Standard Chartered Group Holdings HY 24 Earnings Highlights

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Summary

Normalized Share Price Movement of StanChart Group vs the Market and Other Kenyan Banks

Source: Bloomberg

Last Price – 3rd September 2024 in KES	205.25
Valuation Estimate in KES	**230.65**
Upside	**12.38%**
Recommendation	**Buy**
52-Week High	222.25
52-Week Low	148.00
52-Week Price Return	54.08%
Year-to-Date Price Return	**49.05%**
Price to Earnings Ratio (P/E)	4.60
Price to Book Ratio (P/B)	1.20

Source: Bloomberg and Faida Analysis

We recommend a **Buy** recommendation on Standard Chartered Group with a fair value of KES 230.65 representing a potential **12.38% upside** on the 3rd September 2024 closing price of KES 205.25.

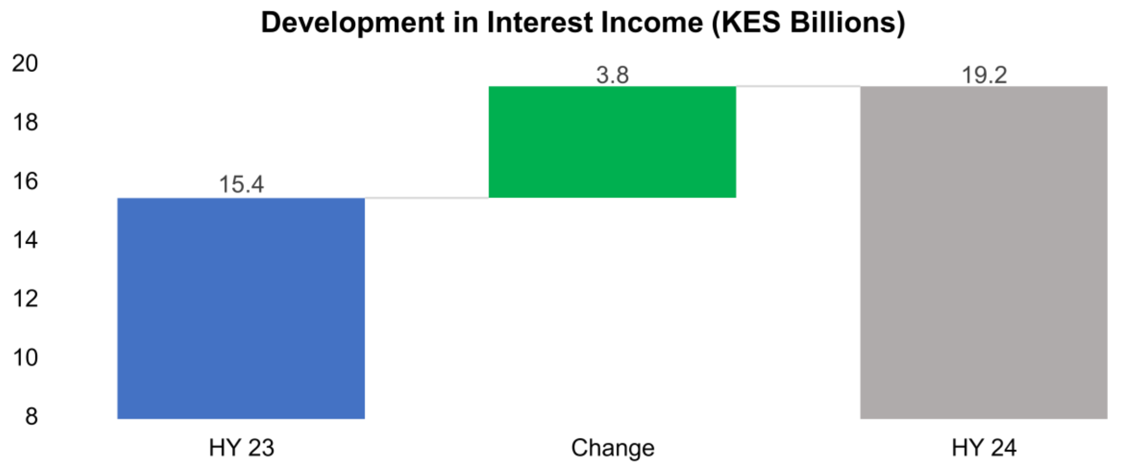
We're of the view that StanChart's growth trajectory will be maintained by top line growth. The Group's customer centric focus will bear fruit in terms of attracting and maintaining clients. Additionally, its diverse revenue streams mitigate risk while contributing to group profitability.

