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Standard Chartered Bank Kenya HY'24 Earnings Note

research@aib-axysafrica.com

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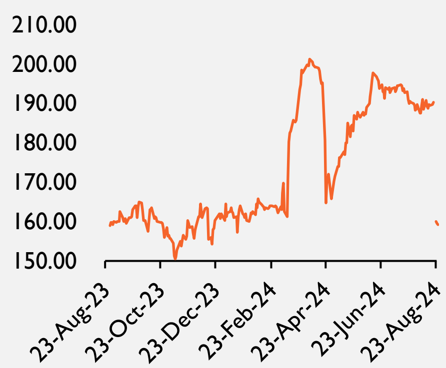
Ticker Information	
NSE Code:	SCBK
Issued Shares (Mn):	377.85
52-week high:	KES 201.25
52-week low:	KES 150.25

Chart 1: Price Trend (Last 12 Months)



Source: NSE, AIB-AXYS Research

Historical Share Performance

Last	1M	3M	6M	12M
Change	9.6%	14.3%	31.2%	30.8%

Source: NSE, AIB-AXYS Research

Analysts

Ronny Chokaa

rchokaa@aib-axysafrica.com

Stacy Makau

smakau@aib-axysafrica.com

Recommendation	Current Price	Target Price
BUY	**KES 209.25**	**KES 240.65**

Summary

- **Standard Chartered Bank Kenya surpassed in-house expectations to post a remarkable 48.8% y/y growth in net earnings to KES 10.28Bn over the first half of 2024.** This growth was underpinned by a robust 24.9% y/y growth in expansion revenue, driven by balanced demand across both affluent banking and mass retail segments. Net interest margins widened to 15.1%. Trailing return on equity increased 400bps y/y to 27.7% while trailing return on assets increased 90bps y/y to 4.7%.
- **The Board of Directors recommend an interim dividend of KES 8.00 per share.** The dividend shall be payable on 8th October 2024 to shareholders on register as of 18th September 2024.

Key Highlights

- **Robust Core Banking Performance:** Net Interest Income soared 19.3% y/y to KES 16.52Bn driven by organic demand growth and higher reinvestment returns. Non-Funded Income grew 36.0% y/y to KES 9.56Bn bolstered by increased transactional volumes and increased forex trading income. The funding mix shifted to 63:37 from 66:34 in favor of non-funded income. The average yield on interest-earning assets paced up 410bps y/y to 16.5% reflecting higher reinvestment returns. Cost of funds increased 20bps y/y to 1.4% given the prevailing high interest rate environment. Consequently, net interest margins widened substantially by 390bps y/y to 15.1%.
- **Resilient Asset Quality:** Gross Non-Performing Loans (NPLs) decreased markedly by 42.9% y/y to KES 13.58Bn – driving the 390bps y/y drop in the net NPL ratio to 5.8%. The lender's prudent approach to risk is further evidenced by the 30bps y/y improvement in NPL coverage to 85.1%, providing a robust buffer against potential credit losses. Management strategically elected to decrease credit impairment provisions by 23.3% y/y to KES 1.56Bn – signaling management's confidence in the lender's loan book quality.

Balance Sheet Dynamics

Customer deposits contracted 260bps y/y to KES 276.40Bn attributed to the dual impact of foreign currency revaluation resulting from the strengthening of the Kenyan shilling and a decline in local currency deposits. Despite this, the loan book demonstrated resilience expanding by 270bps y/y to KES 149.31Bn. Management strategically trimmed its exposure to government securities by 10.4% y/y to KES 62.07Bn induced by attractive margins on customer assets and the need to support operational liquidity. Notably, the lender booked fair value gains on financial investment's holdings of KES 1.57Bn on account of a widespread decline in market yields over the first half of the year.

Optimized Efficiency

Operational efficiency improved demonstrated by the cost-to-Income ratio (excluding loan loss provisions) declining 560bps y/y to 38.4%. This enhanced efficiency was primarily driven by the stronger double digit growth of the operating income by 24.9% to KES 26.08Bn relative to the modest 8.9% y/y growth in pre-provision operating expenses. Increased spending was allocated towards talent acquisition and reward strategies.

