

## Bottom Line Performance Gives Room for Optimism

### Q4 Earnings Performance Saves the Day

Sterling Bank (STERLN BANK)'s 2019FY financial results reveal borderline performance as gross earnings registered a slight uptick (+1.00%) from NGN148.71bn to NGN150.20bn. A stronger fourth quarter showing was sufficient to reverse the dip in topline (-1.37% YoY) recorded as at 9M:2019. The push that was necessary to keep gross earnings afloat in 2019FY came from the bank's interest income which increased 1.70% YoY to NGN127.29bn, driven by cash and short-term funds (+32.61%) and investment securities (+3.30%). For non-interest income, a significant shortfall totaling NGN7.19bn (-94.54%) in foreign exchange trading income was a notable dampener on gains made from other non-interest income sources such as fees and commission income (+24.31% YoY) and investment securities trading (+357.81% YoY). Hence, non-interest income fell 2.72% to NGN22.90bn. **For 2020FY, we are not quite upbeat about the bank's gross earnings performance given our expectation of slow growth in loan book and the downward revision of transaction fees chargeable by banks. Overall, we expect gross earnings to tick up marginally by 0.89%.**

### Bottom line Growth Buoyed by Decline in Funding Cost

The switch to a low-cost funding base was the main driver of profitability according to the bank's results. Deposits increased by 17.36% YoY to NGN892.66bn, with the bank's CASA mix improving to 62.00% (vs. 59.26% in 2018FY). Conversely, its stock of borrowings and debt securities fell by 39.19% YoY to NGN125.36bn. As a result, interest expense fell by 10.43% to NGN62.59bn while Net interest margin expanded to 7.90% (vs. 6.60% in 2018FY). The bank's high operating cost profile remains a drag on profitability, as operating expenses (OPEX) climbed by 11.91% to NGN70.27bn, as the bank continued to implement its rebranding and digital strategy. Nevertheless, the bank recorded strong growth in Profit Before Tax (PBT) and Profit after tax (PAT) by 12.47% and 15.01% respectively. **For 2020FY, although we expect cost of funds to trend lower, we envisage slimmer net profit margin on the back of constrained earnings growth and high OPEX outlook. We therefore project a moderated PAT growth at 6.42%.**

### Asset Quality Shows Marked Improvement

The bank's non-performing loan ratio declined significantly to 2.20% in 2019FY (vs. 8.70% in 2018FY), settling well below the regulatory limit of 5.00%. This came as a result of a reclassification of NGN25.70bn from stage 3 to stage 2 and a write-off of NGN11.08bn. Loans to Deposits Ratio fell to 65.50% (albeit higher than benchmark of 65%) from 71.00% in 2018FY owing to a faster rise in deposits (+17.36% to NGN892.66bn) than in loans. Liquidity ratio fell to 39.22% from 42.19% in 2018FY, above the regulatory minimum, while Capital adequacy ratio improved to 14.74% from 13.35% in 2018FY driven by a recovery in its retained earnings position.

### Outlook and Recommendation

We note the bank's growing penchant for innovation as it continues to rebrand. While we expect this to bode well for earnings, recent global and domestic developments such as the outbreak of COVID-19 and the crash in oil prices cast a grim outlook. Thus, our target P/E for the bank of **4.71x** and expected **EPS** of **0.39**, gives our December 2020 target price of **NGN1.84**, indicating an upside potential of **60.00%**. Hence, we place a **BUY** recommendation on the ticker.

Company	STERLN BANK
<b>Valuation</b>	
Trailing EPS	0.37
BVPS	4.15
P/E	2.99x
P/BV	0.26x
Target PE	4.71x
Dec-2020 Exp. EPS	0.39
Dec 2020 Target price	<b>1.84</b>
Current Price	1.15
Up/Downside Potential	+60.00%
<b>Ratings</b>	<b>BUY</b>
<b>Key metrics</b>	
ROE	9.76%
ROA	0.93%
Net margin	7.06%
Asset Turnover	0.13
Leverage	10.60x
<b>Share/Share Price Statistics</b>	
Yr Hi	NGN2.40
Yr Lo	NGN0.99
YTD return	-40.70%
Beta	1.28
Adjusted Beta	1.19
52-wk average volume	
Shares outstanding	28.79bn
Market cap [NGN]	31.09bn
Financial year end	December
Most Recent Period (MRP)	2019FY

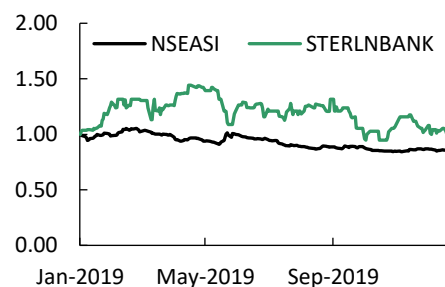


Chart 1: Sensitivity Analysis

Sensitivity Analysis of Dec-2020 Target Price to key model inputs						Min	1.44
EPS						Max	1.97
Target PE		0.32	0.35	0.39	0.40	0.41	
	4.51x	1.44	1.58	1.76	1.80	1.85	
	4.61x	1.48	1.61	1.80	1.84	1.89	
	4.71x	1.51	1.65	1.84	1.88	1.93	
	4.76x	1.52	1.67	1.86	1.90	1.95	
	4.81x	1.54	1.68	1.88	1.92	1.97	

## Financial Highlights (NGN billion) STERLING BANK PLC 2019FY Result

Profit & Loss Account	2019FY	2018FY	y/y Growth
Gross Earnings	150.20	148.71	1.00%
Interest Income	127.29	125.16	1.70%
Interest Expense	62.59	69.88	-10.43%
Loan Loss Expense	5.84	5.84	-0.09%
Net Interest income after impairment charges	58.86	49.44	19.06%
Non-Interest Income	22.90	23.55	-2.72%
Operating Income	81.77	72.98	12.03%
OPEX	71.09	63.49	11.97%
PBT	10.67	9.49	12.47%
PAT	10.60	9.22	15.01%
Balance Sheet	2019FY	2018FY	
Cash and short-term funds	156.06	117.69	32.61%
Loans and Advances to customers	618.73	621.50	-0.45%
Investment Securities	268.83	260.25	3.30%
Property and Equipment	18.48	16.94	9.05%
Other Assets	120.58	86.55	39.33%
<b>Total Assets</b>	<b>1,182.69</b>	<b>1,102.92</b>	<b>7.23%</b>
Deposits from customers	892.66	760.61	17.36%
Financial Liabilities	125.36	206.14	-39.19%
Other Liabilities	45.11	38.38	17.54%
Total Liabilities	1,063.13	1,005.12	5.77%
Shareholders' fund	119.56	97.80	22.25%

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- HOLD:** Target Price of the stock ranges between **-10 percent and 10 percent** from the current market price.
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**Company Name:** Sterling Bank Plc.

Date	Price (N)	Previous Target Price(N)	New Target Price (N)	Previous Recommendation	New Recommendation
01-Apr-2020	1.15	2.06	1.84	SELL	BUY

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Sterling Bank Plc	

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