key to note, SAHL is not intending to invoke a full-takeover offer for Stanbic and has received exemption from invoking the order from the CMA.

Income Statement

- Core earnings per share declined by 18.6% to Kshs 13.1, from Kshs 16.1 in FY'2019, not in line with our projections of an 11.4% decline to Kshs 14.3. The performance was driven by a 54.8% increase in loan loss provision to Kshs 4.9 bn from Kshs 3.2 bn in FY'2019, coupled with a 6.2% decline in total operating income to Kshs 23.2 bn from Kshs 24.8 in FY'2019. The variance in core earnings per share decline to Kshs 13.1 against our expectation of Kshs 14.3 was largely due to the 12.8% decline in total operating expenses to Kshs 12.1 bn, from Kshs 13.9 bn in FY'2019, compared to our 36.7% projected increase,
- Total operating income declined by 6.2% to Kshs 23.2 bn, from Kshs 24.8 bn in FY'2019. This was driven by a 4.1% decline in Net Interest Income (NII) to Kshs 12.8 bn, from Kshs 13.3 bn in FY'2019 coupled with an 8.7% decline in Non-Funded Income (NFI) to Kshs 10.4 bn, from Kshs 11.4 bn in FY'2019,
- The bank's interest income declined by 3.4% to Kshs 19.7 bn, from Kshs 20.4 bn in FY'2019. This was driven by an 8.7% decline in interest income from loans and advances, which declined to Kshs 14.4 bn from Kshs 15.7 bn in FY'2019. The decline in the bank's interest income was however mitigated by a 10.7% increase in income from government securities to Kshs 4.5 bn from Kshs 4.1 bn in FY'2019. The yield on interest-earning assets declined to 7.2% from 7.9% in FY'2019, largely attributable to a 6.4% increase in average interest earning assets coupled with the 3.4% decline in interest income,
- Interest expense declined by 1.6% to Kshs 7.5 bn, from Kshs 7.7 bn in FY'2019, following an 18.1% rise in Interest expense on customer deposits to Kshs 6.3 bn from Kshs 5.3 bn in FY'2019. Interest expense on placements declined by 59.6% to Kshs 0.6 bn, from Kshs 1.4 bn in FY'2019. Cost of funds declined marginally by 0.3% points to 3.0% from 3.3% recorded in FY'2019, following a 13.5% increase in total interest bearing liabilities coupled with the 1.6% increase in interest expense. Net Interest Margin (NIM) on the other hand, declined to 4.7%, from 5.2% in FY'2019 due to the 4.1% decline in NII, despite the 6.4% increase in average interest-earning assets,
- Non-Funded Income declined by 8.7% to Kshs 10.4 bn, from Kshs 11.4 bn in FY'2019, driven by a 30.5% decline in the bank's income from fees and commissions on loans and advances to Kshs 0.2 bn, from Kshs 0.3 bn in

FY’2019 coupled with a 17.7% decline in other fees and commissions income to Kshs 3.4 bn from Kshs 4.1 bn in FY’2019, attributed to the waiver on banking fees. The decline was however mitigated by a 14.1% increase in Stanbic Bank’s Foreign Exchange Trading income to Kshs 5.5 bn, from Kshs 4.9 bn in FY’2019. Notably, total fees and commissions declined by 18.7% to Kshs 3.6 bn, from Kshs 4.5 bn recoreded in FY’2019. The revenue mix shifted to 55:45 funded to non-funded income, from 54:46, owing to the 8.7% decline in NFI, compared to the 4.1% decline in NII,

- Total operating expenses declined by 12.8% to Kshs 12.1 bn from Kshs 13.9 bn in FY’2019, largely driven by a 32.6% decline in Stanbic Bank’s staff costs and other operating expenses to Kshs 7.3 bn, from Kshs 10.8 bn in FY’2019. Loan Loss Provisions (LLP), on the other hand, increased by 54.8% to Kshs 4.9 bn from Kshs 3.2 bn recorded in FY’2019,
- Cost to Income Ratio (CIR) with LLP improved to 52.2%, from 56.2% in FY’2019. Without LLP, cost to income ratio improved as well to 31.2% from 43.5% in FY’2019, an indication of improving efficiency, and,
- Profit before tax declined by 19.2% to Kshs 6.2 bn, down from Kshs 7.7 bn in FY’2019. Profit after tax declined by 18.6% to Kshs 5.2 bn in FY’2020, from Kshs 6.4 bn in FY’2019, with the effective tax rate declining to 16.6%, from 17.2% in FY’2019.

