

STANBIC IBTC BANK PLC



... Strong Income Performance Lifts Bottomline Growth

November 7, 2022.



Earnings Note

Event

Stanbic IBTC Holdings Plc sustained its strong earnings trajectory in Q3 2022. The rising interest rate environment spurred interest income growth (+35% YoY to N38.81bn), while a rebound in trading gains drove non-interest income growth (+35% YoY to N33.72bn) after an underwhelming performance in the corresponding quarter of 2021. Fee and commission income growth was also impressive, supported by higher asset management fees during the review period.

Notably, interest expense rose by 24% YoY to N9.50bn in Q3 2022 in response to the rising interest rate environment. However, the composition of the Group's funding base moderated the impact on a net basis. For context, the Group's CASA ratio improved to 82% as of 9M 2022 from 69% as of 9M 2021. The increase in the CASA ratio implies that the bulk of the Group's deposit base was from cheaper sources.

In addition to higher trading gains (+142% YoY) and fee and commission income (+15% YoY), the Group's insurance business continued to gain traction, reflected in the 580% YoY growth in insurance premium income. On a quarter-on-quarter basis, insurance premiums rose by 65%. In our view, the Group's insurance business could grow to become a major line in the medium term.

Overall, operating income grew by 32% YoY to N58.75bn (net interest income: +29% YoY to N27.32bn and net non-interest income: +35% YoY to N31.44bn). The Group's cost-to-income declined to 51% in Q3 2022 (Q3 2021: 54%), despite the inflationary environment. As a result of the operating efficiency, profit before tax grew by 41% YoY to N28.97bn. Net profit also rose by 41% YoY to N24.52bn.

Quarterly Breakdown

Stanbic IBTC (N'mn)	Q3 2022	Q3 2021	%	Q2 2022	Q2 2021	%	Q1 2022	Q1 2021	%
Gross earnings	72,533	53,717	35%	67,636	47,379	43%	67,234	45,516	48%
Net interest income	27,315	21,146	29%	22,039	18,155	21%	22,847	16,008	43%
Non-interest income	33,724	24,943	35%	32,384	24,164	34%	34,238	24,502	40%
Operating income	58,753	44,491	32%	52,638	40,981	28%	55,205	39,091	41%
Operating expenses	(29,785)	(23,886)	25%	(32,259)	(28,416)	14%	(35,606)	(26,949)	32%
Profit after tax	24,516	17,409	41%	15,601	11,284	38%	15,068	11,256	34%
Earnings per share (N)	1.89	1.34	41%	1.20	0.87	38%	1.16	0.87	34%

Source: Company Accounts, WSTC Research

BUY

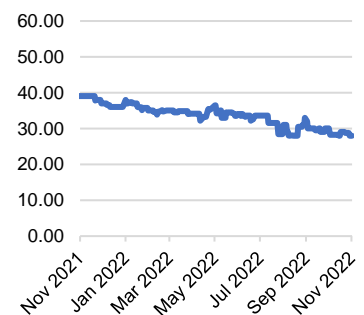
Fair Value Estimate:
N33.09

Total Return: +31%

Stock Data

Current price (N)	28.00
Shares Outstanding (mn)	12,957
Market Cap (N'mn)	362,796
52-week high (N)	39.00
52-week low (N)	28.00
Trailing EPS (N)	4.40
Forward EPS (N)	5.96
Forward PE (X)	4.70
Justified PE Multiple (X)	5.55

Price Movement



Stock Data

	FY 2020	FY 2021	FY 2022F
P/E	4.36x	6.37x	4.70x
P/BV	0.82x	0.96x	1.01x
PBT Margin	40%	32%	33%
PAT Margin	35%	28%	27%
RoE	24%	15%	21%
Dividend Yield	12%	11%	13%

