Stanbic IBTC Holding Plc (STANBIC)

....Leveraging diversification

United Capital
The Intelligent Choice

Equity Research | Earnings Update

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Stock Rating	Target Price	Upside
HOLD	**Old N50.1** **New N51.9**	**1.0%**

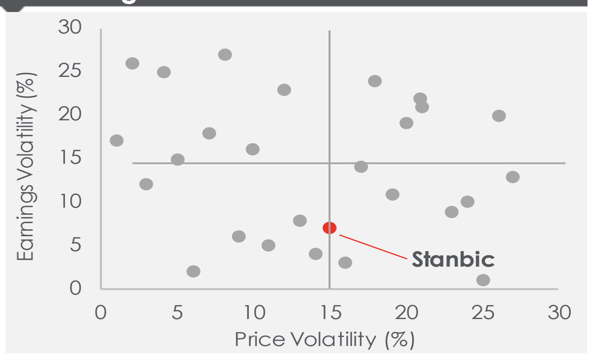
Earlier, Stanbic IBTC Holding Plc ("STANBIC" or "The Group") released its Audited FY -2020 financial result, showing a 0.3%y/y expansion in Gross Earnings (GE) to N234.4bn amid the extreme operating environment. Interest income fell 12.3%y/y to N105.8bn, exerting pressure on asset yields. More interestingly, PBT and PAT rose 4.2%y/y and 10.9%y/y to N94.7bn and N83.2bn, respectively. We review the FY earnings and adjust our expectations for FY-2021 below.

GE supported by 43.4% growth in trading income:

STANBIC's GE growth was mainly driven by Non-Interest Income which grew by 14.7% to N124.7bn. Specifically, Trading Income came in strong, buoyed by financial market volatility in 2020, growing 43.4% y/y to N52.1bn while Net Fees and Commission revenue remained mostly stable at N71.2bn. Clearly, STANBIC's strong presence in the Asset & Wealth Management, Pensions and Capital market space, came in handy amid volatility in the yield and currency market environment. Notably, Asset management fees accounted for 62.6% of Fee & Commission Income, up 11.0%y/y to N47.0bn. In line with developments in the macro space, interest expense fell 25.9% amid a repricing of deposits. As such, Cost of Funds improved from 3.9% to 2.9%.

Notably, Impairment Charges rose sharply to N9.9bn (vs N1.6bn writeback in the prior year). This is unsurprising given the weak macro environment. In the same vein, Cost of Risk, (COR) came in at 1.6% for the period. On the other hand, Cost-to-Income ratio slowed to 47.4% (vs. 50.4% in 2019). However, OPEX growth was muted, up 0.3% y/y to settle at N94.3bn, management guided that the increase in OPEX was due to the inflation-linked salary adjustment made during the year. Overall, PBT and PBT improved by 4.2% and 10.9% to N94.7bn and N83.2bn, respectively.

Risk Rating: Medium

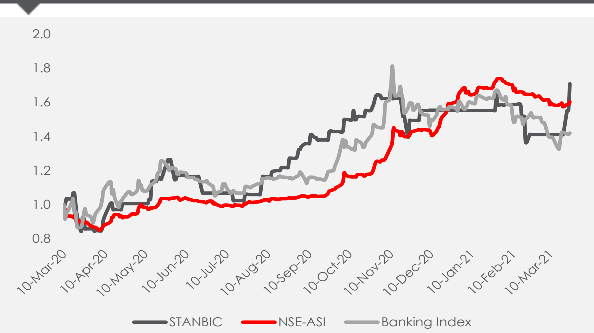


Note: Refer to appendix for complete description of risk rating

Key Data

Last Price (₦)	51.3
Last Price ($)	0.095
52 week High/Low (₦)	53.25/ 23.9
1M Price Change (%)	+28.1
3M Price Change (%)	+16.3
6M Price Change (%)	+26.5
YTD Change (%)	+16.3
Beta	0.79
Market Capitalization (₦'bn)	569,182.38
Market Capitalization ($'mn)	1,396.3
Shares Outstanding. (Units'm)	11,106.00
Float (%)	41.4
Dividend Yield (%)	7.8

Price Performance Chart



Sources: Bloomberg, United Capital Research

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Total assets surge 32.5%

STANBIC's balance sheet holds interesting highlights from the financial period. Notably, total asset grew by 32.5% to N2.5tn. Interestingly, this was driven by a surge in Cash & Cash Equivalents, Deposits and Trading Liabilities. Total Net Loan & Advances expanded by 18.3%, compared to 49.5% jump in total deposits. Thus, Cash & Cash Equivalents also rose 37.4%y/y to N627.1bn, accounting for 25.2% of total asset. Unsurprisingly, NPL ratio climbed to 4.0%, from 3.9% in FY-2019. The muted increased in NPL stems from the reclassification of two major loans in the books of the corporate and investment banking business. The sectors involved are Oil and Gas downstream as well as construction and real estate sector.

