KINGDOM SECURITIES

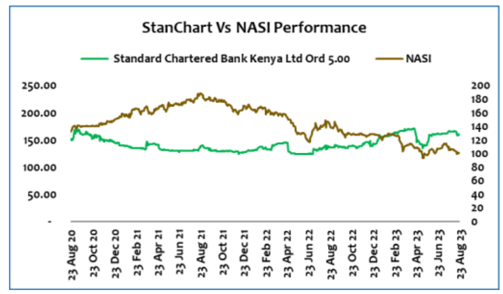
Standard Chartered Bank (K) Earnings Update – H1 2023

StanChart Posts a 27.7% Growth in Profits

Standard Chartered Bank Kenya reported KES 9.64Bn profits before tax (PBT) for the first half of 2023 (H1-2023), a 127.4% year-on-year(y-y) spike compared to KES 7.57Bn announced in H1-2022. The performance was supported by strong performances in both interest and non-funded incomes. Profits after tax went up 27.7% y-y from KES 5.41 Bn to KES 6.91Bn. Quarter on quarter performance saw 29.0% dip in PBT on what we attribute to a challenging macro-economic environment.

The Bank's earnings per shares (EPS) moved 30.3% up from 13.87 in H1-2022 to 18.07 in H1-2023. We advise for a HOLD on the counter's shares as the bank continues to post better returns compared to the general market. The Board did not recommend an interim dividend.

Bloomberg Ticker	SCBK:KN
Share Statistics	
Recommendation	HOLD
Current Price (kes)	159.00
Six Month Average	158.95
12 Month Average	149.69
52 Week High - Low	171.00
Issued shares (Mn)	377.86
Market Cap (Kes Mn)	60,080.00
Market Cap (USD Mn)	527.53
EPS	18.07
P/E	8.80
BVPS	151.20
PB	1.05



NNI + 38.3% Y/Y

Provisions – 1,781.5% Y/Y

Opex. + 40.7% Y-Y

Opex. Excl. Provisions + 16.8% Y/Y

PBT + 27.4% Y/Y

PAT + 27.7% Y-Y

Loans + 7.0% Y-Y

Deposits – 1.1 % Y-Y

Shareholder's Funds + 2.7% Y-Y

Income Statement

- Net interest jumped 38.3% from KES 10.01Bn to KES 13.85Bn largely pushed up by interest income from loans and advances which went up 34.4% from KES 5.96Bn to KES 8.01Bn, contributing 52.1% of the total interest income. Rise in loans and advances remained also elevated by a faster rise in the bank's loan book compared to that on government securities.
- Yield on loans and advances improved from 9.4% in H1-2023 to 11.3% benefitting from the review of lending rates that remained on an uptrend in the period informed by Central Bank Rate reviews. Q-Q loans from loans and advanced doubled at 103.5%, growing by KES 4.08Bn in Q2-2023 in relation to KES 3.94Bn on Q1-2023.
- Interest income from government securities was relatively stable y-y at KES 4.82Bn as focus remained on lending loans. Yield from government securities rose from 10.0%to 11.1% on the general escalation of rates in the market.
- On overall interest income contribution to total income grew from 64.4% in H1-2022 to 66.3% signaling of the company's strong growth in the lending space.
- Non-funded income (NFI) went up 26.8% from KES 5.54Bn to KES 7.03Bn backed by a 96.5% expansion in forex income which contributed 63.4% of the total NFIs. This is was even as banks take advantage of a faster devaluation of the Kenyan shilling.
- Interest expense remained contained at KES 1.52Bn, a 0.9% marginal growth from that of KES 1.51Bn in H1 2022, supported by cheap deposits especially in the bank's current and savings accounts.
- Operating expenses spiked 40.7% y-y from KES 7.99Bn to KES 11.23Bn mainly on accelerations in loan loss provisions, staff costs and the ongoing transformational digital initiatives
- Excluding loan loss provisions, operating expenses increased was contained at a 16.8% growth from KES 7.87BN to KES 9.20Bn.

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Balance Sheet

- The balance sheet slightly declined by 0.7% from KES 364.29Bn to KES 361.68Bn mainly held down by a 31.2% drop in government securities which went down to KES 69.30Bn in H1-2023 from KES 100.77Bn in H1-202.
- Shareholders' funds increased by an additional KES 1.5Bn from KES 55.62Bn to KES 57.13Bn.
- Customer deposits shrunk by 1.1% y-y from KES 286.29Bn to KES 283.91Bn while remaining strong Q-Q with a growth.

Key Ratios

- Cost of funds remained stable y-y at 1.1% reflecting of a strong ability to earn better returns.
- Liquidity ratios remained strong at 62.8% in relation to an industry threshold of 20.0%.
- Return on average equity (ROaE) improved from 19.7% to 24.4% on a faster growth in net income compared to shareholder's funds. Return on average assets moved up from 3.1% to 3.7% also elevated the above growth in net income.

P&L (KES Mn)	Q2-2022	Q1-2023	Q2-2023	Q-Q %Δ	Y-Y %Δ
Interest Income	11,520	7,596	15,371	2.4%	33.4%
Interest Expense	1,506	702	1,519	16.5%	0.9%
NII	**10,014**	**6,894**	**13,851**	**0.9%**	**38.3%**
NFI	5,542	3,868	7,027	-18.3%	26.8%
Total Income	**15,556**	**10,762**	**20,878**	**-6.0%**	**34.2%**
Loan Loss Provisions	108	791	2,036	57.4%	1781.5%
Operating Expense	7,987	5,123	11,234	19.3%	40.7%
Opex Excl Provisions	**7,879**	**4,332**	**9,198**	**12.3%**	**16.8%**
PBT	**7,569**	**5,639**	**9,644**	**-29.0%**	**27.4%**
PAT	5,410	4,027	6,909	-28.4%	27.7%
EPS	13.87	10.55	18.07	-28.7%	30.3%

Balance Sheet (KES Mn)+A15	Q2-2022	Q1-2023	Q2-2023	Q-Q %Δ	Y-Y %Δ
Investments	89,149	92,901	69,301	-25.4%	-22.3%
Loans and Advances	128,093	139,413	137,113	-1.6%	7.0%
Total Asset	340,913	388,636	361,677	-6.9%	6.1%
Customer Deposit	286,912	302,949	283,668	-6.4%	-1.1%
Shareholders' Fund	55,623	60,382	57,133	-5.4%	2.7%

Ratios	Q2-2022	Q1-2023	Q2-2023
NII % of Total Income	64.4%	64.1%	66.3%
NFI % of Total Income	35.6%	35.9%	33.7%
CTI	51.3%	47.6%	53.8%
CTI excl Provisions	50.6%	40.3%	44.1%
Cost of Funds	1.1%	1.0%	1.1%
Net Interest MaRgin	8.9%	11.8%	12.2%
ROaA	3.1%	4.2%	3.7%
ROaE	19.7%	27.6%	24.4%
Gross NPL to Net Loans	15.7%	14.7%	14.7%
AD Ratio	37.6%	35.9%	37.9%
Investment to ASsets	26.2%	23.9%	19.2%

Research Analyst Certification:

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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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