# DYER & BLAIR INVESTMENT BANK

# EARNINGS UPDATE

*Founder Member of the Nairobi Securities Exchange*

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DYER & BLAIR INVESTMENT BANK

WE KNOW. YOU KNOW.

## STANBIC HOLDINGS PLC: FY19 EARNINGS UPDATE

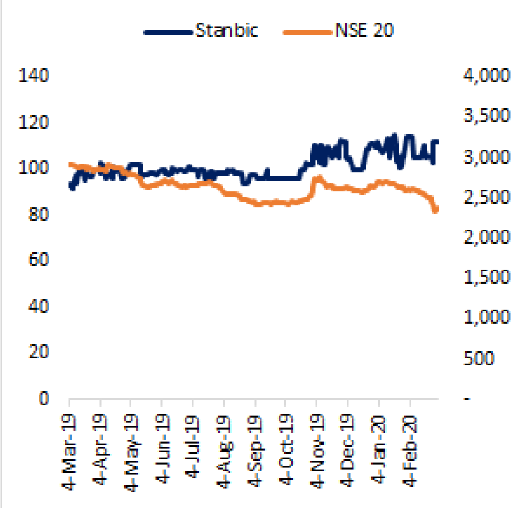
**Dear All,**

**Stanbic Holdings PLC** announced its FY19 results reporting a 1.6% y-o-y increase in **PAT** to KES 6.4 BN. **Total income** edged up 12.2% y-o-y to KES 24.8 BN courtesy of a 10.0% y-o-y increase in **net interest income** to KES 13.3 BN and a 14.7% y-o-y increase in **non-interest income** to KES 11.4 BN. **Operating expenses** increased by 25.6% y-o-y to KES 13.9 BN whilst **credit impairment charges** rose 52.6% to KES 3.2 BN. **Total liabilities** increased by 3.5% y-o-y to KES 254.6 BN primarily on account of a 2.4% y-o-y growth in **deposits** to KES 224.7 BN. **Total assets** rose 4.5% y-o-y to KES 303.6 BN. The **loan book** expanded by 9.3% y-o-y to KES 191.2 BN whereas **financial investments** contracted by 3.0% y-o-y to KES 70.1 BN. **EPS** for the period closed at KES 16.14 whereas **DPS** for the period closed at KES 7.05, 21.6% higher than FY18.

**Stanbic Bank** reported a 0.7% y-o-y increase in **PAT** to KES 6.2 BN curtailed by a 19.6% y-o-y increase in **operating expenses** to KES 12.7 BN and a 50.8% y-o-y upsurge in **loan loss provisions** to KES 2.6 BN. **Total income** saw an 11.3% y-o-y increase to KES 23.5 BN courtesy of a 8.7% y-o-y increase in **net interest income** to KES 12.7 BN and a 14.7% y-o-y increase in **non-interest income** to KES 10.8 BN. The **loan book** grew 4.2% y-o-y to KES 152.8 BN despite a 2.2% y-o-y drop in customer **deposits** to KES 193.5 BN. The bank's **EPS** for the period stood at KES 36.48 whereas **DPS** edged up 18.1% y-o-y to KES 15.24. Annualized **ROE** and **ROA** declined 188 bps and 7 bps y-o-y to 16.0% and 2.1% respectively.

**SBG Securities** reported a 58.1% y-o-y upswing in **PAT** to KES 121.9 MN courtesy of a 17.8% y-o-y rise in **total income** to KES 415.2 MN vis-à-vis a relatively flat y-o-y growth in **expenses** to KES 237.1 MN. **Advisory fees** went up 190.1% y-o-y to KES 94.3 MN owing to key capital market transactions i.e. Rubis (Kenol Kobil), Acorn (Green Bond) and CDC (DFCU - IFU transaction).

**STANBIC KENYA 52 WEEK PRICE PERFORMANCE**




*(Source: NSE, DBIB Research)*

| PRICE RETURN | ABSOLUTE RETURN | EXCESS RETURN |
|---|---|---|
| 3 month (%) | 0.0 | 10.3 |
| 6 month (%) | 14.9 | 18.0 |
| 12 month (%) | 20.4 | 39.1 |

| KEY METRICS | |
|---|---|
| Current Price (KES) | 112.00 |
| Target Price (KES) | 119.41 |
| 52 week low (KES) | 91.75 |
| 52 week high (KES) | 114.50 |
| YTD Return (%) | 2.5 |
| Issued Shares (MN) | 395.3 |
| Market Cap (USD MN) | 437.7 |

| | |
|---|---|
| Recommendation | HOLD |
| Trailing EPS (KES) | 16.14 |
| NAV (KES) | 124.0 |
| P/E (x) | 6.9 |
| P/B (x) | 1.1 |
| Div Yld (%) | 6.3 |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**Stanbic Insurance Agency** reported a 10.8% y-o-y growth in PAT to KES 91.0 MN owing to a 10.9% y-o-y increase in total income to KES 286.0 MN and a 2.1% y-o-y increase in total expenses to KES 147.0 MN. The agency's income growth is bolstered by the bank's embedded products basically in line with the banks loan book growth as well as non-embedded products from various business lines.

