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Standard Chartered Q1'25 Earnings Note

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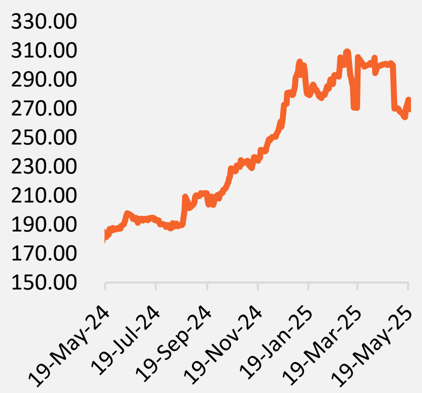
Standard Chartered Kenya Q1'25 Earnings Note

May 23rd, 2025

Ticker Information	
NSE Code:	SCBK
Issued Shares (Mn):	377.85
52-week high:	KES 315.00
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	-10.5%	-8.1%	13.8%	46.1%

Source: NSE, AIB-AXYS Research

Recommendation	Current Price	Target Price
BUY	KES 270.00	KES 323.11

Summary

- **Standard Chartered Bank Kenya underperformed in-house estimates, posting a 13.5%y/y decline in net earnings to KES 4.85 Bn for the first three months of 2025.** The underperformance was primarily driven by a 0.8% y/y decline in net interest income, attributed to a more accommodative monetary environment that led to lower yields on government securities, thereby reducing interest income. Additionally, non-funded income saw a sharp 29.3% y/y decline, as reduced volatility in the foreign exchange market compressed trading margins. On a positive note, the bank's trailing return on equity rose by 270bps to 27.9% y/y, while return on assets improved by 100bps to 5.0% y/y.

Key Highlights

- **Core banking performance under pressure:** Net interest income contracted 0.8%y/y to KES 8.21Bn, weighed down by declining interest income from loans and advances which realized a 12.6% y/y decline to KES 5.01Bn. We believe that this decline is likely attributable to a contraction in the loan book, as the bank tightened its credit lending standards in response to elevated non-performing loans, impacting revenue generation. Non-funded income also witnessed significant weakness in the quarter, registering a 29.3% y/y decline as shrinking margins squeezed foreign exchange trading income, while lower transaction volumes weighed down fees and commission income. Despite the easing monetary policy environment, yields on interest-earning assets edged up by 70bps y/y to 16.2% while the cost of funds also increased 70bps y/y to 1.9%, resulting in a net interest margin of 14.4%.
- **Resilient Asset Quality:** Gross Non-Performing Loans (NPLs) continued their downward trajectory, registering a 26.1% y/y decline to KES 12.21 Bn, driving a 100bps y/y decline in the net NPL ratio to 5.1%. We expect this trend to persist through the remainder of the financial year, supported by management's continued adoption of a prudent lending strategy and a declining interest rate environment that is likely to ease credit costs. In line with the drop in NPLs, the NPL coverage ratio declined by 500bps to 78.7%, reflecting a more relaxed stance on credit risk. Credit impairment provisioning also fell by 24.7% y/y to KES 0.41 Bn.

Balance Sheet Dynamics

Customer deposits contracted by 6.8% y/y to KES 285.21 Bn, in-line with our expectations. This contraction reflected growing pressure on funding dynamics, likely driven by a shift in investor preferences, as investors sought higher-yielding alternative investments. Similarly, the loan book contracted by 10.2% y/y to KES 137.85Bn, which we attribute to a cautious lending strategy amid persistently elevated credit default risks in the market. In response to reduced lending activity, the bank capitalized on opportunities in the fixed income market, which, despite falling yields, continues to offer lower-risk returns. As a result, investments in government securities surged by 94.0% y/y to KES 97.65Bn. Additionally, declining yields supported bond prices, enabling the lender to realize fair value gains of KES 0.69Bn —underscoring effective portfolio management.

