STANDARD CHARTERED BANK KENYA FY2023 EARNINGS UPDATE

Standard Chartered released FY2023 financial results posting a **15%** increase in profit after tax largely attributable to a 32% and 6% rise in net interest and non-interest income respectively. The **Return on Equity** increased to **23.5%** while **Earnings Per Share** rose to **KES 36.17** from KES 31.47 in the previous financial year. The Board of directors recommended payment of a **KES 29.00** total dividend, translating to 18.00% dividend yield.

Share Data	Standard Chartered
Ticker	SCBK KN
Recommendation	SELL
Current Price (KES)	161.25
Target Price (KES)	158.69
Upside (Inc. Div. Yield)	(1.6) %
52WK High (KES)	172.50
52WK Low (KES)	134.00
Market Cap (KES Bn)	60.93
Free Float	18.03%
P/B	1.0x
P/E	4.5x
Current Price = as of 11th March 2024	

Source: Bloomberg, NSE, NCBA IB Research

FY2023 Performance highlights (% = y/y performance)

- **Earnings:** Net interest income grew by 32.0% driven by a 27.0% growth in interest income coupled with a 5.5% rise in non-funded income. This was largely attributable to a 41.4% in foreign exchange trading income and rising interest rates.

- **Loan book**: The bank's loans and advances grew by 17.0% to KES 163.1Bn 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 rose to 50.0% from 47.6% in FY2022.

- **Customer deposits** increased by 22.9% to KES 342.9Bn faster than the 17.0% 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 39.0% to KES 63.83Bn from KES 104.73Bn in the previous financial year.

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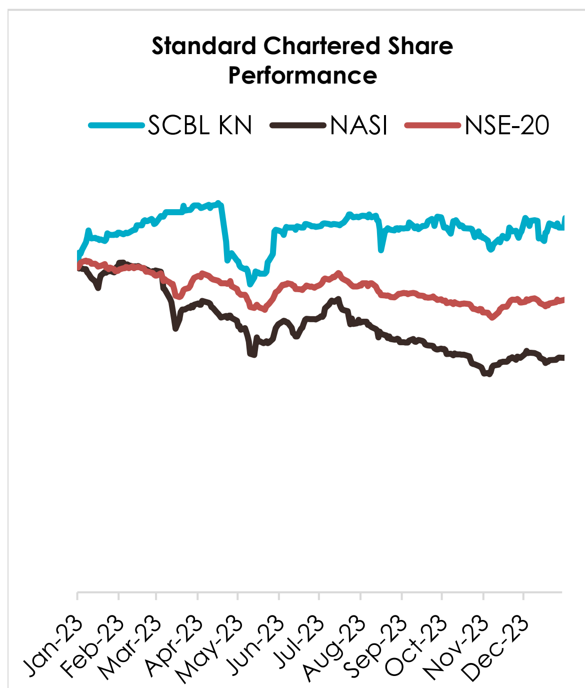
- **Efficiency:** Cost to income ratio excluding provisions declined to 44.8% from 45.8% following cost optimization by the lender amid increased digitalization of services and branch rationalization. Cost to income ratio including provisions increased to 52.9% from 49.7%.

- **Asset Quality:** Gross NPLs decreased by 23.7% to KES 17.21Bn. An NPL ratio of 9.5% remains below the industry average of 15%. Loan provisions increased significantly to 154.4% to KES 3.38Bn from KES 1.33Bn in the previous financial year.



Source: NSE, NCBA IB Research

Financial Summary

Standard Chartered	Key Metrics Y/Y
Loans and Advances	Up 17.0% to KES 163.16Bn
Customer Deposits	Up 22.9% to KES 342.85Bn
Government Securities	Down 39.0% to KES 63.83Bn
Net Interest Income	**Up 32.0% to KES 29.33Bn**
Non-Funded Income	**Up 5.5% to KES 12.40Bn**
Forex trading income	Up 41.4% to KES 8.44Bn
Loan Loss Provisions	Up 154.4% to KES 3.38Bn
PBT	Up 15.0% to KES 19.67Bn
PAT	**Up 14.7% to KES 13.84Bn**
EPS	Up 14.9% to KES 36.17

Standard Chartered	Key Ratios Y/Y
Loan Deposit ratio	Down to 47.6% from 50.0%
Net Interest Margin	**Up to 6.8% from 5.8%**
Cost to Income	Down 44.8% from 45.8%
NPL Ratio	**Down to 9.5% from 13.9%**
Cost of Risk	Up to 2.1% from 1.0%
ROE	**Up to 23.5% from 20.5%**
Current Market Price	KES 161.25
P/E	4.5x
P/B	1.0x
Final Dividend	**KES 29.00**

Source: Company financials, NCBA IB Research

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. The bank provides foreign currency clearing and trade finance to its peers – Tier 1 and 2 banks, a move that is expected to 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 9.5% is commendable compared to 15.0% recorded in the previous period. The drop in NPL ratio reduces the bank's loan impairment charges and overall cost base.

