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Standard Chartered Bank Kenya FY'24 Earnings Note

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Standard Chartered Kenya FY'24 Earnings Note

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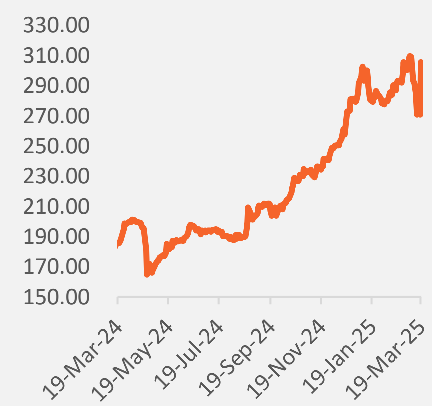
Ticker Information	
NSE Code:	SCBK
Issued Shares (Mn):	377.85
52-week high:	KES 310.00
52-week low:	KES 134.00

Chart 1: Price Trend (Last 12 Months)



Source: NSE, AIB-AXYS Research

Historical Share Performance

Last	1M	3M	6M	12M
Change	4.2%	15.1%	47.6%	64.7%

Source: NSE, AIB-AXYS Research

Recommendation	Current Price	Target Price
BUY	**KES 305.50**	**KES 323.79**

Summary

- **Standard Chartered Bank Kenya, registered a notable 45.0%y/y growth in net earnings to KES 20.06Bn in their FY'24 results, in line with in-house expectations.** This performance was reinforced by a 40.4% y/y increase in non-interest revenue, continuing to showcase demand growth across affluent banking and mass retail segments. Net interest margins widened by 160bps y/y to 15.0% with the bank capitalizing on attractive yields offered on government securities during the high interest environment that characterized FY'24. Trailing return on equity surged 680bps to 30.2% while trailing return on assets increased by 150bps to 4.9%.

Key Highlights

- **Core Banking Performance Surge:** Net interest income recorded an impressive 13.4% y/y increase to KES 33.26Bn. The rising interest rates saw floating rate credit facilities witness an uptick in interest charges, bolstering interest income for the bank. Non-funded income surged 40.4% to KES 17.41Bn, underpinned by elevated transactional volume that saw other fees and commissions income rise 13.8y/y to KES 6.42Bn. The average yield on interest-earning assets rose by 250bps to 16.9% on the back of improved reinvestment returns, whilst the cost of funds registered a marginal increase of 90bps y/y increase showcasing effective cost management strategies that minimized deposit mobilization costs.
- **Recovering Asset Quality:** Gross Non-Performing Loans (NPLs) contracted by 30.2% y/y to KES 12.02Bn – fueling a 170bps decline in the net NPL ratio to 5.0%. Management's prudent utilization of various resolution strategies contributed to recoveries from the Corporate and Institutional banking segment witnessing an uptick, however, this was offset by a reduction in recoveries in the affluent and retail banking segments. Additionally, effective loan book management, saw the NPL coverage ratio improve by 30bps to 81.8%, continuing to provide a healthy buffer against potential credit losses. Credit impairment provisions declined by 29.6%y/y, reflecting management's increasing confidence in improving asset quality, which we expect to be further supported by lower interest expenses on credit as lending rates ease.

Balance Sheet Dynamics

Customer deposits came under pressure in FY'24, registering a 13.8%y/y decline to KES 295.69Bn, as the strengthening of the shilling led to a devaluation in foreign-denominated deposits. Additionally, deposit mobilization was weighed down by shifting client preferences, who opted for alternative investments in wealth as they sought improved returns. This saw investment vehicles like unit trusts gaining significant traction in 2024. On the other hand, allocation to government securities witnessed a 40.9% y/y uptick to KES 98.00Bn, as the lender opted to extend credit to the government, attracted by the higher returns offered. This strategy was preferred over lending to the corporate and retail sectors, which presented lower returns and heightened credit default risks — a trend observed across the industry.