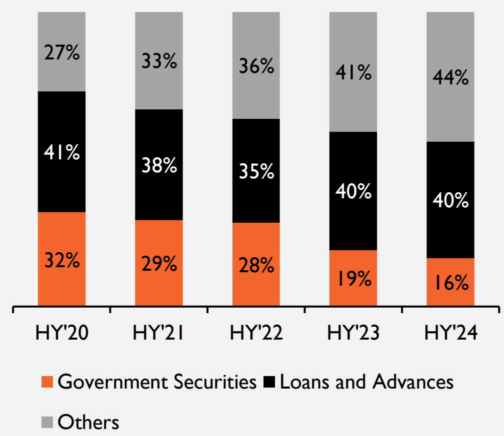
Outlook

We project the lender's long-term growth trajectory to be driven by a balanced expansion in both affluent banking and mass retail segments. We expect the bank's loan portfolio to benefit from cost-effective deposit mobilization, leveraging its recently upgraded comprehensive digital banking platforms. We foresee the bank's revamped digital solutions playing a crucial role in enhancing customer acquisition and retention, thereby supporting deposit growth and overall business expansion.

Recommendation

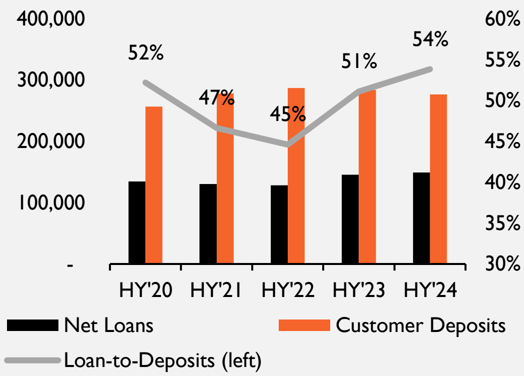
- We maintain our ***BUY*** recommendation on Standard Chartered Bank Kenya on account of an accelerating return on equity momentum amid ongoing strategic initiatives. At the current market price, the stock is trading at P/E ratio of 4.6x and a P/B ratio of 1.2x. Our one-year target price for Standard Chartered currently stands at KES 240.65 - representing a c.15.1% upside potential from current levels.

Chart 2: Asset Composition



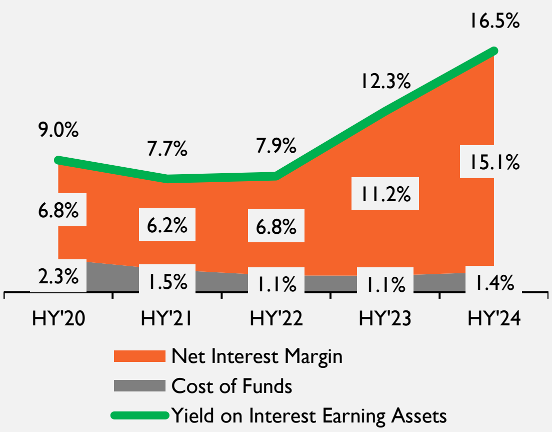
Source: Company filings, AIB-AXYS Research.

Chart 3: Faster Deposit Mobilization



Source: Company filings, AIB-AXYS Research.

Chart 4: Widening Net Interest Margin



Source: Company filings, AIB-AXYS Research.

Income Statement (KES Mn)	HY'20	HY'21	HY'22	HY'23	HY'24	y/y % Change
Net Interest Income	9,393.95	9,115.39	10,014.04	13,851.43	16,518.80	▲ 19.3%
Net non-Interest Income	4,402.57	4,997.61	5,542.17	7,026.65	9,556.23	▲ 36.0%
Total Operating income	**13,796.52**	**14,113.00**	**15,556.21**	**20,878.07**	**26,075.03**	**▲ 24.9%**
Provision for Impairment	(1,624.97)	(638.54)	(108.19)	(2,035.59)	(1,561.16)	▼ (23.3%)
Total Operating expenses	(8,691.20)	(7,315.32)	(7,986.88)	(11,234.01)	(11,580.37)	▲ 3.1%
Profit before tax	5,105.31	6,797.67	7,569.33	9,644.07	14,494.66	▲ 50.3%
Profit after tax	**3,233.06**	**4,879.06**	**5,410.18**	**6,909.38**	**10,281.91**	**▲ 48.8%**
Annualized EPS	17.15	25.89	28.70	36.66	54.55	▲ 48.8%
DPS	-	-	-	-	8.00	▲ 100.0%