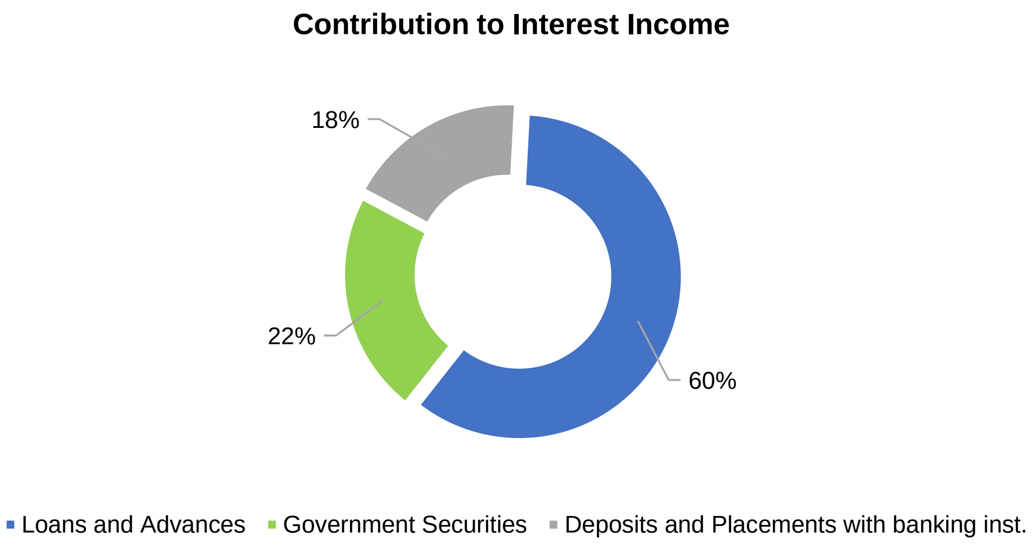
Improved Top-Line

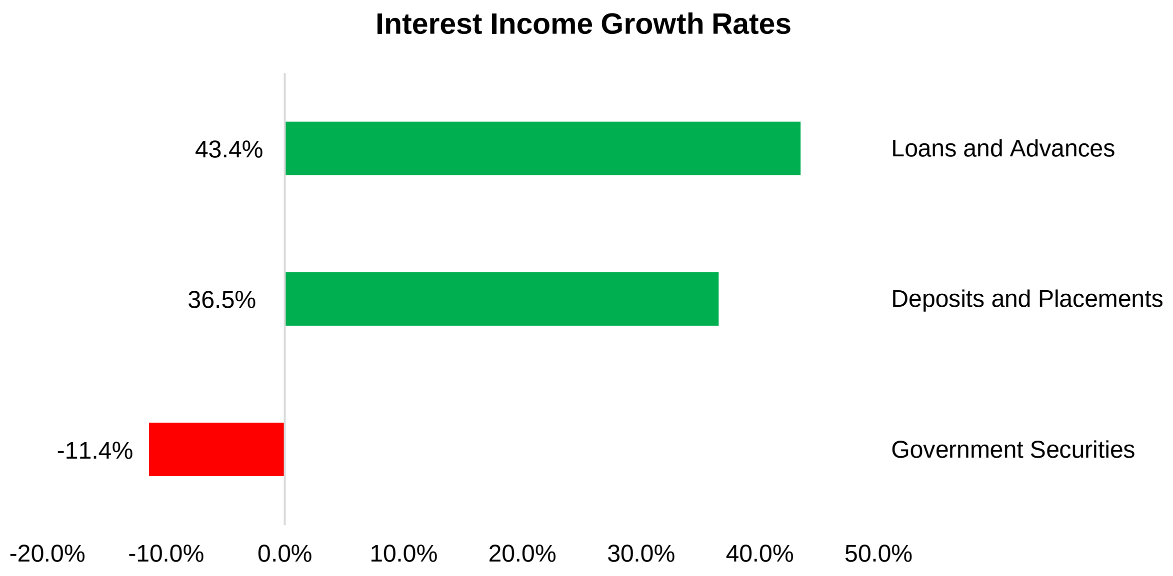
StanChart Group recorded a climb in Interest Income of 25.1% to reach KES 19.2 billion in the just concluded operating half, up from KES 15.4 billion in HY 23.

This was propelled by a **43.4% jump in Interest from Loans and Advances** from KES 8.0 billion in HY 23 to KES 11.5 billion. **Interest from Deposits and Placements with Banking Institutions** grew by 36.5% to KES 3.5 billion from KES 2.5 billion in HY 23.

However, **Interest Income on Government Securities dropped by 11.4%** to KES 4.3 billion down from KES 4.8 billion recorded in HY 23. This is attributable to the decrease in Holdings of Government Securities.







