Cytonn INVESTMENTS

Stanbic Holdings – Q3’2023

23rd November, 2023

Below is a summary of Stanbic Holding’s Q3’2023 performance:

Balance Sheet (Kshs bn)	Q3'2022	Q3'2023	y/y change
Net Loans and Advances	236.9	251.0	5.9%
Government Securities	63.0	37.0	(41.3%)
Total Assets	**371.4**	**414.3**	**11.5%**
Customer Deposits	267.3	305.7	14.3%
Deposits Per Branch	10.3	10.2	(0.9%)
Total Liabilities	**321.0**	**358.6**	11.7%
Shareholders' Funds	**50.4**	**55.7**	10.5%

Key Ratios	Q3'2022	Q3'2023	% point change
Loan to Deposit ratio	88.6%	82.1%	(6.5%)
Government securities to deposits ratio	23.6%	12.1%	(11.5%)
Return on average equity	19.1%	21.4%	2.3%
Return on average assets	2.7%	2.9%	0.2%

Income Statement (Kshs bn)	Q3'2022	Q3'2023	y/y change
Net interest Income	12.7	18.1	42.4%
Net non-interest income	10.3	12.6	23.0%
Total Operating income	**23.0**	**30.7**	**33.7%**
Loan loss provision	(2.9)	(4.5)	56.8%
Total Operating expenses	**(13.3)**	**(17.8)**	**33.6%**
Profit before tax	9.7	13.0	34.0%
Profit after tax	**7.0**	**9.3**	**32.7%**
Core EPS (Kshs)	**17.7**	**23.5**	**32.7%**

Income Statement Ratios	Q3'2022	Q3'2023	y/y change
Yield from interest-earning assets	6.4%	8.3%	1.9%
Cost of funding	2.5%	3.3%	0.8%
Net Interest Margin	6.2%	7.8%	1.6%
Net Interest Income as % of operating income	55.4%	59.0%	3.6%
Non-Funded Income as a % of operating income	44.6%	41.0%	(3.6%)
Cost to Income Ratio	57.9%	57.8%	(0.1%)
CIR without LLP	45.4%	43.2%	(2.2%)
Cost to Assets	2.8%	4.3%	1.5%

Capital Adequacy Ratios	Q3'2022	Q3'2023	% points change
Core Capital/Total Liabilities	17.2%	15.7%	(1.5%)
Minimum Statutory ratio	8.0%	8.0%	
Excess	**9.2%**	**7.7%**	**(1.5%)**
Core Capital/Total Risk Weighted Assets	13.4%	13.2%	(0.2%)
Minimum Statutory ratio	10.5%	10.5%	
Excess	**2.9%**	**2.7%**	**(0.2%)**
Total Capital/Total Risk Weighted Assets	16.2%	16.9%	0.7%
Minimum Statutory ratio	14.5%	14.5%	
Excess	**1.7%**	**2.4%**	**0.7%**
Liquidity Ratio	39.9%	40.5%	0.6%
Minimum Statutory ratio	20.0%	20.0%	
Excess	**19.9%**	**20.5%**	**0.6%**

