Stanbic Holdings Plc - FY16 Earnings Update
‘Against a Turning Tide’

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

Share Statistics	
Current Price (KES)	67.00
P/E (x)	6.0
P/B (x)	0.7
Issued Shares (M)	395.3
Market Cap (USD M)	254.7
Year End	31-Dec

Stanbic Holdings became the second listed lender to announce FY17 earnings; posting a 9.9% y/y decline in after tax profit to KES 4.4B in FY16. Net interest income surged 16.7% y/y on a larger loan book and higher margins, while non-interest income remained largely flat y/y as the company’s stock brokerage unit floundered. Full year dividend was slashed by KES 0.90 (-14.6% y/y) to KES 5.25.

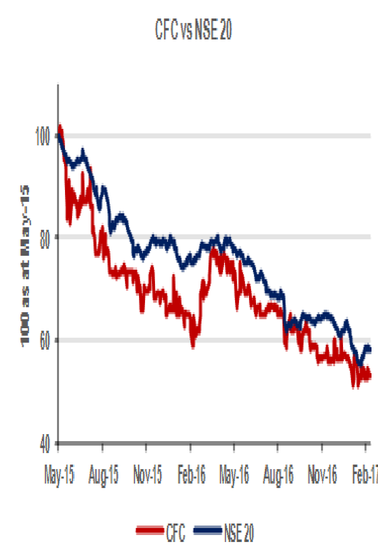
Larger loan book, higher margins drive interest income growth: The company posted an impressive 16.7% y/y growth in interest income to KES 10.9B. This was driven by a larger loan book (+3.4% y/y) and improved margins in the first 9 months of 2016 (FY16 NIM up 50bps y/y to 5.4%). The company attributed growth in margins to increased lending in the personal and business banking space as well as a more optimal mix between foreign and local currency assets.

Stanbic Bank (which is wholly owned by Stanbic Holdings Plc) posted a 16.7% y/y increase in interest income to KES 17.1B, while interest expense rose 15.5% y/y to KES 6.3B. This resulted in a 17.4% y/y growth in the banks net-interest income to KES 10.8B. Net-interest income in the bank’s corporate (+9.0% y/y) and personal business banking (+26.0% y/y) segments registered strong growth.

Non-funded income flat-lines as SBG Securities faces headwinds: Non-funded income for the company was flat y/y at KES 7.7B, even as Stanbic Bank’s non-interest line item climbed 2.7% y/y to KES 7.4B. The discrepancy was largely attributed to a change in fortunes at the company’s stock brokerage business. SBG Securities posted a 44.0% y/y decline in commission income; sending total revenue at the brokerage house, which controls 13.8% of market share, tumbling 51.0% y/y. SBG securities posted an after-tax loss of KES 7.3M in FY16, down from a profit of KES 216.6M in FY15. On a more positive note, the company’s insurance arm saw after-tax profits surge to KES 34.0M in FY16, from KES 8.0M in FY15, on the back of a revenue of KES 133.0M. The company has invested heavily in SIAL in an aim to boost non-funded income growth. We expect revenue from the company’s insurance segment to grow, in line with industry prospects—current insurance penetration of 3% leaves significant headroom for growth. The company also expects to boost revenue from this segment through cross-selling across existing platforms. Consequently, the company’s non-funded to total income ratio slipped 370bps to 41.4% in FY16.

Higher impairment charges as South Sudan outlook worsens: The company posted a 93.1% y/y increase in credit impairment charges to KES 1.8B. Civil unrest resulting from

Price Trend



Source: Bloomberg, ApexAfrica Research

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political instability in South Sudan forced the company to increase provisioning for its business in the troubled country. Additionally, the company booked increased impairment charges on specific problem-accounts for corporate clients operating in the manufacturing and agriculture sector. Stanbic Bank's NPL ratio climbed 130bps y/y to 6.0% in FY16.

