

DYER & BLAIR INVESTMENT BANK

EARNINGS UPDATE

Founder Member of the Nairobi Securities Exchange

25TH MARCH 2021



DYER & BLAIR
INVESTMENT BANK

WE KNOW. YOU KNOW.

STANDARD CHARTERED GROUP: FY20 EARNINGS UPDATE

Dear All,

Standard Chartered Group released its FY20 results recording a **33.9% y-o-y drop in profit after tax (PAT) to KES 5.4 BN**. This was largely attributable to a 578.0% y-o-y rise in loan loss provision expense to KES 3.9 BN. EPS for the period stood at KES 13.95. The Directors are expected to recommend the payment of a first and final dividend of KES 10.50 per ordinary share and KES 168.0 MN to preference shares held, to be paid on or after 27 May 2021 with the book closure being on 27 April 2021.

Below please find key highlights:

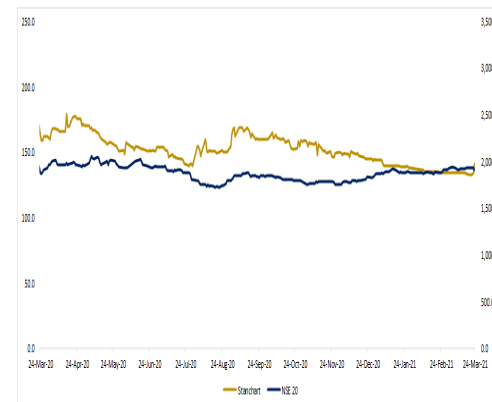
Net interest income dropped by 1.8% y-o-y to KES 19.1 BN owing to a 6.1% y-o-y decrease in interest income to KES 23.7 BN but cushioned by a 20.4% y-o-y decline in interest expense to KES 4.6 BN. Yield on interest earning assets declined 263 bps y-o-y to 8.1% whereas cost of funds declined 63 bps y-o-y to 1.7%. As a result, net interest margin declined 200 bps y-o-y to 6.4%.

Interest income from loans and advances declined 8.2% y-o-y to KES 12.3 BN placing the yield on average loans at 10.1% (down 29 bps y-o-y). Interest income from government securities declined 9.7% y-o-y to KES 9.6 BN placing the yield on average government securities at 10.1% (down 90 bps y-o-y). Interest expense from customer deposits declined 18.2% y-o-y to KES 4.2 BN placing the cost of average deposits at 1.6% (down 48 bps y-o-y).

Non-funded income declined by 10.2% y-o-y to KES 8.3 BN on the back of a 12.0% y-o-y decline in fees and commission income to KES 4.5 BN, a 17.9% y-o-y drop in net income from forex dealings to KES 2.6 BN. Other operating income rose by 27.2% y-o-y to KES 1.1 BN.

Operating expenses (less loan loss provisions) increased marginally by 1.1% y-o-y to KES 16.1 BN mainly on the back of a 7.6% y-o-y increase in staff cost to KES 7.7 BN. Cost to income ratio in turn increased 326 bps y-o-y to 58.8%, with the increase being fueled by a 4.5% y-o-y decline in total income to KES 27.4 BN.

STANCHART KENYA 52 WEEK PRICE PERFORMANCE



(Source: NSE, DBIB Research)

PRICE	ABSOLUTE	EXCESS
RETURN	RETURN	RETURN
3 month (%)	(2.8)	(7.5)
6 month (%)	(11.9)	(15.7)
12 month (%)	(17.5)	(15.0)

KEY METRICS

Target Price	Under review
Current Price (KES)	141.00
52 week Range (KES)	133.00-179.77
YTD Return (%)	(2.3)
Issued Shares (MN)	377.9
Market Cap (USD MN)	484.97

EPS (KES)	13.95
NAV (KES)	132.90
P/E (x)	9.8
P/B (x)	1.1
Div. Yld (%)	7.4

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Pre-provision operating profit declined 11.5% y-o-y to KES 11.3 BN. Loan loss provision expense rose more than six-fold (+578.0% y-o-y) to KES 3.9 BN. As a result, profit before tax fell 39.2% y-o-y to KES 7.4 BN

Total assets grew 7.8% y-o-y to KES 325.9 BN. Loans advances declined 5.6% y-o-y to KES 121.5 BN (-7.7% q-o-q) whereas investment securities declined 1.6% y-o-y to KES 95.0 BN. Held for dealing securities on the other hand rose 154.1% y-o-y to KES 4.9 BN. Customer deposits saw a 12.3% y-o-y increase to KES 256.5 BN (+5.6% q-o-q). Loans to deposits ratio in turn declined 713 bps y-o-y to 47.3% whereas loans to deposits and borrowed funds ratio declined 682 bps y-o-y to 45.2%.

Gross NPLs rose 11.4% y-o-y to KES 22.3 BN (+1.7% q-o-q). Interest in suspense rose 17.2% y-o-y to KES 9.1 BN. As a result total NPLs rose 7.7% y-o-y to KES 13.2 BN. The NPL ratio increased 204 bps y-o-y to 15.5% whereas the NPL coverage ratio rose 194 bps y-o-y to 67.2%.

Stanchart Kenya's core capital ratio (Core capital/TRWA) rose 117 bps y-o-y to 15.9% whereas Total capital/TRWA ratio increased 74 bps y-o-y to 18.5%. Both ratios remain above the statutory minimum of 10.5% and 14.5% respectively. Liquidity ratio increased 892 bps y-o-y to 71.5% (above the statutory minimum of 20.0%).

