

Standard Chartered FY16 Earnings Update “Solid Earnings Boost Dividend Payout”

Standard Chartered Bank (Stanchart) announced FY16 results recording 42.7% y/y increase in PAT to KES 9.0B, shrugging off the negative impact the rate cap has had on the earnings of the banking sector. Gross NPLs edged up by a marginal 2.3% y/y to KES 15.0B, while loan loss provisions declined 55.1% y/y to KES 2.2B, bringing down its cost of risk down 250bps y/y to 1.8%. The company declared a total dividend of KES 20.00, up 17.6% y/y.

Net interest income rose 7.1% y/y to KES 19.4B (-11.2% q/q), supported by a 12.7% y/y increase in interest income. However, interest expenses rose aggressively (+34.0% y/y to KES 6.4B) partly driven by a 8.5% y/y rise in customer deposits and a 60bps y/y rise in cost of funds to 3.2%. Interest income was boosted by an 11.7% y/y rise in government securities to KES 82.2B, as net loan and advances grew at a much slower rate of 6.6% y/y (+1.6% q/q) to KES 122.7B.

Non-interest income recorded a remarkable rise of 18.5% y/y (-6.0% q/q) to KES 8.6B. This was bolstered by a 21.8% y/y surge in foreign exchange income to KES 2.8B which may be attributable to FX gains on hedging instruments provided to its huge corporate clients. In addition, an increment of 58.3% y/y in other income owing to gains on fixed income trading furthered non-interest income growth. Fees and commissions income climbed 9.3% y/y, also driving non-interest income upwards.

Total operating expenses marked a 10.5% y/y increase to KES 12.5B (28.2% q/q) attributable to a 15.4% y/y rise in staff costs to KES 7.0B. The surge in staff costs in 4Q16 could be explained by the compensation made to the 300 staff that the bank got rid off after the implementation of the rate cap. The bank’s cost to income ratio increased by 10bps y/y to 44.7%, despite the surge in expenses. This means that the bank has fairly managed its expenses and maintained its efficiency level from FY15.

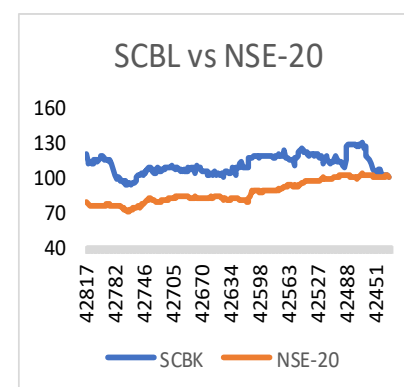
Despite marking a 50bps y/y improvement, the bank’s NPL ratio at 11.8% is the highest amongst Tier I banks and compares poorly to the 7.0% Tier I average. We may see a contraction in the loan book going forward as the bank seeks to bring down its NPL ratio. As such, we don't expect the bank to sustain this strong earnings growth momentum in FY17. Stanchart trades at 1.5x P/B and 7.6x P/E, with an ROE of 20.3%. Its dividend yield at 10.0% is amongst the highest in the market which should entice yield hunters.

Bloomberg Ticker : SCBL KN
Reuters Ticker: SCBL.NR

Share Statistics

Current Price (KES)	201.00
Issued shares (M)	343.5
Market cap (USD)	670.7
Year end	Dec
Foreign ownership (%)	74.63
Free float (%)	24.66
Av daily trading vol (USD)	28,829

