

STANBIC IBTC BANK PLC



... RoE Rises by 200bps to 23%, Underscoring a Profitable Year

March 24, 2023.



Earnings Note

Event

Stanbic IBTC Plc ('the Group') recorded an impressive financial performance in FY 2022, driven by interest and non-interest components. Gross earnings grew by 39% year-on-year to N287.54bn. Interest income rose by 46% year-on-year to N152.67bn while non-interest income grew by 34% year-on-year to N134.87bn.

Operating income grew by 33% year-on-year to N229.82bn. Occasioned by a 600 basis points decline in cost margin to 56% in FY 2022, the Group's profit before tax rose by 52% year-on-year to N100.35bn. However, a higher effective tax rate moderated net profit growth to 42% to N80.81bn.

Increased Appetite for Risk Assets Delivers Strongly

The Group's loan book grew by 31% year-on-year to N1.20trn, with significant loans booked in the manufacturing and oil & gas sectors. The two sectors accounted for half of total loan book growth in FY 2022. As a result, interest income on loans grew markedly by 54% year-on-year and accounted for c.90% of the total interest income growth.

We note the Group's significant change in its asset allocation which started in FY 2021. Between FY 2020 to FY 2021, the Group's loan book nearly doubled (+93%) to N1.20trn it closed at in FY 2022 from N625.14bn in FY 2020. In our view, this trend indicates a new growth source driver for the Group amid an unstable interest rate environment over the past three years.

In line with the loan book expansion, the non-performing loan ratio advanced slightly to 2.37% in FY 2022 from 2.11% in FY 2021, well below the regulatory 4.00% benchmark. In our view, we believe that this underscores the quality of risk assets. We particularly like the currency composition of the Group's risk assets. The foreign currency (FCY) component of loan book increased to 57% of total loan book in FY 2022 from 44% in FY 2021. Given the rising trend of interest rates in the United States and persistent pressures leading to domestic currency depreciation, we believe that the Group's loan book composition is strong.

We also like that the contribution of the Oil & Gas sector to total loan book declined to 20% in FY 2022 from 22% in FY 2021. Although we consider the current oil & gas portion of loan book high, we are positively disposed towards the gradual reduction in the impact of the sector on the Group's total loan book. This is because of the recent underlying challenges in the sector. Persistent issues around crude oil theft, weak oil and gas infrastructure, and pipeline vandalism are key issues hindering the progress of the sector.

HOLD

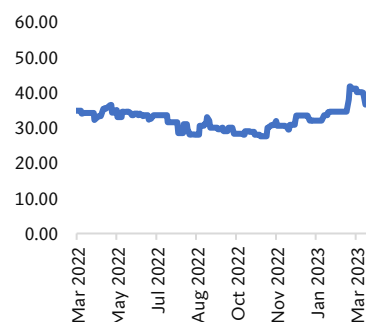
Fair Value Estimate:
N37.94

Total Return: +14%

Stock Data

Current price (N)	36.75
Shares Outstanding (mn)	12,957
Market Cap (N'mn)	476,170
52-week high (N)	41.70
52-week low (N)	27.50
Trailing EPS (N)	6.24
Forward EPS (N)	7.22
Forward PE (X)	5.09
Justified PE Multiple (X)	5.25

Price Movement



Stock Data

Stock Data	FY 2021	FY 2022	FY 2023F
P/E	8.36x	5.89x	5.09x
P/BV	1.26x	1.17x	1.16x
PBT Margin	32%	35%	34%
PAT Margin	28%	28%	27%
RoE	15%	21%	23%
Dividend Yield	8%	10%	11%

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Cost of Fund Rises in Line with Higher Rate Environment

The total average interest-bearing liabilities grew by 15% year-on-year to N1.87trn. Therefore, interest expense grew as well – however, owing to repricing of deposits due to rising interest rate, interest expenses increased steeper by 35% year-on-year to N39.55bn in FY 2022. Meanwhile, we note the increase in the Group's CASA ratio to 72% in FY 2022 (FY 2021: 66%). This implies that the portion of cheap deposits increased in FY 2022 and it is expected to be positive for future net interest margins.

Speaking of net interest margins, the Group benefitted from the rising interest rate environment as a result of the structure of its balance sheet. The Group's assets are more sensitive to interest rate movements than its liabilities. Therefore, when interest rate rises, the Group is able to reprice assets faster than liabilities. Because of this, our computed net interest margin advanced by 104 basis points to 3.67% in FY 2022 (FY 2021: 2.63%). Specifically, while yield on assets rose by 134 basis points, the cost of fund rose by 31 basis points.

Net interest income grew by 50% year-on-year to N113.12bn in FY 2022. Post-impairment, net interest income grew by 34% year-on-year to N102.83bn. This was because of an impairment charge of N10.29bn in FY 2022 due the new loans booked, relative to an impairment writeback of N1.51bn in FY 2021.

