

DYER & BLAIR INVESTMENT BANK

EARNINGS UPDATE

Founder Member of the Nairobi Securities Exchange

02ND JUNE 2020



DYER & BLAIR
INVESTMENT BANK

WE KNOW. YOU KNOW.

STANDARD CHARTERED 1Q20 EARNINGS UPDATE

Dear All,

Standard Chartered (Stanchart) released its 1Q20 results posting a 16.6% y-o-y decrease in PAT to KES 2.0 BN (flat q-o-q), largely attributable to reduced interest income on the back of continuous CBR cuts that have seen it decline by 150 bps y-t-d; and higher pre-provision expenses. EPS for the period stands at KES 5.73. On account of the COVID-19 pandemic and subsequent suspension of the public gatherings, shareholders have not been able to hold an AGM to approve the proposed final dividend of KES 15.00. The BOD therefore announced that it would be deferring its payment beyond 28th May 2020 as had been previously announced as it determines a more suitable manner for holding the AGM.

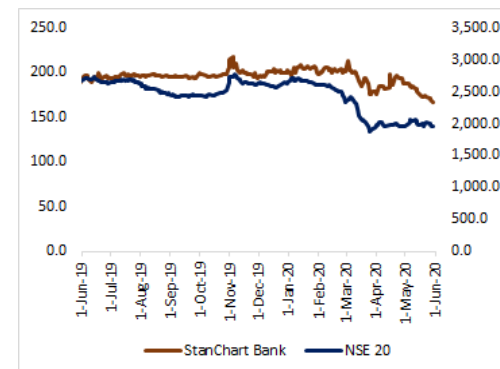
Below please find key highlights:

Net interest income shed 5.1% y-o-y to KES 4.7 BN as a result of a 4.3% y-o-y decline in interest income to KES 6.1 BN and a 1.3% y-o-y drop in interest expense to KES 1.4 BN. Annualised yield on interest earning assets declined 24 bps y-o-y to 10.8% whereas annualised cost of funds declined 16 bps y-o-y to 2.2%. As a result, annualised net interest margin edged down 9 bps y-o-y to 8.6%.

Interest income from loans and advances dropped 7.0% y-o-y to KES 3.2 BN likely as a result of the lowering of the benchmark rate intended to bolster the COVID-19 stricken economy. This placed the annualised yield on loans at 10.9%, down 95 bps y-o-y. Interest income from government securities edged down 7.5% y-o-y to KES 2.5 BN placing annualised yield on government securities at 10.3%, up 15 bps y-o-y.

Interest expense from customer deposits fell by 7.3% y-o-y to KES 1.2 BN placing annualised cost of deposits at 2.1%, down 47 bps y-o-y. Other interest expenses increased by 46.2% y-o-y to KES 163.1 MN.

STANCHART: 52 WEEK PRICE PERFORMANCE



(Source: NSE, DBIB Research)

PRICE RETURN	ABSOLUTE RETURN	EXCESS RETURN
3 months (%)	(17.2)	(0.6)
6 months (%)	(14.1)	11.5
12 months (%)	(12.4)	14.7

KEY METRICS

Current Price (KES)	166.00
52 week Range (KES)	166.00-217.00
YTD Return (%)	(17.0)
Issued Shares (Mn)	343.5
Market Cap KES (BN)	57.0

Recommendation	BUY
Target Price	Under Review
Trailing EPS (KES)	22.82
NAV (KES)	145.07
P/E (x)	7.3
P/B (x)	1.1

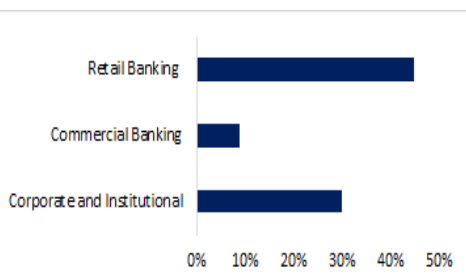
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REVENUE CONTRIBUTION BY SEGMENT



(Source: Company, DBIB Research)

