

## StanChart Bank Kenya– 1H17 Earnings Update

### ‘Interim Dividend Slashed’

**StanChart Bank’s 1H17 net earnings tumbled 34.4% y/y (-33.1% q/q) to KES 3.4B. The decline was attributed to an 8.1% y/y (-2.5% q/q) drop in net interest income to KES 9.2B. The group cut interim dividend to KES 4.50, marking a 25.0% y/y decrease. Books closure is slated for 21st September 2017 and dividend payment date is booked for 19th October 2017.**

#### Low interest income pressures top line

Total interest income dipped 2.3% y/y to KES 12.8B but slightly increased 1.0% q/q. Interest income from loans and advances declined 11.5% y/y to KES 6.9B in line with a 1.1% y/y (-3.3% q/q) contraction in loan book to KES 113.0B. On the other hand, interest income from government securities rose 9.1% y/y to KES 5.2B on a 25.9% y/y increase in total stock of government securities.

#### Interest expenses grow faster than interest income

Total interest expenses grew 16.1% y/y (+10.6% q/q) outpacing the tepid growth in interest income. This was primarily attributable to a 10.4% y/y spike in interest expenses incurred from customer deposits to KES 3.0B as total customer deposits surged 17.6% y/y to KES 224.5B. Going forward, the bank will need to attract cheaper deposits and increase its non-interest bearing deposits in a bid to contain interest expenses. The bank’s costs of funds dipped 10bps y/y to 3.2% while yield on interest earning assets sunk 180bps y/y to 10.5%, shrinking net interest margin to 8.1% (-60 bps y/y). Net interest income fell 8.1% y/y to KES 9.2B.

#### Non-funded income falters

Total non-interest income declined 5.3% y/y to KES 4.3B but expanded slightly (+2.1%) q/q. Foreign exchange income slid 20.5% y/y to KES 1.2B which may partially be attributed to a stable Kenyan Shilling. Gross fees and commission income slid 2.3% y/y to KES 2.2B (-11.4% q/q), driving non interest income lower. However, the proportion of non funded income to total income has not seen a significant change, currently standing at 31.9% (-60bps y/y).

#### Operating expenses and NPLs rise

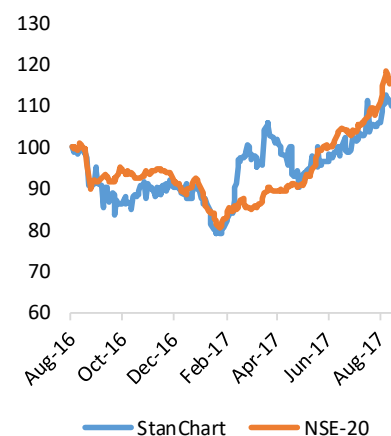
Core operating expenses were up 9.1% y/y (+6.6% q/q), which led to a spike in the cost to income ratio to 45.8% (+680bps y/y).

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

Share Statistics	
Current Price (KES)	238.00
Issued shares (M)	343.5
Market cap (USDm)	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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Loan loss provision expense jumped 68.5% y/y (+99.3% q/q) to KES 2.3B while gross NPLs rose 10.1% y/y to KES 16.9B. The bank's NPL ratio stood at an elevated 14.1% (+130bps y/y). However, a comfortable NPL coverage ratio of 40.1% (+420 bps y/y) highlights prudent and adequate provisioning.

### **Looking ahead**

StanChart cut its loan book exposure to the manufacturing and real estate sectors in FY16 while increasing allocation to transport and energy. The lender has also allocated KES 10.0B to be issued as unsecured personal loans by mid-October. Additionally, the lender may begin to shift its deposit mix to reduce interest expenses and focus on growing its non-funded income. On the bright side, the lender is planning to migrate over 80% of its transactions to non-branch channels by 2018; which will improve efficiency and bolster margins. However, risk factors stem from increased NPLs and a spike in one-off costs in the event of further staff redundancies. Moreover, the rate cap is expected to squeeze margins and pressure bottom line in the medium term. The stock currently trades at 11.5x annualized FY16 earnings, 1.9x book value, with an ROE of 15.7%, and a dividend yield of 8.4%.

