

### Valuation Summary

We are of the view that Stanbic Holdings is an “**Accumulate**” with a target price of Kshs 82.8, representing an upside of 12.7%, from the current price of Kshs 73.5 as of 14<sup>th</sup> August 2020. Stanbic Holdings is currently trading at P/TBV of 0.7x and a P/E of 5.3x vs an industry average of 1.2x and 6.3x, respectively.

### Key Highlights Q3'2020

- In the wake of the COVID-19 pandemic, the bank has so far 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. The bank also adopted fee waivers on its digital platforms in-line with directives from the Central Bank.

### Income Statement

- Profit after tax declined by 30.1% to Kshs 3.6 bn in Q3'2020, from Kshs 5.1 bn in Q3'2019. The performance was driven by a 12.5% decline in total operating income from Kshs 16.1 bn, from Kshs 18.4 bn in Q3'2019. The decline was however mitigated by the 3.4% decline in the interest expense to Kshs 5.6 bn from Kshs 5.8 bn in Q3'2019,
- Total operating income declined by 12.5% to Kshs 16.1 bn, from Kshs 18.4 bn in Q3'2019, driven by a 7.3% decline in Net Interest Income to Kshs 8.9 bn in Q3'2020, from Kshs 9.6 bn in Q3' 2019, coupled with a 18.1% decline in Non-Funded Income to Kshs 7.2 bn, from Kshs 8.8 bn in Q3'2019,
- Interest income declined by 5.2% to Kshs 14.6 bn in Q3'2020, from Kshs 15.4 bn in Q3'2019. This was largely due to the 8.5% decline on interest income on loans and advances to Kshs 10.7 bn in Q3'2020, from Kshs 11.7 bn in Q3'2019. The yield on interest-earning assets declined to 5.9% from 8.2% in Q3'2019 following the 5.2% decline in interest income to Kshs 14.6 bn from Kshs 15.4 bn in Q3'2019 and the 9.7% increase in the total average assets to Kshs 292.0 bn from Kshs 266.2 bn,
- Interest expense declined by 3.4% to Kshs 5.6 bn from Kshs 5.8 bn in Q3'2019, following a 66.7% decline in Interest expense on deposits and placements from banking institutions, to Kshs 0.4 bn from Kshs 1.2 bn in Q3'2019. The decline was however mitigated by the 15.0% increase in the interest expense on customer deposits to Kshs 4.6 bn from Kshs 4.0 bn in Q3'2019. Cost of funds, on the other hand, declined marginally by 0.2% points to 2.4%, from 2.5% in Q3'2019, owing to the faster 7.0% growth in average interest bearing liabilities, despite a 3.4% decline in trailing interest expense. Net Interest Margin declined to 5.5%, from 7.3% in Q3'2019 on the back of the 7.3% decline in Net Interest Income to Kshs 8.9 bn from Kshs 9.6 bn in Q3' 2019 and the 11.3% increase in the interest earning assets to Kshs 215.1 bn from Kshs 193.3 bn in Q3'2019,
- Non-Funded Income (NFI) declined by 18.2% to Kshs 7.2 bn in Q3'2020 from Kshs 8.8 bn in Q3'2019. The decline in NFI was driven by a 33.3% decline in Fees and commissions on loans and advances to Kshs 0.2 bn from Kshs 0.3 bn in Q3'2019 and a 32.4% decline in other fees and commissions to Kshs 2.3 bn from Kshs 3.4 bn. Foreign exchange trading income however increased by 29.4% to Kshs 4.4 bn from Kshs 3.4 bn in Q3'2019, and The current revenue mix stands at 55:45 funded to non-funded income in Q3'2020 from the 52:48 ratio recorded in Q3'2019, owing to a faster decline in NFI by 18.2% to Kshs 7.2 bn from Kshs 8.8 bn in Q3' 2019 and a 5.2% decline in funded income by 5.2% to Kshs 14.6, from Kshs 15.4 bn in Q3'2019 and,
- Total operating expenses declined by 8.5% to Kshs 10.7 bn in Q3'2020 from Kshs 11.7 bn in Q3'2019, largely driven by a 7.0% decline in the staff costs to Kshs 4.0 bn from Kshs 4.3 bn in Q3'2019. Depreciation on property and equipment, however rose by 8.6% to Kshs 0.62 bn from Kshs 0.58 bn in Q3'2019. Consequentially, Cost to income ratio with LLP deteriorated to 66.3% in Q3'2020 from 63.5% in Q3'2019. Without LLP, the Cost to income ratio however, improved to 48.1% in Q3'2020 from 54.4% in Q3'2019 pointing out to 8.5% decrease in the total operating

expenses to Kshs 10.7 bn from 11.7 bn in Q3'2019 and a 75.9% increase in the loan loss provision to Kshs 2.9 bn from Kshs 2.6 bn in Q3'2019,

