## Standard Chartered Bank Kenya – Q3’2023

Below is a summary of Standard Chartered Bank Kenya Q3’2023 performance:

| Balance Sheet Items (Kshs bn) | Q3'2022 | Q3'2023 | y/y change |
|---|---|---|---|
| Net loans | 136.1 | 143.6 | 5.5% |
| Government Securities | 112.0 | 55.6 | (50.3%) |
| **Total Assets** | **366.1** | **369.7** | **1.0%** |
| Customer Deposits | 286.1 | 298.8 | 4.5% |
| Deposits per Branch | 7.9 | 9.3 | 17.5% |
| **Total Liabilities** | **310.6** | **310.0** | **(0.2%)** |
| **Shareholder's Funds** | **55.5** | **59.7** | **7.6%** |

| Balance Sheet Ratios | Q3'2022 | Q3'2023 | % y/y change |
|---|---|---|---|
| Loan to deposit ratio | 47.6% | 48.0% | 0.5% |
| Government securities to deposit ratio | 39.1% | 18.6% | (20.5%) |
| Return on Average Equity | 21.0% | 22.7% | 1.7% |
| Return on Average Assets | 3.3% | 3.6% | 0.3% |

| Income Statement (Kshs bn) | Q3’2022 | Q3'2023 | y/y change |
|---|---|---|---|
| Net Interest Income | 15.8 | 21.2 | 34.5% |
| Net non-Interest Income | 8.8 | 8.2 | (6.6%) |
| **Total Operating income** | **24.6** | **29.4** | **19.8%** |
| Loan Loss provision | 0.6 | 1.8 | 193.4% |
| **Total Operating expenses** | **12.3** | **15.8** | **28.4%** |
| Profit before tax | 12.3 | 13.7 | 11.3% |
| **Profit after tax** | **8.7** | **9.7** | **11.8%** |
| **Core EPS (Kshs)** | **23.1** | **25.8** | **11.8%** |

| Income Statement Ratios | Q3’2022 | Q3'2023 | y/y change |
|---|---|---|---|
| Yield from interest-earning assets | 7.3% | 9.4% | 2.1% |
| Cost of funding | 1.14% | 1.03% | (0.1%) |
| Net Interest Spread | 6.2% | 8.4% | 2.2% |
| Net Interest Margin | 6.3% | 8.5% | 2.2% |
| Cost of Risk | 2.5% | 6.2% | 3.7% |
| Net Interest Income as % of operating income | 64.3% | 72.1% | 7.8% |
| Non-Funded Income as a % of operating income | 35.7% | 27.9% | (7.8%) |
| Cost to Income Ratio | 49.9% | 53.5% | 3.6% |
| Cost to Income Ratio without LLP | 47.4% | 47.3% | (0.1%) |
| Cost to Assets | 3.3% | 3.8% | 0.5% |

| Capital Adequacy Ratios | Q3’2022 | Q3'2023 | % points change |
|---|---|---|---|
| Core Capital/Total Liabilities | 14.5% | 15.7% | 1.2% |
| Minimum Statutory ratio | 8.0% | 8.0% | 0.0% |
| **Excess** | **6.5%** | **7.7%** | 1.2% |
| Core Capital/Total Risk Weighted Assets | 15.4% | 17.1% | 1.7% |
| Minimum Statutory ratio | 10.5% | 10.5% | 0.0% |
| **Excess** | **4.9%** | **6.6%** | **1.7%** |
| Total Capital/Total Risk Weighted Assets | 17.7% | 17.8% | 0.1% |
| Minimum Statutory ratio | 14.5% | 14.5% | 0.0% |
| **Excess** | **3.2%** | **3.3%** | **0.1%** |
| Liquidity Ratio | 71.9% | 66.7% | (5.2%) |
| Minimum Statutory ratio | 20.0% | 20.0% | 0.0% |
| **Excess** | **51.9%** | **46.7%** | **(5.2%)** |

