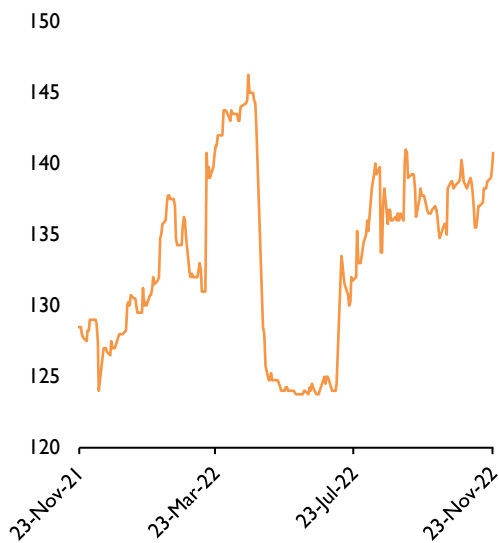


Company details

Bloomberg Ticker	SCBK:KN
NSE Code:	SCBK
Issued Shares (Bn)	0.38
Market Cap (Bn)	52.71
52-week high:	146.25
52-week Low	123.75

As at 23rd November 2022

Price chart – Last 12 Months



AIB-AXYS Research, NSE

Historical Price Performance

	1m	3m	6m	12m
Absolute	1.62%	2.93%	13.51%	9.53%

AIB-AXYS Research, NSE

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Standard Chartered Bank Earnings Note

Recomm: HOLD

Current Price: KES 140.75

Target Price: KES 144

Summary

- ♦ **Standard Chartered Bank released their 3Q22 earnings results posting a 37.11% climb in EPS & PAT** to KES 22.61 and KES 8.71Bn respectively driven by a 7.29% increase in net interest income and a 16.11% growth in non-interest income. Trailing ROaE & ROaA improved to 14.37% & 2.24% respectively in Q3'22. NIMs remained adequate at 6.40% while the profit margin edged up 6.94% points q/q to 35.47%. Factoring in the growth from previous quarters, we foresee the lender closing the year with a PAT of between KES 10.00 – 12.00 Bn
- ♦ **Customer deposits grew 10.72% y/y to KES 286.07Bn faster than the 3.28% y/y growth in the Loan book to KES 136.07Bn** leading to a 671bps decline in the loan deposit ratio to 47.57%. Allocation to government securities grew 13.17% y/y to 111.99Bn surpassing the 110Bn Mark for the first time in 4 years. Fair value changes as a percentage of government securities increased to 1.05% from 0.03% in Q3'21 owing to the rising yield curve. We remain concerned with the lagging loan book growth compared to industry peers who are growing at double-digit figures.

Key Highlights

- **Non-Funded Income grows faster than Net interest Income:** Non-Funded Income grew 16.11% y/y to 8.78Bn against a 7.29% y/y increase in net interest income to 15.78Bn mainly driven by increased income from fees and commissions from lending. The ongoing dollar shortfall on the forex market has created arbitrage opportunities for the lenders, as seen by the growth of forex trading income of 65.96% y/y. Yield on assets fell 20bps y/y to 7.75% as income from government papers grew slower than loan interest income while the Cost of funds fell 19bps to 0.92%.
- **Staff costs weighs down on efficiency:** The Cost to Income ratio less impairment declined 125bps y/y to 47.40% attributable to faster-operating income growth (+10.28% y/y) compared to a 6.25% y/y increase in staff costs to 5.19Bn. In line with industry trend, Loan loss provisions fell 76.84% y/y to KES 0.62 Bn indicating reduced lending risk.
- **Asset quality still a concern:** Gross NPLs increased 4.42% y/y to KES 24.03Bn, leading to the NPL ratio increasing 983bps y/y to 15.41% above the latest industry average of 13.80%. NPL coverage further declined marginally to 82.44% from 82.80% in 3Q21.

Valuation - The growth in non-funded income, reduced loan loss provisions and increased interest income from government securities all attributed to the bank's performance. NFI will continue to be one of the main drivers of growth driven by growth in the wealth management business. At the Current Market Price, the stock is trading at 6.05x P/E above the industry median of 3.60x and a P/TB multiple of 1.03x. Therefore, we maintain a **HOLD** recommendation with a revised price target of **KES 144.00**. The proposed interim dividend of KES 6.00 is likely to push the share price above our target price.