Analysts

Abdulrauf Bello

a.bello@wstc.com.ng

Isaac Osaro

i.osaro@wstc.com.ng

Oluwadamilola Pase

o.pase@wstc.com.ng

9M 2022 Financial Performance

Income Statement (N'mn)	9M 2022	9M 2021	Growth (%)
Gross earnings	207,403	146,612	41%
Interest income	107,057	73,003	47%
Interest expense	(27,396)	(19,008)	44%
Net interest income	79,661	53,995	48%
Net impairment loss	(7,460)	1,314	-668%
Net interest income after impairment	72,201	55,309	31%
Non-interest income	100,346	73,609	36%
<i>Net fee and commission</i>	<i>68,454</i>	<i>60,953</i>	<i>12%</i>
<i>Income from insurance activities</i>	<i>857</i>	<i>83</i>	<i>933%</i>
<i>Trading revenue</i>	<i>24,886</i>	<i>9,019</i>	<i>176%</i>
<i>Other income/(loss)</i>	<i>198</i>	<i>(801)</i>	<i>125%</i>
Operating income	166,596	124,563	34%
<i>Staff costs</i>	<i>(37,270)</i>	<i>(31,368)</i>	<i>19%</i>
<i>Other operating expenses</i>	<i>(60,380)</i>	<i>(47,883)</i>	<i>26%</i>
Operating expenses	(97,650)	(79,251)	23%
Profit before tax	68,946	45,312	52%
Income tax	(13,761)	(5,363)	157%
Profit after tax	55,185	39,949	38%
Balance Sheet (N'mn)	9M 2022	9M 2021	Growth (%)
Cash & balances with CBN	622,496	729,663	-15%
Loans and advances to banks	282	5,727	-95%
Loans and advances to customers	1,133,771	821,990	38%
Trading assets	240,238	52,603	357%
Investment securities	617,386	678,193	-9%
Others	336,937	460,711	-27%
Total Assets	2,951,110	2,748,887	7%
Liabilities			
Deposits from customers	1,138,677	1,094,276	4%
Deposits from banks	466,780	401,788	16%
Trading liabilities	209,801	215,934	-3%
Borrowings	74,140	51,589	44%
Others	681,535	624,963	9%
Total Liabilities	2,570,933	2,388,550	8%
Net Assets	380,177	360,337	6%

Source: Company Accounts, WSTC Research

Outlook

We leave our forecasts unchanged because the Q3 2022 numbers mirrored our estimates. In the near term, we expect a sustained upward trend in interest rates to be net positive for the Group. We also see non-interest growth driven by fee and commission income.

We reiterate a BUY recommendation for the stock at an estimated fair value of N33.09. The total return expectation is 31%, consisting of an 18% price return and a 13% dividend yield. Occasioned by a general market sell-off due to waning investors interest, the stock currently trades at a 52-week low. We posit that the stock's current market price is attractive for entry.

