Standard Chartered Bank Kenya – FY'2022

17th March, 2023

Below is a summary of Standard Chartered Bank Kenya FY'2022 performance:

Balance Sheet Items	FY'2021	FY'2022	y/y change
Net loans	126.0	139.4	10.7%
Government Securities	95.6	105.7	10.6%
Total Assets	**334.9**	**381.3**	**13.9%**
Customer Deposits	265.5	278.9	5.1%
Deposits per Branch	7.4	8.7	18.2%
Total Liabilities	**281.7**	**325.1**	**15.4%**

Balance Sheet Ratios	FY'2021	FY'2022	y/y change
Loan to deposit ratio	47.5%	50.0%	2.5%
Return on Average Equity	17.4%	22.1%	4.7%
Return on Average Assets	2.7%	3.4%	0.6%

Income Statement	FY'2021	FY'2022	y/y change
Net Interest Income	18.8	22.2	18.1%
Net non-Interest Income	10.4	11.8	13.5%
Total Operating income	**29.2**	**34.0**	**16.5%**
Loan Loss provision	2.1	1.3	(36.2%)
Total Operating expenses	**16.6**	**16.9**	**1.9%**
Profit before tax	12.6	17.1	35.8%
Profit after tax	**9.0**	**12.1**	**33.3%**
Core EPS	**23.5**	**31.5**	**34.0%**

Income Statement Ratios	FY'2021	FY'2022	y/y change
Yield from interest-earning assets	7.6%	8.0%	0.4%
Cost of funding	1.3%	1.2%	(0.1%)
Net Interest Spread	6.2%	6.8%	0.6%
Net Interest Margin	6.4%	7.0%	0.6%
Cost of Risk	7.1%	3.9%	(3.2%)
Net Interest Income as % of operating income	64.5%	65.4%	0.9%
Non-Funded Income as a % of operating income	35.5%	34.6%	(0.9%)
Cost to Income Ratio	56.8%	49.7%	(7.1%)
Cost to Income Ratio without LLP	49.7%	45.8%	(3.9%)
Cost to Assets	4.4%	4.3%	(0.1%)

Capital Adequacy Ratios	FY'2021	FY'2022	% Change
Core Capital/Total Liabilities	15.4%	15.1%	(0.3%)
Minimum Statutory ratio	8.0%	8.0%	0.0%
Excess	**7.4%**	**7.1%**	**(0.3%)**
Core Capital/Total Risk Weighted Assets	15.5%	15.4%	(0.2%)
Minimum Statutory ratio	10.5%	10.5%	0.0%
Excess	**5.0%**	**4.9%**	**(0.2%)**
Total Capital/Total Risk Weighted Assets	17.8%	17.3%	(0.5%)
Minimum Statutory ratio	14.5%	14.5%	0.0%
Excess	**3.3%**	**2.8%**	**(0.5%)**
Liquidity Ratio	70.7%	73.0%	2.3%
Minimum Statutory ratio	20.0%	20.0%	0.0%
Excess	**50.7%**	**53.0%**	**2.3%**
Adjusted core capital/ total deposit liabilities	**15.4%**	**15.1%**	**(0.3%)**
Adjusted core capital/ total risk weighted assets	**15.6%**	**15.4%**	**(0.2%)**
Adjusted total capital/ total risk weighted assets	**17.8%**	**17.3%**	**(0.5%)**

Key FY'2022 highlights:

Standard Chartered Bank Kenya, through it's investment arm Standard Chartered Invesment Services, in collaboration with Sanlam Investments East Africa, and Mangosteen BCC Pte Ltd, launched the SC Shilingi fund, a low-ticket money markets fund on the 15th February 2022. The aim of the fund was to cultivate investment culture among retail investors while at the same time diversifying the bank's revenue streams. Key to note, the SC Shillingi fund accumulated Kshs 1.3 bn in investment assets under management (AUM) as at end of December 2022.

