

KINGDOM SECURITIES

Stanbic Bank Kenya Ltd

Earnings Update – Q3-2021

A 43.2% Y-Y Growth in PAT Supported by Lower Loan Loss Provisions and Lower Effective Tax Rate

Stanbic Bank Kenya reported KES 5.11Bn in profit after tax (PAT), a 43.2% y-y improvement from KES 3.57Bn in Q3-20. Profit before tax increased by 29.7% y-y to KES 7.03Bn from KES 5.42. The performance was supported by a 15.2% drop in interest expenses and a 2.1% y-y dip in operating expense as loan loss provisions shrank by 35.8% y-y. PAT benefited further from lower effective tax rate of 27.3% in Q3-21 compared to 34.2% in Q3-20.

Income Statement

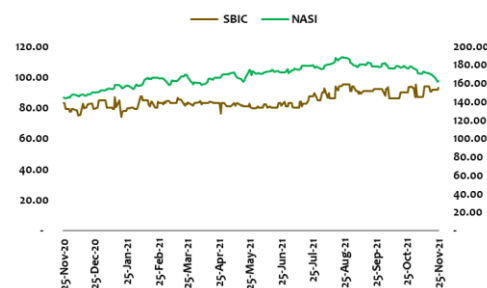
- Net interest income (NII) increased by 12.2% y-y on a 15.2% y-y drop in interest expense. NII increased by 4.9% q-q due to 7.6% drop in interest expense. NII contribution to total income increased to 57.4% from 55.5% in Q3-20.
- Interest income was up marginally by 1.6% y-y to KES 14.80Bn from KES 14.56Bn. Despite a 17.4% drop in holdings in investment in securities, income from government securities increased by 11.4% y-y supported by better yield of 9.6% compared to 9.4% in Q3-20. Interest income from loans and advances increased by 1.5% with net loan book expanding by 11.2%. The return was suppressed by a lower return on loans and advances which stood at 8.6% compared to 9.1% in Q3-20.
- Interest expenses declined by 15.2% y-y to KES 4.77Bn from KES 5.62Bn. This was due to a 10.5% y-y drop on cost of deposit due to a 5.8% y-y contraction of customer deposits and lower cost of deposit of 2.6% against 2.9% in Q3-20.
- Non-fnded income increased by 4.2% y-y to KES 7.45Bn from KES 7.15Bn supported by 7.7% increase in total fees and commission income. This could be partially attributed to the growth in net loan book on trade finance activities. Foreign exchange income contracted by 6.4% y-y. NFI line contracted by 4.8% q-q as total fees and commission line waned by 11.1% q-q while income from foreign exchange was 12.1% lower compared to Q2-21. NFI contribution to total income declined to 42.6% from K44.5% in Q3-20.
- Operating expenses were down 2.1% y-y to KES 10.45Bn from KES 10.67Bn in Q3-20. Loan loss provision dropped by 48.4% y-y to KES 1.51Bn from KES 2.93Bn. Cost to income (CTI) ratio inched lower to 59.8% in Q3-21 compared to 66.3% in Q3-20 and 60.3% in Q2-21.
- Operating expenses excluding provisions was up 15.5% y-y to KES 8.94Bn from KES 7.74Bn. This was due to a 12.5% and 27.4% jump on staff cost and other operating expenses. Compared to Q2-21, opex excluding provisions declined by 4.8% despite 7.12% upwards salary adjustments done in Q3-21 as staff costs declined by 2.2%. CTI excluding provisions edged upwards to 51.1% in Q3-21 compared to 48.1% in Q3-21 and 50.4% in Q2-21.

Balance Sheet

- Total assets decline by 7.2% y-y to KES 295.02B from KES 317.77Bn in Q3-20. The contractions were seen on the securities held for dealing (-57.5%) and a 17.4% shrinking of investment in securities to KES 45.67Bn from KES 55.29Bn. This left

Bloomberg Ticker:	SBIC KN
Share Stats	
Current Price (KES)	93.00
3-Month Avg	90.92
6-Month Avg	87.69
12-Month Avg	84.76
52 Week High - Low	95.25 - 74.00
Issued shares (Mn)	395.32
Free Float	56.6%
Market Cap (KES Mn)	36,765
Market Cap (USD Mn)	327.13
EPS	29.97
P/E	3.10
PB	0.82

RETURN PERFORMANCE		
Period	SBIC	NASI
3-Months	-2.1%	-13.4%
6-Months	12.4%	-7.2%
Y-T-D	9.4%	6.6%
Y-Y	12.0%	12.7%



Willis Nalwenge

Lead Analyst

+254 711 049 183

wnalwenge@co-opbank.co.ke

share of investments in securities to assets at 15.5% from 17.4% in Q3-20 and 16.0% in Q2-21.

- Net loans book increased by 11.2% y-y to KES 176.62Bn from KES 158.86Bn. The quarter saw the net loan book expand by 11.48Bn compared to KES 7.20Bn added in Q2-21. Net loans to total asset increased to 59.9% from 50.0% in Q3-20 and 51.6% in Q2-21.
- Customer deposits eased by 5.8% y-y to KES 212.85Bn from KES 226.01Bn in Q3-20 after KES 16.07Bn was withdrawn in Q3-21. The lower deposits led to advances to deposit ratio inching up to 83.0% from 70.3% in Q3-21 and 72.1% in Q2-21.
- Bank borrowing stood at 10.91Bn, 29.9% y-y higher compared to KES 8.40Bn in Q3-20. The Bank repaid KES 1.12Bn in Q3-21 leaving total borrowing 9.3% q-q lower compare to KES 12.03Bn reported in Q2-21.
- Shareholders' funds were 11.0% higher at KES 44.73Bn from KES 40.31Bn in Q3-21. This was due to a 14.8% y-y increase in retained earnings.

