KINGDOM SECURITIES

Standard Chartered Bank Kenya

Earnings Update – Q3-2021

Stanchart Bank Kenya Earnings Update Q3-2021

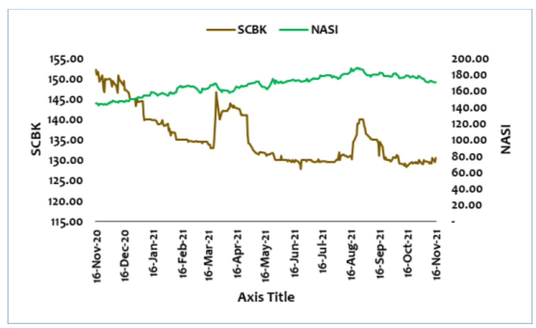
Standard Chartered Bank Kenya, Stanchart Kenya, reported KES 6.36Bn in Q3'21 profits after tax (PAT), a 46.7% increase compared to KES 4.33Bn in Q3'20. Profits before tax (PBT) was KES 8.90Bn, a 35.5% growth compared to KES 6.56Bn over the same period. The performance was supported by a 2.8% and 19.1% growth in net interest margins (NII) and non-funded income (NFI) respectively while operating expenses were down 5.1%.

The directors declared an interim dividend of 5.00 per share. The directors also declared an interim divided on the non-redeemable, non-cumulative, non-participating and non-convertible preference shares for the period December 2020 to June 2021 at the rate of 6.0% per annum. The dividend is payable on December 29th, 2021 with a book closure of December 7th, 2021.

- Interest income contracted by 2.5% y-y to KES 17.51Bn from KES 17.95Bn forced by a 4.0% dip on income from government securities due to 8.1% contraction on investments in government securities holdings to KES 94.02Bn from KES 102.32BN in Q3'20. Yields on government securities remained stable at 9.8%. Income from loans and advances were up by 1.6% boosted by improved yields on loans and advance to 10.0% from 9.6% in Q3'20.
- Interest expenses declined by 23.3% y-y to KES 2.79Bn from KES 3.64Bn. The drop was supported by a 25.6% drop on expenses on customers deposits despite customer liabilities increasing by 6.4% y-y to KES 258.38Bn from KES 242.79Bn. The low cost was due cheaper deposit and improved deposit mix.
- Non-funded income (NFI) rose by 19.1% y-y in Q3'21 to KES 7.56Bn from KS 6.35Bn. total fees and commission income increased by 17.9% y-y supported by transaction volumes trough the mobile app. Foreign exchange revenues increased by 33.8% on increased global trade and weakening of the shilling against the major currencies.
- Loan loss provisions declined by 1.6% y-y to KES 2.68Bn from KES 2.73Bn slower growth in net loan book. Cost to income ratio improved to 60.1% in Q3'21 from 68.2% in Q3'20 while worsening compared to 51.8% in Q2'21.
- Operating expense excluding provision decline 5.9% y-y to KES 10.70Bn from KES 11.37Bn over the same period. This was supported by a 10.2% decline in staff cost after staff size reduction and a 5.1% drop in other expense. CTI excluding provisions improved to 48.0% in Q3'21 from 55.0% in Q3'20 and marginally worse to 47.3% in Q2'21.
- Balance sheet remained conservative with the advances to deposit ratio declining to 51.0% in Q3'21 from 54.2% in Q3'20. However, the ratio improved compared to 46.8% in Q2'21.
- Total assets increased by 5.2% to KES 330.70Bn from KES 314.38Bn. With the shrinking securities in government holdings, its percentage to total assets declined to 28.4% from 32.5% in Q3'20. Net loan book to asset book ratio declined to 39.8% from 41.9% in the same period but bettered from 37.7% in Q2'21.

