Stanbic Bank – H1’2024

08th August, 2024

Below is a summary of Stanbic Bank’s H1’2024 performance:

Balance Sheet	H1'2023 (Kshs bn)	H1'2024 (Kshs bn)	y/y change
Net Loans and Advances	244.1	238.2	(2.4%)
Kenya Government Securities	54.0	42.7	(21.0%)
Total Assets	**384.3**	**497.9**	**29.6%**
Customer Deposits	273.0	355.6	30.3%
Deposits Per Branch	**8.3**	**11.9**	**43.3%**
Total Liabilities	**320.3**	**428.6**	**33.8%**
Shareholders' Funds	**64.0**	**69.4**	**8.5%**

Key Ratios	H1'2023	H1'2024	% point change
Loan to Deposit ratio	89.4%	67.0%	(22.4%)
Government Securities to Deposits ratio	19.8%	12.0%	(7.8%)
Return on Average Equity	18.5%	18.5%	(0.0%)
Return on Average Assets	3.1%	2.8%	(0.3%)

Income Statement	H1'2023 (Kshs bn)	H1'2024 (Kshs bn)	y/y change
Net interest Income	12.1	12.6	4.2%
Net non-interest income	8.9	7.6	(15.1%)
Total Operating income	**20.9**	**20.1**	**(4.0%)**
Loan loss provision	(2.5)	(2.0)	(21.7%)
Total Operating expenses	**(11.2)**	**(10.1)**	**(10.1%)**
Profit before tax	9.7	10.0	3.0%
Profit after tax	**7.1**	**7.2**	**2.3%**
Core EPS	**17.8**	**18.2**	**2.3%**
Dividend per Share	1.15	1.84	60.0%

Income Statement Ratios	H1'2023	H1'2024	y/y change
Yield from interest-earning assets	5.4%	7.4%	2.0%
Cost of funding	3.2%	5.9%	2.7%
Net Interest Margin	7.4%	7.9%	0.5%
Net Interest Income as % of operating income	57.5%	62.4%	4.9%
Non-Funded Income as a % of operating income	42.5%	37.6%	(4.9%)
Cost to Income Ratio	53.5%	50.1%	(3.4%)
Cost to Income without LLP	41.6%	40.4%	(1.2%)
Cost to Assets	2.3%	1.6%	(0.7%)

Capital Adequacy Ratios	H1'2023	H1'2024	% points change
Core Capital/Total Liabilities	17.5%	14.9%	(2.6%)
Minimum Statutory ratio	8.0%	8.0%	
Excess	**9.5%**	**6.9%**	**(2.6%)**
Core Capital/Total Risk Weighted Assets	13.9%	13.5%	(0.4%)
Minimum Statutory ratio	10.5%	10.5%	
Excess	**3.4%**	**3.0%**	**(0.4%)**
Total Capital/Total Risk Weighted Assets	17.4%	16.4%	(1.0%)
Minimum Statutory ratio	14.5%	14.5%	
Excess	**2.9%**	**1.9%**	**(1.0%)**
Liquidity Ratio	35.8%	52.8%	17.0%
Minimum Statutory ratio	20.0%	20.0%	
Excess	**15.8%**	**32.8%**	**17.0%**

