

DYER & BLAIR INVESTMENT BANK

EARNINGS UPDATE

Founder Member of the Nairobi Securities Exchange

19TH MARCH 2020



DYER & BLAIR
INVESTMENT BANK

WE KNOW. YOU KNOW.

STANDARD CHARTERED BANK: FY19 EARNINGS UPDATE

Dear All,

Standard Chartered Bank (Stanchart) announced its FY19 results, recording a **1.7% y-o-y increase in Profit after Tax (PAT) to KES 8.2 BN**. Its EPS stands at KES 23.49. Annualized ROE and ROA multiples declined 292 bps and 78 bps y-o-y to 17.2% and 2.7% respectively. A final dividend of KES 15.00 per share was announced bringing total DPS to KES 20.00, 5.3% higher than FY18.

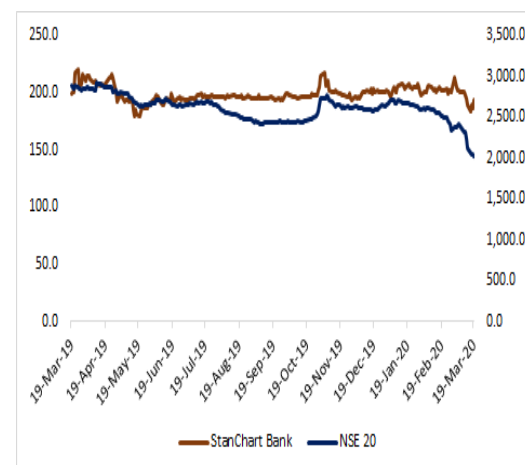
Below please find key highlights:

Net interest income remained flat at KES 19.5BN (+0.4% y-o-y) courtesy of a 5.9% y-o-y drop in interest income to KES 25.3 BN and a 22.4% y-o-y drop in interest expense to KES 5.8 BN. Yield on interest earning assets declined 139 bps y-o-y to 10.6% whereas cost of funds declined 87 bps y-o-y to 2.3%. As a result, net interest margin dropped 53 bps y-o-y to 8.3%.

Interest income from loans and advances rose 2.1% y-o-y to KES 13.4 BN placing the yield on loans at 10.4%, down 65 bps y-o-y. Interest income from government securities declined 15.0% y-o-y to KES 10.6 BN placing the yield on government securities at 11.00%, down 217 bps y-o-y. Interest expense from customer deposits declined 20.0% y-o-y to KES 5.1 BN placing the cost of deposits at 2.3%, down 68 bps y-o-y.

Non-funded income grew by 0.3% y-o-y to KES 9.2 BN. This was largely attributable to an 11.6% y-o-y increase in net income from forex dealings to KES 3.2 BN. These gains were however partially eroded by a 4.7% y-o-y decline in fees and commission income to KES 5.1 BN; fees and commissions on loans declined 21.3% y-o-y to KES 256.7 MN whereas other fees and commissions dropped 3.7% y-o-y to KES 4.9 BN. Other operating income dropped by 5.1% y-o-y to KES 904.4 MN. Funded income reliance was flat y-o-y (+2 bps) at 67.8%. Total income remained fairly flat at KES 28.7 BN (+0.4% y-o-y).

STANCHART KENYA 52 WEEK PRICE PERFORMANCE



(Source: NSE, DBIB Research)

PRICE RETURN	ABSOLUTE RETURN	EXCESS RETURN
3 months (%)	(4.68)	16.1
6 months (%)	(0.90)	15.3
12 months (%)	(2.64)	27.1

KEY METRICS

Current Price (KES)	193.50
52 week Range (KES)	179.75.00-220.00
YTD Return (%)	(3.3)
Issued Shares (Mn)	343.5
Market Cap KES BN)	66.5

Recommendation	BUY
Target Price	261.19
EPS (KES)	23.49
NAV (KES)	139.00
P/E (x)	8.2
P/B (x)	1.4
Div. Yld (%)	10.3

Research Analyst

Cynthia Wangari

cwangari@dyerandblair.com

+254 709930130

Operating expenses (less loan provisions) rose 7.6% y-o-y to KES 16.0 BN. This was primarily driven by a 20.7% y-o-y rise in other operating expenses to KES 6.9 BN which company attributes to the investment into their digital platforms. Staff costs declined 3.1% y-o-y to KES 7.1 BN. Loan loss provision expense declined 70.3% y-o-y to KES 572.6 MN. Cost to income ratio rose 376 bps y-o-y to 55.6%.

