



STANDARD CHARTERED 1H20 EARNINGS UPDATE

Dear All,

Standard Chartered (Stanchart) released its 1H20 results posting a **31.1% y-o-y decrease in PAT to KES 3.2 BN**, largely on account of a 328.8% y-o-y increase in loan loss provision expense to KES 1.6 BN. EPS for the period stood at KES 9.17 while trailing EPS stands at KES 17.90. The board did not recommend a dividend for the period.

Below please find key highlights:

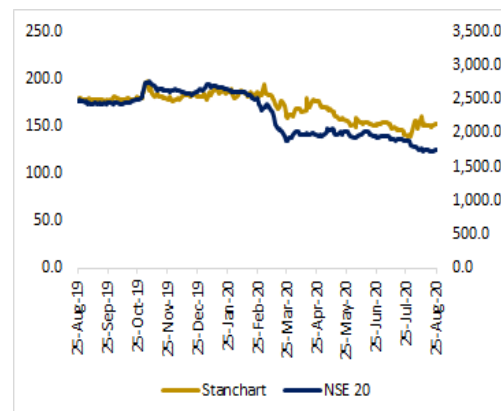
Net interest income shed 4.6% y-o-y to KES 9.4 BN as a result of a 6.3% y-o-y decline in interest income to KES 11.9 BN and a 12.1% y-o-y drop in interest expense to KES 2.5 BN. Annualised yield on interest earning assets rose 25 bps y-o-y to 9.8% whereas annualised cost of funds declined 52 bps y-o-y to 1.9%. As a result, annualised net interest margin edged up 76 bps y-o-y to 7.9%.

Interest income from loans and advances dropped 6.6% y-o-y to KES 6.3 BN placing the annualised yield on loans at 9.9%, down 174 bps y-o-y. Interest income from government securities edged down 12.7% y-o-y to KES 4.8 BN placing annualised yield on government securities at 9.6%, down 62 bps y-o-y.

Interest expense from customer deposits fell by 10.9% y-o-y to KES 2.3 BN placing annualised cost of deposits at 1.9%, down 35 bps y-o-y. Other interest expenses decreased by 34.9% y-o-y to KES 179.7 MN.

Non-funded income dropped 6.6% y-o-y to KES 4.4 BN. Fees and commissions income dropped 12.3% y-o-y to KES 2.3 BN on the back of a 5.2% y-o-y decrease in fees and commissions on loans to KES 152.5 MN and a 12.8% y-o-y drop in other fees and commissions to KES 2.1 BN resulting from the waiver of transaction costs on money transfer between mobile wallets. Net income from forex dealings decreased by 7.3% y-o-y to KES 1.5 BN. Other income rose 22.6% y-o-y to KES 669.2 MN. As such, the funded income reliance ratio rose 46 bps y-o-y to 68.1%.

STANCHART: 52 WEEK PRICE PERFORMANCE



(Source: NSE, DBIB Research)

PRICE RETURN	ABSOLUTE RETURN	EXCESS RETURN
3 months (%)	(2.4)	10.6
6 months (%)	(16.6)	12.1
12 months (%)	(15.4)	14.1

KEY METRICS

Current Price (KES)	151.50
52 week Range (KES)	139.77-197.27
YTD Return (%)	(15.4)
Issued Shares (Mn)	377.9
Market Cap KES BN)	57.2

Recommendation	BUY
Target Price	Under Review
Trailing EPS (KES)	17.90
NAV (KES)	136.88
P/E (x)	8.4
P/B (x)	1.1

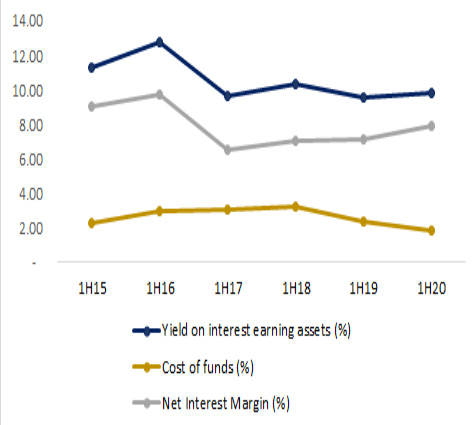
Research Analyst

Cynthia Wangari

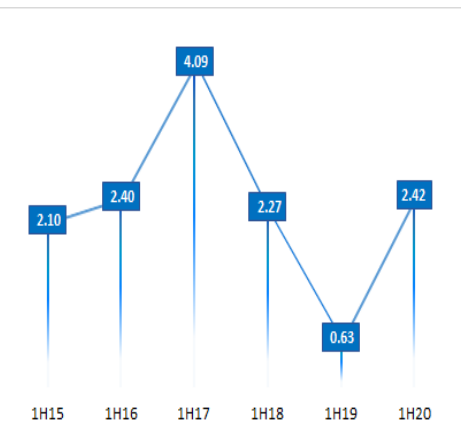
cwangari@dyerandblair.com

+254 709930130

Annualized Net Interest Margin (%)

