



Standard Chartered Bank: 3Q21 Earnings Note

SCBK 3Q21 net earnings edged up **46.67%** to **KES 6.36Bn** which was above our expectations of a KES 5.47Bn PAT, while the **EPS** also grew by **48.16%** to **KES 16.49**. The impressive growth in the bottom line was mainly driven by a 7.84% growth in operating income to **KES 22.87Bn** and a 5.07% decline in total operating expenses to **KES 13.38Bn**. The growth was above our expectations backed by an improving economic conditions. The bank's flat loan book at **KES 131.74Bn** was below our expectations.

➤ **Digitization continues to pay off:** Cost to income ratio improving by 700bps y/y (+71 bps q/q) to 48.02%, underpinning the banks push for digital transaction channels. The improvement was driven by a 5.90% y/y decline in operating expenses, less loan impairments, to **KES 10.7Bn** largely on account of a 10.44% y/y decline in staff cost. Additionally, the loan loss provision declined by 1.61% y/y to **KES 2.68Bn** highlighting the expectations of an improving lending environment.

➤ **Non-interest income grows faster than Interest Income:** Non-interest income was in line with our expectations having grown by 19.12% to **KES 7.56Bn** mainly driven by income from financial markets and wealth management businesses. Interest income declined 2.47% y/y to **KES 17.50Bn** as interest from government securities declined by 3.96% to **KES 6.91Bn** faster than the 1.58% growth in interest from loans to **KES 9.53Bn**. Interest expenses declined 23.27% to **KES 2.79Bn** leading to the cost of funds also declining to 1.7% as the bank continued sourcing for cheaper deposits. Therefore, the revenue mix shifted to **66:34** for NII:NFI from **69:31** in 3Q20.

➤ **Asset quality concerns persist:** The NPL ratio worsened to **15.26%** from **14.76%** in 3Q20, which is above the current industry average of **14.0%**. Meanwhile the NPL Coverage improved to **82.80%** from **78.20%** in 3Q20 as a result of the Gross NPLs increasing by **4.75%** y/y to **KES 23.01Bn**. Improving economic conditions have created a better operating environment and therefore we expect the bank's asset quality to improve in the coming quarters.

Outlook

The results were in line with our expectations. We take note of the improved efficiency which is attributable to use of digital channels. However, we are concerned by the flat loan book growth, as well as the worsening NPL ratio, given the improved lending environment. We foresee future growth in bank's earnings being driven by digital channels including offerings in financial markets and wealth management services. We expect the announcement of an interim dividend will make the counter attractive in the coming days.

16th November 2021

Current price: KES 129.50

Target price: KES 145.19

Upside: 12.12%

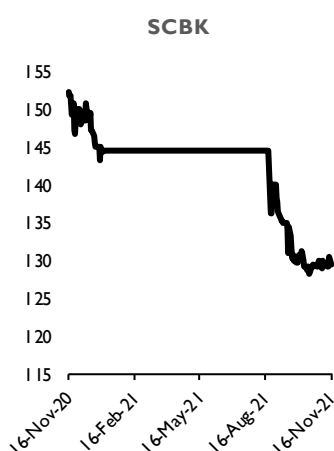
52 Week High: KES 156.25

52 Week Low: KES 128.25

YTD Performance: -9.53%

EPS (3Q21): KES 16.49

Interim DPS (3Q21): KES 5.0



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Table I : Financial Statement Summary

Income Statement (KES Millions)	3Q20	FY20	1H20	3Q20 y/y % Change	q/q % Change
Interest Income	17,948	23,734	11,033	17,505	(2.47%) 58.67%
Interest Expense	3,641	4,617	1,917	2,793	(23.27%) 45.70%
Net Interest Income	14,307	19,117	9,115	14,712	2.83% 61.40%
Non Interest Income	6,347	8,290	4,998	7,560	19.12% 51.28%
Total Operating Income	20,654	27,407	14,113	22,272	7.84% 57.81%
Loan Loss Provision	2,725	3,882	639	2,681	(1.61%) 319.90%
Other Operating expenses	11,365	16,129	6,677	10,695	(5.90%) 60.18%
Profit Before Tax	6,564	7,396	6,798	8,896	35.53% 30.87%
Profit For the period	4,333	5,440	4,879	6,355	46.67% 30.24%
Basic and Diluted EPS	11.13	13.95	12.69	16.49	48.16% 29.94%

Balance Sheet (KES Millions)	3Q20	FY20	1H20	3Q20 y/y % Change	q/q % Change
Cash Balances	17,252	20,619	28,861	14,957	-13.30% -48.18%
Government Securities	102,324	94,853	98,687	94,016	-8.12% -4.73%
Net Loans	131,652	121,524	130,276	131,744	0.07% 1.13%
Total Assets	314,382	325,605	345,646	330,697	5.19% -4.33%
Customer Deposits	242,789	256,498	278,187	258,380	6.42% -7.12%
Total Liabilities	264,210	274,715	293,940	277,631	5.08% -5.55%
Total Shareholder Equity	50,171	50,890	51,706	53,066	5.77% 2.63%

Key Ratios	3Q20	FY20	1H20	3Q20 y/y % Change	
Loan to Deposit	54.22%	47.38%	46.83%	50.99%	-3.24%
Gross NPL Ratios	14.76%	16.01%	15.36%	15.26%	0.50%
NPL Coverage	78.20%	80.59%	81.40%	82.80%	4.60%
NFI to Total Income	30.73%	30.25%	35.41%	33.95%	3.22%
NII to Total Income	69.27%	69.75%	64.59%	66.05%	-3.22%
Cost to Income	55.03%	58.85%	47.31%	48.02%	-7.01%
ROE	12.94%	11.03%	13.70%	14.36%	1.42%
ROA	2.10%	1.73%	2.11%	2.31%	0.21%
Liquidity Ratio	65.72%	71.49%	70.06%	67.41%	1.69%
Core Capital/TRWA	16.14%	15.91%	15.93%	15.64%	-0.50%
Total Capital/ TRWA	18.75%	18.52%	18.31%	17.73%	-1.02%

Source: Company filings, AIB-AXYS

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