Standard Chartered Bank Kenya Ltd– Q3'2024

22nd November, 2024

Below is a summary of Standard Chartered Bank Ltd Q3'2024 performance:

Balance Sheet Items	Q3'2023	Q3'2024	y/y change
Net loans	143.6	151.3	5.4%
Government Securities	55.6	68.1	22.4%
Total Assets	**369.7**	**370.9**	**0.3%**
Customer Deposits	298.8	284.4	(4.8%)
Deposits per Branch	8.3	8.9	7.1%
Total Liabilities	**310.0**	**304.4**	**(1.8%)**
Shareholder's Funds	**59.7**	**66.5**	**11.4%**

Balance Sheet Ratios	Q3'2023	Q3'2024	% points change
Loan to deposit ratio	48.0%	53.2%	5.1%
Government securities to deposit ratio	18.6%	23.9%	5.3%
Return on Average Equity	22.7%	31.6%	8.9%
Return on Average Assets	3.6%	5.4%	1.8%

Income Statement	Q3'2023	Q3'2024	y/y change
Net Interest Income	21.2	24.8	17.0%
Net non-Interest Income	8.2	14.2	73.5%
Total Operating income	**29.4**	**39.1**	**32.7%**
Loan Loss provision	1.8	2.0	7.4%
Total Operating expenses	**15.8**	**16.6**	**5.4%**
Profit before tax	13.7	22.5	64.3%
Profit after tax	**9.7**	**15.8**	**62.7%**
Core EPS (Kshs)	**25.8**	**41.9**	**62.7%**
Dividend Per Share (Kshs)	**6.0**	**8.0**	**33.3%**
Dividend Payout Ratio	**23.3%**	**19.1%**	**(18.1%)**
Annualized Dividend Yield	**15.0%**	**13.3%**	**(11.4%)**

Income Statement Ratios	Q3'2023	Q3'2024	% points change
Yield from interest-earning assets	9.4%	11.8%	2.4%
Cost of funding	1.0%	1.7%	0.7%
Net Interest Spread	8.4%	10.1%	1.7%
Net Interest Margin	8.5%	10.2%	1.7%
Cost of Risk	6.2%	5.0%	(1.2%)
Net Interest Income as % of operating income	72.1%	63.6%	(8.6%)
Non-Funded Income as a % of operating income	27.9%	36.4%	8.6%
Cost to Income Ratio	53.5%	42.5%	(11.0%)
Cost to Income Ratio without LLP	47.3%	37.5%	(9.9%)

Capital Adequacy Ratios	Q3'2023	Q3'2024	% points change
Core Capital/Total Liabilities	15.7%	20.2%	4.5%
Minimum Statutory ratio	8.0%	8.0%	
Excess	**7.7%**	**12.2%**	4.5%
Core Capital/Total Risk Weighted Assets	17.1%	20.9%	3.9%
Minimum Statutory ratio	10.5%	10.5%	
Excess	**6.6%**	**10.4%**	**3.9%**
Total Capital/Total Risk Weighted Assets	17.8%	21.0%	3.2%
Minimum Statutory ratio	14.5%	14.5%	
Excess	**3.3%**	**6.5%**	**3.2%**
Liquidity Ratio	66.7%	65.4%	(1.3%)
Minimum Statutory ratio	20.0%	20.0%	
Excess	**46.7%**	**45.4%**	**(1.3%)**

