STANBIC HOLDINGS FY 2023 EARNINGS UPDATE

Stanbic Holdings released its financial results posting a **34%** increase in profit after tax largely attributable to 35% increase in net income and 19% increase in non-interest income. The **Return on Equity** increased to **18.3%** while **Earnings Per Share** rose to **KES 30.75** from KES 22.92 in the previous financial year. The Board of directors recommended payment of a **KES 15.35** total dividend per share, translating to 13.3% dividend yield.

Share Data	Stanbic Bank Kenya
Ticker	SBIC KN
RECOMMENDATION	HOLD
Current Price (KES)	115.00
Target Price (KES)	123.52
Upside	7.4%
52WK High (KES)	132.00
52WK Low (KES)	90.00
Market Cap (KES Bn)	45.46
Dividend Yield	13.3%
P/B	0.7x
P/E	3.7x
Current Price = as of 5th February2024	

Source: Bloomberg, NSE, NCBA IB Research

FY2023 Performance – Stanbic Kenya (% = y/y performance)

- **Earnings:** Net income grew by 34% to KES 26.65Bn mainly driven by a 35% growth in interest income coupled with a 19% rise in non-funded income to KES 15.67Bn. 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 14.2% in 2023 from 12.5% in 2022.

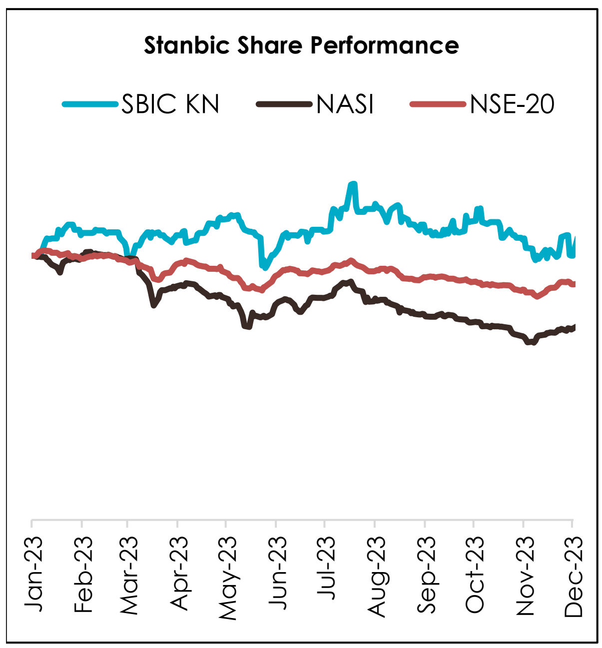
- **Loan book**: The bank's loans and advances to customers grew by 33% to KES 356.2Bn boosting overall assets, which grew by 15% to KES 459.3Bn attributable to the banks' aggressive lending strategy.
  Consequently, the loan to deposit ratio rose to 103% from 88% in FY2022. The bank also started implementing risk based pricing models which boosted commercial lending.

- **Customer deposits** increased by 14% to KES 347.2Bn following aggressive deposit mobilization and supported by branch expansion. The bank leveraged more on borrowed funds and deposits to fund its investments.

- **Government securities:** Investment in government securities on the other hand recorded a 46% decline to due perception on rapid interest rate volatility and sovereign risk.

- **Efficiency:** Cost to income ratio declined to 43.5% from 46.7% as a result of cost optimization by the lender.

- **Asset Quality:** The NPL ratio declined to 9.47% from 10.25% in FY2022. This was commendable performance when compared to the industry average of 14.80%. Credit impairment charges increased by 26% to KES 6.2Bn from KES 4.9Bn in FY2022 to cover the increased credit risk.