Trading Gains Buoy Non-Interest Income Growth

The growth in non-interest income was largely driven by a rebound in trading gains which grew by 161% year-on-year to N34.67bn. There was a low base in FY 2021, where trading income declined to levels not seen since FY 2016. Hence, a normalisation of trading gains to historical levels supported non-interest income growth.

Fee and commission income also grew, by 9% year-on-year to N96.07bn in FY 2022. Asset management fees sustained its status as the biggest driver of fee and commission income by accounting for 61% of total fee and income commission income (FY 2021: 61%). Asset management fees, which relates to the income earned on its PFA AuM, grew by 7% year-on-year to N58.31bn. Other line items that spurred total fee and commission income growth were card-based commission (+112% year-on-year to N5.07bn) and brokerage & financial advisory fees (+24% year-on-year to N9.98bn).

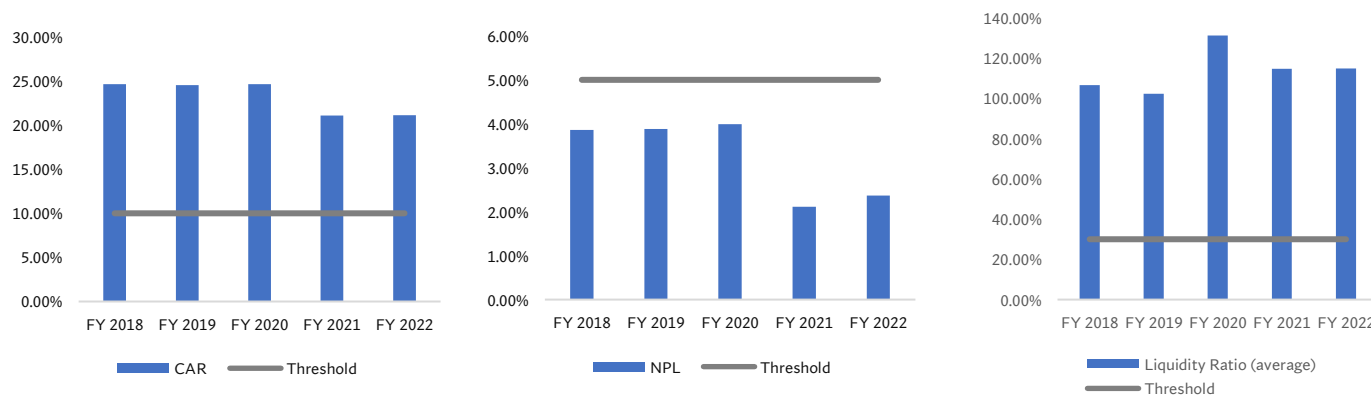
Bottomline Boosts on the Back of Operating Efficiency

The combined impact of net interest income growth (+34% YoY) and net non-interest income (+32% YoY) resulted to a 33% year-on-year growth to N229.82bn. Operating expenses grew by 21% year-on-year to N129.47bn. The increase in operating income was faster than the increase in operating expense. Effectively, the Group's cost-to-income ratio improved and that translated to a 42% growth in net profit. In addition to a N1.50 interim dividend declared during the fiscal year, the management proposed a N2.00 final dividend. In total, the dividend declared for FY 2022 was N3.50 (FY 2022: N3.00). The qualification date is on the 3rd of April 2023 while the payment date is on the 26th of May 2023.

Banking Metrics

We analysed the financial health of the Group, by assessing key metrics including the capital adequacy ratio (CAR), liquidity ratio, and asset quality. Across these metrics, the Group's ratios are well above (or below) regulatory thresholds. The Group's CAR of 21.18% as of FY 2022 was higher than the 15.00% regulatory benchmark.

Liquidity ratio closed at 85.04% in FY 2022 (FY 2021: 105.35%). The average liquidity ratio during the year was 114.98% - materially higher than the regulatory benchmark of 30.00%. We wish to highlight that the Group's capital and liquidity positions, and asset quality are very strong, and we emphasise that the combination of these ratios points to a strong business franchise.



Source: Company Accounts, WSTC Research

Outlook

Our expectation is a rising interest rate environment in 2023. Given the structure of the Group's balance sheet (i.e., higher interest rate sensitivity of assets relative to liabilities), we expect to see higher net interest margin to expand in FY 2023. We also do not see any major deviation from the asset growth trend in the near term. We expect inflationary pressures to negatively impact profit margin.

We expect earnings per share (EPS) to grow by 16% to N7.22 in FY 2023. We revise our fair value estimate to N37.94 (previous: N33.09). At the stock's current price, the forward price-to-earnings (P/E multiple) of 5.09x trades at a 3% discount to our justified P/E multiple of 5.25x. The forward P/E also trades at a 13% discount to its historical average P/E multiple of 5.91x.

Based on the estimated total return of 14%, we are recommending a HOLD. This means that the projected performance of the company is in line with the market's expectations. We do not see a significant catalyst event that could cause a substantial swing in the share price. Hence, we continue to hold and see if any notable developments emerge.

