Below is a summary of Stanbic Bank's Q1'2021 performance;

Balance Sheet (bns)	Q1'2020	Q1'2021	y/y change
Net Loans and Advances	161.8	157.9	(2.4%)
Total Assets	309.7	317.0	2.4%
Customer Deposits	**205.0**	**226.6**	10.6%
Total Liabilities	**269.1**	**273.5**	1.6%
Shareholders' Funds	**40.6**	**43.5**	7.2%

Balance sheet ratios	Q1'2020	Q1'2021	% point change
Loan to Deposit Ratio	78.9%	69.5%	(11.9%)
Return on average equity	12.8%	13.2%	2.8%
Return on average assets	1.8%	1.8%	0.0%

Income Statement(mns)	Q1'2020	Q1'2021	y/y change
Net Interest Income	3.0	3.2	5.0%
Net non-Interest Income	2.3	2.8	19.3%
Total Operating income	**5.4**	**6.0**	**11.2%**
Loan Loss provision	(0.6)	(0.6)	(1.2%)
Total Operating expenses	**(3.2)**	**(3.4)**	**4.8%**
Profit before tax	2.1	2.6	21.0%
Profit after tax	**1.5**	**1.9**	**23.1%**

Income statement ratios	Q1'2020	Q1'2021	% point change
Yield from interest-earning assets	2.0%	2.3%	0.3%
Cost of funding	0.7%	0.7%	(0.0%)
Net Interest Margin	5.4%	6.1%	0.7%
Cost to Income	56.8%	53.7%	(3.2%)
Cost to Assets	43.2%	46.3%	3.2%
Net Interest Income as % of operating income	60.4%	56.9%	(3.5%)
Non-Funded Income as a % of operating income	48.9%	46.7%	(2.2%)

Capital Adequacy Ratios	Q1'2020	Q1'2021
Core Capital/Total Liabilities	17.7%	18.3%
Minimum Statutory ratio	8.0%	8.0%
Excess	**9.7%**	**10.3%**
Core Capital/Total Risk Weighted Assets	14.8%	15.8%
Minimum Statutory ratio	10.5%	10.5%
Excess	**4.3%**	**5.3%**
Total Capital/Total Risk Weighted Assets	17.8%	17.8%
Minimum Statutory ratio	14.5%	14.5%
Excess	**3.3%**	**3.3%**
Liquidity Ratio	54.4%	56.4%
Minimum Statutory ratio	20.0%	20.0%
Excess	**34.4%**	**36.4%**
Adjusted Core Capital/Total Liabilities	18.9%	18.4%
Adjusted Core Capital/Total RWA	15.8%	15.9%
Adjusted Total Capital/Total RWA	18.8%	18.0%

Key Highlights Q1'2021

- In the wake of the COVID-19 pandemic, the bank had restructured loans worth Kshs 38.0 bn in a bid to protect both businesses and households following the enforcement of movement restrictions in the country. In March 2021, the lender highlighted that customers had resumed payments on about Kshs 32.0 bn or 80.0% of the Kshs 40.0 bn that had been restructured, signalling improving financial position among borrowers.

