Standard Chartered Bank Plc 1H2023 Results

Current rating **UNDER REVIEW**

Ghana | 26th July 2023

Spreading Smiles

Standard Chartered Bank Plc. (SCB) published its 1H2023 financial results today, spreading smiles. Profit after tax increased by 70.9% y/y to GHS 418.7mn, propelled by robust growth in net interest income and impairment gains on financial assets. The bank continued to shore up on investment securities, which supported NIM expansion. SCB's CAR with regulatory forbearance improved marginally to 24.1% (+2.2 pp q/q) whereas the NPL ratio inched up by 0.78pp q/q to 15.45%, amidst a GHS 261.5mn contraction in net loans and advances in 2Q2023.

1H2023 Performance: Impairment gains and growth in funded income propel earnings

- Profit after tax increased by 70.9% y/y to GHS 418.7mn, driven by strong growth in net interest income and impairment gains on financial assets.
- Net interest income grew by 52.7% y/y on account of a robust rise in interest income (+38.7% y/y) and a decline in interest expense (-13.0% y/y).
- Non-interest revenue declined by 7.5% y/y as net trading income contracted by 30.4% y/y.
- SCB reported impairment gain of GHS 81.5mn in 1H2023 from a loss of GHS 60.3mn in 1H2022. The bank's NPL ratio inched up by 0.78pp q/q to 15.45% with its CAR gaining 2.2pp q/q to 24.1% as the bank put the brakes on risk asset creation.
- SCB's cost-to-income ratio inched up by 1.43pp y/y to 31.8% as operating expenses rose by 31.5% y/y given the prevailing inflationary pressures.

Outlook: Sitting in the catbird seat, mostly

- Concerns regarding SCB's solvency have been alleviated by management's communication in the recently released annual report, wherein the CFO indicated that the bank's capital adequacy ratio without regulatory forbearance stood at 19% at the end of 2022.
- The strong year-on-year increase in SCB's funded income reflects the rise in the stock of investment securities, benefiting from double-digit yields that have, on average, been higher in 1H2023 compared to 1H2022. The bank's move to cut the cost of funding to align with the reduction in yields on restructured bonds will help to maintain net interest margins in the near term.
- We maintain our view that non-funded income will continue to underperform the previous year's performance in the subsequent quarters, given the slowdown in trade volumes on the fixed income market.
- On asset quality, we believe the recent contraction in net loans and advances reflects the bank's strategy to reduce credit risk exposure in the face of a challenging economic environment.
- Although SCB's NPL ratio has increased by 3.4pp year-to-date to 15.45%, it continues to trail the industry average which has also increased by 3.9pp year-to-date to 18.7% at the end of June 2023. SCB has continued to report impairment gains on financial assets, pointing to some recovery in problem loans.
- Regarding government's recent debt exchange offer for its domestic USD bonds and cocoa bills, we could see some additional impairment gains or losses come through in SCB's 3Q2023 results, depending on the provisions already taken on such securities in 2022.
- Overall, we expect SCB to remain profitable in the subsequent quarters supported by strong topline performance.

Valuation: Under Review

- SCB is trading at a P/B of 1.2x and we intend to re-initiate coverage in the coming months.

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