Cytonn INVESTMENTS

Stanbic Holdings Plc – Q1’2025

10th May, 2025

Below is a summary of Stanbic Bank Q1’2025 performance:

Balance Sheet Items	Q1’2024	Q1’2025	y/y change
Net Loans and Advances to Customers	255.8	244.0	(4.6%)
Kenya Government Securities	58.9	74.9	27.2%
Total Assets	**491.5**	**450.1**	**(8.4%)**
Customer Deposits	355.5	337.6	(5.0%)
Deposits Per Branch	12.7	11.3	(11.4%)
Total Liabilities	**429.6**	**381.5**	**(11.2%)**
Shareholders' Funds	**61.9**	**68.7**	**10.9%**

Balance Sheet Ratios	Q1’2024	Q1’2025	% points change
Loan to Deposit Ratio	71.9%	72.3%	0.3%
Government Securities to Deposit Ratio	16.6%	22.2%	5.6%
Return on average equity	20.8%	20.0%	(0.8%)
Return on average assets	2.8%	2.8%	(0.0%)

Income Statement	Q1’2024	Q1’2025	y/y change
Net Interest Income	6.5	6.8	4.6%
Net non-Interest Income	3.8	2.8	(27.2%)
Total Operating income	**10.3**	**9.5**	**(7.1%)**
Loan Loss provision	(1.1)	(0.9)	(24.8%)
Total Operating expenses	**(4.8)**	**(5.5)**	**13.6%**
Profit before tax	5.5	4.1	(25.3%)
Profit after tax	**4.0**	**3.3**	**(16.6%)**
Core EPS	**10.1**	**8.4**	**(16.6%)**

Income Statement Ratios	Q1’2024	Q1’2025	% points change
Yield from interest-earning assets	13.3%	16.3%	2.9%
Cost of funding	4.5%	6.5%	1.9%
Net Interest Margin	8.4%	7.8%	(0.6%)
Net Interest Income as % of operating income	63.1%	71.1%	8.0%
Non-Funded Income as a % of operating income	36.9%	28.9%	(8.0%)
Cost to Income Ratio	46.8%	57.2%	10.4%
CIR without LLP	35.7%	48.2%	12.5%
Cost to Assets	0.7%	1.0%	0.3%

Capital Adequacy Ratios	Q1’2024	Q1’2025	% points change
Core Capital/Total Liabilities	15.1%	17.1%	2.0%
Minimum Statutory ratio	8.0%	8.0%	0.0%
Excess	**7.1%**	**9.1%**	**2.0%**
Core Capital/Total Risk Weighted Assets	13.0%	14.9%	1.9%
Minimum Statutory ratio	10.5%	10.5%	0.0%
Excess	**2.5%**	**4.4%**	**1.9%**
Total Capital/Total Risk Weighted Assets	16.6%	18.4%	1.8%
Minimum Statutory ratio	14.5%	14.5%	0.0%
Excess	**2.1%**	**3.9%**	**1.8%**
Liquidity Ratio	40.3%	50.5%	10.2%
Minimum Statutory ratio	20.0%	20.0%	0.0%
Excess	**20.3%**	**30.5%**	**10.2%**

