

Stanbic Holdings Plc – 1H18 Earnings Update

“ Moving forward? Yes! ”

Stanbic holdings posted an impressive 104.5% y/y surge in its 1H18 net earnings to KES 3.6B mirroring a 101.7% y/y gush in Stanbic Bank’s 1H18 PAT to KES 3.5B. We take cognizance of the group’s effort in creating value for shareholders with the announcement of a KES 2.25 (+80.0% y/y) interim dividend translating to a dividend yield of 2.4% (on the interim).

Loans and advances growth bolsters top-line despite tough regulatory environment: In spite of the prevailing cap on interest rates and a downward adjustment to the Central Bank Rate (CBR) to 9.5% (50bps h/h) in 1H18, the bank’s interest income rose 15.4% y/y to KES 9.1B riding on a 15.7% y/y growth in net loans and advances to KES 136.5B. This was driven by focus on secured lending and mortgages.

Deposits outpace cost of funds: Interest expense increased 21.7% y/y to KES 3.5B slower than a 26.7% y/y rise in customer deposits to KES 164.9B; a reflection of the bank’s efforts to tame interest expenses as current accounts (non-interest bearing) make up 85% of deposits.

Non-interest revenue up; an emblem of focus on trade finance and money market trading: Trade finance revenues rose due to an increase in fees from Letters of Credit and guarantees, coupled with a rise in electronic banking revenues and closing of investing banking deals in 1H18. In addition to this, a 63.0% y/y spike in trading revenues from mark to market gains from money markets and fixed income trading desks saw a 34.0% y/y uplift of non-interest revenue to KES 5.6B.

Improved asset quality necessitates a reversal of provisions: Given the bank’s aggressive debt collection strategies and achieved recovery milestones, credit impairment charges declined significantly to KES 253.3M (-86.1% y/y). The bank’s gross non-performing loans rose 62.7% y/y to KES 10.6B but remained flat h/h having edged up 1.8% h/h on account of the debt collection strategies

So, what does Stanbic Holdings hold for you, the investor?

- A yield of 2.4% on an interim dividend of KES 2.25 and anticipated capital appreciation as investors speculate on expected stellar performance in FY18.
- Stanbic Bank is expected to revamp its core banking system in 2H18 and launch its agency banking network. The bank is looking to onboard more retail and SME clients as it grows its loan-book whilst attracting cheaper deposits. Increased penetration in the Kenyan market is expected to strengthen the bank’s brand amidst tough competition among banking sector players.
- Stanbic Africa Holdings still intends to increase its ownership to 75.0% of Stanbic Holdings Plc after raising it to 68.0% in the last tender offer. It is expected that a new offer will be made to minority shareholders.
- One of the pillars of the Big 4 Agenda is provision of affordable housing. Stanbic has strategically positioned itself and is set to form partnerships with the Kenya Mortgage Refinancing Company, a state-backed mortgage firm that will avail cheap credit to enable the acquisition of homes by the public. This is expected to boost Stanbic Bank’s top-line going forward.

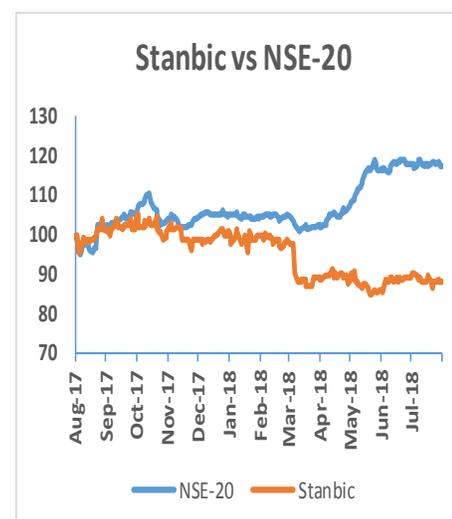
The positive numbers announced have already raised its market price from KES 92.00 to KES 98.50 (7.1% d/d). We continue to see value in the counter based on the aforementioned factors and its price attractiveness given its P/B of 0.8x against a peer average of 1.3x.

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

Share Statistics

Current Price (KES)	92.00
Issued shares (M)	395.3
Market cap (USD M)	327.8
Year end	Dec
Foreign ownership (%)	84.3
Free float (%)	56.6
Av daily trading vol.(USDk)	108.2