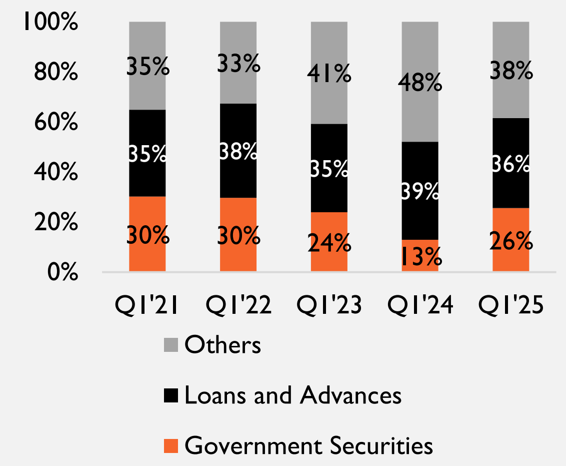
Outlook

In line with our full-year guidance, we anticipate that net interest income will remain constrained for the remainder of the financial year. This is primarily due to a more accommodative monetary policy environment, which is expected to compress net interest margins as yields on interest-earning assets decline. While this trend was not evident in the first quarter—largely due to the lag in monetary policy transmission under the risk-based pricing model—we expect to see contracting yields in the second quarter, which will likely further dampen interest income. Additionally, we expect loan book growth to remain subdued in the near term, as heightened credit default risks continue to limit credit expansion. Consequently, the lender's focus is likely to remain on investments in government securities during the upcoming quarter. However, in the latter half of the year, we may begin to see a gradual shift toward lending, supported by an improving macroeconomic environment that is likely to strengthen client balance sheets, minimizing lending risks. Despite the anticipated muted earnings, we believe that the lender is likely to maintain dividends at KES 45.00 in the financial year- a move that is expected to sustain investor interest. However, the outlook does remain precarious due to ongoing litigation risks associated with the lenders unresolved legal case.

Recommendation

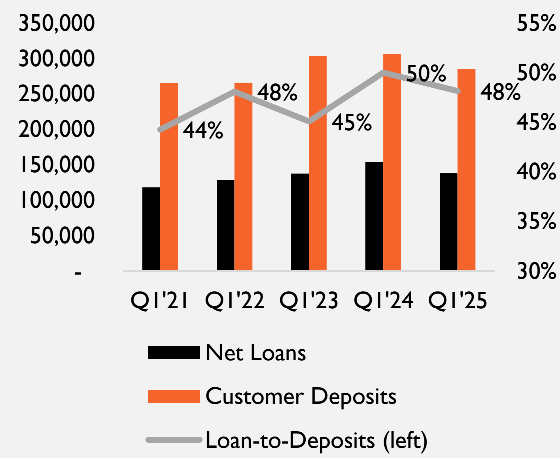
- **We maintain our *BUY* recommendation for Standard Chartered Bank Kenya on account of its robust return on equity supported by ongoing strategic initiatives.** At the current market price, the stock is trading at P/E ratio of 7.8x and a P/B ratio of 1.3x. Our one-year target price for Standard Chartered currently stands at KES 323.11 - representing a c.19.7% upside potential from current levels.

Chart 2: Asset Composition



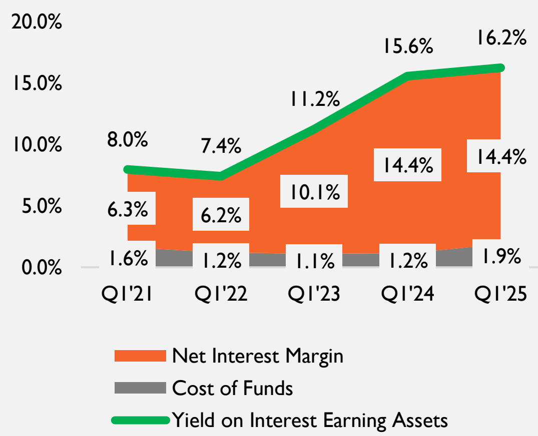
Source: Company filings, AIB-AXYS Research.

Chart 3: Slowing Deposit Mobilization



Source: Company filings, AIB-AXYS Research.