	FY15	1Q16	2Q16	3Q16	4Q16	FY16	1Q17	2Q17	% chg y/y	% chg q/q
	KES '000	KES '000	KES '000	KES '000	KES '000	KES '000	KES '000	KES '000		
<b>Income Statement</b>										
Interest Income	22,877,085	6,404,101	6,639,802	6,655,128	6,076,114	25,775,145	6,336,224	6,402,311	-2.3%	1.0%
Interest Expense	4,761,053	1,520,556	1,563,555	1,666,340	1,639,199	6,379,650	1,700,675	1,881,346	16.1%	10.6%
<b>Net Interest Income</b>	<b>18,116,032</b>	<b>4,883,545</b>	<b>5,076,247</b>	<b>4,988,788</b>	<b>4,436,915</b>	<b>19,395,495</b>	<b>4,635,549</b>	<b>4,520,965</b>	<b>-8.1%</b>	<b>-2.5%</b>
Foreign Exchange Income	2,331,776	825,987	741,349	670,135	602,525	2,839,996	691,384	555,424	-20.5%	-19.7%
Gross Fees and Commission	4,149,412	981,979	1,234,501	1,112,649	1,205,155	4,534,284	1,148,102	1,017,695	-2.3%	-11.4%
Other Income	767,929	557,475	194,332	306,472	157,035	1,215,314	285,933	597,881	17.6%	109.1%
<b>Non Interest Income</b>	<b>7,249,117</b>	<b>2,365,441</b>	<b>2,170,182</b>	<b>2,089,256</b>	<b>1,964,715</b>	<b>8,589,594</b>	<b>2,125,419</b>	<b>2,171,000</b>	<b>-5.3%</b>	<b>2.1%</b>
<b>Total Operating Income</b>	<b>25,365,149</b>	<b>7,248,986</b>	<b>7,246,429</b>	<b>7,088,044</b>	<b>6,401,630</b>	<b>27,985,089</b>	<b>6,760,968</b>	<b>6,691,965</b>	<b>-7.2%</b>	<b>-1.0%</b>
Total Operating Expenses	11,308,862	2,823,606	2,827,843	3,000,057	3,845,565	12,497,071	2,984,401	3,179,960	9.1%	6.6%
<b>Loan Loss Provision Expense</b>	<b>4,896,355</b>	<b>728,333</b>	<b>643,034</b>	<b>450,776</b>	<b>377,756</b>	<b>2,199,899</b>	<b>772,332</b>	<b>1,539,015</b>	<b>68.5%</b>	<b>99.3%</b>
<b>Profit Before Tax &amp; Exceptional Items</b>	<b>9,159,932</b>	<b>3,697,047</b>	<b>3,775,552</b>	<b>3,637,211</b>	<b>2,178,309</b>	<b>13,288,119</b>	<b>3,004,235</b>	<b>1,972,990</b>	<b>-33.4%</b>	<b>-34.3%</b>
<b>Profit Before Tax</b>	<b>9,159,932</b>	<b>3,697,047</b>	<b>3,775,552</b>	<b>3,637,211</b>	<b>2,178,309</b>	<b>13,288,119</b>	<b>3,004,235</b>	<b>1,972,990</b>	<b>-33.4%</b>	<b>-34.3%</b>
Tax	2,817,505	1,114,099	1,132,186	1,133,323	869,204	4,238,812	951,159	599,298	-31.0%	-37.0%
<b>Profit After Tax</b>	<b>6,342,427</b>	<b>2,582,948</b>	<b>2,643,366</b>	<b>2,503,888</b>	<b>1,319,105</b>	<b>9,049,307</b>	<b>2,053,076</b>	<b>1,373,692</b>	<b>-34.4%</b>	<b>-33.1%</b>
EPS (KES)	19.97	8.35	6.62	7.29	3.59	25.85	5.98	3.75	-35.0%	-37.3%
DPS (KES)	17.00		6.00			20.00		4.50	-25.0%	
No. of shares	343,511	343,511	343,511	343,511	343,511	343,511	343,511	343,510,571		
<b>Balance Sheet</b>										
<b>Total Shareholders' Equity</b>	<b>41,251,785</b>	<b>44,279,073</b>	<b>43,581,629</b>	<b>43,932,422</b>	<b>44,603,828</b>	<b>44,603,828</b>	<b>46,455,633</b>	<b>43,589,956</b>	<b>0.0%</b>	<b>-6.2%</b>
Deposits due to Banks & Financial Institutions	4,293,413	3,980,711	5,843,509	1,672,353	3,046,415	3,046,415	5,068,124	2,328,225	-60.2%	-54.1%
<b>Balances due to group</b>	<b>10,355,723</b>	<b>10,761,466</b>	<b>9,865,351</b>	<b>10,557,483</b>	<b>10,174,520</b>	<b>10,174,520</b>	<b>8,912,395</b>	<b>8,954,964</b>	<b>-9.2%</b>	<b>0.5%</b>
Customer Deposits	172,036,056	184,533,840	190,872,512	199,634,468	186,598,226	186,598,226	205,016,693	224,482,823	17.6%	9.5%
