

Impressive Results Amid Numerous Hassles

Double-Digit Increase in Gross Earnings as Trading Income Rebounds

Stanbic IBTC Holdings Plc. (**STANBIC**) recorded its highest-ever gross earnings of NGN287.54bn, a 39.15% YoY increase in 2022FY, driven by a double-digit growth rate in both interest and non-interest income streams. All funded income streams (particularly interest from customer loans and interest income on investment securities) rose, with interest on customers' loans sustaining its position as the most significant contributor (c.79%). This comes with little or no surprise, given the cumulative 500bps hike in the Monetary Policy Rate (MPR), which informed a higher average lending rate in the review period. Also, expansion in gross loan book (+30.85% YoY) added to the up-move in total interest income. Additionally, nonfunded income increased, supported by a substantial rebound in trading income (+161.08% YoY) and a moderate uptick (+8.77% YoY) in fees and commission revenue. Notably, the fee and commission revenue growth was spurred by the group's higher asset under management (c. +12% to NGN5.70trn). **In 2023FY, we project gross earnings growth of 12.55% YoY to NGN323.62bn, premised on increased interest income aided by higher asset yield, higher nonfunded income (riding on expansion in Asset Under Management), and a further increase in trading income.**

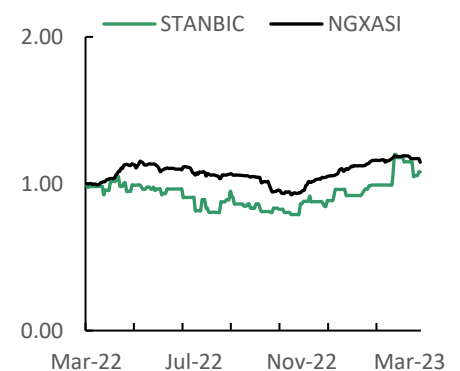
STANBIC Records Second-highest PAT Ever Despite Higher Operating Expenses

Serving as a double-edged sword, the hike in MPR, taken together with the 14.58% YoY growth in interest-bearing liabilities, translated to a higher funding cost (+31bps to 2.12%) for **STANBIC**. This is despite a higher low-cost deposit (popularly called CASA) mix (71.70% in 2022FY vs 66.00% in 2021FY). Nonetheless, higher asset yield (8.30% in 2022FY vs 6.60% in 2021FY) on interest-earning assets suppressed the higher funding cost to grow Net Interest Margin by c. 110bps to 4.00%. Although operating expenses jumped by 21.40% YoY to NGN129.47bn, reflecting higher staff remuneration - in tandem with the inflationary environment, increased technology costs, and statutory charges, the improved operating income helped suppress cost-to-income ratio by c. 839bps to 53.92%. Notably, **STANBIC** recorded a net impairment loss of NGN10.29bn (vs a writeback of NGN1.51bn in 2021FY) because of higher expected credit loss on loan exposure to the Oil & Gas sector (24.60% of the total Non-Performing Loan (NPL) vs 5.1% in 2021FY). Nevertheless, the group's Profit After Tax (PAT) leapt by 41.86% YoY to NGN80.81bn in 2022FY – the second highest in its history. **While costs are expected to rise further in 2023FY, we do not anticipate as much rise as in 2022FY. Moreover, we project that the increase in topline would mute the impact of higher operating expenses and expected credit loss. Thus, we estimate a PAT of NGN96.9bn, translating to 19.95% YoY growth.**

Exposure to the Oil and Gas Sector Raises Concerns

In 2022FY, the group's gross loans (NGN1.21trn) crossed the one-trillion Naira mark, rising by 30.85% YoY. This, however, came with higher risk as the NPL ratio edged up to 2.40% (vs 2.15% in 2021FY), and the NPL Coverage ratio declined to 70.04% from 124.01% in 2021FY. Nonetheless, the NPL ratio remains reasonably below the regulatory threshold of 5.00%. Furthermore, the group's Capital Adequacy Ratio (CAR) and Liquidity Ratio came in above prudential levels at 20.80% and 85.04%, respectively. **Our overall assessment shows that STANBIC's prudential metrics are within comfortable levels.**

Company	STANBIC
Valuation	
Trailing EPS	NGN6.03
BVPS	NGN31.48
P/E	5.63x
P/BV	1.19x
Target PE	5.75x
Dec-2023 Exp. EPS	NGN7.46
Dec 2023 Target price	NGN42.89
Current Price	NGN37.60
Up/Downside Potential	+14.08%
Ratings	BUY
Key metrics	
ROE	20.60%
ROA	2.80%
Net margin	28.16%
Asset Turnover	0.10x
Leverage	7.36x
Yr Hi	NGN41.70
Yr Lo	NGN32.00
YTD return	+12.41%
Beta	0.47
Adjusted Beta	0.65
Proposed DPS	NGN2.00
Shares outstanding	12.96bn
Market cap [NGN]	487.18bn
Free Float	41.36%
Financial year end	December
Most Recent Period	2022FY



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Recommendation

Following our PAT forecast, we revised our expected 2023FY EPS upward to **NGN7.46**. Combining this with a Target PE of 5.75x, we arrive at a target price of **NGN42.89**. This translates to an upside potential of **14.08%** based on the closing price on 28th March 2023. Thus, we rate the ticker a **BUY**.

