



The Stanbic Bank Kenya HY 24 Earnings Highlights

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Summary

Normalized Price Movement of Stanbic Bank vs the Market and Other Banking Peers H1 24



Source: Bloomberg

Last Price – 5 th September 2024 in KES	119.50
Valuation Estimate in KES	129.70
Upside	8.54%
Recommendation	HOLD
52-Week High	130.00
52-Week Low	100.00
52-Week Price Return	20.36%
Year-to-Date Price Return	26.04%
Price to Earnings Ratio (P/E)	3.80
Price to Book Ratio (P/B)	0.67

Source: Bloomberg and Faida Analysis

We endorse a **HOLD** recommendation on the Stanbic Bank with a fair value of KES 119.50 representing a potential **8.54% upside** on the 5th September 2024 closing price of KES 119.50.

We believe that Stanbic's growth will be driven by increased Interest Income as well as effective cost-management through digitization efforts. Additionally, we trust that the management's dedication to risk management will maintain asset quality.

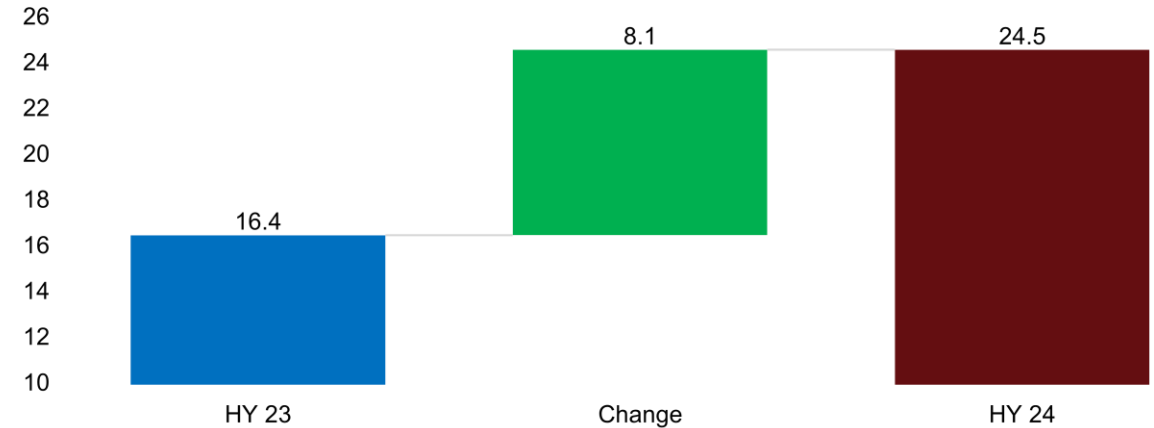
Top Line Analysis

The lender posted a **49.1% rise in Total Interest Income to KES 24.5 billion** from KES 16.4 billion in HY 23.

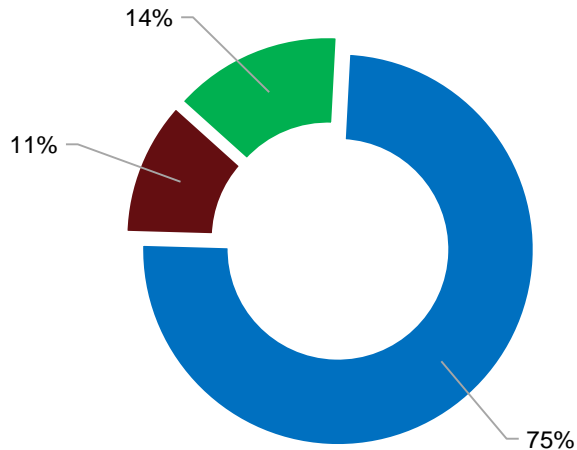
This was driven by a **44.3% increase in Interest Income from Loans and Advances** from KES 12.7 billion to KES 24.5 billion in HY 24. Income from **Deposits and Placements** also experienced substantial growth, growing by 190.1% to KES 3.5 billion, up from KES 1.2 billion in HY 23.

