

KINGDOM SECURITIES

Stanchart Bank Kenya Ltd

Earnings Updates – H1-2020

Standard Chartered Bank Kenya Earnings Update H1-2020

Standard Chartered Bank Kenya reported a 31.3% dip in H1-2020 Profit After Tax to KES 3.23Bn from KES 4.71Bn in H1-19. Profit before ax (PBT) eased to KES 5.11Bn a 26.2% decline from KES 6.92Bn over the same period.

The banks performance saw Net Interest Income (NII) ease by 4.6% y-y to KES 9.39Bn from KES 9.85Bn. Interest income declined by 6.3% y-y as interest from loans and advances declining by 6.6% y-y and interest from investment in government papers eroded by 12.7%. The performance on income from loans and advances was lower despite a 1.9% increase in loans and advances. Availability of cheaper deposits saw interest expense decline by 12.1% as expense customers deposit decline by 10.9%.

Net funded income (NFI) was 6.6% lower y-y at 4.40Bn from KES 4.71Bn. It was heavily affected by a 12.8% and 7.3% decline in fees and other commission and forex income respectively. Other income increased by 22.6% y-y. contribution of NFI to total income eased to 31.9% from 32.4% in H1-19.

Total expenses increased by 13.8% y-y to KES 8.69Bn from KES 7.64Bn. The growth was due to a 328.8% increase in loan loss provisions which moved from KES 0.38Bn to KES 1.63Bn. Expense excluding provision declined by 2.7% driven down by a 5.3% and 28.5% decline in staff cost and rent expenses on branch closure. Cost to Income (CTI) worsened to 63.0% from 52.5% while CTI less provisions improved deteriorated to 51.2% from 49.9% in H1-19.

Loan loss provisions increased by 328.8% with the bank restructuring over KES 8.0Bn or 6.7% of its total loan books. Gross loans increased by 5.6% a slower pace compared to 11.9% net loans leaving NPLs lower at 9.4% compared to 10.5% in H1-19.

Balance sheet saw deposit mobilization push customer deposit up by 12.3% y-y to KES 256.50Bn from KES 228.50Bn. deposits grew by 5.3% Q-Q. Deposit mobilized was channeled towards growth of the loan book with net loan book expanding by 11.9% and 7.0% Q-Q. Investment in government security increased by 3.2% and 13.3% Q-Q an indication of a conservative strategy. Shareholders' funds were up 10.3% y-y and 3.8% Q-Q boosted by an increase in retained income.

Key Ratio saw cost of funds improve to 2.1% from 2.9% with Net Interest Margin growing to 6.0% from 5.7% in H1-19. The decline in profits left Return On average Assets (ROaA) dipped to 2.0% from 3.1% while Return on average equity (ROaE) fell from 17.8% in H1-19 to 12.9% in H1-2020.

Despite of growth in loan book, the advances to deposit (AD) ration remained flat at 52.4% versus 52.5% with loan to assets ratio improving to 41.1% from 40.8% in H1-19. Non-performing loans eased to 9.4% from 10.5%.

Recommendation:	LONG TERM HOLD
Bloomberg Ticker:	SCBL KN
Share Stats	
Current Price	151.50
52 Week Average	187.35
52 Week High	217.00
52 Week Low	147.25
Issued shares Mn	1,717.55
Free Float	26.1%
Market Cap (KES Bn)	260.21
Market Cap (USD Bn)	2.41
EPS (LTM)	19.2
PE (LTM)	7.9
PB (LTM)	4.9

P&L (KES Mn)	H1-2019	H1-2020	Δ% y-y
Interest Income	12,732	11,932	-6.3%
Interest Expense	2,886	2,538	-12.1%
NII	9,846	9,394	-4.6%
NFI	4,713	4,403	-6.6%
Total Income	14,559	13,797	-5.2%
Loan Loss Provisions	379	1,625	328.8%
Operating Expense	7,639	8,691	13.8%
Opex less Provisions	7,260	7,066	-2.7%
PBT	6,920	5,105	-26.2%
PAT	4,706	3,233	-31.3%
EPS	13.46	9.17	-31.9%

Balance Sheet (KES Mn)	H1-2019	H1-2020	Δ%
Investments	98,027	101,177	3.2%
Loans and Advances	120,065	134,317	11.9%
Total Asset	294,543	327,199	11.1%
Customer Deposit	228,500	256,496	12.3%
Shareholders' Fund	46,874	51,721	10.3%

Ratios	H1-2019	H1-2020
NII % of Total Income	67.6%	68.1%
NFI % of Total Income	32.4%	31.9%
CTI	52.5%	63.0%
CTI less Provisions	49.9%	51.2%
Cost of Fund	2.9%	2.1%
NIM	5.7%	6.0%
ROaA	3.1%	2.0%
ROaE	17.8%	12.9%
AD Ratio	52.5%	52.4%
Investment to Assets	33.3%	30.9%
Loans to Assets	40.8%	41.1%
Non-Performing Loans	10.5%	9.4%

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Recommendation Guide:

Analysts' stock ratings are defined as follows:

- **Buy** – A buy rating reflects 1) An analyst has a bullish conviction on a stock 2) A 30% or greater expected return.
- **Accumulate** – An accumulate rating reflects 1) An analyst has a lesser bullish conviction on a stock 2) Expected return falls between 10% and 30%.
- **Hold** – A hold rating reflects 1) An analyst has a neutral conviction (lack of bullish or bearish conviction) on a stock 2) Expected return falls within the range of 5% to 10%.
- **Speculative Buy** – A speculative buy rating reflects 1) An analyst has a bullish conviction accompanied by a substantially higher than normal risk 2) Expected return falls above 10%.
- **Sell** – A sell rating reflects 1) An analyst has a bearish conviction on a stock 2) Expected return falls below 5%.

*Expected Return (ER) represents the sum total of both capital appreciation and the dividend yield.

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