Price Trend



Source: Bloomberg

Research Analyst

Shaniza Kassam
skassam@apexafrica.com
+254 723 420204

	FY15	1Q16	2Q16	3Q16	4Q16	FY16	% chg y/y	% chg q/q
	KES '000	KES '000	KES '000	KES '000	KES '000	KES '000		
Income Statement								
Interest Income	22,877,085	6,404,101	6,639,802	6,655,128	6,076,114	25,775,145	12.7%	-8.7%
Interest Expense	4,761,053	1,520,556	1,563,555	1,656,340	1,639,199	6,379,650	34.0%	-1.0%
Net Interest Income	18,116,032	4,883,545	5,076,247	4,998,788	4,436,915	19,395,495	7.1%	-11.2%
Foreign Exchange Income	2,331,776	825,987	741,349	670,135	602,525	2,839,996	21.8%	-10.1%
Gross Fees and Commission	4,149,412	981,979	1,234,501	1,112,649	1,205,155	4,534,284	9.3%	8.3%
Other Income	767,929	557,475	194,332	306,472	157,035	1,215,314	58.3%	-48.8%
Non Interest Income	7,249,117	2,365,441	2,170,182	2,089,256	1,964,715	8,589,594	18.5%	-6.0%
Total Operating Income	25,365,149	7,248,986	7,246,429	7,088,044	6,401,630	27,985,089	10.3%	-9.7%
Total Operating Expenses	11,308,862	2,823,606	2,827,843	3,000,057	3,845,565	12,497,071	10.5%	28.2%
Loan Loss Provision Expense	4,896,355	728,333	643,034	450,776	377,756	2,199,899	-55.1%	-16.2%
Profit Before Tax & Exceptional Items	9,159,932	3,697,047	3,775,552	3,637,211	2,178,309	13,288,119	45.1%	-40.1%
Profit Before Tax	9,159,932	3,697,047	3,775,552	3,637,211	2,178,309	13,288,119	45.1%	-40.1%
Tax	-2,817,505	-1,114,099	-1,132,186	-1,133,323	-859,204	-4,238,812	50.4%	-24.2%
Profit After Tax	6,342,427	2,582,948	2,643,366	2,503,888	1,319,105	9,049,307	42.7%	-47.3%
EPS (KES)	18.46	7.52	7.70	7.29	3.84	26.34	42.7%	-47.3%
DPS (KES)	17.00	0.00				20.00	17.6%	
No. of shares	343,511	343,511	343,511	343,511	343,511	343,511		
Balance Sheet	FY15	1Q16	2Q16	3Q16	4Q16	FY16	% chg y/y	% chg q/q
Total Shareholders' Equity	41,251,785	44,279,073	43,581,629	43,932,422	44,603,828	44,603,828	8.1%	1.5%
Deposits due to Banks & Financial Institutions	4,293,413	3,980,711	5,843,509	1,672,353	3,046,415	3,046,415	-29.0%	82.2%
Balances due to group	10,355,723	10,761,466	9,865,351	10,557,483	10,174,520	10,174,520	-1.7%	-3.6%
Customer Deposits	172,036,056	184,533,840	190,872,512	199,634,468	186,598,226	186,598,226	8.5%	-6.5%
Total Liabilities	192,713,662	205,477,999	212,366,591	220,325,606	205,878,172	205,878,172	6.8%	-6.6%
Total Equity and Liabilities	233,965,447	249,757,072	255,948,220	264,258,028	250,482,000	250,482,000	7.1%	-5.2%
Cash and CBK Balances	14,240,581	18,072,960	13,744,686	17,721,080	15,513,554	15,513,554	8.9%	-12.5%
Balances due from Banks & Financial Institutions	3,190,915	11,461,265	4,563,532	4,466,364	1,566,035	1,566,035	-50.9%	-64.9%
Balances due from group	17,857,239	24,631,669	20,733,781	15,255,766	14,151,412	14,151,412	-20.8%	-7.2%
Government and Other Securities	74,309,485	74,949,465	93,825,188	96,351,286	87,552,984	87,552,984	17.8%	-9.1%
Net Loans and Advances	115,125,427	109,787,058	114,265,013	120,761,020	122,711,038	122,711,038	6.6%	1.6%
Fixed Assets	3,265,044	3,176,233	3,085,002	3,026,909	2,985,751	2,985,751	-8.6%	-1.4%
Total Assets	233,965,447	249,757,072	255,948,220	264,258,028	250,482,000	250,482,000	7.1%	-5.2%
Key Ratios	FY15	1Q16	2Q16	3Q16	4Q16	FY16	% chg y/y	% chg q/q
Gross NPL (KES M)	14,697,920	15,409,376	15,360,300	14,718,065	15,038,172	15,038,172	2.3%	2.2%
Interest In Suspense (KES M)	3,016,256	3,516,438	4,025,674	4,513,364	4,871,365	4,871,365	61.5%	7.9%
Total NPL (KES M)	11,681,664	11,892,938	11,334,626	10,204,701	10,166,807	10,166,807	-13.0%	-0.4%
Loan Loss Provision (KES M)	4,763,351	5,417,586	5,417,586	5,510,145	4,914,946	4,914,946	3.2%	-10.8%
Net NPL	6,918,313	6,475,352	5,917,040	4,694,556	5,251,861	5,251,861	-24.1%	11.9%
NPL Ratio	12.3%	13.4%	12.8%	11.7%	11.8%	11.8%	-0.5%	0.1%
Cost of Risk	4.3%	2.7%	2.3%	1.5%	1.2%	1.8%	-2.5%	-0.3%
Loan to Deposits	66.9%	59.5%	59.9%	60.5%	65.8%	65.8%	-1.2%	5.3%
Yield on Interest Earning Assets	10.9%	11.6%	11.4%	11.2%	10.8%	11.4%	0.5%	-0.5%
Cost of Funds	2.6%	3.1%	3.0%	3.1%	3.3%	3.2%	0.6%	0.2%
NIM	8.3%	8.5%	8.4%	8.1%	7.5%	8.2%	-0.1%	-0.6%
Non Funded/Total Income	28.6%	32.6%	29.9%	29.5%	30.7%	30.7%	2.1%	1.2%
Cost to Income Ratio	44.6%	39.0%	39.0%	42.3%	60.1%	44.7%	0.1%	17.7%
ROE	15.4%	23.3%	24.3%	22.8%	11.8%	20.3%	4.9%	-11.0%
ROA	2.7%	4.1%	4.1%	3.8%	2.1%	3.6%	0.9%	-1.7%
Core Capital/TRWA	17.5%	17.6%	17.9%	18.2%	1.2%	17.5%	0.0%	-17.0%
Total Capital/TRWA	21.2%	21.3%	21.6%	21.3%	20.9%	20.9%	-0.3%	-0.4%
Liquidity Ratio	53.7%	60.7%	61.9%	61.5%	56.9%	56.9%	3.2%	-4.6%
P/E (x)						7.6		
P/B (x)						1.5		
Dividend Yield						10.0%		

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ApexAfrica Capital Ltd
A The Riverfront, 1st Floor, Prof. David Wasawo Drive, Off Riverside Drive | P.O. Box 43676-00100 | Nairobi | Kenya |
T: +254-20-2226440 | **Fax**: +254-20-2319092 | **Cell**: +254-723-420204|
W : www.apexafrica.com
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