Stanchart Bank Kenya Ltd

Earnings Update – FY-2021

Standard Chartered Bank Kenya Limited (SCBKL) - Growth on Non-Funded Income

Stanchart Bank Kenya Limited posted a 70.3% y-y increase in profits before tax (PBT) to KES 12.60Bn in FY-21 against 7.40Bn in FY-20. The performance was supported by 24.9% increase in non-funded income (NFI), 46.4% and 17.2% drop in loan loss provisions and general expenses respectively. Profit after tax (PAT) surged by 66.2% to KES 9.04Bn from KES 5.44Bn with growth suppressed by a 28.2% effective tax rate (ETR) in 2021 compared to 26.4% ETR in 2020. The lenders earning per share was 23.49 for a PE of 5.6x and a PB of 0.9x compared to industry median PE and PB of 5.7x and 0.8x respectively.

The board issued a final per share dividend of 14.00 for a total dividend of KES 19.00 a growth of 81.0% and a dividend yield of 14.5%. Dividend payout increased to 80.9% in 2021 from 75.3% in 2020.

We retain a HOLD recommendation at a valuation of KES 136.40, 4.1% higher compared to KES 131.00 seen on Friday March 11, 2022. We forecast a total return of 18.6% due to a dividend yield of 14.5%. Our view is driven on a weak top line growth as the 2021 performance were due to non-recurring drop in expenditure.

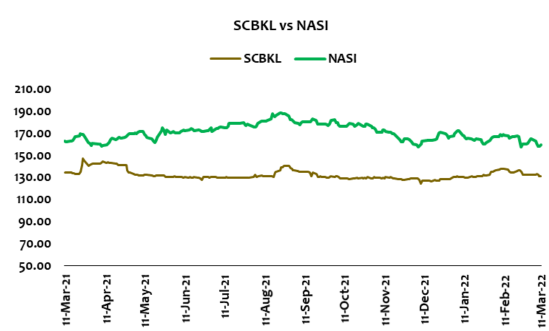
Income Statement

- SCBKL net interest income (NII) marginally declined by 1.6% y-y to KES 18.81Bn from KES 19.12Bn in FY-20. Fourth quarter performance was 26.8% q-q weaker positing KES 4.10Bn against 5.60Bn in Q3-21
- Interest income declined by 6.1% y-y to KES 22.29Bn from KES 23.73Bn. Income from loans and advances dropped by 4.2% affected by a moderate growing loan book and a dip in average yield on advances from 9.8% in FY-20 to 9.5% in FY-21. Return from investments in securities was down 4.2% y-y as with holdings in investment securities shrunk by 4.03% while average yields on government securities were marginally flat at 9.8%. Quarter 4 saw interest income plunge by 26.2% as yields on advances dropped by 41.0% while return on government securities down 1.7%
- Interest expense was KES 3.48Bn, a 24.7% y-y lower compared to KES 4.22Bn in FY-20. The performance was supported by a 26.0%% y-y drop in cost of customer deposit, an indication of cheaper funding as customer deposits were up 3.5% y-y. Cost of customer deposits were down 14.5% q-q aiding interest expense downwards by 26.8% in Q4-21.
- Growth in wealth management business, improved trade financing transactions and digital drive helped push non-funded income (NFI) up by 24.9% y-y to KES 10.36Bn from KES 8.29Bn in FY-20.

Recommendation:	HOLD
Bloomberg Ticker:	SCBL KN
Share Stats	
Valuation Price	136.40
Current Price (KES)	131.00
Upside/Downside	4.1%
3 Months Avr	131.62
6 Months Avr	130.72
12 Months Avr	132.24
52 Week High - Low	146.75 - 124.00
Issued shares (Mn)	377.86
Free Float	21.2%
Market Cap (KES Mn)	49,499.87
Market Cap (USD Mn)	433.50
EPS	23.49
PE	5.6
PB	0.9
DPS	19.00
Dividend Payout	80.9%
Div Yield	14.5%
Total Return	18.6%

Price Performance

Period	SCBKL	NASI
3-Months	3.1%	-2.3%
6-Months	-3.0%	-11.7%
y-t-d	0.8%	-4.8%
y-y	-2.6%	-2.3%



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- Net fees and commission income increased by 19.9% while income from foreign exchange trading jumped 19.1% y-y on trade due to opening of the global economy and weakening shilling. Quarter on quarter saw net commission income decline by 2.1% q-q on a slow quarter while foreign exchange income dipped 7.0% q-q.
- Overall expenses declined by 17.2% y-y to KES 16.57Bn from KES 20.01Bn. This was partly boosted by a 46.4% y-y dip in loan loss provisions leaving cost of income (CTI) down to 56.8% from 73.0% in FY-20. Slow loan book growth in Q4-21 saw loan loss provision decline by 0.60Bn, a 129.4% q-q drop from KES 2.04Bn in Q3-21.
- Expense less provisions were lower by 10.2% to KES 12.60Bn from KES 16.13Bn. This was buoyed by a 18.3% drop in staff cost due to staff cut after business outsourcing and digital enhancement. Expense excluding provisions were down 47.4% q-q supported by a 16.7% drop in staff cost. This saw CTI excluding provisions down at 49.7% from 58.8% in FY-20 but the ratio worsened compared to 48.0% in Q3-21.

