

Standard Chartered Bank – FY17 Earnings Update

“Optimism is the faith that leads to achievement”

StanChart’s net earnings plunged 23.6% y/y to KES 6.9B in line with their earlier profit warning announcement that profits would potentially dip by 25%. The plunge was pressured by a 90.3% y/y surge in loan loss provision expense to KES 4.2B. Net interest income declined 4.3% y/y to KES 18.6B while non funded income had a modest growth of 2.1% y/y to KES 8.7B. The lender declared a final dividend per share of KES 12.50 bringing total dividend to KES 17.00 (-15.0% y/y).

Total interest income rose 1.9% y/y to KES 26.3B supported by a 12.6% y/y rise in interest from government securities to KES 11.3B. This was in line with a 26.1% y/y rise in placements in government securities to KES 103.5B. The rise in total interest income was also supported by a 12.6% y/y rise in other income.

Total interest expenses rose 20.8% y/y to KES 7.7B due to a 93.2% y/y increase in other interest expenses to KES 1.1B and a 12.7% y/y to KES 6.4B rise in interest to customer deposits which grew 14.3y/y to KES 213.3B.

Loan loss provision expense surged 90.3% y/y to KES 4.2B on the back of a 17.2% y/y increase in gross non performing loans to KES 17.6B. This was also influenced by a loan book growth of 2.9% y/y to KES 126.3B. The NPL ratio moved up 150bps y/y to 13.2% above an industry average of 10.6% alarming on the quality of the lender’s loan book. The bank’s NPL coverage ratio improved 600bps to 38.6%.

Total operating expenses increased 4.7% y/y to KES 13.1B riding on a 20.0% y/y increase in other operating expenses to KES 4.6B causing a 320bps y/y increase in cost to income ratio to 47.9%.

Future outlook:

We acknowledge that business operations in FY17 were encumbered by a prolonged electioneering period and the prevailing cap on lending rates highly contributed to the dip in profits by the lender. We are concerned on the rise in non performing loans and the increase in loan loss provision expense given that 2018 is the year that IFRS 9 will be implemented. With an increase in provisions brought about by the standard, we expect loan loss provision expenses to increase, further eating into the lenders profits. The bank is taking assertive actions to manage NPLs by working closely with clients to support their turnaround efforts. We however remain optimistic that given an impending repeal on the interest rate cap, the lender will be able to turn around the tale going forward. The counter is currently trading at KES 216.00, 10.7x P/E, 1.6x P/B, and a dividend yield of 7.9%.

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

Share Statistics

Current Price (KES)	216.00
Issued shares (M)	344
Market cap (USD M)	816.7
Year end	Dec
Foreign ownership (%)	74.63
Free float (%)	24.66
Av daily trading vol (USDk)	29.1