Source: Company Financials

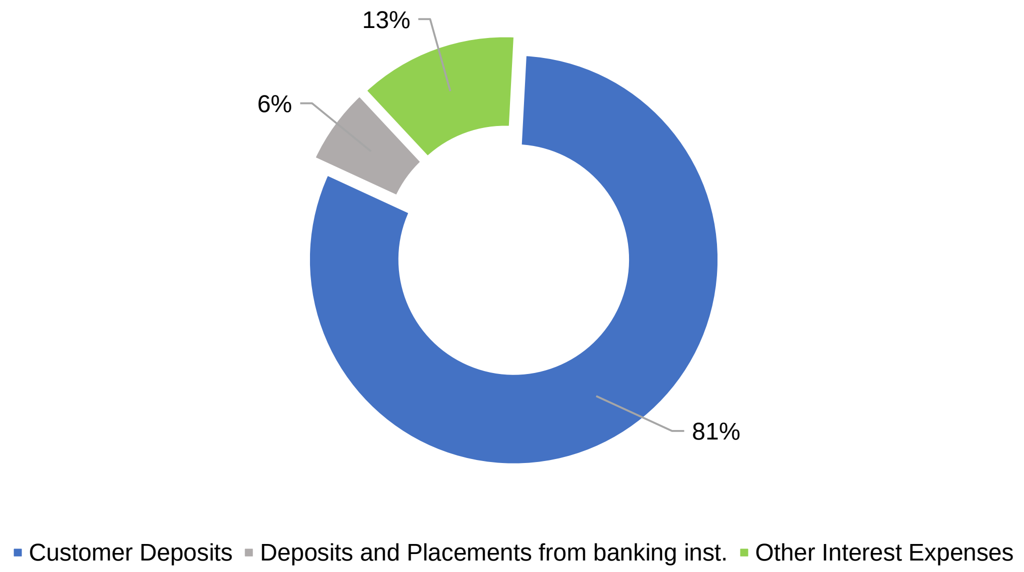
Rising Interest Expenses

StanChart saw **Interest Expenses shoot up by 78.4%** from KES 1.5 billion in HY 23 to KES 2.7 billion in the comparative half.

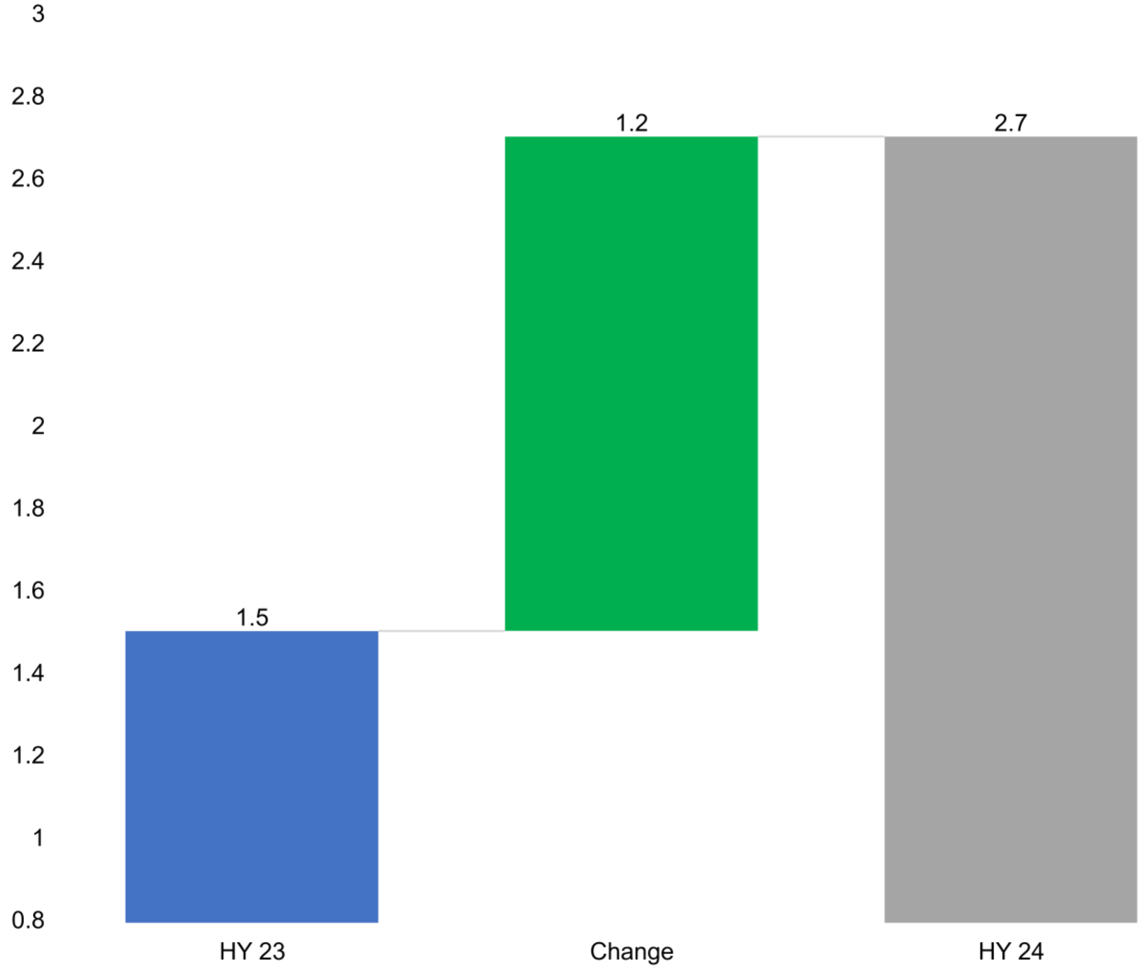
This was driven by a **89.8% rise in Interest Expenses on Customer Deposits to KES 2.2 billion**, compared to KES 1.2 billion posted in HY 23.