Interest Income from Government Securities, grew to KES 2.7 billion from KES 2.6 billion in HY23. This represents a 6.8% increase.

Development in Interest Income (KES Billions)

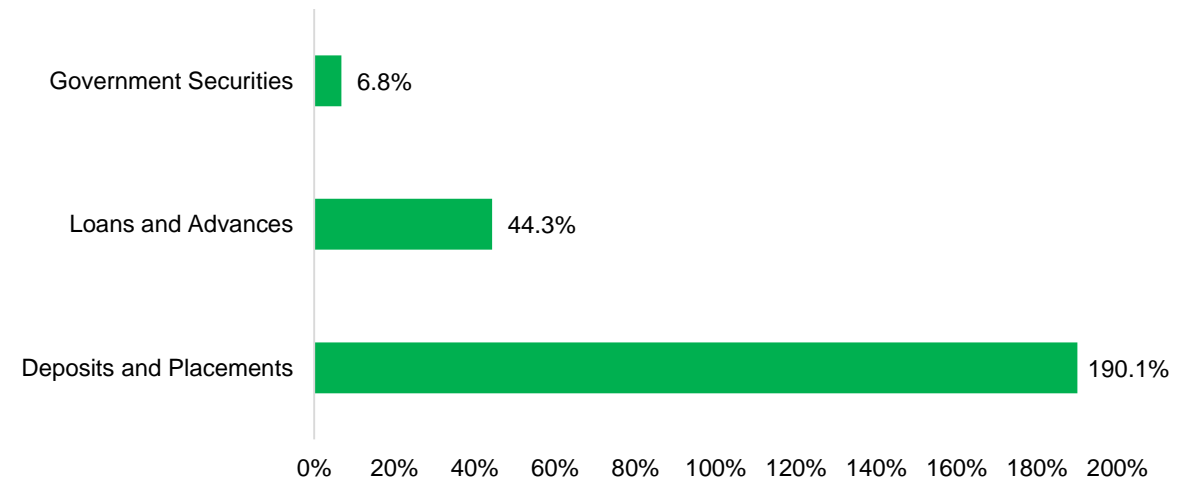


Contribution to Interest Income



■ Loans and Advances
 ■ Government Securities
 ■ Deposits and Placements

Growth Rates



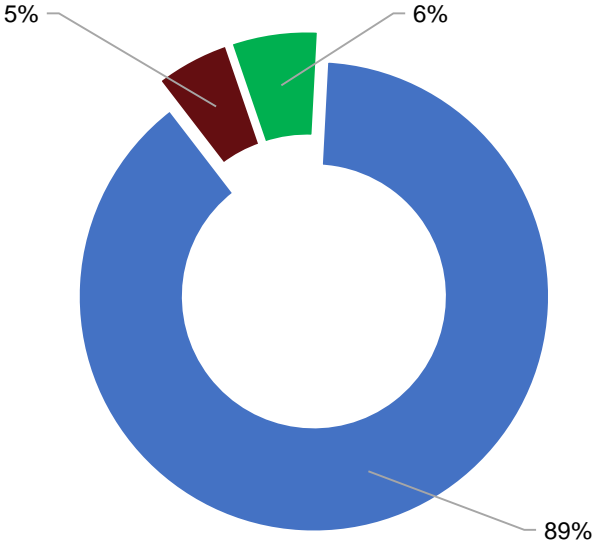
Source: Company Financials

Rising Interest Expenses

Stanbic Bank recorded a **steep 154.3% rise Total Interest Expenses** from KES 4.8 billion in HY 23 to KES 12.3 billion in the first operating half of the year.

