AIB-AXYS AFRICA

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Earnings Note

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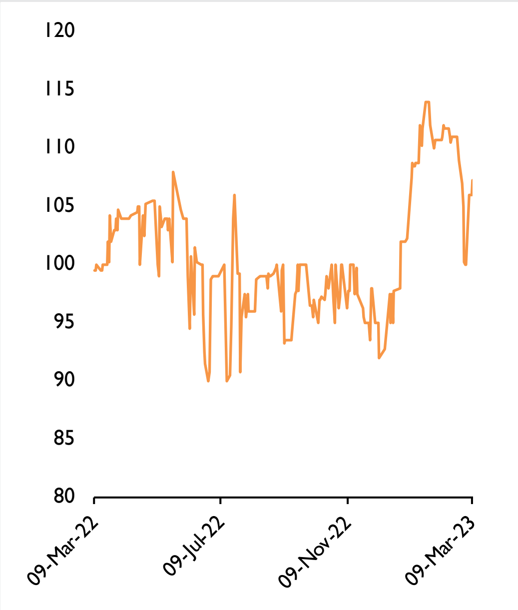
Company details

Bloomberg Ticker	SBIC:KN
NSE Code:	SBIC
Issued Shares (Bn)	0.40
52-week high:	114.00
52-week Low	90.00

As at 09th March 2023

Price chart – Last 12 Months



AIB-AXYS Research, NSE

Historical Price Performance

	1m	3m	6m	12m
Absolute	**-4.24%**	**16.58%**	**14.71%**	**7.79%**

AIB-AXYS Research, NSE

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March 10th 2023

Stock Update

Result Update

Stanbic Bank FY'22 Earnings Note

Recomm: HOLD | **Current Price**: KES 107.25 | **Target Price:** KES 117.30

Summary

- **Stanbic Holdings PLC FY'22 earnings results were higher than our expectations. The lender posted a 25.69% y/y climb in PAT and a 25.70% growth in EPS** to KES 9.06Bn and KES 22.92/share respectively driven by a 31.81% y/y growth in net interest income and a 23.74% y/y growth in non-interest income. Trailing ROaE & ROaA improved to 15.66% & 2.84% respectively in FY'22 as NIMs remained adequate at 5.89. The board of directors recommended a KES 12.60 Dividend, which was higher than our KES 9-11.00 expectations, and 40.00% higher than the KE 9.00 in FY'21.

- **Customer deposits grew 19.53% y/y to KES 304.32Bn faster than the 16.36% y/y growth in the Loan book to KES 266.83Bn** leading to a 239bps decline in the loan deposit ratio to 87.86%. We observed a notable jump in lending to sectors such as infrastructure (KES 15.00Bn vs KES 3.90Bn in FY'21), SME lending (KES 33.00Bn vs 24.00Bn in FY'21) and Affordable housing (KES 267Mn). Digital lending platform (M-jeki) disbursed a monthly average KES 3.06Bn higher than the FY'21 average of KES 2.30Bn highlighting the growth potential in the digital lending business. Allocation to investment securities grew 40.34% y/y to 83.55Bn in FY'22 driven by hunt for higher yields. Fair Value changes through OCI recorded a 5.71x decline y/y to 58.20Mn.

Key Highlights

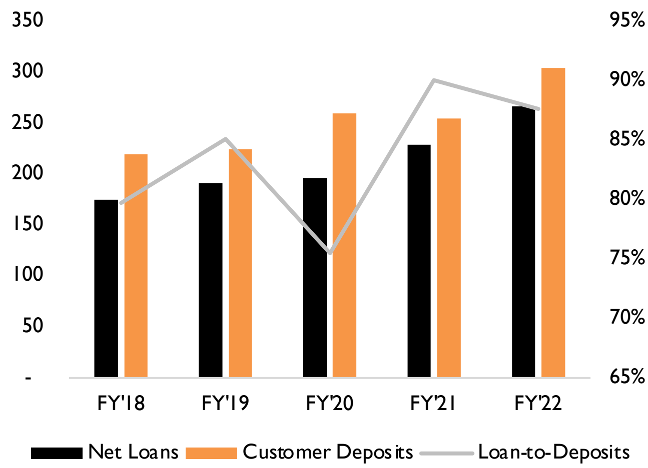
- **Net interest Income Growth Outpaced Non-Funded Income:** Net Interest Income grew 31.81% y/y to 18.95Bn against a 23.74% y/y increase in Non-Funded income to 13.14Bn primarily driven by increased income from loans and advances, as well as interest income from government securities due to a recent uptick in government yields. Non-funded income growth was slowed by a poor deal making environment given the 2022 general elections. Therefore, the NII:NFI revenue mix shifted to 59:41 from 58:42 in FY'21. Yield on assets grew 99bps y/y to 7.96% as income from government papers grew faster than interest earning assets in the year. The effects of the rising interest environment were felt in the 11bps rise in cost of funds to 2.48%.
- **Higher Costs Weighs Down on Efficiency:** The Cost to Income ratio less impairment declined 421bps on a year-on-year basis to 46.67% (management guidance is the lower 40s). CTI improvement was driven by operating income (+28.38% y/y) growing faster than operating expenses (+17.76%) even as the lender opened three new branches. Contrary to industry trend, Loan loss provisions edged up 95.90% y/y to KES 4.94Bn on the back of a downgrade on a few corporate loan accounts.
- **Asset Quality Concerns Driven by Exposure to Risky Sectors:** Gross NPLs increased 26.42% y/y to KES 28.45Bn, leading to the NPL ratio increasing 71bps y/y to 9.99% albeit lower than the latest industry average of 13.30%. NPL coverage further improved 495bps to 63.07% from 58.12% in FY21. Cost of risk was up 75bps driven by higher provisioning due to downgrading of a select loan accounts. We expect the asset quality to continue under pressure given the currency depreciation (circa 48.00% of loan book is in foreign currency). Foreign currency loans from local borrowers have come under pressure following the shilling's depreciation.