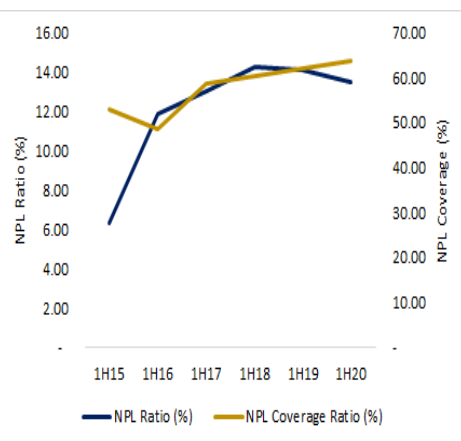


Annualized Cost of Risk (%)



(Source: Company, DBIB Research)

NPL Coverage Ratios



(Source: Company, DBIB Research)

Operating expenses (less loan loss provisions) fell by 2.7% y-o-y to KES 7.1 BN courtesy of a 5.3% y-o-y decrease in staff costs to KES 3.3 BN. Other operating expenses remained fairly flat at KES 3.7 BN (-0.2% y-o-y). This saw the cost to income ratio rise by 135 bps y-o-y to 51.2%.

Bad debt charge rose by 328.8% y-o-y to KES 1.6 BN placing annualized cost of risk for the period at 2.4%, up 179 bps y-o-y. We expect that this will continue to be the theme in the banking sector for the remainder of year.

Total assets increased 11.1% y-o-y to KES 327.2 BN. Customer loans and advances rose by 11.9% y-o-y to KES 134.3 BN. Held to maturity securities rose 3.2% y-o-y to KES 101.2 BN while available for sale investment securities dropped by 22.1% y-o-y to KES 3.6 BN.

Customer deposits recorded a 12.3% y-o-y upswing to KES 256.5 BN seeing the loans to deposits ratio hold constant y-o-y at 51.9% (+50 bps q-o-q). Borrowed funds rose by 18.6% y-o-y to KES 11.1 BN (+0.5% q-o-q) resulting in an 11 bps y-o-y drop in the loan to deposits and borrowed funds ratio to 49.8% (+59 bps q-o-q).

Gross non-performing loans rose by 5.6% y-o-y to KES 20.9 BN while interest in suspense edged up 16.0% y-o-y to KES 8.3 BN. As a result, total NPLs dropped by 0.2% y-o-y to KES 12.6 BN. The NPL ratio edged down 68 bps y-o-y to 13.5% while the NPL coverage ratio rose 172 bps y-o-y to 63.9% (-4 bps q-o-q).

Capital Adequacy: The bank's core capital/TRWA ratio rose 16 bps y-o-y to 15.8% (+76 bps q-o-q) above the statutory minimum of 10.5% whereas total capital/TRWA ratio shed 12 bps y-o-y to 18.4% above the statutory minimum ratio of 14.5%. Liquidity ratio edged down 46 bps y-o-y to 66.8%, well above the minimum statutory requirement of 20.0%.

On a trailing basis: Standard Chartered is trading at a P/E multiple of 8.4x, against a sector median of 5.0x and a P/B multiple of 1.1x, against a sector median of 0.6x. Its ROA stands at 2.1% against a sector median of 2.0% whereas its ROE stands at 13.1% against a sector median of 14.1%. We maintain our **BUY** recommendation.

PROFIT AND LOSS SUMMARY (KES MN)

Year End: December	1H20	1H19	y-y% ch	2q20	1q20	2q19	y-y% ch	q-q% ch
Interest income	11,932	12,732	(6.3)	5,818	6,115	6,344	(8.3)	(4.9)
Interest expense	2,538	2,886	(12.1)	1,147	1,391	1,477	(22.3)	(17.6)
Net interest income	9,394	9,846	(4.6)	4,671	4,723	4,867	(4.0)	(1.1)
Other operating income	669	546	22.6	370	299	282	31.1	23.8
Fees and commission income	2,255	2,572	(12.3)	1,013	1,241	1,263	(19.8)	(18.4)
Net income from forex dealings	1,479	1,595	(7.3)	784	695	778	0.8	12.7
Total non-interest income	4,403	4,713	(6.6)	2,167	2,236	2,323	(6.7)	(3.1)
Total income	13,797	14,559	(5.2)	6,838	6,959	7,189	(4.9)	(1.7)
Less operating expenses	7,066	7,260	(2.7)	3,449	3,617	3,849	(10.4)	(4.6)
Operating profit	6,730	7,299	(7.8)	3,389	3,342	3,340	1.4	1.4
Bad debt charge	(1,625)	(379)	328.8	(1,197)	(428)	36	N/A	179.7
Profit before tax	5,105	6,920	(26.2)	2,192	2,914	3,377	(35.1)	(24.8)
Less tax	(1,872)	(2,214)	(15.4)	(969)	(903)	(1,080)	(10.3)	7.4
Profit after tax	3,233	4,706	(31.3)	1,222	2,011	2,296	(46.8)	(39.2)
Attributable Income	3,233	4,706	(31.3)	1,222	2,011	2,296	(46.8)	(39.2)
EPS (KES)	9.17	13	(31.9)	3.44	6	7	(47.6)	(40.0)