Income Statement

- Core earnings per share increased by 62.7% to Kshs 41.9, from Kshs 25.8 in Q3'2023, mainly driven by the 32.7% increase in total operating income to Kshs 39.1 bn, from Kshs 29.4 bn in Q3'2023 which outpaced the 5.4% increase in total operating expenses to Kshs 16.6 bn, from Kshs 15.8 bn in Q3'2023,
- The 32.7% growth in total operating income was mainly driven by a 17.0% growth in Net Interest Income to Kshs 24.8 bn, from Kshs 21.2 bn in Q3'2023, coupled with a 73.5% growth in Non funded Income (NFI) to Kshs 14.2 bn, from Kshs 8.2 bn in Q3'2023,
- Interest income grew by 24.0% to Kshs 29.1 bn from Kshs 23.4 bn in Q3'2023, mainly driven by a 34.5% growth in interest income from loans and advances to Kshs 17.3 bn, from Kshs 12.9 bn in Q3'2023 coupled with a 24.8% increase in interest income from deposits and placements to Kshs 5.1 bn from Kshs 4.0 bn in Q3'2023. The growth in interest income was driven further by a 2.7% increase in interest income from holdings in government securities to Kshs 6.7 bn, from Kshs 6.5 bn in Q3'2023. Similarly, the Yield on Interest-Earning Assets (YIEA) increased by 2.4% points to 11.8% from 9.4% recorded in Q3'2023, mainly attributable to the faster 23.8% growth in trailing interest income to Kshs 38.0 bn, from Kshs 30.7 bn in Q3'2023 compared to the 1.3% decrease in average interest earning assets to Kshs 322.3 bn, from Kshs 326.4 bn in Q3'2023,
- Interest expenses rose by 91.7% to Kshs 4.2 bn, from Kshs 2.2 bn in Q3'2023, driven by 80.9% increase in interest expense from customer deposits to Kshs 3.3 bn, from Kshs 1.8 bn in Q3'2023, coupled with a 98.1% increase in interest expense from placements to Kshs 0.3 bn in Q3'2024, from Kshs 0.1 bn recorded in Q3'2023. Consequently, Cost of funds (COF) increased by 0.7% points to 1.7%, from 1.0% recorded in Q3'2023, owing to a faster 67.7% increase in Trailing interest expense to Kshs 5.0 bn, from Kshs 3.0 bn in Q3'2023, compared to the 0.3% decrease in average interest bearing liabilities to Kshs 292.0 bn from Kshs 292.9 bn in Q3'2023. Trailing interest expense refers to the performance of the interest expense for the past 12 consecutive months. Net Interest Margin (NIM) increased by 1.7% points to 10.2% from 8.5% in Q3'2023, attributable to the 19.0% growth in trailing net interest income to Kshs 32.9 bn, from Kshs 27.7 bn recorded in Q3'2023, which outpaced the 1.3% decrease in average interest earning assets to Kshs 322.3 bn, from Kshs 326.4 bn in Q3'2023,
- Non-Funded Income (NFI) increased by 73.5% to Kshs 14.2 bn from Kshs 8.2 bn in Q3'2023, mainly driven by a 34.7% increase in income from other fees and commissions to Kshs 5.3 bn from Kshs 3.9 bn in Q3'2023, coupled with 6.2% increase in the foreign exchange trading income to 6.7 bn from 46.7 bn in Q3'2023, highlighting the bank's improved foreign exchange margins. The growth in NFI was however weighed down by the 32.5% decrease in the income from fees and commissions to 0.2 bn from 0.3 bn in Q3'2023. The revenue mix shifted to 64:36 from 7228 in Q3'2023 for the funded to Non-funded income owing to the 73.5% growth in Non Funded Income faster than the 17.0% growth in the Funded Income,
- Total operating expenses increased by 5.4% to Kshs 16.6 bn from Kshs 15.8 bn in Q3'2023, driven by the 11.1% increase in staff costs to Kshs 4.7 bn from Kshs 4.1 bn in Q3'2023, coupled with a 4.3% increase in other operating expenses to Kshs 6.9 bn from Kshs 6.2 bn in Q3'2023. The growth in total operating expenses was further supported by the 7.4% increase in loan loss provisions to Kshs 2.0 bn, from Kshs 1.8 bn in Q3'2023. The increase in provisioning comes despit the 48.4% decrease in gross non-performing loans to Kshs 12.1 bn, from Kshs 23.6 bn in Q3'2023,
- Cost to Income Ratio (CIR) decreased by 11.0% points to 42.5% from 53.5% in Q3'2023, owing to the 32.7% increase in total operating income, which outpaced the 5.4% increase in total operating expenses. Similarly, CIR without LLP decreased by 9.9% points to 37.5% from 47.3% recorded in Q3'2023, and,
- Profit before tax increased by 64.3% to Kshs 22.5 bn from Kshs 13.7 bn in Q3'2023, with effective tax rate increasing to 29.5% in Q3'2024 from 28.8% in Q3'2023. As such, profit after tax increased by 62.7% to Kshs 15.8 bn, from kshs 9.7 bn in Q3'2023.

