

STANBIC Records Triple-Digit Earnings Growth Rate in H1:2023

Trading Income Displays Strength as Gross Earnings Surge

Following the FX reforms implemented in the domestic economy and the 150bps increase in benchmark lending rate during the first half of the year, Stanbic IBTC Holdings Plc. (STANBIC)'s gross earnings surged by 57.21% YoY to NGN212.03bn. This surge was mainly anchored on the significant increases in both funded and nonfunded income during the period. Like previous financial periods, interest income grew by 61.56% YoY to NGN110.26bn, primarily driven by a simultaneous increase in the volume and interest earned on investment securities (+3.10% YoY) as well as loans and advances (+79.75% YoY). The expansion in these line items was also evident in the significant spike in the yield on earning assets by 280bps to 10.20% in H1:2023 (vs 7.40% in H1:2022). Further, non-interest income grew by 56.64% YoY on the back of improved net fees and commission revenue (+12.27% YoY) and a substantial trading revenue (+174.04% YoY). Notably, for the first time since H1:2020, the contribution of trading income to total non-interest income rose to c.45% in H1:2023, driven mainly by higher trading activities in fixed-income instruments and currencies. **In 2023FY, we project gross earnings growth of 25.64% YoY to NGN361.25bn, 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 riding on the strength of its asset management subsidiary.**

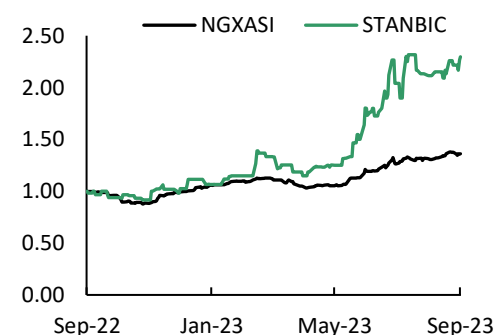
Strong Operating Income Supports Bottomline Growth

During the period, STANBIC's interest expense and interest-bearing liabilities grew by 109.97% YoY and 36.83% YtD, respectively due to the higher Monetary Policy Rate. Thus, the growth of the group's interest expense relative to its interest-bearing liabilities pushed its funding cost upward by 120bps to 3.20% in H1:2023. Nonetheless, higher asset yield (10.20% in H1:2023 vs 7.40% in H1:2022) on interest-earning assets offset the impact of the higher cost of funds to increase net interest margin by c.80bps to 4.30%. Meanwhile, the consolidated impact of the annual salary review, Naira devaluation and fuel subsidy removal resulted in higher staff (+19.58% YoY), information technology (+31.30% YoY), and maintenance (+31.47% YoY) costs. Equally, AMCON expenses and deposit insurance premiums jointly increased by 17.37% YoY, accounting for one-quarter of total operating expenses. However, the improved operating income suppressed the cost-to-income ratio by 1182bps to 48.07%. Eventually, the higher operating expenses, net impairment loss (9.37% YoY), and income tax (+61.84% YoY) partly offset the growth in operating income. Notwithstanding, the group's Profit After Tax (PAT) surged by 121.46% YoY to NGN67.92bn in H1:2023 – more than half (c.84%) of the PAT recorded in 2022FY. **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 NGN110.40bn, translating to 36.62% YoY growth.**

Expansion in Risk-Weighted Assets Suppresses Capital Adequacy

During the period, the group continued its efforts to support businesses with credit facilities – displayed by its loan-to-deposit ratio (82.91%), which exceeds the threshold of 65%. Thus, its gross loans increased by 37.40% YtD, primarily driven by the spike in its foreign-currency denominated loans (which grew by 70.18% YtD), owing to the higher exchange rate used for conversion. Meanwhile, gross non-performing loans increased by 35.35% YtD. Notwithstanding, the group's Non-Performing Loan (NPL) ratio declined marginally by 6bps to 2.34% (vs 2.40% in 2022FY) due to the higher growth in gross loans. Also, the NPL Coverage ratio improved to 71.94% from 70.04% in 2022FY. Furthermore, the group's risk-weighted assets suppressed its Capital Adequacy Ratio (CAR) to 18.00% (vs 20.80% in 2022FY). Nonetheless, the CAR remains reasonably above the

Company	STANBIC
Valuation	
Trailing EPS	NGN8.88
BVPS	NGN34.82
P/E	7.28x
P/BV	1.91x
Target PE	7.36x
Dec-2023 Exp. EPS	NGN8.49
Dec 2023 Target price	NGN62.54
Current Price	NGN68.90
Up/Downside Potential	-9.23%
Ratings	HOLD
Key metrics	
ROE	21.09%
ROA	2.38%
Net margin	32.03%
Asset Turnover	0.06x
Leverage	9.86x
Yr Hi	NGN69.50
Yr Lo	NGN32.00
YTD return	+98.80%
Beta	0.90
Adjusted Beta	0.93
Proposed DPS	NGN1.50
Shares outstanding	12.96bn
Market cap [NGN]	892.74bn
Free Float	41.36%
Financial year end	December
Most Recent Period	H1:2023



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prudential threshold of 11.00%. **Our overall assessment shows that STANBIC's prudential metrics are within comfortable levels.**

Recommendation

Following our PAT forecast, we revised our expected 2023FY EPS upward to **NGN8.49**. Combining this with a Target PE of 7.36x, we arrive at a target price of **NGN62.54**. This translates to a downside potential of **9.23%** based on the closing price on 15 September 2023. Thus, we rate the ticker a **HOLD**.