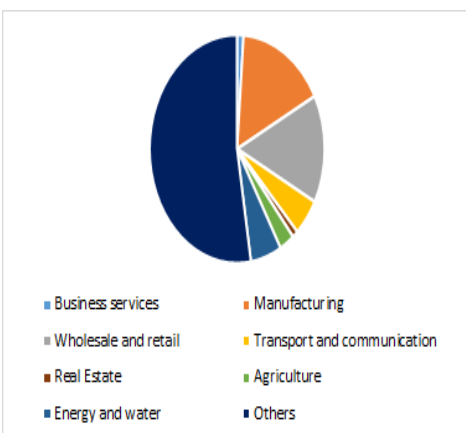
Non-funded income dropped 6.5% y-o-y to KES 2.2 BN primarily on the back of a 15.0% y-o-y decrease in net income from forex dealings to KES 695.2 MN. Fees and commissions on loans shed 3.8% y-o-y to KES 73.5 MN while other fees and commissions dropped by 5.3% y-o-y to KES 1.2 BN. Other income rose 13.4% y-o-y to KES 299.0 MN. Funded income reliance ratio rose 31 bps y-o-y to 67.9%. The waiver of transaction costs on money transfer between mobile wallets will likely significantly impact NFI performance in the coming quarters given that 90% of StanChart's corporate and institutional banking clients, 90% of its retail clients and over 65% of its retail banking clients are on digital channels.

Operating expenses (less loan loss provisions) rose by 6.0% y-o-y to KES 3.6 BN courtesy of a 22.3% y-o-y increase in other operating expenses to KES 1.5 BN. Staff costs edged down 5.6% y-o-y to KES 1.7 BN. This saw the cost to income ratio rise by 570 bps y-o-y to 52.0%.

Bad debt charge rose by 3.1% y-o-y to KES 428.0 MN placing annualized cost of risk for the period at 1.4%, down 5 bps y-o-y. We anticipate increased provisioning going forward on the back of increased loan restructuring. So far, Standard Chartered has restructured the terms of loans worth more than KES 8.0 BN (circa 6.4% of its loan book).

Total assets increased 3.4% y-o-y to KES 311.5 BN. Customer loans and advances rose by 6.8% y-o-y to KES 125.5 BN. Held to maturity securities declined 14.3% y-o-y to KES 89.3 BN while available for sale investment securities dropped by 1.2% y-o-y to KES 5.7 BN.

RISK EXPOSURE BY SECTOR*



(Source: Company, DBIB Research)

*As per the most recent published annual report (2018)

Customer deposits recorded a 4.6% y-o-y upswing to KES 243.6 BN. Borrowed funds rose by 35.4% y-o-y to KES 11.1 BN (-0.3% q-o-q). Loans to deposits ratio edged up 96 bps y-o-y to 51.4% (-302 bps q-o-q) while the loan to deposits and borrowed funds ratio rose by 44 bps y-o-y to 49.2% (-281 bps q-o-q).

Gross non-performing loans dropped 5.6% y-o-y to KES 20.0 BN while interest in suspense edged down by 4.5% y-o-y to KES 7.8 BN. As a result, total NPLs dropped 6.3% y-o-y to KES 12.2 BN. The NPL ratio edged down 153 bps y-o-y to 13.8% while the NPL coverage ratio rose 225 bps y-o-y to 64.0%. We anticipate increased defaults in FY20 amid reduced business activity and rising levels of unemployment.

Capital Adequacy: The bank's core capital/TRWA ratio declined 109 bps y-o-y (+29 bps q-o-q) to 15.0% above the statutory minimum of 10.5% whereas total capital/TRWA ratio shed 79 bps y-o-y to 18.0% above the statutory minimum ratio of 14.5%. Liquidity ratio edged down 414 bps y-o-y to 67.6% (+501 bps q-o-q), well above the minimum statutory requirement of 20.0%.

On a trailing basis: Standard Chartered is trading at a P/E multiple of 7.3x, against a sector median of 5.3x and a P/B multiple of 1.1x, against a sector median of 0.7x. Its ROA stands at 2.5% against a sector median of 2.2% whereas its ROE stands at 15.7% against a sector median of 15.9%. Its **dividend yield** currently stands at 12.0% against a sector median of 7.3%. We maintain our **BUY** recommendation.

PROFIT AND LOSS SUMMARY (KES MN)

Year End: December	1Q20	1Q19	4Q19	y-y% ch	q-q% ch
Interest income	6,115	6,389	6,210	(4.3)	(1.5)
Interest expense	1,391	1,409	1,398	(1.3)	(0.5)
Net interest income	4,723	4,979	4,812	(5.1)	(1.8)
Other operating income	299	264	143	13.4	109.4
Fees and commission income	1,241	1,309	1,313	(5.2)	(5.5)
Net income from forex dealings	695	818	812	(15.0)	(14.3)
Total non-interest income	2,236	2,391	2,267	(6.5)	(1.4)
Total income	6,959	7,370	7,079	(5.6)	(1.7)
Less operating expenses	3,617	3,411	4,197	6.0	(13.8)
Operating profit	3,342	3,959	2,882	(15.6)	16.0
Bad debt charge	(428)	(415)	156	3.1	(375.0)
Exceptional items	0	0	0	N/A	N/A
Profit before tax	2,914	3,544	3,038	(17.8)	(4.1)
Less tax	(903)	(1,134)	6,847	(20.4)	(113.2)
Profit after tax	2,011	2,410	2,011	(16.6)	0.0
Attributable Income	2,011	2,410	2,011	(16.6)	0.0
EPS (KES)	5.73	6.89	5.73	(16.8)	0.0