This in line with the **rising Cost of Funds** as Customer Deposits experienced a slight decline in HY 24.

Contribution to Interest Expenses



Development in Interest Expenses (KES Billions)



Source: Company Financials

Net Interest Income, Non-Interest Income & Profitability

Net Interest Income (NII) rose by 19.3% to KES 16.5 billion from KES 13.9 billion in HY 23.

Non-interest income grew by 36.0% from KES 7.0 billion to KES 9.6 billion in comparative halves, buoyed by the growth in **Other Fees and Commissions Income, which grew by 21.4%,** to end the half at KES 3.3 billion from KES 2.7 billion in HY 23.

Forex Trading Income rose by 10.3% in the first half of the year to KES 4.9 billion compared to KES 4.5 billion in HY 23.

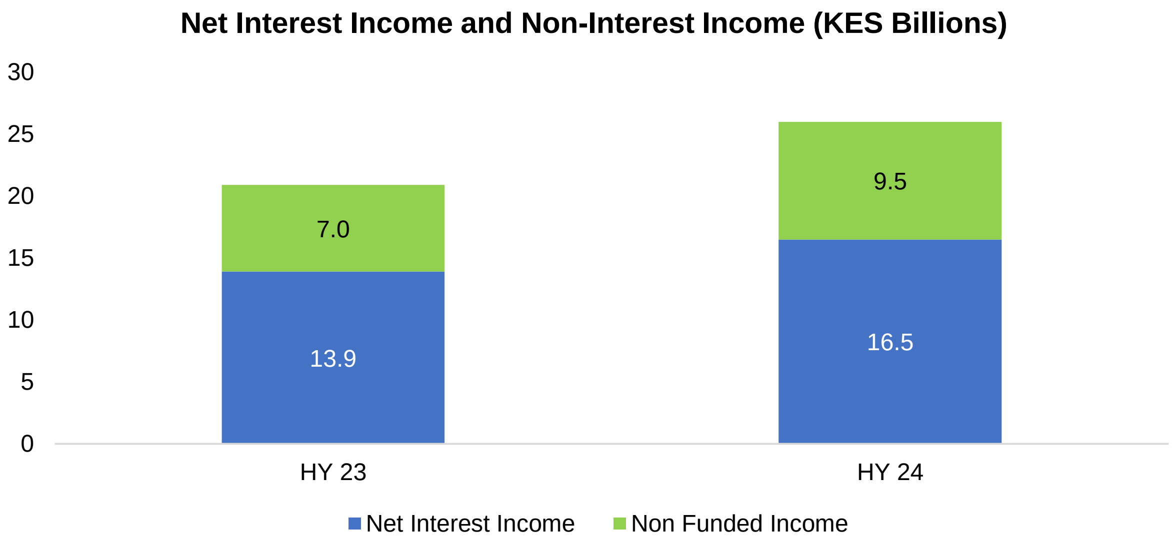
As a result, the Group's **Total Operating Income (Net Interest Income plus Non-Funded Income) increased by 23.7%** in comparative halves from KES 20.3 billion in HY 23 to KES 25.1 billion.

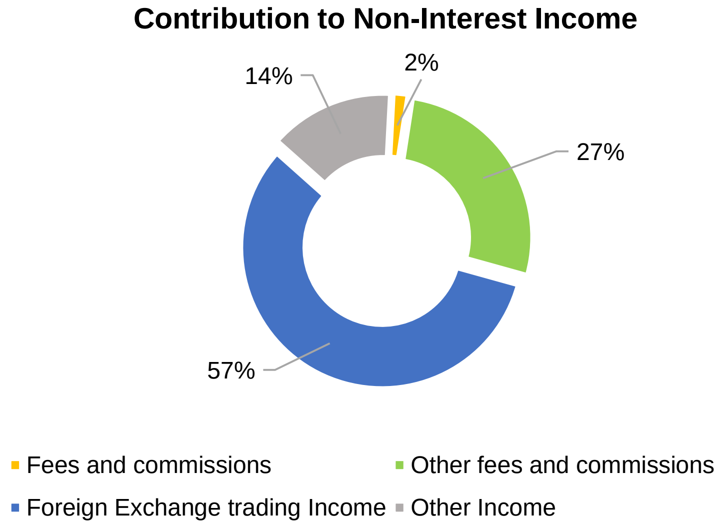
The faster growth in Non-Funded Income compared to Net Interest Income caused the **Non-Funded Income Margin (the contribution of Non-Funded Income to Operating Income) to rise** from 33.7% in HY 23 to 36.6% in the recently concluded half.

