Standard Chartered Bank Kenya Ltd– H1'2024

23rd August, 2024

Below is a summary of Standard Chartered Bank Ltd H1'2024 performance:

Balance Sheet Items	H1'2023	H1'2024	y/y change
Net loans	145.4	149.3	2.7%
Government Securities	70.7	71.6	1.3%
Total Assets	**361.7**	**377.3**	**4.3%**
Customer Deposits	283.7	276.4	(2.6%)
Deposits per Branch	7.9	8.6	9.6%
Total Liabilities	**304.5**	**313.2**	**2.8%**
Shareholder's Funds	**57.1**	**64.1**	**12.2%**

Balance Sheet Ratios	H1'2023	H1'2024	% points change
Loan to deposit ratio	51.3%	54.0%	2.7%
Government securities to deposit ratio	24.9%	25.9%	1.0%
Return on Average Equity	23.9%	28.4%	4.5%
Return on Average Assets	3.7%	4.7%	0.9%

Income Statement	H1'2023	H1'2024	y/y change
Net Interest Income	13.9	16.5	19.3%
Net non-Interest Income	7.0	9.6	36.1%
Total Operating income	**20.9**	**26.1**	**24.9%**
Loan Loss provision	2.0	1.6	(23.3%)
Total Operating expenses	**11.2**	**11.6**	**3.1%**
Profit before tax	9.6	14.5	50.4%
Profit after tax	**6.9**	**10.3**	**48.9%**
Core EPS (Kshs)	**18.3**	**27.2**	**48.9%**
DPS (Kshs)	**-**	**8.0**	
Dividend Payout Ratio	**-**	**29.4%**	
Dividend Yield (Annualized)	**-**	**3.8%**	

Income Statement Ratios	H1'2023	H1'2024	% points change
Yield from interest-earning assets	9.1%	10.8%	1.7%
Cost of funding	1.1%	1.5%	0.4%
Net Interest Spread	7.9%	9.3%	1.3%
Net Interest Margin	8.0%	9.5%	1.4%
Cost of Risk	9.7%	6.0%	(3.8%)
Net Interest Income as % of operating income	66.3%	63.3%	(3.0%)
Non-Funded Income as a % of operating income	33.7%	36.7%	3.0%
Cost to Income Ratio	53.8%	44.4%	(9.4%)
Cost to Income Ratio without LLP	44.1%	38.4%	(5.6%)

Capital Adequacy Ratios	H1'2023	H1'2024	% points change
Core Capital/Total Liabilities	17.0%	19.7%	2.7%
Minimum Statutory ratio	8.0%	8.0%	0.0%
Excess	**9.0%**	**11.7%**	**2.7%**
Core Capital/Total Risk Weighted Assets	16.9%	18.8%	1.9%
Minimum Statutory ratio	10.5%	10.5%	0.0%
Excess	**6.4%**	**8.3%**	**1.9%**
Total Capital/Total Risk Weighted Assets	17.3%	18.9%	1.6%
Minimum Statutory ratio	14.5%	14.5%	0.0%
Excess	**2.8%**	**4.4%**	**1.6%**
Liquidity Ratio	62.8%	63.2%	0.3%
Minimum Statutory ratio	20.0%	20.0%	0.0%
Excess	**42.8%**	**43.2%**	**0.3%**

