Cytonn INVESTMENTS

Stanbic Holdings Plc – H1'2025

08th August, 2025

Below is a summary of Stanbic Group H1'2025 performance:

Balance Sheet Items	H1'2024	H1'2025	y/y change
Net Loans and Advances to Customers	238.2	233.0	(2.2%)
Kenya Government Securities	63.4	93.3	47.1%
Total Assets	**497.9**	**473.7**	**(4.9%)**
Customer Deposits	355.6	346.9	(2.5%)
Deposits/branch	11.9	11.6	(2.5%)
Total Liabilities	428.6	399.5	(6.8%)
Shareholders' Funds	**69.4**	**74.3**	7.1%

Balance Sheet Ratios	H1'2024	H1'2025	% points change
Loan to Deposit Ratio	67.0%	67.2%	0.2%
Government Securities to Deposit Ratio	17.8%	26.9%	9.1%
Return on average equity	18.5%	18.2%	(0.3%)
Return on average assets	2.8%	2.7%	(0.1%)

Income Statement	H1'2024	H1'2025	y/y change
Net Interest Income	12.6	11.8	(5.8%)
Net non-Interest Income	7.6	7.6	0.8%
Total Operating income	**20.1**	**19.4**	**(3.3%)**
Loan Loss provision	(2.0)	(1.5)	(25.6%)
Total Operating expenses	**(10.1)**	**(10.8)**	**7.5%**
Profit before tax	10.0	8.6	(14.2%)
Profit after tax	**7.2**	**6.5**	**(9.3%)**
Core EPS	**18.2**	**16.6**	**(9.3%)**
Dividend Per Share	**1.8**	**3.8**	**106.5%**
Dividend Yield(Annualized)	**13.1%**	**13.7%**	**0.6% Points**
Payout Ratio	**10.1%**	**23.0%**	**12.9% Points**

Income Statement Ratios	H1'2024	H1'2025	% points change
Yield from interest-earning assets	11.9%	11.4%	(0.5%)
Cost of funding	5.8%	5.5%	(0.2%)
Net Interest Margin	6.8%	5.4%	(1.4%)
Net Interest Income as % of operating income	62.4%	60.8%	(1.6%)
Non-Funded Income as a % of operating income	37.6%	39.2%	1.6%
Cost to Income Ratio	50.1%	55.7%	5.6%
CIR without LLP	40.4%	48.3%	7.8%
Cost to Assets	1.6%	2.0%	0.3%

Capital Adequacy Ratios	H1'2024	H1'2025	% points change
Core Capital/Total Liabilities	14.9%	17.0%	2.1%
Minimum Statutory ratio	8.0%	8.0%	0.0%
Excess	**6.9%**	**9.0%**	**2.1%**
Core Capital/Total Risk Weighted Assets	13.5%	15.2%	1.7%
Minimum Statutory ratio	10.5%	10.5%	0.0%
Excess	**3.0%**	**4.7%**	**1.7%**
Total Capital/Total Risk Weighted Assets	16.4%	18.9%	2.5%
Minimum Statutory ratio	14.5%	14.5%	0.0%
Excess	**1.9%**	**4.4%**	**2.5%**
Liquidity Ratio	52.8%	54.4%	1.6%
Minimum Statutory ratio	20.0%	20.0%	0.0%
Excess	**32.8%**	**34.4%**	**1.6%**

