

Underperformance of Trading Income Strains Earnings

Topline Hits Five-Year Low as Trading Income Waned

In 2021FY, Stanbic IBTC Holdings Plc. (**STANBIC**)’s gross earnings plunged by 11.86% YoY to sit at NGN206.64bn, its lowest in five years. This was on the back of decline in both interest and non-interest income streams. The major drag, however, was non-interest income which dropped by 23.20% YoY, owing to the substantial decline (-74.50% YoY) in trading income. Nevertheless, fee and commission revenue grew by 17.53% YoY mainly due to higher asset management fees which advanced by 16.38% YoY and contributed 61.96% YoY to total fees revenue. On the other hand, interest income fell marginally by 0.97% YoY to NGN104.75bn. This came as the effect of the 38.70% YoY drop in interest on investment securities (due to low yield) outweighed the 27.20% YoY increase in interest on customer loans. **In 2022FY, we project gross earnings growth of 12.04% YoY to NGN231.53bn. Our projection is based on expectation of an increase in interest income, and growth in fees-based revenue. In addition, we expect a slight recovery in trading income premised on the expected stability in the FX environment.**

Profit After Tax Follows Topline’s Path

STANBIC continues to minimize funding cost as interest expense declined by 6.91% YoY despite a 15.70% YoY increase in interest-bearing liabilities to NGN1.74trn. Consequently, cost of fund moderated to 1.81% (vs. 2.43% in 2020FY). On the flip side, asset yield dropped from 10.63% to 7.29% as interest earning assets grew by 44.42% YoY while interest income fell. This dragged Net Interest Margin (NIM) by 222bps YoY to 5.24%. Compounded by the 37.44% YoY increase in fees-based expenses, the performance of gross earnings trickled down to operating income which dropped by 8.65% YoY. In contrast, the group’s operating expenses surged by 13.13% YoY mainly reflecting higher statutory charges. Thus, the group’s cost-to-income ratio rose sharply from 47.41% in 2020FY to 62.30%, its highest in at least seven years. Notably, **STANBIC** recorded a net impairment writeback of NGN1.51bn in 2021FY because of lower expected credit loss on Stage 3 loans to customers. However, **STANBIC**’s Profit After Tax (PAT) reduced by 31.54% YoY to NGN56.97bn in 2021FY. **We do not expect a significant pressure on operating costs in 2022FY. Also, our expectation of a better operating income will passthrough to bottomline. Thus, we project a PAT of NGN67.69bn, translating to 18.83% YoY growth.**

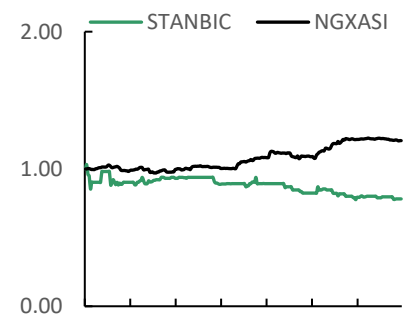
Prudential Metrics Stay at Comfortable Levels

While gross loans increased by 44.41% YoY to NGN946.26bn, Non-performing loans (NPL) ratio improved to 2.15% (vs 4.04% in 2020FY) as former delinquent loans were reclassified to other stages. Also, NPL coverage ratio stayed at a sufficient level of 124.01%. Due to higher liquidity peculiar to the group’s operating model as a custodian of foreign funds, effective cash reserve ratio (CRR) stayed above the regulatory benchmark at 41.43% in 2021FY. Similarly, both the group’s Capital Adequacy Ratio (CAR) and Liquidity Ratio came in above prudential levels at 21.12% and 105.35%, respectively.

Recommendation

Following our PAT forecast, we revise our expected 2022FY EPS downward marginally to **NGN5.21**. Combining this with a Target PE of 8.15x, we arrive at a Target Price of **NGN42.45**. This translates to an upside potential of **+24.32%** based on the closing price on 7th April 2022. Thus, we rate the ticker a **BUY**.