The Lender's **Profit Before Tax (PBT) swelled by 50.3% to KES 14.5 billion**, climbing from 9.6 billion recorded in HY 23.

Group Profitability ballooned by 48.8% to KES 10.3 billion in HY 2024, up from HY 23's KES 6.9 billion.

The Group's Earnings per Share increased in line with Profitability from KES 17.7 in HY 23 to KES 25.4. The lender declared a KES 8.0 interim dividend per share.





Source: Company Financials

Operating Costs and Provisions Insights

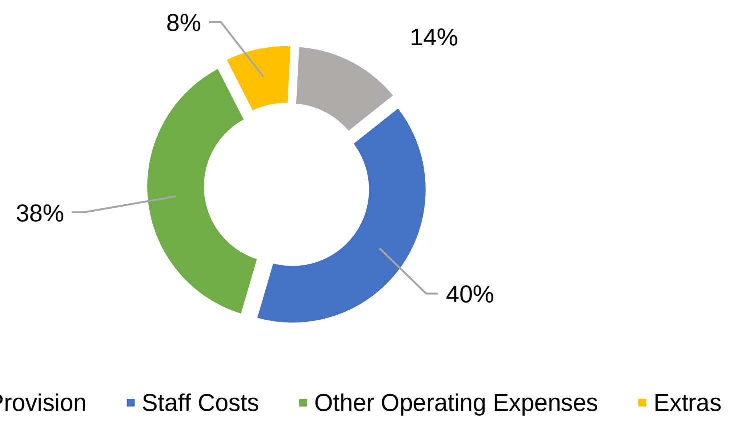
The lender witnessed a **3.1% increase in its Operating Expenses (Including Provisions)** from KES 11.2 billion in HY 23 to KES 11.6 billion. Excluding Provisions, **Operating Expenses grew by 8.9%** from KES 9.2 billion to KES 10.0 billion.

Staff Costs, which contribute the most to operating expenses, grew by 14.8% in the half to KES 4.7 billion from KES 4.1 billion in the comparative half.

The lender adjusted Provisioning downwards by 23.3% to KES 1.6 billion from KES 2.0 billion in HY 23, to adjust for a decrease in Non-Performing Loans.

