KINGDOM SECURITIES

Stanchart Bank Kenya Ltd

Earnings Update – H1-2022

Standard Chartered Bank Kenya (Stanchart Kenya) posted KES 7.10Bn in half year profit before tax (PBT), a 16.9% y-y jump compared to KES 6.07Bn in H1-21. The lender posted a similar jump in H1-22 profits after tax (PAT) to KES 5.15Bn from KES 4.40Bn in H1-21. The growth was supported by 9.9% y-y growth in net interest income (NII), 17.4% y-y rise in non-finance income (NFI) and 83.1% drop in loan loss provisions.

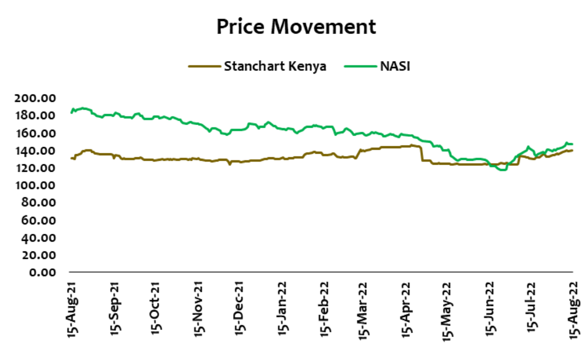
The annualized EPS stands at 26.36 with a PE 5.3x and a PB of 1.0x compared to industry PE of 4.76x.

Despite the lender did not issuing the traditional interim dividend (having paid 2021 interim dividend in Q3), we retain a HOLD at a valuation of KES 144.86, 3.7% higher compared to KES 139.75 on Monday August 15th, 2022. The lack of dividend will depress the price but will retain a HOLD recommendation.

- Stanchart Kenya saw NII saw a 9.9% y-y rise boosted by a 4.4% rise in interest income and a 21.4% y-y drop in interest expense. On q-q, the was up 3.4% on a 3.4% and 3.0% q-q rise in interest income and interest expense. NII contribution to total income was flat at 64.4% in H1-22 form 64.6% in H1-21.
- Interest income was up 4.4% y-y driven by 4.9% rise in interest income from loans and advances as yield on advances rose to 9.4% from 9.0% in H1-21 while loan book thinned by 1.3%. Returns from government securities were up 4.0% y-y shouldered by a 2.1% y-y expansion in investments in securities and a rise on government yields to 10.0% from 9.6% in H1-21.
  Quarterly performance was up 3.4% q-q interest from loans and advances dipping by 4.0% q-q which countered the 7.0% q-q rise in interest from government securities.
- Interest expense were down 21.4% y-y due to a 22.9% y-y downward shift in interest on deposits with cost of deposits at 1.0% from 1.3% in H1-21 while deposit mobilization led to an additional 3.1% y-y. Quarterly performance saw interest expense on deposits increase by 2.9% with KES 21.53Mn additional deposit during the period.
- Non-funded income (NFI) grew 10.9% as build on growth in forex trading income which increased by 33.6% y-y. Net fees and commission income shrunk by 6.2% y-y. NFI was up 10.0% q-q as net fees and commission income was up 5.4% boosted and forex trading income up by 21.6% during the quarter. NFI contribution remined flat at 35.6% from 35.4% in H1-21.
- Operating expenses increased by 9.0% boosted by 83.1% drop in loan loss provisions. Excluding provisions, operating expense were up 17.9% as the bank seeks to develop transformational digital capabilities, which pushed other expense up by 37.9% y-y. Staff costs were up 11.5% y-y.

Recommendation:	HOLD
Bloomberg Ticker:	SCBL KN
Share Stats	
Valuation Price	144.86
Current Price (Kes)	139.75
Upside/Downside	3.7%
3 Months Avr	128.14
6 Months Avr	132.50
12 Months Avr	131.80
52 Week High - Low	146.25 - 123.75
Issued shares (Mn)	377.86
Free Float	21.2%
Market Cap (Kes Mn)	52,806.16
Market Cap (USD Mn)	462.46
EPS Annualized	26.36
PE	5.3
PB	0.9

Price Performance		
Counter	Stanchart Kenya	NASI
Period	139.75	147.03
W-W	1.1%	2.8%
M-M	12.2%	16.6%
Y-t-D	7.5%	-12.0%
Y-Y	6.7%	-19.6%



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- Quarter two saw operating expenses surge by 29.2% on a 225.8% rise in loan loss provisions, an indication of a deteriorating book as a net of KES 428Mn was issued during the quarter. Staff costs were up 14.6%, an effect at group levels with bank staff cost declining by 17.1%.
- Cost to income (CTI) was 51.3%, marginally declining from 51.8% in H1-21 while CTI excluding loan loss provisions were at 50.6%, a rise from 47.3% in H1-21.