**Key highlights on the bank's performance:**

**Yield on interest earning assets saw a 47 bps y-o-y increase to 8.1%.** Total interest income went up by 8.1% y-o-y to KES 20.4 BN. This is primarily attributable to a 10.8% y-o-y increase in interest income from loans and advances to KES 15.7 BN despite a modest growth in the loan book (4.2% y-o-y). Interest income from government securities saw a 5.9% y-o-y decline to KES 4.1 BN.

**Cost of funds saw a 23 bps increase to 3.2%** on account of a 7.1% y-o-y increase in total interest expenses to KES 7.7 BN. Interest expenses from customer deposits went up 16.6% y-o-y to KES 5.3 BN despite a decline in deposits (2.2% y-o-y). As a result, net interest margin (NIM) edged up 23 bps y-o-y to 4.9%.

**Funding income reliance reduced by 132 bps to 54.1%** owing to a 14.7% y-o-y increase in total non-interest income to KES 10.8 BN. Net income from forex dealings saw a 59.1% y-o-y growth to KES 4.9 BN courtesy of an increase in foreign exchange margins. Fees and commission income rose 11.7% y-o-y to KES 4.5 BN attributable to an increase in revenue from electronic banking channels.

**Cost to income ratio (CTI) edged up by 371 bps to 53.9%** driven by a 19.6% y-o-y increase in operating expenses (less loan loss provisions) to KES 12.7 BN. Staff costs saw a 0.6% y-o-y decline to KES 5.6 BN. Other expenses went up 51.0% y-o-y to KES 5.9 BN partly owing to a one-off guarantee payment (c. KES 1.5 BN before tax) subject to a delayed performance claim by one/some of the bank's early retirement participants. The Voluntary Early Retirement (VER) program that was completed in 3Q19 exercise partly offset bottom line growth for the year as total redundancy costs totaled to KES 773.2 MN.

**Cost of risk escalated to 1.7%, representing a 53 bps y-o-y increase,** courtesy of a 50.8% y-o-y increase in loan loss provisioning to KES 2.6 BN. Management attributed this to additional provisions on its pre 2019 NPL book, as well as growth in the current performing book.

**Profit before tax (PBT) saw a 15.0% y-o-y decline to KES 7.5 BN.** Tax charges for the period came in at KES 1.2 BN, 52.3% lower than the previous year. Management attributed this to tax credits awarded from write-offs from previously pre-provisioned NPLs.

