



STANBIC BANK KENYA: 3Q20 EARNINGS UPDATE

Dear All,

Stanbic Bank announced its 3Q20 results reporting a 30.1% y-o-y drop in profit after tax (PAT) to KES 3.6 BN. This was attributable to a 12.4% y-o-y decline in total income to KES 16.1 BN and a 75.9% y-o-y increase in the bank's loan loss provision expense to KES 2.9 BN. The bank's earnings per share (EPS) for the period stood at KES 20.93.

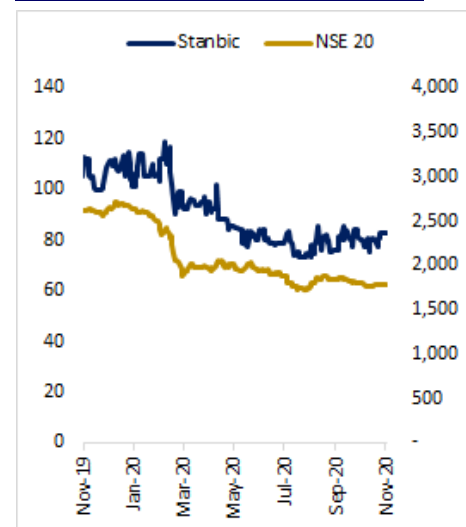
Key highlights:

Net interest income declined 6.9% y-o-y to KES 8.9 BN on the back of a 5.4% y-o-y decline in interest income to KES 14.6 BN. Interest expense declined 3.1% y-o-y to KES 5.6 BN. The bank's annualized yield on interest earning assets dropped 133 bps y-o-y to 8.2% whereas the annualized cost of funds dropped 26 bps y-o-y to 2.9%. As a result, the annualized net interest margin (NIM) edged down 106 bps y-o-y to 5.3%.

Interest income from loans and advances declined 9.0% y-o-y to KES 10.7 BN, partly attributable to COVID-19 related loan restructures and a 1.8% y-o-y downsizing of the loan book. This placed the annualized yield on average loans for the period at 8.9%, 145 bps down y-o-y. Interest income from government securities declined 3.1% y-o-y to KES 3.2 BN, placing the annualized yield on average investment securities at 10.5%, 270 bps down y-o-y. Interest expense from customer deposits rose 15.6% y-o-y to KES 4.6 BN, placing the annualized cost of average deposits at 3.0%, 9 bps up y-o-y.

Non-funded income (NFI) dropped 18.4% y-o-y to KES 7.2 BN, courtesy of a 12.7% y-o-y decline in fees and commissions on loans to KES 189.2 MN, and a 15.7% y-o-y decline in other fees and commissions to KES 2.3 BN. We attribute the dip in fees to zero-rated transaction fees between digital wallet transfers and the restructuring expenses incurred by the bank. Forex income rose 28.6% y-o-y to KES 4.4 BN. The bank's funded income reliance rose 329 bps y-o-y to 55.5%.

STANBIC: 52 WEEK PRICE PERFORMANCE



(Source: NSE, DBIB Research)

PRICE	ABSOLUTE	EXCESS
RETURN	RETURN	RETURN
3 month (%)	12.9	12.4
6 month (%)	(1.8)	7.6
12 month (%)	(25.9)	6.0

KEY METRICS

Current Price (KES)	83.00
52 week low (KES)	73.50
52 week high (KES)	118.50
YTD Return (%)	(24.0)
Issued Shares (MN)	395.3
Market Cap (USD MN)	298.7

Recommendation	HOLD
Target price (KES)	Under Review
Trailing EPS (KES)	12.32
NAV (KES)	124.8
Trailing P/E (x)	6.7
Trailing P/B (x)	0.7
Div. Yld (%)	-

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Operating expenses (less loan provisions) declined 22.6% y-o-y to KES 7.7 BN courtesy of a 6.2% y-o-y decline in staff costs to KES 4.0 BN and a 42.4% y-o-y decline in other expenses to KES 2.8 BN. The bank's cost to income ratio improved by 632 bps y-o-y to 48.1%.

The bank's bad debt charge saw a 75.9% y-o-y increase to KES 2.9 BN, placing the annualized cost of risk at 2.5%, 109 bps up y-o-y. We expect provisioning escalations to remain a key theme in FY20 and in part FY21 as the bank prudently assesses and downgrades the non-performing accounts in accordance with IFRS 9.

Total assets increased by 8.0% y-o-y to KES 317.8 BN (-9.3 q-o-q). Customer loans and advances saw a 1.8% y-o-y decline to KES 158.9 BN (-1.3% q-o-q). Government securities held by the bank increased by 104.4% y-o-y to KES 55.3 BN (+35.5% q-o-q) whereas held for dealing securities increased by 96.7% y-o-y to KES 48.2 BN (+18.4% q-o-q).

