Standard Chartered Bank Kenya – FY'2022
19th May, 2023

Below is a summary of Standard Chartered Bank Kenya Q1'2023 performance:

Balance Sheet Items	Q1'2022	Q1'2023	y/y change
Net loans	128.1	137.1	7.0%
Government Securities	101.4	95.1	(6.2%)
Total Assets	**340.9**	**388.6**	**14.0%**
Customer Deposits	265.4	302.9	14.2%
Deposits per Branch	7.4	9.5	28.4%
Total Liabilities	**285.3**	**328.3**	**15.1%**
Shareholder's Funds	**55.6**	**60.4**	**8.6%**

Balance Sheet Ratios	Q1'2022	Q1'2023	y/y change
Loan to deposit ratio	48.3%	45.3%	(3.0%)
Return on Average Equity	17.4%	23.0%	5.6%
Return on Average Assets	2.8%	3.7%	0.9%

Income Statement	Q1'2022	Q1'2023	y/y change
Net Interest Income	4.9	6.9	40.1%
Net non-Interest Income	2.5	3.9	55.5%
Total Operating income	**7.4**	**10.8**	**45.2%**
Loan Loss provision	0.1	0.8	819.6%
Total Operating expenses	**3.5**	**5.1**	**47.2%**
Profit before tax	3.9	5.6	43.6%
Profit after tax	**2.8**	**4.0**	**45.7%**
Core EPS	**7.3**	**10.7**	**45.7%**

Income Statement Ratios	Q1'2022	Q1'2023	y/y change
Yield from interest-earning assets	7.4%	8.3%	0.9%
Cost of funding	1.2%	1.1%	(0.1%)
Net Interest Spread	6.2%	7.1%	0.9%
Net Interest Margin	6.3%	7.3%	1.0%
Cost of Risk	1.2%	7.3%	6.1%
Net Interest Income as % of operating income	66.4%	64.1%	(2.3%)
Non-Funded Income as a % of operating income	33.6%	35.9%	2.3%
Cost to Income Ratio	47.0%	47.6%	0.6%
Cost to Income Ratio without LLP	45.8%	40.3%	(5.5%)
Cost to Assets	1.0%	1.2%	0.2%

Capital Adequacy Ratios	Q1'2022	Q1'2023	% Change
Core Capital/Total Liabilities	15.6%	15.1%	(0.5%)
Minimum Statutory ratio	8.0%	8.0%	
Excess	**7.6%**	**7.1%**	**(0.5%)**
Core Capital/Total Risk Weighted Assets	15.4%	16.0%	0.6%
Minimum Statutory ratio	10.5%	10.5%	
Excess	**4.9%**	**5.5%**	**0.6%**
Total Capital/Total Risk Weighted Assets	17.6%	17.5%	(0.1%)
Minimum Statutory ratio	14.5%	14.5%	
Excess	**3.1%**	**3.0%**	**(0.1%)**
Liquidity Ratio	71.6%	73.8%	2.2%
Minimum Statutory ratio	20.0%	20.0%	
Excess	**51.6%**	**53.8%**	**2.2%**
Adjusted core capital/ total deposit liabilities	**15.6%**	**15.1%**	**(0.5%)**
Adjusted core capital/ total risk weighted assets	**15.4%**	**16.0%**	**0.6%**
Adjusted total capital/ total risk weighted assets	**17.7%**	**17.6%**	**(0.1%)**