Income Statement

- Core earnings per share grew by 32.7% to Kshs 23.5, from Kshs 17.7 in Q3'2022, driven by the 33.7% growth in total operating income to Kshs 30.7 bn, from Kshs 23.0 bn in Q3'2022. However, the performance was weighed down by a 33.6% growth in total operating expenses to Kshs 17.8 bn from Kshs 13.3 bn in Q3'2022,
- The 33.7% growth in total operating income was mainly driven by a 42.4% growth in Net Interest Income (NII) to Kshs 18.1 bn from Kshs 12.7 bn in Q3'2022, coupled with a 23.0% growth in Non Interest Income (NFI) to Kshs 12.6 bn, from Kshs 10.3 bn in Q3'2022,
- Interest income grew by 48.2% to Kshs 26.1 bn from Kshs 17.6 bn in Q3'2022, mainly driven by a 50.3% growth in interest income from loans and advances to Kshs 20.2 bn from Kshs 13.4 bn in Q3'2022, coupled with a 209.7% increase in interest income from deposits and placements to Kshs 2.1 bn, from Kshs 0.7 bn in Q3'2022. As such, the Yield on Interest-Earning Assets (YIEA) increased to 8.3% from 6.4% recorded in Q3'2022, mainly attributable to the faster 48.2% growth in interest income compared to a 13.6% increase in average interest earning assets to Kshs 313.2 bn, from Kshs 275.8 bn in Q3'2022,
- Interest expenses rose by 63.2% to Kshs 8.0 bn from Kshs 4.9 bn in Q3'2022, mainly driven by a 49.0% increase in interest expense on customer deposits to Kshs 6.1 bn from Kshs 4.1 bn in Q3'2022, coupled with a 132.8% increase in interest expense from other interest expenses to Kshs 1.0 bn in Q3'2023 from Kshs 0.4 bn recorded in Q3'2022. Consequently, Cost of funds (COF) increased by 0.8% points to 3.3% from 2.5% recorded in Q3'2022, owing to a faster 61.1% increase in Trailing interest expense to Kshs 10.3 bn from Kshs 6.4 bn recorded in Q3'2022, compared to a 20.5% increase in average interest bearing liabilities to Kshs 308.1 bn from Kshs 255.6 bn in Q3'2022.Trailing interest expense refers to the performance of the interest expense for the past 12 consecutive months. Net Interest Margin (NIM) increased by 1.6% points to 7.8% from 6.2% in Q3'2022, attributable to a 42.6% increase in trailing net interest income to Kshs 24.3 bn from Kshs 17.1 bn recorded in Q3'2022 which outpaced the 13.6% growth in average interest earning assets,
- Non-Funded Income (NFI) increased by 23.0% to Kshs 12.6 bn from Kshs 10.3 bn in Q3'2022, mainly driven by a 315.4% increase in other income to Kshs 1.8 bn , from Kshs 0.4 bn in Q3'2022, couped with a 24.5% increase in income from other fees and commissions to Kshs 3.5 bn, from 2.8 bn in Q3'2022. Additionally, the foreign exchange trading income increased by 5.0% to Kshs 7.2 bn from Kshs 6.9 bn in Q3'2022, highlighting the bank's increased foreign exchange margins. Total fees and commissions increased by 22.7% to Kshs 3.6 bn, from Kshs 2.9 bn in Q3'2022. The revenue mix shifted to 59:41 from 55:45 for the funded to Non-funded income owing to the 42.4% growth in Funded Income which outpaced 23.0% growth in the Non Funded Income,
- Total operating expenses increased by 33.6% to Kshs 17.8 bn from Kshs 13.3 bn in Q3'2022, driven by 56.8% increase in loan loss provisions to Kshs 4.5 bn from Kshs 2.9 bn recorded in Q3'2022, coupled with a 16.2% increase in staff costs to Kshs 6.0 bn from Kshs 5.1 bn in Q3'2022. The increase in provisioning is partly attributable to rising credit risk as a result deteriorioted economic environment as evidenced by the end of Q3'2023 Purchasing Managers Index (PMI) of 47.8, down from 51.7 recorded during the same period in 2022,
- Cost to Income Ratio (CIR) decreased to 57.8% from 57.9% in Q3'2022, owing to the 33.7% increase in total operating income, which outpaced the 33.6% increase in total operating expenses. Notably, CIR without LLP decreased by 2.2% points to 43.2% from 45.4% recorded in Q3'2022, and,
- Profit before tax increased by 34.0% to Kshs 13.0 bn from Kshs 9.7 bn in Q3'2022, with effective tax rate increasing to 28.4% in Q3'2023 from 27.8% in Q3'2022, leading to an 32.7% increase in profit after tax to Kshs 9.3 bn in Q3'2023, from Kshs 7.0 bn in Q3'2022.

