STANBIC BANK KENYA Q1 2023 EARNINGS UPDATE

Stanbic Bank Kenya released its first quarter financial results posting an **84.3% y/y** increase in profit after tax largely attributable to 49.1% y/y increase in net income, and an 89.3% y/y increase in non-interest income driven by 147.7% y/y increase in FX income. The **Return on Equity** and Return on Assets increased to **7.4%** and 1.1%, respectively. **Earnings per share** rose to **KES 22.81** from KES 12.37 in the previous financial year.

Share Data	Stanbic Bank Kenya
Ticker	SBIC KN
RECOMMENDATION	SELL
Current Price (KES)	115.00
Target Price (KES)	113.03
Upside	(1.7%)
52WK High (KES)	106.00
52WK Low (KES)	95.00
Market Cap (KES Bn)	45.46
Free float	
P/B	5.0x
P/E	0.8x
Current Price = as of 10th May 2023	

Source: Bloomberg, NSE, NCBA IB Research

Q1 2023 Performance highlights (% = y/y performance)

- **Earnings:** Net income grew by 44.7% mainly driven by a 49.1% growth in interest income coupled with an 89.3% rise in non-funded income along with a 147.7% in FX 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 13.06% in February 2023 from 12.17% recorded in same period in 2022.

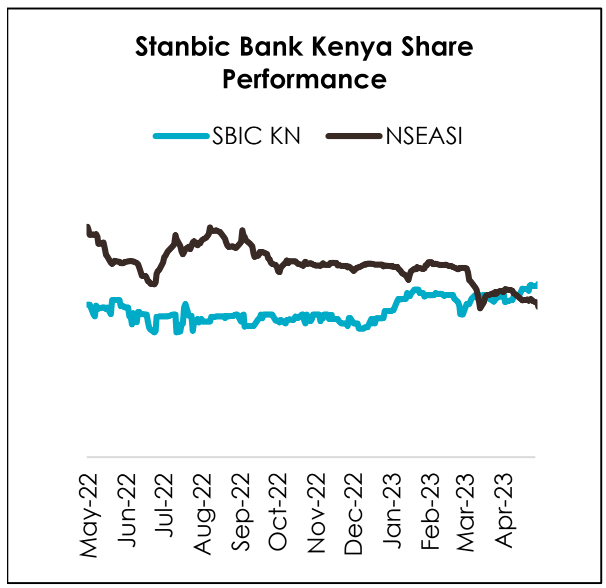
- **Loan book**: The bank's loans and advances to customers grew by 11.5% to KES 230.3Bn boosting overall assets, which grew by 18.3% attributable to the banks' aggressive lending strategy. The loan to deposit ratio declined to 79.1% from 87.8% in FY2022.

- **Customer deposits** increased by 23.8% to KES 291.05Bn faster than the 11.5% growth in loans following aggressive deposit mobilization and supported by branch expansion (three new branches were opened in the year 2022). The bank leveraged on deposits to fund its investments.

- **Government securities** on the other hand rose by 9.77% to 49.90Bn attributable to a favorable interest rate environment. Yields on treasury bills and bonds across various tenors sustained upward pressure in the Q1'2023.The yields on the 91, 182, and 364 day papers are currently at 10.318%, 10.678% and 11.170%, respectively.

- **Efficiency:** Cost to income ratio excluding provisions declined to 40.5% from 49.6% following cost optimization by the lender. Cost to income ratio including provisions declined to 50.7% from 56.8% recorded in Q1 2022.

- **Asset Quality:** Gross NPLs increased by 19.3% to KES 29.3Bn. The NPL ratio grew to 11.3% from 10.6% in 2022. This is indicative of worsening credit quality owing to tough macro-economic conditions.



Source: NSE, NCBA IB Research

Financial Summary

Stanbic Bank Kenya	Key Metrics Y/Y
Loans and Advances	Up 11.5% to KES 230.27Bn
Customer Deposits	Up 23.8% to KES 291.05Bn
Government Securities	Up 9.7% to KES 49.90Bn
Net Interest Income	**Up 49.1% to KES 7.86Bn**
Non-Funded Income	**Up 89.3% to KES 5.74Bn**
Forex trading income	Up 147,7% to KES 4.25Bn
Loan Loss Provisions	Up 132.9% to KES 1.14Bn
PBT	Up 87.8% to KES 5.49Bn
PAT	**Up 84.3% to KES 3.89Bn**
EPS	Up 84.4% to KES 22.81

Stanbic Bank Kenya	Key Ratios Y/Y
Loan Deposit ratio	Down to 79.1% from 87.8%
Net Interest Margin	**Up to 1.4% from 1.1%**
Cost to Income	Down to 40.5% from 49.6%
NPL Ratio	**Up to 11.3% from 10.6%**
Cost of Risk	up to 0.5% from 0.2%
ROE	**Up to 7.4% to 4.0%**
Current Market Price	KES 115.00
P/E	5.0x
P/B	0.8x
Target price	**KES 113.03**

2023 Outlook

We expect Stanbic Bank Kenya 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 is commendable compared to the industry average of 13.93%. 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 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.

About NCBA Investment Bank

NCBA Investment Bank is a subsidiary of NCBA Group. The services offered by the brokerage department include equities trading for listed securities, fixed income trading for both corporate and government bonds, Over the Counter (OTC) equity transactions as well as execution of equities transactions across the East African countries. Additionally, NCBA Investment Bank backs these activities with solid advice from the research team to enable investors meet their return objectives. NCBA Investment Bank deploys simple and convenient client driven technologies, robust risk management, highly competent and experienced staff and has the backing of robust research capabilities to differentiate itself from other players in the market.

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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%

Disclaimer

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