

KINGDOM SECURITIES

Stanbic Bank Kenya posted KES 6.57Bn in H1-22 profits before tax (PBT), a 40.4% y-y growth compared to KES 4.68Bn in H1-21. The lender boasted a 41.2% y-y rise in the period's profits after tax (PAT) at KES 4.77Bn from KES 3.38Bn. The performance was supported by a strong Q2-22 which saw a 24.5% q-q jump in PBT. On overall, the growth was driven by a 24.3% y-y rise in total income and a 14.0% y-y drop in loan loss provisions.

The listed entity low liquidity limits the price range. We retain HOLD recommendation as the stock remains flat on three-months and 6-months average while trading 4.0% over 12 months average.

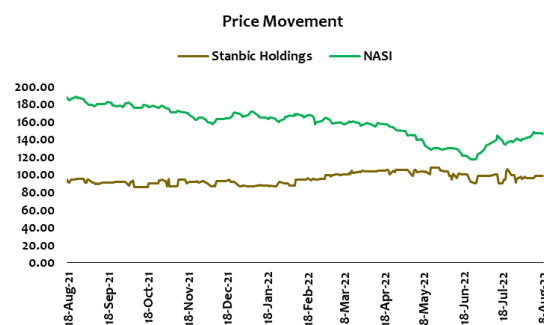
- Stanbic Kenya net interest income improved by 23.2% y-y to KES 8.05Bn from KES 6.54Bn boosted by a 14.8% y-y rise in interest income and a 2.2% y-y dip in interest expense. The lender saw a 15.0% q-q rise in NII. The revenue category contributed 55.5% to the total income, a marginal dip from 55.5% in H1-21.
- Interest income improved by 14.8% y-y to KES 11.23Bn from KES 9.79Bn driven by a 22.0% growth in interest from loans and advances which can be attributed to a 31.5% growth in net loan book as yield from loans and advances eased to 8.6% in H1-22 from 8.8% in H1-21. Quarterly basis, interest income was up 13.0% q-q supported by a 16.3% on returns from government securities and 10.3% income from loans and advances.
- Interest expenses declined by 2.2% y-y due to a 4.5% y-y drop on interest from deposit as cost of deposit declined to 2.2% despite customer deposits growing by 5.7% y-y. An additional KES 6.95Bn deposit drive in Q2-22 saw expense on deposit increase by 11.9% q-q pushing interest expense up by 8.3% q-q.
- Non-funded income (NFI) closed the period at KES 6.59Bn, a 25.7% y-y from KES 5.24Bn. NFI was boosted by a 12.3% y-y increase in forex trading income as the bank remains one of the largest forex traders in the market. Net fees and commission from loans and advances improved by 11.1% y-y boosted by growing loan book. The quarter saw NFI grow by 16.0% further supported by a 42.3% q-q growth in foreign exchange trading income. NFI contributed 45.0% to total income, up from 44.5% in H1-22.
- Operating expenses were up 13.7% y-y to KES 8.07Bn from 7.10Bn on a 18.1% y-y increase in staff cost and 13.7% rise in other operating income. Loan loss provision declined by 14.0% y-y. Excluding provisions; expenses increased by 19.1%. Overall cost to income (CTI) ratio was 55.1% from 60.3% while CTI excluding provisions were down 48.3% supported by a better performing total income.

Stanbic Bank Kenya Ltd

Earnings Update – H1-2022

Recommendation:	HOLD
Bloomberg Ticker:	SBIC KN
Share Stats	
Current Price (kes)	99.00
3-Month Avrg	99.10
6-Month Avrg	100.15
12-Month Avrg	95.22
52 Week High - Low	108.00 - 86.00
Issued shares (Mn)	395.32
Free Float	56.6%
Market Cap (Kes Mn)	39,137
Market Cap (USD Mn)	327,578
EPS	27.99
P/E	3.5
PB	0.9

Price Movement		
Period	Stanbic Holdings	NASI
18-Aug-22	99.00	146.55
W-W	0.3%	-0.2%
M-M	9.4%	5.8%
Y-T-D	13.8%	-13.4%
Y-Y	7.6%	-21.2%



