

DYER & BLAIR INVESTMENT BANK

EARNINGS UPDATE

Founder Member of the Nairobi Securities Exchange

23TH NOVEMBER 2018



DYER & BLAIR
INVESTMENT BANK

WE KNOW. YOU KNOW.

STANDARD CHARTERED BANK: 3Q18 EARNINGS UPDATE

Dear All,

Standard Chartered Bank (Stanchart) announced its 3Q18 results, recording a **33.9% y-o-y increase in Profit after Tax (PAT) to KES 6.35 BN**. EPS for the period is recorded at KES 20.07. Trailing EPS stands at KES 24.72 (up 52.2% y-o-y). Annualized ROA and ROE multiples rose 89 and 396 bps y-o-y to 2.9% and 18.0% respectively (-11 bps and -203 bps q-o-q respectively).

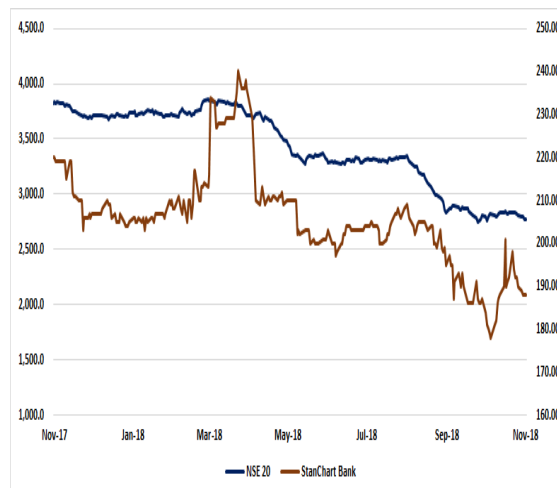
Below please find key highlights:

Net interest income rose 5.9% y-o-y to KES 14.6 BN on the back of a 4.8% y-o-y rise in interest income to KES 20.3 BN and a 2.1% y-o-y rise in interest expense to KES 5.8 BN. Annualized yield on interest earning assets rose 70 bps y-o-y to 10.3% whereas annualized cost of funds rose 32 bps y-o-y to 3.3%. As a result, annualized net interest margin rose 82 bps y-o-y to 7.0%.

Interest income from loans declined 1.7% y-o-y to KES 9.9 BN and contributed 48.7% of total interest income, down 321 bps y-o-y. Annualized yield on average loans declined 3 bps y-o-y to 11.9%. Interest income from government securities rose 15.2% y-o-y to KES 9.5 BN and contributed 46.8% of total interest income, up 422 bps y-o-y. Annualized yield on average government securities rose 136 bps y-o-y to 11.4%. Interest expense from customer deposits rose 5.4% y-o-y to KES 4.9 BN, implying an annualized cost of average deposits of 2.9% (up 23 bps y-o-y).

Non-funded income rose 9.7% y-o-y to KES 7.0 BN. This was largely attributable to a 31.2% y-o-y rise in fees and commission income to KES 4.1 BN that comprised a 66.7% y-o-y rise in fees on loans to KES 193.9 MN and a 29.9% y-o-y rise in other fees and commissions to KES 4.0 BN. Forex income recorded a 10.9% y-o-y rise to KES 2.1 BN while other operating income declined 43.6% y-o-y to KES 748.0 MN. Funded income reliance declined 79 bps y-o-y to 67.4%.

STANCHART KENYA 52 WEEK PRICE PERFORMANCE



(Source: NSE, DBIB Research)

PRICE RETURN	ABSOLUTE RETURN	EXCESS RETURN
3 months	-10.0%	6.9%
6 months	-10.5%	8.9%
12 months	-14.5%	12.7%

KEY METRICS

Current Price (KES)	188.00
52 week Range (KES)	197.00-240.00
YTD Return (%)	(9.6)
Issued Shares (Mn)	314.2
Market Cap (USD Mn)	577.2

Recommendation	HOLD
Trailing EPS (KES)	24.72
NAV (KES)	142.06
P/E (x)	7.6
P/B (x)	1.3
Div Yld (%)	2.7

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Operating expenses (less loan provisions) rose 9.4% y-o-y to KES 10.4 BN (+3.1% q-o-q). This was driven by an 18.3% y-o-y rise in other operating expenses to KES 4.2 BN. Staff costs on the other hand remained stable, easing by 0.3% y-o-y to KES 5.1 BN. Cost to income ratio rose 102 bps y-o-y to 48.5%.

Total asset value contracted 7.1% y-o-y to KES 288.6 BN on the back of a 30.1% y-o-y decline in other assets. Notably, investment securities held for dealing purposes declined 25.7% y-o-y to KES 8.3 BN (+74.7% q-o-q). Loans and advances declined 2.8% y-o-y to KES 111.0 BN (down 0.7% q-o-q) whereas deposits due from banks declined 14.1% y-o-y to KES 37.3 BN (up 10.3% q-o-q).