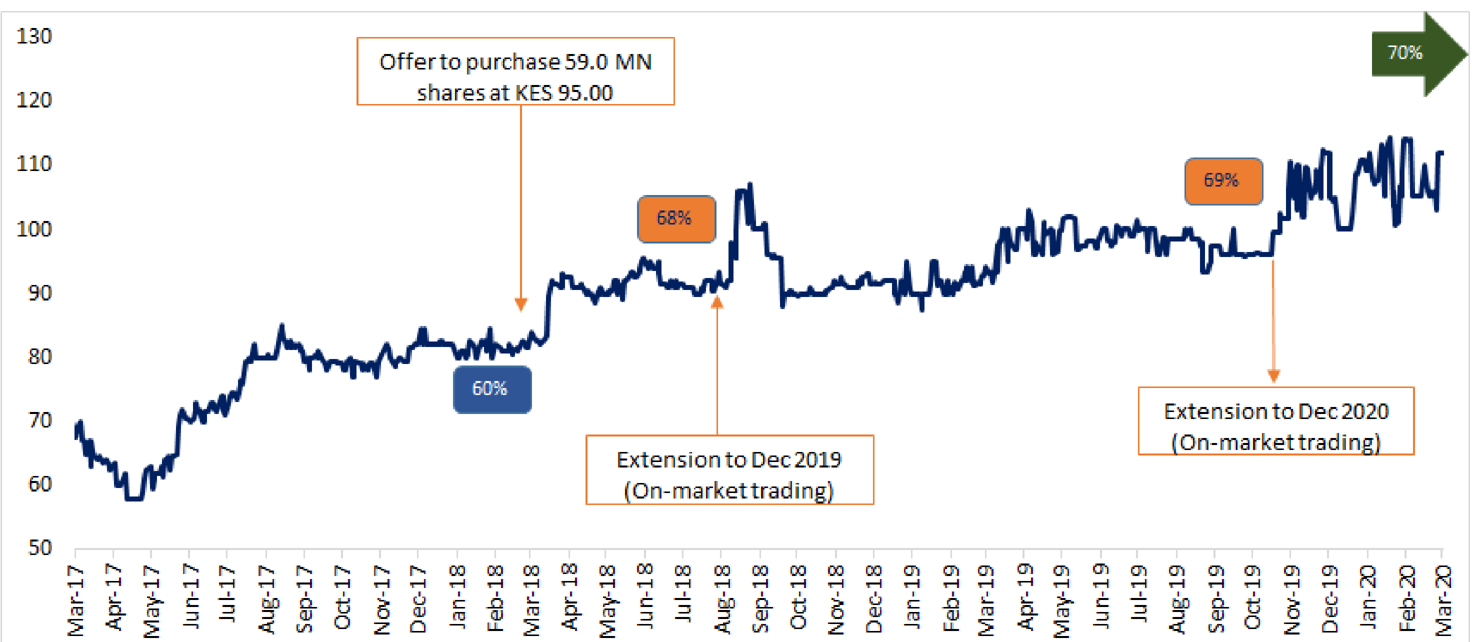
**The loans to deposits ratio went up 489 bps y-o-y to 79.0%.** The personal and business banking (PBB) segment contributed 54.0% of the loan book whilst the commercial and investment banking (CIB) segment contributed 46.0%. On the deposit side, PBB and CIB segments contributed 52.0% and 48.0% respectively. Having achieved this pre-envisioned mix, management can now boast of being a universal bank. This mix alongside the growth in local currency accounts reduced the bank's cost of funding and in turn improved its margins.

**The bank's NPL ratio saw a 104 bps y-o-y increase to 11.2% whilst the bank's NPL coverage ratio decreased 74 bps y-o-y to 35.9%.** The PBB and CIB segments contributed 31.0% and 69.0% of total NPLs respectively. Management relates the current NPL position to the sector-wide distress. However, they are optimistic about the resolution of the key sticky non-performing accounts.

**Core capital ratio (Core capital/TRWA) edged up by 60 bps y-o-y to close at 15.2% whereas Total capital/TRWA ratio improved 90 bps y-o-y to 18.3%.** Both ratios remain above the statutory minimum of 10.5% and 14.5% respectively. Liquidity ratio advanced 50 bps y-o-y to 58.4%, above the statutory minimum of 20.0%. The banks leverage ratio for the period was placed at 13.3%, recording a 99 bps y-o-y improvement.

**We highlight that the counter's share price** has been anchored by the parent company's goal to achieve a shareholding of just under 75.0%. The shareholding of Stanbic Africa Holdings Limited (SAHL) increased from 60.0% to 68.0% in July 2018 and subsequently to 69.1% as of November 2019. We are of the opinion that the counter will receive the same support in the medium term as SAHL targets to achieve a 74.9% shareholding by December 2020.

**SHARE PRICE PERFORMANCE**




*Source: NSE, DBIB Research*

**Going forward:** Whilst the repeal of the interest rate cap alongside accommodative policies is a key theme for growth in the banking sector, we argue that the current economic conditions dim the prospects for private sector credit growth. To put it into perspective, Stanbic remains bullish in leveraging growth from the key big 4 agenda i.e. affordable healthcare, food security (c. 15.0% of loan book), manufacturing (c. 21.0% of loan book) and affordable housing (invested in KMRC). However, if the current locusts menace persists up until mid-year, we believe this will severely affect the already struggling agriculture ecosystem and possibly heighten inflation levels. The continued spread of coronavirus will see reduced trade across the globe thus severely impacting all the key sectors locally, especially the wholesale and retail trade sector (c. 11.0% of the loan book).

We highlight that aside from these macro threats and on the back of its strong corporate strategy, Stanbic Plc will see strong performance from the personal and business banking (PBB) and corporate and investment banking (CIB) segments. Stanbic also stands to leverage profits from SBG securities granted that its brokerage business ranked first in EAC (17.4% market share) and the healthy pipeline of advisory/ consultancy deals. In addition, the Stanbic Insurance Agency will report profits in line with the group's balance sheet owing to embedded products and accrual-based non-embedded products.