Company	STANBIC
Valuation	
Trailing EPS	NGN4.20
BVPS	NGN29.09
P/E	8.13x
P/BV	1.17x
Target PE	8.15x
Dec-2022 Exp. EPS	NGN5.21
Dec 2022 Target price	NGN42.45
Current Price	NGN34.15
Up/Downside Potential	+24.32%
Ratings	BUY
Key metrics	
ROE	15.08%
ROA	2.19%
Net margin	27.57%
Asset Turnover	0.08x
Leverage	6.90x
Yr Hi	NGN38.00
Yr Lo	NGN33.90
YTD return	-5.14%
Beta	0.39
Adjusted Beta	0.59
Proposed DPS	NGN2.00
Shares outstanding	12.96bn
Market cap [NGN]	442.48bn
Financial year end	December
Most Recent Period	2021FY



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Chart 1: Sensitivity Analysis

Sensitivity Analysis of Dec-2022 Target Price to key model inputs						Min	41.13
						Max	43.80
						EPS	
						5.11	5.16
						5.21	5.26
						5.31	
Target PE	8.05x	41.13	41.53	41.93	42.34	42.74	
	8.10x	41.38	41.79	42.19	42.60	43.00	
	8.15x	41.64	42.05	42.45	42.86	43.27	
	8.20x	41.89	42.30	42.71	43.13	43.54	
	8.25x	42.15	42.56	42.98	43.39	43.80	

Financial Highlights and Forecasts (NGN billion)

Profit & Loss Account	2020 A	2021 A	2022F	2023F	2024F	2025F	2026F
Gross Earnings	234.45	206.64	231.53	256.85	271.40	289.96	310.66
Interest Income	105.78	104.75	116.50	134.08	134.40	143.13	153.29
Interest Expense	29.61	39.32	40.17	42.58	31.56	29.38	33.60
Net Impairment Charges	9.94	(1.51)	0.83	0.96	1.05	1.11	1.16
Net Interest income after impairment charges	125.45	145.58	155.84	175.70	164.91	171.40	185.73
Non-Interest Income	124.71	95.77	109.10	116.54	130.46	139.96	150.15
Operating Income	198.92	171.15	191.99	220.56	231.59	250.62	268.55
OPEX	94.27	106.65	111.78	117.37	122.20	127.09	132.17
PBT	94.72	66.00	79.38	102.23	108.33	122.43	135.22
PAT	83.21	56.97	67.69	87.40	93.42	105.08	115.90

Balance Sheet	2020FY	2021 A	2022F	2023F	2024F	2025F	2026F
Cash and Balances with Central Banks	627.11	653.07	695.53	801.53	916.69	1,100.29	1,286.18
Loans and Advances to Banks and customers	632.97	937.14	1,027.65	1,111.26	1,208.48	1,264.29	1,324.86
Investment Securities	998.74	958.90	1,152.53	1,308.90	1,459.95	1,664.16	1,915.15
Property and Equipment	30.73	42.72	45.43	46.05	50.98	52.02	53.35
Other Assets	196.76	150.93	154.57	185.25	210.87	233.65	256.65
Total Assets	2,486.31	2,742.76	3,075.71	3,452.99	3,846.97	4,314.41	4,836.19
Deposits from Banks and Customers	1,325.57	1,558.40	1,701.31	1,884.29	2,063.68	2,217.63	2,383.06
Financial Liabilities	294.15	184.81	375.82	414.16	436.30	521.06	614.33
Other Liabilities	487.99	622.70	586.96	694.07	816.98	956.71	1,121.56
Total Liabilities	2,107.71	2,365.90	2,664.09	2,992.52	3,316.96	3,695.39	4,118.95
Shareholders' fund	378.60	376.87	411.62	460.47	530.01	619.02	717.24

Financial Ratios	2020FY	2021 A	2022F	2023F	2024F	2025F	2026F
Asset Yield	10.63%	7.29%	6.98%	7.42%	6.90%	6.91%	7.04%
Cost of Funds	2.43%	1.81%	1.85%	1.50%	1.50%	1.35%	1.35%
Net Interest Margin	7.46%	5.24%	4.97%	5.76%	5.19%	5.34%	5.44%
Cost to Income Ratio	47.39%	62.31%	58.22%	53.22%	52.77%	50.71%	49.22%
Net Margin	35.49%	27.57%	29.24%	34.03%	34.42%	36.24%	37.31%
Return on Asset	3.81%	2.19%	2.33%	2.68%	2.56%	2.57%	2.53%
Return on Equity	24.44%	15.08%	17.17%	20.04%	18.86%	18.29%	17.35%
Earnings Per Share	7.29	4.20	5.21	6.72	7.19	8.08	8.92
Asset Turnover	0.11x	0.08x	0.08x	0.08x	0.07x	0.07x	0.07x
Financial Leverage	6.41x	6.90x	7.36x	7.49x	7.37x	7.10x	6.85x

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Movements in Price Target

Company Name: Stanbic IBTC Holdings Company Plc.

Date	Price (N)	Previous Target Price(N)	New Target Price (N)	Previous Recommendation	New Recommendation
5-Apr-2022	34.15	43.43	42.45	BUY	BUY

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Company	Disclosure
Stanbic IBTC Holdings Plc.	

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