



STANBIC HOLDINGS: FY18 EARNINGS UPDATE

Dear All,

Stanbic Holdings PLC released its full year results ending 31st December 2018, recording a 45.7% y-o-y growth in earnings to KES 6.3 BN. EPS for the period stands at KES 15.88. ROE and ROA grew 39 bps and 473 bps y-o-y to 17.9% and 2.2% respectively. Directors recommend a final dividend of KES 3.55 bringing total dividend to KES 5.80 (up 5.5% y-o-y). The final dividend is payable to shareholders on the register as at 10th May 2019.

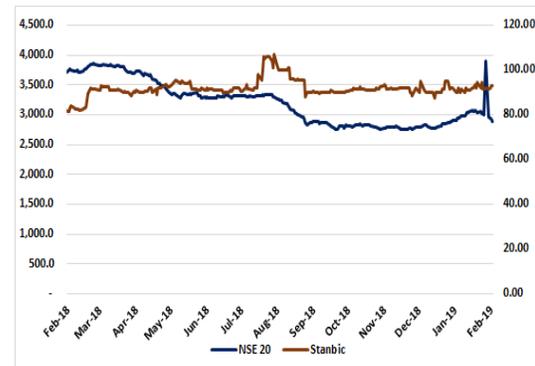
Below please find key highlights (focus is on Bank numbers):

Stanbic Bank's net interest income rose 10.7% y-o-y to KES 11.7BN: Interest income rose 13.8% y-o-y to KES 18.9 BN primarily on account of a 17.7% y-o-y increase in interest on loans and advances to KES 14.2 BN stemming from a 12.3% y-o-y increase in the bank's loan book to KES 146.6 BN despite a 100 bps drop in the CBR rate to 9.0% which lowered the maximum lending rate to 13.0%. Interest expense went up 19.2% y-o-y to KES 7.2 BN. Overall yield on interest earnings assets rose 8 bps y-o-y to 7.6% while cost of funds declined 3 bps y-o-y to 3.0%. This saw net interest margin grow 11 bps y-o-y to 4.6%.

Non-interest income rose 16.9% y-o-y to KES 9.4BN: Fees and commissions income rose 13.7% y-o-y to KES 4.0 BN attributable to increase in trade finance revenue as letters of credit and guarantees grew by more than 100.0%, closure of investment banking deals and continued growth in electronic banking revenues. Consequently, funded income reliance declined 135 bps y-o-y to 55.4%. Income from forex dealing increased 14.0% y-o-y to KES 3.1 BN supported by a 15.0% increase in client volumes.

Operating expenses was up 3.2% y-o-y to KES 10.6 BN: Staff costs grew 2.9% y-o-y to KES 5.6 BN while other expenses rose 5.1% y-o-y to KES 3.9 BN. Cost to income ratio declined 497 bps y-o-y (up 10 bps q-o-q) to 50.2%. Bad debt charge in the income statement declined 37.2% y-o-y to KES 1.7 BN on account of improved asset quality of the bank's performing book.

STANBIC HOLDINGS: 52 WEEK PRICE PERFORMANCE



(Source: NSE, DBIB Research)

PRICE RETURN	ABSOLUTE RETURN	EXCESS RETURN
3 months	(0.3)	(4.4)
6 months	(7.3)	3.8
12 months	13.8	36.6

KEY METRICS

Current Price (KES)	92.75
52 week Range (KES)	81.50-107.00
YTD Return (%)	2.2
Issued Shares (Mn)	395.3
Market Cap (USD Mn)	366.3

Recommendation	OVERWEIGHT
Trailing EPS (KES)	15.88
NAV (KES)	112.88
P/E (x)	5.84
P/B (x)	0.82
Div Yld (%)	6.3

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Gross non-performing loans (NPLs) rose 60.7% y-o-y (+57.0% q-o-q) to KES 16.6 BN: Total NPL (gross NPL less interest in suspense) went up 59.3% y-o-y to KES 13.9 BN. According to management the spike in gross non performing loans in the last quarter of the year was attributed to the agricultural sector. NPL ratio grew 284 bps y-o-y to 10.2% while the coverage ratio rose 535 bps y-o-y to 36.7%.