On a trailing basis, Stanbic Holdings Plc is trading at a P/E of **6.9x** and a P/B of **0.9x**, relative to the sector medians of **5.7x** and **0.9x** respectively. Its ROE stands at **13.0%** relative to sector median of **15.8%** whereas its ROA stands at **2.1%** relative to sector median of **2.4%**. We maintain our **HOLD** recommendation.

## PROFIT AND LOSS SUMMARY (KES MN) (STANBIC BANK KENYA)

| Year End: December | FY19 | FY18 | y-y% ch | 4q19 | 3q19 | 4q18 | q-q %chg | y-y% chg |
|---|---|---|---|---|---|---|---|---|
| Interest income | 20,405 | 18,879 | 8.1 | 5,008 | 5,326 | 5,050 | (6.0) | (0.8) |
| Interest expense | (7,665) | (7,157) | 7.1 | (1,866) | (2,078) | (1,851) | (10.2) | 0.8 |
| Net interest income | 12,740 | 11,722 | 8.7 | 3,142 | 3,247 | 3,199 | (3.2) | (1.8) |
| Other operating income | 1,458 | 2,353 | (38.0) | (264) | 1,345 | 253 | (119.6) | (204.4) |
| Fees and commission income | 4,484 | 4,014 | 11.7 | 822 | 914 | 1,041 | (10.0) | (21.0) |
| Net income from forex dealings | 4,864 | 3,058 | 59.1 | 1,479 | 704 | 717 | 110.1 | 106.2 |
| Total non-interest income | 10,806 | 9,425 | 14.7 | 2,038 | 2,963 | 2,011 | (31.2) | 1.3 |
| Total income | 23,546 | 21,147 | 11.3 | 5,179 | 6,210 | 5,210 | (16.6) | (0.6) |
| Less operating expenses | (12,692) | (10,615) | 19.6 | (2,699) | (4,162) | (2,630) | (35.1) | 2.6 |
| Operating profit | 10,854 | 10,532 | 3.1 | 2,480 | 2,048 | 2,579 | 21.1 | (3.9) |
| Bad debt charge | (2,614) | (1,734) | 50.8 | (947) | (750) | (487) | 26.2 | 94.3 |
| Exceptional items | (773) | (13) | 5,966.9 | 0 | (773) | (4) | (100.0) | (100.0) |
| Profit before tax | 7,467 | 8,785 | (15.0) | 1,533 | 524 | 2,088 | 192.4 | (26.6) |
| Tax | (1,244) | (2,609) | (52.3) | (417) | 622 | (645) | (167.0) | (35.4) |
| Profit after tax | 6,222 | 6,176 | 0.7 | 1,117 | 1,146 | 1,443 | (2.6) | (22.6) |
| Attributable Income | 6,148 | 6,176 | (0.5) | 1,039 | 1,149 | 1,443 | (9.6) | (28.0) |
| EPS (KES) | 16.14 | 15.88 | 1.64 | 3.22 | 2.91 | 3.91 | 10.7 | (17.6) |
| DPS (KES) | 7.05 | 5.80 | 21.55 | | | | | |

*(Source: Company, DBIB Research)*

## BALANCE SHEET SUMMARY (KES MN) (STANBIC BANK KENYA)

| Year End: December | FY19 | 3Q19 | FY18 | y-y % ch | q-q% ch |
|---|---|---|---|---|---|
| Total shareholder's equity | 38,940 | 37,782 | 34,591 | 12.6 | 3.1 |
| Minority interest | - | - | - | N/A | N/A |
| Total Equity | 38,940 | 37,782 | 34,591 | 12.6 | 3.1 |
| Deposits due to other banks | 30,553 | 40,898 | 30,293 | 0.9 | (25.3) |
| Customer deposits | 193,514 | 191,256 | 197,915 | (2.2) | 1.2 |
| Borrowed funds | 13,953 | 12,415 | 10,728 | 30.1 | 12.4 |
| Other liabilities | 15,746 | 11,952 | 7,426 | 112.0 | 31.7 |
| Total equity and liabilities | 292,705 | 294,302 | 280,953 | 4.2 | (0.5) |
| Central bank balances | 24,021 | 36,005 | 20,037 | 19.9 | (33.3) |
| Deposits due from banks | 38,353 | 27,634 | 28,295 | 35.5 | 38.8 |
| Investment Securities | 35,868 | 27,045 | 41,052 | (12.6) | 32.6 |
| Held for dealing | 24,654 | 24,490 | 31,202 | (21.0) | 0.7 |
| Customer loans and advances | 152,814 | 161,745 | 146,604 | 4.2 | (5.5) |
| Other assets | 12,515 | 12,877 | 10,544 | 18.7 | (2.8) |
| Intangible assets | 862 | 925 | 1,033 | (16.5) | (6.7) |
| Fixed assets | 3,617 | 3,582 | 2,186 | 65.4 | 1.0 |
| Total assets | 292,705 | 294,302 | 280,953 | 4.2 | (0.5) |

