

DYER & BLAIR INVESTMENT BANK

EARNINGS UPDATE

Founder Member of the Nairobi Securities Exchange

18th May 2020



DYER & BLAIR
INVESTMENT BANK

WE KNOW. YOU KNOW.

STANBIC BANK KENYA: 1Q20 EARNINGS UPDATE

Dear All,

Stanbic Bank announced its 1Q20 results reporting a 33.5% y-o-y downswing in profit after tax (PAT) to KES 1.5 BN. The bank's earnings per share (EPS) for the period closed at KES 8.97 compared to KES 13.48 in 1Q19. The bank's annualized ROE declined 988 bps y-o-y to 15.1% whereas annualized ROA declined 125 bps y-o-y to 2.0%.

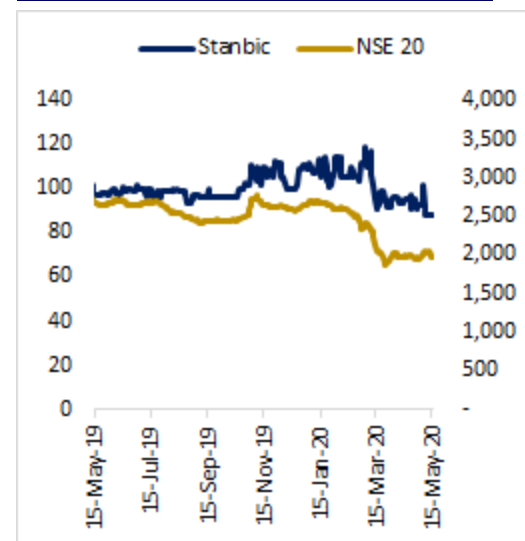
Key highlights:

Net interest income declined 11.0% y-o-y to KES 3.0 BN attributable to a 7.1% y-o-y decline in interest income to KES 4.8 BN and a 0.5% y-o-y increase in interest expense to KES 1.7 BN. Annualized yield on interest earning assets dropped 104 bps y-o-y to 7.1% whereas annualized cost of funds dropped 21 bps y-o-y to 2.7%. As a result, the bank's annualized net interest margin (NIM) edged down 83 bps y-o-y to 4.4%.

Interest income from loans and advances declined 7.9% y-o-y to KES 3.6 BN courtesy of the subsequent downward revision of the CBR amidst efforts to boost liquidity levels during the current COVID-19 era. This placed the annualized yield on loans for the period at 9.5%, 206 bps down y-o-y. Interest income from government securities declined 18.5% y-o-y to KES 899.6 MN placing the annualized yield on government securities at 8.5%, 86 bps down y-o-y. Interest expense from customer deposits rose 11.2% y-o-y to KES 1.3 BN placing the annualized cost of deposits at 2.7%.

Non-funded income (NFI) dropped 29.2% y-o-y to KES 2.3 BN. This is ascribable to a 18.1% y-o-y slump in forex income to KES 1.2 BN and a 37.6% y-o-y decline in fees and commission income to KES 1.1 BN. Fees and commissions on loans saw a 8.1% y-o-y decline to KES 88.8 MN whilst other fees and commissions declined 39.4% y-o-y to KES 961.2 MN. As a result, funded income reliance rose 569 bps y-o-y to 56.8%. This is as a consequence of the zero rated transaction fees between wallets, the foregone charges turned incurred expenses on restructuring processes, the dull M&A environment and the volatility impacted trading book.

STANBIC KENYA 52 WEEK PRICE PERFORMANCE



(Source: NSE, DBIB Research)

PRICE	ABSOLUTE	EXCESS
RETURN	RETURN	RETURN
3 month (%)	(16.4)	6.4
6 month (%)	(19.6)	5.9
12 month (%)	(9.7)	16.2

KEY METRICS

Current Price (KES)	88.00
52 week low (KES)	88.00
52 week high (KES)	118.50
YTD Return (%)	(19.5)
Issued Shares (MN)	395.3
Market Cap (USD MN)	325.7

Recommendation	HOLD
Target price (KES)	Under review
Trailing EPS (KES)	13.79
NAV (KES)	102.6
P/E (x)	6.4
P/B (x)	0.9
Div Yld (%)	-