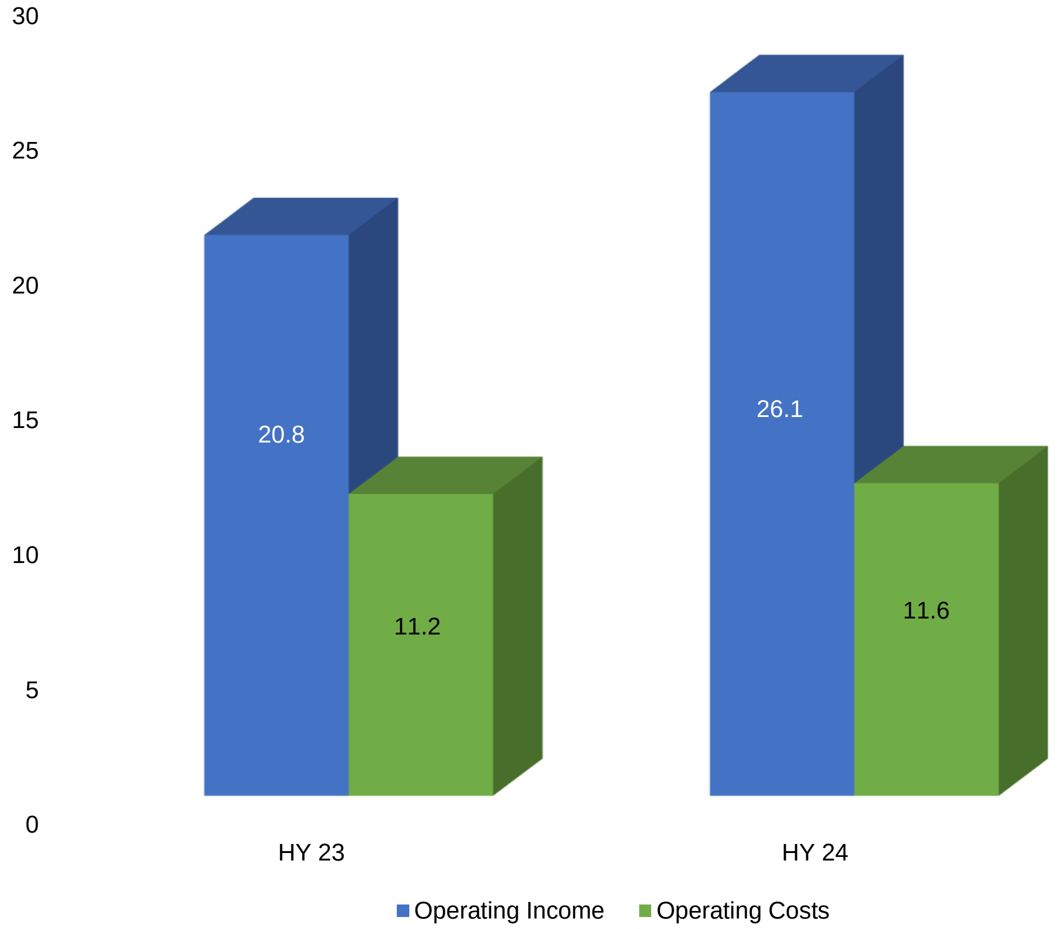
However, the **Cost to Income Ratio (excluding Provisions) dropped to 38.4% from 44.1% in HY 23.** This improved efficiency was driven by the strong growth in operating income.

Contribution to Operating Expenses



Note: Extras in the above Chart represents Directors Emoluments, Rental Charges, and Depreciation and Amortization Charges

Operating Costs vs Operating Income (KES Billions)



Source: Company Financials

Balance Sheet Snapshot

StanChart Group's **Total Asset Base grew by 4.3%** to reach KES 377.3 billion compared to KES 361.7 billion in HY 23.

The **Loan Book developed by 2.7% to KES 149.3 billion** in HY 24 up from KES 145.4 billion posted in HY 23.

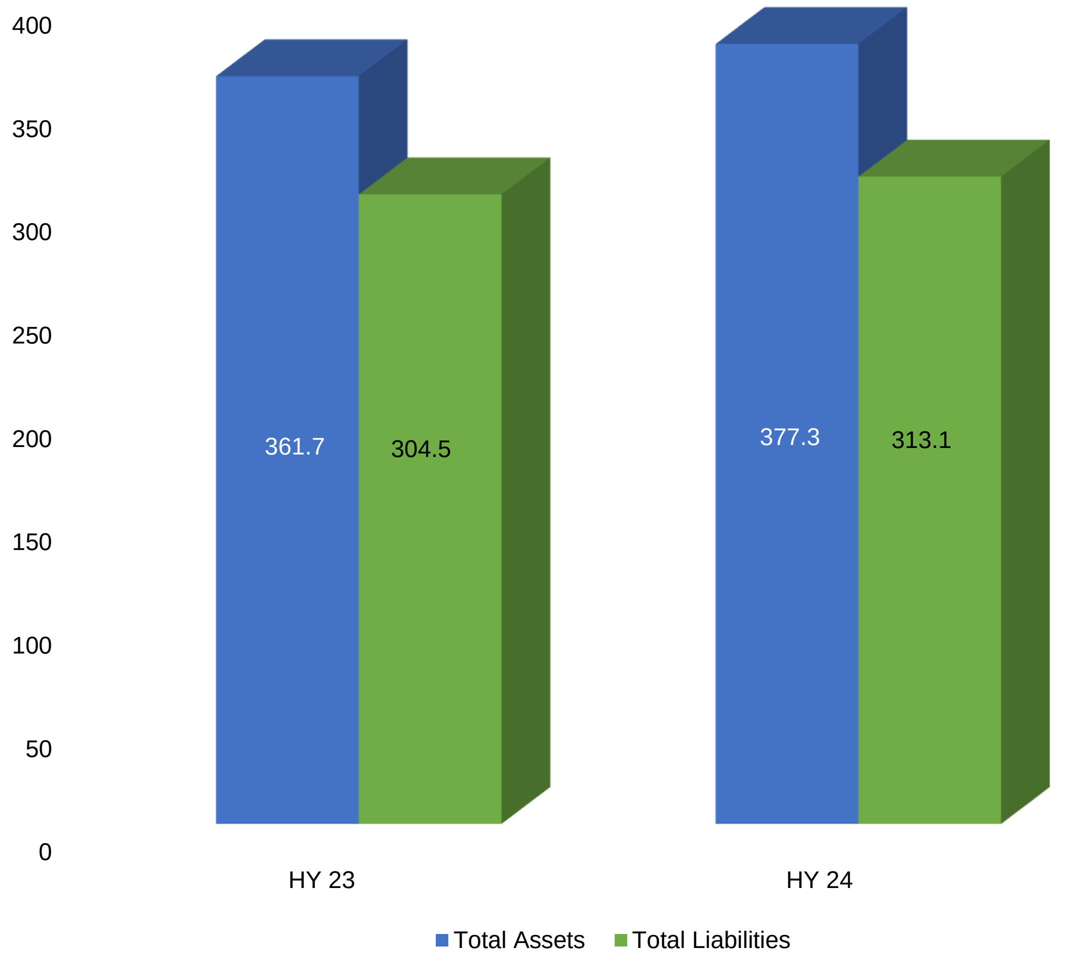
Holdings in Government Securities slumped by 10.4% to KES 62.1 billion from KES 69.3 billion in HY 23. This is in a bid to improve operational liquidity.

