Standard Chartered Bank – FY'2023
12th March, 2024

Below is a summary of Standard Chartered Bank Kenya's FY'2023 performance:

Balance Sheet	FY'2022 (Kshs bn)	FY'2023 (Kshs bn)	y/y change
Net Loans and Advances	139.4	163.2	17.0%
Kenya Government Securities	105.7	69.6	(34.2%)
Total Assets	**381.3**	**429.0**	**12.5%**
Customer Deposits	278.9	342.9	22.9%
Deposits Per Branch	7.7	10.7	38.3%
Total Liabilities	**325.1**	**367.4**	**13.0%**
Shareholders' Funds	**56.1**	**61.5**	**9.6%**

Key Ratios	FY'2022	FY'2023	y/y change
Loan to Deposit ratio	50.0%	47.6%	(2.4%)
Government Securities to Deposits ratio	37.9%	20.3%	(17.6%)
Return on Average Equity	22.1%	23.5%	1.5%
Return on Average Assets	3.4%	3.4%	0.0%
Dividend yield	15.4%	15.8%	2.8%

Income Statement	FY'2022 (Kshs bn)	FY'2023 (Kshs bn)	y/y change
Net interest Income	22.2	29.3	32.0%
Net non-interest income	11.8	12.4	5.5%
Total Operating income	**34.0**	**41.7**	**22.8%**
Loan loss provision	1.3	3.4	154.4%
Total Operating expenses	**16.9**	**22.1**	**30.7%**
Profit before tax	17.1	19.7	15.0%
Profit after tax	**12.1**	**13.8**	**14.7%**
Core EPS	**31.5**	**36.6**	**16.4%**

Income Statement Ratios	FY'2022	FY'2023	y/y change
Yield from interest-earning assets	8.0%	9.1%	1.1%
Cost of funding	1.2%	1.0%	(0.2%)
Net Interest Margin	7.0%	8.3%	1.3%
Net Interest Income as % of operating income	65.4%	70.3%	4.9%
Non-Funded Income as a % of operating income	34.6%	29.7%	(4.9%)
Cost to Income Ratio	49.7%	52.9%	3.2%
Cost to Income without LLP	45.8%	44.8%	(1.0%)
Cost to Assets	4.3%	4.6%	0.3%

Capital Adequacy Ratios	FY'2022	FY'2023	% points change
Core Capital/Total Liabilities	15.1%	14.9%	(0.2%)
Minimum Statutory ratio	8.0%	8.0%	
Excess	**7.1%**	**6.9%**	(0.2%)
Core Capital/Total Risk Weighted Assets	15.4%	17.8%	2.4%
Minimum Statutory ratio	10.5%	10.5%	
Excess	**4.9%**	**7.3%**	**2.4%**
Total Capital/Total Risk Weighted Assets	17.3%	17.8%	0.6%
Minimum Statutory ratio	14.5%	14.5%	
Excess	**2.8%**	**3.3%**	**0.6%**
Liquidity Ratio	71.9%	66.7%	(5.2%)
Minimum Statutory ratio	20.0%	20.0%	
Excess	**51.9%**	**46.7%**	**(5.2%)**

