Cytonn INVESTMENTS

# Stanbic Holdings Earnings Note - FY'2021

4th March 2022

**Below is a summary of Stanbic Holding's FY'2021 performance;**

| Balance Sheet | FY'2020 | FY'2021 | y/y change |
|---|---|---|---|
| Net Loans | 196.3 | 229.3 | 16.8% |
| Total Assets | 328.6 | 328.9 | 0.1% |
| **Deposits** | **260.0** | **254.6** | **(2.1%)** |
| **Liabilities** | **276.9** | **272.4** | **(1.6%)** |
| **Shareholders' Funds** | **51.7** | **56.5** | **9.1%** |

| Balance sheet ratios | FY'2020 | FY'2021 | % point change |
|---|---|---|---|
| Loan to Deposit ratio | 75.5% | 90.1% | 14.6% |
| Return on average equity | 11.3% | 13.3% | 2.0% |
| Return on average assets | 1.6% | 2.2% | 0.6% |

| Income Statement | FY'2020 | FY'2021 | y/y change |
|---|---|---|---|
| Net interest Income | 12.8 | 14.4 | 12.3% |
| Net non-interest income | 10.4 | 10.6 | 1.7% |
| **Total Operating income** | **23.2** | **25.0** | **7.5%** |
| Loan loss provision | (4.9) | (2.5) | (48.2%) |
| **Total Operating expenses** | **(12.1)** | **(12.7)** | **4.7%** |
| Profit before tax | 6.2 | 9.8 | 56.7% |
| **Profit after tax** | **5.2** | **7.2** | **38.8%** |

| Income Statement Ratios | FY'2020 | FY'2021 | y/y change |
|---|---|---|---|
| Yield from interest-earning assets | 7.2% | 7.0% | (0.2%) |
| Cost of funding | 3.0% | 2.4% | (0.6%) |
| Net Interest Margin | 5.1% | 5.0% | (0.1%) |
| Net Interest Income as % of operating income | 55.1% | 57.5% | 2.4% |
| Non-Funded Income as a % of operating income | 44.9% | 42.5% | (2.4%) |
| Cost to Income Ratio | 52.2% | 50.9% | (1.3%) |
| Cost to Income Ratio without LLP | 31.2% | 40.8% | 9.5% |

| Capital Adequacy Ratios | FY'2020 | FY'2021 |
|---|---|---|
| Core Capital/Total Liabilities | 18.5% | 18.2% |
| Minimum Statutory ratio | 8.0% | 8.0% |
| **Excess** | **10.5%** | **10.2%** |
| Core Capital/Total Risk Weighted Assets | 16.0% | 15.3% |
| Minimum Statutory ratio | 10.5% | 10.5% |
| **Excess** | **5.5%** | **4.8%** |
| Total Capital/Total Risk Weighted Assets | 18.1% | 17.3% |
| Minimum Statutory ratio | 14.5% | 14.5% |
| **Excess** | **3.6%** | **2.8%** |
| Liquidity Ratio | 56.4% | 47.9% |
| Minimum Statutory ratio | 20.0% | 20.0% |
| **Excess** | **36.4%** | **27.9%** |
| Adjusted Core Capital/Total Deposit Liabilities | 19.7% | 18.3% |
| Adjusted Core Capital/Total Risk Weighted Assets | 17.0% | 15.4% |
| Adjusted Total Capital/Total Risk Weighted Assets | 19.1% | 17.3% |

**Key Highlights FY’2021**

- Standard Africa Holdings Limited, (SAHL), the majority shareholder in Stanbic Holdings announced that it had received regulatory approval from the Capital Markets Authority, for further extension of the exemption from making a full take-over under the Capital Markets (Take over and Mergers) Regulations, 2002. Under the exemption, SAHL aims to acquire a maximum of 10.6 mn ordinary shares in Stanbic to bring its total shareholding to up to 75.0% from 72.3% of Stanbic Holdings’ ordinary shares.

