

Diversified Business Model Enables Resilience

FX Revaluation Gains Save the Day

STANBIC's gross earnings grew by a muted 0.27% YoY in 2020FY due primarily to weak interest earnings and an unfavourable electronic fee regime. Despite the bank's considerable earning-assets growth, interest income (which typically accounts for 45% of gross earnings) declined by 12.15% to NGN105.78bn (vs. NGN120.41bn in 2019FY) on the back of depressed asset yields (9.70% vs. 11.60% in 2019FY). Fee-based income on the other hand, was dragged by a 19.36% decline in e-business income following regulatory reduction in electronic transaction fees. However, asset management fees supported fee-based income which ultimately grew by 0.16% YoY. Most helpful to topline performance were trading income and revaluation gains (+43.43% YoY). **For 2021FY, our outlook for the group's interest income is positive, backed by growth in interest-earning assets and an improved interest rate environment. Furthermore, growth in transaction volumes should support fee-based income, while revaluation and trading gains are not expected to be as significant.**

Improved Cost Conditions Support Bottomline

STANBIC grew its Profit after tax by 10.90% YoY to NGN83.21bn (vs. NGN75.04bn in 2019FY) on the back of its continued efforts to curtail its cost of funds (CoF) through accelerated growth in CASA mix 82.80% (vs. 71.10% in 2019FY) while leveraging on the low interest environment. Interest expense thus declined by 25.88% YoY. This led to a decrease in cost of funds to 2.90% (vs. 3.90% in 2019FY). However, the decline in CoF was inadequate to fully offset the impact of lower asset yield, therefore, net interest margin declined to 3.50% (vs. 4.50% in 2019FY). Interestingly, the bank's OPEX remained largely constant (+0.26% YoY) despite inflationary pressures in the economy, increase in AMCON expenses (+12.59% YoY) and COVID-19 related spending observed across peers. This helped improve cost efficiency as CIR fell to 47.40% (vs. 50.40% in 2019FY) in spite of a 508.76% YoY spike in impairment charges due to provisioning from oil and gas and construction sectors. **In 2021FY, we expect PAT growth to be driven more by improved cost efficiency than by gross earnings. Impairment charges should moderate on the back of relatively improved business climate while the focus on cheaper funding should keep cost of funds low. OPEX may however be adversely impacted by initial costs of setting up the planned insurance business.**

Prudential Ratios Stay Strong

Like most peers, STANBIC grew its gross loans significantly (+17.78% YtD), aided by FX revaluation of foreign currency loans and a robust funding base. However, the growth in non-performing loans by 26.30% led to an increase in the bank's NPL ratio to 4.04% from 3.77% in 2019FY (albeit lower than the regulatory limit of 5%). Other prudential metrics came in stronger as capital adequacy ratio increased to 24.70% from 24.60% while liquidity ratio increased to 148.93% from 106.92% - way above the regulatory minimum 30%.

Recommendation

In view of the bonus issue of one new ordinary share for every six existing shares (which implies a 16.67% growth in shares outstanding), we revise our 2021FY EPS forecast to 7.37. This yields a Target Price of **NGN50.09** when combined with target P/E ratio of 6.80x. Hence, we recommend a **HOLD** given the potential upside of 8.89% based on its closing price on April 13, 2021.

Company	STANBIC
Valuation	
Trailing EPS	7.49
BVPS	34.09
P/E	5.81x
P/BV	1.28x
Target PE	6.80x
Dec-2021 Exp. EPS	7.37
Dec 2021 Target price	50.09
Current Price	46.00
Up/Downside Potential	+8.89%
Ratings	HOLD
Key metrics	
ROE	24.44%
ROA	3.80%
Net margin	2.82%
Asset Turnover	0.11
Leverage	6.57x
Share/Share Price Statistics	
Yr Hi	NGN52.90
Yr Lo	NGN38.70
YTD return	-1.25%
Beta	0.69
Adjusted Beta	0.79
52-wk average volume	1,773,766
Shares outstanding	11.11bn
Market cap [NGN]	596.18bn
Financial year end	December
Most Recent Period (MRP)	2020FY

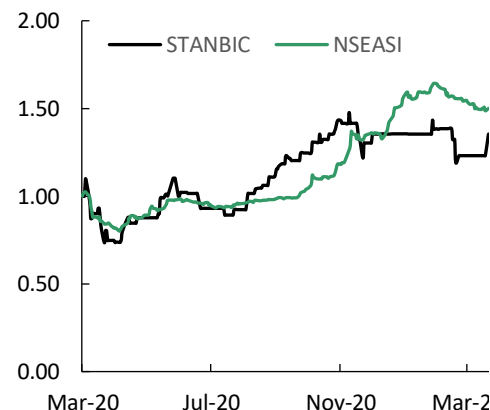


Chart 1: Sensitivity Analysis

Sensitivity Analysis of Dec-2020 Target Price to key model inputs						Min	48.68
						Max	51.52
						EPS	
						7.27	7.32
						7.37	7.42
						7.47	
Target PE	6.70	48.68	49.02	49.35	49.69	50.02	
	6.75	49.05	49.38	49.72	50.06	50.40	
	6.80	49.41	49.75	50.09	50.43	50.77	
	6.85	49.77	50.12	50.46	50.80	51.14	
	6.90	50.14	50.48	50.83	51.17	51.52	

Financial Highlights (NGN billion) STANBIC 2020FY			
<i>Profit & Loss Account</i>	2020FY	2019FY	y/y Growth
Gross Earnings	234.45	233.81	0.27%
Interest Income	105.78	120.41	-12.15%
Interest Expense	31.56	42.58	-25.88%
Impairment Loss Expense	9.94	1.63	508.76%
Income after credit impairment charges	188.99	184.95	2.18%
Non-Interest Income	124.71	108.76	14.67%
OPEX	94.27	94.03	0.26%
PBT	94.72	90.93	4.17%
PAT	83.21	75.04	10.90%
<i>Balance Sheet</i>	2020FY	2019FY	
Cash and cash equivalents	627.11	456.40	37.41%
Loans and Advances to customers	625.14	532.12	17.48%
Financial Investment	612.28	155.33	294.18%
Property and Equipment	30.73	27.78	10.62%
Other Assets	175.98	168.69	4.32%
Total Assets	2,486.31	1,876.46	32.50%
Deposits from customers	819.94	637.84	28.55%
Other Borrowed Funds	112.03	92.17	21.55%
Other Liabilities	346.33	206.03	68.10%
Total Liabilities	2,107.71	1,574.23	33.89%
Shareholders' fund	378.60	302.23	25.27%

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Movements in Price Target

Company Name: Stanbic IBTC Holdings Plc.

Date	Price (N)	Previous Target Price(N)	New Target Price (N)	Previous Recommendation	New Recommendation
13-Apr-2021	46.00	48.75	50.09	BUY	BUY

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