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	285,114	332,215	387,003	439,826	496,416
Interest income	105,776	104,751	144,808	176,742	212,933	246,456	278,231
Interest expense	(31,561)	(29,379)	(41,553)	(46,069)	(53,684)	(60,642)	(68,660)
Net interest income	74,215	75,372	103,255	130,673	159,249	185,814	209,571
Non-interest income	124,709	95,773	134,237	148,369	166,347	184,680	208,479
Operating expense	(94,272)	(106,647)	(133,975)	(156,108)	(181,853)	(206,674)	(233,266)
Impairment charge	(9,935)	1,505	(9,384)	(10,571)	(11,938)	(13,475)	(15,227)
Profit before tax	94,717	66,003	94,132	112,364	131,806	150,345	169,557
Profit after tax	83,211	56,966	77,189	92,139	108,081	123,283	139,037
EPS (N)	7.49	4.40	5.96	7.11	8.34	9.51	10.73
DPS (N)	4.00	3.00	3.51	4.19	4.91	3.33	4.29
Balance Sheet (N'mn)	FY 2020	FY 2021	FY 2022F	FY 2023F	FY 2024F	FY 2025F	FY 2026F
Gross loans	663,123	962,358	1,200,565	1,346,794	1,522,744	1,717,835	1,940,056
Net loans	535,173	535,173	632,970	937,143	1,169,108	1,311,507	1,482,846
Non-Performing Loans	26,492	20,338	47,621	53,230	60,292	67,956	76,781
Total assets	2,486,306	2,742,764	3,050,113	3,421,619	3,868,630	4,364,272	4,928,840
Customer deposits	819,944	1,126,535	1,286,320	1,422,233	1,598,500	1,797,917	2,033,536
Shareholder's funds	378,601	376,866	358,336	397,749	443,913	525,766	614,129
BV/Share	34.09	29.09	27.66	30.70	34.26	40.58	47.40
Ratio Analysis	FY 2020	FY 2021	FY 2022F	FY 2023F	FY 2024F	FY 2025F	FY 2026F
Net Interest Margin	4%	3%	4%	4%	5%	5%	5%
PAT margin	35%	28%	27%	28%	28%	28%	28%
RoE	24%	15%	21%	24%	26%	25%	24%
RoA	4%	2%	3%	3%	3%	3%	3%
Capital Adequacy Ratio	25%	21%	19%	18%	18%	18%	19%
Cost/Income	47%	62%	56%	56%	56%	56%	56%
Loans/Deposit	48%	60%	66%	67%	67%	67%	67%

Source: Company Accounts, WSTC Research

Disclaimer & Disclosures

The value of any investment is subject to fluctuations, i.e., may rise and fall. Past performance is no guide to the future. The rate of exchange between currencies may cause the value of an investment to increase or decrease. Hence investors may not get back the full value of their original investment.

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.

This document is not an offer to buy or sell any security. This document does not provide individually tailored investment advice. It has been prepared without regard to the individual financial circumstances and objectives of persons who receive it. The appropriateness of a particular investment will depend on an investor's circumstances and objectives. The investments and shares referred to in this document may not be suitable for all investors.

This document is based on information WSTC Securities Limited (WSTC Securities) received from publicly available reports and industry sources. WSTC Securities may not have verified all of this information with third parties. Neither WSTC Securities nor its shareholders, directors, employees or advisors can guarantee the accuracy, reasonableness or completeness of the information received from any sources consulted for this publication; and neither WSTC Securities nor its shareholders, directors, employees or advisors accept any liability whatsoever (in negligence or otherwise) for any loss howsoever arising from any use of this document or its contents or otherwise arising in connection with this document. This document is not to be relied upon and should not be a substitute for the exercise of independent judgment.

This document includes certain statements, estimates and projections concerning the anticipated future performance of securities listed on the Nigerian Exchange and as to the market for these shares. Such statements, estimates and projections are based on information that we consider reliable and may reflect various assumptions made concerning anticipated economic developments, which have not been independently verified and may or may not prove correct. No representation or warranty is made as to the accuracy of such statements, estimates and projections or as to their appropriateness for the purpose intended and it should not be relied upon as such. Opinions expressed are current opinions as of the date appearing on this material only and may change without notice. Other third parties may have issued other reports that are inconsistent with and reach different conclusions from, the information presented in this report. Those reports reflect the different assumptions, views and analytical methods of the analysts who prepared them.

This document is for information purposes only and private circulation. No portion of this document may be reprinted, sold or redistributed without the written consent of WSTC Securities.

Additional information on recommended securities/instruments is available on request.

WSTC Securities Limited is a Trading License Holder of the Nigerian Exchange Limited (NGX) and is registered with the Securities & Exchange Commission (SEC) as a Broker/Dealer to conduct Securities Brokerage & Dealing in Nigeria. Therefore, we may deal in any securities listed on the NGX.

WSTC Securities Limited has its registered office at 2, Maitama Sule Street, South-West Ikoyi, Lagos, Nigeria.

Email: research@wstc.com.ng

Website: www.wstc.com.ng

© WSTC Securities Limited 2022.