Customer deposits similarly contracted, dipping 8.0% y-o-y to KES 219.5 BN (down 4.9% q-o-q). Balances due to institutions in the group declined 7.5% y-o-y to KES 9.0 BN (-1.5% q-o-q). Loans to deposits ratio rose 249 bps y-o-y to 49.7% whereas loans to deposits and borrowed funds ratio was up 239 bps y-o-y to 47.7%.

Gross NPLs rose 14.9% y-o-y to KES 19.5 BN (+5.3% q-o-q). Interest in suspense rose 25.5% y-o-y to KES 7.3 BN. As a result, total NPLs rose 9.4% y-o-y to KES 12.2 BN. Loan loss provision rose 5.7% y-o-y to KES 7.2 BN. The NPL ratio rose 201 bps y-o-y to 15.0% whereas the NPL coverage ratio declined 204 bps y-o-y to 58.7%. Loan loss provision expense on the income statement declined 49.6% y-o-y to KES 1.9 BN.

Core capital ratio (Core capital/TRWA) declined 126 bps y-o-y to 16.9% whereas Total capital/TRWA ratio declined 147 bps y-o-y to 19.8% (adjusted core and total capital ratio stood at 17.1% and 20.8% respectively). Both ratios remain above the statutory minimum of 10.5% and 14.5% respectively. Liquidity ratio rose 843 bps y-o-y to 69.9% (above the statutory minimum of 20.0%).

Going forward: FY18 will be the third year in the bank's new strategy that is aimed at making StanChart Kenya a more lean and efficient bank. The bank will continue to invest in technology to enhance its digital capabilities and to tighten its risk tolerance. In the event that the caps on lending rates are repealed, StanChart's high liquidity position and lean structure will offer a competitive advantage especially in the corporate lending segment. Further, StanChart's reduction of its derivatives exposure is prudent, in the wake of increased off balance sheet item provisioning, due to IFRS 9 implementation.

On a trailing basis, StanChart is trading at a P/E of **7.6x** and a P/B of **1.3x**, both above the sector median of **5.9x** and **0.8x** respectively. Its ROE and ROA multiples stand at **18.0% and 2.9%** above sector median of **17.1% and 2.3%**. We maintain our **HOLD** recommendation.

Adjusted capital ratios take into account the Central Bank of Kenya's 5 year waiver for banks to regularize their capital declines occasioned by the implementation of IFRS 9.

PROFIT AND LOSS SUMMARY (KES MN)

Year End: December	3Q18	3Q17	y-y% ch	3q18	2q18	3q17	y-y% ch	q-q% ch
Interest income	20,342	19,414	4.8	6,600	6,917	6,675	(1.1)	(4.6)
Interest expense	5,766	5,645	2.1	1,867	1,919	2,063	(9.5)	(2.7)
Net interest income	14,575	13,769	5.9	4,732	4,998	4,612	2.6	(5.3)
Other operating income	748	1,326	(43.6)	268	268	442	(39.4)	0.2
Fees & commission income	4,193	3,196	31.2	1,244	1,494	1,030	20.8	(16.7)
Forex income	2,098	1,892	10.9	706	796	645	9.5	(11.2)
Total non-interest income	7,039	6,414	9.7	2,218	2,557	2,117	4.8	(13.2)
Total income	21,614	20,182	7.1	6,951	7,555	6,730	3.3	(8.0)
Less operating expenses	10,492	9,591	9.4	3,666	3,555	3,427	7.0	3.1
Operating profit	11,122	10,591	5.0	3,285	4,000	3,303	(0.5)	(17.9)
Bad debt charge	(1,879)	(3,726)	(49.6)	(612)	(201)	(1,414)	(56.7)	204.4
Exceptional items		0	-	0	0	0	0.0	-
Profit before tax	9,243	6,865	34.6	2,672	3,799	1,888	41.5	(29.7)
Less tax	(2,938)	(2,156)	36.2	(833)	(1,169)	(606)	37.6	(28.7)
Profit after tax	6,306	4,709	33.9	1,839	2,630	1,283	43.4	(30.1)
Attributable Income	6,306	4,709	33.9	1,839	2,630	1,283	43.4	(30.1)
EPS (KES)	20.07	14.99	33.9	7.31	7.53	5	39.0	(3.0)

(Source: Company, DBIB Research)

BALANCE SHEET SUMMARY (KES MN)