Income Statement

- Core earnings per share grew by 16.4% to Kshs 36.6, from Kshs 31.5 in FY'2022, driven by the 22.8% growth in total operating income to Kshs 41.7 bn, from Kshs 34.0 bn in FY'2022. However, the performance was weighed down by a 30.7% growth in total operating expenses to Kshs 22.1 bn from Kshs 16.9 bn in FY'2022,
- The 22.8% growth in total operating income was mainly driven by a 32.0% growth in Net Interest Income (NII) to Kshs 29.3 bn from Kshs 22.2 bn in FY'2022, coupled with a 5.5% growth in Non Interest Income (NFI) to Kshs 12.4 bn, from Kshs 11.8 bn in FY'2022,
- Interest income grew by 27.0% to Kshs 32.4 bn from Kshs 25.5 bn in FY'2022, mainly driven by a 42.4% growth in interest income from loans and advances to Kshs 18.1 bn from Kshs 12.7 bn in FY'2022, coupled with a 145.8% increase in interest income from deposits and placements to Kshs 6.0 bn, from Kshs 2.4 bn in FY'2022. As such, the Yield on Interest-Earning Assets (YIEA) increased to 9.1% from 8.0% recorded in FY'2022, mainly attributable to the faster 27.0% growth in trailing interest income compared to an 11.0% increase in average interest-earning assets to Kshs 354.5 bn, from Kshs 319.3 bn in FY'2022,
- Interest expenses declined by 6.9% to Kshs 3.0 bn from Kshs 3.2 bn in FY'2022, mainly driven by a 44.7% decrease in interest expense on placements to Kshs 0.2 bn from Kshs 0.3 bn in FY'2022, coupled with a 30.4% decrease in interest expense from other interest expenses to Kshs 0.3 bn in FY'2023 from Kshs 0.4 bn recorded in FY'2022. Consequently, Cost of funds (COF) decreased by 0.2% points to 1.0% from 1.2% recorded in FY'2022, owing to the 6.9% decrease in Trailing interest expense to Kshs 3.0 bn from Kshs 3.2 bn recorded in FY'2022, compared to a 14.8% increase in average interest-bearing liabilities to Kshs 316.3 bn from Kshs 275.6 bn in FY'2022. Trailing interest expense refers to the performance of the interest expense for the past 12 consecutive months. Net Interest Margin (NIM) increased by 1.3% points to 8.3% from 7.0% in FY'2022, attributable to a 32.0% increase in trailing net interest income to Kshs 29.3 bn from Kshs 22.2 bn recorded in FY'2022 which outpaced the 11.0% growth in average interest-earning assets,
- Non-Funded Income (NFI) increased by 5.5% to Kshs 12.4 bn from Kshs 11.8 bn in FY'2022, mainly driven by a 41.4% increase in foreign exchange income to 8.4 bn from 6.0 bn in FY'2022 indicating an increase in the bank's foreign exchange margins, coupled with a 38.4% increase in fees and commissions to Kshs 0.3 bn from Kshs 0.2 bn in FY'2022. Total fees and commissions increased 33.1% to Kshs 6.0 bn, from Kshs 4.5 bn in FY'2022. The revenue mix shifted to 70:30 from 65:35 for the funded to Non-funded income owing to the 32.0% growth in funded income which outpaced the 5.5% growth in NFI,
- Total operating expenses increased by 30.7% to Kshs 22.1 bn from Kshs 16.9 bn in FY'2022, driven by a 154.4% increase in loan loss provisions to Kshs 3.4 bn from Kshs 1.3 bn recorded in FY'2022 reflecting the bank's continued active management of the credit portfolio, coupled with a 16.1% increase in staff costs to Kshs 7.9 bn from Kshs 6.8 bn in FY'2022. The increase in provisioning is partly attributable to rising credit risk as a result of deteriorated economic environment as evidenced by the 2023 Purchasing Managers Index (PMI) averaging 48.1, down from an average of 49.2 in 2022,
- Cost to Income Ratio (CIR) increased to 52.9% from 49.7% in FY'2022, owing to the 30.7% increase in total operating expenses, which outpaced the 22.8% increase in total operating income. Notably, CIR without LLP decreased by 1.0% points to 44.8% from 45.8% recorded in FY'2022, and,
- Profit before tax increased by 15.0% to Kshs 19.7 bn from Kshs 17.1 bn in FY'2022, with the effective tax rate increasing to 29.7% in FY'2023 from 29.5% in FY'2022. As such, profit after tax increased by 14.7% to Kshs 13.8 bn in FY'2023, from Kshs 12.1 bn in FY'2022.

Balance Sheet

- The balance sheet recorded an expansion as total assets grew by 12.5% to Kshs 429.0 bn, from Kshs 381.3 bn in FY'2022, driven by a 17.0% expansion of the loan book to Kshs 163.2 bn, from Kshs 139.4 bn in FY'2022, coupled with a 75.2% increase in other assets to Kshs 6.1 bn, from Kshs 3.5 bn in FY'2022, which outpaced the 34.2% decline in investment securities to Kshs 69.6 bn, from Kshs 105.7 bn in FY'2022,

