

Standard Chartered Bank Plc 9M2023 Results

Current rating **UNDER REVIEW**

Ghana | 31 October 2023

Catching waves

Standard Chartered Bank Plc. (SCB) published its 9M2023 financial results yesterday, chalking more bottom-line gains. In line with our expectations, profit after tax increased by 148.3% y/y to GHS 529.5mn, propelled by robust growth in net interest income and impairment gains on financial assets. Benefitting from the double-digit yields on its large portfolio of investment securities, and a reduction in the cost of funds, SCB achieved a 52.6% y/y increase in net interest income. Meanwhile, non-funded income trailed that of last year, owing to the decline in fixed income trading volumes as anticipated. On asset quality, SCB's NPL ratio inched up to 16.5%, gaining 1.0pp q/q in 3Q2023 while net loans and advances increased by GHS 47.5mn.

9M2023 Performance: Impairment gains and growth in funded income propel earnings

- Profit after tax increased by 148.3% y/y to GHS 529.5mn, driven by strong growth in net interest income and impairment gains on financial assets.
- Net interest income grew by 52.6% y/y on account of a robust rise in interest income (+37.8% y/y) and a decline in interest expense (-16.5% y/y).
- Non-interest revenue declined by 12.5% y/y as net trading income contracted by 31.6% y/y.
- SCB reported impairment gain of GHS 13.3mn in 9M2023 from a loss of GHS 220.1mn in 9M2022. Impairment gain booked on leases to the tune of GHS 22.5mn propelled earnings higher.
- SCB's operating expenses increased by 23.0% y/y to GHS 423.4mn with the cost-to-income ratio little changed at 34.9% (-0.52 pp y/y)
- The bank's NPL ratio inched up by 1.0pp q/q to 16.5% with its CAR (with regulatory forbearance) little changed at 23.1% (-0.97% q/q) as net loans and advances increased by GHS 47.5mn.

Outlook: Broadly Positive

- We expect SCB's topline performance to remain robust in 4Q2023 with net interest margin expanding further as the bank capitalizes on high-yield securities.
- On the downside, we maintain our view that non-funded income will continue to underperform the previous year's performance in 4Q2023, given the slowdown in trade volumes on the fixed income market.
- Nevertheless, we anticipate SCB's non-funded income to improve further in 4Q2023, relative to 3Q2023 as the growing demand for forex by corporates support FX trade volumes and margins.
- The uptick in the NPL ratio in 3Q2023 suggests lingering asset quality issues and recovery in non-performing loans may be delayed further. We take note of the reduction in impairment gains quarter-on-quarter which we believe reflects a mix of factors including expected credit loss charges on treasury bills and USD-denominated local bonds as well as loan loss provisions on non-performing loans following the uptick in NPLs.
- Per SCB FY2022 financial report, the bank reported no direct or indirect exposure to Eurobonds, leaving it immune to the planned restructuring of external debt by the government.
- Overall, we expect SCB's pre-impairment income to remain robust in 4Q2023 to absorb higher cost of risk and rising operating costs.

Valuation: Under Review

- SCB is trading at a P/B of 1.6x and we intend to re-initiate coverage soon.

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