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Stanbic Bank
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Stanbic Holdings FY'24 Earnings Note

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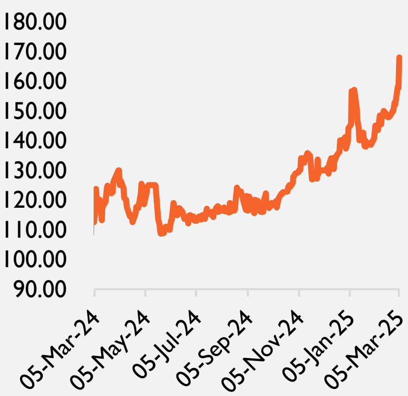
Ticker Information	
NSE Code:	SBIC
Issued Shares :	290,521,872
52-week high:	KES 170.00
52-week low:	KES 90.00

Chart 1: Price Trend (Last 12 Months)



Source: NSE, AIB-AXYS Research

Historical Share Performance

Last	1M	3M	6M	12M
Change	16.1%	29.2%	40.6%	46.1%

Source: NSE, AIB-AXYS Research

Recommendation	Current Price	Target Price
BUY	**KES 168.50**	**KES 183.06**

Summary

- **Stanbic Holdings PLC record a marginal 12.8% y/y growth in net earnings to KES 13.72 Bn in their FY'24 results.** This growth was achieved in the face of a 5.1% y/y decrease in revenue, primarily offset by a significant 50.3% y/y reduction in credit impairment charges. Net interest margin contracted 29bps to 5.7%. Trailing return on equity expanded to 19.3% while return on assets edged up 20bps to 3.0%.
- **The Board of Directors recommended a final dividend of KES 18.90, added to the earlier issued interim dividend of KES 1.84, raising the total dividend for FY'24 to KES 20.74**

Key Highlights

- **Net-Interest Income Under Pressure:** Net-Interest income declined by 5.1% y/y to KES 24.34Bn as the growth in interest expenses which registered a 93% y/y growth overshadowed interest income growth which was registered at 27% y/y. Interest income growth was driven by the high-interest environment that led to the repricing of market-linked instruments, with the bank realizing higher reinvestment returns on investment securities. On the flip side, however, the high-interest environment contributed to the rise in the cost of mobilizing deposits. Additionally, the bank delayed cost of funding transfers, aiming to cushion customers from elevated borrowing costs, further straining the net interest margin, which declined by 30bps to 5.68% from 5.87% in FY'23.
- **Enhanced Asset Quality:** Gross Non- Performing Loans (NPLs) decreased by 14.4%y/y to KES 22.64Bn leading to the gross NPL ratio decreasing by 36bps to 9.11% a decline that was partially attributable to the strengthening of the shilling, as 45% of NPL's are foreign currency denominated. NPL coverage continued to improve to 78.4% from 70.4% in FY'23. Cost of risk also recognized a decline of 70bps. We anticipate continued improvement in asset quality as the bank maintains a prudent lending strategy. Additionally, the expected decline in lending rates should ease costs for borrowers, reducing default risks.

Balance Sheet Dynamics

Customer deposits remained stable during the year, recognizing a modest 2.4% y/y decline to KES 339.01Bn. The loan book, however, contracted by 17.3% to KES 294.70Bn as the strengthening of the shilling led to a devaluation of foreign-denominated loans. Notably, holdings in investment securities surged by 118.7% y/y to KES 99.19Bn as the bank sought to capitalize on the attractive returns offered, due to the prevailing elevated interest rate environment.

Robust Operating Efficiency

Although the Cost-to-Income ratio, excluding impairments, rose by 90bps y/y to 44.5%, it remains within the management's guidance range of the lower 40s, highlighting sustained operational efficiencies. These efficiencies are further showcased by the decline in operating expenses by 1.7% y/y to KES 17.67Bn despite the rise in investments in the business. Credit impairment provisions saw a substantial decrease of 50.3% to KES 3.10Bn, as currency appreciation helped lower credit impairment charges.

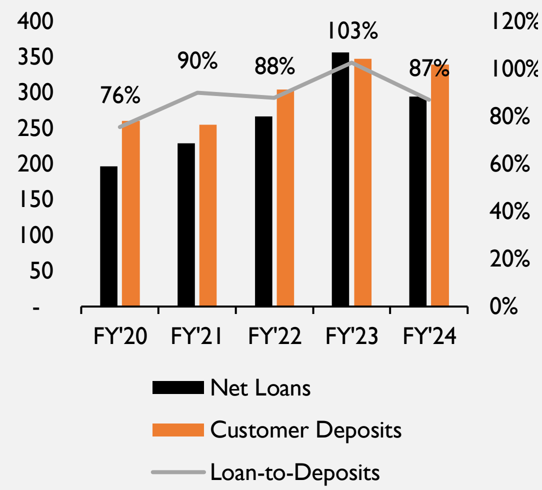
Outlook

We project Stanbic Holdings' growth in 2025 to be driven by improved loanbook activity as declining lending rates are expected to drive credit growth in the medium term. Additionally, as interest rates decline, we expect the cost of funds for the bank to realize a downside revision that is expected to drive net interest income growth. In its South Sundanese subsidiary, a potential resumption of oil exports from the country could revitalize economic activity and drive revenue growth for the business. Moreover, its bancassurance intermediary provides the business with the opportunity to tap new market segments that could further enhance revenue generation in the long term. However, due to the entrance of industry peers, increased competition may limit revenue realization.