Income Statement

- Core earnings per share for the group decreased by 9.3% to Kshs 16.6 from Kshs 18.2 in H1’2024, mainly driven by 3.3% decrease in operating income to Kshs 19.4 bn, from Kshs 20.1 bn in H1’2024, coupled with 7.5% increase in total operating expense to Kshs 10.8 bn, from Kshs 10.1 bn in H1’2024,
- The 3.3% decline in total operating income was driven by a 5.8% decline in Net Interest Income to Kshs 11.8 bn, from Kshs 12.6 bn in H1’2024, which outpaced 0.8% growth in Non funded Income (NFI) to Kshs 7.62 bn, from Kshs 7.56 bn in H1’2024,
- Interest income for the bank declined by 10.5% to Kshs 21.9 bn from Kshs 24.5 bn in H1’2024, mainly driven by a 23.7% decline in interest income from loans and advances to Kshs 14.0 bn from Kshs 18.3 bn in H1’2024, coupled with 50.1% decrease in interest income from placements to Kshs 1.7 bn in H1’2025, from Kshs 3.5 bn in H1’2024, which outpaced the 108.7% increase in interest income from government securities to Kshs 5.7 bn, from Kshs 2.7 bn in H1’2024. The Yield on Interest-Earning Assets (YIEA) decreased by 0.5% points to 11.4% from 11.9% in H1’2024, attributable to the 12.9% growth in Average Interest Earning Assets (AIEA) to Kshs 381.1 bn, from Kshs 342.3 bn in H1’2024,which outpaced the 8.1% growth in trailing interest income to Kshs 49.7 bn from Kshs 46.0 bn in H1’2024,
- Interest expenses declined by 35.3% to Kshs 7.9 bn from Kshs 12.3 bn in H1’2024, mainly driven by a 45.3% decrease in interest expense on customer deposits to Kshs 5.9 bn, from Kshs 10.9 bn in H1’2024, coupled with a 43.4% decrease in interest expense on placements to Kshs 0.4 bn in H1’2025, from Kshs 0.6 bn recorded in H1’2024. Consequently, Cost of funds (COF) decreased by 0.2% points to 5.5% from 5.8% recorded in H1’2024, owing to a faster 11.3% increase in average interest bearing liabilities to Kshs 381.1 bn from Kshs 342.3 bn in H1’2024, outpacing the 6.6% increase in trailing interest expense to Kshs 21.1 bn, from Kshs 19.8 bn recorded in H1’2024.Trailing interest expense refers to the performance of the interest expense for the past 12 consecutive months. Net Interest Margin (NIM) decreased by 1.4% to 5.4% from 6.8% in H1’2024, attributable to the 12.9% growth in average interest-earning assets to Kshs 436.0 bn from Kshs 386.0 bn in H1’2024,coupled with 9.7% decline in trailing Net Interest Income (NII) to Kshs 23.6 bn from Kshs 26.2 bn in H1’2024,
- Non-Funded Income (NFI) for the bank decreased by 32.8% to Kshs 5.1 bn from Kshs 7.5 bn in H1’2024, mainly driven by 58.2% decline in foreign exchange trading income to Kshs 2.0 bn from Kshs 4.7 bn in H1’2024, highlighting the bank’s decreased foreign exchange margins following the appreciation of the Kenya Shilling against the dollar and other major currencies. Additionally, income from other fees and commissions increased by 0.1% to Kshs 2.41 bn, from 2.36 bn in H1’2024. The group’s revenue mix for funded to non-funded income shifted to 61:39 in H1’2025, from 62:38 in H1’2024, owing to the faster 5.8% decline in NII , compared to a 0.8% increase in NFI,
- Total operating expenses increased by 7.5% to Kshs 10.8 bn from Kshs 10.1 bn in H1’2024, attributable to 15.5% increase in other operating expenses to Kshs 9.4 bn, from Kshs 8.1 bn in H1’2024, which outpaced the 25.6% decrease in loan loss provision to Kshs 1.5 bn , from Kshs 2.0 bn in H1’2024. The decrease in provisioning is attributable to the decreased credit risk as a result of improving economic environment as evidenced by the average H1’2025 Purchasing Managers Index (PMI) of 50.5, up from an average of 50.0 in H1’2024, coupled with reducing borrowing costs,
- Cost to Income Ratio (CIR) increased to 55.7% from 50.1% in H1’2024, owing to the 7.5% increase in total operating expense, relative to the 3.3% decrease in total operating income. Notably, CIR without LLP increased by 7.8% points to 48.3% from 40.4% recorded in H1’2024, and,

- Profit before tax for the group decreased by 14.2% to Kshs 8.6 bn from Kshs 10.0 bn in H1'2024, with effective tax rate decreasing to 24.0% in H1'2025, from 28.1% in H1'2024. As such, profit after tax decreased by 9.3% to Kshs 6.5 bn in H1'2025, from Kshs 7.2 bn in H1'2024.
- The Board of Directors recommended an interim dividend of 3.80 from an interim dividend of 1.84 in H1'2024. Dividend yield increased to 13.7% in H1'2025, from 13.1% in H1'2024, while the payout ratio increased to 23.0% in H1'2025, from 10.1% in H1'2024.