#### **Balance Sheet**

- The balance sheet recorded an expansion as total assets rose by 8.0% to Kshs 317.8 bn from Kshs 294.3 bn in Q3'2019. This growth was largely driven by a 103.8% increase in the government securities to Kshs 55.1 bn from Kshs 27.0 bn in Q3'2019. The growth was however slowed down by a sharp decline in placements by 75.6% to Kshs 1.1 bn from Kshs 4.5 bn in Q3'2019, coupled with a 1.8% decline in the loan book to Kshs 158.9 bn, from Kshs 161.7 bn in Q3'2019,
- Total liabilities rose by 8.2% to Kshs 277.5 bn from Kshs 256.5 bn in Q3'2019, largely driven by a 72.2% increase in other liabilities to Kshs 18.6 bn in Q3'2020 from Kshs 10.8 bn in Q3'2019, coupled with a 18.1% increase in customer deposits to Kshs 226.0 bn in Q3'2020 from Kshs 191.3 bn in Q3'2019. The increase was however weighed down by a 32.3% decline in borrowings to Kshs 8.4 bn from Kshs 12.4 bn in Q3'2019, following the Kshs 1.5 bn payment made to a corporate customer that had taken out a contract to protect itself against default by its partner in international trade,
- Gross Non-Performing Loans (NPLs) increased by 21.2% to Kshs 21.2 bn in Q3'2020, from Kshs 18.9 bn in Q3'2019. The NPL ratio thus, increased to 12.3% in Q3'2020 from 10.9% in Q3'2019, attributable to the faster 12.1% growth in Gross Non-Performing Loans (NPLs), which outpaced the 0.5% decline in Gross Loans,
- Shareholders' funds rose by 6.6% to Kshs 40.3 bn in Q3'2020 from Kshs 37.8 bn in Q3'2019, largely due to the 11.4% increase in the retained earnings to Kshs 34.3 bn from Kshs 30.8 bn in Q3'2019,
- Stanbic Bank is currently sufficiently capitalized with a core capital to risk weighted assets ratio of 15.5%, 5.0% points above the statutory requirement. In addition, the total capital to risk weighted assets ratio was 17.7%, exceeding the statutory requirement by 3.2% points. Adjusting for IFRS 9, core capital to risk weighted assets ratio was at 15.1% while total capital to risk weighted assets was 17.9%, 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 12.0%.

#### **Key Take-Outs:**

- Asset Quality:** The bank's asset quality deteriorated, with the NPL ratio increasing to 12.3% in Q3'2020, from 10.9% in Q3'2019, due to the faster growth in non-performing loans that outpaced growth in the net loans. Thus, the NPL coverage increased to 61.8% in Q3'2020 from 58.9% in Q3'2019 mainly due to the 12.2% growth in Non-performing loans to Kshs 21.2 bn from Kshs 18.9 bn in Q3'2019 which outpaced the growth in loan loss provision. Consequently, the cost of risk rose to 18.2% from 9.1% in Q3'2019 and,
- The bank recorded a relatively weak performance in both funded and NFI segments. The bank's reduced lending has led to a decline in interest income, as well as the associated fees and commissions. The reduced lending has however come at a cost as asset quality deteriorated, as shown by the rise in the NPL ratio to 12.3%, from 10.9% in Q3'2019.

Below is a summary of the bank's performance;

Balance Sheet (bns)	Q3'2019	Q3'2020	y/y change
Net Loans and Advances	161.7	158.9	(1.8%)
<b>Total Assets</b>	<b>294.3</b>	<b>317.8</b>	<b>8.0%</b>
Customer Deposits	191.3	226.0	18.2%
<b>Total Liabilities</b>	<b>256.5</b>	<b>277.5</b>	<b>8.2%</b>
<b>Shareholders' Funds</b>	<b>37.8</b>	<b>40.3</b>	<b>6.6%</b>

Balance sheet ratios	Q3'2019	Q3'2020	% y/y change
Loan to Deposit Ratio	84.6%	70.3%	(14.3%)
Return on average equity	22.3%	12.0%	(10.3%)
Return on average assets	2.9%	1.8%	(1.1%)

Income Statement(mns)	Q3'2019	Q3'2020	y/y change
Net Interest Income	9.6	8.9	(7.3%)
Net non-Interest Income	8.8	7.2	(18.2%)
<b>Total Operating income</b>	<b>18.4</b>	<b>16.1</b>	<b>(12.5%)</b>
Loan Loss provision	(1.7)	(2.9)	70.6%
Total Operating expenses	(11.7)	(10.7)	(8.5%)
<b>Profit before tax</b>	<b>5.9</b>	<b>5.4</b>	<b>(8.5%)</b>
<b>Profit after tax</b>	<b>5.1</b>	<b>3.6</b>	<b>(29.4%)</b>

Income statement ratios	Q3'2019	Q3'2020	% y/y change
Yield from interest-earning assets	8.2%	5.6%	(2.6%)
Cost of funding	2.5%	2.4%	(0.1%)
Net Interest Margin	7.3%	5.9%	(1.4%)
Cost to Income	54.4%	48.1%	(6.3%)
Cost to Assets	3.4%	2.4%	(1.0%)
Net Interest Income as % of operating income	52.3%	55.6%	3.3%
Non-Funded Income as a % of operating income	47.7%	44.5%	(3.2%)

Capital Adequacy Ratios	Q3'2019	Q3'2020
Core Capital/Total Liabilities	17.2%	17.1%
Minimum Statutory ratio	8.0%	8.0%
<b>Excess</b>	<b>9.2%</b>	<b>9.1%</b>
Core Capital/Total Risk Weighted Assets	13.9%	15.5%
Minimum Statutory ratio	10.5%	10.5%
<b>Excess</b>	<b>3.4%</b>	<b>5.0%</b>
Total Capital/Total Risk Weighted Assets	17.2%	17.7%
Minimum Statutory ratio	14.5%	14.5%
<b>Excess</b>	<b>2.7%</b>	<b>3.2%</b>
Liquidity Ratio	51.5%	61.2%
Minimum Statutory ratio	20.0%	20.0%
<b>Excess</b>	<b>35.5%</b>	<b>41.2%</b>

Adjusted Core Capital/Total Liabilities	18.7%	17.3%
Adjusted Core Capital/Total RWA	15.1%	15.7%
Adjusted Total Capital/Total RWA	18.7%	18.7%