Costs surge on macroeconomic turmoil in South Sudan: The company posted an 23.5% y/y increase in operating expenses to KES 10.7B, sending its cost-to-income ratio up 670 bps y/y to 57.9%. However, the surge in costs was largely as a result of the implementation of hyperinflationary accounting policies on the company's South Sudan unit. Annual inflation in the country clocked in at 496% as at December 2016. Adjusting for this, the company's cost-to-income ratio stands at 52.0%, up 80 bps y/y, with adjusted operational expenses up 10.0% y/y. During FY16, the company embarked on a comprehensive rebranding project, whose costs are also reflected in the current period and are expected to be non-recurring. The company's cost base remains controlled and we expect efficiency to improve going forward, as a result of Stanbic's investment into alternative channels. The company's digital banking platforms have been gaining traction over recent years and we expect these channels to divert traffic away from the more expensive brick & mortar branches.

Strong growth in customer balance sheet allows headroom for loan growth: Stanbic Bank saw a 12.8% y/y growth in customer deposits to KES 121.9B, while loans and advances grew 13.8% y/y to KES 115.6B. While the bank's loans-to-deposits ratio remains elevated at 94.8% (+90 bps y/y), the bank's access to a cheap group funding line guarantees head room for loan-book growth. While the recently implemented cap on lending rates is expected to squeeze margins, the bank is somewhat naturally insulated by the cap due to its focus on lending to the corporate segment, which is generally priced at lower interest bands. Nonetheless, in a bid to attract depositors Stanbic Bank has been aggressively marketing its savings products, which has resulted in a significant growth in interest bearing deposits.

Currently 25% of the bank's total deposits remain interest bearing, and we expect this to grow in the medium term, which will likely lead to margin compression. The bank's margins on loans have dipped to 5.0%, from 5.7% after the implementation of the rate cap.

Looking ahead: The company's FY16 results were broadly in line with expectations, with South Sudan impairments and adjustments creating most of the surprises. The increase in net interest income as a result of a growing loan book and higher margins (FY16 NIM up 50bps y/y to 5.4%) are encouraging. However, we anticipate some NIM compression in the wake of the cap on lending rates. Additionally, poor performance in the company's stock brokerage business will likely mute non-funded income growth. In our view, we do not see significant top-line growth in the medium term and expect the company's bottom line to be supported by a shrinking cost-to-income ratio as traffic on the company's cheaper alternative channels picks up.

On the other hand, Stanbic's performance in South Sudan may result in further impairments. We are mindful that the current write downs in South Sudan only reflect loss of economic value and are mainly the result of accounting policies since most of the company's South Sudan assets are maintained in US Dollars and not local currency. Nonetheless, further deterioration in the political and macroeconomic landscape in South Sudan will undoubtedly result in further impairment charges and pile pressure on the bottom line.

Share Price Update: The stock currently trades at KES 67.00, down 5.0% YTD, tracking the broad declines witnessed this year in banking sector stocks. The company currently trades at 6.1 times earnings and at an attractive 0.7 times book value. The company has a trailing dividend yield of 7.8%.

