STANBIC HOLDINGS FY 2022 EARNINGS UPDATE

Stanbic Holdings released its financial results posting a **26%** increase in profit after tax largely attributable to 32% increase in net income and 24% increase in non-interest income. The **Return on Equity** and Return on Assets increased to **15.3%** and 2.5%, respectively. **Earnings per share** rose to **KES 22.92** from KES 18.23 in the previous financial year. The Board of directors recommended payment of a **KES 12.60** final dividend, translating to 11.7% dividend yield.

Share Data	Stanbic Holdings
Ticker	SBIC KN
RECOMMENDATION	**ACCUMULATE**
Current Price (KES)	107.25
Target Price (KES)	113.03
Upside(Inc. Div. Yield)	17.1%
52WK High (KES)	114.00
52WK Low (KES)	82.00
Market Cap (KES Bn)	42.40
Free Float	25.1%
P/B	0.7x
P/E	4.7x
Current Price = as of 9th March 2023	

Source: Bloomberg, NSE, NCBA IB Research

FY2022 Performance – Stanbic Kenya (% = y/y performance)

- **Earnings:** Net income grew by 26% mainly driven by a 32% growth in interest income coupled with a 24.0% rise in non-funded income. This was largely attributable to rising interest rates and increased foreign exchange trading income. Commercial bank average lending rates as reported by CBK rose to 12.5% in 2022 from 12% in the 2021.

- **Loan book**: The bank's loans and advances to customers grew by 16.4% to KES 266.8Bn boosting overall assets, which grew by 21.6% attributable to the banks' aggressive lending strategy. The loan to deposit ratio declined to 87.7% from 90.1% in FY2021. The bank also started implementing risk based pricing models in digital lending. Consequently, digital lending rose by 33%to KES 36.7Bn

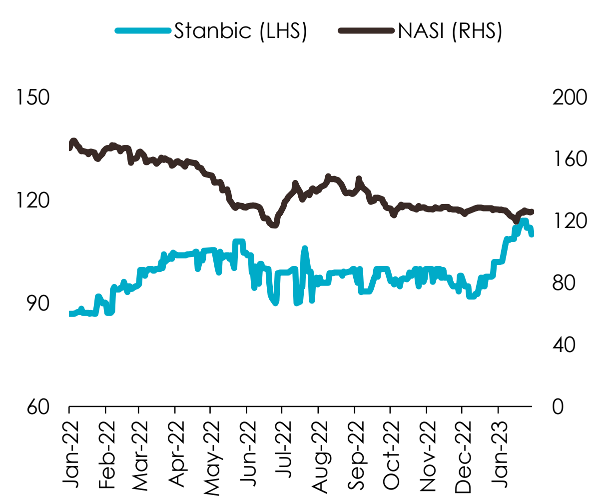
- **Customer deposits** increased by 19.5% to KES 304.3Bn following aggressive deposit mobilization and supported by branch expansion (three new branches were opened in the year). The bank leveraged more on borrowed funds and deposits to fund its investments.

- **Government securities** on the other hand recorded a 40.3% growth to KES 83.6Bn attributable to a favorable interest rate environment. Yields on treasury bills and bonds across various tenors sustained upward pressure in the FY2022.

- **Efficiency:** Cost to income ratio excluding provisions declined to 46.7% from 50.9% following cost optimization by the lender. Cost to income ratio including provisions rose to 62.0% from 60.9%.

- **Asset Quality:** Gross NPLs increased by 26.4% to KES 28.4Bn, faster than the 16.4% growth in Gross loans. The NPL ratio however, declined to 9.07% from 9.25% in 2021. This was commendable compared to the industry average of 13.70%. Credit impairment charges increased to KES 4.94 from KES 2.52 in 2021 – a testament to the increased credit risk.

Stanbic vs NASI Performance (LTM)



Financial Summary

Stanbic Holdings	Key Metrics Y/Y
Loans and Advances	Up 16% to KES 266.8Bn
Customer Deposits	Up 19.5% to KES 304.3Bn
Government Securities	Up 40% to KES 83.6Bn
Net Interest Income	**Up 32% to KES 18.95Bn**
Non-Funded Income	**Up 24% to KES 13.14Bn**
Loan Loss Provisions	Up 96% to KES 4.94Bn
PBT	Up 25% to KES 12.2Bn
PAT	**Up 26% to KES 9.1Bn**
EPS	Up 26% to KES 22.92
DPS	**Up 40% to KES 12.60**

Stanbic Holdings	Key Ratios Y/Y
Loan Deposit ratio	Down to 87.7% from 90.1%
Net Interest Margin	**Up to 5.4% from 4.4%**
Cost to Income	Down to 46.7% from 50.9%
NPL Ratio	Down to 9.1% from 9.3%
Cost of Risk	Up to 2.2% from 1.4%
ROE	**Up to 15.3% from 13.3%**
Current Market Price	KES 107.25
P/E	4.7x
P/B	0.7x
Dividend Yield	**11.7%**

2023 Outlook

We expect Stanbic Holdings to record gradual growth boosted by:

1. **Loan Book Growth:** The bank has sustained an average double-digit loan book growth over the last 5 years excluding 2020. We see this impressive loan book growth enduring and translating into topline growth momentum. Implementation of risk based pricing models will further scale the aggressive lending strategy.