Price Trend

Source: Bloomberg



Research Analyst

Linda Kiraithe

LKiraithe@apexafrica.com

Tel: 020-7602534/ 0719712031

www.apexafrica.com

Financials	FY16	1Q17	2Q17	3Q17	4Q17	FY17	% chg y/y	% chg q/q
Income Statement	KES '000	KES '000	KES '000	KES '000	KES '000	KES '000		
Interest Income	25,775,145	6,336,224	6,402,311	6,675,444	6,860,346	26,274,325	1.9%	2.8%
Interest Expense	6,379,650	1,700,675	1,881,346	2,063,137	2,063,194	7,708,352	20.8%	0.0%
Net Interest Income	19,395,495	4,635,549	4,520,965	4,612,307	4,797,152	18,565,973	-4.3%	4.0%
Foreign Exchange Income	2,839,996	691,384	555,424	644,997	769,538	2,661,343	-6.3%	19.3%
Gross Fees and Commission	4,534,284	1,148,102	1,017,695	1,029,797	1,319,100	4,514,694	-0.4%	28.1%
Other Income	1,215,314	285,933	597,881	442,407	269,962	1,596,183	31.3%	-39.0%
Non Interest Income	8,589,594	2,125,419	2,171,000	2,117,201	2,358,600	8,772,220	2.1%	11.4%
Total Operating Income	27,985,089	6,760,968	6,691,965	6,729,508	7,155,752	27,338,193	-2.3%	6.3%
Total Operating Expenses	12,497,071	2,984,401	3,179,960	3,426,831	3,490,137	13,081,329	4.7%	1.8%
Loan Loss Provision Expense	2,199,899	772,332	1,539,015	1,414,497	459,727	4,185,571	90.3%	-67.5%
Operating Profit	15,488,018	3,776,567	3,512,005	3,302,677	3,665,615	14,256,864	-7.9%	11.0%
Profit Before Tax	13,288,119	3,004,235	1,972,990	1,888,180	3,205,888	10,071,293	-24.2%	69.8%
Current Tax	4,238,812	951,159	599,298	605,593	1,001,145	3,157,195	-25.5%	65.3%
Profit After Tax	9,049,307	2,053,076	1,373,692	1,282,587	2,204,743	6,914,098	-23.6%	71.9%
EPS (KES)	25.85	5.98	3.75	3.74	6.17	20.13	-22.1%	
DPS (KES)	20.00		4.50		17.00	17.00	-15.0%	
Balance Sheet								
Total Shareholders' Equity	43,904,779	46,455,633	43,589,956	44,798,150	45,664,537	45,664,537	4.0%	1.9%
Deposits due to Banks & Financial Institutions	3,046,415	5,068,124	2,328,225	3,692,764	12,701,356	12,701,356	316.9%	244.0%
Balances due to banking institutions in the group	10,174,520	8,912,395	8,954,964	9,706,637	8,448,453	8,448,453	-17.0%	-13.0%
Customer Deposits	186,598,226	205,016,693	238,496,384	224,482,823	213,349,290	213,349,290	14.3%	-5.0%
Total Liabilities	205,878,172	227,779,268	265,706,695	245,487,330	240,059,904	240,059,904	16.6%	-2.2%
Total Equity and Liabilities	250,482,000	274,234,901	309,296,651	290,285,480	285,724,441	285,724,441	14.1%	-1.6%
Cash and CBK Balances	15,513,554	17,303,503	11,736,158	15,864,140	13,341,592	13,341,592	-14.0%	-15.9%
Balances due from Banks & Financial Institutions	1,566,035	5,045,994	11,788,922	2,218,349	5,325,864	5,325,864	240.1%	140.1%
Government and Other Securities	82,075,385	96,808,859	106,107,719	114,076,880	103,495,083	103,495,083	26.1%	-9.3%
Net Loans and advances	122,711,038	116,875,407	113,040,256	114,241,248	126,294,470	126,294,470	2.9%	10.6%
Fixed Assets	2,985,751	3,031,389	2,995,694	2,968,476	3,351,240	3,351,240	12.2%	12.9%
Total Assets	250,274,108	274,234,901	310,504,845	289,077,286	285,724,441	285,724,441	14.2%	-1.2%
Key Ratios								
Gross NPL (KES M)	15,038,172	15,367,574	16,913,092	16,984,463	17,620,531	17,620,531	17.2%	3.7%
Interest In Suspense (KES M)	4,871,365	4,906,757	5,373,826	5,848,747	6,302,823	6,302,823	29.4%	7.8%
Total NPL (KES M)	10,166,807	10,460,817	11,539,266	11,135,716	11,317,708	11,317,708	11.3%	1.6%
Loan Loss Provision (KES M)	4,914,946	5,115,694	6,788,081	6,764,438	6,808,880	6,808,880	38.5%	0.7%
Net NPL	5,251,861	5,345,123	4,751,185	4,371,278	4,508,828	4,508,828	-14.1%	3.1%
NPL Ratio	11.8%	12.6%	14.1%	14.0%	13.2%	13.2%	150bps	-80bps
Coverage Ratio	32.7%	33.3%	40.1%	39.8%	38.6%	38.6%	600bps	-120bps
Cost of Risk	1.8%	2.6%	5.4%	5.0%	4.0%	4.0%	220bps	-100bps
Loan to Deposits	65.8%	57.0%	47.4%	50.9%	59.2%	59.2%	-660bps	830bps
Yield on Interest Earning Assets	12.5%	11.6%	11.1%	11.6%	11.7%	11.2%	-130bps	10bps
Cost of Funds	3.2%	3.1%	3.0%	3.5%	3.5%	3.3%	10bps	10bps
NIM	9.3%	8.5%	8.1%	8.1%	8.2%	7.9%	-140bps	0bps
Non Funded/Total Income	30.7%	31.4%	32.4%	31.5%	33.0%	32.1%	140bps	150bps
Cost to Income Ratio	44.7%	44.1%	47.5%	50.9%	48.8%	47.9%	320bps	-210bps
ROE	20.6%	17.7%	12.6%	11.5%	19.3%	15.1%	-550bps	790bps
ROA	3.6%	3.0%	1.8%	1.8%	3.1%	2.4%	-120bps	130bps
Core Capital/TRWA	17.5%	17.4%	16.7%	17.1%	15.6%	15.6%	-190bps	-140bps
Total Capital/TRWA	20.9%	20.6%	20.1%	20.1%	18.5%	18.5%	-240bps	-150bps
Liquidity Ratio	56.9%	65.8%	69.1%	69.9%	58.7%	58.7%	180bps	-1120bps
P/E (x)						10.7		
P/B (x)						1.6		
Dividend Yield						7.9		

Disclaimer

ApexAfrica and its parent company AXYS Group seek to do business with companies covered in their research reports. Consequently, a conflict of interest may arise that could affect the objectivity of this report. This document should only be considered a single factor used by investors in making their investment decisions. The reader should independently evaluate the investment risks and is solely responsible for their investment decisions. The opinions and information portrayed in this report may change without prior notice to investors.

This publication may not be distributed to the public media or quoted or used by the public media without prior and express written consent of ApexAfrica or AXYS Group.

This document does not constitute an offer, or the solicitation of an offer, for the sale or purchase of any security. Whilst every care has been taken in preparing this document, no representation, warranty or undertaking (express or implied) is given and no responsibility or liability is accepted by Apex Africa or any of its employees as to the accuracy of the information contained and opinions expressed in this report.

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
Part of AXYS Group
W : www.axys-group.com