

Lacklustre H1:2020 Performance Clouds Outlook

Topline Remains Pressured by Weak Asset Growth

Sterling Bank (STERLNBANK)'s overall topline performance remained pressured in H1:2020, following its weak outing in the first quarter. A marginal growth (+0.79% YoY) in Q2:2020, however, moderated the decline in topline to 2.85% YoY in H1:2020, from 6.67% YoY in Q1:2020. The bank's topline which amounted to NGN70.23bn in H1:2020, was adversely impacted by depressed asset yields which fell to 13.20% from 14.00% in H1:2019, causing a 4.28% YoY decline in interest income. Also, fee-based income sustained its descent, with a 29.70% YoY decline in H1:2020, due to the cut in electronic banking fees. The bank's trading income (+242.83% YoY growth to NGN3.95bn) however, continues to benefit from relatively higher prices of bonds and treasury bills in the secondary market. **We affirm our earlier position that the weak growth in its earning assets is a key risk factor to topline growth for the bank, considering that its interest-earning assets have only grown by 0.66% YtD. Given the depressed yield environment, we reckon that a significant growth in earning assets is required to drive growth in topline.** It also does not help the bank that 16.66% of its total assets as at H1:2020 is domiciled with the CBN and therefore yields no interest. **Based on the identified risks and considering that we do not see significant headroom for more trading gains in H1:2020, we review our 2020FY gross earnings growth forecast to -4.84% YoY from -1.60%.**

Yet More Room for Bottom Line Improvement

The bank continued to drive down its cost of funds (CoF) by leveraging the low interest rate environment and improving its CASA mix. Unlike in Q1:2020, the decline in CoF (to 5.00% from 6.50% in H1:2019) translated to an increase in Net Interest Margin to 8.20% from 7.50% in H1:2019. However, the gains in net interest income were quickly eroded by significantly higher (+165.83% YoY) loan provisioning in H1:2020, as its Cost of risk jumped to 2.10% from 0.70% in H1:2019. **High impairment charges are broadly in line with our expectation so far, but we expect some moderation in the rest of the year owing to a generally improving business landscape, stable crude oil price and slow growth in loan book.** Despite the higher provisions, the bank achieved a significant improvement in cost efficiency as Cost-to-Income ratio (CIR) fell to 72.60% from 80.30% in H1:2019. The improvement in cost efficiency is however yet to significantly reflect on bottom line performance as both Profit Before Tax (PBT) and Profit after tax (PAT) fell by 5.38% YoY and 4.38% YoY, to NGN5.68bn and NGN5.41bn respectively. **We expect lower CoF and a further moderation in OPEX growth to mitigate the impact of high credit loss charges, hence we maintain our projection of a relatively flat bottom line performance.**

Liquidity Position Still a Matter of Concern

Although net operating cash flows improved from -NGN62.60bn in Q1:2020 to -NGN35.27bn, our concerns arise from the observation that the largest portion of operating cash outflows were due to increased CRR debits (NGN93.45bn) which are not value accretive. We posit that this might be due to the fall in its LDR to 64.30%, which is below the regulatory minimum. **We expect the bank to place a focus on keeping its LDR above the benchmark to avoid further pressure on liquidity.** We do not have any concerns over any other prudential metrics as they are within regulatory limits.

Recommendation

Our expectations for full year performance remain largely unchanged, albeit significant growth in earning assets and transactions volumes are considered upside risks to our expectations. We maintain our expected EPS at NGN0.36 while target P/E is revised to 3.97x from 4.58x. This yields a 2020 target price of NGN1.43, indicating an upside potential of 25.44%. Hence, we rate the ticker a BUY.

Company	STERLNBANK
Valuation	
Trailing EPS	0.36
BVPS	4.47
P/E	3.31x
P/BV	0.27x
Target PE	3.97x
Dec-2020 Exp. EPS	0.36
Dec 2020 Target price	1.43
Current Price	1.14
Up/Downside Potential	+25.44%
Ratings	BUY
Key metrics	
ROE	8.80%
ROA	0.90%
Net margin	7.71%
Asset Turnover	0.13x
Leverage	10.06x
Share/Share Price Statistics	
Yr Hi	NGN2.04
Yr Lo	NGN0.99
YTD return	-37.37%
Beta	0.68
Adjusted Beta	0.79
52-wk average volume	8,294,271
Shares outstanding	28.79bn
Market cap [NGN]	34.26bn
Financial year end	December
Most Recent Period (MRP)	H1:2020

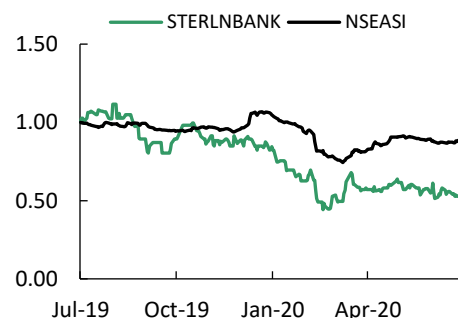


Chart 1: Sensitivity Analysis

Sensitivity Analysis of Dec-2020 Target Price to key model inputs						Min	1.21
EPS						Max	1.67
Target PE		0.32	0.34	0.36	0.38	0.40	
	3.77x	1.21	1.28	1.36	1.43	1.51	
	3.87x	1.24	1.32	1.39	1.47	1.55	
	3.97x	1.27	1.35	1.43	1.51	1.59	
	4.07x	1.30	1.38	1.47	1.55	1.63	
	4.17x	1.33	1.42	1.50	1.58	1.67	

Financial Highlights (NGN billion) STERLING BANK PLC H1:2020			
Profit & Loss Account	H1:2020	H1:2019	y/y Growth
Gross Earnings	70.23	72.29	-2.85%
Interest Income	59.45	62.11	-4.28%
Interest Expense	25.97	31.70	-18.07%
Loan Loss Expense	6.46	2.43	165.83%
Net Interest income after impairment charges	27.03	27.98	-3.41%
Non-Interest Income	10.78	10.18	5.85%
Operating Income	37.81	38.17	-0.94%
OPEX	32.13	32.17	-0.11%
PBT	5.68	6.00	-5.38%
PAT	5.41	5.66	-4.38%
Balance Sheet	H1:2020	2019FY	
Cash and short-term funds	51.03	33.93	50.37%
Loans and Advances to customers	615.07	618.73	-0.59%
Investment Securities (pledged assets)	305.05	268.83	13.47%
Property and Equipment	17.25	18.48	-6.65%
Other Assets	305.83	242.71	26.01%
Total Assets	1,294.23	1,182.69	9.43%
Deposits from customers	915.23	892.66	2.53%
Financial Liabilities	139.13	125.36	10.99%
Other Liabilities	111.16	45.11	146.43%
Total Liabilities	1,165.53	1,063.13	9.63%
Shareholders' fund	128.70	119.56	7.65%

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Movements in Price Target

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
11-May-2020	1.26	1.84	1.65	BUY	BUY
05-Aug-2020	1.19	1.65	1.43	BUY	BUY

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Company	Disclosure
Sterling Bank Plc	

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