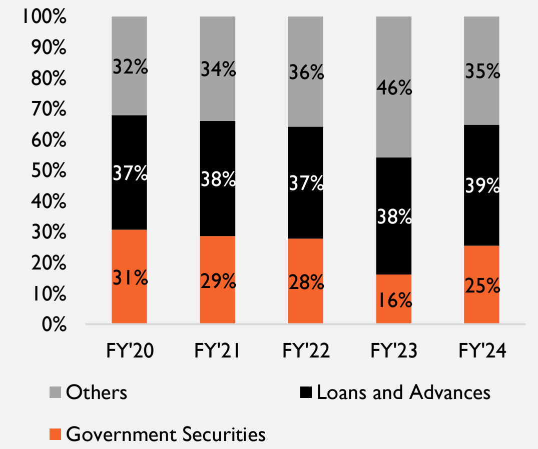
Outlook

We expect a slowdown in net interest income in the near term, with declining interest rates expected to compress net margins as yields on interest-earnings assets ease. However, we believe that the downside potential could be mitigated by a recovery in credit lending growth as lending rates decline. Conversely, deposit growth is expected to remain muted in the near term, with the shift in client preference to alternative investments expected to persist. Standard Chartered is, however, well-positioned to benefit from this shift, with its existing asset management division continuing to experience robust growth. Assets under management rose by 27% from 2022, reaching KES 235.3Bn, while the newly introduced Shillingi funds saw an impressive 342% surge to KES 17.6Bn. Litigation risks do pose a challenge to earnings prospects, with the lender having lost a case in the court of appeal that could see it liable to pay KES 9Bn in outstanding pension benefits, a move that could impact future dividend payments. Despite, the lender's move to appeal the decision, we believe that the outstanding liability could weigh on share price prospects in the medium term.

Recommendation

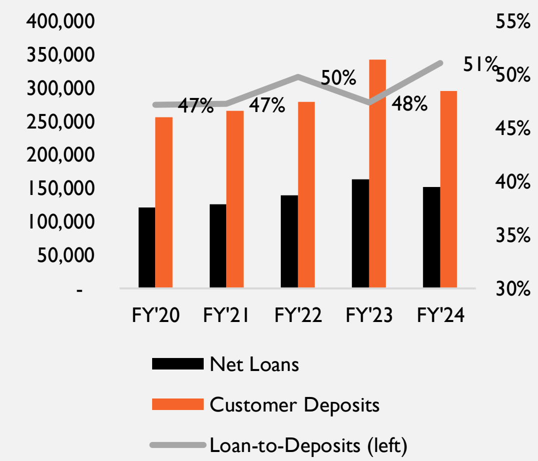
- **We maintain our BUY recommendation for Standard Chartered Bank Kenya on account of its sustained earnings momentum, its significant dividend payout ratio, and robust return on equity which are supported by ongoing strategic initiatives.** At the current market price, the stock is trading at a P/E ratio of 5.8x and a P/B ratio of 1.6x. Our one-year target price for Standard Chartered currently stands at KES 323.79 - representing a c.6.0% upside potential from current levels.

Chart 2: Asset Composition



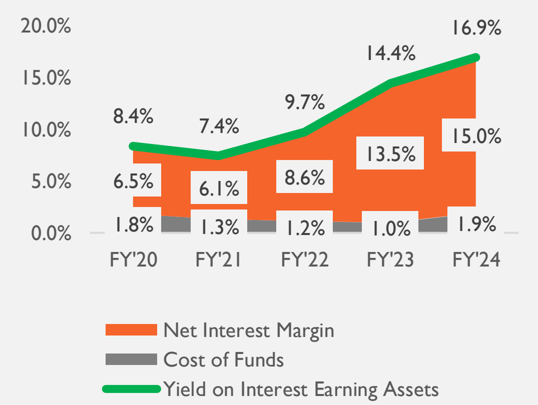
Source: Company filings, AIB-AXYS Research.

Chart 3: Slowdown in Deposit Mobilization



Source: Company filings, AIB-AXYS Research.