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Financials

Stanbic Holdings Plc Income Statement	FY15 KES '000	1H16 KES '000	2H16 KES '000	FY16 KES '000	% chg y/y
Net Interest Income	**9,303,047**	**5,463,896**	**5,396,151**	**10,860,047**	**16.7%**
Non Interest Income	7,641,228	3,966,033	3,691,278	7,657,311	0.2%
Total Operating Income	**16,944,275**	**9,429,929**	**9,087,429**	**18,517,358**	**9.3%**
Total Operating Expenses	8,677,556	4,948,595	5,767,865	10,716,460	23.5%
Credit Impairment Charges	**907,305**	**834,097**	**917,715**	**1,751,812**	**93.1%**
Profit Before Tax	**7,359,414**	**3,647,237**	**2,401,849**	**6,049,086**	**-17.8%**
Current Tax	2,453,680	1,253,773	376,724	1,630,497	-33.5%
Profit After Tax	4,905,734	2,393,464	2,025,125	4,418,589	-9.9%
EPS (KES)	12.41	6.05	5.13	11.18	-9.9%
DPS (KES)	6.15			5.25	-14.6%
Balance Sheet					
Total Shareholders' Equity	38,364,829	37,601,430	40,140,874	40,140,874	4.6%
Total Liabilities	**170,087,086**	**174,742,117**	**174,541,855**	**174,541,855**	**2.6%**
Total Equity and Liabilities	**208,451,915**	**212,343,547**	**214,682,729**	**214,682,729**	**3.0%**
Cash and CBK Balances	11,350,098	11,921,801	8,621,228	8,621,228	-24.0%
Borrowings	6,482,063	6,485,422	3,986,138	3,986,138	-38.5%
Loans and Advances	**128,163,157**	**120,878,105**	**132,576,604**	**132,576,604**	**3.4%**
Fixed Assets	2,244,902	2,201,589	2,207,965	2,207,965	-1.6%
Total Assets	**208,451,915**	**212,343,547**	**214,682,729**	**214,682,729**	**3.0%**
Key Ratios					
Cost to Income Ratio	51.2%	52.5%	63.5%	57.9%	
ROE	12.8%	12.7%	10.1%	11.0%	
ROA	2.4%	2.3%	1.9%	2.1%	
P/E (x)				**6.0**	
P/B (x)				**0.7**	
Dividend Yield				**7.8%**	

