

StanChart Bank– 3Q17 Earnings Update

The lender's net earnings plunged 48.8% y/y (-6.6% q/q) to KES 1.3B in 3Q17. This was primarily attributed to an upswing in interest expenses (+24.6% y/y to KES 2.1B) which, in turn drove down net interest income lower (-7.7% y/y to KES 4.6B).

Total interest income marginally rose 0.3% y/y (+4.3 q/q) to KES 6.7B. Interest income from loans and advances dropped 12.1% y/y to 10.1B in line with a contraction in the bank's loan book (-5.4% y/y to KES 114.2B). On the contrary, interest income from investment securities rose 10.0% y/y to KES 8.3B as the total stock of government securities shot up 30.1% y/y to KES 125.4B. Total interest expenses grew at a faster pace than interest income, marking a 24.6% y/y (+9.7% q/q) increase to KES 2.1B. Interest expense derived from customer deposits climbed 11.2% y/y to KES 4.7B as total customer deposits spiked 19.5% y/y to KES 238.5B. StanChart's net interest margin declined 7.7% y/y (+2.0% q/q), driving down its net interest margin (NIM) by 30bps to 12.1%.

Total non-interest income increased by 1.3% y/y (-2.5% q/q) to KES 2.1B. The subdued growth in non-funded income was as a result of a drop in gross fees and commission income (-7.4% y/y to KES 1.0B) and a decline in foreign exchange trading income (-3.8% y/y to KES 644.9M). However, total non funded income comprised 31.8% of total income, representing a 110bps rise from 3Q16.

Total operating expenses climbed 14.2% y/y (+7.8% q/q) to KES 3.4B. Staff costs spiked 10.0% y/y to KES 5.2B with the possibility of staff redundancies in August 2017 when the bank shut down four of its branches in the country. Although StanChart's cost-to-income ratio (CTI) increased by 740bps y/y to 47.5%, it remains one of the most cost-efficient banks in the industry.

Loan loss provision expense surged to KES 1.4B in 3Q17 from KES 450.8M in 3Q16 on the back of a 15.4% y/y jump in gross NPLs to KES 16.9B. This has negatively impacted the lender's loan book quality, resulting in a 230bps jump in its NPL ratio to 14.0%. However, the lender's NPL coverage ratio continues to hover at a comfortable 39.8% (+840bps y/y).

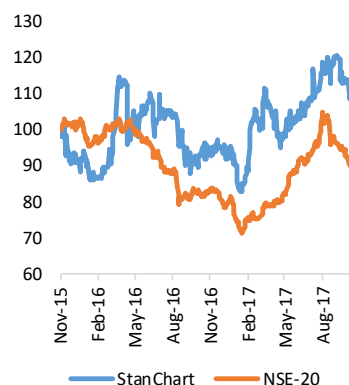
The lender has recently implemented various strategies to grow its loan book, including operating an unsecured lending facility for qualifying borrowers. However, StanChart's growing NPLs continue to pose a challenge and will likely suppress top-line growth over the medium term as the lender is inevitably forced to rationalize its lending. Nonetheless, the bank's reputation as a blue-chip remains intact and, in our view, the stock remains fairly priced at 13.3 times earnings and 1.7 times book value, with an ROE of 11.5%.

Bloomberg Ticker : SCBK.KN
Reuters Ticker: SCBK.NR

Share Statistics	
Current Price (KES)	227.00
Issued shares (M)	343.5
Market cap (USD M)	792.2
Year end	Dec
Foreign ownership (%)	74.6
Free float (%)	24.7
Av daily trading vol (USDk)	28.7