Source: NSE, NCBA IB Research

Financial Summary

Stanbic Holdings	Key Metrics Y/Y
Loans and Advances	Up 33% to KES 356.2Bn
Deposits	Up 14% to KES 347.2Bn
Financial investments	Down 46% to KES 45.3Bn
Net Interest Income	**Up 35% to KES 25.76Bn**
Non-Interest Income	**Up 19% to KES 15.67Bn**
Credit impairment	Up 26% to KES 6.2Bn
Profit Before Tax	Up 40% to KES 17.1Bn
Profit After Tax	**Up 34% to KES 12.2Bn**
Earnings Per Share	Up 34% to KES 30.75
Dividend Per Share	**Up 40% to KES 15.35**

Stanbic Holdings	Key Ratios Y/Y
Loan Deposit ratio	Up to 103% from 88%
Net Interest Margin	**Up to 5.97% from 5.20%**
Cost to Income	Down to 43.5% from 46.7%
NPL Ratio	**Down to 9.5% from 10.3%**
Credit loss ratio	Up to 2.35% from 2%
Return On Equity	**Up to 18.3% from 13.3%**
Dividend Payout	Down to 50% from 55%
P/B	0.7x
P/E	3.7x
Dividend Yield	**13.3%**

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 FY2020. The lender targets to maintain a CAGR of 14% -16%. This impressive loan book growth will consequently translate into topline growth momentum. Risk based pricing will further scale the aggressive lending strategy.

2. **Cost Optimization:** The bank is poised to benefit from the efficient cost management with a target of maintaining its Cost to Income ratio within the 41%-43% range.

3. **Risk Management:** Notably, the banks NPL ratio of 9.47% is commendable compared to the industry average of 14.80%. Proactive data-driven risk analysis with credit risk pricing models in the mainstream loans will boost credit loss and cost of risk ratios.

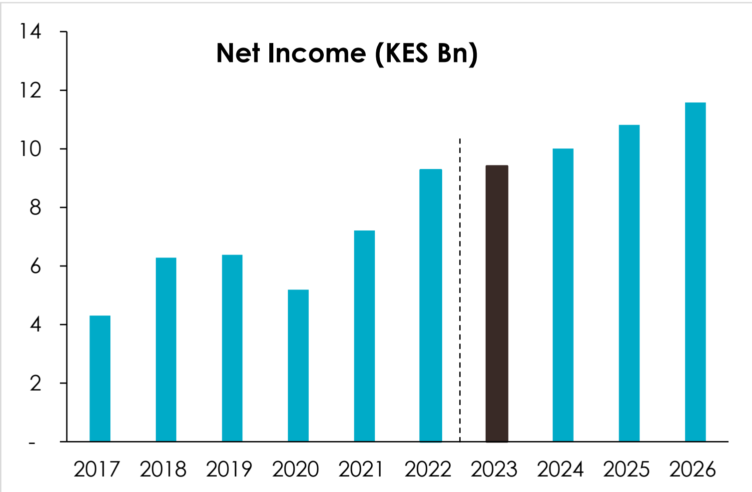
4. **Revenue Diversification**: The split between interest income and non-interest income is currently at 62% and 38%, respectively. The bank has an aggressive target of a 50% split with an aim to diversify its revenue mix. The lender also leverages support from the Group and we expect this, coupled with continued digitalization initiatives will support growth of non-interest income.

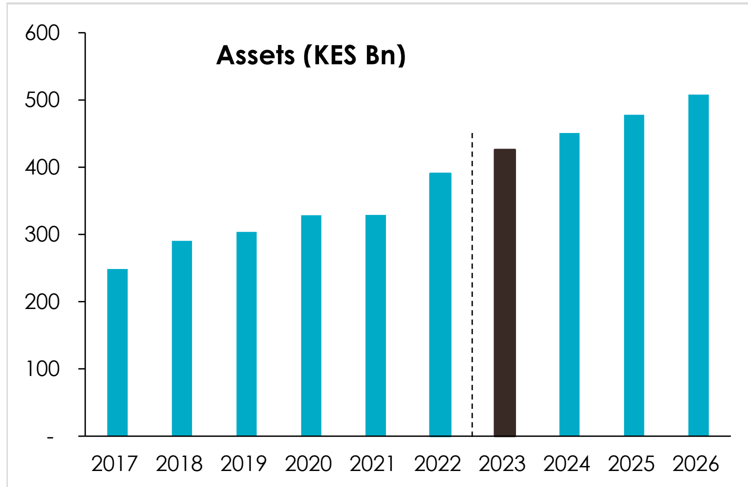
Investment recommendation:

