



Stanbic Holdings IH20 Earnings Note

Stanbic Holdings' IH20 net earnings declined 37.2% y/y to KES 2.6B driven by a 60.5% y/y uptick in loan loss provisions, a 5.9% decrease in net interest income and a 19.1% drop in non funded income.

Decline in investment in government paper

Contrary to our expectations the group's investment in government securities declined 13.4% y/y to KES 81.5B against the industry norm of increased interest by banks in government paper on increased liquidity. Exceeding our expectations of a 5% y/y growth, the group's loans and advances increased 32.8% y/y to KES 235.1B premised on slow economic activity due to the prevailing pandemic.

Non funded income dims

The group's non funded income declined 19.1% y/y to KES 5.0B which coupled with a 5.9% decline in net interest income saw total income diminish 12.3% y/y to KES 11.3B. We remain worried of the huge drop in NFI given an expected slowdown in interest margins with NFI expected to shield topline growth.

Loan loss provisions dim bottomline

In line with our expectations, NPLs grew 18.4% y/y to KES 21.2B with an NPL ratio of 12.5%. Loan loss provisions grew 60.5% y/y to KES 2.0B with a cost of risk of 1.7% below our expectation of a cost of risk of 2.5%. We anticipate the continued worsening of the asset book due to a general slowdown in business activity with a total shutdown in some sectors such as tourism and hospitality.

Outlook

The Group's IH20 performance was largely in line with our expectations; we remain worried on the surge in NPLs that is expected to see provisions eat into the bottom line going forward.

We maintain a BUY recommendation on Stanbic Holdings with a target price of KES 102.28 offering a potential upside of 39.2% on the current price of KES 73.50. The counter is trading at p/e and p/b multiples of 11.4x and 0.7x respectively.

DATE: 14th Aug 2020

Fair Value: KES 102.28

Current Price: KES 73.50

Upside: 39.2%

52 Week High: KES 72.25

52 Week Low: KES 117.75

Analyst

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Financial Statements

Income Statement	IH19	IH20	AIB-AXYS Estimates	% y/y	Deviation
	KES M	KES M	KES M		
Net interest income	6,702	6,304	7,581	-5.9%	-16.8%
Non interest revenue	6,135	4,960	6,350	-19.1%	-21.9%
Total Income	12,837	11,264	13,930	-12.3%	-19.1%
Credit impairment charges	1,235	1,982	1,978	60.5%	0.2%
Income after impairment charges	11,603	9,282	11,952	-20.0%	-22.3%
Total operating expenses	6,042	5,151	7,321	-14.7%	-29.6%
Profit before taxation	5,561	4,131	4,631	-25.7%	-10.8%
Income tax expense	1,498	1,578	1,158	5.3%	36.3%
Profit for the period	4,063	2,553	3,474	-37.2%	-26.5%
EPS	10.28	6.46	7.33	-37.2%	-11.9%
DPS	1.25			-100.0%	

Balance Sheet					
Cash and balances with CBK	18,262	17,744	15,869	-2.8%	11.8%
Financial investments	94,099	81,531	61,139	-13.4%	33.4%
Loans and advances	177,084	235,149	140,519	32.8%	67.3%
Total assets	313,310	361,505	320,712	15.4%	12.7%
Deposits and current accounts	237,984	287,034	152,950	20.6%	87.7%
Borrowings	9,185	5,387	7,188	-41.3%	-25.0%
Total liabilities	266,481	312,166	200,638	17.1%	55.6%
Total equity	46,829	49,339	39,896	5.4%	23.7%

Ratios					
Gross NPL (KES M)	17,901	21,201	15,430	18.4%	37.4%
NPL Ratio	10.6%	12.5%			
Cost of Risk	1.4%	1.7%			
Loan to Deposits	74.4%	81.9%			
Non Funded/Total Income	47.8%	44.0%			
Cost to Income Ratio	47.1%	45.7%			
ROE	17.4%	10.3%			
ROA	2.6%	1.4%			
Core Capital/TRWA	14.2%	15.4%			
Total Capital/TRWA	17.5%	17.9%			
Liquidity Ratio	55.3%	51.1%			
P/B (x)		0.7			
P/E (x)		11.4			

Source: AIB-AXYS Research, company filings

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Investment ratings

- **BUY:** Issued on counters with strong fundamentals whose upside lies between 10.0% and 20.0%.
- **HOLD:** Issued on counters with an upside of between 1% and 10.0%
- **SELL:** The counter currently has weak fundamentals coupled with potential downside.

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