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Balance Sheet

- Total assets increased by 3.9% y-y to KES 332.57Bn from KES 319.96Bn.
- Investment in securities shrunk by 3.5% to KES 49.50Bn from KES 51.30Bn in H1-21. The funds seem to be liquidated towards the 31.5% y-y growth in net loan book which expanded to KES 217.10Bn from KES 165.15Bn. Loan book was boosted by net issued of KES 21.15Bn done in Q2-2022. The ratio of investments in securities were at 14.9% down from 16.0% in H1-21 while loan to assets improved to 65.3% from 51.6% during the period.
- Deposits were up by 5.7% y-y to KES 242.07B from KES 228.92Bn as the book thinned by KES 1.51Bn in Q2-22. The AD ration improved to 89.7% from 72.1% which is seen as a quality book addition.
- Borrowings declined by 24.4% y-y to KES 9.09Bn from KES 12.03Bn on repayments. This eased pressure on the debt-to-equity ratio to 18.8% from 27.6% in H1-21 and 25.1% in Q1-22.
- Shareholders' funds were 10.8% y-y better at KES 48.31Bn from KES 43.61Bn with retained earnings growing by 12.8% y-y.

Key Ratios

- Cost of funds were flat at 2.6% from 2.7% in H1-21 which saw net interest margins flat at 6.0% with asset yields lower by 10bps at 8.6%.
- Cost of risk improved to 1.0% from 1.4% on a declining loan loss provision on and expanding loan book.
- Non-performing loans dipped to 9.0% from 10.5% despite total non-performing loans increasing by 12.2% y-y. This was below the industry NPLs of 14.7% in June 2022.
- Improved profits saw return on average assets jump to 2.9% from 2.1% while return on average equities up to 20.1% from 15.8% in H1-21.

Outlook

- The lender has grown net loan book at a faster rate compared to the industry with the loan book seem quality book on due to low loan loss provisions.
- The reopening of global economy plays well with the lender as the bank remains king in international trade and will tend to benefit from forex trading income as indicated by the large base of letters of credit, futures, swaps and option business.

P&L (KES Mn)	Q2-2021	Q2-2022	y-y Δ%	Q1-2022	Q2-2022	q-q Δ%
Interest Income	9,785	11,228	14.8%	5,270	5,958	13.0%
Interest Expense	3,250	3,180	-2.2%	1,527	1,653	8.3%
NII	6,535	8,048	23.2%	3,744	4,305	15.0%
NFI	5,238	6,586	25.7%	3,030	3,556	17.3%
Total Income	11,772	14,635	24.3%	6,774	7,860	16.0%
Loan Loss Provisions	1,161	998	-14.0%	491	507	3.2%
Operating Expense	7,096	8,068	13.7%	3,849	4,219	9.6%
Opex less Provisions	5,936	7,070	19.1%	3,358	3,712	10.6%
PBT	4,676	6,567	40.4%	2,925	3,641	24.5%
PAT	3,380	4,774	41.2%	2,110	2,664	26.2%
EPS	18.82	27.99	48.7%	12.37	(0.24)	-101.9%

Balance Sheet (KES Mn)	Q2-2021	Q2-2022	y-y Δ%
Investments	51,295	49,502	-3.5%
Loans and Advances	165,146	217,097	31.5%
Total Asset	319,955	332,573	3.9%
Customer Deposit	228,919	242,066	5.7%
Borrowings	12,029	9,090	-24.4%
Shareholders' Fund	43,611	48,312	10.8%

Non-Performing Loans	Q2-2021	Q2-2022	y-y Δ%
Gross NPLs	20,717	24,090	16.3%
Total NPLs	17,367	19,479	12.2%

Ratios	Q2-2021	Q2-2022
NII % of Total Income	55.5%	55.0%
NFI % of Total Income	44.5%	45.0%
CTI	60.3%	55.1%
CTI excl Provisions	50.4%	48.3%
Cost of Funds	2.7%	2.6%
Net Interest Margin	6.0%	6.0%
Yield on Advances	8.8%	8.6%
Yield on Securities	9.2%	10.0%
Cost of Deposit	2.5%	2.2%
ROA	2.1%	2.9%
ROE	15.8%	20.1%
Gross NPL: Net Loans	10.5%	9.0%
Cost of Risk	1.4%	1.0%
AD Ratio	72.1%	89.7%
Securities to Asset	16.0%	14.9%
Loans to Assets	51.6%	65.3%
Debt to Equity	27.6%	18.8%

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Recommendation Guide:

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.

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