Balance Sheet (KES Mn)	HY'20	HY'21	HY'22	HY'23	HY'24	y/y % Change
Government Securities	104,726.50	101,381.16	103,560.17	69,300.57	62,074.97	▼ (10.4%)
Loans and Advances	134,317.14	130,275.65	128,520.85	145,441.51	149,309.00	▲ 2.7%
Total Assets	**327,198.51**	**345,646.34**	**364,291.62**	**361,677.23**	**377,283.64**	**▲ 4.3%**
Customer Deposits	256,496.29	278,186.88	286,911.61	283,668.42	276,402.12	▼ (2.6%)
Total Liabilities	275,477.90	293,939.97	307,862.05	304,544.30	313,172.31	▲ 2.8%
Shareholder's Funds	**51,720.61**	**51,706.37**	**56,429.58**	**57,132.93**	**64,111.33**	**▲ 12.2%**

Ratio Analysis	HY'20	HY'21	HY'22	HY'23	HY'24	y/y change
Spreads Analysis						
Yield on Interest Earning Assets	9.0%	7.7%	7.9%	12.3%	16.5%	▲ 4.1%
Cost of Funds	2.3%	1.5%	1.1%	1.1%	1.4%	▲ 0.2%
Net Interest Margin	6.8%	6.2%	6.8%	11.2%	15.1%	▲ 3.9%
ROaE	13.9%	13.8%	17.7%	23.7%	27.7%	▲ 4.0%
ROaA	2.2%	2.1%	2.7%	3.7%	4.7%	▲ 0.9%
Profit Margin	23.4%	34.6%	34.8%	33.1%	39.4%	▲ 6.3%
Operating Efficiency						
Cost to Income Ratio (Less LLP)	51.2%	47.3%	50.6%	44.1%	38.4%	▼ (5.6%)
Cost to Assets (Less LLP)	2.3%	2.0%	2.2%	2.5%	2.7%	▲ 0.2%
Loan to Deposit Ratio	52.4%	46.8%	44.8%	51.3%	54.0%	▲ 2.7%
Asset Quality						
Net NPL Ratio	9.4%	10.2%	10.5%	9.7%	5.8%	▼ (3.9%)
NPL Coverage	78.2%	81.4%	83.9%	84.8%	85.1%	▲ 0.3%
Cost of Risk	1.2%	0.5%	0.1%	1.4%	1.0%	▼ (0.4%)
Capital Adequacy						
Core Capital/TRWA	15.8%	15.2%	15.4%	16.9%	18.8%	▲ 1.9%
Total Capital /TRWA	18.4%	18.3%	17.7%	17.3%	18.9%	▲ 1.6%
Liquidity	66.8%	70.1%	73.6%	62.8%	63.2%	▲ 0.3%

CONTACTS

Research Desk

Ronny Chokaa

Senior Research Analyst

Stacy Makau

Research Analyst

Alex Sanja

Sheila Wambui

Email: research@aib-axysafrica.com

Equities Dealing

Nina Goswami

Bernard Kung'u

Benard Gichuru

Anthony Kiambati

Samuel Githinji

Sheema Shah

Samuel Wachira

Benson Ngugi

Email: trading@aib-axysafrica.com

Bond Dealing

Crispus Otieno

Titus Marenye

Aundrina Musyoka

Kenneth Minjire

Email: trading@aib-axysafrica.com

Derivatives Trading

Anthony Kiambati

Email: Derivapplications@aib- axysafrica.com
