STANDARD CHARTERED BANK KENYA Q1 2023 EARNINGS UPDATE

Standard Chartered released its first quarter financial results posting an **45.7% y/y** increase in profit after tax largely attributable to 55.5% y/y increase in non-funded income driven by 113.9% y/y increase in FX income and a 40.1% increase in net interest income. The **Return on Equity** and Return on Assets increased to **6.9%** and 1.1%, respectively. **Earnings per share** rose to **KES 10.55** from KES 6.87 in the previous financial year.

Share Data	Standard Chartered
Ticker	SCBK KN
Recommendation	BUY
Current Price (KES)	141.00
Target Price (KES)	156.93
Upside (Inc. Div. Yield)	22.0%
52WK High (KES)	172.50
52WK Low (KES)	121.00
Market Cap (KES Bn)	53.27
Free Float	18.03%
P/B	0.9x
P/E	13.4x
Current Price = as of 17th May 2023	

Source: Bloomberg, NSE, NCBA IB Research

Q1 2023 Performance highlights (% = y/y performance)

- **Earnings:** Net interest income grew by 40.1% mainly driven by a 34.1% growth in interest income coupled with an 55.5% rise in non-funded income. This was largely attributable to a 113.9% in foreign exchange trading income and rising interest rates. Commercial bank average lending rates as reported by CBK rose to 13.06% in February 2023 from 12.17% recorded in same period in 2022

- **Loan book**: The bank's loans and advances to customers grew by 7.0% to KES 137.1Bn driven by major pipeline deals and higher utilization of limits by clients. The loan book benefitted from a high value loan given to a telecommunication giant for a private sector operation in Ethiopia. The loan to deposit ratio declined to 45.3% from 48.3% in FY2022.

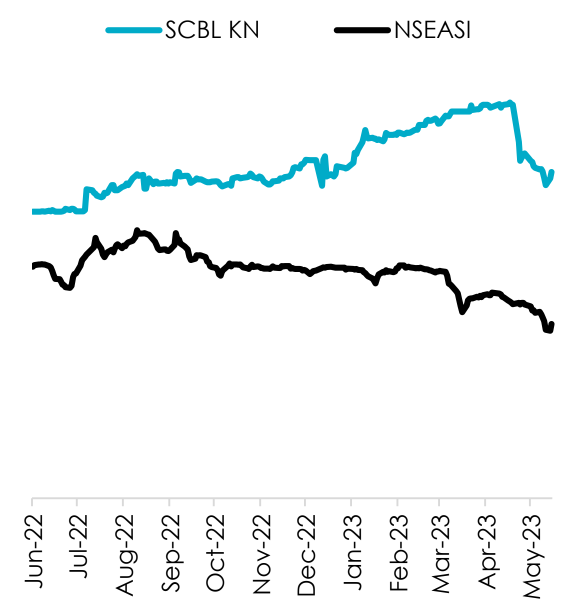
- **Customer deposits** increased by 14.2% to KES 302.9Bn faster than the 7.0% growth in the loan book, driven by new mandates and increased transactional flows from key relationships as well as value driven from the wealth management segment.

- **Government securities** declined by 6.2% to KES 95.08Bn as the bank remains skeptical on government securities.

- **Efficiency:** Cost to income ratio excluding provisions declined to 40.3% from 48.1% following cost optimization by the lender amid increased digitalization of services and branch rationalization. Cost to income ratio including provisions increased to 47.6% from 47.0%.

- **Asset Quality:** Gross NPLs increased insignificantly to 0.1% to KES 22.57Bn. NPL ratio of 14.1% remains above the industry average of 13.7%, indicative of worsening credit quality owing to tough macro-economic conditions.

Standard Chartered Kenya Share Performance



Source: NSE, NCBA IB Research

Financial Summary

Standard Chartered Bank	Key Metrics Y/Y
Loans and Advances	Up 7.0% to KES 137.1Bn
Customer Deposits	Up 14.2% to KES 302.95Bn
Government Securities	Down 6.2% to KES 95.07Bn
Net Interest Income	**Up 40.1% to KES 6.89Bn**
Non-Funded Income	**Up 55.5% to KES 3.87Bn**
Forex trading income	Up 113.9% to KES 2.19Bn
Loan Loss Provisions	Up to KES 0.79Bn
PBT	Up 43.6% to KES 5.64Bn
PAT	**Up 45.7% to KES 4.03Bn**
EPS	Up 53.6% to KES 10.55

Standard Chartered Bank	Key Ratios Y/Y
Loan Deposit ratio	Down to 45.3% from 48.3%
Net Interest Margin	**Up to 1.8% from 1.4%**
Cost to Income	Down to 40.3% from 48.1%
NPL Ratio	**Down to 14.1% from 15.0%**
Cost of Risk	up to 0.6%
ROE	**Up to 6.9% from 4.8%**
Current Market Price	KES 141.0
P/E	13.4x
P/B	0.9x
Target price	**KES 156.93**

Source: Company financials, NCBA IB Research

2023 Outlook

We expect Standard Chartered to record steady growth boosted by:

1. **Revenue Diversification:** The bank derives more than 45% of its revenue from the consumer, private and business banking. The bank is optimizing on their digital capabilities such as mobile platforms, SC Shilingi – an end to end digital money market fund among other digital strides will allow the bank diversify its revenue streams. The bank's newly launched program "banking the ecosystem" which supports the Small and medium enterprises will increase the trade flows, as SMEs are critical drivers of the economy. The bank provides foreign currency clearing and trade finance to its peers – Tier 1 and 2 banks a move that will increase the banks commissions and fees.

2. **Loan Book Growth:** The bank has sustained an average double-digit loan book growth over the last 5 years excluding 2020. We see this impressive loan book growth enduring and translating into topline growth momentum. The bank, accelerating their Sustainable Finance offering to clients through product innovation and enabling transition to a low carbon future will further scale the aggressive lending strategy.

3. **Improved asset quality:** The NPL ratio of 14.1% is commendable compared to 15.0% recorded in the previous period. The fall in NPL ratio is aiding to reduce the bank's loan impairment charges and overall cost base. 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:

Going forward the bank will leverage on technology to scale up mass retail business. The lender will continue to focus on executing its strategy and invest in areas of competitive strength such as their wealth management unit.

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 and reliable dividend payout.

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

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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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