

Earnings Note



Company details

Bloomberg Ticker	SCBL:KN
NSE Code:	SCBK
Issued Shares (Bn)	0.38
52-week high:	167.00
52-week Low	123.75

As at 14th March 2023

Price Chart – Last 12 Months



AIB-AXYS Research, NSE

Historical Price Performance

	1m	3m	6m	12m
Absolute	4.87%	16.99%	23.02%	34.68%

AIB-AXYS Research, NSE

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Standard Chartered Bank Kenya FY'22 Earnings Note

Recomm: HOLD

Current Price: KES 167.00

Target Price: KES 168.53

Summary

- ♦ **Standard Chartered Bank Kenya FY'22 earnings results were higher than our expectations. The lender posted a 33.41% y/y climb in PAT and a 33.97% growth in EPS** to KES 12.06Bn and KES 31.47/share, respectively, driven by a 18.13% y/y growth in net interest income and a 13.53% y/y growth in non-interest income. Trailing ROaE & ROaA improved to 22.05% & 3.37% respectively in FY'22 as NIMs remained adequate at 6.96%. The board of directors recommended a final dividend of KES 16.00 taking the total dividend paid out in FY'22 to KES 22.00 representing a 15.79% increase from KES 19.00 paid out in FY'21
- ♦ **Loan book grew 10.67% y/y to KES 139.41Bn faster than the 5.05% y/y growth in the customer deposits to KES 278.88Bn** leading to a 254bps growth in the loan deposit ratio to 49.99%. We observed a notable jump in income from the Corporate, Commercial & Institutional Banking (CCIB) by 26.00% to 13.60Bn and Consumer, Private & Business Banking(CPPB) by 15.00% to KES 15.60Bn highlighting outstanding product performance and improved momentum of the wealth management business. Allocation to government securities grew 10.57% y/y to 105.70Bn in FY'22 driven by hunt for higher yields. Fair Value changes through OCI recorded a 15.07% growth y/y to 104.73Mn.

Key Highlights

- **Net interest Income Growth Outpaced Non-Funded Income:** Net Interest Income grew 18.15% y/y to 22.22Bn against a 13.53% y/y increase in Non-Funded income to 11.75Bn primarily driven by increased income from loans and advances, as well as interest income from government securities due to a recent uptick in government yields. The ongoing dollar shortage on the forex market has created market arbitrage for the lenders, as seen by the growth of forex trading income of 58.36% year over year to 5.97Bn. On a trailing basis, Yield on assets grew 41ps y/y to 7.98% as income from government papers grew faster than interest earning assets in the year. Cost of funds plummeted 15bps to 1.18% y/y. Subsequently, profitability margin increased 448bps y/y to 35.49% and the Net Interest Margin (NIM) grew 57bps y/y to 6.96%.
- **Efficiency Improved to Mid-40's:** The Cost to Income ratio less impairment declined 391bps on a year-on-year basis to 45.75%. CTI improvement was driven by operating income (+16.50% y/y) growing faster than operating expenses (+1.86%). In line with industry trend, Loan loss provisions declined 36.18% y/y to KES 1.33Bn after two consecutive years of increased provisioning.
- **Asset Quality improves:** Gross NPLs declined 3.01% y/y to KES 22.58Bn, leading to the NPL ratio declining 179bps y/y to 14.19% albeit higher than the latest industry average of 13.30%. NPL coverage further improved 265bps to 87.06% from 84.41% in FY21. Cost of risk was down 70bps driven by lower provisioning. We expect the asset quality to continue improving given the expected reduced cost of refinancing brought on by the recalling of the second and third tranche of subordinated debt expected to be completed in 2023.

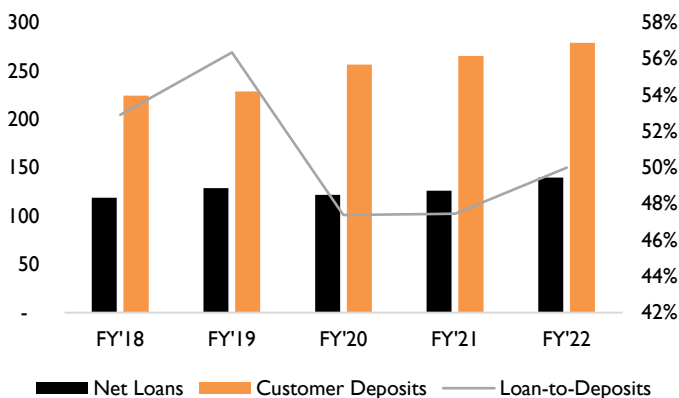
March 15th 2023

Outlook – The performance bettered our expectations where we observed improved growth in the loan book compared to customer deposits, as well as an improvement in asset quality through lower non-performing loans. We expect long-term growth to be driven by financial markets - global financial markets subsidiary which grew +29.00% y/y and wealth management business which grew +35.00% y/y in FY'22. We believe the growth in wealth management AUM to KES 148.00Bn signals the shift to capital light business lines to compliment loan book growth. Additionally, partnerships in the financial and lending digital space will also be key growth drivers.

