Stanbic Bank – Q1'2024

10th May, 2024

Below is a summary of Stanbic Bank's Q1'2024 performance:

Balance Sheet	Q1'2023 (Kshs bn)	Q1'2024 (Kshs bn)	y/y change
Net Loans and Advances	230.3	255.8	11.1%
Kenya Government Securities	49.9	35.8	(28.4%)
Total Assets	**391.6**	**491.5**	**25.5%**
Customer Deposits	291.0	355.5	22.2%
Deposits Per Branch	**9.7**	**11.9**	**22.2%**
Total Liabilities	**335.5**	**429.6**	**28.0%**
Shareholders' Funds	**56.1**	**61.9**	**10.4%**

Key Ratios	Q1'2023	Q1'2024	% point change
Loan to Deposit ratio	79.1%	71.9%	(7.2%)
Government Securities to Deposits ratio	17.1%	10.1%	(7.1%)
Return on Average Equity	20.7%	20.8%	0.1%
Return on Average Assets	3.0%	2.8%	(0.2%)

Income Statement	Q1'2023 (Kshs bn)	Q1'2024 (Kshs bn)	y/y change
Net interest Income	5.4	6.5	19.6%
Net non-interest income	5.7	3.8	(34.0%)
Total Operating income	**11.2**	**10.3**	**(8.0%)**
Loan loss provision	(1.1)	(1.1)	(0.5%)
Total Operating expenses	**(5.7)**	**(4.8)**	**(15.2%)**
Profit before tax	5.5	5.5	(0.5%)
Profit after tax	**3.9**	**4.0**	**2.8%**
Core EPS	**9.8**	**10.1**	**2.8%**

Income Statement Ratios	Q1'2023	Q1'2024	y/y change
Yield from interest-earning assets	2.8%	3.8%	1.1%
Cost of funding	2.8%	4.5%	1.7%
Net Interest Margin	7.2%	8.4%	1.2%
Net Interest Income as % of operating income	48.6%	63.1%	14.5%
Non-Funded Income as a % of operating income	51.4%	36.9%	(14.5%)
Cost to Income Ratio	50.7%	46.8%	(4.0%)
Cost to Income without LLP	40.5%	35.7%	(4.8%)
Cost to Assets	1.2%	0.7%	(0.4%)

Capital Adequacy Ratios	Q1'2023	Q1'2024	% points change
Core Capital/Total Liabilities	16.9%	14.8%	(2.1%)
Minimum Statutory ratio	8.0%	8.0%	
Excess	**8.9%**	**6.8%**	**(2.1%)**
Core Capital/Total Risk Weighted Assets	14.6%	13.3%	(1.3%)
Minimum Statutory ratio	10.5%	10.5%	
Excess	**4.1%**	**2.8%**	**(1.3%)**
Total Capital/Total Risk Weighted Assets	17.8%	16.2%	(1.6%)
Minimum Statutory ratio	14.5%	14.5%	
Excess	**3.3%**	**1.7%**	**(1.6%)**
Liquidity Ratio	45.6%	51.2%	5.6%
Minimum Statutory ratio	20.0%	20.0%	
Excess	**25.6%**	**31.2%**	**5.6%**