Chart 4: Widening Net Interest Margin



Source: Company filings, AIB-AXYS Research.

Income Statement (KES Mn)	FY'20	FY'21	FY'22	FY'23	FY'24	y/y % Change
Net Interest Income	19,117.15	18,809.42	22,223.07	29,325.09	33,265.30	▲ 13.4%
Net non-Interest Income	8,289.78	10,355.00	11,753.98	12,404.10	17,410.88	▲ 40.4%
Total Operating income	27,406.93	29,164.42	33,977.05	41,729.19	50,676.19	▲ 21.4%
Provision for Impairment	(3,882.16)	(2,081.63)	(1,328.46)	(3,380.00)	(2,380.73)	▼ (29.6%)
Total Operating expenses	(20,010.88)	(16,566.37)	(16,873.85)	(22,060.10)	(22,468.85)	▲ 1.9%
Profit before tax	7,396.06	12,598.05	17,103.20	19,669.08	28,207.34	▲ 43.4%
Profit after tax	5,440.42	9,043.84	12,057.94	13,836.07	20,059.69	▲ 45.0%
Annualized EPS	14.43	23.99	31.99	36.70	53.21	▲ 45.0%

Balance Sheet (KES Mn)	FY'20	FY'21	FY'22	FY'23	FY'24	y/y % Change
Government Securities	99,779.22	95,595.61	105,696.88	69,574.70	98,002.71	▲ 40.9%
Loans and Advances	121,524.23	125,974.59	139,412.56	163,161.78	151,647.38	▼ (7.1%)
Total Assets	**325,605.07**	**334,871.94**	**381,260.02**	**428,962.18**	**384,574.09**	▼ (10.3%)
Customer Deposits	256,497.53	265,469.11	278,879.31	342,853.24	295,690.09	▼ (13.8%)
Total Liabilities	274,715.03	281,657.83	325,123.29	367,429.91	312,797.97	▼ (14.9%)
Shareholder's Funds	**50,890.04**	**53,214.11**	**56,136.73**	**61,532.27**	**71,776.12**	▲ 16.6%

Ratio Analysis	FY'20	FY'21	FY'22	FY'23	FY'24	y/y change
Spreads Analysis						
Yield on Interest Earning Assets	8.4%	7.4%	9.7%	14.4%	16.9%	▲ 2.5%
Cost of Funds	1.8%	1.3%	1.2%	1.0%	1.9%	▲ 0.9%
Net Interest Margin	6.5%	6.1%	8.6%	13.5%	15.0%	▲ 1.6%
ROaE	10.9%	17.3%	21.8%	23.5%	30.2%	▲ 6.8%
ROaA	1.7%	2.7%	3.4%	3.4%	4.9%	▲ 1.5%
Profit Margin	19.9%	31.0%	35.5%	33.2%	39.6%	▲ 6.4%
Operating Efficiency						
Cost to Income Ratio (Less LLP)	58.8%	49.7%	45.8%	44.8%	39.6%	▼ (5.1%)
Cost to Assets (Less LLP)	5.1%	4.4%	4.3%	4.6%	4.9%	▲ 0.3%
Loan to Deposit Ratio	47.4%	47.5%	50.0%	47.6%	51.3%	▲ 3.7%
Asset Quality						
Net NPL Ratio	10.9%	10.9%	9.4%	6.7%	5.0%	▼ (1.7%)
NPL Coverage	80.6%	84.4%	87.1%	81.6%	81.8%	▲ 0.3%
Cost of Risk	3.2%	1.7%	1.0%	2.1%	1.6%	▼ (0.5%)
Capital Adequacy						
Core Capital/TRWA	15.5%	15.5%	15.4%	17.8%	19.5%	▲ 1.7%
Total Capital /TRWA	17.8%	17.8%	17.7%	17.8%	19.6%	▲ 1.7%
Liquidity	67.4%	70.7%	73.0%	66.3%	67.6%	▲ 1.3%

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