Total assets grew 17.4% y-o-y (-1.9% q-o-q) to KES 281.0 BN: Loans and advances grew 12.3% y-o-y to KES 146.6 BN with home loans, overdraft, vehicle asset finance and term lending representing 14.0% (down 26.3% y-o-y), 12.0% (down 7.7% y-o-y), 11.0% (up 10.0% y-o-y) and 63.0% (up 8.6% y-o-y) of total loans. Investment securities held to maturity grew three fold to KES 22.5 BN, government securities held for dealing purposes rose 4.7% y-o-y to KES 31.2 BN while government securities available for sale declined 56.4% y-o-y to KES 17.9 BN. Customer deposits grew 29.3% y-o-y to KES 197.9 BN. Current, savings, call and fixed deposits contributed 64.0%, 23.0%, 4.0% and 9.0% of the group's deposits. The loans to deposits ratio (LTD) declined 1,124 bps to 74.1% while the loans to deposits and borrowed funds (LTDB) declined 1,123 bps to 70.3%

Stanbic Bank core capital ratio (core capital: total risk-weighted assets) declined 80 bps y-o-y to 14.6% above the statutory minimum of 10.5%. The total capital to risk weighted assets grew 50 bps to 17.4% compared to a statutory minimum of 14.5%. Liquidity ratio grew 550 bps y-o-y (-330 bps q-o-q) to 57.9%. The decline in core capital ratio was on account of the adaptation of IFRS 9 while the increase in total capital can be attributed to a 49.8% y-o-y in borrowings to KES 10.7 BN. Management stated that approximately KES 1.56 BN was attributable to the adoption of IFRS 9.

Going forward: Stanbic bank is expected to focus on growing both its interest and non interest income. We are of the view that interest income growth will be on account of the groups focus on growing its asset book. Non interest income growth is expected to stem from the group's electronic banking, investment banking and banc-assurance segments. The group's new core banking system is expected to increase efficiency resulting in savings in the medium term. We also highlight that Stanbic Holdings Limited (SAHL) has until 31st December 2019 to increase its stake in Stanbic Bank from 69.05% to 75.00%. Stanbic Holdings is trading at a **P/E** and **P/B** multiples of **5.84x** and **0.82x** respectively against industry median **P/E** and **P/B** multiples of **6.96x** and **1.02x** respectively. We issue a **OVERWEIGHT** recommendation.

PROFIT AND LOSS SUMMARY (KES MN): BANK ONLY

Year End: December	FY18	FY17	y-y% ch	4Q18	3Q18	4Q17	q-q %chg	y-y% chg
Interest income	18,879	16,593	13.8	5,050	4,717	4,389	7.1	15.0
Interest expense	(7,157)	(6,005)	19.2	(1,851)	(1,769)	(1,572)	4.6	17.7
Net interest income	11,722	10,588	10.7	3,199	2,948	2,817	8.5	13.6
Other operating income	2,353	1,846	27.5	253	480	508	(47.3)	(50.2)
Fees and commission income	4,014	3,532	13.7	1,041	990	811	5.1	28.4
Net income from forex dealings	3,058	2,682	14.0	717	659	543	8.9	32.2
Total non-interest income	9,425	8,060	16.9	2,011	2,129	1,861	(5.5)	8.1
Total income	21,147	18,648	13.4	5,210	5,077	4,678	2.6	11.4
Less operating expenses	(10,615)	(10,287)	3.2	(2,630)	(2,792)	(2,963)	(5.8)	(11.2)
Operating profit	10,532	8,361	26.0	2,579	2,284	1,715	12.9	50.4
Bad debt charge	(1,734)	(2,761)	-37.2	(487)	(994)	(496)	(51.0)	(1.8)
Exceptional items	(13)	(187)	-93.2	(4)	307	(85)	(101.4)	(94.8)
Profit before tax	8,785	5,413	62.3	2,088	1,598	1,134	30.6	84.1
Tax	(2,609)	(1,074)	143.0	(645)	(353)	(21)	82.5	3,021.9
Profit after tax	6,176	4,339	42.3	1,443	1,245	1,113	15.9	29.6
Attributable Income	6,176	4,339	42.3	1,443	1,245	1,113	15.9	29.6
EPS (KES)	15.6	10.9	43.3	3.6	3.1	2.82	15.9	29.6

(Source: Company, DBIB Research)

BALANCE SHEET SUMMARY (KES MN)