On the funding side, customer deposits increased by 18.2% y-o-y to KES 226.0 BN (-10.4% q-o-q). Borrowed funds saw a 32.3% y-o-y decline to KES 8.4 BN (-34.2% q-o-q). Deposits due to other banks declined 40.6% y-o-y to KES 24.3 BN (-19.9% q-o-q). As such, the bank's loans to deposits ratio declined 1,428 bps y-o-y to 70.3%. In parallel, loans to deposits and borrowed funds ratio declined 1,164 bps y-o-y to 67.8%.

Gross non-performing loans (NPLs) rose 12.1% y-o-y to KES 21.2 BN (-0.1% q-o-q), whereas interest in expense rose 19.4% y-o-y to KES 5.1 BN (-0.7% q-o-q). As such, total NPLs rose 9.9% y-o-y to KES 16.1 BN (+0.1% q-o-q). The NPL ratio worsened to 11.8% in 3Q20, 130 bps up y-o-y. Loan loss provisions rose 16.3% y-o-y to KES 8.0 BN (-7.3% q-o-q). As such, the NPL coverage ratio edged up by 274 bps y-o-y to 49.5% (-396 bps q-o-q).

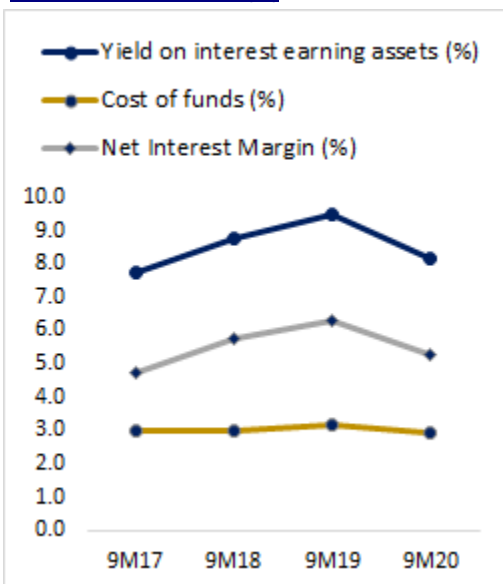
Stanbic Kenya's core capital ratio (Core capital/TRWA) rose 160 bps y-o-y to 15.5% whereas its total capital ratio (Total capital/TRWA) rose 50 bps y-o-y to 17.7%. Both ratios remain above the statutory minimum of 10.5% and 14.5% respectively. Liquidity ratio rose 570 bps y-o-y to 61.2%, above the statutory minimum of 20.0%.

Stanbic Bank	Reported	Adjusted Ratios*
Core capital ratio (%)	15.5	15.7
Total capital ratio (%)	17.7	17.9

(Source: Company, DBIB Research) *Adjusted ratios include the expected credit loss provisions added back to capital in line with the CBK guidance note issued in April 2018 on implementation of IFRS 9.

On a trailing basis, Stanbic Holdings is trading at a P/E multiple of 6.7x and a P/B multiple of 0.7x, relative to industry medians of 5.9x and 0.6x respectively. Its ROE stands at 9.9%, relative to an industry median of 11.1%, whereas its ROA stands at 1.3%, relative to an industry median of 1.5%. We issue a **HOLD** recommendation.

NET INTEREST MARGIN (%)



Source: (Company, DBIB Research)

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

Year End: December	3Q20	3Q19	y-y% ch	3q20	2q20	3q19	y-y% ch	q-q%ch
Interest income	14,560	15,398	(5.4)	4,976	4,798	5,326	(6.6)	3.7
Interest expense	5,621	5,799	(3.1)	2,015	1,868	2,078	(3.1)	7.8
Net interest income	8,939	9,599	(6.9)	2,961	2,929	3,247	(8.8)	1.1
Other operating income	287	1,722	(83.4)	(41)	264	1,345	(103.1)	(115.6)
Fees and commission income	2,513	3,662	(31.4)	683	780	914	(25.3)	(12.5)
Forex income	4,354	3,384	28.6	1,799	1,353	704	155.4	32.9
Total non-interest income	7,154	8,768	(18.4)	2,440	2,397	2,963	(17.6)	1.8
Total income	16,093	18,367	(12.4)	5,401	5,327	6,210	(13.0)	1.4
Less operating expenses	7,738	9,993	(22.6)	2,771	2,345	4,162	(33.4)	18.2
Operating profit	8,354	8,374	(0.2)	2,630	2,981	2,048	28.4	(11.8)
Bad debt charge	2,933	1,668	75.9	1,249	1,067	750	66.4	17.0
Exceptional items	-	773	(100.0)	-	-	773	-	-
Profit before tax	5,421	5,933	(8.6)	1,381	1,914	524	163.4	(27.8)
Less tax	1,852	828	123.7	304	2,145	622	(51.2)	(85.8)
Profit after tax	3,570	5,106	(30.1)	1,077	963	1,146	(6.0)	11.9