Income Statement

- Profit after tax increased by 23.1% to Kshs 1.9 bn in Q1'2021, from Kshs 1.5 bn in Q1'2020. The performance was driven by an 11.2% increase in total operating income to Kshs 6.0 bn in Q1'2021, from Kshs 5.4 bn in Q1'2020. The increase was however weighed down by the 4.8% increase in total operating expenses to Kshs 3.4 bn, from Kshs 3.2 bn in Q1'2020,
- Total operating income increased by 11.2% to Kshs 6.0 bn in Q1'2021, from Kshs 5.4 bn, mainly driven by a 19.3% increase in Non-Funded Income (NFI) to Kshs 2.8 bn in Q1'2021, from Kshs 2.3 bn in Q1'2020, coupled with a 5.0% increase in Net Interest Income (NII) to Kshs 3.2 bn, from Kshs 3.1 bn in Q1'2020,
- Interest income grew by 0.5% to Kshs 4.81 bn in Q1'2021, from Kshs 4.79 bn in Q1'2020. This was largely due to a 36.9% increase on interest income on government securities to Kshs 1.2 bn, from Kshs 0.9 bn in Q1'2020. The growth in interest income was however weighed down by a 2.2% decline in interest income from loans and advances to Kshs 3.55 bn, from Kshs 3.63 bn in Q1'2020, coupled with an 88.7% decline in other interest income to Kshs 28.9 mn in Q1'2021, from Kshs 0.3 bn in Q1'2020. The yield on interest-earning assets declined to 9.3%, from 9.8% in Q1'2020, following the 1.5% decline in trailing interest income, which was outpaced by the 4.1% growth in the average interest earning assets,
- Interest expense declined by 7.3% to Kshs 1.6 bn, from Kshs 1.7 bn in Q1'2020, following a 15.9% decline in interest expenses on Deposits and placements to Kshs 0.1 bn, from Kshs 0.2 bn in Q1'2020. The decline was however weighed down by the 3.0% increase in the interest expense on customer deposits to Kshs 1.4 bn, from Kshs 1.3 bn in Q1'2020. Cost of funds, on the other hand, declined marginally to 0.7%, from 0.8% in Q1'2020, owing to the faster 6.8% growth in average interest bearing liabilities, despite a 7.3% decline in interest expense. Net Interest Margin declined to 6.1%, from 6.4% in Q1'2020 on the back of the 1.5% decline in trailing Interest Income to Kshs 12.9 bn in Q1'2021 from and the 4.1% increase in the interest earning assets to Kshs 0.21 bn from Kshs 0.20 bn in Q1'2020,
- Non-Funded Income (NFI) rose by 19.3% to Kshs 2.8 bn, from Kshs 2.3 bn in Q1'2020 driven by a 30.6% increase in Foreign Exchange trading income to Kshs 1.6 bn, from Kshs 1.2 bn in Q1'2020. Fees and Commissions on loans declined by 44.2% to Kshs 49.6 mn, from Kshs 88.8 mn in Q1'2020. Total fees and commission declined by 8.5% overall, to Kshs 1.0 bn in Q1'2021, from Kshs 1.1 bn in Q1'2020 As a result, the revenue mix shifted to 54:46, from 57:43 funded to non-funded income, owing to a faster increase in Non-Funded Income (NFI) by 19.3% compared to the 5.0% increase in Net interest income (NII) to Kshs 3.2, from Kshs 3.1 bn in Q1'2020,
- Total operating expenses increased by 4.8% to Kshs 3.4 bn in Q1'2021, from Kshs 3.2 bn in Q1'2020, largely driven by a 6.2% increase in the staff costs to Kshs 2.8 bn, from Kshs 2.6 bn in Q1'2020. Notably, Loan loss provisions decreased by 1.2% Kshs 609.5 mn, from Kshs 617.0 mn in Q1'2020, and,
- Cost to income ratio with LLP improved to 56.9%, from 60.4% in Q1'2020, attributable to the slower 4.8% increase in total operating expenses, compared to the 11.2% increase in total

operating income. Without LLP, the Cost to income ratio also improved to 46.7% in Q1'2021, from 48.9% in Q1'2020, pointing towards improving efficiency in the bank.