Balance Sheet

- Total assets increased by 5.4% to KES 364.29Bn from KES 345.65Bn in H1-21. This was boosted by banks intention of invest excess cash in deposits held by other banks which increased by 6,527.8% y-y.
- Investments in securities increased by 2.1% y-y to KES 100.77Bn from KES 98.69Bn. This led to investments in securities taking 27.7% of total assets, lower compared to 28.6% in H1-21.
- Net loan book shrunk by 1.3% y-y to KES 128.52Bn form KES 130.28Bn with only KLES 428Mn added in Q2-22. The decline led to gross non-performing loans dipping marginally by 0.5% y-y for NPL ratio of 10.5% from 10.1% same period in 2020. Loans share of total assets ended to 35.3% from 37.7% during the time. The shrink helped total weighted risk asset (TWRA) increase by 2.2% y-y.
- Customer deposits improved by 3.1% y-y to KES 286.91Bn from KES 278.19Bn. This led to advance to deposit (AD) ratio of 44.8%, down from 44.8% in H1-21.
- Shareholders funds added 9.1% in value to KES 56.43Bn from KES 51.71Bn as the lender beefed its statutory loan reserves.

Key Ratios

- The lender seemed to focus on cheaper deposits as cost of funds declining to 1.1% from 1.3% in H1-21 aiding net interest margins (NIMs) up to 8.9% from 8.2% as yield on assets improved to 10.0% from 9.6% during the period.
- Return on average asset (ROaA) and return on average equity (ROaE) were up to 3.1% and 19.8% from 2.9% and 19.0% respectively boosted by faster growth in PAT (+16.9%) compared to 5.4% and 9.1% increase in total assets and shareholders' funds respectively.
- An 83.1% drop loan loss provisions left cost of risk (CoR) at 0.2% from 1.0% in H1-21. The 225.8% q-q jump in loan loss provisions in Q2-22 will see COR rise in consecutive months.

Outlook.

- The lender seems to cut on risky loans as the ratio of investment in securities to loans increased to 78.45 from 75.8%. withy the returns of the two marginally equal (10.0% in securities and 9.4% in loans and advances) confitures to favor less risky assets. Even with the digital transformation, we do not expect a huge growth in loan book.

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Stanchart Bank Kenya Ltd

Earnings Update – H1-2022

P&L (KES Mn)	Q2-2021	Q2-2022	Δ% Y-Y	Q1-2022	Q2-2022	Δ% Q-Q
Interest Income	11,033	11,520	4.4%	5,664	5,856	3.4%
Interest Expense	1,917	1,506	-21.4%	745	764	2.5%
NII	9,115	10,014	9.9%	4,919	5,092	3.5%
NFI	4,998	5,542	10.9%	2,000	3,055	52.8%
Total Income	14,113	15,556	10.2%	6,919	8,147	17.8%
Loan Loss Provisions	639	108	-83.1%	(86)	194	-325.8%
Operating Expense	7,315	7,980	9.1%	3,367	4,499	33.6%
Opex excl Provision	6,677	7,872	17.9%	3,453	4,305	24.6%
PBT	6,798	7,576	11.5%	3,552	3,648	2.7%
PAT	4,879	5,417	11.0%	2,502	2,652	6.0%
EPS	11.43	13.18	15.3%	6.18	7.00	13.3%

Balance Sheet (KES Mn)	Q2-2021	Q2-2022	Δ% Y-Y
Investments	98,687	100,771	2.1%
Loans and Advances	130,276	128,521	-1.3%
Total Asset	345,646	364,292	5.4%
Customer Deposit	278,187	286,912	3.1%
Shareholders' Fund	51,706	56,430	9.1%

Ratios	Q2-2021	Q2-2022
NII % of Total Income	**64.6%**	**64.4%**
NFI % of Total Income	**35.4%**	**35.6%**
CTI	**51.8%**	**51.3%**
CTI exc Provision	**47.3%**	**50.6%**
Yield on Advances	**9.0%**	**9.4%**
Yield on Government Securities	**9.6%**	**10.0%**
Cost of Deposit	**1.3%**	**1.0%**
Cost of Funds	**1.4%**	**1.1%**
Net Interest Margins	**8.2%**	**8.9%**
ROA	**2.9%**	**3.1%**
ROE	**19.0%**	**19.8%**
Gross NPL to Net Loans	**10.2%**	**10.5%**
Cost of Risk	**1.0%**	**0.2%**
AD Ratio	**46.8%**	**44.8%**
Investment Securities to Assets	**28.6%**	**27.7%**
Advances to Assets	**37.7%**	**35.3%**

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The research analyst(s) primarily responsible for the preparation and content of all or any identified portion of this research report hereby certifies that all of the views expressed herein accurately reflect their personal views. Each research analyst(s) also certify that no part of their compensation was, is, or will be, directly or indirectly, related to the view(s) expressed by that research analyst in this research report.

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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