



STANDARD CHARTERED BANK: 3Q20 EARNINGS UPDATE

Dear All,

Standard Chartered Bank (Stanchart) announced its 3Q20 results, recording a **30.4% y-o-y decline in Profit after Tax (PAT) to KES 4.3 BN**. Pre-provisions operating profit declined 5.8% y-o-y to KES 9.3 BN and was further impacted by a 274.2% y-o-y rise in loan loss provisions to KES 2.7 BN placing the annualized cost of risk at 2.8%. Annualized ROE and ROA multiples declined 581 bps and 102 bps y-o-y to 11.5% and 1.8% respectively.

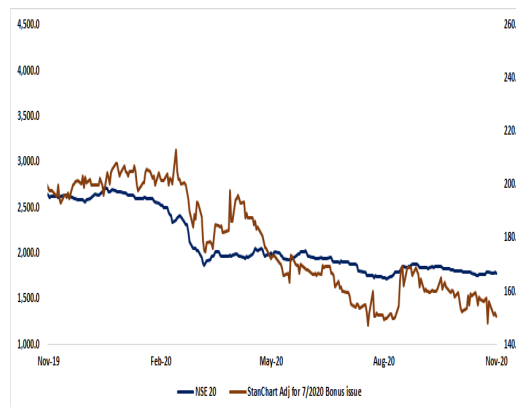
Below please find key highlights:

Net interest income declined 2.4% y-o-y to KES 14.3 BN (+5.2% q-o-q) courtesy of a 5.8% y-o-y drop in interest income to KES 17.9 BN and a 17.3% y-o-y drop in interest expense to KES 3.6 BN. Annualized yield on interest earning assets declined 141 bps y-o-y to 8.4% whereas annualized cost of funds declined 60 bps y-o-y to 1.9%. As a result, annualized net interest margin declined 80 bps y-o-y to 6.5%.

Interest income from loans and advances declined 6.8% y-o-y to KES 9.4 BN placing the annualized yield on average loans at 10.0% (down 133 bps y-o-y). Interest income from government securities declined 10.7% y-o-y to KES 7.2 BN placing the annualized yield on average government securities at 9.7% (down 154 bps y-o-y). Interest expense from customer deposits declined 15.2% y-o-y to KES 3.3 BN placing the annualized cost of average deposits at 1.9% (down 43 bps y-o-y).

Non-funded income declined 8.8% y-o-y to KES 6.3 BN. This was largely attributable to a 9.7% y-o-y decline in fees and commissions to KES 3.5 BN and a 19.9% y-o-y drop in forex income to KES 1.9 BN. Other operating income rose 30.0% y-o-y to KES 990.0 MN. Under fees and commissions, fees and commissions on loans rose 9.5% y-o-y to KES 227.2 MN whereas other fees and commissions declined 10.8% y-o-y to KES 3.2 BN. Funded income reliance rose 146 bps y-o-y to 69.3%.

STANCHART KENYA 52 WEEK PRICE PERFORMANCE



(Source: NSE, DBIB Research)

PRICE	ABSOLUTE	EXCESS
RETURN	RETURN	RETURN
3 month (%)	0.3	(3.1)
6 month (%)	(4.9)	5.6
12 month (%)	(16.5)	14.9

KEY METRICS

Current Price (KES)	150.50
52 week Range (KES)	139.77-193.86
YTD Return (%)	(18.2)
Issued Shares (MN)	377.9
Market Cap (USD MN)	519.9

Recommendation	HOLD
Trailing EPS (KES)	16.79
NAV (KES)	132.78
Trailing P/E (x)	9.0
Trailing P/B (x)	1.1
Trailing Div. Yld (%)	-

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Operating expenses (less loan provisions) declined 3.3% y-o-y to KES 11.4 BN. This was driven by a 2.5% y-o-y decline in staff costs to KES 5.4 BN and a 6.7% y-o-y decline in other operating expenses to KES 4.5 BN. Loan loss provision expense rose 274.2% y-o-y to KES 2.7 BN. Cost to income ratio rose 65 bps y-o-y to 55.0%.

