

KINGDOM SECURITIES

Standard Chartered Bank – Kenya Earnings Update Q1-2021

Standard Chartered Bank Kenya (Stanchart) posted KES 2.39Bn in y-y Profit after tax (PAT) which as a 18.9% better compared to KES 2.01Bn in q1-20. Profit before tax (PBT) stood at KES 3.40Bn, 16.6% y-y increase from KES 2.91Bn. the boost came from 30.2% and 9.0% decline in interest expenses and operating expense. The performance was further supported by lower effective tax rate of 29.6% vs 31.0% over the reporting period. EPS grew at a slower pace of 8.6% due to the inclusion of bonus share issued in 2020. The banks topline continues to slip with interest income inching 9.0% downward y-y while declining by 3.9% compared to q4-20 performance.

The counter has witnessed a deterioration in value shedding 6.6% in three months 10.5% in 6-months and 24.0% y-y.

Profit and Loss: Stanchart reported net interest income (NII) of KES 4.59Bn, dropping by 2.8% y-y from KES 4.72Bn on declining interest income. The banks q-q NII performance dropped by 4.5% vs q4-20. NII contribution to eased to 64.9% from 67.9% in q1-20.

- Interest income shrunk by 9.0% y-y to KES 5.56Bn from KES 6.12Bn. this was caused by 9.0% fall in interest from loans and advances. Revenues from government securities thinned by the same margin. The decline in interest from loans was partially due to a 6.1% decline in loan book.
- Interest expense were 30.2% down y-y to KES 0.97Bn from KES 1.9Bn. This was occasioned by 26.5% drop on interest paid to customer deposit despite 8.9% increase in collections. The performance saw marginal decline of 0.5% vs Q4-20.
- Non-funded income (NFI) improved by 11.1% y-y to KES 2.48Bn from KES 2.24Bn. This was boosted by a 11.7% and 15.9% increase in net fees and commission and foreign exchange trading income. Quarter on quarter performance increased by 27.9% vs Q4-20. NFI contribution to total income bettered to 35.1% from 32.1% in Q1-20.
- Overall operating expense thinned by 9.0% y-y. Loan loss provisions dropped by 3.5% to KES 0.41Bn from 0.43Bn.
- Expenses excluding provisions declined by 9.7% prompted by a 5.3% drop in staff cost due to rationalization on closure of branches and relocation of operational and support units from the Kenyan hub. Expenses dropped by 37.8% q-q while excluding provisions dipped by 31.4% in the period.
- Cost to income stood at 52.0% from 58.1% in Q1-20 while CTI excluding provisions enhanced to 46.2% from 52.0% over the same period.

Balance sheet: Q1-21 customer deposits grow by 8.9% y-y to KES 265.25Bn from KES 243.55Bn.

- Despite the increase in customer deposit, the bank retained its conservatism growing investments in securities by 10.0% to KES 98.16Bn from KES 89.27Bn. this helped push

Standard Chartered Bank Kenya

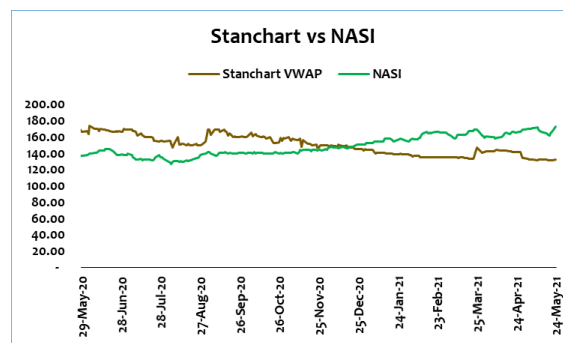
Earnings Update – Q1-2021

Bloomberg Ticker:

SCBL KN

Share Stats

Current Price (KES)	131.75
6 Months Avr	137.84
12 Months Avr	150.15
52 Week High - Low	173.75 - 131.00
Issued shares (Mn)	377.86
Free Float	21.2%
Market Cap (KES Mn)	49,783.27
Market Cap (USD Mn)	459.94
EPS (annualized)	24.88
PE	5.30
PB	0.94



Value Movement

Period	Stanchart	NASI
3-Months	-6.6%	1.9%
6-Months	-10.5%	20.4%
12-Months	-24.0%	22.7%

P&L (KES Mn)	q1-2020	q1-2021	Δ% y-y
Interest Income	6,115	5,563	-9.0%
Interest Expense	1,391	972	-30.2%
NII	4,723	4,592	-2.8%
NFI	2,236	2,485	11.1%
Total Income	6,959	7,076	1.7%
Loan Loss Provisions	428	413	-3.5%
Operating Expense	4,045	3,680	-9.0%
Opex excl Provision	3,617	3,267	-9.7%
PBT	2,914	3,396	16.6%
PAT	2,011	2,391	18.9%
EPS	5.73	6.22	8.6%

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- Net loans and advances thinned by 6.1% y-y to KES 117.87Bn from KES 125.54Bn, this left Q1-21 advances to deposit (AD) ratio at 44.4% vs. 51.1% in Q1-20. The loan book level is seen a book cleaning process as Gross NPLs grew by 11.3% to KES 22.29Bn from KES 20.02Bn leading to NPLs at 107%, 100bps higher against 9.7% in Q1-20.
- The ratio of net loans to total assets was lower at 34.7% from 40.3% while investment in securities to total assets remained flat at 28.9%.

Key Ratios: Ratios saw cost of funds dip 80bps y-y to 1.5% from 2.3% while net interest margins (NIMs) marginally improving to 8.5% from 8.4% over the same period.

- Return on average assts (ROaA) improved to 2.9% in Q1-21 from 2.6% in Q1-20 on better PAT performance while Return on average equity (ROaE) improved to 18.4% from 16.5%.

Outlook: the bank has continued streamlining its Africa operations by outsourcing part of its operation to cut on expense. This will remain a challenge as level of technology and internet penetration remained constrained in the continent.

- Growth of loan books and collection remains an active operation which has limitation on technology acceptance.
- We foresee a further shrinking on the top line which will affect the bottom-line as there is a limitation of expense management especially cutting staff cost.

Balance Sheet (KES Mn)	q1-2020	q1-2021	Δ% y-y
Investments	89,266	98,159	10.0%
Loans and Advances	125,537	117,873	-6.1%
Total Asset	311,477	339,258	8.9%
Customer Deposit	243,551	265,250	8.9%
Shareholders' Fund	49,832	52,889	6.1%

Ratios	q1-2020	q1-2021
NII % of Total Income	67.9%	64.9%
NFI % of Total Income	32.1%	35.1%
CTI	58.1%	52.0%
CTI exc Provision	52.0%	46.2%
Cost of Funds	2.3%	1.5%
Net Interest Margins	8.4%	8.5%
ROA	2.6%	2.9%
ROE	16.5%	18.4%
Gross NPL to Net Loans	9.7%	10.7%
AD Ratio	51.5%	44.4%
Investment Securities to Assets	28.7%	28.9%
Advances to Assets	40.3%	34.7%

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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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