Income Statement

- Core earnings per share decreased by 16.6% to Kshs 8.4 from Kshs 10.1 in Q1'2024, mainly driven by 13.6% increase in total operating expenses to Kshs 5.5 bn, from Kshs 4.8 bn in Q1'2024,coupled with the 7.1% decline in total operating income to Kshs 9.5 bn in Q1'2025 from Kshs 10.3 bn in Q1'2024,
- The 7.1% decline in total operating income was driven by a 27.2% decline in Non funded Income (NFI) to Kshs 2.8 bn, from Kshs 3.8 bn in Q1'2024, which was however supported by 4.6% increase in Net Interest Income to Kshs 6.8 bn, from Kshs 6.5 bn in Q1'2024,
- Interest income declined by 8.9% to Kshs 11.0 bn from Kshs 12.1 bn in Q1'2024, mainly driven by a 22.2% decline in interest income from loans and advances to Kshs 7.2 bn from Kshs 9.2 bn in Q1'2024, coupled with 49.2% decline in interest income from deposits and placements to Kshs 0.8 bn, from Kshs 1.5 bn in Q1'2024.Additionally, interest income from government securities increased by 127.9% to Kshs 3.0 bn in Q1'2025, from Kshs 1.3 bn in Q1'2024. The Yield on Interest-Earning Assets (YIEA) increased by 2.9% points to 16.3% from 13.3% in Q1'2024, attributable to the 21.4% increase in trailing interest income to Kshs 51.2 bn from Kshs 42.2 bn in Q1'2024, which outpaced the 0.4% decline in Average Interest Earning Assets (AIEA) to Kshs 315.0 bn, from Kshs 316.3 bn in Q1'2024,
- Interest expenses declined by 24.6% to Kshs 4.2 bn from Kshs 5.6 bn in Q1'2024, mainly driven by a 35.4% increase in interest expense on customer deposits to Kshs 3.2 bn from Kshs 5.0 bn in Q1'2024, however the decline was supported by 101.9% increase from other interest expenses to Kshs 0.7 bn in Q1'2025, from Kshs 0.3 bn recorded in Q1'2024. Consequently, Cost of funds (COF) increased by 1.9% points to 6.5% from 4.5% recorded in Q1'2024, owing to a faster 54.8% increase in Trailing interest expense to Kshs 24.0 bn, from Kshs 15.5 bn recorded in Q1'2024, compared to the 8.1% increase in average interest bearing liabilities to Kshs 372.6 bn from Kshs 344.7 bn in Q1'2024.Trailing interest expense refers to the performance of the interest expense for the past 12 consecutive months. Net Interest Margin (NIM) decreased by 0.6% to 7.8% from 8.4% in Q1'2024, attributable to the 7.8% decline in trailing Net Interest Income (NII) to Kshs 24.6 bn from Kshs 26.7 bn in Q1'2024 outpacing the 0.4% decline in average interest-earning assets to Kshs 315.0 bn from Kshs 316.3 bn in Q1'2024,
- Non-Funded Income (NFI) decreased by 27.2% to Kshs 2.8 bn from Kshs 3.8 bn in Q1'2024, mainly driven by 59.0% decrease in foreign exchange trading income to Kshs 1.0 bn from Kshs 2.4 bn in Q1'2024, 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 total fees and commissions increased by 44.1% to Kshs 0.03 bn, from 0.02 bn in Q1'2024. The revenue mix for funded to non-funded income shifted to 71:29 in Q1'2025, from 63:37 in Q1'2024, owing to the 12.6% increase in NII , compared to a 27.2% decrease in NFI,
- Total operating expenses increased by 13.6% to Kshs 5.5 bn from Kshs 4.8 bn in Q1'2024, driven by a 9.1% increase in other staff costs to Kshs 2.1 bn from Kshs 1.9 bn recorded in Q1'2024. The decrease in provisioning is attributable to the decreased credit risk as a result of improving economic environment as evidenced by the average Q1'2025 Purchasing Managers Index (PMI) of 50.9, up from an average of 50.3 in Q1'2024,
- Cost to Income Ratio (CIR) increased to 57.2% from 46.8% in Q1'2024, owing to the 13.6% increase in total operating expense, coupled with the 7.1% decrease in total operating income. Notably, CIR without LLP increased by 12.5% points to 48.2% from 35.7% recorded in Q1'2024, and,
- Profit before tax decreased by 25.3% to Kshs 4.1 bn from Kshs 5.5 bn in Q1'2024, with effective tax rate decreasing to 18.4% in Q1'2025, from 26.9% in Q1'2024. As such, profit after tax decreased by 16.6% to Kshs 3.3 bn in Q1'2025, from Kshs 4.0 bn in Q1'2024.
- The Group's Board of Directors did not declare any dividends for the period ending 31st May 2025, consistent with Q1'2024.

