



STANBIC BANK KENYA: FY20 EARNINGS UPDATE

Dear All,

Stanbic Bank released its FY20 results recording a 16.0% y-o-y decline in profit after tax (PAT) to KES 5.2 BN. This was on the back of a 6.7% y-o-y decrease in total income to KES 22.0 BN and a 64.7% y-o-y upsurge in the loan loss provision expense to KES 4.3 BN. EPS for the period stood at KES 30.63.

Key highlights:

Net interest income declined 4.5% y-o-y to KES 12.2 BN, on account of a 3.4% y-o-y decline in interest income to KES 19.7 BN (in spite of 3.5% y-o-y loan book growth). Interest expense declined 1.6% y-o-y to KES 7.5 BN. The yield on interest-earning assets stood at 6.9%, down 116 bps y-o-y while cost of funds stood at 2.81%, down 41 bps y-o-y, partially cushioning the net interest margin from the impact of the decline of the yield on interest-earning assets. NIM therefore declined 76 bps y-o-y to 4.1%.

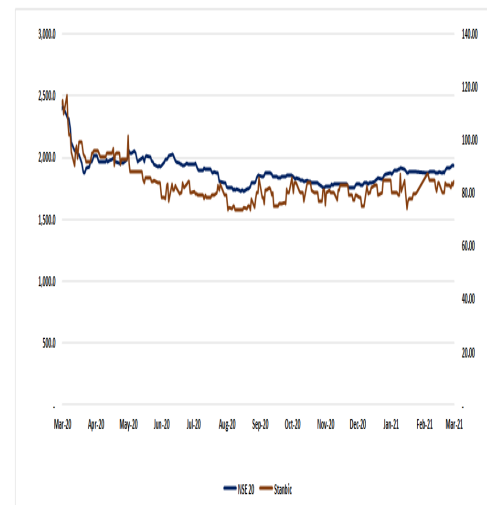
Non-funded income declined 9.3% y-o-y to KES 9.8 BN, attributable to an 18.7% y-o-y reduction in fees and commission income to KES 3.6 BN and a 58.1% y-o-y drop in other operating income to KES 611.4 MN. Forex income saw a 14.1% y-o-y rise to KES 5.5 BN.

Operating expenses (less loan loss provisions) declined 10.0% y-o-y to KES 11.4 BN mainly on account of a 25.5% y-o-y decline in other expenses line item to KES 4.4 BN. **Pre-provision operating profit declined 2.9% y-o-y to KES 10.5 BN.**

Loan loss provision expense saw a 64.7% y-o-y upsurge to KES 4.3 BN, placing the cost of risk at 2.7%, up 101 bps on a y-o-y basis. As a result, profit before tax dropped 16.5% y-o-y to KES 6.2 BN.

Customer loan book grew 3.5% y-o-y to KES 158.2 BN (-0.4% q-o-q). On the funding side, **customer deposits saw a 12.0% y-o-y increase to KES 216.8 BN (-4.1% q-o-q).** As such, the bank's loans-to-deposit ratio declined by 601 bps to 73.0% vis-à-vis 79.0% recorded in FY19.

STANBIC: 52 WEEK PRICE PERFORMANCE



(Source: NSE, DBIB Research)

PRICE RETURN	ABSOLUTE RETURN	EXCESS RETURN
3 month (%)	6.6	(2.1)
6 month (%)	(1.2)	(5.8)
12 month (%)	(23.2)	(4.1)

KEY METRICS

Current Price (KES)	84.50
52 week low (KES)	73.50
52 week high (KES)	116.75
YTD Return (%)	(0.6)
Issued Shares (MN)	395.3
Market Cap (USD MN)	304.65

EPS (KES)	30.63
NAV (KES)	130.9
P/E (x)	6.4
P/B (x)	0.6
Div. Yld (%)	-

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Gross NPLs increased 29.4% y-o-y to KES 25.0 BN (+18.2% q-o-q), whereas interest in suspense rose 30.2% y-o-y to KES 5.3 BN (+4.1% q-o-q). As such, total NPLs rose 29.2% y-o-y to KES 19.7 BN (+22.7% q-o-q). The NPL ratio worsened to 13.7%, 243 bps up y-o-y. Given the 64.7% y-o-y upsurge in loan loss provisions, the NPL coverage ratio edged up by 339 bps y-o-y to 39.3%.

Stanbic Kenya's core capital ratio (Core capital/TRWA) rose 80 bps y-o-y to 16.0% whereas its total capital ratio (Total capital/TRWA) declined 20 bps y-o-y to 18.1%. Both ratios remain above the statutory minimum of 10.5% and 14.5% respectively. Liquidity ratio declined 200 bps y-o-y to 56.4%, above the statutory minimum of 20.0%.

On a trailing basis, Stanbic Holdings is trading at a P/E ratio of 6.4x, above an industry median of 6.1x, and a P/B of 0.6x above an industry median of 0.7x. ROE stands at 10.0%, relative to an industry median of 11.2%, whereas ROA stands at 1.6%, relative to an industry median of 1.7%.

