

April 28, 2022.



Earnings Note

Event

Stanbic IBTC Holdings Plc ('the Company') recently released its Q1 2022 financial results. The Company recorded a solid growth relative to Q1 2021. However, the net profit generated was below pre-2021 trend. This suggests to us that if we discount the low base of Q1 2021, underlying growth is still weak. This is unsurprising due to the structural shift in the operating environment of the banking industry. In specific terms, the combination of a low-yield and heightened inflationary environment has not boded well for many companies in the Nigerian economy and the banking industry is not left out.

Based on the Group's reported numbers, gross earnings grew by 47% YoY to N67.05bn, driven by a 57% YoY increase in interest income and a 39% YoY increase in non-interest income. In effort to mitigate the impact of low asset yields on income generation, the Group aggressively grew its loan book in Q1 2022. On a year-to-date basis, loan book rose by 6% to N980.15bn while it grew by 40% on a YoY basis. The aggressive loan book push resulted in a 71% YoY increase in interest income on loans and advances (which accounted for 72% of total interest income growth in Q1 2022).

Marked Increase in Interest Expense as Costly Funding Rise

Interest expense grew materially by 57% YoY to N9.56bn. This was due to a decline in the Group's current & savings accounts (CASA) ratio to 76% in Q1 2022 from 87% in Q1 2021. This implies that the portion of term deposits (which are typically costly) increased. In absolute terms, term deposits rose by 163% YoY to an average of N152.11bn in Q1 2022.

Despite the higher interest expense, net interest income nonetheless grew by 48% YoY to N23.43bn. On the back of an expanded loan book, the Group incurred an impairment charge of N586mn versus an impairment writeback of N148mn in Q1 2021. Net interest income after impairment therefore grew by 43% YoY to N22.85bn.

Rebound in Trading Gains Spur Non-Interest Income

As anticipated, the Group's trading income recovered in Q1 2022, with a 226% YoY growth to N10.50bn. The performance of trading income accounted for 76% of total non-interest income growth. Other line items such as fee and commission (+4% YoY to N23.13bn) and other income (+145% YoY to N425mn) were resilient during the period.

The combined performance of net interest income growth (+43% YoY) and non-interest income growth (+39% YoY) translated to a 42% YoY operating income growth.

Profit before tax grew at a higher rate of 61% YoY to N55.49bn, due to a 500 basis points decline in cost-to-income ratio to 64% in Q1 2022 (Q1 2021: 69%). The growth in profit after tax moderated to 34% YoY to N19.59bn due to a higher effective tax charge in Q1 2022 (23% in Q1 2022 vs 7% in Q1 2021).

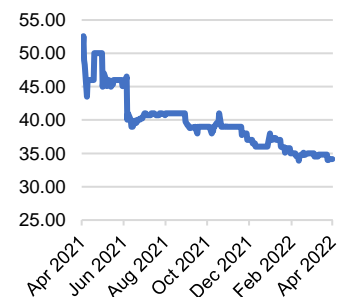
HOLD

Fair Value Estimate:
N32.11

Stock Data

Current price (N)	35.25
Shares Outstanding (mn)	12,957
Market Cap (N'mn)	456,734
52-week high (N)	42.00
52-week low (N)	33.25
Trailing EPS (N)	4.40
Forward EPS (N)	5.73
Forward PE (X)	6.15
Justified PE Multiple (X)	5.61

Price Movement



Stock Data

	FY 2020	FY 2021	FY 2022F
P/E	5.49x	8.02x	6.15x
P/BV	1.03x	1.21x	1.27x
PBT Margin	40%	32%	35%
PAT Margin	35%	28%	28%
RoE	24%	15%	20%
Dividend Yield	10%	9%	9%