Balance Sheet

- Balance sheet saw total assets grow by 2.8% y-y to KES 334.87Bn from KES 325.61Bn. investment in securities were down 4.0% y-y to 91.02Bn from KES 94.85Bn therefore reducing its proportion to total assed to 27.2% from 29.1% in FY-20. Net loan book grew by 3.7% y-y to KES 125.98Bn from KES 121.52Bn. This left advances to deposit (AD) ratio and loans to asset ratio flat at 47.5% and 37.6% from 47.4% and 37.3% in FY-20 respectively. These ratios were lower compared toQ3-21 levels of 51.0% on AD and 39.8% on loans to asset.
- Customer deposits were up 3.5% y-y to KES 265.47Bn in FY-21 from KES 256.50Bnin FY-20. The funds were directed towards loan book growth as balances due to group of companies declined by 14.1% y-y.

Ratios

- Decline in interest income and a slow growth in customer deposits saw cost of funds decline to 1.3% in FY-21 compared to 1.9% in FY-20. Downward trend in asset yields saw net interest margins flat at 8.5% y-y.
- Recovery of profitability saw return on average assets (ROaA) increase by 100bps to 2.7% from 1.7% in FY-20. Return on average equity (ROaE) improved to 17.4% in FY-21 from 11.2% FY-20.
- A 4.2% y-y Growth in gross non-performing loans left NPLs up at 8.0% from 7.3% in FY-20. This remained higher compared to 7.5% NPLs in Q3-21.

Outlook

- We foresee a weak top line performance in 2022 after a third-year dip in interest income and especially dip in interest income in loans and advances. The lender has remained skeptical in growing loan book opting to focus on non-funded income fueled by wealth management.
- Whist we view the digital drive will generate positive return, the growth will be countered heavily by increase in expense as we don't foresee the expensed, excluding provisions, declining any further.
- The lender has also opted to grow market share by pricing its products fairly compared to other tier 1 banks. Focus in growing more in the risker micro, small and medium enterprise (MSME), we expect repricing of products with risk-based lending coming at a good time for the lender.

P&L (KES Mn)	FY 2020	FY 2021	Δ% Y-Y	Q3-2021	Q4-2021	Δ% Q-Q
Interest Income	23,734	22,285	-6.1%	6,473	4,779	-26.2%
Interest Expense	4,617	3,475	-24.7%	876	682	-22.2%
NII	19,117	18,809	-1.6%	5,597	4,097	-26.8%
NFI	8,290	10,355	24.9%	2,563	2,795	9.0%
Total Income	27,407	29,164	6.4%	8,159	6,892	-15.5%
Loan Loss Provisions	3,882	2,082	-46.4%	2,043	(600)	-129.4%
Operating Expense	20,011	16,566	-17.2%	2,563	2,795	9.0%
Opex excl Provision	16,129	14,485	-10.2%	520	3,394	552.7%
PBT	7,396	12,598	70.3%	2,099	3,702	76.4%
PAT	5,440	9,044	66.2%	1,476	2,689	82.2%
EPS	13.95	23.49	68.4%	3.80	7.00	84.2%
DPS	10.50	19.00	81.0%			280.0%

Balance Sheet (KES Mn)	FY 2020	FY 2021	Δ% Y-Y	Q3-2021	Q4-2021	Δ% Q-Q
Investments	94,853	91,015	-4.0%	(4,671)	(3,001)	-35.7%
Loans and Advances	121,524	125,975	3.7%	1,468	(5,770)	-492.9%
Total Asset	325,605	334,872	2.8%	676,343	665,569	-1.6%
Customer Deposit	256,498	265,469	3.5%	(19,807)	7,089	-135.8%
Shareholders' Fund	50,890	53,214	4.6%	1,359	148	-89.1%

NPLs KES Mn	FY 2020	FY 2021	Δ% Y-Y	Q3-2021	Q4-2021	Δ% Q-Q
Gross NPLs	22,337	23,283	4.2%	145	273	87.9%
Total NPL	8,876	10,116	14.0%	539	(40)	-107.4%

Ratios	FY 2020	Q3-2021	FY 2021
NII % of Total Income	69.8%	66.1%	64.5%
NFI % of Total Income	30.2%	33.9%	35.5%
CTI	73.0%	60.1%	56.8%
CTI exc Provision	58.8%	48.0%	49.7%
Yield on Advances	9.8%	10.0%	9.5%
Yield on Government Securities	9.9%	9.8%	9.8%
Cost of Funds	1.9%	1.4%	1.3%
Net Interest Margins	8.5%	8.9%	8.5%
ROA	1.7%	2.6%	2.7%
ROE	11.2%	16.3%	17.4%
Gross NPL to Net Loans	7.3%	7.5%	8.0%
AD Ratio	47.4%	51.0%	47.5%
Investments Securities to Assets	29.1%	28.4%	27.2%
Advances to Assets	37.3%	39.8%	37.6%
Dividend Pay Out	75.3%	30.3%	80.9%

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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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