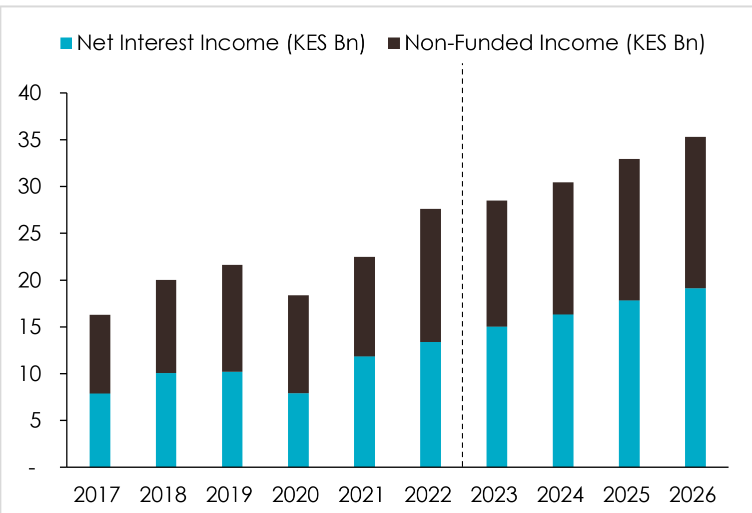
At the current market price, the stock is trading within its fair value but presents a value pick for long-term investors owing to its reliable dividend payout.

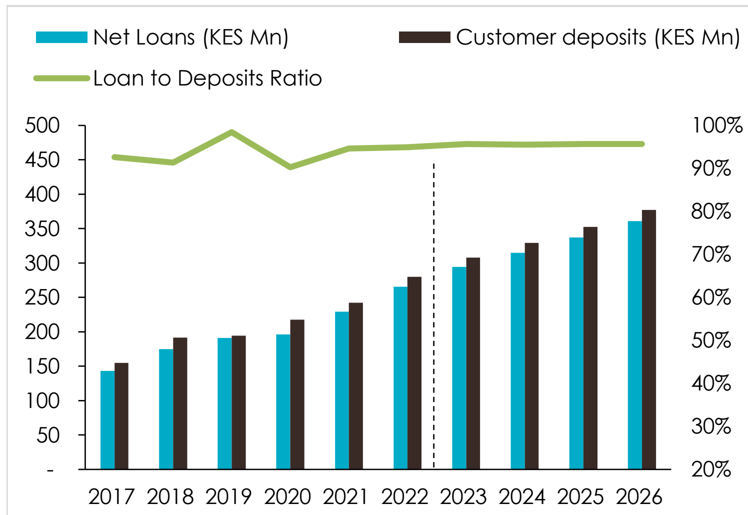
We expect the bank to register long-term profitability based on its revenue diversification and sustained loan book growth.