(Source: Company, DBIB Research)

BALANCE SHEET SUMMARY (KES MN)

Year End: December	1H20	1Q20	1H19	y-y % ch	q-q % ch
Total shareholder's equity	51,721	49,832	46,874	10.3	3.8
Deposits due to other banks	2,294	684	2,845	(19.4)	235.3
Customer deposits	256,496	243,551	228,500	12.3	5.3
Balances due to group institutions	11,147	11,090	9,396	18.6	0.5
Other liabilities	5,540	6,321	6,929	(20.0)	(12.3)
Total equity and liabilities	327,199	311,477	294,543	11.1	5.0
Central bank balances	24,919	29,151	16,878	47.6	(14.5)
Deposits due from banks	4,478	5,799	43,880	(89.8)	(22.8)
Investment Securities	101,177	89,266	98,027	3.2	13.3
Held for dealing securities	3,550	5,701	4,556	(22.1)	(37.7)
Customer loans and advances	134,317	125,537	120,065	11.9	7.0
Other assets	51,834	49,104	4,966	943.8	5.6
Intangible assets	3,209	3,150	2,471	29.9	1.9
Fixed assets	3,715	3,771	3,700	0.4	(1.5)
Total assets	327,199	311,477	294,543	11.1	5.0

(Source: Company, DBIB Research)

INVESTMENT RETURN

	1H20	1Q20	1H19	y-y bps ch	q-q bps ch
ROA (%)*	2.0	2.6	3.2	(122)	(61)
ROIC (%)*	2.0	2.6	3.3	(126)	(63)
ROE (%)*	12.5	16.1	20.1	(758)	(364)

(Source: Company, DBIB Research)

*Annualized

CAPITAL ADEQUACY, LIQUIDITY & ASSET QUALITY

	1H20	1Q20	1H19	y-y bps ch	q-q bps ch
Core capital/TRWA (%)	15.8	15.0	15.6	16	76
Min. Statutory Ratio (%)	10.5	10.5	10.5	-	-
Total capital/TRWA (%)	18.4	18.0	18.6	(12)	41
Min. Statutory Ratio (%)	14.5	14.5	14.5	-	-
Liquidity Ratio (%)	66.8	67.6	67.2	(46)	(81)
Min. Statutory Ratio (%)	20.0	20.0	20.0	-	-
Leverage Ratio (%)	15.8	16.0	15.9	(11)	(19)
Equity-to-Loans Ratio (%)	38.5	39.7	39.0	(53)	(119)
NPL Ratio (%)**	13.5	13.8	14.1	(68)	(29)
NPL Coverage Ratio (%)**	63.9	64.0	62.2	172	(4)
LTD to Total Liabilities & Equity (%)	21.6	22.3	20.0	151	(70)
NTA/share (KES)	128.4	135.9	141.3	(1,291)	(751)
Book value/share (KES)	136.9	145.1	149.2	(1,228)	(819)

(Source: Company, DBIB Research)

**Total Loan Portfolio net of Interbank Lending

OPERATING PERFORMANCE

	1H20	1Q20	1H19	y-y bps ch	q-q bps ch
Yield on interest earning assets (%)*	9.8	10.8	9.6	25	(101)
Cost of funds (%)*	1.9	2.2	2.4	(52)	(30)
Net Interest Margin (%)*	7.9	8.6	7.2	76	(71)
Loan-to-Deposits ratio (%)	51.9	51.4	51.9	0	50
Loan-to-Dep.&Borrowed Funds ratio (%)	49.8	49.2	49.9	(11)	59
Funded Income Generating Potential (%)	74.4	72.7	90.5	(1,606)	177
Funded Income Reliance (%)	68.1	67.9	67.6	46	22
Cost to income ratio (%)	51.2	52.0	49.9	135	(76)
Cost of risk (%)*	2.4	1.4	0.6	179	106
Pre-tax margin (%)	37.0	41.9	47.5	(1,053)	(487)
PAT margin (%)	32.3	28.9	32.3	-	343

(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 5.0% and 15.0% upside over the next 12 months

Hold: Share price may fall within the range of <+5.0/ -10.0% 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.