Outlook - Efficiency improvements are an indication that investments made in digital transaction channels have been fruitful. We expect future growth to be driven by; 1) Partnerships in deposit mobilization and lending 2) Harmonization of the various digital channels – UNAYO, M-jeki and the banking mobile App which will eliminate any confusion among customers and offer a one stop solution 3) Asset quality monitoring 4) Implementation of the risk-based pricing . On the non-funded income side, we expect the prevailing dollar shortage to continue providing arbitrage opportunities to grow the forex trading revenue as the lender has a huge exposure to trade finance in dollar reliant sectors such as energy. The expectations of a better macro environment is expected to drive up the investment banking deal environment coupled with better performance from the bancassurance business. However, the company's loan book would continue under pressure attributable to the decreased consumer purchasing power brought on by increased local and imported inflationary pressures that we expect to persist in 1H'23.

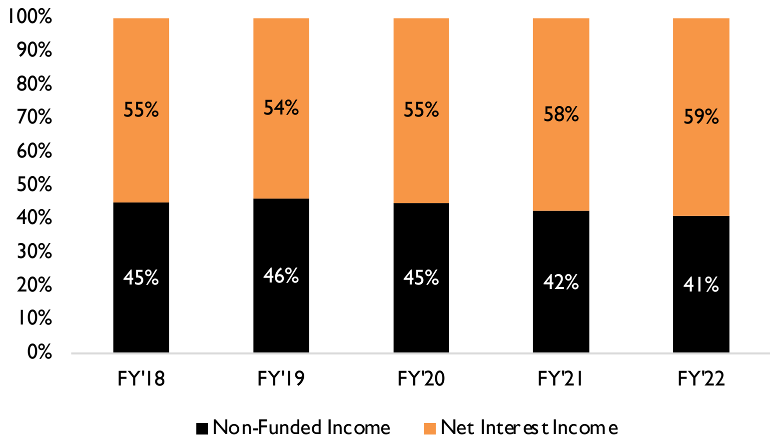
Valuation - At the Current Market Price, the stock is trading at a P/E ratio of 4.63x, a P/TB multiple of 0.79x and posted a Dividend yield of 11.89% in the recently released FY22 results. The announcement of the KES 12.60 Final Dividend is likely to not entice investors as the current share price does not provide an attractive entry point. As such, we maintain our **HOLD** recommendation with a price target of **KES 117.30** representing a 9.37% upside from yesterday's closing price of KES 107.25

Stanbic FY'22 Earnings Charts

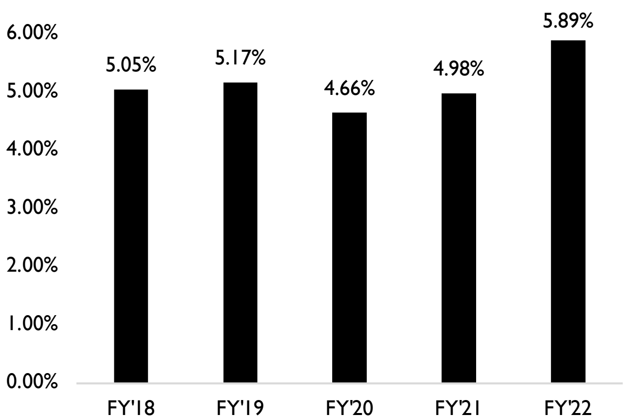
Graph 1: Deposits growth continues to outpace loan growth