Recommendation

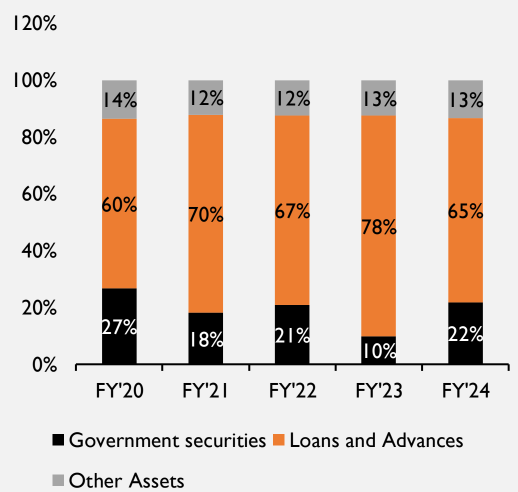
- **We maintain our BUY recommendation on Stanbic Holdings on account of its continued improvement in return on equity and project maintenance in revenue growth momentum.** At the current market price, the stock is trading at P/E ratio of 4.8x and a P/B ratio of 0.9x. Our-one-year target price for Stanbic currently stands at KES 183.06 - representing a c.8.96% upside potential from current levels.

Chart 2: Faster Deposit Mobilization



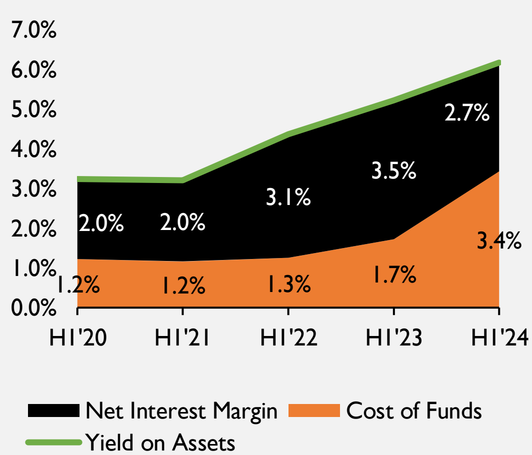
Source: Company filings, AIB-AXYS Research.

Chart 3: Asset Composition Mix



Source: Company filings, AIB-AXYS Research.

Chart 4: Contracting Net Interest Margin



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Income Statement (KES Bn)	FY'20	FY'21	FY'22	FY'23	FY'24	% y/y Change
Net Interest Income	12.80	14.37	18.95	25.65	24.34	▼ (5.1%)
Net non-Interest Income	10.44	10.62	13.14	15.67	15.41	▼ (1.7%)
Total Operating income	**23.24**	**24.99**	**32.08**	**41.32**	39.75	▼ (3.8%)
Loan Impairment Provisions	(4.88)	(2.52)	(4.94)	(6.24)	(3.10)	▼ (50.3%)
Total Operating expenses	(12.13)	(15.23)	(19.91)	(24.22)	(17.67)	▼ (27.1%)
Profit before tax	**6.23**	**9.76**	**12.17**	**17.09**	**18.98**	▲ 11.0%
Profit after tax	**5.19**	**7.21**	**9.06**	**12.16**	**13.72**	▲ 12.9%
Core EPS Annualized	13.13	18.23	22.92	30.75	69.41	▲ 125.7%
DPS	3.80	9.00	12.60	15.35	20.74	▲ 35.1%

Balance Sheet (KES Bn)	FY'20	FY'21	FY'22	FY'23	FY'24	% y/y Change
Government Securities	87.58	59.54	83.55	45.34	99.19	▲ 118.7%
Loans and Advances	196.30	229.32	266.83	356.21	294.70	▼ (17.3%)
Total Assets	**328.59**	**328.87**	**399.83**	**459.28**	**454.83**	▼ (1.0%)
Customer Deposits	259.97	254.59	304.32	347.24	339.01	▼ (2.4%)
Total Liabilities	276.86	272.42	337.63	390.73	379.43	▼ (2.9%)
Total Equities and Liabilities	**328.59**	**328.87**	**399.83**	**459.28**	**454.83**	▼ (1.0%)

Ratio Analysis	FY'20	FY'21	FY'22	FY'23	FY'24	% y/y Change
Spreads Analysis						
Yield on Assets	7.2%	7.0%	8.0%	9.9%	13.5%	▲ 3.6%
Cost of Funds	3.0%	2.4%	2.5%	4.0%	7.9%	▲ 3.9%
Net Interest Margin	4.1%	4.6%	5.5%	6.0%	5.7%	▼ (0.3%)
ROaE	10.3%	13.3%	15.3%	18.6%	19.3%	▲ 0.7%
ROaA	1.6%	2.2%	2.5%	2.8%	3.0%	▲ 0.2%
Profit Margin	22.3%	28.8%	28.2%	29.4%	34.5%	▲ 5.1%
Operating Efficiency						
Cost to Income Less LLP	31.2%	50.9%	46.7%	43.5%	44.5%	▲ 0.9%
Cost to Assets Less LLP	2.2%	3.9%	3.7%	3.9%	3.9%	▼ (0.0%)
Loan to Deposit	75.5%	90.1%	87.7%	102.6%	86.9%	▼ (15.7%)
Asset Quality						
Gross NPL Ratio	12.8%	9.8%	10.7%	9.5%	9.1%	▼ (0.4%)
NPL Coverage	60.6%	58.1%	63.1%	70.4%	78.4%	▲ 8.0%
Cost of Risk	2.5%	1.1%	1.9%	1.8%	1.1%	▼ (0.7%)
Capital Adequacy						
Core Capital/TRWA	16.0%	15.3%	13.8%	13.0%	14.9%	▲ 1.9%
Total Capital /TRWA	18.1%	17.3%	16.8%	16.6%	18.4%	▲ 1.8%
Liquidity	56.4%	47.9%	45.2%	51.2%	50.5%	▼ (0.7%)

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