Price Trend



Source: Bloomberg

Research Analyst

Linda Kiraithe

LKiraithe@apexafrica.com

Tel: 020-7602534

www.apexafrica.com

Income Statement	FY16	1H17	FY17	1H18	% y/y
	KES 000	KES 000	KES 000	KES 000	
Net interest income	10,860,047	5,012,371	10,644,281	5,608,193	11.9
Non interest revenue	7,657,311	4,156,997	8,420,108	5,569,913	34.0
Total Income	18,517,358	9,169,368	19,064,389	11,178,106	21.9
Credit impairment charges	(1,751,812)	(1,817,986)	(2,761,325)	(253,269)	-86.1
Income after impairment charges	16,765,546	7,351,382	16,303,064	10,924,837	48.6
Total operating expenses	(10,716,460)	(5,143,485)	(10,901,816)	(5,730,355)	11.4
Profit before taxation	6,049,086	2,207,897	5,401,248	5,194,482	135.3
Income tax expense	(1,630,497)	(470,668)	(1,091,754)	(1,642,146)	248.9
Profit for the period	4,418,589	1,737,229	4,309,494	3,552,336	104.5
EPS	11.18	4.39	10.90	8.99	104.8
DPS	5.25	1.25	5.25	2.25	80.0

Balance Sheet	FY16	1H17	FY17	1H18	% y/y
Cash and balances with Central Bank of Kenya	8,621,228	6,473,817	8,044,783	12,568,304	94.1
Financial investments	50,032,732	68,571,010	71,329,763	87,028,576	26.9
Loans and advances	132,576,604	133,516,337	143,279,444	154,034,135	15.4
Property and equipment	2,207,965	2,273,724	2,256,275	2,221,613	-2.3
Intangible assets- goodwill	9,349,759	9,349,759	9,349,759	9,349,759	0.0
Total assets	202,788,288	220,184,647	234,260,024	278,780,976	26.6
Derivative liabilities	3,061,063	2,496,993	2,427,563	2,322,642	-7.0
Trading liabilities	3,867,718	2,021,325	362,630	3,804,454	88.2
Deposits and current accounts	155,835,043	177,860,070	193,367,907	215,772,057	21.3
Other liabilities	6,389,083	7,043,966	5,596,830	6,593,396	-6.4
Borrowings	3,986,138	3,987,682	3,989,243	7,031,989	76.3
Total liabilities	173,139,045	193,410,036	205,744,173	236,571,343	22.3
Ordinary share capital	1,976,608	1,976,608	1,976,608	1,976,608	0.0
Ordinary share premium	16,897,389	16,897,389	16,897,389	16,897,389	0.0
Revenue and other reserves	21,266,877	21,399,637	24,081,690	23,335,636	9.0
Total equity	40,140,874	40,273,634	42,955,687	42,209,633	4.8
Total equity and liabilities	213,279,919	233,683,670	248,699,860	178,780,976	-23.5

Cashflow Statement	FY16	1H17	FY17	1H18	% y/y
Cash flows generated from operating activities	8,256,564	1,499,861	5,461,758	4,439,326	196.0
Income tax paid	(990,384)	(2,725,242)	(3,483,127)	(544,535)	-80.0
Net cash (used in)/generated from operating activities	7,266,180	(1,225,381)	1,978,631	3,894,791	
Changes in operating assets and liabilities	(15,752,552)	(3,439,083)	1,558,786	15,946,925	
Net cash used in operating activities	(8,486,372)	(4,664,464)	3,537,417	19,841,716	
Cash flows used in investing activities	(917,439)	(384,828)	(908,607)	(174,147)	-54.7
Cash flows used in financing activities	(5,330,382)	(1,374,175)	(1,884,267)	571,986	
Net increase in cash and cash equivalents	(14,734,193)	(6,423,467)	744,543	20,239,555	
Cash and cash equivalents at 1 January	39,588,922	24,986,005	24,986,005	25,856,454	3.5
Cash and cash equivalents at period end	24,854,729	18,562,538	25,730,548	45,932,735	147.4

Ratios	FY16	1H17	FY17	1H18
Net Margin (%)	23.9	18.9	22.6	31.8
ROA (%)	2.2	1.6	1.8	1.3
ROE (%)	11.0	8.6	10.0	8.4
P/E (x)			7.7	
P/B (x)			0.8	
Dividend Yield (%)			6.3	

Disclaimer

ApexAfrica and its parent company AXYS Group seek to do business with companies covered in their research reports. Consequently, a conflict of interest may arise that could affect the objectivity of this report. This document should only be considered a single factor used by investors in making their investment decisions. The reader should independently evaluate the investment risks and is solely responsible for their investment decisions. The opinions and information portrayed in this report may change without prior notice to investors.

This publication may not be distributed to the public media or quoted or used by the public media without prior and express written consent of ApexAfrica or AXYS Group.

This document does not constitute an offer, or the solicitation of an offer, for the sale or purchase of any security. Whilst every care has been taken in preparing this document, no representation, warranty or undertaking (express or implied) is given and no responsibility or liability is accepted by Apex Africa or any of its employees as to the accuracy of the information contained and opinions expressed in this report.

ApexAfrica Capital Ltd
A The Riverfront, 1st 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
Part of AXYS Group
W : www.axys-group.com