Year End: December	FY18	3Q18	FY17	y-y % ch	q-q% ch
Total Equity	34,591	33,140	33,051	4.7	4.4
Deposits due to other banks	30,293	44,423	38,296	(20.9)	(31.8)
Customer deposits	197,915	181,458	153,009	29.3	9.1
Borrowed funds	10,728	12,314	7,160	49.8	(12.9)
Other liabilities	7,426	14,974	7,892	(5.9)	(50.4)
Total equity and liabilities	280,953	286,308	239,408	17.4	(1.9)
Central bank balances	20,037	19,151	6,458	210.3	4.6
Deposits due from banks	28,295	29,317	12,641	123.8	(3.5)
Investment Securities HTM & AFS	41,052	40,497	46,433	(11.6)	1.4
Held for dealing	31,202	41,953	29,806	4.7	(25.6)
Customer loans and advances	146,604	141,111	130,536	12.3	3.9
Other assets	10,544	11,152	10,202	3.3	(5.5)
Intangible assets	1,033	979	1,081	(4.4)	5.4
Fixed assets	2,186	2,147	2,252	(2.9)	1.8
Total assets	280,953	286,308	239,408	17.4	(1.9)

(Source: Company, DBIB Research)

CAPITAL ADEQUACY, LIQUIDITY & ASSET QUALITY

	FY18	9M18	FY17	y-y bps ch	q-q bps chg
Core capital/TRWA (%)	14.6	13.9	15.4	(80)	70
Min. Statutory Ratio (%)	10.5	10.5	10.5	-	-
Total capital/TRWA (%)	17.4	16.9	16.9	50	50
Min. Statutory Ratio (%)	14.5	14.5	14.5	-	-
Liquidity Ratio (%)	57.9	61.2	52.4	550	(330)
Min. Statutory Ratio (%)	20.0	20.0	20.0	-	-
Leverage Ratio (%)	12.3	11.6	13.8	(149)	74
Equity-to-Loans Ratio (%)	23.6	23.5	25.3	(172)	11
NPL Ratio (%)	10.2	7.0	7.4	284	321
NPL Coverage Ratio (%)	36.7	37.2	31.3	535	(49)
Long Term Debt to Total Liabilities and Equity (%)	3.8	4.3	3.0	83	(48)
NTA/share (KES)	84.9	81.4	80.9	5.0	4.3
Book value/share (KES)	87.5	83.8	83.6	4.7	4.4
Payout ratio (%)	37.1	-	48.2	(1,104)	3,712
Adj payout ratio (%)	37.0	-	45.9	(881)	3,705

(Source: Company, DBIB Research)

OPERATING PERFORMANCE

	FY18	9M18*	FY17	y-y bps ch	q-q bps chg
Yield on interest earning assets (%)	7.64	7.29	7.56	8	35
Cost of funds (%)	3.00	2.97	3.0	(3)	3
Net Interest Margin (%)	4.64	4.32	4.54	11	32
Loan-to-Deposits ratio (%)	74.1	77.8	85.3	(1,124)	(369)
Loan-to-Dep.&Borrowed Funds ratio (%)	70.3	72.8	81.5	(1,123)	(256)
Funded Income Generating Potential (%)	88.0	88.3	91.6	(368)	(35)
Funded Income Reliance (%)	55.4	53.5	56.8	(135)	195
Cost to income ratio (%)	50.2	50.1	55.2	(497)	10
Pre-tax margin (%)	41.5	42.0	24.3	1,721	(48)
PAT margin (%)	29.2	29.7	23.3	594	(49)

*Annualized

(Source: Company, DBIB Research)

INVESTMENT RETURN

	FY18	9M18	FY17	y-y bps ch	h-h bps chg
ROA (%)*	2.2	2.2	1.8	39	(1)
ROIC (%)*	2.3	2.3	1.9	38	(7)
ROE (%)*	2.2	1.7	1.8	39	55

*Annualized

(Source: Company, DBIB Research)

APPENDIX

COMPANY INVESTMENT RATINGS

Buy: Share price may generate more than 15.0% upside over the next 12 months

Overweight: Share price may generate between 5.0% and 15.0% upside over the next 12 months

Hold: Share price may fall within the range of <+5.0/ -10.0% over the next 12 months

Take Profit: Target price has been attained. Look to accumulate at lower levels. Company fundamentals however remain strong

Underweight: Share price may generate between 10.0% and 15.0% downside over the next 12 months

Sell: Share price may generate more than 15.0% downside over the next 12 months, significant business and/or financial risks present, industry concerns

Not Rated: Counter is not within regular research coverage

SECTOR INVESTMENT RATINGS

Overweight: Industry performance better than that of the whole market

Equal weight: Industry performance about the same as that of the whole market

Underweight: Industry performance worse than that of the whole market

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