**Income Statement**

- Core earnings per share rose by 11.8% to Kshs 25.8, from Kshs 23.1 in Q3'2022, lower than our expectations of a 12.9% increase, with the variance stemming from the 19.8% increase in total operating income to kshs 29.4 bn, which was lower than our projection of a 22.9% increase to Kshs 30.2 bn in Q3'2023. The overall performance was weighed down by the 28.4% growth in total operating expenses to Kshs 15.8 bn, from Kshs 12.3 bn in Q3'2022, against our projections of 30.6% expenses growth to Kshs 16.0 bn in Q3'2023,
- The 19.8% growth in total operating income was mainly driven by a 34.5% growth in Net Interest Income to Kshs 21.2 bn, from Kshs 15.8 bn in Q3'2022. The growth was however weighed down by a 6.6% decline in Non funded Income (NFI) to Kshs 8.2 bn, from Kshs 8.8 bn in Q3'2022,
- Interest income grew by 28.5% to Kshs 23.4 bn from Kshs 18.2 bn in Q3'2022, mainly driven by a 40.9% growth in interest income from loans and advances to Kshs 12.9 bn from Kshs 9.1 bn in Q3'2022, coupled with a significant 170.4% growth in interest from deposits and placements in other banking institutions to kshs 4.0 bn, from kshs 1.5 bn in Q3'2022. Consequently, the Yield on Interest-Earning Assets (YIEA) increased to 9.4% from 7.3% in Q3'2022, attributable to the 33.3% growth in trailing interest income to Kshs 30.7 bn, from Kshs 23.0 bn which outpaced the 3.5% growth in Average Interest Earning Assets (AIEA) to kshs 326.4 bn, from kshs 315.3 bn in Q3'2022. Trailing Interest Income refers to the performance of the interest income for the past 12 consecutive months,
- Interest expenses decreased by 10.0% to Kshs 2.2 bn, from Kshs 2.4 bn in Q3'2022, driven by the 22.0% decrease in interest expense from deposits and placements to Kshs 0.1 bn, from Kshs 0.2 bn in Q3'2022 coupled with the 10.0% decrease in interest expense from customer deposits to Kshs 1.8 bn in Q3'2023, from Kshs 2.0 bn recorded in Q3'2022. Consequently, Cost of funds (COF) decreased by 0.1% points to 1.0% from 1.1% recorded in Q3'2022, owing to a 6.9% increase in average interest bearing liabilities to Kshs 292.9 bn from Kshs 273.9 bn in Q3'2022, compared to a 3.7% decrease in trailing interest expense to Kshs 3.0 bn from Kshs 3.1 bn in Q3'2022.Trailing interest expense refers to the performance of the interest expense for the past 12 consecutive months. Net Interest Margin (NIM) increased by 2.2% points to 8.5%, from 6.3% recorded in Q3'2022, owing to the faster 39.2% growth in trailing Net Interest Income to kshs 27.7 bn, from kshs 19.9 bn in Q3'2022 which outpaced the 3.5% increase in average interest-earning assets,
- Non-Funded Income (NFI) decreased by 6.6% to Kshs 8.2 bn from Kshs 8.8 bn in Q3'2022, mainly driven by a significant 322.0% decrease in the other income to (Kshs 2.3 bn) from Kshs 1.0 bn in Q3'2022. Notably, the banks foreign trading income increased by 49.8% to Kshs 6.3 bn, from Kshs 4.2 bn highlighting the bank's increased foreign exchange margins. Total fees and commissions increased by 19.0% to Kshs 4.2 bn, from Kshs 3.5 bn in Q3'2022. The revenue mix shifted to 72:28 from 64:36 for the funded to Non-funded income owing to the 34.5% growth in Funded Income relative to the 6.6% decline in the Non Funded Income,
- Total operating expenses increased by 28.4% to Kshs 15.8 bn from Kshs 12.3 bn in Q3'2022, driven by 193.4% increase in loan loss provisions to Kshs 1.8 bn from Kshs 0.6 bn recorded in Q3'2022, coupled with a 19.8% increase in staff costs to Kshs 6.2 bn from Kshs 5.2 bn in Q3'2022. The increase in provisioning is partly attributable to rising credit risk as a result deteriorioted economic environment as evidenced by the average Purchasing Managers Index (PMI) of 48.0 in Q3'2023 which was below the 50.0 points, despite the slight improvement from an average of 47.4 in Q3'2022,
- Cost to Income Ratio (CIR) increased to 53.5% from 49.9% in Q3'2022, owing to the 28.4% increase in total operating expense, which outpaced the 19.8% increase in total operating income. Notably, CIR without LLP decreased by 0.1% points to 47.3% from 47.4% recorded in Q3'2022, and,
- Profit before tax increased by 11.3% to Kshs 13.7 bn from Kshs 12.3 bn in Q3'2022, with effective tax rate declining to 28.8% in Q3'2023 from 29.1% in Q3'2022. As such, profit after tax increased by 11.8% to Kshs 9.7 bn in Q3'2023, from Kshs 8.7 bn in Q3'2022.

