

**STANDARD CHARTERED BANK KENYA FY'2022 EARNINGS UPDATE**

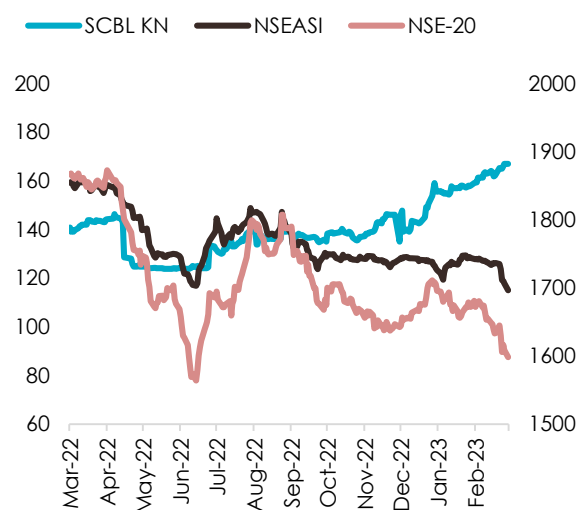
Standard Chartered released its financial results posting a **34%** surge in profit after tax attributable to 18% increase in net interest income and 14% increase in non-interest income. The **Return on Equity** and Return on Assets rose to **22.1%** and 3.4%, respectively. **Earnings per share** increased to **KES 31.47** from KES 23.49 recorded in the previous financial year. The Board of directors recommended payment of a **KES 22.00** total dividend, translating to 13.2% dividend yield.

**FY2022 Performance – % y/y performance**

- Earnings:** Operating income grew by 17% mainly driven by a 14% growth in interest income coupled with a 6.0% decline in interest expense. This was largely attributable to rising interest rates with the average yield on earnings assets rising by 50bps while the average yield on deposits declined by 30bps. Non-funded income rose by 13.5% to KES 11.8Bn driven by growth in foreign exchange trading income.
- Loan book:** The bank's loans and advances to customers grew by 10.7% to KES 139.4Bn faster than the 5.1% growth in deposits. The loan to deposit ratio rose to 50.0% from 47.5% in FY2021 indicating that the bank leveraged more on deposits to fund its loans and advances to customers.
- Customer deposits** increased by 5.1% to KES 278.9Bn following deposit mobilization supported by value driven from the wealth management segment. Notably, interest expense on customer deposits declined by 16.9% to KES 2.59Bn, reflective of the depressed average interest rate on deposits of 0.9%.
- Government securities** recorded 15.1% growth to KES 104.7Bn attributable to a favorable interest rate environment. Yields on treasury bills and bonds across various tenors sustained upward pressure in the FY2022.
- Efficiency:** Cost to income ratio excluding provisions declined to 45.8% from 49.7% following cost optimization by the lender. Cost to income ratio including provisions reduced to 49.7% from 56.8%.
- Asset Quality:** Gross NPLs declined by 3% to KES 22.6Bn. NPL ratio decline to 13.9% from 15.6% a tad lower than the industry average of 13.70%. Credit impairment charges declined to KES 1.33Bn from KES 2.08Bn in 2021 – reflective of improved credit risk.

Share Data	Standard Chartered
Ticker	SCBK KN
<b>RECOMMENDATION</b>	<b>HOLD</b>
Current Price (KES)	167.00
Target Price (KES)	156.93
Dividend Yield	13.2%
Upside(Inc. Div. Yield)	7.2%
52WK High (KES)	168.00
52WK Low (KES)	121.00
Market Cap (KES Bn)	63.10
Free Float	24%
P/B	1.1x
P/E	5.3x
<b>Current Price = as of 13<sup>th</sup> March 2023</b>	

Source: Bloomberg, NSE, NCBA IB Research

**Standard Chartered share performance**


Source: NSE, NCBA IB Research

## Financial Summary

Standard Chartered	Key Metrics Y/Y
Loans and Advances	Up 10.7% to KES 139.4Bn
Customer Deposits	Up 5.1% to KES 278.9Bn
Government Securities	Up 15.1% to KES 104.7Bn
<b>Net Interest Income</b>	<b>Up 14.3% to KES 25.5Bn</b>
<b>Non-Funded Income</b>	<b>Up 13.5% to KES 11.8Bn</b>
Forex trading income	Up 58.4% to KES 5.97Bn
Loan Loss Provisions	Down 36.2% to KES 1.3Bn
PBT	Up 36% to KES 17.1Bn
<b>PAT</b>	<b>Up 34% to KES 12.1Bn</b>
EPS	Up 34% to KES 31.47
<b>DPS</b>	<b>Up 16% to KES 22.00</b>