2. **High Government Securities' Yields:** The bank is poised to benefit from the rise in yield curve due to its increased allocation to government securities.

3. **Risk Management:** Notably, the banks NPL ratio of 9.07% is commendable compared to the industry average of 13.70%. Proactive data driven risk analysis with credit risk pricing models in the mainstream loans will boost credit loss and cost of risk ratios.

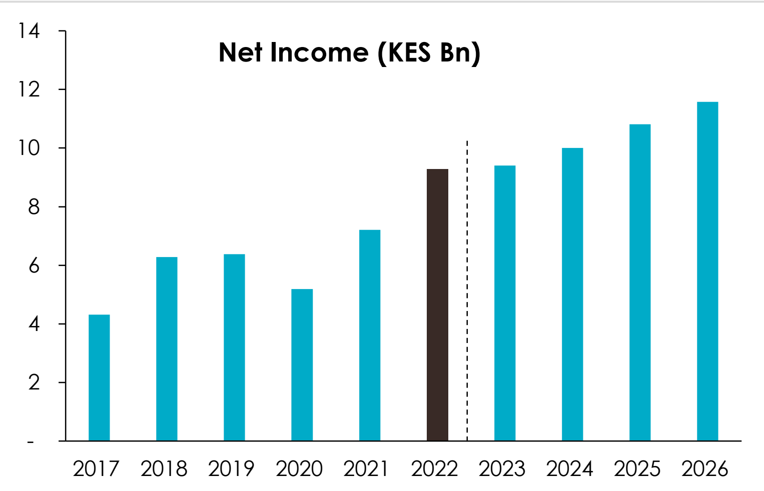
4. **Revenue Diversification**: Stanbic South Sudan recorded a 21% increase in profit after tax attributable to higher trading income. The bank also leverages support from the Group in terms of access to forex and we expect this, together with continued digitization initiatives to support non-interest income growth.

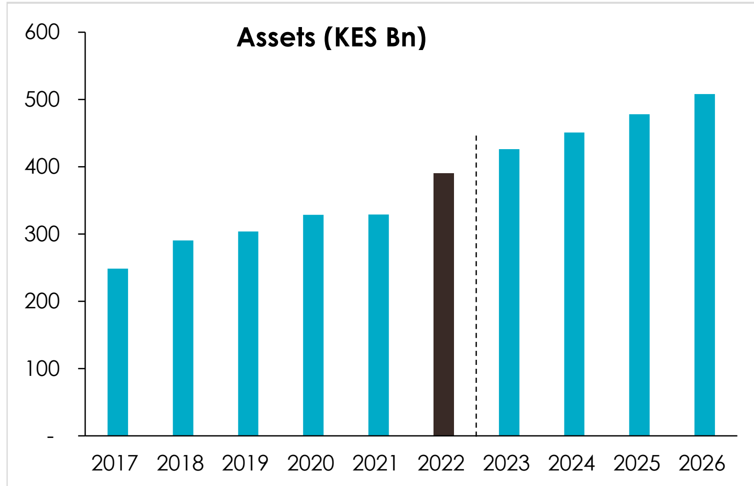
Investment recommendation:

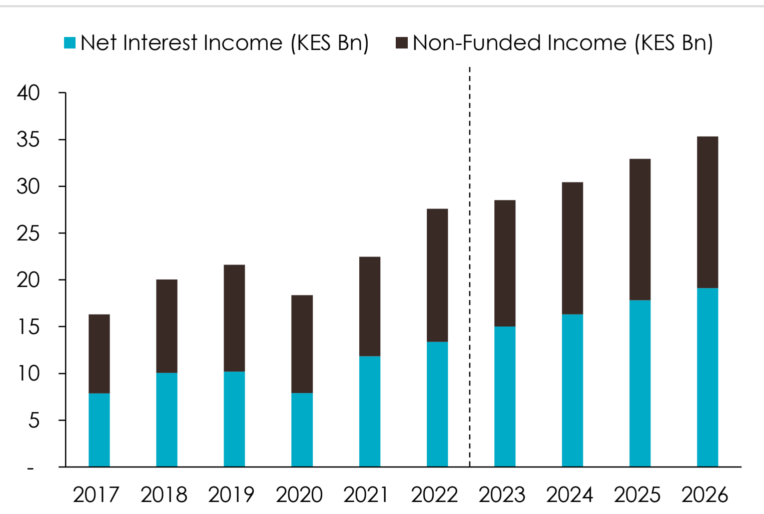
At the current market price, the stock is trading within its fair value but presents a value pick for long-term investors owing to its reliable dividend payout.