Chart 1: Sensitivity Analysis

Sensitivity Analysis of Dec-2023 Target Price to key model inputs						Min	60.96			
						Max	64.14			
						EPS				
						8.39	8.44	8.49	8.54	8.59
Target PE	7.26x	60.96	61.33	61.69	62.05	62.42				
	7.31x	61.38	61.75	62.12	62.48	62.85				
	7.36x	61.80	62.17	62.54	62.91	63.28				
	7.41x	62.22	62.59	62.96	63.34	63.71				
	7.46x	62.64	63.02	63.39	63.76	64.14				

Financial Highlights and Forecasts (NGN billion)

Profit & Loss Account	H1:2022	H1:2023	2023F	2024F	2025F	2026F	2027F
Gross Earnings	134.87	212.03	361.25	389.08	419.94	454.16	484.93
Interest Income	50.35	110.26	205.53	236.16	254.44	273.83	291.48
Interest Expense	(39.32)	(37.58)	(42.58)	(31.56)	(29.38)	(39.55)	(61.14)
Net Impairment Charges	(5.47)	(5.98)	(11.32)	(5.66)	(3.96)	(0.60)	(0.56)
Net Interest income after impairment charges	44.89	31.60	236.79	262.06	279.85	313.99	352.05
Non-Interest Income	62.96	98.62	150.36	147.03	158.88	172.83	184.83
Operating Income	107.84	165.32	294.76	311.68	331.32	360.17	384.28
OPEX	(67.87)	(82.34)	(146.35)	(158.70)	(173.52)	(190.29)	(209.99)
PBT	39.98	82.99	137.09	147.32	153.84	170.48	173.73
PAT	30.67	67.92	110.40	121.85	126.95	139.07	142.17

Balance Sheet	H1:2022	H1:2023	2023F	2024F	2025F	2026F	2027F
Cash and Balances with Central Banks	804.20	1,014.78	1,585.41	2,221.86	2,836.57	3,429.36	4,142.70
Loans and Advances to Banks and customers	1,069.17	1,668.11	1,708.69	1,859.98	1,991.47	2,131.28	2,234.36
Investment Securities	1,081.97	1,499.09	1,076.95	1,185.74	1,339.73	1,527.55	1,758.37
Property and Equipment	43.07	70.84	64.76	74.37	78.93	84.22	89.69
Other Assets	150.45	198.36	179.04	201.17	220.95	243.61	260.82
Total Assets	3,148.86	4,451.18	4,614.85	5,543.12	6,467.65	7,416.03	8,485.93
Deposits from Banks and Customers	1,691.86	2,317.25	2,514.01	3,072.28	3,573.22	3,997.94	4,457.69
Financial Liabilities	261.78	722.82	753.84	740.86	793.75	936.07	1,123.06
Other Liabilities	817.22	958.51	877.96	1,169.99	1,433.04	1,696.40	1,998.95
Total Liabilities	2,770.86	3,998.58	4,145.81	4,983.13	5,800.00	6,630.41	7,579.70
Shareholders' fund	377.99	451.18	469.03	559.99	667.65	785.62	906.23

Financial Ratios	H1:2022	H1:2023	2023F	2024F	2025F	2026F	2027F
Asset Yield	7.40%	10.20%	9.79%	9.56%	9.60%	9.71%	9.78%
Cost of Funds	2.00%	3.20%	2.50%	2.22%	2.15%	2.00%	1.90%
Net Interest Margin	3.50%	4.30%	6.88%	6.67%	6.51%	6.65%	6.69%
Cost to Income Ratio	59.89%	48.07%	49.65%	50.92%	52.37%	52.83%	54.65%
Net Margin	22.74%	32.03%	30.56%	32.69%	31.01%	30.51%	29.42%
Return on Asset	2.25%	2.28%	2.89%	2.50%	2.17%	1.99%	1.79%
Return on Equity	17.08%	21.09%	25.19%	24.63%	21.03%	18.90%	16.73%
Earnings Per Share	2.26	5.12	8.49	9.78	10.02	10.66	10.97
Asset Turnover	0.04x	0.06x	0.09x	0.08x	0.07x	0.07x	0.06x
Financial Leverage	8.33x	9.86x	8.72x	9.84x	9.71x	9.48x	9.33x

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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
18-Sep-2023	68.90	42.89	62.54	BUY	HOLD

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