

Standard Chartered Bank Ghana Plc 1Q2024 Results

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

Current Price: GHS 19.25 | Current Fair Value: GHS 21.0 | Previous Fair Value: GHS 21.0

Ghana | 30 April 2024

Starting with a jolt

Standard Chartered Bank (SCB) released its unaudited 1Q2024 results today, reporting a 36.6% y/y decline in profit after tax to GHS 188.7mn, falling short of our estimates by 13.5%. SCB's earnings slipped on the back of weak non-interest revenue performance, resulting in a modest 3.7% y/y increase in pre-impairment income to GHS 487.3mn. Additionally, the bank booked impairment charges of GHS 36.0mn in 1Q2024, contrasting sharply with the gain of GHS 114.2mn recorded a year ago. To our dismay, SCB was not immune to the significant decline in credit quality witnessed across peer banks over the last two quarters. The bank's NPL ratio surged to 33.5% in 1Q2024, having declined to 9.3% at the end of 4Q2023. The Bank's CAR (with regulatory forbearance) remained stable at 27.8% in 1Q2024.

Performance: Earnings contract on weak non-interest revenue performance and rising cost pressures

- Profit after tax fell by 36.6% y/y to GHS 188.7mn due to the contraction in non-funded income amidst rising cost pressures.
- Net interest income grew by 23.3% y/y to GHS 384.2mn, propelled by 22.2% y/y increase in interest income.
- Non-interest revenue declined by 35.0% y/y to GHS 103.1mn due to a 53.9% y/y drop in net trading income to GHS 50.9mn.
- Impairment charges on financial assets came in at GHS 36.0mn compared to the gain of GHS 114.2mn recorded a year ago.
- SCB's operating expenses increased by 28.1% y/y to GHS 160.2mn. The bank's cost-to-income ratio gained 6.28pp y/y to 32.9% as growth in operating costs outstripped growth in operating income.
- The bank's NPL ratio deteriorated to 33.5% in 1Q2024 from 9.3% at the end of 4Q2024. SCB's CAR (with regulatory forbearance) stood still at 27.8%.

Outlook: Deterioration in asset quality to weigh on earnings momentum

- The spike in SCB's NPL ratio is not an isolated incident; over the last two quarters, banks have downgraded significant exposures, which is a cause for concern. The deterioration in asset quality will attract higher impairments in 2024 which will dampen SCB's earnings momentum in our opinion. However, a recovery in revenue performance, specifically trading income should help soften the impact of higher cost of risk. We believe there is room for SCB to drive this recovery through forex trading given the unrelenting demand for foreign exchange by corporates.
- As we pointed out in our previous publication, we expect SCB to intensify its efforts in mobilizing low-cost deposits in 2024 compared to 2023. This will support the needed investment in securities to drive growth in interest income while meeting the cash reserve requirement (CRR) requirement.
- For SCB to reduce its CRR to 20%, it would need to more than double the size of its loan portfolio in 2024 which we believe is not plausible given the elevated credit risk environment and the bank's high NPL ratio.
- However, we do not expect the bank to abstain completely from the credit market, engaging in selective lending to support revenue growth.
- 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** with a fair value of GHS 21.0, anticipating a recovery in trading income and a boost to interest income from selective lending. Nevertheless, any subsequent underperformance relative to our estimates will prompt a downward repricing of the stock following our planned model updates at the end of 2Q2024. 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	2,598.1
Interest expense	(173.6)	(201.1)	(155.2)	(195.2)	(215.3)	(240.9)	(271.1)	(305.8)
Net interest income	646.4	807.8	1,266.4	1,581.0	1,736.8	1,873.1	2,028.7	2,292.3
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	3,014.3
Impairment loss and bad debts	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)	(844.0)
Profit before tax	694.5	(380.9)	1,358.3	1,342.3	1,526.9	1,686.2	1,865.2	2,100.0
Taxation	(257.6)	83.1	(489.0)	(469.8)	(534.4)	(590.2)	(652.8)	(735.0)
Profit after tax	436.9	(297.8)	869.3	872.5	992.5	1,096.0	1,212.4	1,365.0
Proposed dividend	248.0	-	-	-	563.6	622.4	688.4	778.0
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	10.1
Dividends per share (GHS)	1.8	0.0	0.0	0.0	4.2	4.6	5.1	5.8
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	6,877.7
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	614.7
Other assets	1,027.2	633.8	609.4	607.8	614.5	698.7	851.6	1,115.7
Total assets	10,120.6	10,368.9	13,927.6	16,034.2	18,512.6	20,770.8	23,278.5	25,919.0
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	25,919.0

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