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

Year End: December	FY20	FY19	y-y% ch
Interest income	19,709	20,405	(3.4)
Interest expense	-7,541	-7,665	(1.6)
Net interest income	12,168	12,740	(4.5)
Other operating income	611	1,458	(58.1)
Fees and commission income	3,645	4,484	(18.7)
Net income from forex dealings	5,548	4,864	14.1
Total non-interest income	9,805	10,806	(9.3)
Total income	21,973	23,546	(6.7)
Less operating expenses	-11,429	-12,692	(10.0)
Operating profit	10,544	10,854	(2.9)
Bad debt charge	-4,307	-2,614	64.7
Exceptional items	0	-773	(100.0)
Profit before tax	6,237	7,467	(16.5)
Tax	1,013	1,244	(18.6)
Profit after tax	5,224	6,222	(16.0)

(Source: Company, DBIB Research)

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

Year End: December	FY20	3Q20	FY19	y-y % ch	q-q% ch
Total shareholder's equity	41,857	40,311	38,939.84	7.5	3.8
Minority interest	-	-	-	-	-
Total Equity	41,857	40,311	38,940	7.5	3.8
Deposits due to other banks	42,905	24,300	30,552	40.4	76.6
Customer deposits	216,805	226,005	193,514	12.0	(4.1)
Borrowed funds	8,355	8,404	13,953	(40.1)	(0.6)
Other liabilities	9,064	18,749	15,746	(42.4)	(51.7)
Total equity and liabilities	318,986	317,769	292,705	9.0	0.4
Central bank balances	15,200	16,974	24,021	(36.7)	(10.4)
Deposits due from banks	38,112	23,816	38,353	(0.6)	60.0
Investment Securities	53,869	55,286	35,868	50.2	(2.6)
Held for dealing	33,715	48,160	24,654	36.7	(30.0)
Customer loans and advances	158,182	158,863	15,281	3.5	(0.4)
Other assets	15,436	10,465	12,514	23.3	47.5
Intangible assets	751	745	862	(12.9)	0.8
Fixed assets	3,720	3,458	3,617	2.9	7.6
Total assets	318,986	317,769	292,705	9.0	0.4

(Source: Company, DBIB Research)

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

	FY20	3Q20	FY19	y-y bps ch	q-q bps chg
Core capital/TRWA (%)	16.0	15.5	15.2	80	50
Min. Statutory Ratio (%)	10.5	10.5	10.5	-	-
Total capital/TRWA (%)	18.1	17.7	18.3	(20)	40
Min. Statutory Ratio (%)	14.5	14.5	14.5	-	-
Liquidity Ratio (%)	56.4	61.2	58.4	(200)	(480)
Min. Statutory Ratio (%)	20.0	20.0	20.0	-	-
Leverage Ratio (%)	13.1	12.7	13.3	(18)	44
Equity-to-Loans Ratio (%)	26.5	25.4	25.5	98	109
NPL Ratio (%)	13.7	49.5	11.2	243	(3,588)
NPL Coverage Ratio (%)	39.3	61.8	35.9	339	(2,245)
Long Term Debt to Total Liabilities and Equity (%)	2.6	2.6	4.8	(215)	(3)
NTA/share (KES)	104.0	100.1	96.3	8.0	3.9
Book value/share (KES)	105.9	102.0	98.5	7.5	3.8

(Source: Company, DBIB Research)

**Total Loan Portfolio net of Interbank Lending

OPERATING PERFORMANCE (STANBIC BANK KENYA)

	FY20	3Q20	FY19	y-y bps ch	q-q bps chg
Yield on interest earning assets (%)	6.9	8.2	8.1	(116)	(122)
Cost of funds (%)	2.8	2.9	3.2	(41)	(8)
Net Interest Margin (%)	4.1	5.3	4.9	(76)	(113)
Loan-to-Deposits ratio (%)	73.0	70.3	79.0	(601)	267
Loan-to-Dep.&Borrowed Funds ratio (%)	70.3	67.8	73.7	(340)	248
Funded Income Generating Potential (%)	89.0	90.0	86.0	301	(105)
Funded Income Reliance (%)	55.4	55.6	54.1	127	(17)
Cost to income ratio (%)	52.0	48.1	53.9	(189)	393
Cost of risk (%)	2.7	2.5	1.7	101	26
Pre-tax margin (%)	28.4	33.7	31.7	(333)	(530)
PAT margin (%)	23.8	22.2	26.4	(265)	159

(Source: Company, DBIB Research)

• Annualized

INVESTMENT RETURN (STANBIC BANK KENYA)

	FY20	3Q20	FY19	y-y bps ch	q-q bps chg
ROA (%)*	1.6	1.5	2.1	(49)	14
ROIC (%)*	1.7	1.7	2.2	(56)	(5)
ROE (%)*	12.5	11.8	16.0	(350)	67

(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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