Total assets grew 8.9% y-o-y to KES 314.4 BN. Loans advances rose 11.1% y-o-y to KES 131.7 BN whereas investment securities rose 6.9% y-o-y to KES 102.3 BN. Held for dealing securities also rose 30.5% y-o-y to KES 3.9 BN. **Customer deposits rose 8.0% y-o-y to KES 242.8 BN.** Loans to deposits ratio rose 118 bps y-o-y to 53.8% whereas loans to deposits and borrowed funds ratio rose 87 bps y-o-y to 51.1%.

Gross NPLs rose 10.3% y-o-y to KES 22.0 BN. Interest in suspense rose 18.4% y-o-y to KES 8.8 BN. As a result total NPLs rose 5.4% y-o-y to KES 13.2 BN. The NPL ratio declined 9 bps y-o-y to 14.3% whereas the NPL coverage ratio rose 38 bps y-o-y to 63.7%.

Stanchart Kenya's core capital ratio (Core capital/TRWA) rose 39 bps y-o-y to 16.1% whereas Total capital/TRWA ratio declined 16 bps y-o-y to 18.7%. Both ratios remain above the statutory minimum of 10.5% and 14.5% respectively. Liquidity ratio declined 178 bps y-o-y to 65.7% (above the statutory minimum of 20.0%).

STANCHART KENYA

	Reported ratio	Adjusted ratio
Core capital ratio	16.1	16.1
Total capital ratio	18.7	18.8

Source: Company

Adjusted ratios include the expected credit loss provisions added back to capital in line with the CBK guidance note issued in April 2018 on implementation of IFRS 9.

Going forward: On a trailing basis, Stanchart is trading at a P/E of **9.0x** and a P/B of **1.1x**, relative to the sector medians of **4.8x** and **1.1x** respectively. However, its ROE stands at **11.5%** whereas its ROA stands at **1.8%**. We continue to emphasize than at current levels, Stanchart is fairly attractive to buy and hold investors given continued improvement of its cost of funds, low loan to deposit ratios and high capital adequacy ratio. While liquidity remains a concern for institutional investors, we believe Stanchart will make a viable core position in portfolios moving forward. We maintain our **HOLD** recommendation.

PROFIT AND LOSS SUMMARY (KES MN)

Year End: December	9M20	9M19	y-y% ch	3Q20	2Q20	3Q19	y-y% ch	q-q% ch
Interest income	17,948	19,062	(5.8)	6,016	5,818	6,330	(5.0)	3.4
Interest expense	3,641	4,402	(17.3)	1,102	1,147	1,515	(27.3)	(3.9)
Net interest income	14,307	14,661	(2.4)	4,913	4,671	4,814	2.1	5.2
Other operating income	990	762	30.0	321	370	216	48.8	(13.3)
Fees and commission income	3,464	3,836	(9.7)	1,210	1,013	1,264	(4.3)	19.4
Net income from forex dealings	1,893	2,362	(19.9)	414	784	767	(46.1)	(47.2)
Total non-interest income	6,347	6,960	(8.8)	1,944	2,167	2,247	(13.5)	(10.3)
Total income	20,654	21,621	(4.5)	6,857	6,838	7,061	(2.9)	0.3
Less operating expenses	11,365	11,756	(3.3)	4,299	3,449	4,496	(4.4)	24.6
Operating profit	9,289	9,865	(5.8)	2,559	3,389	2,565	(0.3)	(24.5)
Bad debt charge	(2,725)	(728)	274.2	(1,100)	(1,197)	(349)	215.0	(8.1)
Exceptional items	-	0	-	-	-	0	-	-
Profit before tax	6,564	9,136	(28.2)	1,459	2,192	2,216	(34.2)	(33.5)
Less tax	(2,231)	(2,910)	(23.3)	(359)	(969)	(696)	(48.4)	(63.0)
Profit after tax	4,333	6,226	(30.4)	1,100	1,222	1,520	(27.7)	(10.0)
Attributable Income	4,333	6,226	(30.4)	1,100	1,222	1,520	(27.7)	(10.0)
EPS (KES)	11.13	16	(31.1)	1.96	3.44	3	(27.1)	(43.0)

(Source: Company, DBIB Research)