Total assets grew 5.9% y-o-y to KES 302.3 BN. Loans advances rose 8.5% y-o-y to KES 128.7 BN whereas investment securities grew by a slight 1.9% y-o-y to KES 96.6 BN. Held for dealing securities declined 50.8% y-o-y to KES 1.9 BN.

Customer deposits rose 1.8% y-o-y to KES 228.4 BN. Loans to deposits ratio edged up 156 bps y-o-y to 54.4% whereas loans to deposits and borrowed funds ratio rose by 105 bps y-o-y to 52.0%.

Gross non-performing loans dropped 7.4% y-o-y to KES 20.1 BN. Interest in suspense remained flat y-o-y at KES 7.8 BN. As a result, total NPLs (Gross NPLs less interest in suspense) dropped 11.4% y-o-y to KES 12.3 BN. The NPL ratio declined by 195 bps y-o-y to 13.5% while the NPL coverage ratio rose 1,676 bps y-o-y to 65.2%.

Stanchart Kenya's core capital ratio (Core capital/TRWA) declined 182 bps y-o-y to 14.7% whereas Total capital/TRWA ratio declined 174 bps y-o-y to 17.7%. Both ratios remain above the statutory minimum of 10.5% and 14.5% respectively. Liquidity ratio declined 404 bps y-o-y to 62.6% (above the statutory minimum of 20.0%).

Going forward: In the wake of the COVID-19 pandemic and a looming global recession, Standard Chartered remains well buffered. Its high liquidity ratio (62.6%), low LTD ratio (54.4%) and the adequate capital buffers should ensure that it survives the blow of an economic downturn and the sector wide non-performance that is expected to follow. We therefore believe that it will make a viable core position in portfolios moving forward especially for investors that are looking to protect themselves against the downside risk. Furthermore, its dividend yield, now at 10.3% against a sector median of 6.8% remains very attractive.

On a trailing basis, Stanchart is trading at a P/E of 8.2x and a P/B of 1.4x, both above the sector medians of 5.5x and 0.8x respectively. However, its ROE stands at 17.4% above sector median of 15.9% and its ROA stands at 2.7% above sector median of 2.4%. We maintain our **BUY** recommendation.

PROFIT AND LOSS SUMMARY (KES MN)

Year End: December	FY19	FY18	y-y% ch	4Q19	3Q19	4Q18	y-y % ch	q-q % ch
Interest income	25,272	26,870	(5.9)	6,210	6,330	6,529	(4.9)	(1.9)
Interest expense	5,800	7,475	(22.4)	1,398	1,515	1,708	(18.2)	(7.7)
Net interest income	19,472	19,396	0.4	4,812	4,814	4,820	(0.2)	(0.1)
Other operating income	904	953	(5.1)	143	216	205	(30.5)	(33.8)
Fees and commission income	5,149	5,404	(4.7)	1,313	1,264	1,211	8.4	3.8
Income from forex dealings	3,174	2,844	11.6	812	767	746	8.8	5.8
Total non-interest income	9,227	9,201	0.3	2,267	2,247	2,162	4.9	0.9
Total income	28,700	28,597	0.4	7,079	7,061	6,983	1.4	0.3
Less operating expenses	15,953	14,820	7.6	4,197	4,496	4,328	(3.0)	(6.6)
Operating profit	12,746	13,776	(7.5)	2,882	2,565	2,655	8.6	12.3
Bad debt charge	(573)	(1,931)	(70.3)	156	(349)	(52)	(400.7)	(144.6)
Exceptional items	-	-	-	-	-	-	-	-
Profit before tax	12,174	11,846	2.8	3,038	2,216	2,603	16.7	37.1
Less tax	3,937	(3,747)	(205.1)	6,847	(696)	(810)	(945.5)	(1,084.1)
Profit after tax	8,237	8,099	1.7	2,011	1,520	1,793	12.1	32.3
Attributable Income	8,237	8,099	1.7	2,011	1,520	1,793	12.1	32.3
EPS (KES)	23	23	1.7	6	4	3	89.5	33.3
DPS (KES)	20	19	5.3	20	-5	19	5.3	-

(Source: Company, DBIB Research)

BALANCE SHEET SUMMARY (KES MN)