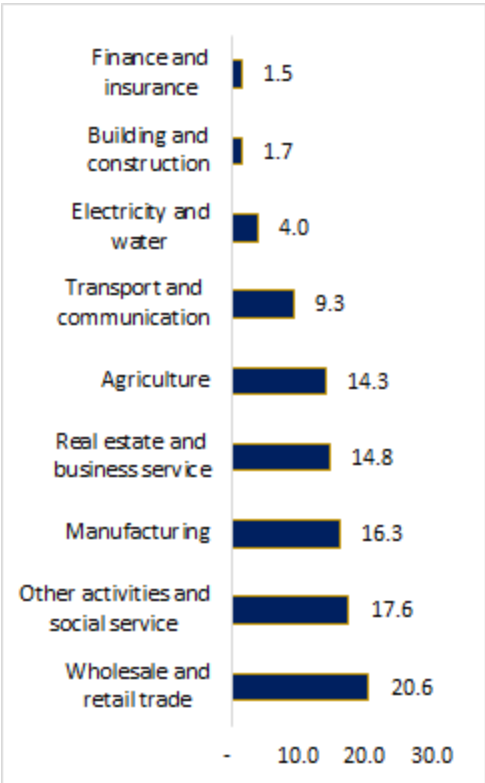
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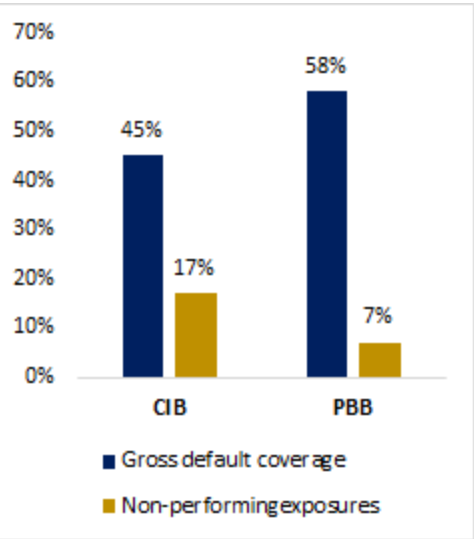
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LOAN BOOK: SECTORAL ANALYSIS (%)



Source: (Company Filings, DBIB Research)

NPLS & COVERAGE PER BUSINESS SEGMENT



Source: (Company Filings, DBIB Research)

KEY

CIB: Corporate and Investment Banking

PBB: Personal and Business Banking

Operating expenses (less loan provisions) declined 10.2% y-o-y to KES 2.6 BN courtesy of a 15.3% y-o-y decline in staff costs to KES 1.2 BN following the recent voluntary early retirement program and a 8.7% y-o-y decline in other expenses to KES 961.2 MN. The bank's cost to income ratio rose 569 bps y-o-y to 48.9%. The bank's loan loss provision expense shrunk 2.3% y-o-y to KES 617.0 MN placing the annualized cost of risk at 1.5%, 22 bps down y-o-y. We foresee a spike in the bad debt charge from 2Q20 owing to the rise of a new lot of non-performing accounts across key sectors affected by the COVID-19 pandemic and locusts menace.

Total assets advanced 8.7% y-o-y to KES 309.7 BN (+5.8 q-o-q). Customer loans and advances saw a 11.8% y-o-y increase to KES 161.7 BN (+5.9% q-o-q) plausibly as a result of businesses seeking to boost their cash flow position so as to fund their working capital gaps. Investment securities shrunk 19.9% y-o-y to KES 37.8 BN (+5.4% q-o-q) whereas held for dealing securities declined 1.6% y-o-y to KES 39.7 BN (+61.0% q-o-q).

On the other hand, customer deposits advanced 6.4% y-o-y to KES 202.7 BN (+4.8% q-o-q). Deposits due to other banks rose 6.9% y-o-y to KES 38.1 BN (+24.6% q-o-q) partly due to the newly injected liquidity in the sector. Loans to deposits ratio rose 387 bps y-o-y to 79.8%. In parallel, loans to deposits and borrowed funds ratio rose 206 bps y-o-y to 73.6%.

Gross non-performing loans (NPLs) rose 25.8% y-o-y to KES 21.1 BN whereas interest in expense rose 47.2% y-o-y to KES 4.7 BN. As such, total NPLs rose 20.7% y-o-y to KES 16.3 BN. On a year-on-year basis, the NPL ratio worsened from 10.4% in 1Q19 to 11.5% in 1Q20. Loan loss provisions rose 24.4% y-o-y to KES 7.8 BN. The NPL coverage ratio declined 41 bps y-o-y to 36.8%. We foresee subsequent escalations of provisions so as to factor in the foreseen level of distress posed by the pandemic and the locusts menace on key sectors i.e. trade, tourism, hospitality, manufacturing, transport and agriculture.

Core capital ratio (Core capital/TRWA) declined 10 bps y-o-y to 14.8% whereas Total capital ratio (Total capital/TRWA) sunk 60 bps y-o-y to 17.8%. Both ratios remain above the statutory minimum of 10.5% and 14.5% respectively. Liquidity ratio declined 150 bps y-o-y to 54.4%, above the statutory minimum of 20.0%. The above informs that the bank's internal reserves can comfortably cover the recently announced early repayment of the KES 4 BN Tier II bond issue come June 2020.

On a trailing basis, the bank is trading at a P/E multiple of 6.4x and a P/B multiple of 0.9x, relative to the sector medians of 5.0x and 0.8x respectively. Its ROE stands at 13.8% relative to sector median of 16.7% whereas its ROA stands at 1.8% relative to sector median of 2.4%. Currently, Stanbic Holdings has a dividend yield of 8.0%, above the sector median of 7.3%. We maintain our **HOLD** recommendation.