BALANCE SHEET SUMMARY (KES MN)

Year End: December	9M20	1H20	9M19	y-y % ch	q-q % ch
Total shareholder's equity	50,171	51,721	47,904	4.7	(3.0)
Minority interest	-	-	-	-	-
Total Equity	50,171	51,721	47,904	4.7	(3.0)
Balances due to Central Bank	-	-	-	-	-
Deposits due to other banks	2,041	2,294	566	260.8	(11.0)
Customer deposits	242,789	256,496	224,760	8.0	(5.3)
Borrowed funds	12,730	11,147	10,520	21.0	14.2
Other liabilities	6,650	5,540	6,814	(2.4)	20.0
Total equity and liabilities	314,382	327,199	290,564	8.2	(3.9)
Central bank balances	17,252	24,919	19,349	(10.8)	(30.8)
Deposits due from banks	46,568	4,478	41,581	12.0	940.0
Investment Securities	102,324	101,177	95,718	6.9	1.1
Held for dealing securities	3,899	3,550	2,989	30.5	9.8
Customer loans and advances	131,652	134,317	118,500	11.1	(2.0)
Other assets	5,939	51,834	6,352	(6.5)	(88.5)
Intangible assets	3,162	3,209	2,425	30.4	(1.5)
Fixed assets	3,585	3,715	3,650	(1.8)	(3.5)
Total assets	314,382	327,199	288,574	8.9	(3.9)

(Source: Company, DBIB Research)

INVESTMENT RETURN

	9M20	1H20	9M19	y-y bps ch	q-q bps ch
ROA (%)*	1.8	2.0	2.9	(102)	(14)
ROIC (%)*	1.9	2.0	2.9	(105)	(13)
ROE (%)*	11.5	12.5	17.3	(581)	(99)

(Source: Company, DBIB Research)

*Annualized

CAPITAL ADEQUACY, LIQUIDITY & ASSET QUALITY

	9M20	1H20	9M19	y-y bps ch	q-q bps ch
Core capital/TRWA (%)	16.1	15.8	15.7	39	34
Min. Statutory Ratio (%)	10.5	10.5	10.5	-	-
Total capital/TRWA (%)	18.7	18.4	18.9	(16)	27
Min. Statutory Ratio (%)	14.5	14.5	14.5	-	-
Liquidity Ratio (%)	65.7	66.8	67.5	(178)	(105)
Min. Statutory Ratio (%)	20.0	20.0	20.0	-	-
Leverage Ratio (%)	16.0	15.8	16.5	(53)	15
Equity-to-Loans Ratio (%)	38.1	38.5	40.4	(232)	(40)
NPL Ratio (%)**	14.3	13.5	14.4	(9)	83
NPL Coverage Ratio (%)**	63.7	63.9	63.4	38	(18)
Long Term Debt to Total Liabilities and Equity (%)	25.4	21.6	22.0	341	382
NTA/share (KES)	124.4	128.4	132.4	(799)	(398)
Book value/share (KES)	132.8	136.9	139.5	(668)	(410)

(Source: Company, DBIB Research)

**Total Loan Portfolio net of Interbank Lending

OPERATING PERFORMANCE

	9M20	1H20	9M19	y-y bps ch	q-q bps ch
Yield on interest earning assets (%)*	8.4	9.8	9.8	(141)	(139)
Cost of funds (%)*	1.9	1.9	2.5	(60)	0
Net Interest Margin (%)*	6.5	7.9	7.3	(80)	(139)
Loan-to-Deposits ratio (%)	53.8	51.9	52.6	118	187
Loan-to-Dep. & Borrowed Funds ratio (%)	51.1	49.8	50.2	87	136
Funded Income Generating Potential (%)	90.5	74.4	89.1	141	1,605
Funded Income Reliance (%)	69.3	68.1	67.8	146	118
Cost to income ratio (%)	55.0	51.2	54.4	65	381
Cost of Risk (%)	2.8	2.4	0.8	194	34
Pre-tax margin (%)	31.8	37.0	42.3	(1,048)	(522)
PAT margin (%)	21.0	32.3	28.8	(782)	(1,134)

(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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