- Total liabilities rose by 13.0% to Kshs 367.4 bn from Kshs 325.1 bn in FY'2022, driven by a 22.9% growth in customer deposits to Kshs 330.9 bn, from Kshs 282.1 bn in FY'2022. The growth was however weighed down by a 33.3% decline in placements to Kshs 4.3 bn, from Kshs 6.5 bn in FY'2022,
- The faster 22.9% growth in customer deposits as compared to the 17.0% growth in loans led to a decrease in the loan to deposits ratio to 47.6%, from 50.0% in FY'2022,
- The bank's Asset Quality improved, with Gross NPL ratio decreasing to 9.7% in FY'2023 from 14.2% in FY'2022, attributable to 23.7% decrease in Gross non-performing loans to Kshs 17.2 bn, from Kshs 22.6 bn in FY'2022, compared to the 11.4% increase in gross loans to Kshs 177.2 bn, from Kshs 159.1 bn recorded in FY'2022,
- General Provisions (LLP) decreased by 24.1% to Kshs 7.7 bn in FY'2023 from Kshs 10.1 bn in FY'2022. The NPL coverage decreased to 81.6% in FY'2023, from 87.1% in FY'2022, attributable to the faster 24.1% decline in provisions coupled with a 33.4% decrease in interest in suspense, compared to the 23.7% decline in Gross non-performing loans
- Shareholders' funds increased by 9.6% to Kshs 61.5 bn in FY'2023, from Kshs 56.1 bn in FY'2022, supported by a 13.9% increase in retained earnings to Kshs 40.8 bn, from Kshs 35.8 bn in FY'2022,
- Standard Chartered Bank remains capitalized with a core capital to risk-weighted assets ratio of 17.8%, 7.3% points above the statutory requirement of 10.5%. In addition, the total capital to risk-weighted assets ratio came in at 17.8%, exceeding the statutory requirement of 14.5% by 3.3% points, and,
- The bank currently has a Return on Average Assets (ROaA) of 3.4%, and a Return on Average Equity (ROaE) of 23.5%.

Key Take-Outs:

1. **Strong earnings growth -** Core earnings per share (EPS) grew by 16.4% to Kshs 36.6, from Kshs 31.5 in FY'2022, driven by the 22.8% growth in total operating income to Kshs 41.7 bn, from Kshs 34.0 bn in FY'2022,
2. **Improved asset quality –** The bank's gross NPL ratio decreased to 9.7% in FY'2023 from 14.2% in FY'2022, attributable to 23.7% decrease in Gross non-performing loans to Kshs 17.2 bn, from Kshs 22.6 bn in FY'2022, compared to the 11.4% increase in gross loans to Kshs 177.2 bn, from Kshs 159.1 bn recorded in FY'2022,
3. **Improved Lending –** The bank's loan book increased by 17.0% to Kshs 163.2 bn, from Kshs 139.4 bn in FY'2022, compared to the 34.2% decline in government securities to Kshs 69.6 bn, from Kshs 105.7 bn in FY'2022, highlighting the bank's strategy to increase lending through digital transformation, while at the same time managing its non-performing loan book, and,
4. **Increased dividends –** Dividends paid increased by 31.8% to Kshs 29.0 in FY'2023, from Kshs 22.0 in FY'2022 translating to a dividend yield of 15.8% in 2023 compared to a dividend yield of 15.4% in 2022.

Going forward, the factors that would drive the bank's growth would be:

- **Digital transformation**. The lender has capitalized on digital innovation for service delivery, allowing customers to invest in several funds such as offshore mutual funds, government securities, and local money market funds as well as accessing digital loans, which has been a key factor in its financial performance. The Shillingi fund launched back in 2022 has so far recorded Kshs 5.2 bn in AUM, leading the bank to capture 2.4% in market share in the collective investments schemes market segment in Kenya. Additionally, 84.0% of the loans are now processed digitally and the number of new accounts has risen three times since the launch of digital bank.

Valuation Summary

- We are of the view that Standard Chartered Bank is a "buy" with a target price of Kshs 194.0 representing an upside of 21.9%, from the current price of 183.0 as of 15th March 2024, inclusive of a dividend yield of 15.8%.
- Standard Chartered Bank Kenya is currently trading at a P/TBV of 1.2x and a P/E of 5.8x vs an industry average of 0.9x and 4.0x respectively.