Below is a summary of Standard Chartered Bank of Kenya Plc H1’2022 performance;

Balance Sheet Items (Kshs bn)	H1’2021	H1’2022	y/y change
Net loans	130.3	128.5	(1.3%)
Government Securities	101.4	103.6	2.1%
Total Assets	**345.6**	**364.3**	**5.4%**
Customer Deposits	278.2	286.9	3.1%
Deposits per Branch	11.1	13.0	17.2%
Total Liabilities	**293.9**	**307.9**	**4.7%**
Shareholder's Funds	**51.7**	**56.4**	**9.1%**

Balance sheet ratios	H1'2021	H1'2022	y/y change
Loan to Deposit Ratio	46.8%	44.8%	(2.0%)
Return on average equity	13.7%	17.7%	4.0%
Return on average assets	2.1%	2.7%	0.6%

Income Statement (Kshs bn)	H1'2021	H1'2022	y/y change
Net Interest Income	9.1	10.0	9.9%
Net non-Interest Income	5.0	5.5	10.9%
Total Operating income	**14.1**	**15.6**	**10.2%**
Loan Loss provision	0.6	0.1	(83.1%)
Total Operating expenses	**7.3**	**8.0**	**9.2%**
Profit before tax	6.8	7.6	11.4%
Profit after tax	**4.9**	**5.4**	**10.9%**
Core EPS	**12.9**	**14.3**	**10.9%**

Income Statement Ratios	H1'2021	H1'2022	y/y change
Yield from interest-earning assets	7.7%	7.3%	(0.4%)
Cost of funding	1.5%	1.1%	(0.4%)
Net Interest Spread	6.3%	6.3%	0.0%
Net Interest Margin	6.4%	6.4%	0.0%
Cost of Risk	4.5%	0.7%	(3.8%)
Net Interest Income as % of operating income	64.6%	64.4%	(0.2%)
Non-Funded Income as a % of operating income	35.0%	36.0%	1.0%
Cost to Income Ratio	51.8%	51.3%	(0.5%)
Cost to Income Ratio without LLP	47.3%	50.6%	3.3%
Cost to Assets	2.0%	2.2%	0.2%

Capital Adequacy Ratios	H1'2021	H1'2022	% Change
Core Capital/Total Liabilities	15.1%	14.6%	(0.6%)
Minimum Statutory ratio	8.0%	8.0%	0.0%
Excess	**7.1%**	**6.6%**	(0.6%)
Core Capital/Total Risk Weighted Assets	15.9%	15.4%	(0.5%)
Minimum Statutory ratio	10.5%	10.5%	0.0%
Excess	**5.4%**	**4.9%**	**(0.5%)**
Total Capital/Total Risk Weighted Assets	18.3%	17.7%	(0.5%)
Minimum Statutory ratio	14.5%	14.5%	0.0%
Excess	**3.8%**	**3.2%**	**(0.5%)**
Liquidity Ratio	70.1%	73.6%	3.6%
Minimum Statutory ratio	20.0%	20.0%	0.0%
Excess	**50.1%**	**53.6%**	**3.6%**

Adjusted Core Capital/Total Liabilities	15.2%	14.6%	(0.6%)
Adjusted Core Capital/Total RWA	15.9%	15.5%	(0.4%)
Adjusted Total Capital/Total RWA	18.3%	17.8%	(0.5%)

