

Valuation Summary

- We are of the view that Stanbic Holdings stock is a “Sell” with a target price of Kshs 76.8 representing a downside of 0.6%, from the current price of Kshs 81.5, as at 18th August, inclusive of a dividend yield of 5.2%,
- Stanbic Holdings is currently trading at a P/TB of 1.0x and a P/E of 7.7x, vs an industry average of 1.6x and 7.7x, respectively.

Key highlights during H1'2017

- Stanbic Holdings launched its financial literacy programme for its SME customers, ‘BizConnect’, aimed at providing strategic solutions to SMEs in a bid to enhance operational efficiency.

Income Statement

- Core earnings per share declined by 12.1% to Kshs 4.4 from Kshs 5.0 in H1'2016, driven by a 15.4% growth in total operating expenses, while total operating revenue remained relatively unchanged,
- Total operating revenue remained relatively unchanged at Kshs 9.2 bn. This was supported by a 10.5% growth in Non-Funded Income, despite an 8.3% decline in Net Interest Income,
- The Net Interest Margin declined to 5.3% from 5.6% in H1'2016,
- Non-funded income (NFI) recorded an increase of 10.5% to Kshs 4.2 bn from Kshs 3.8 bn in H1'2016. The current revenue mix stands at 55:45 funded to non-funded income from 59:41 in H1'2016,
- Total operating expenses grew by 15.4% to Kshs 7.0 bn from Kshs 6.0 bn in H1'2016 following a 118.0% y/y growth in Loan loss provision (LLP) to Kshs 1.8 bn from Kshs 0.8 bn. Without LLP, operating expenses declined by 0.1% to Kshs 5.1 bn from Kshs 5.2 bn registered in H1'2016,
- Cost to income ratio worsened to 75.9% from 65.4% in H1'2016. Without LLP, the cost to Income ratio stood at 56.1% from 56.3% in H1'2016,
- Profit before tax declined 30.9% to Kshs 2.2 bn from Kshs 3.2 bn while profit after tax (PAT) declined by 12.1% to Kshs 1.7 bn from Kshs 2.0 bn in H1'2016.

Balance Sheet

- The balance sheet recorded an expansion in H1'2017, with total assets increasing by 8.9% to Kshs 234.3 bn from Kshs 215.1 bn in H1'2016, driven by a rise of 8.0% in the loan book,
- The Loan book grew by 8.0% to Kshs 133.5 bn from Kshs 123.6 bn in H1'2016, better than our expectations of a 5.6% growth,
- Total liabilities increased by 9.5% to Kshs 193.5 bn from Kshs 176.8 bn in H1'2016, while shareholders' funds increased by 6.4% to Kshs 40.8 bn from Kshs 38.3 bn,
- Customer deposits grew by 12.5% to Kshs 177.9 bn from Kshs 158.0 bn in H1'2016, which saw the loan to deposit ratio decrease to 75.1% from 78.2% in H1'2016,
- Gross non-performing loans grew by 9.8% to Kshs 6.5 bn from Kshs 5.9 bn in H1'2016, in line with growth in loans, which saw the NPL ratio remain relatively unchanged at 4.7%,
- Stanbic Bank is currently sufficiently capitalized with a core capital to risk weighted assets ratio at 15.4%, 4.9% above the statutory requirement, with total capital to total risk weighted assets exceeding statutory requirement by 2.7% to close the period at 17.2%,
- Stanbic Holdings currently has a ROaA of 1.9% and a ROaE of 10.6%.

Key Take outs:

- a) Costs increased significantly, owing mainly to credit impairment charges that grew by 118.0% y/y. The bank announced that it will not resort to laying off staff in a bid to adjust to the recent developments, instead signalling that it will seek to redeploy and train staff,
- b) Stanbic Holdings registered strong performance on NFI, which grew by 10.5%, underpinning the importance of revenue diversification, following the capping of interest rates. The bank will need to be aggressive in generating

non-funded income, which now accounts for 45.3% of its operating income, given earning from interest income is expected to remain depressed this year.

Moving forward Stanbic Holdings' growth will be propelled by;

- i. Their diversified and clearly defined business strategy, enabling the bank to respond effectively to shifting market dynamics, with their non-funded income at 45.3% of total operating income,
- ii. Digital platforms and support systems following the roll out of their mobile banking app and internet banking platform as well as the establishment of new physical branches across the country.

Below is a summary of the key line items in the balance sheet and income statement

Figures in Kshs billions unless otherwise stated

Balance Sheet	H1'2016	H1'2017	y/y change	H1'2017e	Projected y/y change	Variance in growth vs projection
Net Loans	123.6	133.5	8.0%	130.5	5.6%	2.5%
Total Assets	215.1	234.3	8.9%	222.6	3.5%	5.4%
Deposits	158.0	177.9	12.5%	159.1	0.7%	11.9%
Total liabilities	176.8	193.5	9.5%	180.2	2.0%	7.5%
Shareholders' Funds	38.3	40.8	6.4%	42.4	10.5%	(4.2%)

Income Statement	H1'2016	H1'2017	y/y change	H1'2017e	Projected y/y change	Variance in growth vs projection
Net interest Income	5.5	5.0	(8.3%)	5.4	(1.9%)	(6.3%)
Net non-interest income	3.8	4.2	10.5%	4.9	29.3%	(18.8%)
Total Operating income	9.2	9.2	(0.6%)	10.2	10.8%	(11.4%)
Loan loss provision	0.8	1.8	118.0%	1.0	20.5%	97.4%
Total Operating expenses	6.0	7.0	15.4%	7.0	16.7%	(1.2%)
Profit before tax	3.2	2.2	(30.9%)	3.2	(0.3%)	(30.6%)
Profit after tax	2.0	1.7	(12.1%)	2.2	12.8%	(24.9%)

Key Ratios	H1'2016	H1'2017
Loan to Deposit ratio	78.2%	75.1%
Return on average equity	12.8%	10.6%
Return on average assets	2.3%	1.9%
Net Interest Margin	5.6%	5.3%
Cost to Income	56.3%	56.1%
Cost to Assets	2.4%	2.2%
NII as a % of Operating Income	59.2%	54.7%
NFI as a % of Operating Income	40.8%	45.3%

Capital Adequacy Ratios	H1'2016	H1'2017
Core Capital/Total Liabilities	22.2%	20.8%
Minimum Statutory ratio	8.0%	8.0%
Excess	14.2%	12.8%

Core Capital/Total Risk Weighted Assets	15.1%	15.4%
Minimum Statutory ratio	10.5%	10.5%
Excess	4.6%	4.9%
Total Capital/Total Risk Weighted Assets	17.4%	17.2%
Minimum Statutory ratio	14.5%	14.5%
Excess	2.9%	2.7%
Liquidity Ratio	67.0%	52.6%
Minimum Statutory ratio	20.0%	20.0%
Excess	47.0%	32.6%