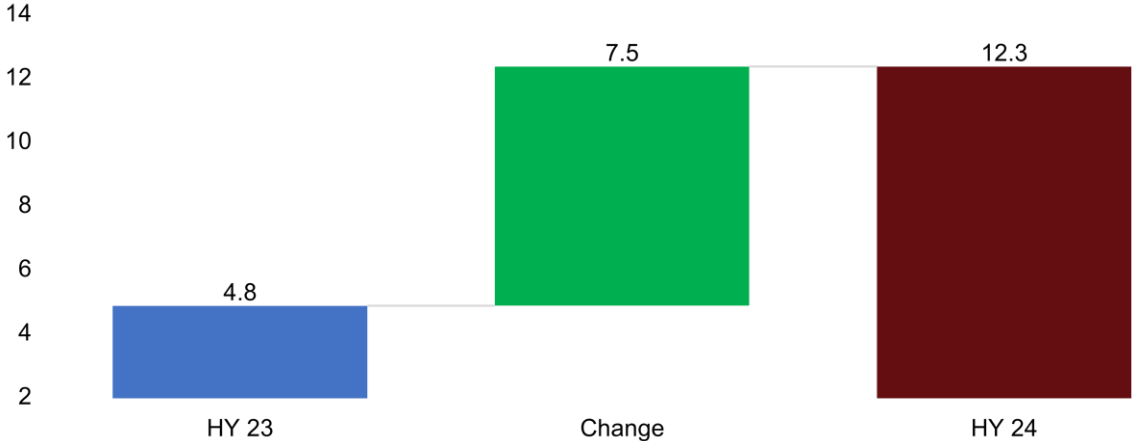
This is traceable to the growth in **Interest Expenses on Customer Deposits which rose by 199.5%** to close out the period at KES 10.9 billion compared to KES 3.6 billion posted in HY 23. This is on the back of growing customer deposits and costs of funding.

Contribution to Interest Income

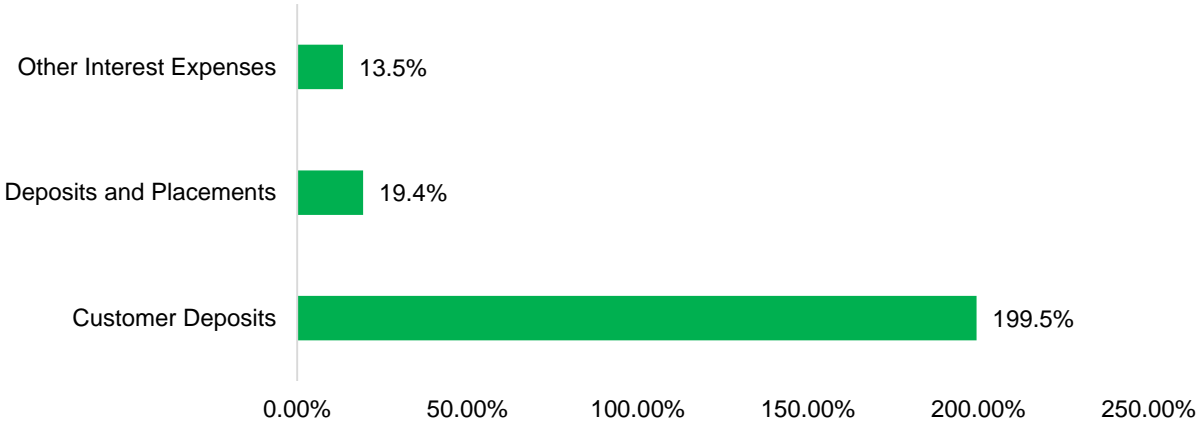


■ Customer Deposits ■ Deposits and placements ■ Other Interest Expenses

Development in Interest Expenses (KES Billions)



Interest Expenses Growth Rates



Source: Company Financials

Net Interest Income, Non-Funded Income & Profit



Subsequently, the lender posted a **5.4% rise in Net Interest Income (NII) to KES 12.2 billion** in HY 24 from KES 11.6 billion in the comparative half.

Non-Funded Income slowed by 13.5% to KES 7.5 billion from KES 8.7 billion in HY 23.

This decline is credited to a **21.9% drop in Foreign Exchange Trading Income** from KES 6.0 billion to KES 4.7 billion.

As a result, the Group's **Operating Income (Net Interest Income plus Non-Funded Income) fell by 2.7%** in comparative halves to KES 19.8 billion from 20.3 billion.