Chart 4: Net Interest Margin



Source: Company filings, AIB-AXYS Research.

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Income Statement (KES Mn)	Q1'21	Q1'22	Q1'23	Q1'24	Q1'25	y/y % Change
Net Interest Income	4,591.75	4,922.46	6,893.95	8,272.60	8,207.64	▼ (0.8%)
Net non-Interest Income	2,484.67	2,486.70	3,867.75	4,791.95	3,389.87	▼ (29.3%)
Total Operating income	7,076.42	7,409.15	10,761.70	13,064.55	11,597.51	▼ (11.2%)
Provision for Impairment	(413.21)	86.01	(790.92)	(547.92)	(412.52)	▼ (24.7%)
Total Operating expenses	(3,680.05)	(3,481.17)	(5,122.97)	(5,428.57)	(4,957.73)	▼ (8.7%)
Profit before tax	3,396.37	3,927.98	5,638.73	7,635.98	6,639.78	▼ (13.0%)
Profit after tax	2,391.05	2,764.73	4,026.94	5,616.22	4,858.02	▼ (13.5%)
Annualized EPS	25.37	29.34	42.73	59.59	51.55	▼ (13.5%)

Balance Sheet (KES Mn)	Q1'21	Q1'22	Q1'23	Q1'24	Q1'25	y/y % Change
Government Securities	102,410.27	101,366.51	92,900.67	50,340.75	97,654.58	▲ 94.0%
Loans and Advances	117,873.46	128,092.64	137,112.96	153,576.27	137,859.44	▼ (10.2%)
Total Assets	**339,258.22**	**340,912.86**	**388,636.07**	**391,340.95**	**382,256.41**	▼ (2.3%)
Customer Deposits	265,249.88	265,388.13	302,948.69	306,007.53	285,213.53	▼ (6.8%)
Total Liabilities	286,369.04	285,289.72	328,254.39	323,376.72	306,166.82	▼ (5.3%)
Shareholder's Funds	**52,889.18**	**55,623.14**	**60,381.69**	**67,964.23**	**76,089.59**	▲ 12.0%

Ratio Analysis	Q1'21	Q1'22	Q1'23	Q1'24	Q1'25	y/y change
Spreads Analysis						
Yield on Interest Earning Assets	8.0%	7.4%	11.2%	15.6%	16.2%	▲ 0.7%
Cost of Funds	1.6%	1.2%	1.1%	1.2%	1.9%	▲ 0.7%
Net Interest Margin	6.3%	6.2%	10.1%	14.4%	14.4%	▼ (0.1%)
ROaE	11.4%	17.3%	23.4%	25.1%	27.9%	▲ 2.7%
ROaA	1.8%	2.8%	3.7%	4.0%	5.0%	▲ 1.0%
Profit Margin	33.8%	37.3%	37.4%	43.0%	41.9%	▼ (1.1%)
Operating Efficiency						
Cost to Income Ratio (Less LLP)	46.2%	48.1%	40.3%	37.4%	39.2%	▲ 1.8%
Cost to Assets (Less LLP)	1.0%	1.0%	1.2%	1.3%	1.2%	▼ (0.1%)
Loan to Deposit Ratio	44.4%	48.3%	45.3%	50.2%	48.3%	▼ (1.9%)
Asset Quality						
Net NPL Ratio	11.0%	10.7%	9.7%	6.8%	5.8%	▼ (1.0%)
NPL Coverage	81.1%	81.8%	86.8%	83.7%	78.7%	▼ (5.0%)
Cost of Risk	0.4%	-0.1%	0.6%	0.4%	0.3%	▼ (0.1%)
Capital Adequacy						
Core Capital/TRWA	15.9%	15.4%	15.4%	18.4%	20.6%	▲ 2.2%
Total Capital /TRWA	18.3%	17.6%	17.3%	18.5%	20.6%	▲ 2.2%
Liquidity	67.6%	71.6%	73.8%	66.9%	73.6%	▲ 6.7%

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