Balance Sheet

- The balance sheet recorded an expansion as total assets grew marginally by 0.3% to Kshs 370.9 bn, from Kshs 369.7 bn in Q3’2023, driven by a 5.4% increase in net loans and advances to Kshs 151.3 bn from Kshs 143.6 bn in Q3’2023, coupled with a 22.4% increase in investments in government securities to Kshs 68.1 bn, from Kshs 55.6 bn in Q3’2023,
- Total liabilities declined by 1.8% to Kshs 304.4 bn from Kshs 310.0 bn in Q3’2023. This growth was by driven by a 4.8% decrease in customer deposits to Kshs 284.4 bn, from Kshs 298.8 bn in Q3’2023, but however supported by the 19.4% growth in placements to Kshs 0.4 bn, from Kshs 0.3 bn in Q3’2023.
- The loan to deposits ratio increased to 53.2%, from 48.0% in Q3’2023 attributable to the 4.8% decline in customer deposits as compared to the 5.4% growth in net loans,
- The bank’s Asset Quality improved, with Gross NPL ratio decreasing to 7.5% in Q3’2024, from 14.4% in Q3’2023, attributable to the 48.4% decrease in gross non-performing loans to Kshs 12.1 bn, from Kshs 23.6 bn in Q3’2023, relative to the slower 0.9% decrease in gross loans to Kshs 161.6 bn, from Kshs 163.1 bn recorded in Q3’2023,
- General Provisions (LLP) decreased by 41.6% to Kshs 5.9 bn in Q3’2024 from Kshs 10.2 bn in Q3’2023. The NPL coverage increased to 85.3% in Q3’2024, from 83.0% in Q3’2023, attributable to the slower 41.6% decline in general provisions to Kshs 5.9 bn, from Kshs 10.2 bn in Q3’2023, compared to the 48.4% decrease in gross non-performing loans to Kshs 12.1 bn from Kshs 23.6 bn recorded in Q3’2023,
- Shareholders’ funds increased by 11.4% to Kshs 66.5 bn in Q3’2024, from Kshs 59.7 bn in Q3’2023, supported by a 22.8% increase in retained earnings to Kshs 53.6 bn, from Kshs 43.6 bn in Q3’2023,
- Standard Charteted Bank Kenya Ltd remained capitalized with a core capital to risk-weighted assets ratio of 20.9%, 10.4% points above the statutory requirement of 10.5%. In addition, the total capital to risk-weighted assets ratio came in at 21.0% exceeding the statutory requirement of 14.5% by 6.5% points, and,
- The bank currently has a Return on Average Assets (ROaA) of 5.4%, and a Return on Average Equity (ROaE) of 31.4%.

Key Take-Outs:

1. **Strong earnings growth -** Core earnings per share increased by 62.7% to Kshs 41.9, from Kshs 25.8 in Q3’2023, mainly driven by the 32.7% increase in total operating income to Kshs 39.1 bn, from Kshs 29.4 bn in Q3’2023 which outpaced the 5.4% increase in total operating expenses to Kshs 16.6 bn, from Kshs 15.8 bn in Q3’2023,
2. **Improved asset quality –** The bank’s Asset Quality improved, with Gross NPL ratio decreasing to 7.5% in Q3’2024, from 14.4% in Q3’2023, attributable to the 48.4% decrease in gross non-performing loans to Kshs 12.1 bn, from Kshs 23.6 bn in Q3’2023, relative to the slower 0.9% decrease in gross loans to Kshs 161.6 bn, from Kshs 163.1 bn recorded in Q3’2023,
3. **Improved Lending –** The bank’s loan book increased by 5.4% to kshs 151.3 bn, from Kshs 143.6 bn in Q3’2023, 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 Q3’2024, compared to Kshs 6.0 per share Q3’2023. This translates to a dividend payout ratio of 19.1% and an annualized dividend yield of 13.3% as of 22nd November 2024, compared to to a dividend payout ratio of 23.3% and an annualized dividend yield of 15.0% in a similar period in 2023.

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 259.9 representing an upside of 20.9%, from the current price of Kshs 241.5 as of 22nd November 2024, inclusive of an annualized dividend yield of 13.3%
- Standard Chartered Bank Kenya is currently trading at a P/TBV of 1.3x and a P/E of 6.6x vs an industry average of 0.9x and 4.2x respectively.