Income Statement

- Core earnings per share rose by 34.0% to Kshs 31.5, from Kshs 23.5 registered in FY'2021, higher than our expectations of a 20.9% increase to Kshs 28.4, with the variance stemming from the 1.9% decline in total operating expense to kshs 16.9, which was lower than our projection of a 19.1% increase to Kshs 19.7 bn in FY2022. The performance was driven by the 16.5% growth in total operating income to Kshs 34.0 bn, from Kshs 29.2 bn in FY'2021, against the relativey lower 1.9% growth in total operating expenses to Kshs 16.9 bn from Kshs 16.6 bn in FY'2021,
- Total operating income increased by 16.5% to Kshs 34.0 bn, from Kshs 29.2 bn in FY'2021, driven by 18.1% increase in Net Interest Income (NII) to Kshs 22.2 bn, from Kshs 18.8 bn in FY'2021, coupled with a 13.5% increase in Non-Funded Income (NFI) to Kshs 11.8 bn, from Kshs 10.4 bn in FY'2021,
- Interest income grew by 14.3% to Kshs 25.5 bn, from Kshs 22.3 bn in FY'2021, mainly driven by a 12.5% increase in interest income earned from government securities to Kshs 10.3 bn, from Kshs 9.2 bn in FY'2021, coupled with a 7.9% increase in interest income from loans and advances, to Kshs 12.7 bn, from 11.8 bn in FY'2021, and a further 85.0% increase in interest income from deposits and placements in other banking institutions to Kshs 2.4 bn, from Kshs 1.3 bn in FY'2021. The Yield on Interest-Earning Assets (YIEA) increased to 8.0% from 7.6% in FY'2021, attributable to the faster 14.3% growth in trailing interest income that outpaced the 8.4% growth in Average Interest Earning Assets (AIEA). Trailing Interest Income refers to the performance of the interest income for the past 12 consecutive months,
- Interest expenses declined by 6.5% to Kshs 3.2 bn, from Kshs 3.5 bn in FY'2021, following a 16.9% decline in interest expense on customer deposits to Kshs 2.6 bn, from Kshs 3.1 bn recorded in FY'2021. Consequently, the Cost of funds (COF) improved by 0.1% points to 1.2%, from 1.3% recorded in FY'2021, attributable to a 6.5% decline in Trailing interest expense, coupled with a 5.4% growth in 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) increased to 7.0%, from 6.4% in FY'2021 due to the faster 18.1% growth in trailing Net Interest Income,outpacing the 8.4% increase in average interest-earning assets,
- Non-Funded Income (NFI) increased by 13.5% to Kshs 11.8 bn, from Kshs 10.4 bn in FY'2021, driven by a significant 58.4% increase in the group's foreign exchange trading income to Kshs 6.0 bn, from Kshs 3.8 bn in FY'2021, highlighting the group's increased foreign exchange margins, coupled with a 13.8% increase in other income to Kshs 1.3 bn, from Kshs 1.1 bn in FY'2021. Notably, total fees and commissions declined by 17.7% to Kshs 4.8 bn, from the Kshs 5.4 bn recorded in FY'2021. The revenue mix shifted slightly to 65:35 from 64:36 funded to non-funded income, owing to the faster 18.1% growth in Net Interest Income (NII), compared to the 13.5% growth of non-funded income (NFI),
- Total operating expenses increased by 1.9% to Kshs 16.9 bn, from Kshs 16.6 bn in FY'2021, largely driven by a 7.6% increase in staff cost expense to Kshs 6.8 bn, from Kshs 6.3 bn in FY'2021 in addition to a 6.2% increase in other operating expenses to Kshs 8.8 bn, from Kshs 8.2 bn in FY'2021. The increase in expenses was, mitigated by a 36.2% reduction in loan loss provision (LLP) to Kshs 1.3 bn, from Kshs 2.1 bn recorded in FY'2021, signifying reduced provisioning,
- Cost to Income Ratio (CIR) improved to 49.7%, from 56.8% in FY'2021, owing to the 16.5% increase in total operating income, relative to the 1.9% increase in total operating expenses. Without LLP, Cost to Income ratio improved as well, to 45.8% from 49.7% in FY'2021, an indication of sustained efficiency, and,

- Profit before tax increased by 35.8% to Kshs 17.1 bn, from Kshs 12.6 bn in FY'2021, with the effective tax rate rising slightly to 29.5%, from 28.2% in FY'2021. Similarly, Profit after tax increased by 33.3% to Kshs 12.1 bn in FY'2022, from Kshs 9.0 bn in FY'2021,
- Standard Chartered Bank Kenya's directors recommended a total dividend per share of Kshs 22.0 in FY'2022, representing a dividend yield of 13.2% as of 17th March 2023. The dividends recommended represent a 15.8% increase from the dividend per share of Kshs 19.0 paid in FY'2021. However, the dividend payout ratio declined to 69.9% in FY'2022, from 80.9% in FY'2021,