Chart 1: Sensitivity Analysis

Sensitivity Analysis of Dec-2023 Target Price to key model inputs						Min	41.58			
						Max	44.22			
						EPS				
						7.36	7.41	7.46	7.51	7.56
Target PE	5.65x	41.58	41.86	42.15	42.43	42.71				
	5.70x	41.95	42.24	42.52	42.81	43.09				
	5.75x	42.32	42.61	42.89	43.18	43.47				
	5.80x	42.69	42.98	43.27	43.56	43.85				
	5.85x	43.05	43.35	43.64	43.93	44.22				

Financial Highlights and Forecasts (NGN billion)

Profit & Loss Account	2021FY	2022FY	2023F	2024F	2025F	2026F	2027F
Gross Earnings	206.64	287.54	323.62	347.19	365.40	392.11	419.57
Interest Income	104.75	152.67	182.10	189.70	196.41	210.77	224.98
Interest Expense	39.32	40.17	42.58	31.56	29.38	39.55	46.98
Net Impairment Charges	1.51	-10.29	-9.79	0.99	-0.01	0.01	-0.02
Net Interest income after impairment charges	145.58	182.55	214.89	222.25	225.78	250.34	271.94
Non-Interest Income	95.77	126.99	136.26	151.97	163.19	175.25	188.20
Operating Income	171.15	240.11	271.38	289.67	304.99	327.34	350.12
OPEX	106.65	129.47	141.22	152.85	166.77	182.45	200.77
PBT	66.00	100.35	120.38	137.81	138.21	144.90	149.34
PAT	56.97	80.81	96.94	113.98	114.06	118.20	122.21

Balance Sheet	2021FY	2022FY	2023F	2024F	2025F	2026F	2027F
Cash and Balances with Central Banks	653.07	664.45	832.15	975.49	1,174.98	1,383.55	1,606.15
Loans and Advances to Banks and customers	937.14	1,208.19	1,309.77	1,426.12	1,500.64	1,576.51	1,651.65
Investment Securities	958.90	942.57	1,031.23	1,137.37	1,283.45	1,461.79	1,681.21
Property and Equipment	42.72	61.55	63.54	71.30	74.13	77.57	81.25
Other Assets	150.93	152.26	175.95	199.49	217.99	238.60	256.52
Total Assets	2,742.76	3,029.03	3,412.65	3,809.76	4,251.18	4,738.02	5,276.80
Deposits from Banks and Customers	1,558.40	1,736.43	1,989.87	2,179.31	2,341.89	2,516.59	2,704.33
Financial Liabilities	184.81	318.95	350.44	369.97	439.36	515.68	606.41
Other Liabilities	622.70	565.98	610.70	713.80	826.55	962.13	1,118.80
Total Liabilities	2,365.90	2,621.36	2,951.02	3,263.08	3,607.80	3,994.40	4,429.53
Shareholders' fund	376.87	407.67	461.63	546.68	643.38	743.62	847.26

Financial Ratios	2021FY	2022FY	2023F	2024F	2025F	2026F	2027F
Asset Yield	7.29%	8.92%	9.59%	9.24%	8.99%	9.19%	9.34%
Cost of Funds	1.81%	2.12%	2.22%	2.22%	2.15%	2.15%	2.15%
Net Interest Margin	5.24%	6.61%	7.12%	6.71%	6.49%	6.63%	6.72%
Cost to Income Ratio	62.31%	53.92%	52.04%	52.77%	54.68%	55.74%	57.34%
Net Margin	27.57%	28.11%	29.96%	32.83%	31.21%	30.15%	29.13%
Return on Asset	2.18%	2.80%	3.01%	3.16%	2.83%	2.63%	2.44%
Return on Equity	15.08%	20.60%	22.30%	22.61%	19.17%	17.04%	15.36%
Earnings Per Share	4.20	6.01	7.46	8.77	8.77	9.09	9.40
Asset Turnover	0.08x	0.10x	0.10x	0.10x	0.09x	0.09x	0.08x
Financial Leverage	6.92x	7.36x	7.41x	7.16x	6.77x	6.48x	6.30x

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Asset allocation: The recommended weighting for equities, cash and fixed income instrument is based on a number of metrics and does not relate to a particular size change in one variable.

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
04-Jan-2023	33.45	42.45	38.67	HOLD	BUY
28-Mar-2023	37.60	38.67	42.89	BUY	BUY

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