

### Profiting on Economic Recoveries

Standard Chartered Bank reported a 15.7% y/y growth in profits before tax (PBT) from KES 3.40Bn in Q1-21 to KES 3.93Bn in Q1-22. Supported by a 5.1% uptick in income from loans and advances and better utilization of cheap deposits leading to a 23.6% drop in interest expense. This pushed Profit after tax (PAT) 15.6% up from KES 2.39Bn to KES 2.76Bn boosted by an effective tax rate of 29.3% compared to a tax rate of 42.4% last year.

The Bank's earnings per share (EPS) was up 10.5% y/y from 6.22 in Q1-21 to 6.87 in Q1-22. We retain a valuation of KES 136.40 per share on the counter, a 9.6% uptick from the current price of KES 124.25 as of 17<sup>th</sup> May, and therefore retain a HOLD recommendation on the lender.

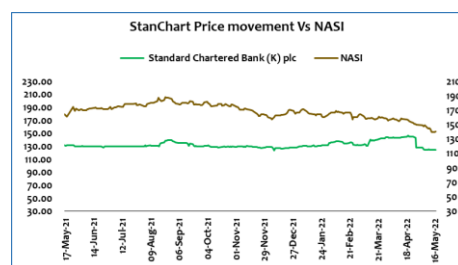
- Net interest income improved by 7.2% y/y from KES 4.59Bn to KES 4.92Bn riding on a 23.6% drop in interest expense from KES 0.97Bn to KES 0.74Bn and a 1.8% growth in total interest income. Reduction in interest expense resulted from sufficient customer deposits, funding the interest earning assets combined at an excess of 22.2%.
- Interest income from loans and advances grew 5.1% y/y from KES 2.90Bn to KES 3.04Bn bolstered by an 8.7% increase in loans and advances from KES 117.87Bn to 128.09Bn. Yields on loans and advances dropped marginally to 9.6% in Q1-21 from 9.7% of Q1-21. The 2021 loan book had benefitted from a USD 400Mn loan to a telecommunication giant for a private sector operation in Ethiopia.
- Q-Q loans and advances interest income performance grew faster at 34.2% on what seems to be a return to paying loans on reopened economy. This is signaled by 1.7% Q-Q loan book growth.
- The Bank's government securities income was 1.2% y-y up from KES 2.30Bn to KES 2.32Bn constrained by a shrunken securities book which sent down 9.2% from KES 98.16Bn to KES 89.15Bn. Returns on government securities went up 80bps from 9.5% to 10.3% benefitting better rates witnessed in the market.
- Non-funded income remained flat y-y at KES 2.49Bn strained by income drops in income from fees and commissions and other income. This is despite forex trading jumping 27.0% up y-y from KES 0.81Bn to KES 1.02Bn, taking advantage of the weakening shilling. This countered a combined drop of 18.8% or KES 0.22Bn in fees and commissions and other incomes.
- Total operating expenses dropped 5.4% benefitting from last year's over provisions that turned to a revenue of KES 86.01Mn in the quarter. Operating expenses less provisions went up remained 9.2% up y-y.
- Staff costs remained relatively stable edging 1.4% up y-y to close Q1-22 at KES 1.67Bn. This however went up 20.3% Q-Q from KES 1.47Bn to KES 1.67Bn on improved staff benefits.

### Balance Sheet

- The bank's total assets remain stable y-y with a 0.5% marginal growth from KES 339.26Bn to KES 340.91Bn. This resulted from 8.7% or KES 10.22Bn net growth in loan book to KES which countered a 9.2% or KES 9.01Bn net drop in government securities.