Segment analysis: PBB segment remains under pressure

Analyzing the business segments, the result for the Personal and Business Banking (PBB) or retail banking was rather disappointing. Despite benefitting from low interest expense, the segment declared loss after tax of N9.6bn in 2020 as cost to income ratio climbed to 116.6%. In terms of asset quality, the business segment has the highest level of Non-performing loans at 5.0%, at par with the regulatory minimum. On the other hand, the Wealth Business (which includes Asset management, Pensions, Trusteeship, and Insurance) remains impressive, with revenue increasing by 3.0% to N52.1bn and PBT improving by 9.0% to N35.7bn, accounting for 37.7% to the group's total PBT. Notably, Non -interest income grew by c.10%, on account of a 20.0% growth in AUM, despite a reduction in Retirement Savings Account (RSA) management fees. Finally, The Corporate & Investment Banking segment (CIB), consisting of Global Markets, Corporate and Investment Banking, was the best performer, as the segment's Net Interest Income and Non-Interest Income grew by 24.0% and 33.0% respectively. Profit before tax grew by 23.0% to N68.4bn, contributing over 70% to the group's total PBT. Commendably, deposit grew by 49.0%, made up of a substantial low-cost deposit, as CASA ratio increased from 35% in 2019 to 70% in 2020. The sour spot, however, is the jump in NPL and impairment charges attributable to the more challenging environment induced by COVID-19, as stated earlier..

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Valuation & Outlook: Teasing the market with a surprise stock dividend

We expect the diversified nature of STANBIC, especially in Corporate and Investment Banking, Capital Market, Pensions, Wealth and Asset Management, to continue to support the performance of the Group. As such, we estimate performance to sustain 2020 momentum amid economic recovery. Again, this will be driven by the Wealth and CIB divisions. With a rebound in the yield environment, Trading income is unlikely to come in as strong as observed in 2020. However, retracement in yield points to an improvement in Asset yield as well as higher funding cost. Give or take, we estimate NIM to remain steady as improvement in asset yields counterpoise an uptick funding cost. Again, Fee income from the Asset management business is anticipated to continue to absorb pressure on

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interest income stemming from cautious loan growth. Despite operational weaknesses observed in the in PBB business amid outsized operating expenses relative to operating income, we do not see a major cause for concern due to the overwhelming contribution of the CIB and Wealth businesses. In a rather surprising move, STANBIC announced a dividend per share of N3.6, together with a 1 for 6 scrip bonus, this brings total yield to 23.6%. As such, the bank has not only maintained its consistent dividend payment history in the past three years, but outperformed market expectation. Accordingly, STANBIC's market price has rallied by over 30% (climbing to a high of N52.9/share and above our target price of N50.1) since the dividend/bonus announcement. In terms of valuation estimates, STANBIC's P/B and P/E ratios currently stand 1.6x and 6.9x, more or less at par with the 3-year historical average of 1.8x and 6.9x, respectively, suggesting that ticker is fairly valued at its current market price. Additionally, our model estimate puts our Target price at N51.9/share implying a 1.0% headroom for further uptick compared to market price. Against this background, we revise our rating on STANBIC to a HOLD.

...we adjust out TP from N50.1 to N51.9, an 1% upside from the current price. Against this background, we revise our rating to HOLD

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Financial Highlights (N'Mn)

Headlines	FY-20	FY-19	Change
Gross Earnings	**234,446**	**233,808**	0.3%
Interest Income	105,776	120,412	-12.2%
Interest Expense	-31,561	-42,581	-25.9%
Net Interest Income	**74,215**	**77,831**	**-4.6%**
Impairment Write-Back/(Loss)	-9,935	-1,632	508.8%
Non-Interest Income	124,709	108,755	14.7%
Operating Expenses	-94,272	-94,029	0.3%
Profit/Loss Before Tax	**94,717**	**90,925**	4.2%
Taxation	-11,506	-15,890	-27.6%
Profit/Loss After Tax	**83,211**	**75,035**	10.9%
			25.2%
	FY-20	FY 2019	
Cash and Cash Equivalents	627,111	456,396	37.4%
Total Net Loans & Advances	**632,967**	**535,170**	18.3%
Investment Securities	**828,164**	**437,110**	89.5%
Total Deposits	**1,325,566**	**886,743**	49.5%
Total Assets	**2,486,306**	**1,876,456**	32.5%
Net Assets	378,601	302,229	25.3%
Cost to Income Ratio	47.4%	50.4%	**-3.0%**
Total Net Loan to Total Deposits	47.8%	60.4%	**-12.6%**
12M ROAE	24.4%	50.3%	**-25.8%**
Price (N)	51.3		
12M EPS (N)	7.9		
BVPS (N)	36.0		
P/E (x)	6.5		
P/BV (x)	1.4		

Sources: Company Financials, United Capital Research

Disclosure Appendix

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Buy: Based on our valuation and subjective view (if any), the expected upside on the stock's close price as at 31st December is greater than the Asymmetric Corridor around the MPR of the Central Bank of Nigeria (which is currently MPR – 500bps; i.e 9%). We consider this as the minimum return that may deserve our holding of a risk asset, like equity.
Hold: Based on our valuation and subjective view (if any), the expected upside on the stock's close price as at 31st December is greater zero but less than the Asymmetric Corridor around the MPR of the Central Bank of Nigeria (which is currently MPR – 500bps; i.e 9%).
Sell: Based on our valuation and subjective view (if any), the expected upside on the stock's close price as at December 31st is less than zero.
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Fidelity Bank Plc	h
Flour Mills of Nigeria Plc	h
Forte Oil Plc	g
International Breweries Plc	a,h
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