Balance Sheet

- The balance sheet recorded an expansion as total assets grew by 13.9% to Kshs 381.3 bn, from Kshs 334.9 bn in FY'2021, driven by a 10.7% growth in the loan book to Kshs 139.4 bn, from Kshs 126.0 bn in FY'2021, coupled with 10.6% increase in government securities to Kshs 105.7 bn, from Kshs 95.6 bn in FY'2021. The conservative approach underpins SCBK's conservative lending approach,
- Total liabilities rose by 15.4% to Kshs 325.1bn, from Kshs 281.7 bn in FY'2021, driven by a 5.1% growth in customer deposits to Kshs 278.9 bn, from Kshs 265.5 bn. Deposits per branch increased by 18.2% to Kshs 8.7 bn, from Kshs 7.4 bn in FY'2021, with the number of branches declining to 32, from 36 in FY'2021,
- The faster 10.7% growth in loans as compared to the 5.1% growth in customers' deposits led to an increase in the loan to deposits ratio to 50.0%, from 47.5% in FY'2021,
- Gross non-performing loans declined by 3.0% to Kshs 22.6 bn, from Kshs 23.3 bn in FY'2021, while gross loans increased by 9.2% to Kshs 159.1 bn from Kshs 145.6 bn in FY'2021. Consequently, the group's Asset Quality improved, with the NPL ratio declining to 14.2% in FY'2022, from 16.0% in FY'2021, attributable to the 9.2% growth in gross loans, coupled with the 3.0% decline in Non-Performing loans,
- General Provisions (LLP) remained relatively unchanged at Kshs 10.1 bn, similar to what was recorded in FY'2021. However, the NPL coverage increased significantly to 87.1% in FY'2022, from 84.4% in FY'2021, due to the 3.0% decline in gross non-performing loans to Kshs 22.6 bn , from Kshs 23.3 bn in FY'2021,
- Shareholders' funds increased by 5.5% to Kshs 56.1 bn in FY'2022, from Kshs 53.2 bn in FY'2021, supported by a 7.6% increase in retained earnings to Kshs 35.8 bn, from Kshs 33.3 bn in FY'2021,
- Standard Chartered Bank Kenya remains sufficiently capitalized with a core capital to risk-weighted assets ratio of 15.4%, 4.9% points above the statutory requirement of 10.5%. The total capital to risk-weighted assets ratio came in at 17.3%, exceeding the statutory requirement of 14.5% by 2.8% points, but was a 0.5% points decline from 17.8% recorded in FY'2021. Adjusting for IFRS 9, the core capital to risk-weighted assets stood at 15.4%, while total capital to risk-weighted assets came in at 17.3%, and,
- The bank currently has a Return on Average Assets (ROaA) of 3.4%, and a Return on Average Equity (ROaE) of 22.1%.

Key Take-Outs:

1. **Improvement in Asset Quality** - The group's asset quality improved significantly, with the NPL ratio improving to 14.2% in FY'2022, from 16.0% recorded in FY'2021. The improvement in asset quality was attributable to the 3.0% decline in gross non-performing loans, coupled with a 9.2% increase in gross loans. Key to note, on a q/q basis, Standard Chartered Bank's Asset quality improved by 1.2% points to 14.2% as end of FY'2022, from 15.4% recorded in Q3'2022,
2. **Sustained operating efficiency levels** – The bank's operating efficiency has recorded sustained improvement with cost to income ratio without LLP improving to 45.8% from 49.7% in FY'2021, similar to the trend witnessed in Q3'2022 financial performance where cost to income LLP improved by 0.6% points to 47.4% in Q3'2022 from 48.0% in Q3'2021, and,
3. **Cautious Lending** – FY'2022 was characterized by cautious lending to the public attributable to the high credit risks brought about by the deteriorated business environment mainly as a result of the elevated inflationary pressures during the year. As such, the bank turned to lending to the government resulting

in government securities registering a 10.6% growth to Kshs 105.7 bn, from 95.6 bn in FY'2021.

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

I. **Revenue Diversification** – We expect the bank to continue to grow its revenue through the non-funded income as evidenced by the 13.5% growth of non-funded income to Kshs 11.8 bn, from 10.4 bn in FY'2021, on the back of 34.9% growth in Wealth Management Assets under Management (AUM) to Kshs 4.3 bn in FY'2022, from Kshs 3.2 bn in FY'2021, coupled with SC Shillingi fund accumulating Kshs 1.3 bn in investment AUM in FY'2022, and,

II. **Digitalization** – Standard Chartered Bank Kenya is taking advantage of technology to improve its digital presence having digitalized 97.0% of its banking procedures, consequently limiting the use of brick and mortar branches, especially with the SC Mobile App, the SC Shilling fund and enhanced product delivery to its clients.

Valuation Summary

- We are of the view that Standard Chartered is an **"Accumulate"** with a target price of Kshs 176.6 representing an upside of 18.9%, from the current price of Kshs 167.0 as of 17th March 2023, inclusive of a dividend yield of 13.2%,

- Standard Chartered Bank is currently trading at a P/TBV of 1.1x and a P/E of 5.2x vs an industry average of 0.9x and 4.5x, respectively.