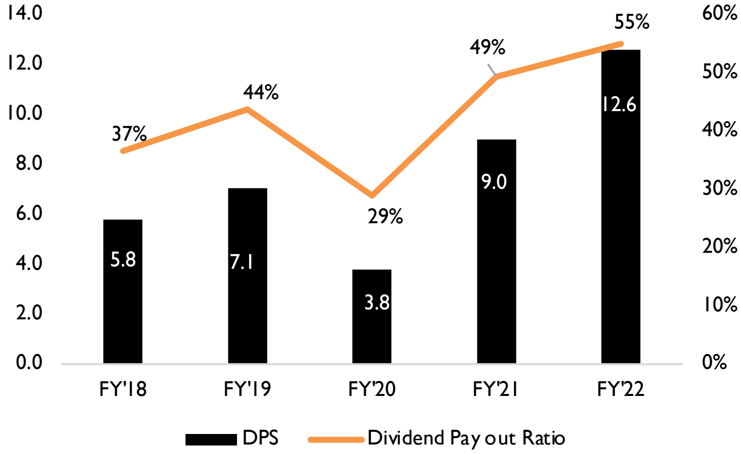
Graph 2: Net Interest Income growth outpaced Net Non-Interest Income



Graph 3: We observed an uptick in Net Interest Margins



Graph 4: Dividend Payout Ratio Highest in 5 Years



Source: NSE, CBK, Company Fillings, AIB-AXYS Analyst Estimates

Financial Statement Summary

1. Statement of Profit and Loss

	FY19	FY20	FY'21	HY'22	FY'22A	y/y Change	FY'22e	Variance
Net Interest Income	13,347.74	12,795.16	14,373.20	8,343.23	18,945.44	31.81%	16,747.95	13.12%
Net non-Interest Income	11,433.07	10,442.21	10,616.95	6,859.82	13,137.57	23.74%	12,058.43	8.95%
Total Operating income	**24,780.81**	**23,237.37**	**24,990.15**	**15,203.04**	**32,083.01**	**28.38%**	**28,806.38**	**11.37%**
Provision for Impairment	(3,150.56)	(4,875.69)	(2,523.55)	(1,260.89)	(4,943.58)	95.90%	(1,202.68)	311.05%
Total Operating expenses	(13,920.49)	(12,134.52)	(15,234.41)	(8,596.09)	(14,967.97)	-1.75%	(15,854.61)	-5.59%
Profit before tax	**7,709.76**	**6,227.15**	**9,755.74**	**6,606.95**	**12,171.47**	**24.76%**	**12,951.77**	**-6.02%**
Profit after tax	**6,380.62**	**5,192.24**	**7,208.09**	**4,796.40**	**9,059.65**	**25.69%**	**9,066.24**	**-0.07%**
Core EPS	16.14	13.13	18.23	12.13	22.92	25.70%	22.93	-0.06%
DPS	.05	3.80	9.00	-	12.60	40.00%	11.00	14.55%

2. Statement of Financial Position

	FY19	FY20	FY'21	HY'22	FY'22A	y/y Change	FY'22e	Variance
Government Securities	70,077.82	87,583.54	59,535.56	52,570.45	83,551.13	40.34%	62,688.64	33.28%
Loans and Advances	191,194.57	196,300.03	229,321.28	244,040.54	266,828.38	16.36%	251,751.25	5.99%
Total Assets	**303,624.59**	**328,594.52**	**328,871.81**	**341,579.51**	**399,829.62**	21.58%	359,048.35	11.36%
Customer Deposits	224,672.91	259,970.05	254,588.38	258,231.01	304,316.95	19.53%	280,047.22	8.67%
Total Liabilities	254,589.83	276,863.56	272,418.78	283,389.44	337,631.20	23.94%	297,877.62	13.35%
Shareholder's Funds	**303,624.59**	**328,594.52**	**328,871.81**	**341,579.51**	**399,829.62**	21.58%	359,048.35	11.36%

3. Key Metrics

	FY19	FY20	FY'21	HY'22	FY'22A
Growth Metrices					
Loan book Growth	9.26%	2.67%	16.82%	6.42%	9.34%
Customer Deposits Growth	2.36%	15.71%	-2.07%	1.43%	17.85%
PAT Growth	1.65%	-18.62%	38.82%	-33.46%	88.88%
Spreads Analysis					
Yield on Assets	7.90%	7.17%	6.97%	8.75%	7.96%
Cost of Funds	3.33%	3.02%	2.38%	2.50%	2.48%
Net Interest Margin	5.17%	4.66%	4.98%	6.60%	5.89%
ROaE	13.63%	10.31%	13.33%	16.73%	15.66%
ROaA	2.15%	1.64%	2.19%	2.54%	2.48%
Operating Efficiency					
Cost of Income Less LLP	43.46%	31.24%	50.86%	48.25%	46.65%
Cost of Assets	3.55%	2.21%	3.86%	2.15%	3.74%
Loan to Deposit	85.10%	75.51%	90.08%	94.50%	87.68%
Asset Quality					
NPL	9.57%	11.84%	9.28%	9.35%	9.99%
NPL Coverage	57.09%	60.62%	58.12%	55.97%	63.07%
Cost of Risk	1.65%	2.48%	1.10%	1.03%	1.85%
Capital Adequacy					
Core Capital/TRWA	15.20%	16.00%	15.30%	14.00%	13.80%
Total Capital /TRWA	18.30%	18.10%	17.30%	16.20%	16.80%
Liquidity	58.40%	56.40%	47.90%	35.90%	45.20%

Source: Company Fillings, AIB-AXYS Estimates

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