Income Statement

- Core earnings per share increased by 48.9% to Kshs 27.2, from Kshs 18.3 in H1’2023, mainly driven by the 24.9% increase in total operating income to Kshs 26.1 bn, from Kshs 20.9bn in H1’2023 which outpaced the 3.1% increase in total operating expenses to Kshs 11.6 bn, from Kshs 11.2 bn in H1’2023,
- The 24.9% growth in total operating income was mainly driven by a 19.3% growth in Net Interest Income to Kshs 16.5 bn, from Kshs 13.9 bn in H1’2023, coupled with a 36.1% growth in Non funded Income (NFI) to Kshs 9.6 bn, from Kshs 7.0 bn in H1’2023,
- Interest income grew by 25.1% to Kshs 19.2 bn from Kshs 15.4 bn in H1’2023, mainly driven by a 43.4% growth in interest income from loans and advances to Kshs 11.5 bn, from Kshs 8.0 bn in H1’2023 coupled with a 36.5% increase in interest income from deposits and placements to Kshs 3.5bn from Kshs 2.5 bn in H1’2023. The growth in interest income was however weighed down by a 11.4% decrease in interest income from holdings in government securities to Kshs 4.3 bn, from Kshs 4.8 bn in H1’2023. Similarly, the Yield on Interest-Earning Assets (YIEA) increased by 1.7% points to 10.8% from 9.1% recorded in H1’2023, mainly attributable to the faster 23.5% growth in trailing interest income to Kshs 36.2 bn, from Kshs 29.3 bn in H1’2023 compared to the 4.0% increase in average interest earning assets to Kshs 336.8 bn, from Kshs 323.8 bn in H1’2023,
- Interest expenses rose by 78.4% to Kshs 2.7 bn, from Kshs 1.5 bn in H1’2023, driven by 89.8% increase in interest expense from customer deposits to Kshs 2.2 bn, from Kshs 1.2 bn in H1’2023, coupled with a 47.8% increase in interest expense from placements to Kshs 0.2 bn in H1’2024, from Kshs 0.1 bn recorded in H1’2023. Consequently, Cost of funds (COF) increased by 0.4% points to 1.5%, from 1.1% recorded in H1’2023, owing to a faster 29.3% increase in Trailing interest expense to Kshs 4.2 bn, from Kshs 3.3bn in H1’2023, compared to the 1.8% decrease in average interest bearing liabilities to Kshs 282.0 bn from Kshs 287.1 bn in H1’2023. Trailing interest expense refers to the performance of the interest expense for the past 12 consecutive months. Net Interest Margin (NIM) increased by 1.4% points to 9.5% from 8.0% in H1’2023, attributable to the 22.8% growth in trailing net interest income to Kshs 32.0 bn, from Kshs 26.1 bn recorded in H1’2023, which outpaced the 4.0% increase in average interest earning assets to Kshs 336.8 bn, from Kshs 323.8 bn in H1’2023,
- Non-Funded Income (NFI) increased by 36.1% to Kshs 9.6 bn from Kshs 7.0 bn in H1’2023, mainly driven by a 20.9% increase in income from total fees and commissions to Kshs 3.4 bn from Kshs 2.8 bn in H1’2023. The growth in NFI was as well anchored by the 10.3% increase in the foreign exchange trading income to 4.9 bn from 4.5 bn in H1’2023, highlighting the bank’s improved foreign exchange margins. The revenue mix shifted to 63:37 from 66:34 in H1’2023 for the funded to Non-funded income owing to the 36.1% growth in Non Funded Income faster than the 19.3% growth in the Funded Income,
- Total operating expenses increased by 3.1% to Kshs 11.6 bn from Kshs 11.2 bn in H1’2023, driven by the 14.8% increase in staff costs to Kshs 4.7 bn from Kshs 4.1 bn in H1’2023, coupled with a 4.3% increase in other operating expenses to Kshs 5.4 bn from Kshs 5.1 bn in H1’2023. The growth in total operating expenses was however weighed down by the 23.3% decrease in loan loss provisions to Kshs 1.6 bn, from Kshs 2.0 bn in H1’2023. The decrease in provisioning is atributable to the 42.9% decrease in gross non-performing loans to Kshs 13.6 bn, from Kshs 23.8 bn in H1’2023,
- Cost to Income Ratio (CIR) decreased by 9.4% points to 44.4% from 53.8% in H1’2023, owing to the 24.9% increase in total operating income, which outpaced the 3.1% increase in total operating expenses. Similarly, CIR without LLP decreased by 5.6% points to 38.4% from 44.1% recorded in H1’2023, and,
- Profit before tax increased by 50.4% to Kshs 14.5 bn from Kshs 9.6 bn in H1’2023, with effective tax rate decreasing to 29.0% in H1’2024 from 28.4% in H1’2023. As such, profit after tax increased by 48.9% to Kshs 10.3 bn, from kshs 6.9 bn in H1’2023.

