Cytonn INVESTMENTS

Standard Chartered Bank Kenya Ltd– H1'2025
22nd August, 2025

Below is a summary of Standard Chartered Bank Ltd H1'2025 performance:

Balance Sheet Items	H1'2024	H1'2025	y/y change
Net loans	149.3	152.2	1.9%
Government Securities	71.6	108.2	51.1%
Total Assets	**377.3**	**372.1**	**(1.4%)**
Customer Deposits	276.4	290.6	5.1%
Deposits per Branch	7.7	9.1	18.3%
Total Liabilities	**313.2**	**306.5**	**(2.1%)**
Shareholder's Funds	**64.1**	**65.6**	**2.3%**

Balance Sheet Ratios	H1'2024	H1'2025	% points change
Loan to deposit ratio	54.0%	52.4%	(1.6%)
Government securities to deposit ratio	25.9%	37.2%	11.3%
Return on Average Equity	28.4%	27.5%	(0.9%)
Return on Average Assets	4.7%	4.8%	0.1%

Income Statement	H1'2024	H1'2025	y/y change
Net Interest Income	16.5	15.3	(7.4%)
Net non-Interest Income	9.6	6.8	(29.1%)
Total Operating income	**26.1**	**22.1**	**(15.3%)**
Loan Loss provision	1.6	1.2	(24.6%)
Total Operating expenses	**11.6**	**11.2**	**(3.4%)**
Profit before tax	14.5	10.9	(24.8%)
Profit after tax	**10.3**	**8.1**	**(21.4%)**
Core EPS	**27.2**	**21.4**	**(21.4%)**
Dividend per share	**8.0**	**8.0**	**0.0%**
Dividend Yield (Annualized)	**22.6%**	**16.8%**	**(25.6%)**
Dividend Payout Ratio	**29.4%**	**37.4%**	**27.2%**

Income Statement Ratios	H1'2024	H1'2025	% points change
Yield from interest-earning assets	10.8%	10.8%	0.1%
Cost of funding	1.5%	1.7%	0.2%
Net Interest Spread	9.3%	9.2%	(0.1%)
Net Interest Margin	9.5%	9.4%	(0.1%)
Cost of Risk	6.0%	5.3%	(0.7%)
Net Interest Income as % of operating income	63.3%	69.3%	5.9%
Non-Funded Income as a % of operating income	36.7%	30.7%	(5.9%)
Cost to Income Ratio	44.4%	50.6%	6.2%
Cost to Income Ratio without LLP	38.4%	45.3%	6.9%

Capital Adequacy Ratios	H1'2024	H1'2025	% points change
Core Capital/Total Liabilities	19.7%	19.4%	(0.4%)
Minimum Statutory ratio	8.0%	8.0%	0.0%
Excess	**11.7%**	**11.4%**	(0.4%)
Core Capital/Total Risk Weighted Assets	18.8%	19.5%	0.7%
Minimum Statutory ratio	10.5%	10.5%	0.0%
Excess	**8.3%**	**9.0%**	**0.7%**
Total Capital/Total Risk Weighted Assets	18.9%	19.7%	0.8%
Minimum Statutory ratio	14.5%	14.5%	0.0%
Excess	**4.4%**	**5.2%**	**0.8%**
Liquidity Ratio	63.2%	64.5%	1.3%