Balance Sheet

1. The balance sheet recorded an expansion as total assets grew by 11.5% to Kshs 414.3 bn, from Kshs 371.4 bn in Q3'2022, driven by a by a 1517.9% increase in balances due from the group's financial institutions to Kshs 62.8 bn, from Kshs 3.9 bn in Q3'2022 coupled with 5.9% expansion of the loan book to Kshs 251.0 bn, from Kshs 236.9 bn in Q3'2022,

- Total liabilities rose by 11.7% to Kshs 358.6 bn from Kshs 321.0 bn in Q3’2022, driven by a 14.3% growth in customer deposits to Kshs 305.7 bn, from Kshs 267.3 bn in Q3’2022, coupled with a 319.3% increase in placements to 13.5 bn from Kshs 3.2 bn recorded in Q3’2022. With 29 branches countrywide and 1 branch in South Sudan, compared to 26 branches in Q3’2022, deposits per branch decreased by 0.9% to Kshs 10.2 bn, from Kshs 10.3 bn in Q3’2022,
- The faster 14.3% growth in deposits as compared to the 5.9% growth in loans led to an decrease in the loan to deposits ratio to 82.1%, from 88.6% in Q3’2022,
- The bank’s Asset Quality improved, with Gross NPL ratio decreasing to 9.0% in Q3’2023 from 10.1% in Q3’2022, attributable to 6.2% decrease in Gross non-performing loans to Kshs 24.1 bn, from Kshs 25.6 bn in Q3’2022, compared to the 5.4% increase in gross loans to Kshs 266.9 bn, from Kshs 253.2 bn recorded in Q3’2022,
- General Provisions (LLP) decreased by 1.9% to Kshs 10.9 bn in Q3’2023 from Kshs 11.1 bn in Q3’2022. The NPL coverage increased to 66.3% in Q3’2023, from 63.4% in Q3’2022, attributable to the 6.2% decrease in Gross non-performing loans to Kshs 24.1 bn, from Kshs 25.6 bn in Q3’2022, which outpaced the 1.9% decline in general provisions coupled with 1.6% decline in interest in suspense to Kshs 5.1 bn, from Kshs 5.2 bnin Q3’2022,
- Shareholders’ funds increased by 10.5% to Kshs 55.7 bn in Q3’2023, from Kshs 50.4 bn in Q3’2022, supported by a 9.4% increase in retained earnings to Kshs 49.6 bn, from Kshs 45.4 bn in Q3’2022,
- Stanbic bank remains capitalized with a core capital to risk-weighted assets ratio of 13.2%, 2.7% points above the statutory requirement of 10.5%. In addition, the total capital to risk-weighted assets ratio came in at 16.9%, exceeding the statutory requirement of 14.5% by 2.4% points, and,
- The bank currently has a Return on Average Assets (ROaA) of 2.9%, and a Return on Average Equity (ROaE) of 21.4%.

Key Take-Outs:

1. **Strong earnings growth -** Core earnings per share (EPS) grew by 32.7% to Kshs 23.5, from Kshs 17.7 in Q3’2022, driven by the 33.7% growth in total operating income to Kshs 30.7 bn, from Kshs 23.0 bn in Q3’2022.
2. **Improved asset quality –** The bank’s gross NPL ratio decreased to 9.0% in Q3’2023 from 10.1% in Q3’2022, attributable to 6.2% decrease in Gross non-performing loans to Kshs 24.1 bn, from Kshs 25.6 bn in Q3’2022, compared to the 5.4% increase in gross loans to Kshs 266.9 bn, from Kshs 253.2 bn recorded in Q3’2022,

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 two years to improve its operational efficiency, which has been a key factor in its financial performance. In June 2023, the lender disclosed that 98.0% of accounts were opened digitally. In 2022 the bank introduced borderless banking, allowing its customers across East Africa to conduct transaction smoothly and in real time.

Valuation Summary

- We are of the view that Stanbic bank is a “buy” with a target price of Kshs 132.9 representing an upside of 21.6%, from the current price of 109.3 as of 24th November 2023, inclusive of a dividend yield of 11.5%.
- Stanbic Holdings is currently trading at a P/TBV of 0.7x and a P/E of 3.8x vs an industry average of 0.8x and 3.5x respectively.