

KINGDOM SECURITIES

Stanchart Bank Kenya – Earning Updates Q1-2020

Standard Chartered Bank posted KES 2.01Bn in Q1-2020 Profit after Tax (PAT), a 16.6% decline from KES 2.41Bn seen in Q1-2019. Profit Before Tax (PBT) stood at KES 2.91Bn compared to KES 3.54Bn, 17.8% drop y-y. This was affected by a 5.1% dip in Total Income and a 5.7% increase in operating expense.

Net interest Income (NII) shrunk by 5.1% y-y to KES 4.72Bn from KES 4.78Bn with contribution to total income increasing to 67.9% from 67.6%. Interest income inched 4.3% downward due to a restructure of the Loan book which saw interest income decline by 7.0% y-y despite a 6.8% increase in loan book.

A shrinking investment allocation and waning in government yields saw returns from investments securities ease by 7.5%. Overall interest expense marginally dropped by 1.3% to KES 1.39Bn from KES 1.41Bn buoyed by a 7.3% drop on interest in customer deposit.

Non-Funded Income (NFI) dipped by 6.5% to KES 2.34Bn in Q1-2020 from KES 2.39Bn in Q1-2019 with Fees and Commission from Loans and Advances, Other Fees and Commission and Forex Trading incomes declining by 3.8%, 5.3% and 15.0% respectively. NFI contribution to eased to 32.1% from 32.4% in Q1-2019.

Overall operating expense (Opex) increased by 5.7% to KES 4.05Bn from KES 3.83Bn over the period. Loan loss provisions were 3.1% higher leaving Opex excluding loan loss provisions up by 6.0% heavily affected by 5.2% and a 116.7% increase in depreciation and amortization increase. The expense effects were further worsened by a 22.3% increase in other expense due to IFRS 16 changes on Leases and. Cost to Income (CTI) increased to 58.1% from 51.9% while CTI excluding loan loss provisions growing to 52.0% from 46.3%

Balance sheet saw the total asset increase by 3.4% to KES 311.48Bn from KES 311.37Bn. Loan book grew by 6.8% to KES 125.54Bn from KES 117.56Bn financed by a 4.6% increase in customer deposit (KES 243.55Bn from KES 232.78Bn) and a strategic reallocation of assets which saw Investment Securities decline by 14.3%. Advance to Loans (AD) ratio improved to 51.5% from 50.5%. Ratio of Security Investments to total assets dropped to 28.7% from 32.4% while Loans to Total Asset marginally increased to 40.3% from 39.0% in Q1-2019. Shareholders fund marginally increased by 1.4% affected by the drop in PAT.

Key ratios saw Return On average Asset (ROaA) and Return On average Equity (ROaE) declined to 2.5% and 16.2% from 3.0% 17.5% respectively affected by shrinking PAT. Cost of Funds declined by 100bps to 2.2% from 3.2% while Net Interest Margins improved 70bps to 6.15.4%.

Outlook: The bank has worked towards improving the quality of the loan book reducing cost of loans in spite of interest cap repeal. Adoption of technology has enabled the bank to review its strategy by adapting alternative channels including Agency Banking and Mobile Loans.

P&L (KES Mn)	Q1-2019	Q1-2020	Δ%
Interest Income	6,389	6,115	-4.3%
Interest Expense	1,409	1,391	-1.3%
NII	4,979	4,723	-5.1%
NFI	2,391	2,236	-6.5%
Total Income	7,370	6,959	-5.6%
Loan Loss Provisions	415	428	3.1%
Operating Expense	3,826	4,045	5.7%
Opex exclu Provisions	3,411	3,617	6.0%
PBT	3,544	2,914	-17.8%
PAT	2,410	2,011	-16.6%
EPS	6.89	5.73	-16.8%

Balance Sheet (KES Mn)	Q1-2019	Q1-2020	Δ%
Investments	104,211	89,266	-14.3%
Loans and Advances	117,564	125,537	6.8%
Total Asset	301,366	311,477	3.4%
Customer Deposit	232,775	243,551	4.6%
Shareholders' Fund	49,133	49,832	1.4%

Ratios	Q1-2019	Q1-2020
NII % of Total Income	67.6%	67.9%
NFI % of Total Income	32.4%	32.1%
CTI	51.9%	58.1%
CTI excl Provisions	46.3%	52.0%
AD Ratio	50.5%	51.5%
Investment to Assets	34.6%	28.7%
Loans to Assets	39.0%	40.3%
ROaA	3.0%	2.5%
ROaE	17.5%	16.2%
Cost of Fund	3.2%	2.2%
NIM	5.4%	6.1%

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Analysts' stock ratings are defined as follows:

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

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