Balance Sheet

- The balance sheet recorded an expansion as total assets grew by 8.2% to Kshs 328.6 bn, from Kshs 303.6 bn in FY’2019. The growth was supported by a 25.0% increase in investment securities to Kshs 87.6 bn, from Kshs 70.1 bn in FY’2019, coupled with a 2.7% loan book expansion to Kshs 196.3 bn, from Kshs 191.2 bn in FY’2019. The increased allocation in government securities was mainly on the back of the lenders cautious lending amid the the elevated credit risk,
- Total liabilities rose by 8.7% to Kshs 276.9 bn, from Kshs 254.6 bn in FY’2019, driven by a 15.7% rise in customer deposits to Kshs 260.0 bn from Kshs 224.7 bn in FY’2019. The growth was however weighed down by a 39.7% decline in borrowings to Kshs 5.5 bn, from Kshs 9.1 bn in FY’2019. Deposits per branch increased by 20.3% to Kshs 10.4 bn from Kshs 8.6 bn in FY’2019, with the number of branches decreasing to 25 from 26 during the period,
- The slower 2.7% growth in loans as compared to the 15.7% growth in deposits led to a decline in the loan to deposit ratio to 75.5% from 85.1% in FY’2019,
- Gross non-performing loans increased by 81.4% to Kshs 25.0 bn in FY’2020, from Kshs 19.3 bn in FY’2019. Consequently, the NPL ratio deteriorated to 11.8% in FY’2020, from 9.6% in FY’2019, attributable to the faster 81.4% growth in Non-Performing Loans, which outpaced the 2.7% growth in loans. The NPL coverage on the other hand improved to 60.6% in FY’2020 from 57.1% in FY’2019, as general Loan Loss Provisions increased by 54.8% to Kshs 4.9 bn from Kshs 3.2 bn in FY’2019,
- Shareholders’ funds increased by 5.5% to Kshs 51.7 bn in FY’2020, from Kshs 49.0 bn in FY’2019, supported by an 8.9% increase in revenue and other reserves to Kshs 32.9 bn, from Kshs 30.2 bn in FY’2019,
- Stanbic Bank remains sufficiently capitalized with a core capital to risk-weighted assets ratio of 16.0%, 5.5% points above the statutory requirement. In addition, the total capital to risk-weighted assets ratio came in at 18.1%, exceeding the statutory requirement by 3.6% points. Adjusting for IFRS 9, the core capital to risk-weighted assets stood at 17.0%, while total capital to risk-weighted assets came in at 19.1%, and,
- The bank currently has a Return on Average Assets (ROaA) of 1.6%, and a Return on Average Equity (ROaE) of 10.3%.

Key Take-Outs:

1. In line with the weakened business environment on account of the COVID-19 pandemic seen in 2020, Stanbic took a proactive stance in its provisioning levels as Loan Loss Provisions (LLP) increased by 54.8% y/y to Kshs 4.9 bn in FY’2020, from Kshs 3.2 bn in FY’2019. The 54.8% increase was however lower than the 81.7% increase in LLP recorded last year, which came in at Kshs 3.2 bn in FY’2019 from Kshs 1.7 bn in FY’2018,

2. The bank’s asset quality deteriorated, with the NPL ratio coming in at 11.8%, from 9.6% in FY’2019. Asset quality also deteriorated by 3.3% points h/h to 11.8% from 8.5% recorded in H1’2020. NPL coverage, on the other hand, improved to 60.6% in FY’2020 from 57.1% in FY’2019, as general Loan Loss Provisions increased by 41.6% to Kshs 9.8 bn from Kshs 6.9 bn in FY’2019. H/h, the NPL coverage deteriorated by 4.2% points to 60.6% from 64.8% recorded in H1’2020
3. NFI declined by 8.7% to 10.4 bn from 11.4 bn, mainly attributable to a 30.5% decrease in fees and commissions on loans and advances while NII also declined by 4.1% to Kshs 12.8 bn from 13.3 bn in FY’2019,
4. There was an improvement in efficiency levels as the cost to income ratio without LLP improved to 52.2% from 56.2% in FY’2019, an indication of improving efficiency.

