

## Stanbic Holdings – FY17 Earnings Update “Great Synergies”

**Stanbic Holdings marked solid net earnings of KES 4.3B, a marginal decline of 2.5% y/y. This was attributable to stellar growth in its non-interest income (+10.0% y/y to KES 8.4B) while net interest income slightly dipped 2.0% y/y to KES 10.6B. On the downside, credit impairment charges surged 57.6% y/y to KES 2.8B. The group announced a final dividend of KES 4.00 per share, adding up to a total dividend of KES 5.25 (unchanged y/y).**

### Solid non-funded income offsets decline in interest income

The group’s total income climbed 3.0% y/y to KES 19.1B on the back of a rise in non-interest income (+10.0% y/y to KES 8.4B). On the other hand, the group’s net interest income shrunk 2.0% y/y to KES 10.6B. This was primarily due to a 1.7% y/y fall in Stanbic Bank’s net interest income to KES 10.6B on the back of lower interest income from loans and advances (-0.4% y/y to KES 12.1B) and government securities (-8.9% y/y to KES 4.3B). Consequently, the bank saw a 120bps y/y compression in its net interest margin to 4.6%. Deposit growth at 25.4% y/y (to KES 153.0B) outpaced loan book growth at 12.9% y/y (to KES 130.5B), further explaining the NIMs compression.

### Impairment charges climb on higher NPLs

The group’s total operating expenses registered a 1.7% y/y increase to KES 10.9B, facing pressure from Stanbic Bank’s total operating expenses, which shot up 12.8% y/y to KES 10.3B. The bank’s cost to income ratio rose 30bps y/y to 40.4%, however, we anticipate this to come down in light of the lender’s digitization program. The group’s credit impairment charges spiked 57.6% y/y to KES 2.8B, bringing down total income to KES 16.3B (-2.8% y/y). This was primarily due to a surge in gross non-performing loans at the bank level (+47.7% y/y to KES 10.4B). Consequently, the bank’s NPL ratio went up 170bps y/y to 7.7%, although its coverage ratio improved 680bps y/y to 31.3%- highlighting the bank’s prudent and adequate provisioning.

### Low interest income and high impairment charges dent overall group performance

The group’s profit for the period fell 2.5% y/y to KES 4.3B, driven by lower interest income and higher credit impairment charges. Stanbic Bank posted a marginal 1.9% y/y dip in net earnings to KES 4.3B. Performance at the bank level was characterized by lower net-interest income and higher loan-loss provision expense (+50.4% y/y to KES 2.8B).

**Looking ahead:** Stanbic’s recent introduction of a new billing system for businesses and its new wealth unit (Stanbic Wealth) are expected to bolster its non-interest income to support its low interest income in light of the rate cap. The counter trades at decent multiples of 7.7x FY17 P/E, 0.8x P/B with a dividend yield of 6.3%.

Bloomberg Ticker : CFCB.KN  
Reuters Ticker : CFC.NR

### Share Statistics

Current Price (KES)	84.00
Issued shares (M)	395.3
Market cap (USD M)	327.8
Year end	Dec
Foreign ownership (%)	79.6
Free float (%)	56.6
Av daily trading vol (USDk)	108.2

### Price Trend

Stanbic Holdings vs NSE-20



Source: Bloomberg

### Research Analyst

**Shaniza Kassam**

skassam@apexafrica.com

020-7602533

[www.apexafrica.com](http://www.apexafrica.com)