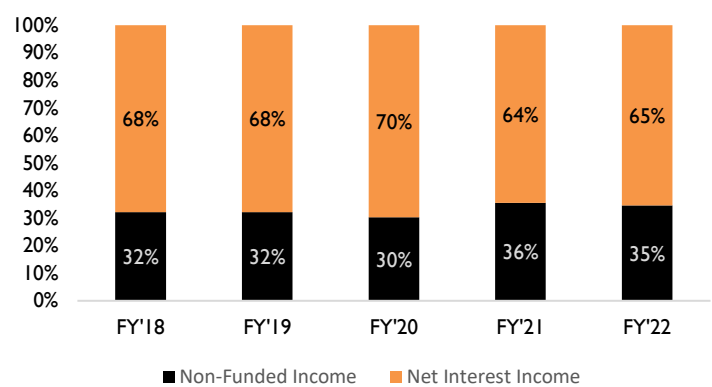
Valuation - The counter is currently trading at a P/B multiple of 1.13x compared to a sector average of 0.77x, and a dividend yield of 13.17%. As such we maintain our HOLD recommendation as we do not see huge upside potential in the coming trading sessions. The minimal movement in SCBK's share price in yesterday's trading session suggests that the attractive dividend payout did not spark the expected excitement from investors.

Standard Chartered Bank FY'22 Earnings Charts

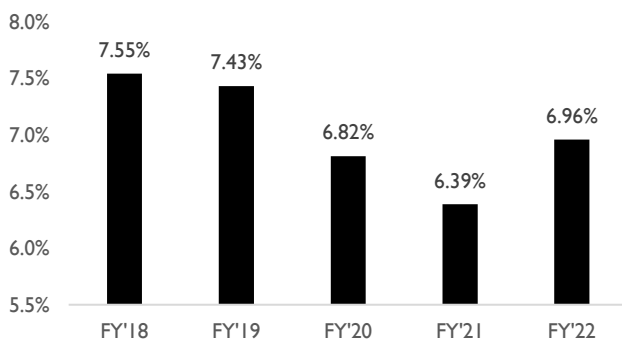
Graph 1: Deposits growth continues to outpace loan growth



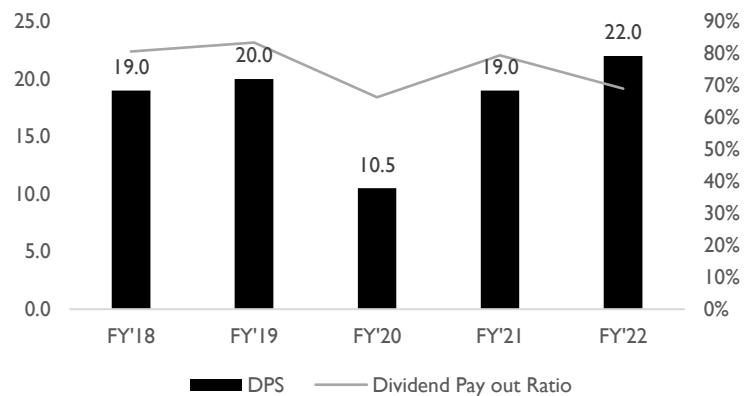
Graph 2: Net Interest Income growth outpaced Net Non-Interest Income



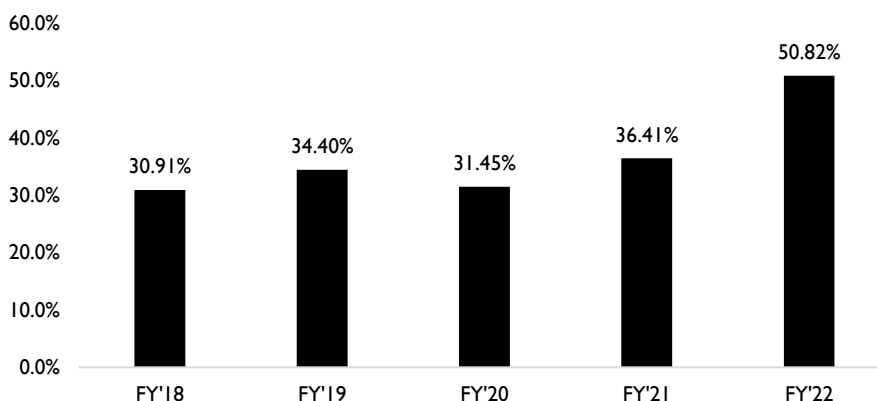
Graph 3: We observed a slight uptick in Net Interest Margins