Income Statement

- Core earnings per share rose by 45.7% to Kshs 10.7, from Kshs 7.3 registered in Q1'2022, slightly lower than our expectations of a 46.6% increase, with the variance stemming from the 47.2% increase in total operating expense to kshs 5.1 bn, which was lower than our projection of a 29.0% increase to Kshs 4.5 bn in Q1'2023. The overall performance was driven by the 45.2% growth in total operating income to Kshs 10.8 bn, from Kshs 7.4 bn in Q1'2022, against our relatively lower 11.9% income growth projection to Kshs 8.3 bn in Q1'2023,
- Total operating income increased by 45.2% to Kshs 10.8 bn, from Kshs 7.4 bn in Q1'2022, driven by 55.5% increase in Non-Funded Income (NFI) to Kshs 3.9 bn, from Kshs 2.5 bn in Q1'2022, coupled with a 40.1% increase in Net Interest Income (NII) to Kshs 6.9 bn, from Kshs 4.9 bn in Q1'2022,
- Interest income grew by 34.1% to Kshs 7.6 bn, from Kshs 5.7 bn in FY'2021, mainly driven by a 29.4% increase in interest income earned from loans and advances to Kshs 3.9 bn, from Kshs 3.0 bn in Q1'2022, coupled with a 9.1% increase in interest income from government securities, to Kshs 2.5 bn, from 2.3 bn in Q1'2022, and a significant increase in interest income from deposits and placements in other banking institutions to Kshs 1.1 bn, from Kshs 0.3 bn recorded in Q1'2022. Consequently, the Yield on Interest-Earning Assets (YIEA) increased to 8.3% from 7.4% in Q1'2022, attributable to the 22.4% growth in trailing interest income, which outpaced the 9.4% growth in Average Interest Earning Assets (AIEA). Trailing Interest Income refers to the performance of the interest income for the past 12 consecutive months,
- Interest expenses declined by 5.4% to Kshs 0.70 bn, from Kshs 0.74 bn in Q1'2022 , following a 1.1% decline in interest expense on customer deposits to Kshs 0.65 bn, from Kshs 0.66 bn recorded in Q1'2022. Consequently, the Cost of funds (COF) reduced by 0.1% points to 1.1%, from 1.2% recorded in Q1'2022, attributable to a 6.9% growth in average interest bearing liabilities, relative to the 1.1% decline in Trailing interest expense. Trailing interest expense refers to the performance of the interest expense for the past 12 consecutive months. Net Interest Margin (NIM) increased by 1.0% points to 7.3%, from 6.3% recorded in Q1'2022, owing to the faster 26.4% growth in trailing Net Interest Income, which outpaced the 9.4% increase in average interest-earning assets,
- Non-Funded Income (NFI) increased by 55.5% to Kshs 3.9 bn, from Kshs 2.5 bn in Q1'2022, driven by a significant increase in the group's foreign exchange trading income to Kshs 2.2 bn, from Kshs 1.0 bn in Q1'2022, highlighting the group's increased foreign exchange margins, coupled with a 21.9% increase in other income to Kshs 0.3 bn, from Kshs 0.2 bn in Q1'2022. Notably, total fees and commissions increased by 13.3% to Kshs 1.4 bn, from the Kshs 1.2 bn recorded in Q1'2022. As such, the revenue mix shifted to 64:36, from 66:34 funded to non-funded income, owing to the faster 55.5% growth in Non-Funded Income (NFI), which outpaced the 40.1% growth of Net Interest Income (NII) during the same period,
- Total operating expenses increased by 47.2% to Kshs 5.1 bn, from Kshs 3.5 bn in Q1'2022, largely driven by a 40.8% increase in other operating expenses (OPEX) to Kshs 2.4 bn, from Kshs 1.7 bn in Q1'2022 in addition to a 13.9% increase in staff costs expense to Kshs 1.9 bn, from Kshs 1.7 bn in Q1'2022. Additionally, loan loss provision (LLP) significantly increased to Kshs 0.8 bn, from Kshs 0.1 bn recorded in Q1'2022, signifying increased provisioning,
- Cost to Income Ratio (CIR) increased by 0.6% points to 47.6%, from 47.0% in Q1'2022, owing to the 47.2% increase in total operating expense, higher than the 45.2% increase in total operating income. Without LLP, Cost to Income ratio improved to 40.3% from 45.8% in Q1'2022, an indication of sustained efficiency, and,
- Profit before tax increased by 43.6% to Kshs 5.6 bn, from Kshs 3.9 bn in Q1'2022, with the effective tax rate declining to 28.6%, from 29.6% in Q1'2022. Similarly, Profit after tax increased by 45.7% to Kshs 4.0 bn in Q1'2023, up from Kshs 2.8 bn in Q1'2022,

Balance Sheet

- The balance sheet recorded an expansion as total assets grew by 14.0% to Kshs 388.6 bn, from Kshs 340.9 bn in Q1'2022, mainly driven by a 7.0% growth in the loan book to Kshs 137.1 bn, from Kshs 128.1 bn in Q1'2022.