(Source: Company, DBIB Research)

BALANCE SHEET SUMMARY (KES MN)

Year End: December	1Q20	1Q19	FY19	y-y% ch	q-q% ch
Total shareholder's equity	49,832	47,761	49,133	1.4	4.3
Total Equity	49,832	47,761	49,133	1.4	4.3
Deposits due to other banks	684	8,028	282	142.6	(91.5)
Customer deposits	243,551	228,434	232,775	4.6	6.6
Borrowed funds	11,090	11,122	8,189	35.4	(0.3)
Other liabilities	6,321	6,795	10,987	(42.5)	(7.0)
Total equity and liabilities	311,477	302,296	301,366	3.4	3.0
Central bank balances	29,151	20,621	30,791	(5.3)	41.4
Deposits due from banks	5,799	7,734	3,688	57.2	(25.0)
Investment Securities	89,266	96,564	104,211	(14.3)	(7.6)
Held for dealing securities	5,701	1,939	5,771	(1.2)	194.0
Customer loans and advances	125,537	128,690	117,564	6.8	(2.5)
Other assets	49,104	37,476	33,918	44.8	31.0
Intangible assets	3,150	2,732	1,752	79.8	15.3
Fixed assets	3,771	3,894	3,670	2.8	(3.2)
Total assets	311,477	302,296	301,366	3.4	3.0

(Source: Company, DBIB Research)

INVESTMENT RETURN

	1Q20*	FY19	1Q19*	y-y bps ch	q-q bps ch
ROA (%)	2.6	2.7	3.2	(62)	(14)
ROIC (%)	2.6	2.8	3.3	(68)	(15)
ROE (%)	16.1	17.2	19.6	(348)	(110)

(Source: Company, DBIB Research)

*Annualized

CAPITAL ADEQUACY, LIQUIDITY & ASSET QUALITY

	1Q20	FY19	1Q19	y-y bps ch	q-q bps ch
Core capital/TRWA (%)	15.0	14.7	16.1	(109)	29
Min. Statutory Ratio (%)	10.5	10.5	10.5	-	-
Total capital/TRWA (%)	18.0	17.7	18.8	(79)	29
Min. Statutory Ratio (%)	14.5	14.5	14.5	-	-
Liquidity Ratio (%)	67.6	62.6	71.7	(414)	501
Min. Statutory Ratio (%)	20.0	20.0	20.0	-	-
Leverage Ratio (%)	16.0	15.8	16.3	(30)	20
Equity-to-Loans Ratio (%)	39.7	37.1	41.8	(210)	258
NPL Ratio (%)**	13.8	13.5	15.3	(153)	27
NPL Coverage Ratio (%)**	64.0	65.2	61.7	225	(128)
LTD to Total Liabilities and Equity (%)	22.3	23.3	16.7	559	(103)
NTA/share (KES)	135.9	131.1	137.9	(203)	481
Book value/share (KES)	145.1	139.0	143.0	203	603

(Source: Company, DBIB Research)

**Total Loan Portfolio net of Interbank Lending

OPERATING PERFORMANCE

	1Q20	FY19	1Q19	y-y bps ch	q-q bps ch
Yield on interest earning assets (%)*	10.8	10.8	11.1	(24)	5
Cost of funds (%)*	2.2	2.3	2.3	(16)	(16)
Net Interest Margin (%)*	8.6	8.4	8.7	(9)	21
Loan-to-Deposits ratio (%)	51.4	54.4	50.4	96	(302)
Loan-to-Dep.&Borrowed Funds ratio (%)	49.2	52.0	48.7	44	(281)
Funded Income Generating Potential (%)	72.7	77.7	76.7	(407)	(506)
Funded Income Reliance (%)	67.9	67.8	67.6	31	2
Cost to income ratio (%)	52.0	55.6	46.3	570	(361)
Pre-tax margin (%)	41.9	42.4	48.1	(621)	(55)
PAT margin (%)	28.9	28.7	32.7	(380)	20

(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

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