Graph 4: Dividend Payout Ratio declined moderately



Graph 5: Forex Income as a % of Net Income grew significantly



Source: NSE, CBK, Company Filings, AIB-AXYS Analyst Estimates

Financial Statement Summary

I. Statement of Profit and Loss

Income Statement	FY20	FY'21	Q1'22	Q2'22	Q3'22	FY'22	% y/y Change	FY'22e	Variance
Net Interest Income	19,117.15	18,809.42	4,922.46	10,014.04	15,784.06	22,223.07	18.15%	21,204.99	4.80%
Net non-Interest Income	8,289.78	10,355.00	2,486.70	5,542.17	8,778.30	11,753.98	13.51%	12,172.30	-3.44%
Total Operating income	27,406.93	29,164.42	7,409.15	15,556.21	24,562.37	33,977.05	16.50%	33,217.29	2.29%
Provision for Impairment	(3,882.16)	(2,081.63)	86.01	(108.19)	621.02	(1,328.46)	-36.18%	(890.04)	49.26%
Total Operating expenses	(20,010.88)	(16,566.37)	(3,481.17)	(7,986.88)	(12,267.73)	(16,873.85)	1.86%	(15,368.14)	9.80%
Profit before tax	7,396.06	12,598.05	3,927.98	7,569.33	12,294.63	17,103.20	35.76%	17,849.15	-4.18%
Profit after tax	5,440.42	9,043.84	2,764.73	5,410.18	8,712.87	12,057.94	33.33%	12,813.48	-5.90%
Core EPS	14.43	23.99	7.33	14.35	23.11	32.47	35.34%	33.99	-4.47%
DPS	10.50	19.00	-	-	6.00	22.00	15.79%	26.00	-15.38%

2. Statement of Financial Position

Balance Sheet	FY20	FY'21	Q1'22	Q2'22	Q3'22	FY'22	% y/y Change	FY'22e	Variance
Government Securities	99,779.22	95,595.61	101,366.51	103,560.17	111,988.51	105,696.88	10.57%	123,469.77	-14.39%
Loans and Advances	121,524.23	125,974.59	128,092.64	128,520.85	138,071.60	139,412.56	10.67%	136,424.15	2.19%
Total Assets	325,605.07	334,871.94	340,912.86	364,291.62	366,116.42	381,260.02	13.85%	366,877.46	3.92%
Customer Deposits	256,497.53	265,469.11	265,388.13	286,911.61	286,074.22	278,879.31	5.05%	293,923.50	-5.12%
Total Liabilities	274,715.03	281,657.83	285,289.72	586,510.02	310,645.00	325,123.29	15.43%	309,781.15	4.95%
Shareholder's Funds	50,890.04	53,214.11	55,623.14	56,429.58	55,471.43	56,136.73	5.49%	57,096.31	-1.68%

3. Key Metrics

	FY19	FY20	FY'21	Q1'22	Q2'22	Q3'22	FY'22
Growth Metrics							
Loan book Growth	-3.01%	0.07%	3.66%	8.67%	-1.35%	4.80%	10.67%
Customer Deposits Growth	8.46%	6.42%	3.50%	0.05%	3.14%	10.72%	5.05%
PAT Growth	50.91%	46.67%	66.23%	15.63%	10.89%	37.11%	33.33%
Spreads Analysis							
Yield on Assets	7.74%	7.95%	7.57%	7.38%	8.32%	8.34%	7.98%
Cost of Funds	1.49%	1.49%	1.33%	1.22%	1.08%	1.14%	1.18%
Net Interest Margin	6.39%	6.67%	6.39%	6.31%	7.20%	7.21%	6.96%
ROaE	13.70%	14.46%	17.37%	10.72%	17.71%	21.01%	22.05%
ROaA	2.11%	2.31%	2.74%	1.71%	2.70%	3.27%	3.37%
Profit Margin	34.57%	28.53%	31.01%	37.32%	34.78%	35.47%	35.49%
Operating Efficiency							
Cost of Income Less LLP	47.31%	48.02%	49.67%	48.15%	50.65%	52.47%	45.75%
Cost of Assets	1.98%	3.32%	4.39%	1.05%	2.22%	3.70%	4.34%
Loan to Deposit	46.83%	50.99%	47.45%	48.27%	44.79%	48.26%	49.99%
Asset Quality							
NPL	15.36%	15.26%	15.99%	15.40%	15.41%	15.22%	14.19%
NPL Coverage	81.40%	82.80%	84.41%	81.83%	83.88%	82.44%	87.06%
Cost of Risk	0.49%	2.04%	1.65%	-0.07%	0.08%	-0.45%	0.95%
Capital Adequacy							
Core Capital/TRWA	15.19%	15.53%	15.53%	15.35%	15.43%	15.42%	15.36%
Total Capital /TRWA	18.27%	17.76%	17.76%	17.62%	17.73%	17.66%	17.28%
Liquidity	70.06%	67.41%	70.73%	71.56%	73.61%	71.86%	73.03%

Source: Company Filings, AIB-AXYS Estimates



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