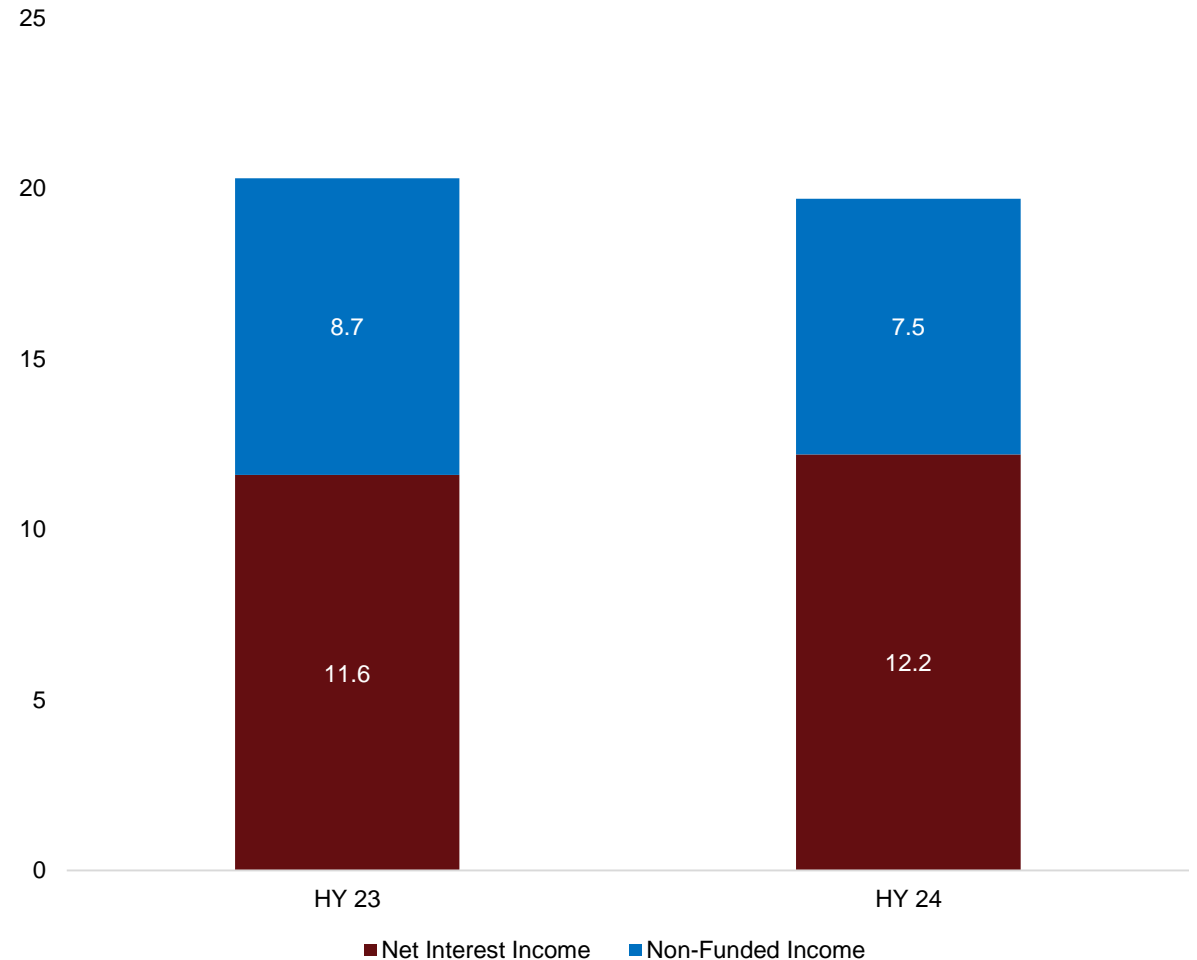
The lender's **Non-Funded Income Margin (the contribution of Non-Funded Income to Operating Income) stood at 38.1%** down from 42.9% in HY 23, owing to larger growth in Net Interest Income than that of Non-Funded Income.

Stanbic Bank's **Profitability improved by 5.1% in HY 2024 to KES 7.1 billion** from KES 6.8 billion in HY 23.