Income Statement

- Core earnings per share grew by 2.3% to Kshs 18.2, from Kshs 17.8 in H1'2023, driven by the 10.1% decrease in total operating expenses to Kshs 10.1 bn, from Kshs 11.2 bn in H1'2023. However, the performance was weighed down by a 4.0% decrease in total operating income to Kshs 20.1 bn from Kshs 20.9 bn in H1'2023,
- The 4.0% decrease in total operating income was mainly driven by a 15.1% decrease in Non Interest Income (NFI) to Kshs 7.6 bn from Kshs 8.9 bn in H1'2023, which outpaced the 4.2% growth in Net Interest Income (NII) to Kshs 12.6 bn, from Kshs 12.1 bn in H1'2023,
- Interest income grew by 49.1% to Kshs 24.5 bn from Kshs 16.4 bn in H1'2023, mainly driven by a 44.3% growth in interest income from loans and advances to Kshs 18.3 bn from Kshs 12.7 bn in H1'2023, coupled with a 190.1% increase in interest income from deposits and placements to Kshs 3.5 bn, from Kshs 1.2 bn in H1'2023. As such, the Yield on Interest-Earning Assets (YIEA) increased to 7.4% from 5.4% recorded in H1'2023, mainly attributable to the faster 49.1% growth in interest income compared to a 8.3% increase in average interest earning assets to Kshs 331.4 bn, from Kshs 305.9 bn in H1'2023,
- Interest expenses rose by 154.3% to Kshs 12.3 bn from Kshs 4.8 bn in H1'2023, mainly driven by a 170.9% increase in interest expense on customer deposits to Kshs 10.9 bn from Kshs 3.6 bn in H1'2023, coupled with a minimal 19.4% increase in interest expense from placements to Kshs 0.6 bn, from Kshs 0.5 bn bn recorded in H1'2023. Consequently, Cost of funds (COF) increased by 2.7% points to 5.9% from 3.2% recorded in H1'2023, owing to a faster 123.9% increase in Trailing interest expense to Kshs 19.8 bn from Kshs 8.8 bn recorded in H1'2023, compared to a 21.1% increase in average interest bearing liabilities to Kshs 332.7 bn from Kshs 274.8 bn in H1'2023.Trailing interest expense refers to the performance of the interest expense for the past 12 consecutive months. Net Interest Margin (NIM) increased by 0.5% points to 7.9% from 7.4% in H1'2023, attributable to a 15.4% increase in trailing net interest income to Kshs 26.2 bn from Kshs 22.7 bn recorded in H1'2023 which outpaced the 8.3% growth in average interest earning assets,
- Non-Funded Income (NFI) decreased by 15.1% to Kshs 7.6 bn from Kshs 8.9 bn in H1'2023, mainly driven by a 22.9% decrease in forex trading income to Kshs 4.7 bn , from Kshs 6.0 bn in H1'2023, highlighting the bank's decreased foreign exchange margins, coupled with a 4.9% decrease in income from other fees and commissions to Kshs 2.4 bn, from 2.5 bn in H1'2023. Total fees and commissions decreased by 6.3% to Kshs 2.4 bn, from Kshs 2.6 bn in H1'2023. The revenue mix shifted to 62:38 from 58:42 for the funded to Non-funded income owing to the 4.2% growth in Funded Income compared to a 15.1% decrease in the Non Funded Income,
- Total operating expenses decreased by 10.1% to Kshs 10.1 bn from Kshs 11.2 bn in H1'2023, driven by 21.0% decrease in other operating expenses to Kshs 3.9 bn from Kshs 4.9 bn recorded in H1'2023, coupled with 21.7% decrease in loan loss provisions to Kshs 2.0 bn, from Kshs 2.5 bn recorded in H1'2023, which outpaced the 11.4% increase in staff costs to Kshs 4.3 bn, from Kshs 3.8 bn recorded in H1'2023. The decrease in provisioning is partly attributable to reducing credit risk as a result of improved economic environment as evidenced by the average H1'2024 Purchasing Managers Index (PMI) of 50.0, up from an average of 48.7 in H1'2023,
- Cost to Income Ratio (CIR) decreased by 3.4% points to 50.1% from 53.5% in H1'2023, owing to the 10.1% decrease in total operating expenses, which outpaced the 4.0% decrease in total operating income. Notably, CIR without LLP decreased by 1.2% points to 40.4% from 41.6% recorded in H1'2023, and,
- Profit before tax increased by 3.0% to Kshs 10.0 bn, from Kshs 9.7 bn recorded in H1'2023, with effective tax rate increasing to 28.1% in H1'2024 from 27.6% in H1'2023, leading to a 2.3% increase in profit after tax to Kshs 7.2 bn in H1'2024, from Kshs 7.1 bn in H1'2023.

Balance Sheet

- The balance sheet recorded an expansion as total assets grew by 29.6% to Kshs 497.9 bn, from Kshs 384.3 bn in H1'2024, driven by a 360.3% increase in balances due from banking institutions in the group to Kshs 109.3 bn, from 23.7 bn in H1'2023, coupled with a 114.7% increase in placements to Kshs 29.0 bn, from Kshs 13.5 bn in

H1’2023, which outpaced the 2.4% decline in net loans and advances to customers to Kshs 238.2 bn, from Kshs 244.1 bn in H1’2023,

