Standard Chartered Bank Ghana Plc 9M2024 Results

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Current rating **UNDER REVIEW**

Walking a tightrope over rough waters

Standard Chartered Bank (SCB) released its unaudited 9M2024 results yesterday, posting a modest 8.5% y/y increase in profit after tax to GHS 574.6mn. The earnings performance was challenged by a decline in non-interest income and a significant 21.8% y/y rise in operating expenses, leading to a decline in profit before tax by 1.5% y/y to GHS 814.0mn. Additionally, SCB experienced a reversal from impairment gains to an impairment loss of GHS 91.6mn (-790.7% y/y), exerting further pressure on earnings. The NPL ratio increased to 30.7% in 9M2024 compared to 28.96% in 1H2024, indicating a decline in asset quality and potentially constraining the SCB's capacity to grow risk assets. The Bank's CAR (with regulatory forbearance) also fell sharply to 18.3% in 9M2024 from 28.8% in 1H2024. Notably, unlike its peers, SCB modestly grew its loan book by 7.5% y/y, favoring a more aggressive 24.0% y/y expansion in investment securities as the bank focuses on managing its NPLs. Overall, while SCB's 9M2024 results demonstrate resilience in some areas, the combination of rising expenses, increased impairments, and declining asset quality has slightly dampened our optimism for FY2024 performance.

Performance: Strong top-line growth amid rising costs and asset quality strains

- Profit after tax rose modestly by 8.5% y/y to GHS 574.6mn, driven by higher operating costs and impairment pressures.
- Net interest income grew by 26.7% y/y to GHS 1.1bn, propelled by 22.8% y/y increase in interest income.
- Non-interest revenue declined by 3.7% y/y to GHS 351.0mn, due to a significant reduction in other operating income and a 6% y/y decrease in net trading income, reflecting the ongoing challenges from limited FX supply, which has impacted transaction volumes and placed additional pressure on pre-impairment income.
- Impairments on financial assets worsened by 8.9-fold y/y from a gain of GHS 13.3mn to a loss of GHS 91.6mn, owing difficulties faced by the private sector.
- SCB's operating expenses shot up by 21.8% y/y to GHS 515.6mn on account of high inflation, leading to a cost-to-income ratio of 36.2% as growth in cost outpaced growth in operating income.
- Net loans and advances grew modestly by 7.0% y/y to GHS 2.3bn, while investment securities experienced a more aggressive expansion of 24.3% y/y. This shift reflects SCB's strategy to favor lower-risk investments in light of rising impairments.
- The bank's NPL ratio deteriorated to 30.7% in 9M2024, up from 29.0% at the end of 1H2024 and 16.5% in 9M2023, representing a 14.2pp y/y increase in NPLs.
- Additionally, SCB's CAR declined sharply by 10.5pp quarter-on-quarter to 18.3%. While the sharp q/q decline in CAR position ordinarily raises concern, we think this reflect the impact of SCB's recent dividend payment (GHS 400.0mn) in September 2024 and underscores the bank's resilience without regulatory forbearance. However, we intend to investigate further to rule out any lingering downward pressure in the quarters ahead.

Outlook: Challenges from costs and asset quality, yet focus on growth opportunities

- We are not encouraged by SCB's 9M2024 earnings performance, despite an 8.5% year-on-year growth, as topline growth was chipped away by cost pressures and impairment charges. We believe the recent decline in asset quality will lead to higher impairments in 2024, which could dampen earnings momentum.
- We expect SCB to focus on enhancing growth in non-funded income, particularly in net trading income, to capitalize on strong demand despite challenges in FX supply. Additionally, the bank is likely to expand its investment securities to leverage the high double-digit yields on Government of Ghana (GoG) securities, even as these rates gradually moderate. This strategy should help ease the pressure on pre-impairment income.
- Given the bank's elevated NPL ratio and the generally high credit risk environment, we do not anticipate aggressive growth in the loan book. Therefore, we expect the bank to shift its focus toward attracting low-cost deposits to address the revised Cash Reserve Requirement (CRR), as it currently sits at the top tier of 25.0% CRR as its loan-to-deposit ratio pegs below 40%.
- However, we do not anticipate that the bank will entirely withdraw from the credit market; instead, we anticipate that it will cautiously engage in selective lending to support revenue growth.
- Despite the significant decline in CAR, we note that it remains sufficiently above the minimum requirement and we maintain our confidence that SCB is well-positioned for dividend payments within its CAR constraints post-2025 deadline for capital restoration.

Valuation: Under Review

- SCB is trading at a P/B of 1.5x. We have placed our "HOLD" rating on SCB under review and intend to release our updated rating on the stock soon.

Analyst:
Kwabena A. Obeng: +233 30 825 0051

For further information, please contact our Insights Team. T: 233 308-250051 | Email: insights@ic.africa