Income Statement

- Core earnings per share increased by 10.9% to Kshs 14.3, from Kshs 12.9 recorded in H1'2021, lower than our projections of a 19.8% increase to Kshs 15.5, with the variance stemming from a faster increase in operating expenses. The performance was driven by a 10.2% increase in total operating income to Kshs 15.6 bn, from Kshs 14.1 bn recorded in H1'2021. However, the increase was weighed down by an 9.2% increase in total operating expenses to Kshs 8.0 bn, from Kshs 7.3 bn recorded in H1'2021,
- Total operating income rose by 10.2% to Kshs 15.6 bn, from Kshs 14.1 bn recorded in H1'2021 driven by a 9.9% growth in Net Interest Income (NII) to Kshs 10.0 bn, from Kshs 9.1 bn in H1'2021 coupled with a 10.9% gain in Non - Funded Income (NFI) to Kshs 5.5 bn, from Kshs 5.0 bn in H1'2021,
- Interest income increased by 4.4% to Kshs 11.5 bn, from Kshs 11.0 bn in H1'2021, driven by a 4.9% increase in interest income from Loans & Advances to Kshs 6.0 bn, from Kshs 5.7 bn in H1'2021, coupled with a 4.0% increase in interest income from Government Securities to Kshs 4.8 bn in H1'2022, from Kshs 4.6 bn in H1'2021. Interest income from placements in other banks also increased by 3.3% to Kshs 744.0 mn, from 720.5 mn in H1'2021. The Yield on Interest-Earning Assets (YIEA) declined to 7.3%, from 7.7% in H1'2021, attributable to a 0.3% decline in the trailing interest income, coupled with a 5.2% increase in the average interest earning assets. Trailing Interest Income refers to the performance of the interest income for the past 12 consecutive months,
- Interest expense declined by 21.4% to Kshs 1.5 bn, from Kshs 1.9 bn in H1'2021, following a 22.9% decline in interest expense on customer deposits to Kshs 1.3 bn, from Kshs 1.7 bn in H1'2021 coupled with a 5.3% decline in other interest expenses to Kshs 132.9 mn from Kshs 140.3 mn in H1'2021. The bank was able to mobilize cheaper deposits with the Cost of funding declining by 0.4% points to 1.1%, from 1.5% in H1'2021, owing to the 23.3% decline in trailing interest expense coupled with the 5.3% increase in the average interest-bearing liabilities. Trailing interest expense refers to the performance of the interest expense for the past 12 consecutive months. Net Interest Margin (NIM) marginally declined to 6.35%, from 6.39% in H1'2021 attributable to the faster 5.2% growth in average interest-earning assets compared to the 4.6% gain in the trailing Net Interest Income (NII) compared,
- Non-Funded Income (NFI) increased by 10.9% to Kshs 5.5 bn, from Kshs 5.0 bn in H1'2021, mainly driven by a 33.6% rise in Foreign Exchange Trading income to Kshs 2.3 bn in H1'2022, from Kshs 1.7 bn in H1'2021, given the continued depreciation of the Kenyan shilling. However, the performance was weighed down by a 6.1% decrease in income from other Fees and Commissions to Kshs 2.4 bn, from Kshs 2.6 bn in H1'2021. Similarly, the bank's total fees and commissions declined by 6.2% to Kshs 2.5 bn, from Kshs 2.7 bn in H1'2021. As a result, the revenue mix shifted to 64:36 from 65:35 in H1'2021, funded to non-funded income, owing to the slower 9.9% increase in Net Interest Income (NII), compared to a 10.9% increase in Non - Funded Income (NFI),
- Total operating expenses increased by 9.2% to Kshs 8.0 bn in H1'2022, from Kshs 7.3 bn in H1'2021, mainly attributable to an 11.5% increase in staff costs to Kshs 3.6 bn, from Kshs 3.2 bn recorded in H1'2021 coupled with an 24.1% increase in other operating expenses to Kshs 4.3 bn from Kshs 3.5 bn in H1'2021. However, Loan Loss Provisions(LLPs) have continued to decline having reduced by 83.1% to Kshs 108.2 mn in H1'2022, from Kshs 638.5 mn in H1'2021 as uncertainty in the business environment continues to ease,
- Cost to Income Ratio (CIR) marginally improved to 51.3%, from 51.8% in H1'2021 owing to 10.2% increase in total operating income to Kshs 15.6 bn from Kshs 14.1 bn in H1'2021 which outpaced the 9.2% increase in total operating expenses to Kshs 8.0 bn from Kshs 7.3 bn in H1'2021. Without LLP, Cost to Income ratio deteriorated to 50.6%, from 47.3% in H1'2021, an indication of reduced efficiency levels, and,

- Profit before tax increased by 11.4% to Kshs 7.6 bn, from Kshs 6.8 bn in H1’2021. Profit after tax increased by 10.9% to Kshs 5.4 bn in H1’2022, from Kshs 4.9 bn recorded in H1’2021 with the effective tax rate remaining unchanged at 29.6%.