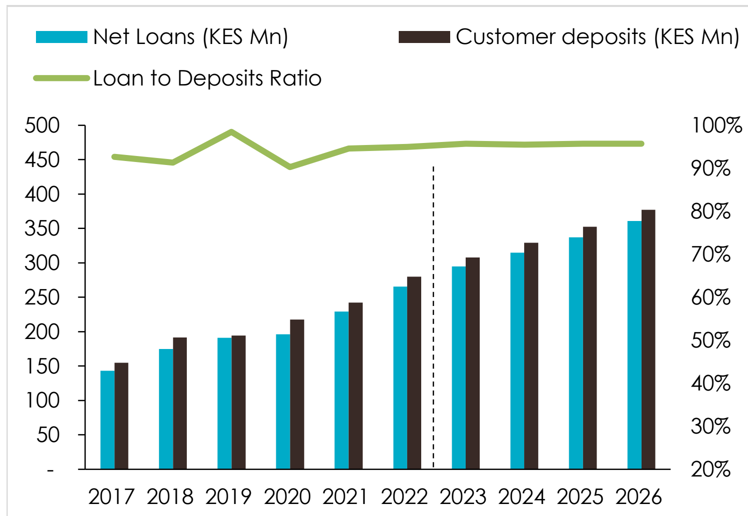
We expect the bank to register long-term profitability based on its revenue diversification and sustained loan book growth.

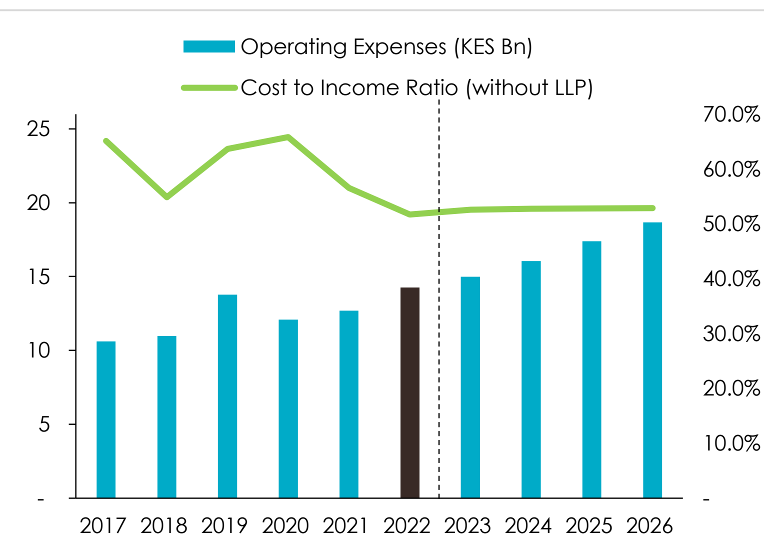
Financial highlights and forecasts

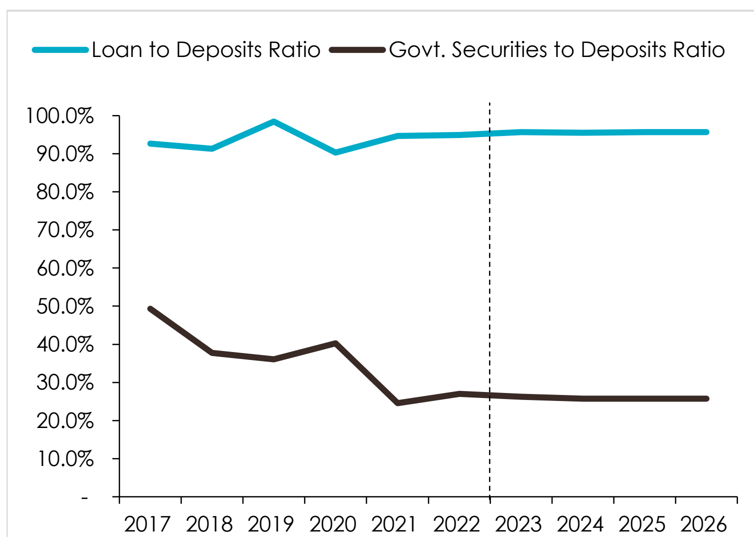












About NCBA Investment Bank

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Physical Address

NCBA Annex,
Hospital Road, Upper Hill, Tel: +254 20 2884444
Mobile: +254 711 056444/+254 732 156444

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Rating Definitions

BUY – Total expected 12-month return (incl. dividends) greater than 20%
ACCUMULATE - Total expected 12-month return (incl. dividends) between 10% - 20%
HOLD – Total expected 12-month return (incl. dividends) between 0% -10%
SELL – Total expected 12-month return (incl. dividends) less than 0%

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Key Contacts: Research Team

ncbaibresearch@ncbagroup.com
victoria.mututu@ncbagroup.com

Key Contacts: Trading Team

dealing@ncbagroup.com