Bloomberg Ticker:	SCBL KN
Share Stats	
Current Price (KES)	130.50
3-Months Avr	130.00
6-Months Avr	130.27
12-Months Avr	131.06
52 Week High - Low	139.75-129.25
Issued shares (Mn)	377.86
Free Float	21.2%
Market Cap (KES Mn)	49,310.94
Market Cap (USD Mn)	440.38
EPS (Annualized)	21.99
PE (Annualized)	5.94
PB	0.93

Performance Return		
Period	**SCBK**	**NASI**
3-Month	-0.4%	-6.8%
6-Month	-1.1%	2.9%
Y-T-D	-9.7%	12.2%
Y-Y	-14.3%	18.0%



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Key Ratios

- Non-performing loans (total non-performing loans) to net loan book loans worsened to 10.5% in Q3'21 compared to 9.6% in Q3'20. This was due to a 10.1% increase in gross non-performing loans.
- Availability of cheap funds saw cost of funds decline from 2.0% in Q3'20 to 1.4% in Q3'21. This pushed net interest margins (NIM) up to 8.9% in Q3'21 from 8.1% in Q3'20 and 8.2% in Q2'21.
- Improved PAT saw return on average assets (ROaA) improve to 2.6% from 1.9% in Q3'20. The rate was weaker compared to 2.9% in Q2'21.
- Return on average equity (ROaE) was at 16.3% from 11.9% Q3'20. The rate was weaker compared to 19.0% in Q2'21.

Outlook

The lender remains on a challenging path with bottom line supported by growth in NFI and decline in operating expenses after staff rationalization. With a slow growing loan book and liquidation of investment in securities, we expect a weak interest income with NIIs supported by declining interest expense.

P&L (KES Mn)	Q3-2020	Q2-2021	Q3-2021	Δ% Y-Y	Δ% Q-Q
Interest Income	17,948	11,033	17,505	-2.5%	-41.3%
Interest Expense	3,641	1,917	2,793	-23.3%	-54.3%
NII	14,307	9,115	14,712	2.8%	-38.6%
NFI	6,347	4,998	7,560	19.1%	-48.7%
Total Income	20,654	14,113	22,272	7.8%	-42.2%
Loan Loss Provisions	2,725	639	2,681	-1.6%	219.9%
Operating Expense	14,090	7,315	13,376	-5.1%	-17.1%
Opex excl Provision	11,365	6,677	10,695	-5.9%	-39.8%
PBT	6,564	6,798	8,896	35.5%	-69.1%
PAT	4,333	4,879	6,355	46.7%	-69.8%
EPS	11.13	12.69	16.49	48.2%	-70.1%
DPS	5.00	-	5.00	0.0%	100.0%

Balance Sheet (KES Mn)	Q3-2020	Q2-2021	Q3-2021	Δ% Y-Y
Investments	102,324	98,687	94,016	-8.1%
Loans and Advances	131,652	130,276	131,744	0.1%
Total Asset	314,382	345,646	330,697	5.2%
Customer Deposit	242,789	278,187	258,380	6.4%
Shareholders' Fund	50,171	51,706	53,066	5.8%

Ratios	Q3-2020	Q2-2021	Q3-2021
NII % of Total Income	69.3%	64.6%	66.1%
NFI % of Total Income	30.7%	35.4%	33.9%
CTI	68.2%	51.8%	60.1%
CTI exc Provision	55.0%	47.3%	48.0%
Yield on Advances	9.6%	9.0%	10.0%
Yield on Government Securities	9.6%	9.6%	9.8%
Cost of Funds	2.0%	1.4%	1.4%
Net Interest Margins	8.1%	8.2%	8.9%
ROA	1.9%	2.9%	2.6%
ROE	11.9%	19.0%	16.3%
Gross NPL to Net Loans	9.6%	10.2%	10.5%
AD Ratio	54.2%	46.8%	51.0%
Investment Securities to Assets	32.5%	28.6%	28.4%
Advances to Assets	41.9%	37.7%	39.8%
Dividend Pay Out	44.9%	0.0%	30.3%

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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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