Recommendation:	HOLD
Bloomberg Ticker:	SCBL KN
Share Statistics	
Implied Value	136.40
Current Price	124.25
Upside/Downside	9.8%
3-Month Av	136.90
6 Month Av	134.63
52 Week Av	132.30
52 Week High - Low	146.25 - 124.00
Issued shares Mn	377.86
Market Cap (KES Mn)	46,949.31
Market Cap (USD Mn)	403.89
P/E	4.52
BVPS	147.21
PB	0.84

Return Performance		
Periods	SCBL	NASI
3-Months %Δ	-7.3%	-15.8%
6-Months %Δ	-1.6%	-14.2%
Y-T-D %Δ	-4.2%	-16.0%
Y-Y %Δ	-5.5%	-14.6%



NNI + 7.2% Y/Y

Provisions – 0.0% Y/Y

Opex. – 5.4% Y/Y

PBT + 15.7% Y/Y

PAT 15.6+ % Y/Y

Govt. Securities – 9.2% Y/Y

Loans + 8.7% Y/Y

Deposits 0.0% y/y

Shareholder's Funds + 5.2% Y/Y

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- Customer deposits remained stable both y-y and Q-Q at KES 265.38Bn helping cushion the growing loan book as well as other investments.
- Retained earnings edged 3.0% up y-y benefitting from the growths in revenues and thus pushing investors' funds 5.2% y-y up.

### Ratios

- Net interest margins (NIMs) expanded by 200bps from 7.3% to 9.3% gaining from cheaper customer deposits as evidenced by a 23.6% drop in interest expense.
- Availability of cheaper deposits saw the cost of funds drop to 1.0% in Q1-22 in comparison to 1.3% of Q4-21 and 1.5% of Q1-21.
- Return on average assets (RoAA) moved 40.0bps y-y from 2.9% to 3.3% in Q1-22, a slower pace compared to return on average equity (RoAE) which was 190bps up to 20.3% in Q1-22 from that of 18.4% in Q1-21.
- Zero provisions in Q1-22 saw the counters cost of risk drop to near zero percent at 0.3% compared to that 1.1% in Q1-21 and 1.3% in Q4-21. The drop resulted from heavy provisions that happened in Q4-22 that trickled down to Q1-22.

P&L (KES Mn)	Q1-2021	Q4-2021	Q1-2022	Y-Y %Δ	Q-Q %Δ
Interest Income	5,563	4,779	5,664	1.8%	18.5%
Interest Expense	972	682	742	-23.6%	8.8%
<b>NII</b>	<b>4,592</b>	<b>4,097</b>	<b>4,922</b>	<b>7.2%</b>	<b>20.1%</b>
NFI	2,485	2,795	2,487	0.1%	-11.0%
<b>Total Income</b>	<b>7,076</b>	<b>6,892</b>	<b>7,409</b>	<b>4.7%</b>	<b>7.5%</b>
Loan Loss Provisions	413	-600	-86	-120.8%	-85.7%
Operating Expense	3,680	3,190	3,481	-5.4%	9.1%
Opex excl Provision	3,267	3,790	3,567	9.2%	-5.9%
PBT	3,396	3,702	3,928	15.7%	6.1%
PAT	2,391	2,689	2,765	15.6%	2.8%
EPS	6.22	7.00	6.87	10.5%	-1.9%

Balance Sheet (KES Mn)	Q1-2021	Q4-2021	Q1-2022	Y-Y %Δ
Investments	98,159	91,015	89,149	-9.2%
Loans and Advances	117,873	125,975	128,093	8.7%
Total Asset	339,258	334,872	340,913	0.5%
Customer Deposit	265,250	265,469	265,381	0.0%
Shareholders' Fund	52,889	53,214	55,623	5.2%

Ratios	Q1-2021	FY-2021	Q1-2021
NII % of Total Income	64.9%	64.5%	66.4%
NFI % of Total Income	35.1%	35.5%	33.6%
CTI	52.0%	49.7%	47.0%
CTI exc Provision	46.2%	49.7%	48.1%
Cost of Funds	1.5%	1.3%	1.1%
Net Interest Margins	8.5%	8.7%	9.3%
Yield on Advances	9.7%	9.5%	9.6%
Yield on Govt Securities	9.5%	9.8%	10.3%
ROaA	2.9%	2.7%	3.3%
ROaE	18.4%	17.4%	20.3%
Cost of Risk	1.4%	1.7%	-0.3%
AD Ratio	44.4%	47.5%	61.3%
Investment Securiteis to Assets	28.9%	27.2%	26.2%
Advances to Assets	34.7%	37.6%	37.6%

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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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