**Balance Sheet**

- The balance sheet recorded a expansion as total assets increased marginally by 1.0% to Kshs 369.7 bn, from Kshs 366.1 bn in Q3’2022, driven by a 50.3% increase in placements to kshs 122.7 bn, from kshs 81.6 bn in Q3’2022, coupled with a 5.5 growth in net loans to Kshs 143.6 bn from Kshs 136.1 bn in Q3’2022. However, growth was weighed down by a 50.3% decline in investments in government securities to Kshs 55.6 bn, from Kshs 112.0 bn in Q3’2022,
- Total liabilities declined marginally by 0.2% to Kshs 310.0 bn from Kshs 310.6 bn in Q3’2022, mainly attributable to a 51.2% decrease in placements to Kshs 0.3 bn, from Kshs 0.6 bn in Q3’2022. Notably, the customer deposits grew by 4.5% to Kshs 298.8 bn, from Kshs 286.1 bn in Q3’2023.
- The faster 5.5% growth in loans as compared to the 4.5% growth in deposits led to an increase in the loan to deposits ratio to 48.0%, from 47.6% in Q3’2022,
- The bank’s Asset Quality improved, with the NPL ratio declining to 14.4% in Q3’2023, from 15.4% in Q3’2022, attributable to the 4.6% growth in gross loans to kshs 163.1 bn, from kshs 155.9 bn in Q3’2022, relative to the 2.0% decrease in gross non-performing loans to kshs 23.6 bn, from kshs 24.0 bn in Q3’2022.
- General Provisions (LLP) decreased marginally by 1.0% to Kshs 10.2 bn in Q3’2023 from Kshs 10.3 bn in Q3’2022. The NPL coverage increased to 83.0% in Q3’2023, from 82.4% in Q3’2022, attributable to the slower 1.0% decrease in General Provisions (LLP) to Kshs 10.2 bn, from Kshs 10.3 bn recorded in Q3’2022, which was outpaced by the 2.0% decrease in Gross Non-Performing Loans to kshs 23.6 bn, from kshs 24.0 bn in Q3’2022,
- Shareholders’ funds increased by 7.6% to Kshs 59.7 bn in Q3’2023, from Kshs 55.5 bn in Q3’2022, supported by a 13.5% increase in retained earnings to Kshs 43.6 bn, from Kshs 38.4 bn in Q3’2022,
- Standard Chartered Bank Kenya remains sufficiently capitalized with a core capital to risk-weighted assets ratio of 17.1%, 6.6% points above the statutory requirement of 10.5%. 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 was 0.1% points above the 17.7% recorded in Q3’2022, and,
- The bank currently has a Return on Average Assets (ROaA) of 3.6%, and a Return on Average Equity (ROaE) of 22.7%.

**Key Take-Outs:**

1. **Strong earnings growth -** Core earnings per share (EPS) grew by 11.8% to Kshs 25.8, from Kshs 23.1 in Q3’2022, driven by the 19.8% growth in total operating income to Kshs 29.4 bn, from Kshs 24.6 bn in Q3’2022. The performance was however weighed down by the 28.4% increase in the total operating expenses to Kshs 15.8 bn in Q3’2023, from Kshs 12.3 bn in Q3’2022,
2. **Improvement in Asset Quality -** The group’s asset quality improved significantly, with the NPL ratio improving to 14.4% in Q3’2023, from 15.4% recorded in Q3’2022. The improvement in asset quality was attributable to the 4.6% growth in gross loans to kshs 163.1 bn, from kshs 155.9 bn in Q3’2022, relative to the 2.0% decrease in gross non-performing loans to kshs 23.6 bn, from kshs 24.0 bn in Q3’2022**.**
3. **Increased Provisioning** - Q3’2023 was characterized by increased provisioning, attributable to the high credit risks brought about by the deteriorated business environment. As such, Standard Chartered Bank Kenya increased its loan loss provisions by 193.4% to kshs 1.8 bn in Q3’2023, up from Kshs 0.6 bn provisioning recorded in Q3’2022. Notably, General Provisions (LLP) decreased marginally by 1.0% to Kshs 10.2 bn, from Kshs 10.3 bn recorded in Q3’2022.

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

- **Digitalization** – Standard Chartered Bank Kenya has strategically leveraged technology to enhance its digital footprint, successfully digitizing an impressive 97.0% of its banking processes as of the FY’2022. This move has resulted in a reduced reliance on traditional brick-and-mortar branches. Notably, the implementation of the SC Mobile App, the SC Shilling fund, and the improved delivery of products reflects the bank's commitment to digital diversification, ensuring a more streamlined and efficient experience for its clients.

**Valuation Summary**

- We are of the view that Standard Chartered is a "buy" with a target price of Kshs 191.0 representing an upside of 20.5%, from the current price of Kshs 158.6 as of 24th November 2023, inclusive of a dividend yield of 13.8%,
- Standard Chartered Bank is currently trading at a P/TBV of 1.1x and a P/E of 5.0x vs an industry average of 0.8x and 3.5x, respectively