Customer Deposits recorded a 2.6% decline from KES 283.7 billion to KES 276.4 billion in comparative halves. The **lender's Loan-Deposit Ratio climbed from 51.3% to 54.0%** owing to a decline in Customer deposits vis-a-vis growth in the Loan Book.

StanChart recorded a 42.9% decrease in Gross Non-Performing Loans, to end the half at KES 13.6 billion from KES 23.8 billion. This goes against current sector trends that have seen bank's NPLs rise.

The Group's **Net Non-Performing Loan Ratio stood at 5.8%** which is well below the industry average of 16.3%. This is also a drop from the 9.7% recorded in HY 23.

Total Assets and Liabilities (KES Billions)



Source: Company Financials

Outlook and Recommendation

StanChart's profitability was driven by significant gains in Interest Income and Non-Interest Income. This being propelled by the retail sector, where the group has focused on meeting customer needs and satisfaction. The wealth management arm has also contributed significantly to the group's growth trajectory.

Because of its limited holdings in government securities, the lender did not receive a downgrade from Moody's, the credit rating agency, as some of its peers did. Moody's views these securities as risky investments, which helped keep the lender off the agency's radar. We expect the lender to continue on this prudent path.

We're of the view that StanChart's growth will be maintained by top line performance and improved efficiency through technology optimization. Its price as of 3rd September 2024 was KES 205.25. This price presents a 12.4% upside for investors who are patient enough to weather the short-term volatility.

Source: Company Financials and Faida Forecasts

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Glossary of Terms

Target Price – Analyst estimate of the fair value or intrinsic value of the company.
Cost of Funds - This is the effective average interest rate paid on interest-earning liabilities. It is calculated as Total Interest Expense/Average Interest Earning Liabilities.
Loan Yield - This is the effective average interest rate received on average loans and advances. It is calculated as Interest on Loans and Advances/Average Loans and Advances.
Cost of Risk – This ratio measures the amount of risk involved in lending. It is calculated as Net Impairment Provisions/Average Gross Loans in the period.
Non-Performing Loans -These are loans that have been classified as impaired. The CBK classifies loans into five categories i.e. Normal, Watch, Substandard, Doubtful, and Loss depending on the performance of the loan. The last three i.e. sub-standard, doubtful, and loss are referred to as non-performing loans. Under IFRS, these are classified as stage 3 loans.
Non-Performing Loans (NPL) Ratio - This is the proportion of NPLs in the loan book. It is calculated as Gross NPLs/Gross Loans.
Non-Funded/Non-Interest Income– This represents income that is not classified as interest income.

Recommendation

BUY – Minimal risks to catalysts.
SELL- Risks outweigh the catalysts.
NEUTRAL – This is where the positives and negatives in a company almost balance out. You can accumulate for the long term