- Total liabilities rose by 33.8% to Kshs 428.6 bn from Kshs 320.3 bn in H1’2024, driven by a 30.3% growth in customer deposits to Kshs 355.6 bn, from Kshs 273.0 bn in H1’2023, coupled with a 48.8% increase in placements to 13.9 bn from Kshs 9.4 bn recorded in H1’2023, which outpaced the 15.0% decline in borrowings to Kshs 10.5 bn, from Kshs 12.3 bn in H1’2023. With 29 branches countrywide and 1 branch in South Sudan, compared to 33 branches in H1’2023, deposits per branch increased by 43.3% to Kshs 11.9 bn, from Kshs 8.3 bn in H1’2023,
- The faster 30.3% growth in customer deposits as compared to the 2.4% decline in loans led to a decrease in the loan to deposits ratio to 67.0%, from 89.4% in H1’2023,
- The bank’s Asset Quality deteriorated, with Gross NPL ratio increasing to 9.5% in H1’2024, from 9.2% in H1’2023, attributable to 2.5% increase in Gross non-performing loans to Kshs 24.4 bn, from Kshs 23.8 bn in H1’2023, compared to the 0.5% decrease in gross loans to Kshs 256.5 bn, from Kshs 257.7 bn recorded in H1’2023,
- General Provisions (LLP) increased by 41.6% to Kshs 12.5 bn in H1’2024 from Kshs 8.8 bn in H1’2023. The NPL coverage ratio increased to 75.0% in H1’2024, from 57.4% in H1’2023, attributable to the 41.6% increase in general provisions and a 19.9% increase in interest in suspense to Kshs 5.8 bn, from Kshs 4.8 bn in H1’2023, which outpaced the 2.5% increase in gross non performing loans,
- Shareholders’ funds increased by 8.5% to Kshs 69.4 bn in H1’2024, from Kshs 64.0 bn in H1’2023, supported by a 11.9% increase in retained earnings to Kshs 53.5 bn, from Kshs 47.8 bn in H1’2023,
- Stanbic bank remains capitalized with a core capital to risk-weighted assets ratio of 13.5%, 3.0% points above the statutory requirement of 10.5%. In addition, the total capital to risk-weighted assets ratio came in at 16.4%, exceeding the statutory requirement of 14.5% by 1.9% points, and,
- The bank currently has a Return on Average Assets (ROaA) of 2.8%, and a Return on Average Equity (ROaE) of 18.5%.

Key Take-Outs:

1. **Increased earnings -** Core earnings per share (EPS) grew by 2.3% to Kshs 18.2, from Kshs 17.8 in H1’2023, driven by the 4.2% growth in funded income to Kshs 12.6 bn, from Kshs 12.1 bn in H1’2023.
2. **Deteriorated asset quality –** The bank’s Asset Quality deteriorated, with Gross NPL ratio increasing to 9.5% in H1’2024, from 9.2% in H1’2023, attributable to 2.5% increase in Gross non-performing loans to Kshs 24.4 bn, from Kshs 23.8 bn in H1’2023, compared to the 0.5% decrease in gross loans to Kshs 256.5 bn, from Kshs 257.7 bn recorded in H1’2023,
3. **Increased Provisioning** - On the back of increased credit risk occassioned by increased default rates, the bank increased its provisions holdings meant to cover for anticipated losses in the future, with its general provisions increasing by 41.6% to Kshs 12.5 bn, from Kshs 8.8 bn recorded in H1’2023.
4. **Dividend payment**- The directors of Stanbic Holdings have recommended an interim dividend of Kshs 1.84 per share, a 60.0% increase from the Kshs 1.15 per share paid in H1’2023.

Going forward, the factors that would drive the bank’s growth would be:

- **Digital transformation**. The lender has capitalized on digital innovation for service delivery over the past three years to improve its operational efficiency, which has been a key factor in its financial performance. In March 2024, the lender disclosed that 90.0% of transactions happened on digital channels. In 2022 the bank introduced borderless banking, allowing its customers across East Africa to conduct transaction smoothly and in real time, which has registered USD 697.0 mn worth of transactions as of December 2023.

Valuation Summary

- We are of the view that Stanbic bank is a “buy” with a target price of Kshs 145.3 representing a total return of 37.3%, from the current price of 117.0 as of 9th August 2024, inclusive of a dividend yield of 13.1%.

- Stanbic Bank is currently trading at a P/TBV of 0.8x and a P/E of 3.8x vs an industry average of 0.8x and 3.5x respectively.