Source: Company financials, NCBA IB Research

Standard Chartered	Key Ratios Y/Y
Loan Deposit ratio	Up to 50.0% from 47.5%
<b>Net Interest Margin</b>	<b>Up to 5.8% from 5.6%</b>
Cost to Income	Down to 45.8% from 49.7%
<b>NPL Ratio</b>	<b>Down to 13.9% from 15.6%</b>
Cost of Risk	Down to 1.0% from 1.7%
<b>ROE</b>	<b>Up to 16.5% from 22.1%</b>
Current Market Price	KES 167.00
P/E	5.3x
P/B	1.1x
<b>Dividend payout</b>	<b>69.9%</b>
<b>Dividend Yield</b>	<b>13.2%</b>

## 2023 Outlook

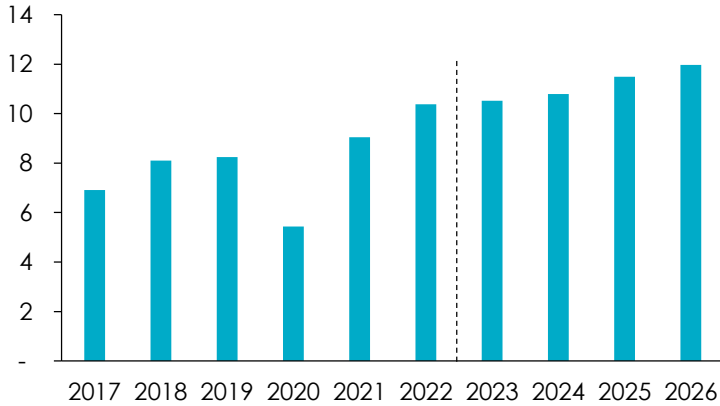
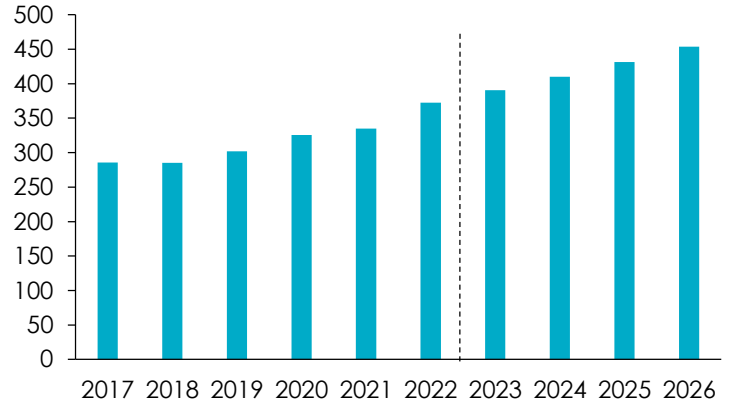
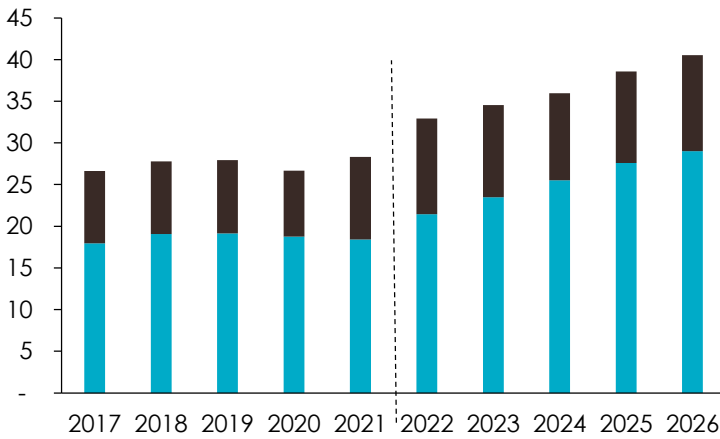
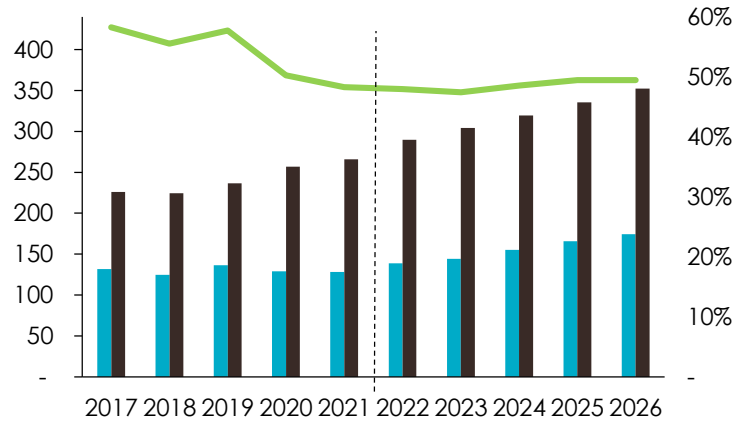
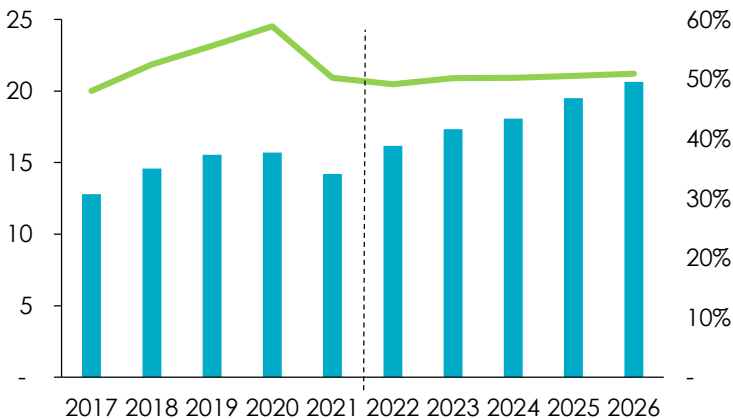
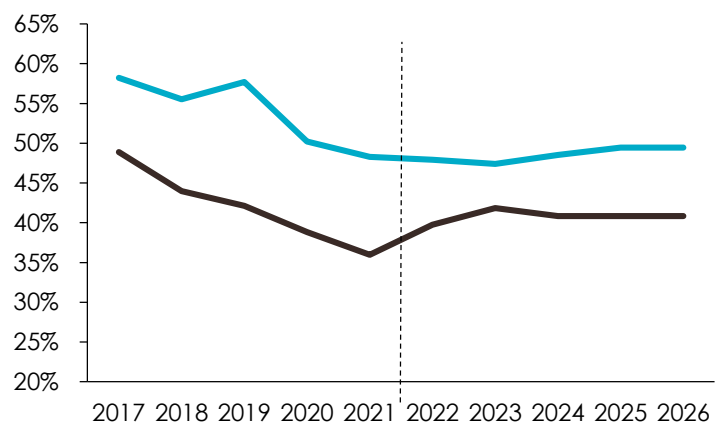
We expect Standard Chartered to record steady growth boosted by:

- 1. Revenue Diversification:** The bank derives more than a third of its revenue from non-funded income mainly driven by its strong wealth management offering coupled by FX trading income. The wealth management unit posted a growth of 13% y/y in assets under management (AUM) to KES 148Bn.
- 2. High Government Securities' Yields:** The bank is poised to benefit from the rise in yield curve due to its increased allocation to government securities. (15% y/y)
- 3. Improved asset quality:** The NPL ratio of 13.9% is commendable compared to 15.6% recorded in FY'2021. Dynamic risk management strategies aligned to the bank's risk appetite will support this strategy, pending approval of the risk based pricing models.

## Investment recommendation:

At the current market price, the stock is trading within its fair value but presents a value pick for long-term investors owing to its attractive dividend yield of 13.2%.

We expect the bank to register long-term profitability based on revenue diversification and steady topline growth.

**Financial highlights and forecasts**
**PAT (KES Bn)**

**Total Assets (KES Bn)**

**Non-Funded Income (KES Bn) Net Interest Income (KES Bn)**

**Net Loans (KES Bn) Deposits (KES Bn)**
**Loan to Deposits Ratio**

**Operating Expenses (KES Bn)**
**Cost to Income Ratio (without LLP)**

**Loan to Deposits Ratio**
**Govt. Securities to Deposits Ratio**


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## Rating Definitions

**BUY** – Total expected 12-month return (incl. dividends) greater than 20%

**ACCUMULATE** - Total expected 12-month return (incl. dividends) between 10% - 20%

**HOLD** – Total expected 12-month return (incl. dividends) between 0% -10%

**SELL** – Total expected 12-month return (incl. dividends) less than 0%

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