

Standard Chartered Bank – 1H18 Earnings Update

“Total Operating Income Up”

StanChart’s net earnings surged 30.3% y/y to KES 4.5B in 1H18, riding on a 7.5% y/y rise in net interest income to KES 9.8B, a 12.2% y/y uplift in non-interest income to KES 4.8B and a 45.2% y/y slash in loan loss provision expense to KES 1.3B. An interim dividend of KES 5.00 (+11.1% y/y) was declared with investors earning a dividend yield of 2.4% on the interim. Book closure is slated for 26, September 2018 with payment date on 29, October 2018.

Net interest income rises 7.5% y/y to KES 9.8B: This was driven by a 19.8% y/y rise in interest income from government securities (+ 9.5% y/y to KES 116.1B) to KES 6.4B. Loans and advances declined 1.1% y/y to KES 111.7B driving interest income from loans and advances down 2.0% y/y to KES 6.7B.

Customer deposits growth inhibited by tight market liquidity conditions; Customer deposits declined 3.2% y/y to KES 230.8B mirroring tight liquidity conditions that have been brought about by slow private sector credit growth (due to the prevailing rate cap and budget cuts on development expenditure by the government). Interest expense edged up 8.8% y/y to KES 3.9B with cost of funds remaining moderate at 1.7%.

Non interest income rose 12.2% y/y to KES 4.8B on the back of an 11.6% y/y increase in foreign exchange income to KES 1.4B and a 36.2% y/y surge in income from gross fees and commission to KES 3.0B. We applaud the banks efforts to diversify its revenue streams with the incorporation of digital banking.

NPL ratio still high; The bank’s NPL ratio rose 1.5bps y/y to 15.6% above an industry average of 12.0% in 1H18. This indicates the bank’s struggle with debt collection. Loan loss provision expense eased 45.2% y/y to KES 1.3B boosting the bottom-line. Coverage ratio stood at 38.2%.

Operating expenses rose 10.7% y/y to KES 6.8B eating into the bottom-line. A 1.9% y/y rise in staff costs to KES 3.3B and a 27.5% y/y surge in other operating expenses to KES 2.6B fueled the rise.

Into the future:

We remain positive on the bank’s performance in FY18 given its focus on non-interest income as a bottom-line driver. We expect the bank to remain stringent on lending and keep focus on investment in government papers. We however expect interest income from government papers to remain subdued in 2H18, due to declining yields as demand outweighs the government’s appetite.

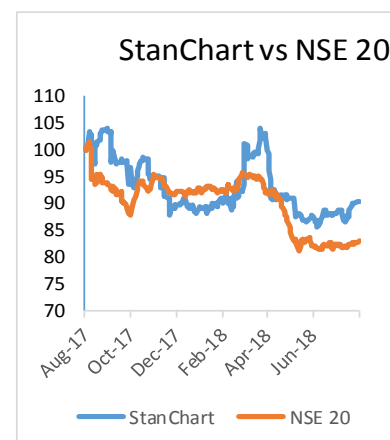
We remain weary on an increasing trend in NPLs and expect the bank’s management to put in aggressive measures on debt collection. We also remain cautious of an increasing trend in operating expenses but are cognizant that the bank’s cost to income ratio remains below 50.0% at 46.6% . The counter remains attractive for dividend yield seeking investors (FY17 dividend yield of 7.9%).