Stanchart is trading at a P/E multiple of 9.8x against an industry median of 6.5x and a P/B multiple of 1.1x against an industry median of 0.7x. Its ROE stands at 10.8% while its ROA stands at 1.7%.

PROFIT AND LOSS SUMMARY (KES MN)

Year End: December	FY20	FY19	y-y% ch
Interest income	23,734	25,272	(6.1)
Interest expense	4,617	5,800	(20.4)
Net interest income	19,117	19,472	(1.8)
Other operating income	1,151	904	27.2
Fees and commission income	4,532	5,149	(12.0)
Net income from forex dealings	2,607	3,174	(17.9)
Total non-interest income	8,290	9,227	(10.2)
Total income	27,407	28,700	(4.5)
Less operating expenses	16,129	15,953	1.1
Operating profit	11,278	12,746	(11.5)
Bad debt charge	(3,882)	(573)	578.0
Exceptional items	-	-	-
Profit before tax	7,396	12,174	(39.2)
Less tax	1,956	3,937	(50.3)
Profit after tax	5,440	8,237	(33.9)
Attributable Income	5,440	8,237	(33.9)
EPS (KES)	13.95	21.35	(34.7)

(Source: Company, DBIB Research)

BALANCE SHEET SUMMARY (KES MN)

Year End: December	FY20	9M20	FY19	y-y % ch	q-q % ch
Total shareholder's equity	50,219	50,171	47,761	5.2	0.1
Minority interest	-	-	-	-	-
Total Equity	50,219	50,171	47,761	5.2	0.1
Balances due to Central Bank	-	-	-	-	-
Deposits due to other banks	454	2,041	8,028	(94.4)	(77.8)
Customer deposits	256,498	242,789	228,434	12.3	5.6
Borrowed funds	12,167	12,730	11,122	9.4	(4.4)
Other liabilities	6,536	6,650	6,795	(3.8)	(1.7)
Total equity and liabilities	325,873	314,382	302,296	7.8	3.7
Central bank balances	20,619	17,252	20,621	(0.0)	19.5
Deposits due from banks	70,638	46,568	7,735	813.3	51.7
Investment Securities	94,994	102,324	96,564	(1.6)	(7.2)
Held for dealing securities	4,927	3,899	1,939	154.1	26.4
Customer loans and advances	121,524	131,652	128,690	(5.6)	(7.7)
Other assets	6,292	5,939	37,476	(83.2)	5.9
Intangible assets	3,023	3,162	2,732	10.7	(4.4)
Fixed assets	3,856	3,585	3,894	(1.0)	7.5
Total assets	325,873	314,382	302,296	7.8	3.7

(Source: Company, DBIB Research)

INVESTMENT RETURN

	FY 20	FY19	9M20	y-y bps ch	q-q bps ch
ROA (%)	1.7	2.7	1.8	(89)	89
ROIC (%)	1.7	2.8	1.9	(91)	91
ROE (%)	10.8	17.2	11.5	(304)	573

(Source: Company, DBIB Research)

*Annualized

CAPITAL ADEQUACY, LIQUIDITY & ASSET QUALITY

	FY20	FY19	9M20	y-y bps ch	q-q bps ch
Core capital/TRWA (%)	15.9	14.7	16.1	117	(139)
Min. Statutory Ratio (%)	10.5	10.5	10.5	-	-
Total capital/TRWA (%)	18.5	17.7	18.7	74	(97)
Min. Statutory Ratio (%)	14.5	14.5	14.5	-	-
Liquidity Ratio (%)	71.5	62.6	65.7	892	(315)
Min. Statutory Ratio (%)	20.0	20.0	20.0	-	-
Leverage Ratio (%)	15.4	15.8	16.0	(39)	(16)
Equity-to-Loans Ratio (%)	41.3	37.1	38.1	421	(100)
NPL Ratio (%)	15.5	13.5	14.3	204	(81)
NPL Coverage Ratio (%)	67.2	65.2	63.7	194	149
Long Term Debt to Total Liabilities and Equity (%)	24.2	23.3	25.4	94	(209)
NTA/share (KES)	137.4	131.1	124.4	631	7
Book value/share (KES)	146.2	139.0	132.8	716	6
Payout ratio (%)	75.3	85.1	-	(987)	8,514

(Source: Company, DBIB Research)

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

OPERATING PERFORMANCE

	FY20	FY19	9M20	y-y bps ch	q-q bps ch
Yield on interest earning assets (%)	8.1	10.8	8.4	(263)	(29)
Cost of funds (%)	1.7	2.3	1.9	(63)	(17)
Net Interest Margin (%)	6.4	8.4	6.5	(200)	(12)
Loan-to-Deposits ratio (%)	47.3	54.4	53.8	(713)	(648)
Loan-to-Dep.& Borrowed Funds ratio (%)	45.2	52.0	51.1	(682)	(596)
Funded Income Generating Potential (%)	89.6	77.7	90.5	1,192	(85)
Funded Income Reliance (%)	69.8	67.8	69.3	190	48
Cost to income ratio (%)	58.8	55.6	55.0	326	382
Cost of Risk (%)	3.2	0.4	2.8	275	43
Pre-tax margin (%)	27.0	42.4	31.8	(1,543)	(479)
PAT margin (%)	19.9	28.7	21.0	(885)	(113)

(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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