Income Statement

- Core earnings per share grew by 2.8% to Kshs 10.1, from Kshs 9.8 in Q1’2023, driven by the 15.2% decrease in total operating expenses to Kshs 4.8 bn, from Kshs 5.7 bn in Q1’2023. However, the performance was weighed down by a 8.0% decrease in total operating income to Kshs 10.3 bn from Kshs 11.2 bn in Q1’2023,
- The 8.0% decrease in total operating income was mainly driven by a 34.0% decrease in Non Interest Income (NFI) to Kshs 3.8 bn from Kshs 5.7 bn in Q1’2023, which outpaced the 19.6% growth in Net Interest Income (NII) to Kshs 6.5 bn, from Kshs 5.4 bn in Q1’2023,
- Interest income grew by 53.9% to Kshs 12.1 bn from Kshs 7.9 bn in Q1’2023, mainly driven by a 52.9% growth in interest income from loans and advances to Kshs 9.2 bn from Kshs 6.0 bn in Q1’2023, coupled with a 221.4% increase in interest income from deposits and placements to Kshs 1.5 bn, from Kshs 0.5 bn in Q1’2023. As such, the Yield on Interest-Earning Assets (YIEA) increased to 3.8% from 2.8% recorded in Q1’2023, mainly attributable to the faster 53.9% growth in interest income compared to a 10.8% increase in average interest earning assets to Kshs 316.3 bn, from Kshs 285.5 bn in Q1’2023,
- Interest expenses rose by 130.2% to Kshs 5.6 bn from Kshs 2.4 bn in Q1’2023, mainly driven by a 170.9% increase in interest expense on customer deposits to Kshs 5.0 bn from Kshs 1.8 bn in Q1’2023, coupled with a minimal 16.4% increase in interest expense from other interest expenses to remain relatively unchanged at Kshs 0.3 bn bn recorded in Q1’2023. Consequently, Cost of funds (COF) increased by 1.7% points to 4.5% from 2.8% recorded in Q1’2023, owing to a faster 91.5% increase in Trailing interest expense to Kshs 15.5 bn from Kshs 8.1 bn recorded in Q1’2023, compared to a 20.6% increase in average interest bearing liabilities to Kshs 344.7 bn from Kshs 285.8 bn in Q1’2023.Trailing interest expense refers to the performance of the interest expense for the past 12 consecutive months. Net Interest Margin (NIM) increased by 1.2% points to 8.4% from 7.2% in Q1’2023, attributable to a 29.5% increase in trailing net interest income to Kshs 26.7 bn from Kshs 20.6 bn recorded in Q1’2023 which outpaced the 10.8% growth in average interest earning assets,
- Non-Funded Income (NFI) decreased by 34.0% to Kshs 3.8 bn from Kshs 5.7 bn in Q1’2023, mainly driven by a 44.0% decrease in forex trading income to Kshs 2.4 bn , from Kshs 4.3 bn in Q1’2023, highlighting the bank’s decreased foreign exchange margins, coupled with a 9.6% decrease in income from other fees and commissions to Kshs 1.2 bn, from 1.3 bn in Q1’2023. Total fees and commissions decreased by 10.4% to Kshs 1.2 bn, from Kshs 1.4 bn in Q1’2023. The revenue mix shifted to 63:37 from 49:51 for the funded to Non-funded income owing to the 19.6% growth in Funded Income compared to a 34.0% decrease in the Non Funded Income,
- Total operating expenses decreased by 15.2% to Kshs 4.8 bn from Kshs 5.7 bn in Q1’2023, driven by 34.6% decrease in other operating expenses to Kshs 1.7 bn from Kshs 2.6 bn recorded in Q1’2023, coupled with a minimal 0.5% decrease in loan loss provisions to remain relatively unchanged at Kshs 1.1 bn recorded in Q1’2023, which outpaced the 3.2% increase in staff costs to remain unchanged at Kshs 1.9 bn recorded in Q1’2023. The decrease in provisioning is partly attributable to reducing credit risk as a result improved economic environment as evidenced by the average Q1’2024 Purchasing Managers Index (PMI) of 50.3, up from an average of 49.3 in Q1’2023,
- Cost to Income Ratio (CIR) decreased by 3.9% points to 46.8% from 50.7% in Q1’2023, owing to the 15.2% decrease in total operating expenses, which outpaced the 8.0% decrease in total operating income. Notably, CIR without LLP decreased by 4.8% points to 35.7% from 40.5% recorded in Q1’2023, and,
- Profit before tax decreased marginally by 0.5% to remain unchanged at Kshs 5.5 bn recorded in Q1’2024, with effective tax rate decreasing to 26.9% in Q1’2024 from 29.2% in Q1’2023, leading to an 2.8% increase in profit after tax to Kshs 4.0 bn in Q1’2024, from Kshs 3.9 bn in Q1’2023.