Price Trend

StanChart vs NSE-20



Source: Bloomberg

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	1Q16	2Q16	3Q16	4Q16	FY16	1Q17	2Q17	3Q17	% chg y/y	% chg q/q
	KES '000	KES '000	KES '000	KES '000	KES '000	KES '000	KES '000	KES '000	3Q17 vs 3Q16	3Q17 vs 2Q17
Income Statement										
Interest Income	6,404,101	6,639,802	6,655,128	6,076,114	25,775,145	6,336,224	6,402,311	6,675,444	0.3%	4.3%
Interest Expense	1,520,566	1,563,565	1,656,340	1,639,199	6,379,650	1,700,675	1,881,346	2,063,137	24.6%	9.7%
Net Interest Income	4,883,545	5,076,247	4,998,788	4,436,915	19,395,495	4,635,549	4,520,965	4,612,307	-7.7%	2.0%
Foreign Exchange Income	825,987	741,349	670,135	602,525	2,839,996	691,384	555,424	644,997	-3.8%	16.1%
Gross Fees and Commission	981,979	1,234,501	1,112,649	1,205,155	4,534,284	1,148,102	1,017,695	1,029,797	-7.4%	1.2%
Other Income	557,475	194,332	306,472	157,035	1,215,314	285,933	597,881	442,407	44.4%	-26.0%
Non Interest Income	2,365,441	2,170,182	2,089,256	1,964,715	8,589,594	2,125,419	2,171,000	2,117,201	1.3%	-2.5%
Total Operating Income	7,248,986	7,246,429	7,088,044	6,401,630	27,985,089	6,760,968	6,691,965	6,729,508	-5.1%	0.6%
Total Operating Expenses	2,823,606	2,827,843	3,000,057	3,845,565	12,497,071	2,984,401	3,179,960	3,426,831	14.2%	7.8%
Loan Loss Provision Expense	728,333	643,034	450,776	377,756	2,199,899	772,332	1,539,015	1,414,497		-8.1%
Profit Before Tax & Exceptional Items	3,697,047	3,775,552	3,637,211	2,178,309	13,288,119	3,004,235	1,972,990	1,888,180	-48.1%	-4.3%
Profit Before Tax	3,697,047	3,775,552	3,637,211	2,178,309	13,288,119	3,004,235	1,972,990	1,888,180	-48.1%	-4.3%
Tax	1,114,099	1,132,186	1,133,323	859,204	4,238,812	951,159	599,298	605,593	-46.6%	1.1%
Profit After Tax	2,582,948	2,643,366	2,503,888	1,319,105	9,049,307	2,053,076	1,373,692	1,282,587	-48.8%	-6.6%
EPS (KES)	8.35	6.62	7.29	3.59	25.85	5.98	3.75	3.74	-48.7%	-0.3%
DPS (KES)		6.00			20.00		4.50			
No. of shares	343,511	343,511	343,511	343,511	343,511	343,511	343,511	343,511		
Balance Sheet										
Total Shareholders' Equity	44,279,073	43,581,629	43,932,422	44,603,828	44,603,828	46,455,633	43,589,956	44,798,150	2.0%	2.8%
Deposits due to Banks & Financial Institutions	3,980,711	5,843,509	1,672,353	3,046,415	3,046,415	5,068,124	2,328,225	3,692,764	120.8%	58.6%
Balances due to group	10,761,466	9,865,351	10,557,483	10,174,520	10,174,520	8,912,395	8,954,964	9,706,637	-8.1%	8.4%
Customer Deposits	184,533,840	190,872,512	199,634,468	186,598,226	186,598,226	205,016,693	224,482,823	238,496,384	19.5%	6.2%
Total Liabilities	205,477,999	212,366,591	220,325,606	205,878,172	205,878,172	227,779,268	245,487,330	265,706,695	20.6%	8.2%
Total Equity and Liabilities	249,757,072	255,948,220	264,258,028	250,482,000	250,482,000	274,234,901	289,077,286	310,504,845	17.5%	7.4%
Cash and CBK Balances	18,072,960	13,744,686	17,721,080	15,513,554	15,513,554	17,303,503	11,736,158	15,864,140	-10.5%	35.2%
Balances due from Banks & Financial Institutions	11,461,265	4,563,532	4,466,364	1,566,035	1,566,035	5,045,994	11,788,922	2,218,349	-50.3%	-81.2%
Balances due from group	24,631,669	20,733,781	15,255,766	14,151,412	14,151,412	17,700,509	23,531,437	41,209,341	170.1%	75.1%
Government and Other Securities	74,949,465	93,825,188	96,351,286	87,552,984	87,552,984	107,712,702	116,804,516	125,356,660	30.1%	7.3%
Net Loans and Advances	109,787,058	114,265,013	120,761,020	122,711,038	122,711,038	116,875,407	113,040,256	114,241,248	-5.4%	1.1%
Fixed Assets	3,176,233	3,085,002	3,026,909	2,985,751	2,985,751	3,031,389	2,995,694	2,968,476	-1.9%	-0.9%
Total Assets	249,757,072	255,948,220	264,258,028	250,482,000	250,482,000	274,234,901	289,077,286	310,504,845	17.5%	7.4%
Key Ratios										
Gross NPL (KES M)	15,409,376	15,360,300	14,718,065	15,038,172	15,038,172	15,367,574	16,913,092	16,984,463	15.4%	0.4%
Interest In Suspense (KES M)	3,516,438	4,025,674	4,513,364	4,871,365	4,871,365	4,906,757	5,373,826	5,848,747	29.6%	8.8%
Total NPL (KES M)	11,892,938	11,334,626	10,204,701	10,166,807	10,166,807	10,460,817	11,539,266	11,135,716	9.1%	-3.5%
Loan Loss Provision (KES M)	5,417,586	5,510,145	4,617,760	4,914,946	4,914,946	5,115,694	6,788,081	6,764,438	46.5%	-0.3%
Net NPL	6,475,352	5,824,481	5,586,941	5,251,861	5,251,861	5,345,123	4,751,185	4,371,278	-21.8%	-8.0%
NPL Ratio	13.4%	12.8%	11.7%	11.8%	11.8%	12.6%	14.1%	14.0%		
Coverage Ratio	35.2%	35.9%	31.4%	32.7%	32.7%	33.3%	40.1%	39.8%		
Cost of Risk	2.7%	2.3%	1.5%	1.2%	1.8%	2.6%	5.4%	5.0%		
Loan to Deposits	59.5%	59.9%	60.5%	65.8%	65.8%	57.0%	50.4%	47.9%		
Yield on Interest Earning Assets	11.6%	11.4%	11.2%	10.8%	11.4%	10.2%	9.7%	9.4%		
Cost of Funds	3.1%	3.0%	3.1%	3.3%	3.2%	3.1%	3.2%	3.3%		
NIM	8.5%	8.4%	8.1%	7.5%	8.2%	7.1%	6.5%	6.2%		
Non Funded/Total Income	32.6%	29.9%	29.5%	30.7%	30.7%	31.4%	32.4%	31.5%		
Cost to Income Ratio	39.0%	39.0%	42.3%	60.1%	44.7%	44.1%	47.5%	50.9%		
ROE	23.3%	24.3%	22.8%	11.8%	20.3%	17.7%	12.6%	11.5%		
ROA	4.1%	4.1%	3.8%	2.1%	3.6%	3.0%	1.9%	1.7%		
Core Capital/TRWA	17.6%	17.9%	18.2%	1.2%	17.5%	17.4%	17.9%	17.1%		
Total Capital/TRWA	21.3%	21.6%	21.3%	20.9%	20.9%	20.6%	21.6%	20.1%		
Liquidity Ratio	60.7%	61.9%	61.5%	56.9%	56.9%	65.8%	69.1%	69.9%		
P/E (x)								13.3		
P/B (x)								1.7		
Dividend Yield								8.8%		

Source: Company Filings, ApexAfrica Research

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