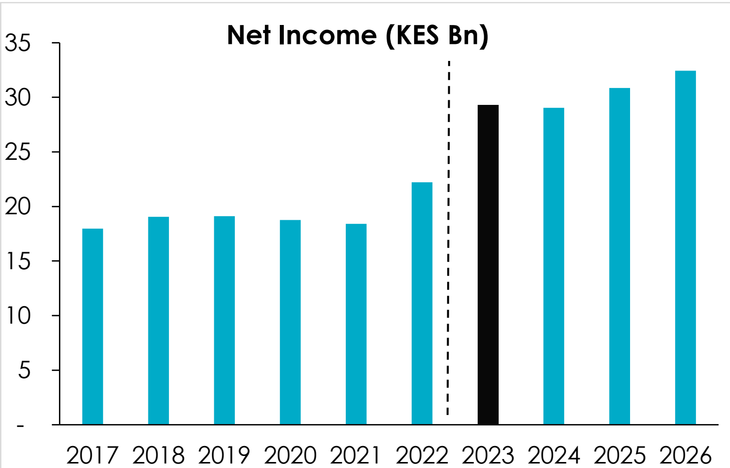
Investment recommendation:

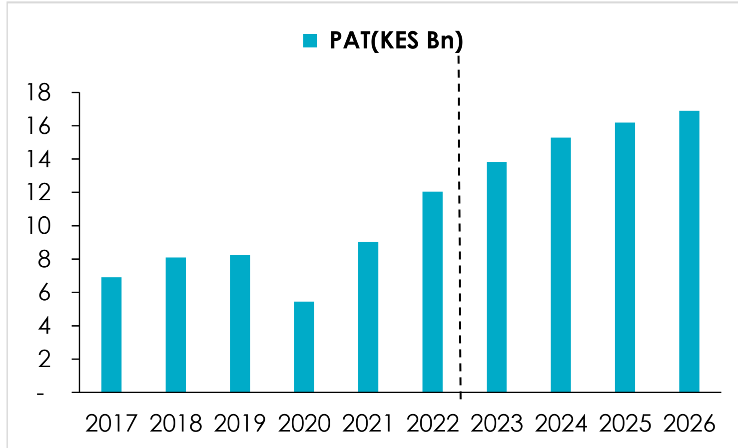
Going forward the bank will leverage on technology to scale up mass retail business. The lender will continue to focus on executing its strategy and invest in areas of competitive strength such as their wealth management unit.

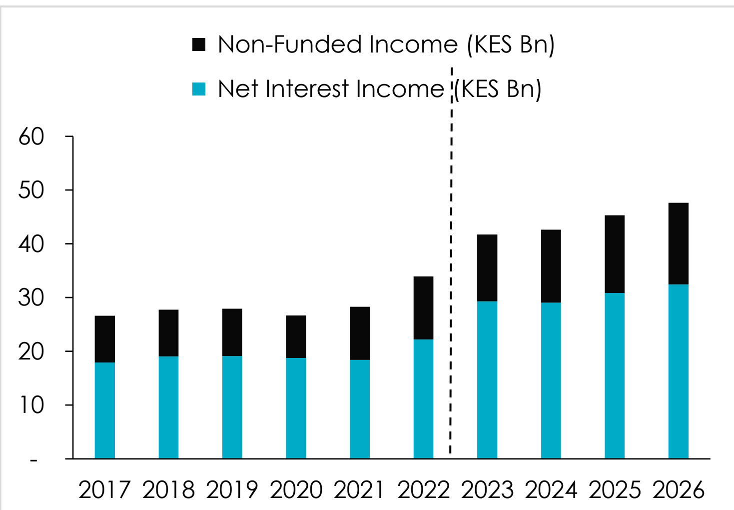
At the current market price, the stock is trading within its fair value but presents a value pick for long-term investors owing to its attractive and reliable dividend payout.