Below is a summary of the bank’s performance:

Balance Sheet	FY' 2019	FY'2020	y/y change	FY'2020e	Projected y/y change	Variance in growth vs projection
Net Loans	191.2	196.3	2.7%	240.9	26.0%	(23.3%)
Total Assets	303.6	328.6	8.2%	368.6	21.4%	(13.2%)
Deposits	**224.7**	**260.0**	15.7%	**294.2**	31.0%	(15.2%)
Liabilities	**254.6**	**276.9**	8.7%	**319.3**	25.4%	(16.7%)
Shareholders' Funds	**49.0**	**51.7**	5.5%	**49.3**	0.4%	5.1%

Key Ratios	FY' 2019	FY'2020
Loan to Deposit ratio	85.1%	75.5%
Return on average equity	13.6%	10.3%
Return on average assets	2.1%	1.6%

Income Statement	FY' 2019	FY'2020	y/y change	FY'2020e	Projected y/y change	Variance in growth vs projection
Net interest Income	13.3	12.8	(4.1%)	16.0	19.9%	(24.0%)
Net non-interest income	11.4	10.4	(8.7%)	11.1	(2.7%)	(5.9%)
Total Operating income	**24.8**	**23.2**	**(6.2%)**	**27.1**	9.4%	(15.7%)
Loan loss provision	(3.2)	(4.9)	54.8%	(5.5)	73.8%	(19.0%)
Total Operating expenses	**(13.9)**	**(12.1)**	**(12.8%)**	**(19.0)**	36.7%	(49.6%)
Profit before tax	7.7	6.2	(19.2%)	8.1	4.9%	(24.1%)
Profit after tax	**6.4**	**5.2**	**(18.6%)**	**5.7**	(11.3%)	(7.3%)
Core EPS	**16.1**	**13.1**	**(18.6%)**	**14.3**	(11.4%)	(7.2%)

Income Statement Ratios	FY'2019	FY'2020	y/y change
Yield from interest-earning assets	7.9%	7.2%	(0.7%)
Cost of funding	3.3%	3.0%	(0.3%)
Net Interest Margin	5.2%	4.7%	(0.5%)

Net Interest Income as % of operating income	53.9%	55.1%	1.2%
Non-Funded Income as a % of operating income	46.1%	44.9%	(1.2%)
Cost to Income Ratio	56.2%	52.2%	(4.0%)
CIR without LLP	43.5%	31.2%	(12.2%)
Cost to Assets	3.5%	2.2%	(1.3%)

Capital Adequacy Ratios	FY'2019	FY'2020
Core Capital/Total Liabilities	18.4%	18.5%
Minimum Statutory ratio	8.0%	8.0%
Excess	**10.4%**	**10.5%**
Core Capital/Total Risk Weighted Assets	15.2%	16.0%
Minimum Statutory ratio	10.5%	10.5%
Excess	**4.7%**	**5.5%**
Total Capital/Total Risk Weighted Assets	18.3%	18.1%
Minimum Statutory ratio	14.5%	14.5%
Excess	**3.8%**	**3.6%**
Liquidity Ratio	58.4%	56.4%
Minimum Statutory ratio	20.0%	20.0%
Excess	**38.4%**	**36.4%**
Adjusted Core Capital/Total Deposit Liabilities	19.7%	19.7%
Adjusted Core Capital/Total Risk Weighted Assets	16.2%	17.0%
Adjusted Total Capital/Total Risk Weighted Assets	19.4%	19.1%