(Source: Company, DBIB Research)

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

Year End: December	3Q20	1H20	3Q19	y-y% ch	q-q%ch
Total shareholder's equity	40,311	39,374	37,782	6.7	2.4
Minority interest	-	-	-	N/A	N/A
Total Equity	40,311	39,374	37,782	6.7	2.4
Deposits due to other banks	24,300	30,346	40,898	(40.6)	(19.9)
Customer deposits	226,005	252,184	191,256	18.2	(10.4)
Borrowed funds	8,404	12,765	12,415	(32.3)	(34.2)
Other liabilities	18,749	15,718	11,952	56.9	19.3
Total equity and liabilities	317,769	350,388	294,302	8.0	(9.3)
Central bank balances	16,974	24,960	36,005	(52.9)	(32.0)
Deposits due from banks	23,816	68,768	27,634	(13.8)	(65.4)
Investment Securities	55,286	40,801	27,045	104.4	35.5
Held for dealing	48,160	40,680	24,490	96.7	18.4
Customer loans and advances	158,863	160,975	161,745	(1.8)	(1.3)
Other assets	10,465	9,809	12,877	(18.7)	6.7
Intangible assets	745	785	925	(19.4)	(5.1)
Fixed assets	3,458	3,610	3,582	(3.5)	(4.2)
Total assets	317,769	350,388	294,302	8.0	(9.3)

(Source: Company, DBIB Research)

INVESTMENT RETURN (STANBIC BANK KENYA)

	3Q20	1H20	3Q19	y-y bps ch	h-h bps chg
ROA (%)*	1.5	1.4	2.3	(82)	8
ROIC (%)*	1.7	1.5	2.8	(109)	18
ROE (%)*	11.8	12.7	18.0	(622)	(85)

(Source: Company, DBIB Research)

*Annualized

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

	3Q20	1H20	3Q19	y-y bps ch	h-h bps chg
Core capital/TRWA (%)	15.5	15.4	13.9	160	10
Min. Statutory Ratio (%)	10.5	10.5	10.5	-	-
Total capital/TRWA (%)	17.7	17.9	17.2	50	(20)
Min. Statutory Ratio (%)	14.5	14.5	14.5	-	-
Liquidity Ratio (%)	61.2	51.1	55.5	570	1,010
Min. Statutory Ratio (%)	20.0	20.0	20.0	-	-
Leverage Ratio (%)	12.7	11.2	12.8	(15)	145
Equity-to-Loans Ratio (%)	25.4	24.5	23.4	202	91
NPL Ratio (%)**	11.8	11.6	10.5	130	13
NPL Coverage Ratio (%)**	49.5	53.5	46.8	274	(396)
IFRS 9 NPL Coverage Ratio (%)**	61.8	64.8	58.9	287	(306)
Long Term Debt to Total Liabilities and Equity (%)	2.6	3.6	4.2	(157)	(100)
NTA/share (KES)	100.1	97.6	93.2	685	247
Book value/share (KES)	102.0	99.6	95.6	640	237

(Source: Company, DBIB Research)

**Total Loan Portfolio net of Interbank Lending

OPERATING PERFORMANCE (STANBIC BANK KENYA)

	3Q20	1Q20	3Q19	y-y bps ch	q-q bps ch
Yield on interest earning assets (%)*	8.2	7.1	9.5	(133)	107
Cost of funds (%)*	2.9	2.4	3.2	(26)	45
Net Interest Margin (%)*	5.3	4.6	6.3	(106)	62
Loan-to-Deposits ratio (%)	70.3	63.8	84.6	(1,428)	646
Loan-to-Dep.& Borrowed Funds ratio (%)	67.8	60.8	79.4	(1,164)	702
Funded Income Generating Potential (%)	90.0	88.8	81.9	818	122
Funded Income Reliance (%)	55.5	55.9	52.3	329	(37)
Cost to income ratio (%)	48.1	46.5	54.4	(632)	163
Cost of risk (%)*	2.5	2.1	1.4	109	37
Pre-tax margin (%)	33.7	37.8	32.3	138	(410)
PAT margin (%)	22.2	23.3	27.8	(562)	(113)

(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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