Financial Statement Summary

I. Statement of Profit and Loss

	FY18	FY19	FY20	Q3'21	FY21	Q3'22	Y/Y Change (%)
Net Interest Income	19,396.30	19,472.49	19,117.15	14,712.00	18,809.42	15,784.06	7.29%
Net non-Interest Income	9,201.22	9,227.42	8,289.78	7,560.36	10,355.00	8,778.30	16.11%
Total Operating income	28,597.52	28,699.91	27,406.93	22,272.37	29,164.42	24,562.37	10.28%
Provision for Impairment	(1,930.51)	(572.59)	(3,882.16)	(2,681.25)	(2,081.63)	(621.02)	-76.84%
Total Operating expenses	(16,750.90)	(16,526.06)	(20,010.88)	(13,376.12)	(16,566.37)	(12,267.73)	-8.29%
Profit before tax	11,846.62	12,173.86	7,396.06	8,896.24	12,598.05	12,294.63	38.20%
Profit after tax	8,099.19	8,236.77	5,440.42	6,354.71	9,043.84	8,712.87	37.11%
Core EPS	23.09	21.85	14.43	16.49	23.49	22.61	37.11%

2. Statement of Financial Position

	FY18	FY19	FY20	Q3'21	FY21	Q3'22	Y/Y Change (%)
Government Securities	98,704.74	99,628.93	99,779.22	98,959.81	95,595.61	111,988.51	13.17%
Loans and Advances	118,651.55	128,690.34	121,524.23	131,744.12	125,974.59	136,071.60	3.28%
Total Assets	285,404.02	302,139.06	325,605.07	330,696.79	334,871.94	366,116.42	10.71%
Customer Deposits	224,284.42	224,284.42	256,497.53	258,379.72	265,469.11	286,074.22	10.72%
Total Liabilities	238,764.64	238,764.64	274,715.03	277,631.03	281,657.83	310,645.00	11.89%
Shareholder's Funds	46,639.39	46,639.39	50,890.04	53,065.77	53,214.11	55,471.43	4.53%

3. Key Metrics

	Q1'21	Q2'21	Q3'21	FY'21	Q1'22	Q2'22	Q3'22
Growth Metrics							
Loan book Growth	-6.10%	-3.01%	0.07%	3.66%	8.67%	-1.35%	3.28%
Customer Deposits Growth	8.91%	8.46%	6.42%	3.50%	0.05%	3.14%	10.72%
PAT Growth	18.91%	50.91%	46.67%	66.23%	15.63%	10.89%	37.11%
Spreads Analysis							
Yield on Assets	8.14%	7.74%	7.95%	7.57%	7.86%	8.85%	7.75%
Cost of Funds	0.38%	0.73%	1.11%	1.36%	0.29%	0.57%	0.92%
Net Interest Margin	6.67%	6.39%	6.67%	6.39%	6.41%	7.31%	6.40%
ROaE	11.33%	13.70%	14.46%	17.37%	10.72%	11.04%	14.37%
ROaA	1.79%	2.11%	2.31%	2.74%	1.71%	1.68%	2.24%
Profit Margin	33.79%	34.57%	28.53%	31.01%	37.32%	34.78%	35.47%
Operating Efficiency							
Cost of Income Less LLP	46.17%	47.31%	48.02%	49.67%	48.15%	50.65%	47.42%
Cost of Assets	1.00%	1.98%	3.32%	4.39%	1.05%	2.22%	3.34%
Loan to Deposit	44.44%	46.83%	50.99%	47.45%	48.27%	44.79%	47.57%
Asset Quality							
NPL	16.40%	15.36%	15.26%	15.99%	15.40%	15.41%	15.41%
NPL Coverage	81.14%	81.40%	82.80%	84.41%	81.83%	83.88%	82.44%
Cost of Risk	5.84%	4.52%	12.04%	7.14%	-1.16%	0.70%	2.53%
Capital Adequacy							
Core Capital/TRWA	15.94%	15.89%	15.60%	15.53%	15.35%	15.43%	15.42%
Total Capital /TRWA	18.34%	18.27%	17.69%	17.76%	17.62%	17.73%	17.66%
Liquidity	67.58%	70.06%	67.41%	70.73%	71.56%	73.61%	71.86%



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