Minimum Statutory ratio	20.0%	20.0%	0.0%
Excess	**43.2%**	**44.5%**	**1.3%**

Income Statement

- Core earnings per share decreased by 21.4% to Kshs 21.4 in H1’ 2025, from Kshs 27.2 in H1’2024, mainly driven by the 15.3% decrease in total operating income to Kshs 22.1 bn in H1’ 2025 , from Kshs 26.1 bn in H1’2024. The performance was however supported by the 3.4% decrease in total operating expenses to Kshs 11.2 bn in H1’2025, from Kshs 11.6 bn in H1’2024,
- The 15.3% decline in total operating income was mainly driven by a 29.1% decrease in Non Interest Income to Kshs 6.8 bn in H1’ 2025, from Kshs 9.6 bn in H1’2024, coupled with a 7.4% decrease in Net Interest Income (NII) to Kshs 15.3 bn in H1’2025, from Kshs 16.5 bn in H1’2024,
- Interest income declined by 10.5% to Kshs 17.2 bn in H1’ 2025 from Kshs 19.2 bn in H1’2024, mainly driven by a 49.5% decrease in interest income from deposits and placements to Kshs 1.8 bn in H1’ 2025, from Kshs 3.5 bn in H1’2024 coupled with a 18.2% decrease in interest income from loans and advances to Kshs 9.4 bn in H1’ 2025 from Kshs 11.5 bn in H1’2024. The decline in interest income was however supported by a 42.0% increase in interest income from holdings in government securities to Kshs 6.1 bn in H1’ 2025, from Kshs 4.3 bn in H1’2024. The Yield on Interest-Earning Assets (YIEA) increased by marginally by 0.1% points to remain unchanged at 10.8% recorded in H1’2024, mainly attributable to the faster 1.6% increase in trailing interest income to Kshs 36.8 bn in H1’ 2025, from Kshs 36.2 bn in H1’2024 compared to the 0.9% increase in average interest earning assets to Kshs 339.9 bn in H1’ 2025, from Kshs 336.8 bn in H1’2024,
- Interest expenses fell by 29.4% to Kshs 1.9 bn in H1’ 2025, from Kshs 2.7 bn in H1’2024, driven by 19.4% decrease in interest expense from customer deposits to Kshs 1.8 bn in H1’ 2025, from Kshs 2.2 bn in H1’2024, coupled with a 37.5% decrease in interest expense from placements to Kshs 0.1 bn in H1’2025, from Kshs 0.2 bn recorded in H1’2024. Cost of funds (COF) increased by 0.2% points to 1.7% in H1’ 2025, from 1.5% recorded in H1’2024, owing to a faster 12.7% increase in Trailing interest expense to Kshs 4.8 bn in H1’2025, from Kshs 4.2 bn in H1’2024, compared to the 0.7% increase in average interest bearing liabilities to Kshs 284.0 bn in H1’ 2025 from Kshs 282.0 bn in H1’2024. Trailing interest expense refers to the performance of the interest expense for the past 12 consecutive months. Net Interest Margin (NIM) decreased by 0.1% points to 9.4% in H1’ 2025, from 9.5% in H1’2024, attributable to the 0.9% increase in average interest earning assets to Kshs 339.9 bn in H1’ 2025 from Kshs 336.8 bn in H1’ 2024 which outpaced the 0.2% increase in trailing net interest income to Kshs 32.0 bn in H1’ 2025 from Kshs 32.0 bn in H1’ 2024.
- Non-Funded Income (NFI) decreased by 29.1% to Kshs 6.8 bn in H1’2025 from Kshs 9.6 bn in H1’2024, mainly driven by a 59.5% decrease in the foreign exchange trading income to Kshs 2.0 bn in H1’ 2025 from Kshs 4.9 bn in H1’2024, highlighting the bank’s declined foreign exchange margins. The decline in NFI was further weighed down by the 2.0% decrease in the income from other fees and commissions to Kshs 3.2 bn from Kshs 3.3 bn in H1’2024, coupled with 1.9% decrease in the income from fees and commissions to remain relatively unchanged from 0.1 bn in H1’2024.
- Total operating expenses decreased by 3.4% to Kshs 11.2 bn in H1’ 2025 from Kshs 11.6 bn in H1’2024, driven by the 24.6% decrease in loan loss provisions to Kshs 1.2 bn in H1’ 2025 from Kshs 1.6 bn in H1’2024, coupled with a 5.2% decrease in staff costs to Kshs 4.4 bn in H1’ 2025 from Kshs 4.7 bn in H1’2024. The decrease in provisioning comes as a result of the 29.4% decrease in gross non-performing loans to Kshs 9.6 bn in H1’ 2025, from Kshs 13.6 bn in H1’2024,
- Cost to Income Ratio (CIR) increased by 6.2% points to 50.6% in H1’2025 from 44.4% in H1’2024, owing to the 15.3% decrease in total operating income, which outpaced the 3.4% decrease in total operating expenses. Similarly, CIR without LLP increased by 6.9% points to 45.3% in H1’2025 from 38.4% recorded in H1’2024, and,
- Profit before tax decreased by 24.8% to Kshs 10.9 bn in H1’2025 from Kshs 14.5 bn in H1’2024, with effective tax rate decreasing at a slower 11.1% to 25.8% in H1’2025 from 29.0% in H1’2024. As such, profit after tax decreased by 21.4% to Kshs 8.1 bn in H1’ 2025, from kshs 10.3 bn in H1’2024.