Balance Sheet

- The balance sheet recorded an expansion as total assets grew by 4.3% to Kshs 377.3 bn, from Kshs 361.5 bn in H1'2023, driven by a 2.7% increase in net loans and advances to Kshs 149.3 bn from Kshs 145.4 bn in H1'2023, coupled with a 1.3% increase in investments ingovernment securities to Kshs 71.6 bn, from Kshs 70.7 bn in H1'2023,
- Total liabilities grew by 2.8% to Kshs 313.2 bn from Kshs 304.5 bn in H1'2023. This growth was weighed down by driven by a 81.0% decrease in placements to Kshs 0.6 bn, from Kshs 3.3 bn in H1'2023, coupled with the 2.6% growth in customer deposits to Kshs 276.4 bn, from Kshs 283.7 bn in H1'2023.
- The loan to deposits ratio increased to 54.0%, from 51.3% in H1'2023 attributable to the 2.6% decline in customer deposits as compared to the 2.7% growth in net loans,
- The bank's Asset Quality improved, with Gross NPL ratio decreasing to 8.4% in H1'2024, from 14.4% in H1'2023, attributable to the 42.9% decrease in gross non-performing loans to Kshs 13.6 bn, from Kshs 23.8 bn in H1'2023, relative to the slower 2.9% decrease in gross loans to Kshs 160.9 bn, from Kshs 165.6 bn recorded in H1'2023,
- General Provisions (LLP) decreased by 37.2% to Kshs 6.6 bn in H1'2024 from Kshs 10.5 bn in H1'2023. The NPL coverage increased to 85.1% in H1'2024, from 84.8% in H1'2023, attributable to the slower 37.2% decline in general provisions to Kshs 6.6 bn, from Kshs 10.5 bn in H1'2023, compared to the 41.2% decrease in gross non-performing loans to Kshs 13.6 bn from Kshs 23.8 bn recorded in H1'2023,
- Shareholders' funds increased by 12.2% to Kshs 64.1 bn in H1'2024, from Kshs 57.1 bn in H1'2023, supported by a 8.8% increase in retained earnings to Kshs 48.0 bn, from Kshs 44.1 bn in H1'2023,
- Standard Charteted Bank Kenya Ltd remained capitalized with a core capital to risk-weighted assets ratio of 18.8%, 8.3% points above the statutory requirement of 10.5%. In addition, the total capital to risk-weighted assets ratio came in at 18.9% exceeding the statutory requirement of 14.5% by 4.4% points, and,
- The bank currently has a Return on Average Assets (ROaA) of 4.7%, and a Return on Average Equity (ROaE) of 28.4%.

Key Take-Outs:

1. **Strong earnings growth -** Core earnings per share (EPS) grew by 48.9% to Kshs 27.2, from Kshs 18.3 in H1'2023, driven by the 24.9% growth in total operating income to Kshs 26.1 bn, from Kshs 20.9 bn in H1'2023,
2. **Improved asset quality –** The bank's gross NPL ratio decreased to 8.4% in H1'2023 from 14.4% in H1'2023, attributable to 42.9% decrease in Gross non-performing loans to Kshs 13.6 bn, from Kshs 23.8 bn in H1'2023, compared to the 2.9% increase in gross loans to Kshs 160.9 bn, from Kshs 165.6bn recorded in H1'2023,
3. **Improved Lending –** The bank's loan book increased by 2.7% to kshs 149.3 bn, from Kshs 145.4 bn in H1'2023, compared to the 1.3% increase in government securities to Kshs 71.6 bn, from Kshs 70.7 bn in H1'2023, highlighting the bank's strategy to increase lending through digital transformation, while at the same time managing its non performing loan book, and,
4. **Declaration of dividends –** The Board of Directors declared an interim dividend of Kshs 8.0 per share for H1'2024, compared to H1'2023 where the lender did not declare any dividends. This translates to a dividend payout ratio of 29.4% and an annualized dividend yield of 3.8% as of 23rd August 2024.

Going forward, the factors that would drive the bank's growth would be:

- **Continued Digital Transformation -** The lender has leveraged digital innovation to enhance service delivery, enabling customers to invest in various funds such as offshore mutual funds, government securities, and local money market funds, as well as to access digital loans. This digital shift has significantly contributed to the lender's financial performance. The convenience and speed offered by digital banking services have made it easier for customers to manage their finances and access financial products, leading to higher customer satisfaction and loyalty. Consequently, the lender's adoption of digital solutions has positioned it as a competitive player in the financial market, driving growth and expanding its market share**.**

Valuation Summary

- We are of the view that Standard Chartered Bank is a "Buy" with a target price of Kshs 243.1 representing an upside of 25.8%, from the current price of Kshs 209.3 as of 23rd August 2024, inclusive of a dividend yield of 3.8%
- Standard Chartered Bank Kenya is currently trading at a P/TBV of 1.2x and a P/E of 5.1x vs an industry average of 0.8x and 3.7x respectively.