**Income Statement**

- Profit after tax increased by 38.8% to Kshs 7.2 bn in FY’2021, from Kshs 5.2 bn in FY’2020. The performance was driven by a 7.5% increase in total operating income to Kshs 25.0 bn in FY’2021, from Kshs 23.2 bn in FY’2020. The increase was however weighed down by the 4.7% increase in total operating expenses to Kshs 12.7 bn, from Kshs 12.1 bn in FY’2020,
- The 7.5% increase in total operating income to Kshs 25.0 bn in FY’2021 from Kshs 23.2 bn in FY’2020 was mainly driven by a 12.3% increase in Net-Interest Income (NII) to Kshs 14.4 bn, from Kshs 12.8 bn in FY’2020, coupled with a 1.7% increase in Non-Funded Income (NFI) to Kshs 10.6 bn, from Kshs 10.4 bn in FY’2020,
- The bank’s interest income grew by 2.1% to Kshs 20.1 bn, from Kshs 19.7 bn in FY’2020 due to a 4.7% increase on interest income from loans and advances to Kshs 15.1 bn, from Kshs 14.4 bn in FY’2020, coupled with a 2.3% growth in interest income from government securities to Kshs 4.6 bn, from Kshs 4.5 bn in FY’2020. The growth in interest income was however weighed down by a 46.6% decline in interest income from deposits with banking institutions to Kshs 0.4 bn, from Kshs 0.8 bn in FY’2020. The Yield on Interest-Earning Assets (YIEA) declined to 7.0%, from 7.2% in FY’2020 following the 15.9% growth in the average interest earning assets, which outpaced the 2.1% increase in interest income,
- Stanbic Bank’s interest expense declined by 17.2% to Kshs 6.2 bn, from Kshs 7.5 bn in FY’2020, following 13.3% decline in the interest expense on customer deposits to Kshs 5.4 bn, from Kshs 6.3 bn in FY’2020, coupled with a 27.1% decline in interest expenses on Deposits and placements from banking institutions to Kshs 0.4 bn, from Kshs 0.6 bn in FY’2020. Cost of funds, on the other hand, declined to 2.4%, from 3.0% in FY’2020, owing to the 17.2% decline in interest expense, coupled with the 5.3% increase in average interest bearing liabilities. Net Interest Margin declined to 5.0%, from 5.1% in FY’2020 on the back of the 15.9% increase in the average interest earning assets to Kshs 288.8 bn from Kshs 249.3 bn in FY’2020, which outpaced the 12.3% increase in trailing Net Interest Income to Kshs 14.4 bn in FY’2021 from Kshs 12.8 bn in FY’2020,
- Non-Funded Income (NFI) rose by 1.7% to Kshs 10.6 bn, from Kshs 10.4 bn in FY’2020 driven by a 13.0% increase in Foreign Exchange trading income to Kshs 6.3 bn in FY’2021 from Kshs 5.5 bn in FY’2020 coupled with a 1.4% increase in income from other fees and commissions to Kshs 3.45 bn from Kshs 3.40 in FY’2020. The growth in NFI was however weighed down by a 3.1% decline in income from fees and commissions on loans and advances to Kshs 233.7 mn, from Kshs 241.3 mn in FY’2020. Total fees and commission increased by 1.1% to Kshs 3.7 bn in FY’2021, from Kshs 3.6 bn in FY’2020. The revenue mix shifted to 58:42, funded to non-funded income, from 55:45 in FY’2020, owing to the faster 12.3% increase in Net interest income (NII) compared to the 1.7% increase in Non-Funded Income (NFI) in FY’2021,
- Total Operating Expenses increased by 4.7% to Kshs 12.7 bn in FY’2021, from Kshs 12.1 bn in FY’2020, attributable to an 8.8% increase in the bank’s staff costs to Kshs 6.2 bn in FY’2021, from Kshs 5.5 bn recorded in Q3’2020 coupled with a 17.2% increase in other expenses to Kshs 5.2 bn, from Kshs 4.4 bn in FY’2020. The increase in total operating expenses was however mitigated by a

48.2% decline in Loan Loss Provisions (LLP) to Kshs 2.5 bn in FY'2021, from Kshs 4.9 bn in FY'2020, and,
- Cost to income ratio with LLP improved to 50.9%, from 52.2% in FY'2020, attributable to the 7.5% increase in in total operating income, which outpaced the 4.7% increase in total operating expenses. On the other hand, without LLP, the Cost to income ratio deteriorated to 40.8% in FY'2021, from 31.2% in FY'2020, pointing towards deteriorating efficiency in the bank.