*(Source: Company, DBIB Research)*

## INVESTMENT RETURN

| | FY19 | 9M19 | FY18 | y-y bps ch | h-h bps chg |
|---|---|---|---|---|---|
| ROA (%)* | 2.1 | 2.3 | 2.2 | (7) | (19) |
| ROIC (%)* | 2.2 | 2.8 | 2.3 | (1) | (57) |
| ROE (%)* | 16.0 | 18.0 | 17.9 | (188) | (204) |

*(Source: Company, DBIB Research)*
**Annualized*

## CAPITAL ADEQUACY, LIQUIDITY & ASSET QUALITY (STANBIC BANK KENYA)

| | FY19 | 9M19 | FY18 | y-y bps ch | h-h bps ch |
|---|---|---|---|---|---|
| Core capital/TRWA (%) | 15.2 | 13.9 | 14.6 | 60 | 130 |
| Min. Statutory Ratio (%) | 10.5 | 10.5 | 10.5 | - | - |
| Total capital/TRWA (%) | 18.3 | 17.2 | 17.4 | 90 | 110 |
| Min. Statutory Ratio (%) | 14.5 | 14.5 | 14.5 | - | - |
| Liquidity Ratio (%) | 58.4 | 55.5 | 57.9 | 50 | 290 |
| Min. Statutory Ratio (%) | 20.0 | 20.0 | 20.0 | - | - |
| Leverage Ratio (%) | 13.3 | 12.8 | 12.3 | 99 | 47 |
| Equity-to-Loans Ratio (%) | 25.5 | 23.4 | 23.6 | 189 | 212 |
| Loans-to-deposits (%) | 79.0 | 84.6 | 74.1 | 489 | (560) |
| | | | | | |
| NPL Ratio (%) ** | 11.2 | 10.5 | 10.2 | 104 | 77 |
| NPL Coverage Ratio (%) ** | 35.9 | 46.8 | 36.7 | (74) | (1,089) |
| LT Debt to Total Liabilites and Equity (%) | 4.8 | 4.2 | 3.8 | 95 | 55 |
| NTA/share (KES) | 96.3 | 93.2 | 84.9 | 13.5 | 3.3 |
| Book value/share (KES) | 98.5 | 95.6 | 87.5 | 12.6 | 3.1 |
| Payout ratio (%) | 43.7 | - | 36.5 | 716 | 4,368 |
| Adj payout ratio (%) | 39.8 | - | 37.0 | 279 | 3,984 |

*(Source: Company, DBIB Research)*

***Total Loan Portfolio net of Interbank Lending*

## OPERATING PERFORMANCE (STANBIC BANK KENYA)

| | FY19 | 9M19 | FY18 | y-y bps ch | h-h bps ch |
|---|---|---|---|---|---|
| Yield on interest earning assets (%) * | 8.11 | 8.52 | 7.64 | 47 | (41) |
| Cost of funds (%) * | 3.22 | 3.16 | 3.00 | 23 | 6 |
| Net Interest Margin (%) * | 4.89 | 5.36 | 4.64 | 24 | (47) |
| Loan-to-Deposits ratio (%) | 79.0 | 84.57 | 74.07 | 489 | (560) |
| Loan-to-Dep.&Borrowed Funds ratio (%) | 73.7 | 79.42 | 70.27 | 339 | (576) |
| Funded Income Generating Potential (%) | 86.0 | 81.86 | 87.97 | (198) | 413 |
| Funded Income Reliance (%) | 54.1 | 52.26 | 55.43 | (132) | 185 |
| Cost to income ratio (%) | 53.9 | 54.41 | 50.20 | 371 | (50) |
| Cost of risk (%) | 1.7 | 1.0 | 1.2 | 53 | 68 |
| Pre-tax margin (%) | 31.7 | 32.30 | 41.54 | (983) | (59) |
| PAT margin (%) | 26.4 | 27.80 | 29.21 | (278) | (137) |

*(Source: Company, DBIB Research)*

** Annualized*

# 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 10.0% and 15.0% upside over the next 12 months

**Hold:** Share price may fall within the range of +/- 10% 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

# DISCLAIMER