Source: Company Filings, ApexAfrica Research

Financials

Stanbic Bank (Wholly Owned By Stanbic Holdings Plc)	FY15	1Q16	2Q16	3Q16	4Q16	FY16	% chg y/y	% chg q/q
Income Statement	KES '000	KES '000	KES '000	KES '000	KES '000	KES '000		
Interest Income	14,665,543	4,438,528	4,390,045	4,340,646	3,944,457	17,113,676	16.7%	-9.1%
Interest Expense	5,490,683	1,658,480	1,774,248	1,425,104	1,485,479	6,343,311	15.5%	4.2%
Net Interest Income	**9,174,860**	**2,780,048**	**2,615,797**	**2,915,542**	**2,458,978**	**10,770,365**	**17.4%**	**-15.7%**
Foreign Exchange Income	3,098,093	976,772	522,685	578,080	1,283,576	3,361,113	8.5%	122.0%
Fees and Commission Income	2,621,367	628,557	680,022	581,305	657,458	2,547,342	-2.8%	13.1%
Other Income	1,454,689	302,826	698,307	1,099,568	-	1,461,471	0.5%	-
Non Interest Income	7,174,149	1,908,155	1,901,014	2,258,953	1,301,804	7,369,926	2.7%	-42.4%
Total Operating Income	**16,349,009**	**4,688,203**	**4,516,811**	**5,174,495**	**3,760,782**	**18,140,291**	**11.0%**	**-27.3%**
Total Operating Expenses	9,271,990	2,854,699	2,758,565	3,881,852	1,458,381	10,953,497	18.1%	-62.4%
Loan Loss Provision Expense	**1,000,743**	**568,161**	**305,842**	**327,740**	**634,204**	**1,835,947**	**83.5%**	**93.5%**
Operating Profit	**7,077,019**	**1,833,504**	**1,758,246**	**1,292,643**	**2,302,401**	**7,186,794**	**1.6%**	**78.1%**
Profit Before Tax	7,077,019	1,833,504	**1,758,246**	**1,292,643**	**2,302,401**	**7,186,794**	**1.6%**	**78.1%**
Current Tax	1,360,980	813,845	792,672	379,410	911,890	2,897,817	112.9%	140.3%
Profit After Tax	4,697,036	1,187,821	1,172,759	1,056,003	1,008,819	4,425,402	-5.8%	-4.5%
EPS (KES)	**27.54**	**6.96**	**6.88**	**6.19**	**5.91**	**25.94**	**-5.8%**	**-4.5%**
Balance Sheet								
Total Shareholders' Equity	28,250,550	27,074,070	27,656,039	41,465,431	30,237,504	30,237,504	7.0%	-27.1%
Deposits due to Banks & Financial Institutions	47,964,265	54,658,939	43,852,371	5,062,916	36,934,330	36,934,330	-23.0%	-
Borrowed Funds	6,482,063	6,691,240	6,485,422	25,872,156	6,608,082	6,608,082	1.9%	-74.5%
Customer Deposits	**108,130,026**	**108,797,579**	**114,780,743**	**180,862,520**	**121,989,234**	**121,989,234**	**12.8%**	**-32.6%**
Total Liabilities	**170,327,464**	**181,213,675**	**174,638,699**	**222,537,700**	**174,657,653**	**174,657,653**	**2.5%**	**-21.5%**
Total Equity and Liabilities	**198,578,014**	**208,287,745**	**202,294,738**	**264,003,131**	**204,895,157**	**204,895,157**	**3.2%**	**-22.4%**
Cash and CBK Balances	11,279,882	18,762,016	11,921,801	17,802,195	8,621,228	8,621,228	-23.6%	-51.6%
Balances Due from Local & Foreign Financial Institutions	26,586,928	18,700,770	12,200,618	311,718	16,884,251	16,884,251	-36.5%	-
Government and Other Securities	48,638,396	57,353,978	59,290,893	66,683,092	52,783,690	52,927,188	8.8%	-20.8%
Loans and Advances	**101,576,227**	**103,560,807**	**108,486,104**	**158,843,058**	**115,587,723**	**115,587,723**	**13.8%**	**-27.2%**
Fixed Assets	2,237,967	2,171,577	2,196,026	3,269,495	2,203,745	2,203,745	-1.5%	-32.6%
Total Assets	**198,578,014**	**208,287,745**	**202,294,738**	**264,003,131**	**204,895,157**	**204,895,157**	**3.2%**	**-22.4%**
Key Ratios								
Gross NPL (KES M)	4,858,392	5,239,284	5,906,263	10,412,797	7,013,116	7,013,116	44.4%	-32.6%
Interest In Suspense (KES M)	687,954	794,752	939,254	2,634,290	1,178,513	1,178,513	71.3%	-55.3%
Total NPL (KES M)	4,170,438	4,444,532	4,967,009	7,778,507	5,834,603	5,834,603	39.9%	-25.0%
Loan Loss Provision (KES M)	1,271,153	1,253,486	1,375,843	4,578,571	1,716,864	1,716,864	35.1%	-62.5%
Net NPL	2,899,285	3,191,046	3,591,166	3,199,936	4,117,739	4,117,739	42.0%	28.7%
NPL Ratio	4.7%	5.0%	5.4%	6.4%	6.0%	6.0%		
Cost of Risk	1.0%	2.2%	1.1%	0.8%	2.2%	1.6%		
Loan to Deposits	93.9%	95.2%	94.5%	87.8%	94.8%	94.8%		
Yield on Interest Earning Assets	8.3%	9.9%	9.8%	7.7%	8.5%	9.2%		
Cost of Funds	3.4%	3.9%	4.3%	2.7%	3.6%	3.8%		
NIM	4.9%	6.0%	5.5%	5.0%	4.9%	5.4%		
Non Funded/Total Income	43.9%	40.7%	42.1%	43.7%	34.6%	40.6%		
Cost to Income Ratio	50.6%	48.8%	54.3%	68.7%	21.9%	50.3%		
ROE	16.6%	17.5%	17.0%	10.2%	13.3%	14.6%		
ROA	2.4%	2.3%	2.3%	1.6%	2.0%	2.2%		
Core Capital/TRWA	15.9%	15.9%	15.0%	16.3%	15.9%	15.9%		
Total Capital/TRWA	18.7%	18.5%	17.3%	18.7%	18.7%	18.1%		
Liquidity Ratio	73.7%	68.8%	67.0%	34.7%	54.6%	54.6%		

Source: Company Filings, ApexAfrica Research

Appendix

Investment ratings

- **Buy:** A total return is anticipated in excess of the market's long-term historic annual rate (approximately 10%). Total return expectations should be higher for stocks that possess greater risk.

- **Hold:** Hold the shares with neither a materially positive total return nor a materially negative total return anticipated.

- **Sell:** Stock should be sold as materially negative total return is anticipated.

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