Standard Chartered Bank Plc 9M2022 Results

Current rating **UNDER REVIEW**

Ghana | 31 October 2022

Profit plunges on rising costs

Standard Chartered Bank Gh. Plc (SCB) published its 9M2022 financial results today, reporting a sharp drop in profit after tax. The bank's revenue streams remained strong with pre-impairment income growing by 19.5% y/y. However, profit after tax fell by 44.7% y/y as net impairment loss on financial assets increased to GHS 270.4m from a gain of GHS 36.2m recorded a year ago. The rising cost of risk points to emerging asset quality issues with the bank shrinking the size of its net loan book by GHS 383.0m whereas other banks in our coverage universe pursued credit expansion. Operating expenses remained elevated given the prevailing inflationary pressures, further dampening the bank's profit outturn.

Performance: Earnings dip on soaring cost of risk

- Profit after tax fell to GHS 213.2m (-44.7% y/y) on the back of a sharp rise in cost of risk and operating expenses
- Net interest income grew by 20.8% y/y as the bank benefited from favorable yields on the growing stock of investment securities
- Non-interest revenue increased by 17.9% y/y, driven by double-digit growth in net trading income and net fees and commission income
- Net impairment loss on financial assets swelled to GHS 270.4m from a gain of GHS 36.2m recorded a year ago
- Operating expenses grew by 28.1% y/y to GHS 334.1m, nudging the bank's cost-to-income ratio higher by 2.4pp y/y to 35.4%

Outlook: Surging cost of risk to cause more pain

- Rising yields on government securities and SCB's growing portfolio of investment securities will continue to support decent topline performance in the short-term, compensating for the slowdown in credit growth
- While SCB's non-funded income numbers have been higher than that of 2021, we note that inflows from trading activities have shrunk in each of the quarters this year. Slowing credit growth coupled with further mark-to-market losses from rising yields on the secondary market will most likely reduce non-interest revenue growth in 4Q2022
- We find SCB's cost of risk to be rather erratic, and the recent sharp increases in net impairment losses on financial assets point to some deterioration in asset quality. With elevated credit risk emanating from rising inflation and interest rates as well as Cedi depreciation, cost of risk is unlikely to subside and will weigh heavily on earnings performance
- President Nana Akufo-Addo, in a televised address to the nation, stated that there will be no haircuts on government securities in the IMF bailout package currently being negotiated. While this allays some concerns, it does not rule out debt restructuring in the form of debt swaps and lengthening of maturities on existing bonds, which could have an impact on liquidity and profitability of banks like SCB. As at the end of 9M2022, the stock of investment securities constituted 28.9% of total assets and is 2.6x the size of shareholder funds

Valuation: Under Review

- SCB is trading at a P/B of 2.1x and we intend to re-initiate coverage soon.

Analyst:
Lydia Adzobu: +233 30 825 0051

For further information, please contact our Research Team. T: 233 308-250051| +233 302-252517 Email: research@icsecurities.com