## Stanbic Holdings– Financials

Income Statement	FY16	1H17	FY17	% y/y
	KES 000	KES 000	KES 000	
Net interest income	10,860,047	5,012,371	10,644,281	-2.0
Non interest revenue	7,657,311	4,156,997	8,420,108	10.0
<b>Total Income</b>	<b>18,517,358</b>	<b>9,169,368</b>	<b>19,064,389</b>	<b>3.0</b>
Credit impairment charges	(1,751,812)	(1,817,986)	(2,761,325)	57.6
<b>Income after impairment charges</b>	<b>16,765,546</b>	<b>7,351,382</b>	<b>16,303,064</b>	<b>-2.8</b>
Total operating expenses	(10,716,460)	(5,143,485)	(10,901,816)	1.7
<b>Profit before taxation</b>	<b>6,049,086</b>	<b>2,207,897</b>	<b>5,401,248</b>	<b>-10.7</b>
Income tax expense	(1,630,497)	(470,668)	(1,091,754)	-33.0
<b>Profit for the period</b>	<b>4,418,589</b>	<b>1,737,229</b>	<b>4,309,494</b>	<b>-2.5</b>
EPS	11.18	4.39	10.90	-2.5
DPS	5.25	1.25	5.25	0.0
Balance Sheet	FY16	1H17	FY17	% y/y
Assets				
Cash and balances with Central Bank of Kenya	8,621,228	6,473,817	8,044,783	-6.7
Financial investments	50,032,732	68,571,010	71,329,763	42.6
Pledged assets	2,894,456	3,282,022	4,915,107	69.8
Derivative assets	2,472,191	2,905,778	2,391,101	-3.3
Loans and advances	132,576,604	133,516,337	143,279,444	8.1
Other assets	3,817,487	4,253,245	3,220,570	-15.6
Other investments	-	-	17,500	
Property and equipment	2,207,965	2,273,724	2,256,275	2.2
Prepaid operating lease	53,901	52,424	50,947	-5.5
Other tangible assets	1,135,496	1,202,395	1,356,050	19.4
Current tax recoverable	113,547	908,826	83,026	-26.9
Deferred income tax asset	1,407,363	1,469,076	2,444,394	73.7
Intangible assets- goodwill	9,349,759	9,349,759	9,349,759	0.0
<b>Total assets</b>	<b>214,682,729</b>	<b>234,258,413</b>	<b>248,738,719</b>	<b>15.9</b>
Derivative liabilities	3,061,063	2,496,993	2,427,563	-20.7
Trading liabilities	3,867,718	2,021,325	362,630	-90.6
Deposits and current accounts	155,835,043	177,860,070	193,367,907	24.1
Other liabilities	6,389,083	7,043,966	5,596,830	-12.4
Borrowings	3,986,138	3,987,682	3,989,243	0.1
Current income tax payable	1,402,810	10,168	-	
Deferred tax liability	-	70,523	38,859	
<b>Total liabilities</b>	<b>174,541,855</b>	<b>193,490,727</b>	<b>205,783,032</b>	<b>17.9</b>
Ordinary share capital	1,976,608	1,976,608	1,976,608	0.0
Ordinary share premium	16,897,389	16,897,389	16,897,389	0.0
<b>Revenue and other reserves</b>	<b>21,266,877</b>	<b>21,399,637</b>	<b>24,081,690</b>	<b>13.2</b>
Dividend reserve	1,375,719	494,152	-	
<b>Total equity</b>	<b>41,516,593</b>	<b>40,767,786</b>	<b>42,955,687</b>	<b>3.5</b>
<b>Total equity and liabilities</b>	<b>216,058,448</b>	<b>234,258,513</b>	<b>248,738,719</b>	<b>15.1</b>
Cashflow Statement	FY16	1H17	FY17	% y/y
<b>Cash flows generated from operating activities</b>	<b>8,256,564</b>	<b>1,499,861</b>	<b>5,461,758</b>	<b>-33.8</b>
Income tax paid	(990,384)	(2,725,242)	(3,483,127)	251.7
<b>Net cash (used in)/generated from operating activities</b>	<b>7,266,180</b>	<b>(1,225,381)</b>	<b>1,978,631</b>	<b>-72.8</b>
Changes in operating assets and liabilities	(15,752,552)	(3,439,083)	1,558,786	
<b>Net cash used in operating activities</b>	<b>(8,486,372)</b>	<b>(4,664,464)</b>	<b>3,537,417</b>	
Cash flows used in investing activities	(917,439)	(384,828)	(908,607)	-1.0
Cash flows used in financing activities	(5,330,382)	(1,374,175)	(1,884,267)	-64.7
Currency translation differences	131,276	17,164	125,906	-4.1
<b>Net increase in cash and cash equivalents</b>	<b>(14,602,917)</b>	<b>(6,406,303)</b>	<b>870,449</b>	
Cash and cash equivalents at 1 January	39,588,922	24,986,005	24,986,005	-36.9
<b>Cash and cash equivalents at period end</b>	<b>24,986,005</b>	<b>18,579,702</b>	<b>25,856,454</b>	<b>3.5</b>
Ratios	FY16	1H17	FY17	
Net Margin (%)	23.9	18.9	22.6	
ROA (%)	2.1	1.5	1.7	
ROE (%)	10.6	8.5	10.0	
P/E (x)			7.7	
P/B (x)			0.8	
Dividend Yield (%)			6.3	

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ApexAfrica Capital Ltd

**A** The Riverfront, 1<sup>st</sup> Floor, Prof. David Wasawo Drive, Off Riverside Drive | P.O. Box 43676-00100 | Nairobi | Kenya |

**T:** +254-20-2226440 | **Fax:** +254-20-2319092 | **Cell:** +254-723-420204 | **W :**

[www.apexafrica.com](http://www.apexafrica.com)