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# **FY2018 Earnings Expectations Note**

## **Sector: Banking**

### **Standard Chartered Bank Kenya Ltd**

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## Standard Chartered Bank Kenya Ltd

- We recommend a **HOLD** on Standard Chartered Bank guided by our fair value estimate of **KES.192**, a downside of 3.4% from the current price of KES.199.
- The bank operates on a forward P/E of 7.5x and a forward P/B of 1.4x, above the industry average of 7.3x and 1.3x.
- We project **PAT growth of 28.9%** driven by an increase in government securities (KES.133.7Bn) that will boost income from government securities to KES.12.8Bn from KES.11.1Bn.
- Loans & Advances should exhibit insignificant growth (0.5%) to KES.126.9Bn contributing to a flat growth in interest income.
- Operating expenses are expected to remain at KES.12.8Bn resulting in cost to income ratio of 45.8% from 48.0% in FY2017 due to the bank's organizational transformation journey which started back in 2015 to improve effectiveness in the business through cutting costs.

### Key Financial Summary

	2017	2018P	% Change
<b>Balance Sheet (KES.Bn)</b>			
Loans & Advances	126.3	126.9	0.5
Government Securities	110.5	133.7	21.0
Total Assets	285.7	308.5	8.0
Customer Deposits	213.3	230.4	8.0
<b>Income Statement (KES.Bn)</b>			
Interest income (Loans & Advances)	13.2	13.2	0.0
Interest income (Gov't Securities)	11.1	12.8	15.3
Net Interest Income	18.0	18.9	5.0
Non-Interest Income	8.7	9.1	4.6
Total Income	26.6	28.0	5.3
Total Operating Expenses	12.8	12.8	0.0
PBT	10.1	13.1	29.7
PAT	6.9	8.9	28.9
<b>Ratios</b>			
Cost to Income Ratio (%)	48.0	45.8	2.2
Loan to Deposit Ratio (%)	59.2	55.1	4.1
NPL Ratio (%)	8.4	10.3	1.9
NFI/Total Income	32.6	32.5	0.1
Net Interest Margin	13.4	13.4	0.0
Government Securities/ Total Assets	38.7	43.4	4.7

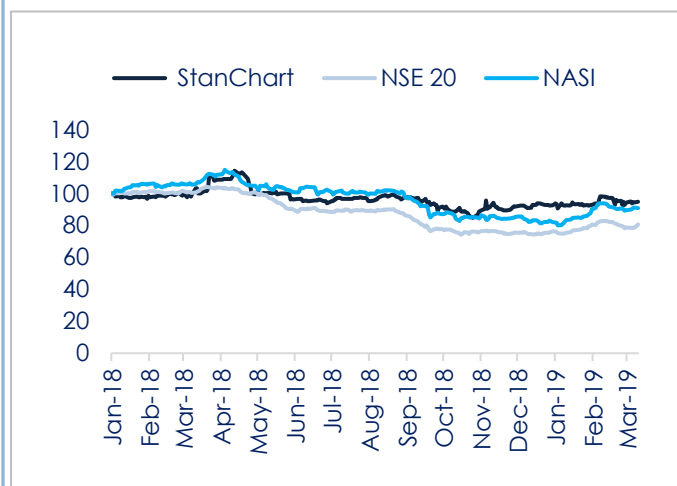
Source: Bank Filings & Sterling Capital Research

### Share Summary

<b>Fair Value Estimate (KES)</b>	<b>192</b>
<b>Recommendation</b>	<b>HOLD</b>
Current price (KES)	199
Downside (%)	↓3.4
Price Change YoY (%)	↓4.8
Price Change YTD (%)	↑0.9
Dividend yield (%)	8.5
P/E	7.5
P/B	1.4
Issued shares (m)	343.5
Market cap (KES. Bn)	68.36
NSE Code	SCBK
Bloomberg Code	SCBK.KN

Source: Nairobi Securities Exchange & Sterling Capital Research

### Share Price Performance



Source: Nairobi Securities Exchange

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**Buy:** FV above 10% of CSP

**Hold:** FV between -10% and 10% around CSP

**Sell:** FV more than 10% below CSP

**NB: The recommendation guide may change depending on the risk free rate.**