FY 2022 Financial Performance

Income Statement (N'mn)	FY 2022	FY 2021	Growth (%)
Gross earnings	287,537	206,644	39%
Interest income	152,670	104,751	46%
Interest expense	(39,551)	(29,379)	35%
Net interest income	113,119	75,372	50%
Net impairment loss	(10,290)	1,505	-784%
Net interest income after impairment	102,829	76,877	34%
Non-interest income	134,867	101,893	32%
Net fee and commission	91,059	82,877	10%
Income from insurance activities	66	176	-63%
Trading revenue	34,687	13,286	161%
Other income/(loss)	1,182	(566)	-309%
Operating income	229,823	172,650	33%
<i>Staff costs</i>	<i>(50,996)</i>	<i>(42,041)</i>	<i>21%</i>
<i>Other operating expenses</i>	<i>(78,478)</i>	<i>(64,606)</i>	<i>21%</i>
Operating expenses	(129,474)	(106,647)	21%
Profit before tax	100,349	66,003	52%
Income tax	(19,535)	(9,037)	116%
Profit after tax	80,814	56,966	42%
Balance Sheet (N'mn)	FY 2022	FY 2021	Growth (%)
Cash & balances with CBN	664,450	653,070	2%
Loans and advances to banks	3,404	16,096	-79%
Loans and advances to customers	1,204,786	921,044	31%
Trading assets	190,431	98,743	93%
Investment securities	582,019	636,611	-9%
Others	383,936	417,200	-8%
Total Assets	3,029,026	2,742,764	10%
Deposits from customers	1,245,346	1,126,535	11%
Deposits from banks	491,080	431,862	14%
Trading liabilities	220,971	112,023	97%
Borrowings	259,835	183,853	41%
Others	404,124	511,625	-21%
Total Liabilities	2,621,356	2,365,898	11%
Net Assets	407,670	376,866	8%

Source: Company Accounts, WSTC Research

Financial Projections

Income Statement (N'mn)	FY 2021	FY 2022	FY 2023F	FY 2024F	FY 2025F	FY 2026F	FY 2027F
Gross earnings	205,968	284,670	342,017	427,923	493,558	556,855	626,330
Interest income	104,751	152,670	190,664	234,875	275,423	310,402	350,167
Interest expense	(29,379)	(39,551)	(51,607)	(60,762)	(71,368)	(82,721)	(94,356)
Net interest income	75,372	113,119	139,056	174,114	204,056	227,681	255,811
Non-interest income	95,773	126,994	144,836	184,647	208,548	235,759	264,132
Operating expense	(106,647)	(129,474)	(155,556)	(194,629)	(224,481)	(253,269)	(284,868)
Impairment charge	1,505	(10,290)	(12,111)	(13,849)	(15,606)	(17,606)	(19,774)
Profit before tax	66,003	100,349	116,225	150,283	172,517	192,564	215,301
Profit after tax	56,966	80,814	93,599	121,028	138,933	155,078	173,388
EPS (N)	4.40	6.24	7.22	9.34	10.72	11.97	13.38
DPS (N)	3.00	3.50	4.05	5.24	3.75	4.79	5.35
Balance Sheet (N'mn)	FY 2021	FY 2022	FY 2023F	FY 2024F	FY 2025F	FY 2026F	FY 2027F
Gross loans	962,358	1,241,602	1,486,040	1,729,235	1,947,369	2,195,626	2,478,443
Net loans	535,173	632,970	937,143	1,208,193	1,446,054	1,682,705	1,894,969
Non-Performing Loans	20,337	29,439	33,319	39,887	44,290	50,291	56,569
Total assets	2,742,764	3,029,026	3,613,328	4,204,659	4,735,055	5,338,696	6,026,370
Customer deposits	1,126,535	1,245,346	1,478,996	1,717,210	1,931,672	2,179,143	2,460,522
Shareholder's funds	376,866	407,670	411,781	472,485	570,402	676,023	793,437
BV/Share	29.09	31.46	31.78	36.47	44.02	52.17	61.24
Ratio Analysis	FY 2021	FY 2022	FY 2023F	FY 2024F	FY 2025F	FY 2026F	FY 2027F
Net Interest Margin	3%	4%	5%	5%	5%	5%	5%
PAT margin	28%	28%	27%	28%	28%	28%	28%
RoE	15%	21%	23%	27%	27%	25%	24%
RoA	2%	3%	3%	3%	3%	3%	3%
Capital Adequacy Ratio	21%	21%	18%	18%	19%	20%	21%
Cost/Income	62%	54%	55%	54%	54%	55%	55%
Loans/Deposit	60%	70%	70%	70%	70%	70%	70%

Source: Company Accounts, WSTC Research

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- Buy Rating: estimated fair value is $\geq 20\%$ above current market price.
- Hold Rating: estimated change in price is between -10% and 20% of current market price.
- Sell Rating: estimated change in price is $\leq -10\%$ of current market price.

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