**Balance Sheet**

- The balance sheet recorded a slight expansion as total assets grew by 0.1% to Kshs 328.9 bn, from Kshs 328.6 bn in FY'2020. The increase was largely driven by a 16.8% increase in net loans to Kshs 229.3 bn, from Kshs 196.3 bn in FY'2020, as Stanbic focused more on lending in FY'2021 due to an improvement in the business environment as evidenced by the 48.2% reduction in the group's Loan Loss Provisions (LLPs). The increase was however weighed down by a 32.0% decline in investment securities to Kshs 59.5 bn, from Kshs 87.6 bn in FY'2020,
- Total liabilities declined by 1.6% to Kshs 272.4 bn, from Kshs 276.9 bn in FY'2020, largely driven by a 2.1% decline in the group's deposits to Kshs 254.6 bn, from Kshs 260.0 bn in FY'2020. On the other hand, borrowings increased by 3.6% to Kshs 5.7 bn from Kshs 5.5 bn in FY'2020. Deposits per branch decreased by 2.1% to Kshs 10.2 bn, from Kshs 10.4 bn in FY'2020, as the number of branches remained unchanged at 25,
- The bank's Gross Non-Performing Loans (NPLs) decreased by 10.1% to Kshs 22.5 bn, from Kshs 25.0 bn in FY'2020, taking the NPL ratio to 9.3% in FY'2021, from 11.8% in FY'2020. The improvement in the group's asset quality is attributable to the 10.1% decline in Gross Non-Performing Loans (NPLs) coupled with the 14.6% increase in Gross Loans,
- General Loan Loss Provisions declined by 10.4% to Kshs 8.8 bn, from Kshs 9.8 bn in FY'2020. Consequently, the NPL coverage ratio declined to 58.1% in FY'2021, from 60.6% in FY'2020, an indication of reduced provisioning levels by the bank,
- Shareholders' funds rose by 9.1% to Kshs 56.5 bn in FY'2021, from Kshs 51.7 bn in FY'2020, largely due to the 14.4% increase in the revenue and other reserves to Kshs 37.6 bn, from Kshs 32.9 bn in FY'2020,
- Stanbic Bank is currently sufficiently capitalized with a core capital to risk weighted assets ratio of 15.3%, 4.8% points above the statutory requirement of 10.5%. In addition, the total capital to risk weighted assets ratio stood at 17.3%, exceeding the statutory requirement of 14.5% by 2.8% points. Adjusting for IFRS 9, core capital to risk weighted assets ratio was at 15.4% while total capital to risk weighted assets came in at 17.0%, and,
- Stanbic Holdings currently has a return on average assets of 2.2% and a return on average equity of 13.3%.

**Key Take-Outs:**

i. **Asset Quality**: The bank's asset quality improved, with the NPL ratio reducing to 9.3% in FY'2021 from 11.8% in FY'2020. The performance in the NPL ratio is attributable to the 10.1% decline in Gross Non-Performing Loans (NPLs) coupled with the 14.6% increase in Gross Loans, and,

ii. **Revenue diversification:** The bank recorded a relatively stronger performance in both funded and non-funded segments where Net Interest Income grew by 12.3% while Non-Funded Income grew by 1.7%.

**Valuation Summary**

- We are of the view that Stanbic Holdings is a "**Hold**" with a target price of Kshs 105.2, representing an upside of 5.4%, from the current price of Kshs 99.8 as of 4th March 2022,
- Stanbic Holdings is currently trading at P/TBV of 0.8x and a P/E of 5.5x vs an industry average of 0.7x and 4.6x, respectively.