

Standard Chartered Bank Ghana Plc FY2023 Results

Current rating **HOLD** | Previous Rating **HOLD**

Current Price: GHS 19.25 | Current Fair Value: GHS 21.0 (+9.1% Upside) | Previous Fair Value: GHS 20.90

Ghana | 1 April 2024

Hitting a home run

Standard Chartered Bank (SCB) released its audited FY2023 results last Thursday, with earnings exceeding our estimates. This was mainly due to impairment gains booked by the bank, in contrast to the impairment loss we had initially projected. SCB's profit after tax came in at GHS 869.3mn, compared to a loss of GHS 297.8mn recorded a year ago. The strong recovery in earnings was driven by robust revenue growth and net impairment gains on financial assets. Surprisingly, SCB also recorded a decline in its (NPL) ratio to 9.3% (-2.75pp y/y), the lowest recorded over the last decade. Meanwhile, the banking sector's NPL ratio edged up by 4.7pp y/y to 20.7% in FY2023. Additionally, the bank's CAR, with regulatory forbearance, trended higher, increasing by 4.8pp y/y to reach 27.7% following the strong recovery in earnings.

Performance: Robust revenue performance and impairment gains propel earnings growth

- SCB reported a profit after tax of GHS 869.3mn, recovering from the loss of GHS 297.8mn recorded a year ago. The recovery in earnings was driven by strong growth in net interest income and impairment gains on financial assets.
- Net interest income grew by 56.8% y/y to GHS 1.3bn, on account of a robust rise in interest income (+40.9% y/y) and a decline in interest expense (-22.8% y/y).
- Non-interest revenue increased by 11.4% y/y to GHS 453.4mn, driven by net fees and commission income and other operating income.
- Impairment gains on financial assets totaled GHS 220.3mn from a loss of GHS 1.2bn in FY2022. Notably, SCB reported impairment gains of GHS 253.9mn from a loss of GHS 506.4mn on loans and advances. Impairment loss on investment securities declined by 92.0% y/y to GHS 48.0mn.
- SCB's operating expenses increased by 33.1% y/y to GHS 581.8mn with the cost-to-income ratio improving to 33.8% (-1.86pp y/y).
- The bank's NPL ratio improved to 9.3% (-2.75% y/y) with its CAR (with regulatory forbearance) gaining 4.8pp y/y to 27.7%.

Outlook: Broadly positive

- We believe the impairment gains on loans and advances mainly reflect a partial reversal of the GHS 440.0mn booked on the credit portfolio in 2023 due to the sovereign downgrade. This write-back follows Fitch's upgrade of Ghana's Long-Term Local-Currency Issuer Default Rating (IDR) to 'CCC' from 'RD' in November 2023. The impairment gains also reflect the improvement in SCB's non-performing loan (NPL) ratio, which fell into single-digit territory for the first time in a decade.
- We believe SCB will not encounter significant challenges in meeting the new cash reserve ratio (CCR) requirement of 25%, set for banks with a loan-to-deposit ratio below 40%. This is due to the fact that the bank's restricted and unrestricted reserves with the Central Bank, as a ratio of total deposits, have been consistently maintained well above 30% since 2019.
- However, in response to this directive, we expect SCB to intensify its efforts in mobilizing low-cost deposits more vigorously in 2024 compared to 2023. This will support the needed investment in securities to drive growth in interest income amidst the subdued risk appetite while meeting the CRR requirement.
- While the reduction in the NPL ratio provides impetus for credit growth, we anticipate that growth in the bank's loan book will remain restrained given the elevated credit risk environment and subdued economic growth. However, we expect credit growth to become more pronounced from 2025 as economic recovery gains traction. Our projection suggests that the bank will double the size of its current net loan book by 2028.
- On revenue growth, we expect SCB to continue to benefit from double digit yields on investment securities in 2024 despite the ongoing correction in yields due to cooling inflation.
- We also reiterate our view that SCB is ideal for dividend-loving investors at this point, given that its strong solvency position puts the bank in an excellent position to pay dividends when the suspension of dividends is lifted post 2025.

Valuation & Recommendation: HOLD for now

- We maintain our rating on the stock at HOLD but revise the fair value to GHS 21.0 from GHS 20.90 per share following the strong improvement in the bank's profit profile. SCB is currently trading at a P/B of 1.3x.