The Group's Earnings per Share climbed in line with Profitability from **KES 39.70 in HY 23 to KES 41.71 in HY 24.**

Additionally, **Stanbic Holdings declared an interim dividend of KES 1.84 per share.**

Net Interest Income and Non-Funded Income (KES Billions)



Source: Company Financials

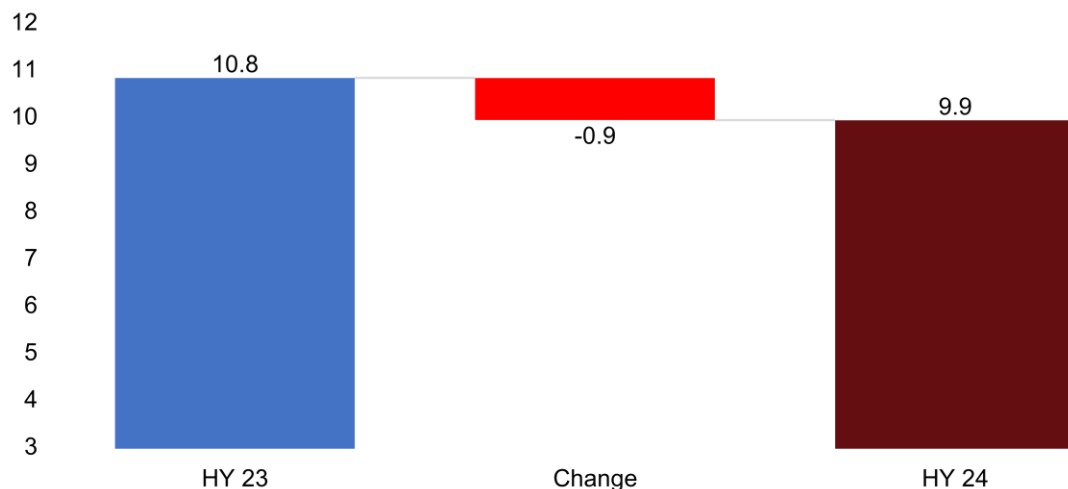
Operating Costs and Provisions Insights

The lender recorded an **8.4% decrease in its Operating Expenses (Including Provisions) to KES 9.9 billion**, down from KES 20.3 billion in HY 23. Excluding Provisions, this figure stood at KES 8.0 billion, slowing by 8.3% from KES 8.7 billion in HY 23.

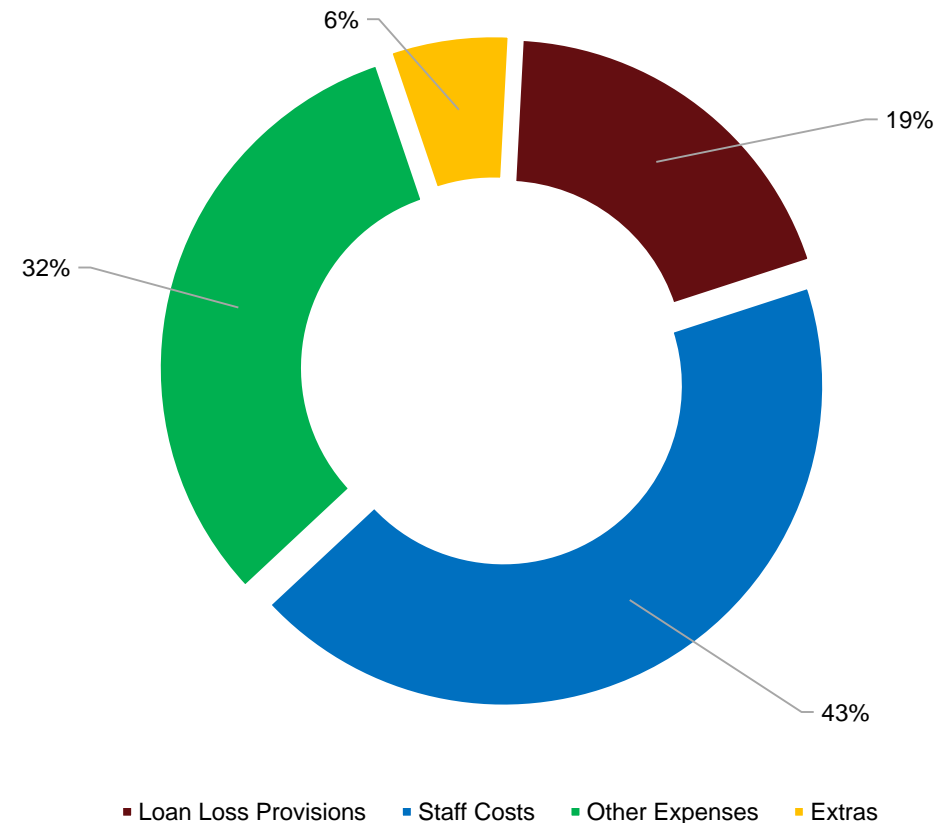
This is credited to a **28.3% fall in Other Expenses from KES 4.4 billion in HY 23 to KES 3.1 billion in HY 24**. Additionally, Loan Loss Provisions dropped by 8.8% to KES 1.9 billion from KES 2.1 billion in HY 23.