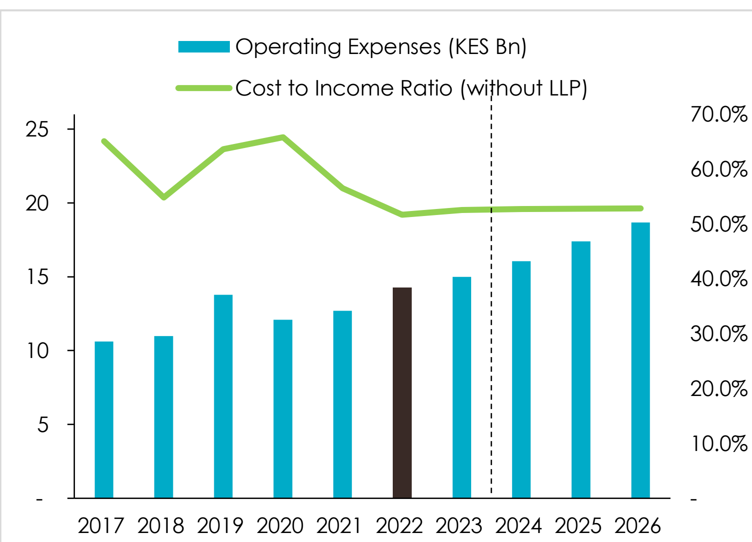
Financial highlights

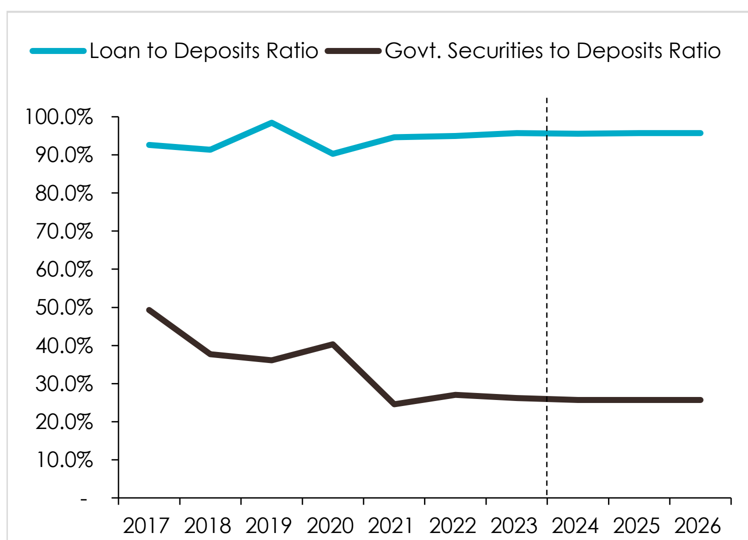












Valuation and Investment Guidance

Following the FY2023 earnings release, and given some of the key business announcements by the company since our last publication, we have reviewed our forecasts and subsequently our valuation of the stock.

From our estimates and assumptions, we see a significant upside potential and maintain our **HOLD** recommendation with a target price of **KES 123.52.** The target price implies an upside of 7.4% to the current trading price of KES 115.00 as of 5th February 2024.

We used four valuation methodologies to arrive at our fair value estimate:

1. Residual Income
2. Price to Book Valuation
3. Price to earnings Valuation
4. Dividend Discount Model

Assumptions

- Risk free rate of 15.75% based on the 10-year Treasury bond historical yields.
- Tax rate of 30%
- Equity risk premium of 9.5%
- Beta of 0.78 on stock's relative volatility on the index.
- Long term growth rate of 5.0% based on average GDP forecast.

Valuation Methodology	Implied Price	Weighting	Weighted Value
Residual Income	128.79	40%	51.51
P/B	130.06	30%	52.02
P/E	115.09	10%	11.51
DDM	84.69	10%	8.47
Fair Value		**100%**	**123.52**
Current Price 05.02.2024			**115.00**
Upside/(Downside)			7.4%

Source: NCBA IB Research Estimates

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.

Physical Address

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

Certification

The following analyst(s) who prepared this research report: Victoria Mututu hereby certifies(y) that:

(i) All of the views and opinions expressed in this research report accurately reflect the research analyst's(s') personal views about the subject investment(s) and companies (y)

(ii) No part of the analyst’s(s’) compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed by the analyst(s) in this research report.

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

Key Contacts: Research Team

ncbaresearch@ncbagroup.com

Trading Team

dealing@ncbagroup.com