Financial Statements

Income statement

12 months to December GHSmn	2021A	2022A	2023A	2024F	2025F	2026F	2027F	2028F
Interest income	819.9	1,008.9	1,421.6	1,776.2	1,952.1	2,113.9	2,299.8	2,610.8
Interest expense	(173.6)	(201.1)	(155.2)	(195.2)	(215.3)	(240.9)	(271.1)	(305.9)
Net interest income	646.4	807.8	1,266.4	1,581.0	1,736.8	1,873.1	2,028.7	2,305.0
Non-interest income	424.0	407.2	453.4	454.3	508.3	570.6	642.6	722.0
Total operating income	1,070.3	1,215.0	1,719.9	2,035.3	2,245.1	2,443.7	2,671.2	3,027.0
Net impairment (loss)/gains on financial assets	5.9	(1,158.8)	220.3	(41.7)	(44.6)	(48.8)	(58.1)	(70.3)
Operating expenses	(381.7)	(437.1)	(581.8)	(651.3)	(673.5)	(708.7)	(747.9)	(847.6)
Profit before tax	694.5	(380.9)	1,358.3	1,342.3	1,526.9	1,686.2	1,865.2	2,109.1
Taxation	(257.6)	83.1	(489.0)	(469.8)	(534.4)	(590.2)	(652.8)	(738.2)
Profit after tax	436.9	(297.8)	869.3	872.5	992.5	1,096.0	1,212.4	1,370.9
Proposed dividend	248.0	-	-	-	563.6	622.4	688.4	781.4
Weighted shares in issue (m)	134.8	134.8	134.8	134.8	134.8	134.8	134.8	134.8
Earnings per share (GHS)	3.2	-2.2	6.5	6.5	7.4	8.1	9.0	10.2
Dividends per share (GHS)	56.9%	0%	0%	0%	57.0%	57.0%	57.0%	57.0%
Payout ratio (%)	56.9%	0%	0%	0%	57.0%	57.0%	57.0%	57.0%

Balance sheet

12 months to December GHSmn	2021A	2022A	2023A	2024F	2025F	2026F	2027F	2028F
Cash with BoG	3,203.1	3,980.3	4,316.8	4,837.4	5,528.9	6,014.7	6,597.3	6,882.6
Investment securities	3,761.4	3,473.2	6,694.9	7,966.9	9,321.3	10,439.9	11,483.8	12,632.2
Net loans & advances to customers	1,886.8	2,050.3	2,104.3	2,340.5	2,685.1	3,173.4	3,819.5	4,678.6
Intangible Assets	-	-	-	-	-	-	-	-
Fixed assets	242.1	231.3	202.3	281.6	362.8	444.2	526.4	615.4
Other assets	1,027.2	633.8	609.4	607.8	614.5	698.7	851.6	1,116.1
Total assets	10,120.6	10,368.9	13,927.6	16,034.2	18,512.6	20,770.8	23,278.5	25,925.0
Customer deposits	7,554.5	8,183.9	10,818.8	12,008.8	13,449.9	15,063.9	16,871.6	18,896.1
Due to other banks	79.7	114.4	202.9	213.1	223.7	234.9	246.7	259.0
Borrowings	240.2	-	232.9	232.9	232.9	232.9	232.9	232.9
Other liabilities	602.9	741.4	741.4	775.4	812.9	917.3	1,019.7	951.4
Total liabilities	8,477.3	9,039.7	11,996.0	13,230.2	14,719.4	16,449.0	18,370.8	20,339.4
Stated capital	400.0	400.0	400.0	400.0	400.0	400.0	400.0	400.0
Retained earnings	553.4	150.2	827.6	1,554.9	2,375.1	2,709.9	3,075.6	3,492.6
Statutory reserve fund	568.2	568.2	676.3	785.3	909.4	1,046.4	1,198.0	1,368.6
Other reserves	121.6	210.8	27.7	63.8	108.7	165.5	234.2	318.5
Total shareholder's equity	1,643.3	1,329.2	1,931.6	2,804.0	3,793.2	4,321.9	4,907.7	5,579.6
Total liabilities and shareholders' equity	10,120.6	10,368.9	13,927.6	16,034.2	18,512.6	20,770.8	23,278.5	25,925.0

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