Balance Sheet

- The balance sheet recorded an expansion as total assets grew by 25.5% to Kshs 491.5 bn, from Kshs 391.5 bn in Q1’2024, driven by a by a 323.4% increase in balances due from banking institutions in the group to Kshs 106.8 bn, from 25.2 bn in Q1’2023, coupled with a 11.1% increase in net loans and advances to Kshs 255.8 bn, from

Kshs 230.3 bn in Q1’2023, which outpaced the 28.4% decline in investment in government securities to Kshs 35.8 bn, from Kshs 49.9 bn in Q1’2023,

- Total liabilities rose by 28.0% to Kshs 429.6 bn from Kshs 335.5 bn in Q1’2024, driven by a 22.2% growth in customer deposits to Kshs 355.5 bn, from Kshs 291.0 bn in Q1’2023, coupled with a 105.9% increase in placements to 10.7 bn from Kshs 5.2 bn recorded in Q1’2023, which outpaced the 17.8% decline in borrowings to Kshs 12.2 bn, from Kshs 14.8 bn in Q1’2023. With 29 branches countrywide and 1 branch in South Sudan, compared to 30 branches in Q1’2023, deposits per branch increased by 22.2% to Kshs 11.9 bn, from Kshs 9.7 bn in Q1’2023,
- The faster 22.2% growth in customer deposits as compared to the 11.1% growth in loans led to a decrease in the loan to deposits ratio to 71.9%, from 79.1% in Q1’2023,
- The bank’s Asset Quality improved, with Gross NPL ratio decreasing to 8.9% in Q1’2024, from 11.7% in Q1’2023, attributable to 17.3% decrease in Gross non-performing loans to Kshs 24.2 bn, from Kshs 29.3 bn in Q1’2023, compared to the 9.4% increase in gross loans to Kshs 273.3 bn, from Kshs 249.8 bn recorded in Q1’2023,
- General Provisions (LLP) decreased by 9.9% to Kshs 11.9 bn in Q1’2024 from Kshs 13.2 bn in Q1’2023. The NPL coverage increased to 72.3% in Q1’2024, from 66.7% in Q1’2023, attributable to the 17.3% decrease in Gross non-performing loans to Kshs 24.2 bn, from Kshs 29.3 bn in Q1’2023, which outpaced the 9.9% decrease in general provisions and a 11.3% decrease interest in suspense to Kshs 5.6 bn, from Kshs 6.3 bn in Q1’2023,
- Shareholders’ funds increased by 10.4% to Kshs 61.9 bn in Q1’2024, from Kshs 56.1 bn in Q1’2023, supported by a 10.4% increase in retained earnings to Kshs 51.1 bn, from Kshs 46.3 bn in Q1’2023,
- Stanbic bank remains capitalized with a core capital to risk-weighted assets ratio of 13.3%, 2.8% points above the statutory requirement of 10.5%. In addition, the total capital to risk-weighted assets ratio came in at 16.2%, exceeding the statutory requirement of 14.5% by 1.7% points, and,
- The bank currently has a Return on Average Assets (ROaA) of 2.8%, and a Return on Average Equity (ROaE) of 20.8%.

Key Take-Outs:

1. **Increased earnings -** Core earnings per share (EPS) grew by 2.8% to Kshs 10.1, from Kshs 9.8 in Q1’2023, driven by the 19.6% growth in funded income to Kshs 6.5 bn, from Kshs 5.4 bn in Q1’2023.
2. **Improved asset quality –** The bank’s gross NPL ratio decreased to 8.9% in Q1’2024, from 11.7% in Q1’2023, 17.3% decrease in Gross non-performing loans to Kshs 24.2 bn, from Kshs 29.3 bn in Q1’2023, compared to the 9.4% increase in gross loans to Kshs 273.3 bn, from Kshs 249.8 bn recorded in Q1’2023,
3. **Reduced Provisioning** - On the back of reduced credit risk occassioned by improving business environment, the bank decreased its provisions holdings meant to cover for anticipated losses in the future, with its provisions decreasing by 0.5% to remain unchanged at Kshs 1.1 bn recorded in Q1’2023. Further, General provisions reduced by 9.9% to Kshs 11.9 bn, from Kshs 13.2 bn recorded in Q1’2023.

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 28.5%, from the current price of 125.0 as of 9th May 2024, inclusive of a dividend yield of 12.3%.
- Stanbic Bank is currently trading at a P/TBV of 0.8x and a P/E of 4.0x vs an industry average of 0.8x and 3.4x respectively.