Year End: December	3Q18	1H18	3Q17	y-y % ch	q-q % ch
Total shareholder's equity	46,761	44,642	44,798	4.4	4.7
Minority interest	-	-	-	-	-
Total Equity	46,761	44,642	44,798	4.4	4.7
Balances due to Central Bank	3,900	-	6,740	-	-
Deposits due to other banks	4,056	1,198	3,693	9.8	238.7
Customer deposits	219,463	230,845	238,496	(8.0)	(4.9)
Borrowed funds	8,977	9,110	9,707	(7.5)	(1.5)
Other liabilities	5,417	10,161	7,071	(23.4)	(46.7)
Total equity and liabilities	288,574	295,955	310,505	(7.1)	(2.5)
Central bank balances	15,191	19,075	15,864	(4.2)	(20.4)
Deposits due from banks	37,303	33,834	43,428	(14.1)	10.3
Investment Securities	107,150	116,145	114,077	(6.1)	(7.7)
Held for dealing securities	8,382	4,799	11,280	(25.7)	74.7
Customer loans and advances	111,004	111,749	114,241	(2.8)	(0.7)
Other assets	4,494	5,148	6,469	(30.5)	(12.7)
Intangible assets	1,929	2,013	2,177	(11.4)	(4.2)
Fixed assets	3,121	3,193	2,968	5.1	(2.2)
Total assets	288,574	295,955	310,505	(7.1)	(2.5)

(Source: Company, DBIB Research)

INVESTMENT RETURN

	3Q18	1H18	3Q17	y-y bps ch	q-q bps ch
ROA (%)	2.9	3.0	2.0	89	(11)
ROIC (%)	3.0	3.1	2.1	89	(12)
ROE (%)	18.0	20.0	14.0	396	(203)

(Source: Company, DBIB Research)

*Annualized

CAPITAL ADEQUACY, LIQUIDITY & ASSET QUALITY

	3Q18	1H18	3Q17	y-y bps ch	q-q bps ch
Core capital/TRWA (%)	16.9	15.8	18.2	(126)	111
Min. Statutory Ratio (%)	10.5	10.5	10.5	-	-
Total capital/TRWA (%)	19.8	18.6	21.3	(147)	122
Min. Statutory Ratio (%)	14.5	14.5	14.5	-	-
Liquidity Ratio (%)	69.9	71.3	61.5	843	(137)
Min. Statutory Ratio (%)	20.0	20.0	20.0	-	-
Leverage Ratio (%)	16.2	15.1	14.4	178	112
Equity-to-Loans Ratio (%)	42.1	39.9	39.2	291	218
NPL Ratio (%)	15.0	14.2	12.9	201	72
NPL Coverage Ratio (%)	58.7	60.4	60.7	(204)	(174)
Long Term Debt to Total Liabilities and Equity (%)	19.2	20.4	21.7	(247)	(121)
NTA/share (KES)	142.7	135.7	135.6	704	701
Book value/share (KES)	148.8	142.1	142.6	625	674
Payout ratio (%)	0.0	39.2	-	-	(3,918)
Adj payout ratio (%)	-	35.2	-	-	(3,518)

(Source: Company, DBIB Research)

**Total Loan Portfolio net of Interbank Lending

OPERATING PERFORMANCE

	3Q18	1H18	3Q17	y-y bps ch	q-q bps ch
Yield on interest earning assets (%)	10.3	10.3	9.1	113	(3)
Cost of funds (%)	3.3	3.2	3.0	32	7
Net Interest Margin (%)	7.0	7.1	6.2	82	(11)
Loan-to-Deposits ratio (%)	49.7	48.2	47.2	249	150
Loan-to-Dep.&Borrowed Funds ratio (%)	47.7	46.3	45.4	239	141
Funded Income Generating Potential (%)	91.4	90.1	91.2	28	137
Funded Income Reliance (%)	67.4	67.1	68.2	(79)	31
Cost to income ratio (%)	48.5	46.6	47.5	102	199
Pre-tax margin (%)	42.8	44.8	34.0	875	(205)
PAT margin (%)	29.2	30.5	23.3	584	(129)

(Source: Company, DBIB Research)

* Annualized

APPENDIX

COMPANY INVESTMENT RATINGS

Buy: Share price may generate more than 15.0% upside over the next 12 months

Overweight: Share price may generate between 10.0% and 15.0% upside over the next 12 months

Hold: Share price may fall within the range of +/- 10% over the next 12 months

Take Profit: Target price has been attained. Look to accumulate at lower levels. Company fundamentals however remain strong

Underweight: Share price may generate between 10.0% and 15.0% downside over the next 12 months

Sell: Share price may generate more than 15.0% downside over the next 12 months, significant business and/or financial risks present, industry concerns

Not Rated: Counter is not within regular research coverage

SECTOR INVESTMENT RATINGS

Overweight: Industry performance better than that of the whole market

Equal weight: Industry performance about the same as that of the whole market

Underweight: Industry performance worse than that of the whole market

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