However, the expansion was weighed down by a 6.2% decrease in government securities to Kshs 95.1 bn, from Kshs 101.4 bn recorded in Q1’2022,

- Total liabilities rose by 15.1% to Kshs 328.3 bn, from Kshs 285.3 bn in Q1’2022, driven by a 14.2% growth in customer deposits to Kshs 302.9 bn, from Kshs 265.4 bn. Deposits per branch increased by 28.4% to Kshs 9.5 bn, from Kshs 7.4 bn in Q1’2022, with the number of branches declining to 32, from 36 in Q1’2022,
- The 7.0% growth in loans and advances as compared to the faster 14.2% growth in customers’ deposits led to a decline in the loan to deposits ratio to 45.3%, from 48.3% in Q1’2022,
- Gross non-performing loans increased slightly by 0.1% points to remain relatively unchanged at Kshs 22.6 bn, similar to what was recorded in Q1’2022, while gross loans increased by 6.9% to Kshs 156.7 bn from Kshs 146.6 bn in Q1’2022. Consequently, the group’s Asset Quality improved, with the NPL ratio declining to 14.4% in Q1’2023, from 15.4% in Q1’2022, attributable to the 6.9% growth in gross loans, coupled with the relatively unchanged Non-Performing loans,
- On the other hamd, the NPL coverage increased significantly to 86.8% in Q1’2023, from 81.8% in Q1’2022, attributable to a 7.6% increase in General Provisions (LLP) to Kshs 10.3 bn, from Kshs 9.6 bn recorded in Q1’2022, coupled with a 4.7% increase in interest suspense to Ksh 9.3 bn, from Kshs 8.9 bn in Q1’2022, which outpaced the 0.1% margninal increase in Gross Non-Performing Loans,
- Shareholders’ funds increased by 8.6% to Kshs 60.4 bn in Q1’2023, from Kshs 55.6 bn in Q1’2022, supported by a 45.7% increase in retained earnings to Kshs 4.0 bn, from Kshs 2.8 bn in Q1’2022,
- Standard Chartered Bank Kenya remains sufficiently capitalized with a core capital to risk-weighted assets ratio of 16.0%, 5.5% points above the statutory requirement of 10.5%. The total capital to risk-weighted assets ratio came in at 17.5%, exceeding the statutory requirement of 14.5% by 3.0% points, but was a 0.1% points decline from 17.6% recorded in Q1’2022. Adjusting for IFRS 9, the core capital to risk-weighted assets stood at 16.0%, while total capital to risk-weighted assets came in at 17.6%, and,
- The bank currently has a Return on Average Assets (ROaA) of 3.7%, and a Return on Average Equity (ROaE) of 23.0%.

Key Take-Outs:

1. **Earnings Growth-** Core earnings per share rose by 45.7% to Kshs 10.7, from Kshs 7.3 registered in Q1’2022, driven by the 45.2% growth in total operating income to Kshs 10.8 bn, from Kshs 7.4 bn in Q1’2022. The performance was however weighed down by the 47.2% increase in thetotal operating expenses to Kshs 5.1 bn in Q1’2022, from Kshs 3.5 bn in Q1’2022,
2. **Improvement in Asset Quality** - The group’s asset quality improved significantly, with the NPL ratio improving to 14.4% in Q1’2023, from 15.4% recorded in Q1’2022. The improvement in asset quality was attributable to the 6.9% growth in gross loans, coupled with the relatively unchanged Non-Performing loans,
3. **Sustained operating efficiency levels** – The bank’s operating efficiency has recorded sustained improvement with cost to income ratio without LLP improving by 5.5% points to 40.3% in Q1’2023, from 45.8% recorded in Q1’2022, similar to the trend witnessed in FY’2022 financial performance where cost to income LLP improved by 3.9% points to 45.8% in FY’2022 from 49.7% in FY’2021, and,
4. **Increased Provisioning** – Q1’2023 was characterized by increased provisioning, attributable to the high credit risks brought about by the deteriorated business environment mainly as a result of the elevated inflationary pressure . As such, Standard Chartered Bank Kenya increased its loan loss provion to kshs 0.8 bn in Q1’2023, up from Kshs 0.1 bn provisioning recorded in Q1’2022. Additionally, General Provisions (LLP) increased by 7.6% to Kshs 10.3 bn, from Kshs 9.6 bn recorded in Q1’2022.

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

I. **Revenue Diversification** – We expect the bank to continue to grow its revenue through the non-funded income as evidenced by the 55.5% growth of non-funded income to Kshs 3.9 bn, from 2.5 bn in Q1’2022, on the back of a notable increase in foreign exchange income to Kshs 2.2 bn, from Kshs 1.0 bn in Q1'2022, coupled with the expected continuous growth in Wealth Management Assets under Management (AUM) and SC Shillingi fund penetration into the money market,

Valuation Summary

- We are of the view that Standard Chartered is an **"Accumulate"** with a target price of Kshs 159.8 representing an upside of 13.8%, from the current price of Kshs 140.0 as of 19th May 2023, inclusive of a dividend yield of 15.7%,

- Standard Chartered Bank is currently trading at a P/TBV of 0.9x and a P/E of 4.4x vs an industry average of 0.8x and 3.5x, respectively.