Balance Sheet

- The balance sheet recorded a contraction as total assets decreased by 8.4% to Kshs 450.1 bn, from Kshs 491.5 bn in Q1'2024, mainly attributable to the 4.6% decline in customer net loans and advances to Kshs 244.0 bn in Q1'2025, from Kshs 255.8 bn in Q1'2024, coupled with 58.4% decline in placements to Kshs 13.2 bn from Kshs 31.8 bn in Q1'2024, which outpaced the 27.2% increase in government securities to Kshs 74.9 bn, from Kshs 58.9 bn recorded in Q1'2024
- Total liabilities decreased by 11.2% to Kshs 381.5 bn, from Kshs 429.6 bn in Q1'2024, largely attributable to a 5.0% decline in customer deposits to Kshs 337.6 bn in Q1'2025, from Kshs 355.5 bn in Q1'2024, however the decline was supported by 40.4% growth in borrowings to Kshs 17.0 bn, from Kshs 12.1 bn in Q1'2024. With 30 branches countrywide, compared to 29 branches countrywide and 1 branch in South Sudan in Q1'2024, deposits per branch decreased by 5.0% to Kshs 11.3 bn, from Kshs 11.9 bn in Q1'2024,
- The higher decline in customer deposits of 5.0% compared to the 4.6% decrease in net loans and advances, led to an increase in the loan to deposit ratio to 72.3%, from 71.9% in Q1'2024,
- The bank's Asset Quality improved, with Gross NPL ratio decreasing to 8.7% in Q1'2025, from 8.9% in Q1'2024, attributable to 5.3% decrease in Gross non-performing loans to Kshs 22.9 bn, from Kshs 24.2 bn in Q1'2024, which outpaced the 3.9% decrease in gross loans to Kshs 262.6 bn, from Kshs 273.3 bn recorded in Q1'2024,
- General Provisions (LLP) increased by 2.0% to Kshs 12.2 bn in Q1'2025 from Kshs 11.9 bn in Q1'2024. The NPL coverage increased to 80.8% in Q1'2025, from 72.3% in Q1'2024, attributable to the 5.3% decrease in Gross non-performing loans to Kshs 22.9 bn, from Kshs 24.2 bn in Q1'2024, coupled with the 2.0% increase in both general provisions,
- Shareholders' funds increased by 10.9% to Kshs 68.7 bn in Q1'2025, from Kshs 61.9 bn in Q1'2024, supported by a 7.9% increase in retained earnings to Kshs 55.2 bn, from Kshs 51.1 bn in Q1'2024,
- Stanbic banks remained capitalized with a core capital to risk-weighted assets ratio of 14.7%, 4.2% points above the statutory requirement of 10.5%. In addition, the total capital to risk-weighted assets ratio came in at 18.6%, exceeding the statutory requirement of 14.5% by 4.1% points, and,
- The bank currently has a Return on Average Assets (ROaA) of 2.8%, and a Return on Average Equity (ROaE) of 20.0%.

Key Take-Outs:

1. **Weaker earnings growth -** Core earnings per share decreased by 16.6% to Kshs 8.4 from Kshs 10.1 in Q1'2024, mainly driven by 13.6% increase in total operating expenses to Kshs 5.5 bn, from Kshs 4.8 bn in Q1'2024, attributed to a 9.1% increase in other staff costs to Kshs 2.1 bn from Kshs 1.9 bn recorded in Q1'2024, coupled with the 7.1% decline in total operating income to Kshs 9.5 bn in Q1'2025 from Kshs 10.3 bn in Q1'2024
2. **Increased Provisioning –** General Provisions (LLP) increased by 2.0% to Kshs 12.2 bn in Q1'2025 from Kshs 11.9 bn in Q1'2024. The NPL coverage increased to 80.8% in Q1'2025, from 72.3% in Q1'2024, attributable to the 5.3% decrease in Gross non-performing loans to Kshs 22.9 bn, from Kshs 24.2 bn in Q1'2024, coupled with the 2.0% increase in both general provisions,
3. **Improved asset quality-** Gross NPL ratio decreasing to 8.7% in Q1'2025, from 8.9% in Q1'2024, attributable to 5.3% decrease in Gross non-performing loans to Kshs 22.9 bn, from Kshs 24.2 bn in Q1'2024, which outpaced the 3.9% decrease in gross loans to Kshs 262.6 bn, from Kshs 273.3 bn recorded in Q1'2024,
4. **Reduced lending**- Customer net loans and advances decreased by 4.6% to Kshs 244.0 bn in Q1'2025, from Kshs 255.8 bn in Q1'2024 attributed to increased credit risk with NPLs rising to 17.2% in February 2025, from 15.5% in February 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 over the past three years to improve its operational efficiency, which has been a key factor in its financial performance. In March 2024, the lender disclosed that 90.0% of transactions happened on digital channels. In 2022 the bank introduced borderless banking, allowing its customers across East Africa to conduct transaction smoothly and in real time, which has registered USD 697.0 mn worth of transactions as of December 2023.Additionally, the lender upgraded their T24 core banking system to improve client's experiences.

Valuation Summary

- We are of the view that Stanbic bank is a "buy" with a target price of Kshs 184.5 representing an upside of 8.7%, from the current price of 169.8 as of 08th March 2025.
- Stanbic Holdings is currently trading at a P/TBV of 0.9x and a P/E of 4.9x vs an industry average of 0.9x and 3.7x respectively.