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

Share Statistics

Current Price (KES)	209.00
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

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Financials	FY16	1H17	FY17	1H18	% chg y/y
	KES '000	KES '000	KES '000	KES '000	
Income Statement					
Interest Income	25,775,145	12,738,535	26,274,325	13,741,748	7.9
Interest Expense	6,379,650	3,582,021	7,708,352	3,898,873	8.8
Net Interest Income	19,395,495	9,156,514	18,565,973	9,842,875	7.5
Foreign Exchange Income	2,839,996	1,246,808	2,661,343	1,391,464	11.6
Gross Fees and Commission	4,534,284	2,165,797	4,514,694	2,949,191	36.2
Other Income	1,215,314	883,814	1,596,183	479,960	-45.7
Non Interest Income	8,589,594	4,296,419	8,772,220	4,820,615	12.2
Total Operating Income	27,985,089	13,452,933	27,338,193	14,663,490	9.0
Total Operating Expenses	12,497,071	6,164,361	13,081,329	6,826,315	10.7
Loan Loss Provision Expense	2,199,899	2,311,347	4,185,571	1,266,286	-45.2
Operating Profit	15,488,018	7,288,572	14,256,864	7,837,175	7.5
Profit Before Tax	13,288,119	4,977,225	10,071,293	6,570,889	32.0
Current Tax	4,238,812	1,550,457	3,157,195	2,104,170	35.7
Profit After Tax	9,049,307	3,426,768	6,914,098	4,466,719	30.3
EPS (KES)	25.85	9.73	20.13	12.76	31.1
DPS (KES)	20.00	4.50	17.00	5.00	11.1
Balance Sheet					
Total Shareholders' Equity	43,904,779	43,589,956	45,664,537	44,641,514	2.4
Deposits due to Banks & Financial Institutions	3,046,415	2,328,225	12,701,356	1,197,707	-48.6
Balances due to banking institutions in the group	10,174,520	8,954,964	8,448,453	9,109,542	1.7
Customer Deposits	186,598,226	238,496,384	213,349,290	230,845,308	-3.2
Total Liabilities	205,878,172	265,706,695	240,059,904	251,313,732	-5.4
Total Equity and Liabilities	250,482,000	309,296,651	285,724,441	295,955,246	-4.3
Cash and CBK Balances	15,513,554	11,736,158	13,341,592	16,958,880	44.5
Balances due from Banks & Financial Institutions	1,566,035	11,788,922	5,325,864	7,599,274	-35.5
Government and Other Securities	82,075,385	106,107,719	103,495,083	116,145,044	9.5
Net Loans and advances	122,711,038	113,040,256	126,294,470	111,748,653	-1.1
Fixed Assets	2,985,751	2,995,694	3,351,240	3,192,926	6.6
Total Assets	250,274,108	310,504,845	285,724,441	295,955,246	-4.7
Key Ratios					
Gross NPL (KES M)	15,038,172	16,913,092	17,620,531	18,547,487	9.7
Interest In Suspense (KES M)	4,871,365	5,373,826	6,302,823	6,820,457	26.9
Total NPL (KES M)	10,166,807	11,539,266	11,317,708	11,727,030	1.6
Loan Loss Provision (KES M)	4,914,946	6,788,081	6,808,880	7,088,093	4.4
Net NPL	5,251,861	4,751,185	4,508,828	4,638,937	-2.4
NPL Ratio	11.8%	14.1%	13.2%	15.6%	
Coverage Ratio	32.7%	40.1%	38.6%	38.2%	
Cost of Risk	1.8%	2.0%	4.0%	1.1%	
Loan to Deposits	65.8%	47.4%	59.2%	48.4%	
Yield on Interest Earning Assets	12.5%	5.5%	11.2%	5.8%	
Cost of Funds	3.2%	1.5%	3.3%	1.7%	
NIM	9.3%	8.1%	7.9%	8.8%	
Non Funded/Total Income	30.7%	31.9%	32.1%	32.9%	
Cost to Income Ratio	44.7%	45.8%	47.9%	46.6%	
ROE	20.6%	1.1%	15.1%	1.5%	
ROA	3.6%	1.1%	2.4%	1.5%	
Core Capital/TRWA	17.5%	16.7%	15.6%	16.1%	
Total Capital/TRWA	20.9%	20.1%	18.5%	19.0%	
Liquidity Ratio	56.9%	69.1%	58.7%	71.3%	
P/E (x)			10.7		
P/B (x)			1.6		
Dividend Yield			7.9		

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