The cut in Operating Expenses eclipsed the drop in Operating Income and saw the bank's efficiency improve as their **Cost to Income Ratio (including Provisions) declined from 53.1% in HY 23 to 49.9% in HY 24**. This is as a result of the Group's continued efforts to manage Operating Expenses efficiently.

Development in Operating Costs (KES Billions)



Contribution to Operating Costs



Source: Company Financials

Note: Extras in the above Chart represents Directors Emoluments, Rental Charges, and Depreciation and Amortization Charges

Balance Sheet & Asset Quality Focus

Stanbic Bank's **Total Asset Base** grew by **29.8%** to reach KES 489.3 billion in the first half of 2024 from KES 377.0 billion in HY 23.

The Lender's **Overall Loan Book Portfolio** shrunk by **2.4%** to **KES 238.2 billion in HY 24** compared to KES 244.1 billion in the comparative half.

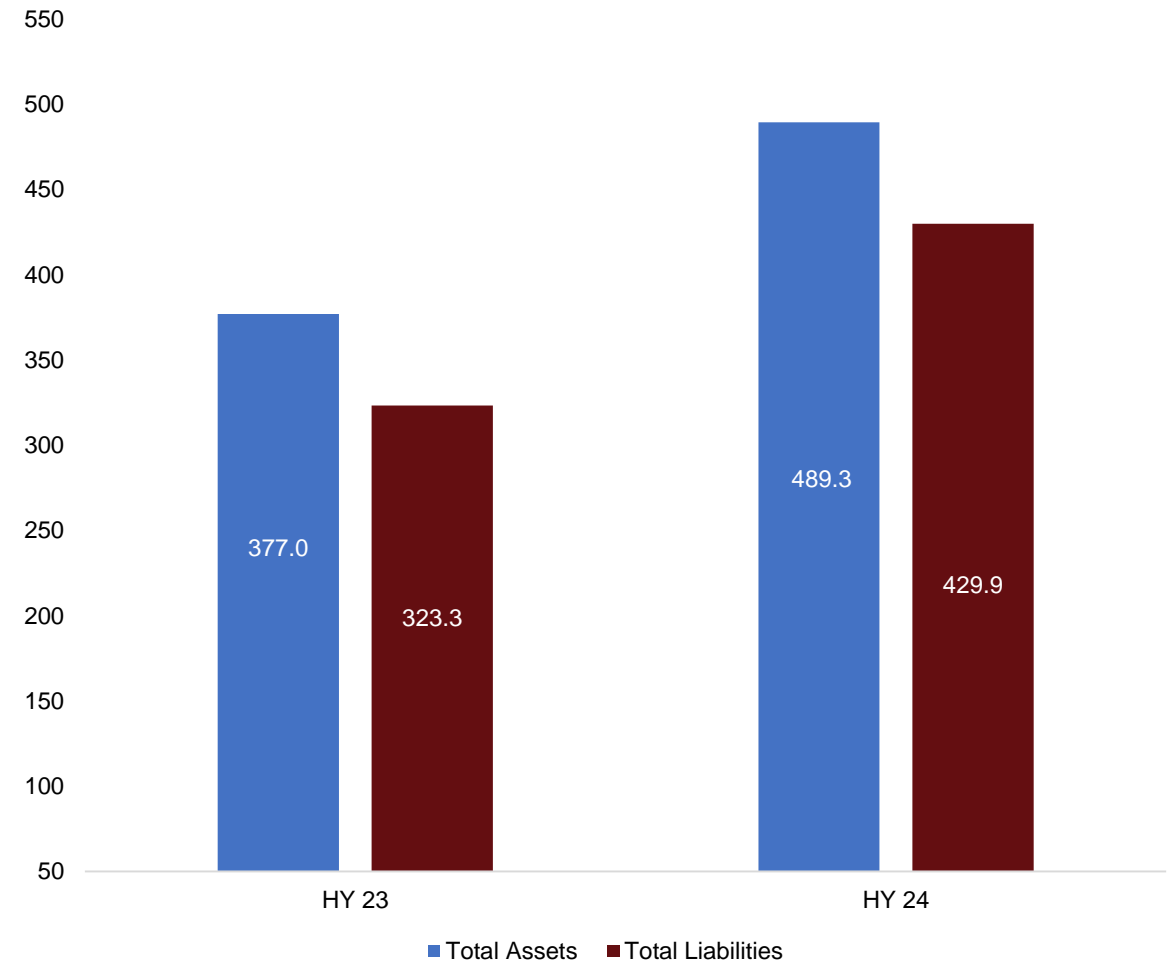
Additionally, the **Deposits from Customers** posted a **30.3% surge** from KES 273.0 billion to KES 238.2 billion in comparative halves. This larger growth in Funding compared to Lending resulted in a decline in the **Loan-Deposit Ratio** from **89.4% in HY 23 to 67.0%**.

