Recommendation:

SELL

Price Target: KES 209.00

Price on 23rd March 2018:
KES 234

Potential Upside/Downside:
10.68%

52-week Trading Range:
KES 180 to KES 243

EPS:
KES 19.64

P/E
11.91

P/B
1.76

ROaE
15.3%

ROaA
2.6%

Dividend Yield:
7.3%

Market cap:
KES 80.4 Bn

Estimated Free float:
24.7%

Shares Outstanding:
343.5 Million

Latest Full Year Results:
The Full Year 2017

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Standard Chartered Bank Kenya LTD

SCBK PAT succumbs to NPL and interest cap headwinds

Standard Chartered Bank Kenya Limited (**SCBK**) has just released their Full-Year 2017 (**FY17**) results posting an underwhelming **23.6%** decline in FY17 Profit After Tax (**PAT**) to **KES 6.9 Bn** from **KES 9.05 Bn** penned in FY16. The Actual FY17 PAT fell **15.9%** below our projected FY17 PAT of **KES 8.2 Bn** but better than the **25%** fall in PAT envisaged by management that prompted the November 2017 profit warning from the lender. The sharp drop in PAT was mainly caused by the **17.2%** escalation of Non-Performing Loans (NPL) in FY17 to **KES 17.6 Bn** from **KES 15.0 Bn** in FY16 Bn and effects of the interest rate restrictions introduced in 2016 that it's curtailed lending. The board recommends a final dividend of **KES 12.50** per share which in addition to the interim dividend paid out in October brings the total FY17 dividends to **KES 17.00**.

Strong Balance Sheet: The lender oversaw **14%** upsurge in Total Assets in the **FY17** to **KES 285.7Bn** from the **KES 250.5Bn** registered in **FY16**. The growth was partly driven by a **26.7%** growth in investment in government securities in FY17 to **KES 103.4 Bn** from **KES 81.7 Bn** in FY16. Total Assets were also driven by a **316.7%** increase in FY17 deposits and Balances due from local banking institutions from **KES 1.26 Bn** in FY16 to **KES 5.23 Bn** in FY17.

The growth in assets was financed by the **11.0%** growth in the group's **FY17** customer deposit from the **KES 337.2 Bn** in **FY16** to **KES 373.1 Bn**. Total Assets were also financed by a **588%** acceleration of FY17 Deposit and balances due to local Banks from **KES 1.62Bn** in FY16 to **KES 11.14Bn**. Shareholders' funds also firmed up marginally by **2.38%** from **KES 44.6Bn in FY16 to KES 45.6Bn** in FY17 boosted by positive retained PAT (net of dividends) that grew retained earnings.

Income Statement: In divergence to SCBK's PAT, the Total Interest Income in FY17 actually remained flat at **KES 26.3 Bn** from the **KES 25.8 Bn** earned in FY16. The actual Total interest income outperformed our projected FY17 Total interest Income of **KES 24.8 Bn** by 600 basis points. The outperformance of the group's Total Interest Income was inspired by a **12.6%** increase in interest income from government securities from **KES 10.0Bn** in **FY16** to **KES 11.3Bn** in **FY17**, a **13.7%** increase in FY17 interest income from deposits with other Banks from **KES 466.8 Mn** in FY16 to **KES 530.5 Mn** and **113.8%** increase in **FY17** other interest income to **KES 851.7 Mn** from **KES 398.3 Mn** in FY16.

The Cost To Income Ratio (CTI) with provisions went up to **63.2%** in FY17 from 52.5% recorded in FY16, mainly propelled by the FY17 loan loss provision of **KES 4.2 Bn** (Or **15.3%** of Operating Income). The Cost to Income Ratio (CTI) without provisions also went up marginally in congruence with CTI with provisions to **47.9%** in FY17 from **44.7%** in FY16 pushed up by cost inflation during the year. Return On Average Equity (ROaE) fell from **21.0%** in FY16 to hit **15.3%** in FY17, as a consequence of the divergence of PAT and Average Equity which declined and rose respectively during the Full Year.

Challenges: Increasing NPLs: SCBK has seen its gross Non-Performing Loans and advances hit **KES 17.6 Bn** in FY17 from the KES **15.0 Bn** penned in FY16 reflective of the difficult business operating environment that permeated in 2017. Loan loss provisions also doubled indicating managements currently projects increased lending cost from late payments and defaults.

Forecast 2018: We project a price of **KES 209.00** compared to current **KES 234.00**. We anticipate Earnings Per Share (EPS) to grow to **KES 21.60** in FY18 from the current **KES 19.64** driven by the and economic recovery in FY18 that will inspire a broad deceleration of the NPLs.

CERTIFICATIONS AND REQUIRED DISCLOSURES BEGIN ON PAGE 2

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