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Financial Performance Trend

Income Statement (N'mn)	FY 2021	FY 2020	% Change
Gross earnings	67,051	45,459	47%
Interest income	32,996	21,014	57%
Interest expense	(9,563)	(5,154)	86%
Net interest income	23,433	15,860	48%
Impairment	(586)	148	496%
Net interest income after impairment	22,847	16,008	43%
Non-interest income	34,055	24,445	39%
Net fee and commission income	21,714	20,815	4%
Fee and commission income	23,127	22,174	4%
Fee and commission expense	(1,413)	(1,359)	4%
Income from insurance	(284)	(3)	-9367%
Trading revenue	10,503	3,223	226%
Other revenue	425	(952)	145%
Operating income	55,489	39,094	42%
Operating expense	(35,606)	(26,949)	32%
Staff cost	(12,379)	(9,480)	31%
Other expenses	(23,227)	(17,469)	33%
Profit before tax	19,599	12,142	61%
Tax	(4,531)	(886)	411%
Profit after tax	15,068	11,256	34%
Balance Sheet Information (N'mn)	Q1 2022	FY 2021	% Change
Assets			
Cash	830,901	653,070	27%
Trading asset	188,626	98,743	91%
Financial investment	665,635	636,611	5%
Loans and advances to banks	7,490	16,096	-53%
Loans and advances to customers	980,149	921,044	6%
Other assets	426,438	417,200	2%
Total Assets	3,099,239	2,742,764	13%
Liabilities			
Deposit from customers	1,202,199	1,126,535	7%
Deposit from banks	455,439	431,862	5%
Debt securities	72,892	47,419	54%
Other liabilities	972,704	760,082	28%
Total Liabilities	2,703,234	2,365,898	14%
Net Assets	396,005	376,866	5%

Source: Company Accounts, WSTC Research

Outlook

The released financial results aligned with our expectations. Our expectation for FY 2022 was higher interest income growth on the back of loan book growth. We also expect to see recovery in trading gains, albeit lower than historical levels.

Our FY 2022 EPS remains relatively unchanged at N5.73 (previous: N5.65). Our fair value estimate for the stock is N32.11. At the current market price, we believe that the stock already reflects its fair value based on our growth expectations. Therefore, we maintain our HOLD recommendation.

Financial Projections

Income Statement (N'mn)	FY 2020	FY 2021	FY 2022F	FY 2023F	FY 2024F	FY 2025F	FY 2026F
Gross earnings	234,446	205,968	262,242	317,760	362,633	404,134	441,210
Interest income	105,776	104,751	130,374	158,285	189,554	214,542	237,086
Interest expense	(31,561)	(29,379)	(40,033)	(43,705)	(49,470)	(55,121)	(60,927)
Net interest income	74,215	75,372	90,341	114,580	140,084	159,421	176,159
Non-interest income	124,709	95,773	125,999	152,861	166,017	181,805	195,608
Operating expense	(94,272)	(106,647)	(119,320)	(144,581)	(164,998)	(183,881)	(200,750)
Impairment charge	(9,935)	1,505	(4,253)	(4,689)	(5,183)	(5,727)	(6,335)
Profit before tax	94,717	66,003	92,767	118,172	135,920	151,617	164,682
Profit after tax	83,211	56,966	74,213	94,537	108,736	121,294	131,745
EPS (N)	7.49	4.40	5.73	7.30	8.39	9.36	10.17
DPS (N)	4.00	3.00	3.12	3.98	4.58	3.28	4.07
Balance Sheet (N'mn)	FY 2020	FY 2021	FY 2022F	FY 2023F	FY 2024F	FY 2025F	FY 2026F
Gross loans	663,123	962,358	1,059,952	1,163,873	1,288,090	1,422,417	1,572,464
Net loans	535,173	535,173	632,970	937,143	1,032,180	1,133,378	1,254,340
Non-Performing Loans	26,492	20,338	42,044	46,000	51,001	56,269	62,233
Total assets	2,486,306	2,742,764	3,020,922	3,317,101	3,671,126	4,053,966	4,481,607
Customer deposits	819,944	1,126,535	1,255,679	1,370,611	1,512,366	1,667,584	1,844,873
Shareholder's funds	378,601	376,866	360,062	404,997	456,156	536,685	619,883
BV/Share	34.09	29.09	27.79	31.26	35.21	41.42	47.84
Ratio Analysis	FY 2020	FY 2021	FY 2022F	FY 2023F	FY 2024F	FY 2025F	FY 2026F
Net Interest Margin	4%	3%	3%	4%	4%	5%	5%
PAT margin	35%	28%	28%	30%	30%	30%	30%
RoE	24%	15%	20%	25%	25%	24%	23%
RoA	4%	2%	3%	3%	3%	3%	3%
Capital Adequacy Ratio	25%	21%	19%	19%	19%	20%	21%
Cost/Income	47%	62%	55%	54%	54%	54%	54%
Loans/Deposit	48%	60%	59%	60%	60%	60%	60%

Source: Company Accounts, WSTC Research

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Investment Recommendation

WSTC uses a 3-tier recommendation system for stocks under coverage: Buy, Hold, and Sell.

- Buy Rating: estimated fair value is $\geq 15\%$ above current market price.
- Hold Rating: estimated change in price is between -10% and 15% of current market price.
- Sell Rating: estimated change in price is $\leq -10\%$ of current market price.

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