Ratios

- Cost of funds were eased to 2.8% from 3.4% in Q3-20 while remaining flat compared to 2.7% in Q2-21. Weaker asset yield saw net interest margins (NIMs) remain flat at 5.9% y-y.
- Return On average Assets (ROaA) surged to 2.2% from 1.6% in Q3-20 due to higher net income. the profitability ratio was flat q-q.
- Return on average equity was up to 15.7% in Q3-21 from 12.0% and marginally lower compared to 15.8% in Q2-21.
- Total non-performing loans (NPLs) to net loans marginally declined to 10.2% with total NPLs growing marginally faster rate of 11.8% y-y compared to 11.2% y-y growth of net loan book. The rate was flat compared to 10.1% in Q3-20 while remaining low compared to august industry gross NPLS of 13.9%.
- Debt to equity increased to 24.4% in Q3-21 from 20.8% same period previous year.

Outlook

- Despite the weak performance compared to its peers, the bank ratio performance shows stability.
- Loan book expansion and increase in foreign trade will help improve NFI contribution to total income to long term average of 44.8%.

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Earnings Update – Q3-2021

P&L (KES Mn)	Q3-2020	Q2-2021	Q3-2021	y-y Δ%	Q2-2021	Q3-2021	q-q Δ%
Interest Income	14,560	9,785	14,795	1.6%	4,972	5,011	0.8%
Interest Expense	5,621	3,250	4,766	-15.2%	1,640	1,516	-7.6%
NII	8,939	6,535	10,029	12.2%	3,332	3,495	4.9%
NFI	7,154	5,238	7,454	4.2%	2,474	2,216	-10.4%
Total Income	16,093	11,772	17,483	8.6%	5,806	5,710	-1.6%
Loan Loss Provisions	2,933	1,161	1,515	-48.4%	551	354	-35.8%
Operating Expense	10,672	7,096	10,452	-2.1%	3,704	3,356	-9.4%
Opex less Provisions	7,738	5,936	8,938	15.5%	3,152	3,002	-4.8%
PBT	5,421	4,676	7,031	29.7%	2,102	2,355	12.0%
PAT	3,570	3,380	5,113	43.2%	1,497	1,732	15.7%
EPS	20.93	19.82	29.97	43.2%	8.78	10.15	15.6%

Balance Sheet (KES Mn)	Q3-2020	Q2-2021	Q3-2021	y-y Δ%	Q2-2021	Q3-2021	q-q Δ%
Investments	55,286	51,295	45,673	-17.4%	(2,511)	(5,622)	123.9%
Loans and Advances	158,863	165,146	176,623	11.2%	7,198	11,477	59.4%
Total Asset	317,769	319,955	295,024	-7.2%	2,989	(24,931)	-934.2%
Customer Deposit	226,005	228,919	212,851	-5.8%	2,280	(16,069)	-804.8%
Borrowings	8,404	12,029	10,913	29.9%	2,107	(1,117)	-153.0%
Shareholders' Fund	40,311	43,611	44,732	11.0%	142	1,121	692.0%

Ratios	Q3-2020	Q2-2021	Q3-2021
NII % of Total Income	55.5%	55.5%	57.4%
NFI % of Total Income	44.5%	44.5%	42.6%
CTI	66.3%	60.3%	59.8%
CTI excl Provisions	48.1%	50.4%	51.1%
Cost of Funds	3.4%	2.7%	2.8%
Net Interest Margin	5.9%	6.0%	5.9%
ROA	1.6%	2.1%	2.2%
ROE	12.0%	15.8%	15.7%
Gross NPL: Net Loans	10.1%	10.5%	10.2%
AD Ratio	70.3%	72.1%	83.0%
Securities to Asses	17.4%	16.0%	15.5%
Loans to Assets	50.0%	51.6%	59.9%
Debt to Equity	20.8%	27.6%	24.4%

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Analysts' stock ratings are defined as follows:

- **Buy** – A buy rating reflects 1) An analyst has a bullish conviction on a stock 2) A 30% or greater expected return.
- **Accumulate** – An accumulate rating reflects 1) An analyst has a lesser bullish conviction on a stock 2) Expected return falls between 10% and 30%.
- **Hold** – A hold rating reflects 1) An analyst has a neutral conviction (lack of bullish or bearish conviction) on a stock 2) Expected return falls within the range of 5% to 10%.
- **Speculative Buy** – A speculative buy rating reflects 1) An analyst has a bullish conviction accompanied by a substantially higher than normal risk 2) Expected return falls above 10%.
- **Sell** – A sell rating reflects 1) An analyst has a bearish conviction on a stock 2) Expected return falls below 5%.

*Expected Return (ER) represents the sum total of both capital appreciation and the dividend yield.

Kingdom Securities Ltd – A subsidiary of Co-operative Bank Limited.

Co-operative Bank House- 5th Floor, P.O Box 48231 - 00100 Nairobi, Kenya

Office: 0711049540/0711049956

Email: kingdomresearch@co-opbank.co.ke/

Research Department

Equities Trading

Willis Nalwenge wnalwenge@co-opbank.co.ke

Andrew Karanja amkaranja@co-opbank.co.ke

Shadrack Manyinsa smanyinsa@co-opbank.co.ke

Justus Ogalo jogalo@co-opbank.co.ke