Year End: December	FY19	9M19	FY18	y-y % ch	q-q % ch
Total shareholder's equity	47,760.5	47,904.3	46,639.4	2.40	(0.3)
Minority interest	-	-	-	-	-
Total Equity	47,760.5	47,904.3	46,639.4	2.40	(0.3)
Balances due to Central Bank	-	-	-	-	-
Deposits due to other banks	8,027.7	565.8	156.0	5,047.32	1,318.8
Customer deposits	228,433.5	224,759.5	224,284.4	1.85	1.6
Borrowed funds	11,122.1	10,520.1	8,546.7	30.13	5.7
Other liabilities	6,795.2	6,814.3	5,777.5	17.61	(0.3)
Total equity and liabilities	302,295.9	290,564.0	285,404.0	5.92	4.0
Central bank balances	20,621.2	19,348.6	20,283.7	1.66	6.6
Deposits due from banks	7,734.5	41,581.3	6,016.0	28.56	(81.4)
Investment Securities	96,563.8	95,718.5	94,767.9	1.90	0.9
Held for dealing securities	1,938.7	2,988.6	3,936.8	(50.75)	(35.1)
Customer loans and advances	128,690.3	118,500.1	118,651.6	8.46	8.6
Other assets	37,476.4	6,352.2	36,847.0	1.71	490.0
Intangible assets	2,731.7	2,425.0	1,829.7	49.30	12.6
Fixed assets	3,893.9	3,649.7	3,071.3	26.78	6.7
Total assets	302,295.9	290,564.0	285,404.0	5.92	4.0

(Source: Company, DBIB Research)

INVESTMENT RETURN

	FY 19	FY18	9M19	y-y bps ch	q-q bps ch
ROA (%)	2.7	2.8	2.9	(78)	(2)
ROIC (%)	2.8	2.9	2.9	(81)	(3)
ROE (%)	17.2	17.4	17.3	(292)	3

(Source: Company, DBIB Research)

*Annualized

CAPITAL ADEQUACY, LIQUIDITY & ASSET QUALITY

	FY 19	FY18	9M19	y-y bps ch	q-q bps ch
Core capital/TRWA (%)	14.7	16.5	15.7	(182)	82
Min. Statutory Ratio (%)	10.5	10.5	10.5	-	-
Total capital/TRWA (%)	17.7	19.5	18.9	(174)	61
Min. Statutory Ratio (%)	14.5	14.5	14.5	-	-
Liquidity Ratio (%)	62.6	66.6	67.5	(404)	(89)
Min. Statutory Ratio (%)	20.0	20.0	20.0	-	-
Leverage Ratio (%)	15.8	16.3	16.5	(54)	(15)
Equity-to-Loans Ratio (%)	37.1	39.3	40.4	(220)	(112)
NPL Ratio (%)	13.5	15.4	14.4	(195)	104
NPL Coverage Ratio (%)	65.2	48.5	63.4	1,676	(1,488)
Long Term Debt to Total Liabilities and Equity (%)	23.3	18.3	22.0	496	(364)
NTA/share (KES)	131.1	130.4	132.4	64	(2)
Book value/share (KES)	139.0	135.8	139.5	326	(4)
Payout ratio (%)	85.1	82.3	-	286	8,2

(Source: Company, DBIB Research)

****Total Loan Portfolio net of Interbank Lending**

OPERATING PERFORMANCE

	FY 19	FY18	9M19	y-y bps ch	q-q bps ch
Yield on interest earning assets (%)	10.6	12.0	9.8	(139)	82
Cost of funds (%)	2.3	3.2	2.5	(87)	(15)
Net Interest Margin (%)	8.3	8.8	7.3	(53)	96
Loan-to-Deposits ratio (%)	54.4	52.9	52.6	156	183
Loan-to-Dep.&Borrowed Funds ratio (%)	52.0	50.9	50.2	105	173
Funded Income Generating Potential (%)	78.6	78.3	89.1	32	(1,047)
Funded Income Reliance (%)	67.8	67.8	67.8	2	4
Cost to income ratio (%)	55.6	51.8	54.4	376	121
Pre-tax margin (%)	42.4	41.4	42.3	99	16
PAT margin (%)	28.7	28.3	28.8	38	(10)

(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

DISCLAIMER

While every care has been taken in preparing this report and it has been prepared from sources believed to be reliable, no representation, warranty, or undertaking (express or implied) is given and no responsibility is accepted by Dyer and Blair Investment Bank Limited, its related companies, subsidiaries, affiliates, its employees and agents, as to the accuracy and completeness of the information contained herein or in respect of any reliance on or use thereof. This report is solely intended for distribution to clients of Dyer and Blair Investment Bank Limited. Any information may be changed after distribution at any time without any notice.