<b>Total Liabilities</b>	<b>192,713,662</b>	<b>205,477,999</b>	<b>212,366,591</b>	<b>220,325,606</b>	<b>205,878,172</b>	<b>205,878,172</b>	<b>227,779,268</b>	<b>245,487,330</b>	<b>15.6%</b>	<b>7.8%</b>
<b>Total Equity and Liabilities</b>	<b>233,965,447</b>	<b>249,757,072</b>	<b>255,948,220</b>	<b>264,258,028</b>	<b>250,482,000</b>	<b>250,482,000</b>	<b>274,234,901</b>	<b>289,077,286</b>	<b>12.9%</b>	<b>5.4%</b>
Cash and CBK Balances	14,240,581	18,072,960	13,744,686	17,721,028	15,513,554	15,513,554	17,303,503	11,736,158	-14.6%	-32.2%
Balances due from Banks & Financial Institutions	3,190,915	11,461,265	4,563,532	4,466,364	1,566,035	1,566,035	5,045,994	11,788,922	158.3%	133.6%
Balances due from group	17,857,239	24,631,669	20,733,781	15,255,766	14,151,412	14,151,412	17,700,509	23,531,437	13.5%	32.9%
Government and Other Securities	74,309,485	74,949,465	93,825,188	96,351,286	87,552,984	87,552,984	107,712,702	116,804,516	25.9%	8.4%
<b>Net Loans and Advances</b>	<b>115,125,427</b>	<b>109,787,058</b>	<b>114,265,013</b>	<b>120,761,020</b>	<b>122,711,038</b>	<b>122,711,038</b>	<b>116,875,407</b>	<b>113,040,256</b>	<b>-1.1%</b>	<b>-3.3%</b>
Fixed Assets	3,265,044	3,176,233	3,085,002	3,026,909	2,985,751	2,985,751	3,031,389	2,995,694	-2.9%	-1.2%
<b>Total Assets</b>	<b>233,965,447</b>	<b>249,757,072</b>	<b>255,948,220</b>	<b>264,258,028</b>	<b>250,482,000</b>	<b>250,482,000</b>	<b>274,234,901</b>	<b>289,077,286</b>	<b>12.9%</b>	<b>5.4%</b>
<b>Key Ratios</b>										
Gross NPL (KES M)	14,697,920	15,409,376	15,360,300	14,718,065	15,038,172	15,038,172	15,367,574	16,913,092	10.1%	10.1%
Interest In Suspense (KES M)	3,016,256	3,516,438	4,025,674	4,513,364	4,871,365	4,871,365	4,906,757	5,373,826	33.5%	9.5%
<b>Total NPL (KES M)</b>	<b>11,681,664</b>	<b>11,892,938</b>	<b>11,334,626</b>	<b>10,204,701</b>	<b>10,166,807</b>	<b>10,166,807</b>	<b>10,460,817</b>	<b>11,539,266</b>	<b>1.8%</b>	<b>10.3%</b>
Loan Loss Provision (KES M)	4,763,351	5,417,586	5,510,145	5,510,145	4,914,946	4,914,946	5,115,694	6,788,081	23.2%	32.7%
<b>Net NPL</b>	<b>6,918,313</b>	<b>6,475,352</b>	<b>5,824,481</b>	<b>4,694,556</b>	<b>5,251,861</b>	<b>5,251,861</b>	<b>5,345,123</b>	<b>4,751,185</b>	<b>-18.4%</b>	<b>-11.1%</b>
NPL Ratio	12.3%	13.4%	12.8%	11.7%	11.8%	11.8%	12.6%	14.1%		
Coverage Ratio	32.4%	35.2%	35.9%	37.4%	32.7%	32.7%	33.3%	40.1%		
Cost of Risk	4.3%	2.7%	2.3%	1.5%	1.2%	1.8%	2.6%	5.4%		
Loan to Deposits	66.9%	59.5%	59.9%	60.5%	65.8%	65.8%	57.0%	50.4%		
Yield on Interest Earning Assets	10.9%	11.6%	11.4%	11.2%	10.8%	11.4%	10.2%	9.7%		
Cost of Funds	2.6%	3.1%	3.0%	3.1%	3.3%	3.2%	3.1%	3.2%		
NIM	8.3%	8.5%	8.4%	8.1%	7.5%	8.2%	7.1%	6.5%		
Non Funded/Total Income	28.6%	32.6%	29.9%	29.5%	30.7%	30.7%	31.4%	32.4%		
Cost to Income Ratio	44.6%	39.0%	39.0%	42.3%	60.1%	44.7%	44.1%	47.5%		
ROE	15.4%	23.3%	24.3%	22.8%	11.8%	20.3%	17.7%	12.6%		
ROA	2.7%	4.1%	4.1%	3.8%	2.1%	3.6%	3.0%	1.9%		
Core Capital/TRWA	17.5%	17.6%	17.9%	18.2%	1.2%	17.5%	17.4%	16.7%		
Total Capital/TRWA	21.2%	21.3%	21.6%	21.3%	20.9%	20.9%	20.6%	20.1%		
Liquidity Ratio	53.7%	60.7%	61.9%	61.5%	56.9%	56.9%	65.8%	69.1%		
P/E (x)						11.5				
P/B (x)						1.9				
Dividend Yield						8.4%				

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