Balance Sheet

- The balance sheet recorded a contraction as total assets decreased by 4.9% to Kshs 473.7 bn, from Kshs 497.9 bn in H1'2024, mainly attributable to the 47.1% decline in placements to Kshs 73.1 bn from Kshs 138.3 bn in H1'2024 , coupled with 2.2% decline in customer net loans and advances to Kshs 233.0 bn in H1'2025, from Kshs 238.2 bn in H1'2024, which outpaced the 47.1% increase in government securities to Kshs 93.3 bn, from Kshs 63.4 bn recorded in H1'2024,
- Total liabilities decreased by 6.8% to Kshs 399.5 bn, from Kshs 428.6 bn in H1'2024, largely attributable to a 2.5% decline in customer deposits to Kshs 346.9 bn in H1'2025, from Kshs 355.6 bn in H1'2024, coupled with the decline in placements by 47.9% to Kshs 12.4 bn , from Kshs 23.8 bn in H1'2024, which outpaced the 24.0% increase in borrowings to Kshs 13.0 bn, from Kshs 10.5 bn in H1'2024. With 30 branches countrywide, similar to 30 branches in H1'2024, deposits per branch decreased by 2.5% to Kshs 11.6 bn, from Kshs 11.9 bn in H1'2024,
- The higher decline in customer deposits of 2.5% compared to the 2.2% decrease in net loans and advances, led to a slight increase in the loan to deposit ratio to 67.2%, from 67.0% in H1'2024,
- The bank's Asset Quality remained stable, with Gross NPL ratio remaining unchanged from the 9.5% recorded in H1'2024, attributable to the 1.4% decrease in gross loans to Kshs 252.8 bn, from Kshs 256.5 bn recorded in H1'2024, which was balanced out by the 1.8% decrease in Gross non-performing loans to Kshs 23.9 bn, from Kshs 24.4 bn in H1'2024,
- General Provisions (LLP) increased by 4.9% to Kshs 13.1 bn in H1'2025 from Kshs 12.5 bn in H1'2024. The NPL coverage increased to 82.7% in H1'2025, from 75.0% in H1'2024, attributable to the 1.8% decrease in Gross non-performing loans to Kshs 23.9 bn, from Kshs 24.4 bn in H1'2024, coupled with the 4.9% increase in general provisions, and 15.6% increase in interest in suspense,
- Shareholders' funds increased by 7.1% to Kshs 74.3 bn in H1'2025, from Kshs 69.4 bn in H1'2024, supported by a 8.1% increase in retained earnings to Kshs 57.9 bn, from Kshs 53.5 bn in H1'2024,
- Stanbic banks remained well capitalized with a core capital to risk-weighted assets ratio of 15.2%, 4.7% points above the statutory requirement of 10.5%. In addition, the total capital to risk-weighted assets ratio came in at 18.9%, exceeding the statutory requirement of 14.5% by 4.4% points, and,
- The bank currently has a Return on Average Assets (ROaA) of 2.7%, and a Return on Average Equity (ROaE) of 18.2%.

Key Take-Outs:

1. **Declined earnings -** Core earnings per share for the group decreased by 9.3% to Kshs 16.6, from Kshs 18.2 in H1'2024, mainly driven by 3.3% decrease in operating income to Kshs 19.4 bn, from Kshs 20.1 bn in H1'2024, coupled with 7.5% increase in total operating expense to Kshs 10.8 bn, from Kshs 10.1 bn in H1'2024,
2. **Increased Provisioning –** General Provisions (LLP) increased by 4.9% to Kshs 13.1 bn in H1'2025 from Kshs 12.5 bn in H1'2024. The NPL coverage increased to 82.7% in H1'2025, from 75.0% in H1'2024, attributable to the 1.8% decrease in Gross non-performing loans to Kshs 23.9 bn, from Kshs 24.4 bn in H1'2024, coupled with the 4.9% increase in both general provisions,

3. **Declaration of dividends -** The Board of Directors recommended an interim dividend of 3.80 from an interim dividend of 1.84 in H1’2024. Dividend yield increased to 13.7% in H1’2025, from 13.1% in H1’2024, while the payout ratio increased to 23.0% in H1’2025, from 10.1% in H1’2024,
4. **Stable asset quality-** The bank’s Asset Quality remained stable, with Gross NPL ratio remaining unchanged from the 9.5% recorded in H1’2024, attributable to the 1.4% decrease in gross loans to Kshs 252.8 bn, from Kshs 256.5 bn recorded in H1’2024, which was balanced out by the 1.8% decrease in Gross non-performing loans to Kshs 23.9 bn, from Kshs 24.4 bn in H1’2024,
5. **Reduced lending-** Customer net loans and advances decreased by 2.2% to Kshs 233.0 bn in H1’202, from Kshs 238.2 bn in H1’2024 attributed to increased credit risk in the industry with NPLs rising to 17.6% in H1’2025, from 16.3% in H1’2024. Despite reduced borrowing costs, the bank remains reserved in lending, and prefers gvt securities,as evident by 47.1% increase in government securities to Kshs 93.3 bn, from Kshs 63.4 bn recorded in H1’2024.

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 to improve its operational efficiency, which has been a key factor in its financial performance. The lender upgraded their T24 core banking system to improve client’s experiences. Additionally,the lender is adopting use of Artificial Intelligence in its operations and it rolled out Intelligence Automation framework with 17 bots successfully deployed across multiple business functions.

Valuation Summary

- We are of the view that Stanbic bank is a “buy” with a target price of Kshs 193.4 representing an upside of 20.9, from the current price of 180.75 as of 08th August 2025, inclusive of a dividend yield of 13.7%.
- Stanbic Holdings is currently trading at a P/TBV of 1.0x and a P/E of 5.2x vs an industry average of 0.9x and 5.8x respectively.