The Bank's **Total Liabilities** base grew by **33.0%** to **KES 355.6 billion** from KES 323.3 billion in HY 23.

Asset quality deteriorated slightly with **Gross Non-Performing Loans** ticking up by **2.5%** to **KES 24.4 billion** from KES 23.8 billion in HY 23.

This brought the bank's **NPL ratio to 10.2%**, up from 9.8% posted in HY 23. This is however well below the industry average of 16.3%.

Total Liabilities and Total Assets (KES Billions)



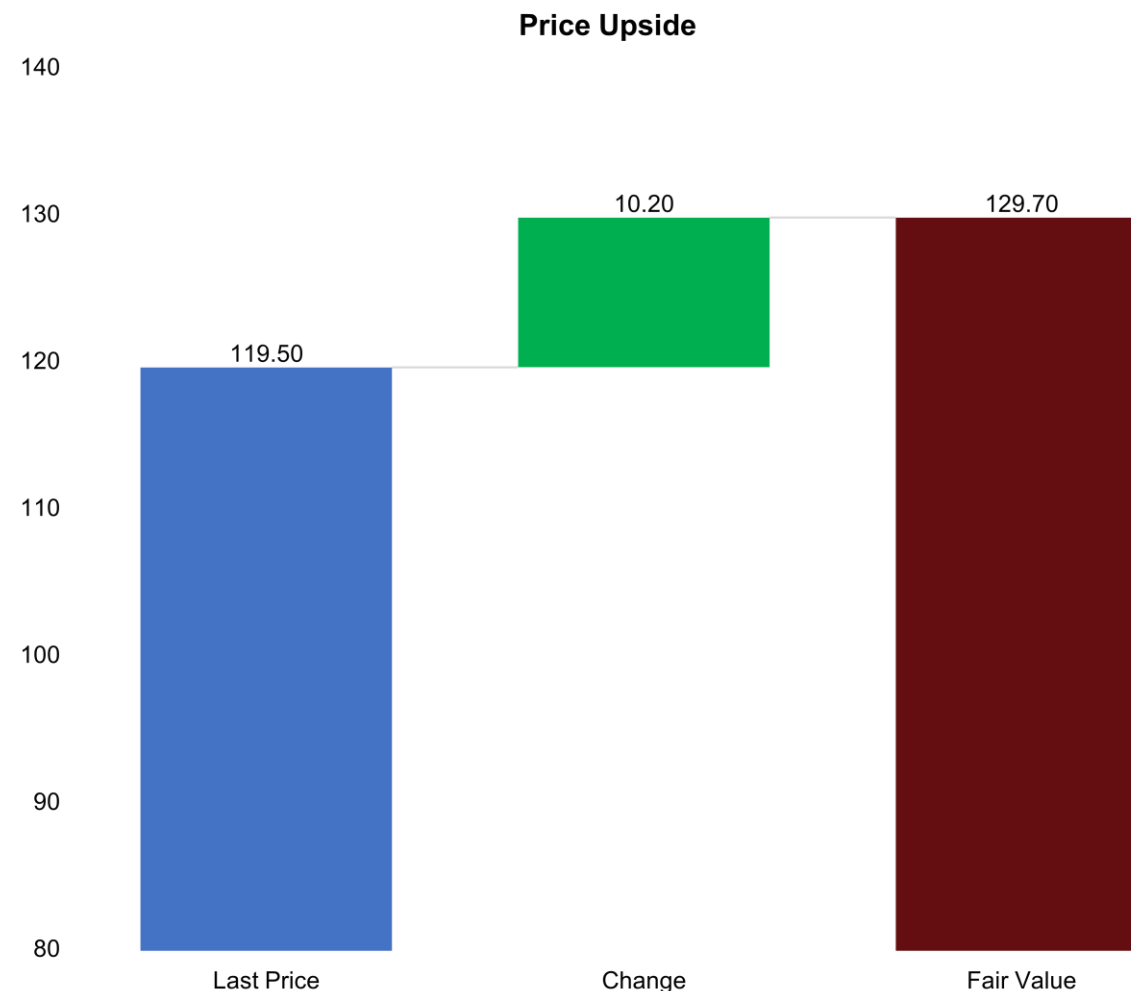
Source: Company Financials

Outlook and Recommendation

We expect Stanbic's growth to be fostered by strategic partnerships to fuel customer deposits and grow the loan book. Coupled with the lender's digital transformation efforts and broad product offerings, we expect improved operational efficiency and increased shareholder returns.

Stanbic's prudent risk management has helped the bank suppress the effects of tough economic conditions. We believe that going forward, their diverse revenue streams and stringent policies will ensure the bank manages its asset quality adequately.

We foresee Stanbic's growth being supported by a growing loan book and continued implementation of stringent risk management protocols. Its closing price as of 5th September 2024 was KES 119.50, presenting a 8.54% upside for patient investors willing to weather the short term price and market volatility.



Source: Company Financials and Faida Forecasts

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Glossary of Terms

Target Price – Analyst estimate of the fair value or intrinsic value of the company.

Cost of Funds - This is the effective average interest rate paid on interest-earning liabilities. It is calculated as Total Interest Expense/Average Interest Earning Liabilities.

Loan Yield - This is the effective average interest rate received on average loans and advances. It is calculated as Interest on Loans and Advances/Average Loans and Advances.

Cost of Risk – This ratio measures the amount of risk involved in lending. It is calculated as Net Impairment Provisions/Average Gross Loans in the period.

Non-Performing Loans -These are loans that have been classified as impaired. The CBK classifies loans into five categories i.e. Normal, Watch, Substandard, Doubtful, and Loss depending on the performance of the loan. The last three i.e. sub-standard, doubtful, and loss are referred to as non-performing loans. Under IFRS, these are classified as stage 3 loans.

Non-Performing Loans (NPL) Ratio - This is the proportion of NPLs in the loan book. It is calculated as Gross NPLs/Gross Loans.

Non-Funded/Non-Interest Income– This represents income that is not classified as interest income.

Recommendation

BUY – Minimal risks to catalysts.

SELL- Risks outweigh the catalysts.

NEUTRAL – This is where the positives and negatives in a company almost balance out. You can accumulate for the long term