

## Standard Chartered Bank Plc FY2022 & 1Q2023 Results

Current rating **UNDER REVIEW**

Ghana | 25 April 2023

### In like a lion, out like a lamb

Standard Chartered Bank Ghana Plc (SCB) published its audited FY2022 and unaudited 1Q2023 financial results today which left us breathing a sigh of relief. In line with our expectations, impairment losses arising from the Domestic Debt Exchange Programme (DDEP) in addition to losses on the loan book wiped out revenue gains, culminating in a loss after tax of GHS 297.8mn in 2022. However, losses were not sufficiently deep to completely erode retained earnings and stated capital.

On a much happier note, the bank reported a 56.0% y/y increase in profit after tax in 1Q2023, mainly driven by strong growth in funded income and impairment gains on financial assets. Notably, net loans and advances and the stock of investment securities increased by GHS 348.4mn and GHS 590.8mn, respectively in 1Q2023, supporting the rise in interest income. In the context of the current regulatory reliefs, SCB reported a capital adequacy ratio of 21.86% at the end of 1Q2023, registering a slight uptick in the NPL ratio to 14.67%.

#### FY2022 Performance: Steep impairment losses on asset portfolio wipe out gains

- SCB reported a loss after tax of GHS 297.8mn, on account of steep impairment losses on investment securities arising from the DDEP in addition to an increase in impairment losses on the credit portfolio.
- Net interest income increased by 25.0% y/y to GHS 807.8mn, supported by modest growth in the loan book and high yields on government securities.
- Non-interest income was little changed at GHS 416.9mn as mark-to-market losses filtered through from rising yields on fixed income securities.
- Net impairment loss on investment securities came in at GHS 602.1mn while impairment loss on loans and advances increased to GHS 506.4mn in 2022 from a gain of GHS 14.4mn in FY2021.
- SCB's NPL ratio improved by 11.55pp y/y to 12.0% with CAR reported at 22.9%. SCB's cost-to-income ratio remained little changed at 35.7%.

#### 1Q2023 Performance: Robust revenue growth and impairment gains propel earnings

- Profit after tax increased by 56.0% y/y to GHS 297.5mn, driven by strong revenue growth and impairment gains.
- Net interest income grew by 76.9% y/y on account of a robust rise in interest income (+62.6% y/y).
- Non-interest revenue fell by 11.7% y/y as net trading income dipped by 20.0% y/y.
- Impairment gains on financial assets tripled to GHS 114.2mn. Meanwhile, the NPL ratio inched up by 2.7pp y/y to 14.67%.
- SCB's cost to income ratio was little changed at 26.6% with CAR at 21.86% (-5.72pp y/y) in 1Q2023.

#### Outlook: Poised to stay ahead of the game

- SCB is sitting pretty in our view, as losses from the DDEP came in much lower than we estimated in our best-case scenario. More importantly, the losses were not sufficiently steep to erode retained earnings and stated capital. Bearing in mind the implications of the regulatory forbearances on solvency, the bank's high capital adequacy ratio of 21.86% somewhat gives some comfort.
- The bank's move to increase the stock of loans is a positive surprise and will serve as a buoy for topline growth in addition to the growth in investment securities. However, we will need to keep tabs on asset quality given the difficult economic terrain.
- We take note of the 25.0% YTD increase in customer deposits, signaling that SCB is flushed with liquidity and is in the position to price downwards its cost of funding in the near-term. However, we expect growth in deposits to normalize as investors firm up their medium-to-long term investment exposures.
- We also expect to continue to see a contraction in non-funded income in the subsequent quarters, given the lackluster trade volumes on the fixed income market.
- Overall, our outlook on SCB has improved, especially as the bank has successfully contained the losses from the DDEP without severely jeopardizing capital. Consequently, we expect to see some gains in SCB's share price as the bank's financials suggests that it is out of the woods.

#### Valuation: Under Review

- SCB is trading at a P/B of 1.4x and we intend to re-initiate coverage soon.

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