Balance Sheet

- The balance sheet recorded an expansion as total assets grew by 5.4% to Kshs 364.3 bn in H1’2022, from Kshs 345.6 bn in H1’2021, largely driven by a 2.1% increase in investments in government and other securities to Kshs 103.6 bn, from Kshs 101.4 bn in H1’2021. Additionally, there was a 20.1% increase in placements to Kshs 85.1 bn, from Kshs 70.9 bn in H1’2022. The loan book however, declined by 1.3% to Kshs 128.5 bn, from Kshs 130.3 bn recorded in H1’2021, partly attributable to the bank’s cautious lending owing to the relatively high non-performing loans,
- Total liabilities increased by 4.7% to Kshs 307.9 bn, from Kshs 293.9 bn in H1’2021 driven by a 3.1% decline in customer deposits to Kshs 286.9 bn, from Kshs 278.2 bn in H1’2021. Deposits per branch rose by 17.2% to Kshs 13.0 bn, from Kshs 11.1 bn in H1’2021 with the number of branches reducing to 22 from 35 in H1’2021. The reduced number of branches was part of the Bank’s strategy in cost cutting as it focuses on digitization,
- The Loan to deposits ratio declined by 2.0% to 44.8% in H1’2022 from 46.8% recorded in H1’2021 attributable to the 1.3% decrease in net loans,
- Gross Non-Performing Loans (NPLs) declined by 0.5% to Kshs 22.7 bn in H1’2022, from Kshs 22.9 bn recorded in H1’2021 owing to the gradual recovery of the economic environment. The NPL ratio however increased marginally to 15.41%, from 15.36% recorded in H1’2021, attributable to the faster decline in Gross loans, as compared to the decline in Gross Non-Performing Loans (NPLs),
- General Loan Loss Provisions increased by 9.7% to Kshs 9.9 bn, from Kshs 9.0 bn in H1’2021. Consequently, the NPL coverage increased to 83.9%, from 81.4% in H1’2021, as the provisions (after adding back interest suspense) increased by 2.5% in H1’2022 compared to the 0.5% decline in the Gross Non-Performing Loans during the same period. The increase in the NPL Coverage indicates sufficient provisioning,
- Shareholders’ funds increased by 9.1% to Kshs 56.4 bn, from Kshs 51.7 bn recorded in H1’2021, mainly attributable to the 4.4% increase in retained earnings to Kshs 36.8 bn, from Kshs 35.2 bn in H1’2021,
- Standard Chartered is currently sufficiently capitalized with a core capital to risk-weighted assets ratio of 15.4%, 4.9% points above the statutory requirement of 10.5%. In addition, the total capital to risk-weighted assets ratio was 17.7%, exceeding the statutory requirement of 14.5% by 3.2% points. Adjusting for IFRS 9, the core capital to risk-weighted assets stood at 15.5% while total capital to risk-weighted assets came in at 17.8%, and,
- The bank currently has a Return on Average Assets (ROaA) of 2.7%, and a Return on Average Equity (ROaE) of 17.7%.

Key Take-Outs:

1. **Asset Quality** – The bank’s asset quality deteriorated slightly with the NPL ratio increasing to 15.41% in H1’2022, from 15.36% recorded in H1’2021. The decline in the asset quality was attributable to the faster 0.9% decline in Gross loans compared to Gross Non-Performing Loans (NPLs) which declined by 0.5% to Kshs 22.7 bn in H1’2022, from Kshs 22.9 bn recorded in H1’2021. The marginal decline in NPLs is partly attributable to the continuous recovery in most sectors of the economy,
2. **Loan Book Growth –** The bank’s net loans and advances declined by 1.3% to Kshs 128.5 bn from Kshs 130.3 bn in H1’2021 partly attributable to the bank’s cautious lending on the back of the relatively high non-performing loans, which have seen the group’s asset quality continue deteriorate. Consequently, the group has focused more on government securities, which are perceived to be less risky leading to a decline in credit growth. As such, the group is expected to redesign their operating models for loans in other industries, that are less prone to external shocks, and,

3. **Operating Efficiency** - There was a reduction in the bank’s operating efficiency as the Cost to Income ratio without LLP deteriorated to 50.6%, from 47.3% in H1’2021. The deterioration was largely attributable to the 11.5% increase in Staff Costs to Kshs 3.6 bn, from Kshs 3.2 bn recorded in H1’2021.

Going forward, we expect the bank’s growth to be driven by:

I. **Revenue Diversification** – We expect the bank to focus on leveraging its digitization strategy as it has the potential of enhancing the bank’s Non-Funded Income (NFI). Other fees and commissions remains the largest contributor to NFI recording a 43.4% increase in H1’2022. Key to note, Non-Funded Income (NFI) grew by 10.6% during the period. As a result, we anticipate the bank to concentrate on diversifying revenue sources by promoting the usage of alternative channels to expand and contain cost to improve the performance.

Valuation Summary

- We are of the view that Standard Chartered is an “***Accumulate***” with a target price of Kshs 147.9 representing an upside of 7.0%, from the current price of Kshs 138.3 as of 19th August 2022, inclusive of a dividend yield of 10.1%,
- Standard Chartered Bank is currently trading at a P/TBV of 0.9x and a P/E of 5.5x vs an industry average of 0.9x and 5.2x, respectively.