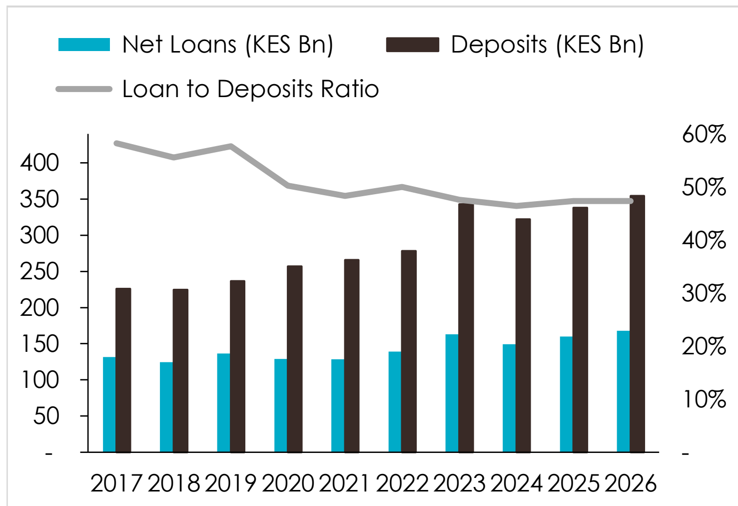
We expect the bank to register long-term profitability based on revenue diversification and steady topline growth.

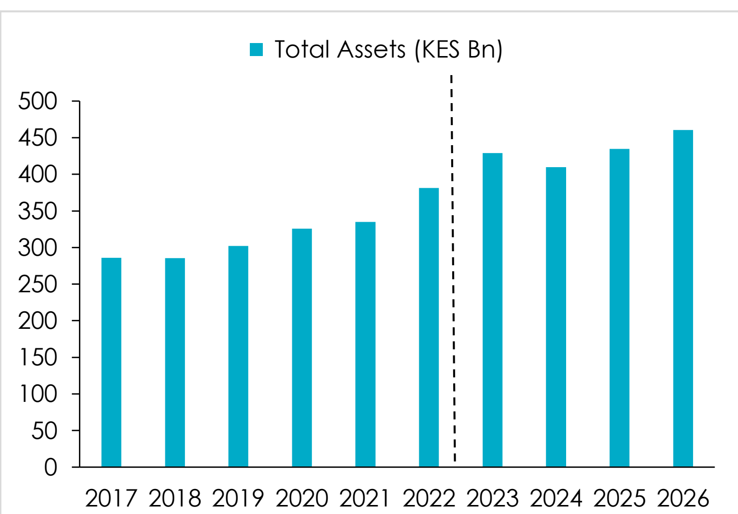
Financial highlights

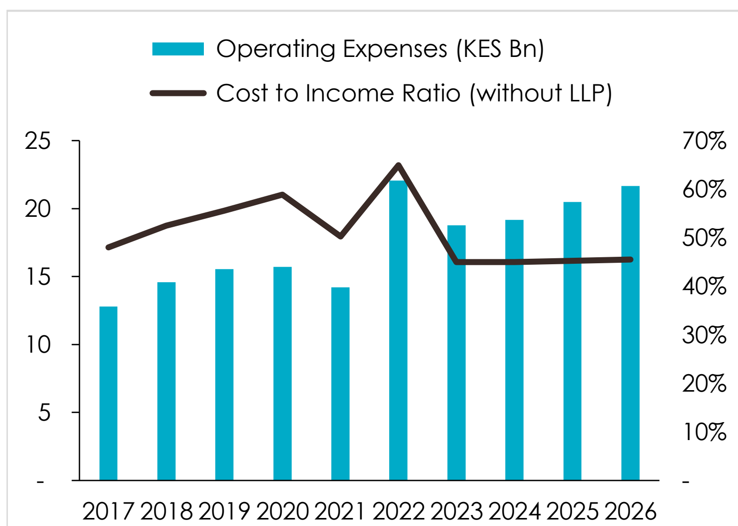












Valuation and Investment Guidance

Following the FY2023 earnings release, and given some of the key business announcements since our last publication, we have reviewed our forecasts and subsequently our valuation of the stock.

From our estimates and assumptions, we maintain our **SELL** recommendation with a target price of **KES 158.69.** The target price implies a downside of (1.6%) to the current trading price of KES 161.25 as of 11th March 2024.

We used four valuation methodologies to arrive at our fair value estimate:

1. Residual Income
2. Price to Book Valuation
3. Price to earnings Valuation
4. Dividend Discount Model

Assumptions

- Risk free rate of 15.76% based on the 10-year Treasury bond historical yields.
- Tax rate of 30%
- Equity risk premium of 9.5%
- Beta of 0.41 on stock's relative volatility on the index.
- Long term growth rate of 5.0% based on average GDP forecast.

Valuation Methodology	Implied Price	Weighting	Weighted Value
Residual Income	174.43	40%	69.77
P/B	119.13	30%	35.74
P/E	135.37	10%	13.54
DDM	198.18	20%	39.64
Fair Value		**100%**	**158.69**
Current Price 11.03.2024			**161.25**
Upside/(Downside)			(1.6)%

Source: NCBA IB Research Estimates

About NCBA Investment Bank

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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%

Disclaimer

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