Balance Sheet

- The balance sheet recorded a contraction as total assets declined by 1.4% to Kshs 372.1 bn, from Kshs 377.3 bn in H1’2024, driven by a 36.2% decrease in placements to Kshs 75.1 bn in H1’ 2025 from Kshs 117.8 bn in H1’2024, but was supported by a 1.9% decrease in net loans to Kshs 152.2 bn, from Kshs 149.3 bn in H1’2024,
- Total liabilities declined by 2.1% to Kshs 306.5 bn from Kshs 313.2 bn in H1’2024. This decline was by driven by a 33.3% decrease in placements to Kshs 0.4 bn, from Kshs 0.6 bn in H1’2024,
- The loan to deposits ratio decreased 1.6% points to 52.4% in H1’ 2025 from 54.0% in H1’ 2024 attributable to the faster increase in customer deposits by 5.1% to Kshs 290.6 bn in H1’ 2025 from Kshs 276.4 bn than 1.9% increase in Net loans to Kshs 152.2 bn in H1’ 2025 from Kshs 149.3 bn in H1’ 2024.
- The bank’s Asset Quality improved, with Gross NPL ratio decreasing to 6.0% in H1’2025, from 8.4% in H1’2024, attributable to the 29.4% decrease in gross non-performing loans to Kshs 9.6 bn, from Kshs 13.6 bn in H1’2024, relative to the slower 0.5% decrease in gross loans to Kshs 160.0 bn, from Kshs 160.9 bn recorded in H1’2024,
- General Provisions (LLP) decreased by 36.9% to Kshs 4.2 bn in H1’2025 from Kshs 6.6 bn in H1’2024. The NPL coverage decreased to 81.4% in H1’2025, from 85.1% in H1’2024, attributable to the faster 36.4% decline in general provisions to Kshs 4.2 bn, from Kshs 6.6 bn in H1’2024, compared to the 29.4% decrease in gross non-performing loans to Kshs 9.6 bn from Kshs 13.6 bn recorded in H1’2024,
- Shareholders’ funds increased by 2.3% to Kshs 65.6 bn in H1’2025, from Kshs 64.1 bn in H1’2024, supported by a 0.8% increase in retained earnings to Kshs 48.4 bn, from Kshs 48.0 bn in H1’2024,
- Standard Charteted Bank Kenya Ltd remained capitalized with a core capital to risk-weighted assets ratio of 19.5%, 9.0% points above the statutory requirement of 10.5%. In addition, the total capital to risk-weighted assets ratio came in at 19.7% exceeding the statutory requirement of 14.5% by 5.2% points, and,
- The bank currently has a Return on Average Assets (ROaA) of 4.8%, and a Return on Average Equity (ROaE) of 27.5%.

Key Take-Outs:

1. **Declined earnings growth -** Core earnings per share decreased by 21.4% to Kshs 21.4 in H1’ 2025, from Kshs 27.2 in H1’2024, mainly driven by the 15.3% decrease in total operating income to Kshs 22.1 bn in H1’ 2025 , from Kshs 26.1 bn in H1’2024. The performance was however supported by the 3.4% decrease in total operating expenses to Kshs 11.2 bn in H1’2025, from Kshs 11.6 bn in H1’2024
2. **Improved asset quality –** The bank’s Asset Quality improved, with Gross NPL ratio decreasing to 6.0% in H1’2025, from 8.4% in H1’2024, attributable to the 29.4% decrease in gross non-performing loans to Kshs 9.6 bn, from Kshs 13.6 bn in H1’2024, relative to the slower 0.5% decrease in gross loans to Kshs 160.0 bn, from Kshs 160.9 bn recorded in H1’2024, and,
3. **Increased Lending –** The bank’s loan book increased by 1.9% to Kshs 152.2 bn from Kshs 149.3 bn in H1’2024,.
4. **Declaration of dividends-** The board of directors declared and interin dividend of Kshs 8.0 per share for the period consistent with H1’2024. This translates to an annualized dividend yield of 16.8% and a dividend payout ratio of 37.4%

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

- **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 393.4 representing an upside of 27.2%, from the current price of Kshs 315.3 as of 22nd August 2025, inclusive of a dividend yield of 2.5%.
- Standard Chartered Bank Kenya is currently trading at a P/TBV of 2.0x and a P/E of 8.6x vs an industry average of 1.0x and 4.5x respectively.