Balance Sheet

- The balance sheet recorded an expansion as total assets rose by 2.4% to Kshs 317.0 bn, from Kshs 309.7 bn in Q1'2020. This growth was largely driven by a 42.3% increase in the government securities to Kshs 53.8 bn, from Kshs 37.8 bn in Q1'2020. The growth was however slowed down by a sharp decline in placements of 85.1% to Kshs 1.8 bn from Kshs 12.1 bn in Q1'2020, coupled with a 2.4% decline in the loan book to Kshs 158.0 bn, from Kshs 161.8 bn in Q1'2020,
- Total liabilities rose by 1.6% to Kshs 273.5 bn, from Kshs 269.1 bn in Q1'2020, largely driven by a 10.6% increase in customer deposits Kshs 226.6 bn in Q1'2021, from Kshs 205.0 bn in Q1'2020. Deposits per branch increased by 10.6% to Kshs 8.7 bn, from Kshs 7.9 bn in Q'2020, as the number of branches remained unchanged at 26,
- Gross Non-Performing Loans (NPLs) increased by 25.5% to Kshs 26.4 bn in Q1'2021, from Kshs 21.1 bn in Q1'2020. The NPL ratio thus increased to 15.1% in Q1'2021, from 12.1% in Q1'2020, attributable to the faster 25.5% growth in Gross Non-Performing Loans(NPLs), which outpaced the 0.3% increase in Gross Loans,
- General Loan Loss Provisions increased by 41.2% to Kshs 11.0 bn, from Kshs 7.8 bn in Q1'2020. The NPL coverage ratio improved to 63.9% in Q1'2021, from 59.3% in Q1'2020, due to the faster 41.2% growth in General Loan Loss Provisions which was outpaced by the 25.5% growth in Gross Non-Performing Loans (NPLs)
- Shareholders' funds rose by 7.2% to Kshs 43.5 bn in Q1'2021, from Kshs 40.6 bn in Q1'2020, largely due to the 16.5% increase in the retained earnings to Kshs 36.7 bn, from Kshs 31.5 bn in Q1'2020,
- Stanbic Bank is currently sufficiently capitalized with a core capital to risk weighted assets ratio of 15.8%, 5.3% points above the statutory requirement of 10.5%. In addition, the total capital to risk weighted assets ratio was 17.8%, exceeding the statutory requirement of 14.5% by 3.3% points. Adjusting for IFRS 9, core capital to risk weighted assets ratio was at 15.9% while total capital to risk weighted assets was 18.0%, indicating that the bank's total capital relative to its risk-weighted assets declined by 0.2% points due to the implementation of IFRS 9, and,
- Stanbic Holdings currently has a return on average assets of 1.8% and a return on average equity of 13.2%.

Key Take-Outs:

i. **Asset Quality:** The bank's asset quality deteriorated, with the NPL ratio rising to 15.1% in Q1'2021 from 12.1% in Q1'2020, which is above the sector's NPL ratio of 14.6% as at the end of March 2021. The performance in the NPL ratio is attributable to the faster 25.5% growth in Gross Non-Performing Loans (NPLs), which outpaced the 0.3% increase in Gross Loans. It is important to note that the bank lends to various clients in the manufacturing, hospitality, tourism, education and real estate sectors which have been negatively impacted by operational shutdowns and production interruptions during the lockdown period,

ii. **Operational Efficiency:** Notably**,** efficiency levels at the bank have been improving where the cost to income ratio with LLP improved to 56.9%, from 60.4% in Q1'2020, attributable to the slower 4.8% increase in total operating expenses, compared to the 11.2% increase in total operating income. Without LLP, the Cost to income ratio also improved to 46.7% in Q1'2021, from 48.9% in Q1'2020, and,

iii. **Revenue diversification:** The bank recorded a relatively stronger performance in both funded and non-funded segments where Net Interest Income grew by 5.0% while Non-Funded Income grew by 19.3%, which can be attributed to the resumption of normalcy in most economies considering the pandemic. The bank's lending is still under pressure but there is growth, albeit at a slower pace.

Valuation Summary

- We are of the view that Stanbic Holdings is an "**Accumulate**" with a target price of Kshs 92.5, representing an upside of 14.2%, from the current price of Kshs 81.0 as of 21st May 2021, and,
- Stanbic Holdings is currently trading at P/TBV of 0.8x and a P/E of 6.2x vs an industry average of 0.7x and 5.5x, respectively.