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

Year End: December	1Q20	1Q19	4Q19	y-y% ch	q-q%ch
Interest income	4,786	5,155	5,008	(7.1)	(4.4)
Interest expense	(1,737)	(1,729)	(1,866)	0.5	(6.9)
Net interest income	3,049	3,425	3,142	(11.0)	(2.9)
Other operating income	64	123	(264)	(47.9)	(124.2)
Fees and commission income	1,050	1,682	822	(37.6)	27.7
Net income from forex dealings	1,202	1,468	1,479	(18.1)	(18.7)
Total non-interest income	2,316	3,273	2,038	(29.2)	13.7
Total income	5,365	6,698	5,179	(19.9)	3.6
Less operating expenses	(2,622)	(2,918)	(2,699)	(10.2)	(2.9)
Operating profit	2,744	3,780	2,480	(27.4)	10.6
Bad debt charge	(617)	(632)	(947)	(2.3)	(34.8)
Exceptional items	-	-	-	N/A	N/A
Profit before tax	2,127	3,148	1,533	(32.4)	38.7
Less tax	(597)	(850)	(417)	(29.7)	43.3
Profit after tax	1,529	2,299	1,117	(33.5)	37.0
Attributable Income	1,529	2,299	1,039	(33.5)	47.2

(Source: Company, DBIB Research)

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

Year End: December	1Q20	FY19	1Q19	y-y% ch	q-q%ch
Total shareholder's equity	40,561	38,940	36,836	10.1	4.2
Minority interest	-	-	-	N/A	N/A
Total Equity	40,561	38,940	36,836	10.1	4.2
Deposits due to other banks	38,081	30,553	35,639	6.9	24.6
Customer deposits	202,748	193,514	190,578	6.4	4.8
Borrowed funds	17,028	13,953	11,651	46.1	22.0
Other liabilities	11,234	15,746	10,163	10.5	(28.7)
Total equity and liabilities	309,651	292,705	284,868	8.7	5.8
Central bank balances	21,742	24,021	14,973	45.2	(9.5)
Deposits due from banks	31,159	38,353	21,607	44.2	(18.8)
Investment Securities	37,809	35,868	47,210	(19.9)	5.4
Held for dealing securities	39,699	24,654	40,331	(1.6)	61.0
Customer loans and advances	161,791	152,814	144,704	11.8	5.9
Other assets	13,038	12,515	11,764	10.8	4.2
Intangible assets	797	862	1,014	(21.4)	(7.6)
Fixed assets	3,617	3,617	3,265	10.8	0.0
Total assets	309,651	292,705	284,868	8.7	5.8

(Source: Company, DBIB Research)

INVESTMENT RETURN (STANBIC BANK KENYA)

	1Q20*	1Q19*	FY19	y-y bps ch	q-q bps ch
ROA (%)	2.0	3.2	2.1	(125)	(15)
ROIC (%)	2.1	3.3	2.2	(130)	(20)
ROE (%)	15.1	25.0	16.0	(988)	(90)

(Source: Company, DBIB Research)

*Annualized

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

	1Q20	1Q19	FY19	y-y bps ch	q-q bps ch
Core capital/TRWA (%)	14.8	14.9	15.2	(10)	(40)
Min. Statutory Ratio (%)	10.5	10.5	10.5	-	-
Total capital/TRWA (%)	17.8	18.4	18.3	(60)	(50)
Min. Statutory Ratio (%)	14.5	14.5	14.5	-	-
Liquidity Ratio (%)	54.4	55.9	58.4	(150)	(400)
Min. Statutory Ratio (%)	20.0	20.0	20.0	-	-
Leverage Ratio (%)	42.0	31.6	13.3	1,035	2,868
Equity-to-Loans Ratio (%)	25.1	25.5	25.5	(39)	(41)
NPL Ratio (%)**	11.5	10.4	11.2	115	28
NPL Coverage Ratio (%)**	36.8	37.3	35.9	(41)	93
Long Term Debt to Total Liabilities and Equity (%)	3.6	3.6	4.8	6	(114)
NTA/share (KES)	100.6	90.6	96.3	997	427
Book value/share (KES)	102.6	93.2	98.5	942	410

(Source: Company, DBIB Research)

**Total Loan Portfolio net of Interbank Lending

OPERATING PERFORMANCE (STANBIC BANK KENYA)

	1Q20	1Q19	FY19	y-y bps ch	q-q bps ch
Yield on interest earning assets (%)*	7.1	8.1	8.1	(104)	(103)
Cost of funds (%)*	2.7	2.9	3.2	(21)	(53)
Net Interest Margin (%)*	4.4	5.2	4.9	(83)	(50)
Loan-to-Deposits ratio (%)	79.8	75.9	79.0	387	83
Loan-to-Dep.& Borrowed Funds ratio (%)	73.6	71.6	73.7	206	(4)
Funded Income Generating Potential (%)	87.3	89.1	86.0	(177)	136
Funded Income Reliance (%)	56.8	51.1	54.1	569	272
Cost to income ratio (%)	48.9	43.6	53.9	529	(504)
Cost of risk (%)	1.5	1.7	1.7	(22)	(19)
Pre-tax margin (%)	39.6	47.0	31.7	(736)	793
PAT margin (%)	28.5	34.3	26.4	(581)	208

(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

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