

Impressive bottom line growth, however NPLs continue to present downside risk

Company Profile: Standard Chartered Bank Ghana Ltd, provides a wide range of services in the retail and corporate banking space including a comprehensive import/export and foreign exchange remittance service. The bank has a network of ~27 branches and 56 ATMs strategically located for personal and corporate banking activities throughout Ghana. Operated for about 118 years in the country, the bank is committed to building a sustainable business over the long term in Ghana and is trusted worldwide for upholding high standards of corporate governance, social responsibility, environmental protection and employee diversity.

Coverage Update: After an impressive run recovering ~ 80 per cent from its 52 week low of GHS 8.48, we recommend a HOLD on SCB GH shares based on a 12-month fair value price target of GHS16.58. Taking into account current stresses in the banking subsector caused by multiplicity of factors including slowdown in broad economic activity, volatile primary commodity prices and local currency and pervasive debt owed to local banks by the energy sector, SCBs ability to grow its bottom-line by 239.4 per cent is worthy of commendation. Management's strategy to focus on operational efficiency appears to have yielded positive results with cost to income ratio falling 1,150 basis points in 2016 from 42.8 per cent in 2015 to 31.3 per cent a year earlier. Taking into account the elevated nature of its NPL position, it is not surprising to notice that it grew its loan book by meagre 4 per cent whilst increasing its exposure into high yielding investment securities by 40 per cent under the 2016 fiscal period. With broad economic activity expected to increase and with compression of real returns in government securities, given the current trajectory of the yield curve we forecast SCB to increase its loan book especially if the ongoing restructuring of the legacy debt in the banking industry are consolidated.

12-month 2016 Synopsis

Solid Margins: Taking advantage of government's willingness to borrow from the domestic market, SCB grew its net interest income by 23 per cent despite a meagre 4 per cent growth in its loan book. Consequently its net interest margin grew from 0.72 per cent to 2.4 per cent.

Impairment Loss Improves: With a GHS 81 million impairment charge for the period, SCBs cost of risk improved from (17.4 per cent) to (6.4 per cent). NPL ratio increased from 43.3 per cent to 45.0 per cent. Whilst capital adequacy ratio increased from 15.35% to 21.8%.

Balance Sheet: Total assets grew 30% to GHS4.4 billion while customer deposits constituting majority of core liabilities grew by 32 per cent. Investments in government securities constitute a significant portion of total assets with investment in government securities as percentage of total assets increasing from 27 percent to 29 percent. On account of current stresses in the industry, loans and advances grew marginally by 4 percent.

Multiples

	2014A	2015A	2016A	2017E
EPS	1.80	0.57	1.94	2.30
EPS Growth (%)	0.1	(68.2)	239.4	18.2
BVPS	4.58	3.35	4.61	6.80
P/E (x)	11.3	28.5	6.3	6.5
P/B (x)	4.4	4.9	2.6	2.2
PEG	93.2	(0.4)	0.0	0.4
Payout Ratio (%)	64.9	65.1	20.2	50.0
ROE (%)	39.4	17.1	42.1	33.8

SCB Historical Results and 2017 Estimates

(All amounts in GH¢ '000)	2014A	2015A	2016A	2017E
Revenue	609,985	647,845	710,468	746,652
% Growth	18.4%	6.2%	9.7%	5.1%
Interest Income	422,136	490,482	549,924	533,350
% of Revenue	69.2%	75.7%	77.4%	71.4%
Non-interest Income	187,849	157,363	160,544	213,302
% of Revenue	30.8%	24.3%	22.6%	28.6%
Operating Income	521,735	531,115	620,781	630,706
% Growth	24.2%	1.8%	16.9%	1.6%
Interest Expense	88,250	116,730	89,687	115,946
% of Interest Income	20.9%	23.8%	16.3%	21.7%
Operating Expenses	197,774	227,272	194,115	227,054
% of Operating Income	37.9%	42.8%	31.3%	36.0%
Profit Before Tax	274,840	91,062	345,558	353,718
% of Revenue	45.1%	14.1%	48.6%	47.4%
Tax Rate	19.2%	22.4%	29.4%	25.0%
Profit After Tax	208,271	66,148	224,511	265,288
% of Revenue	34.1%	10.2%	31.6%	35.5%

Source: SCB financial statements and FCA Research.

Recommendation

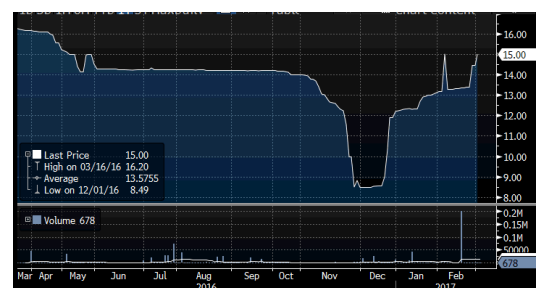
Target Price	(GHS) 16.58	Current FCA Rating As of March, 2017	HOLD.
Current Price	(GHS) 15.0	Previous Rating as of March, 2017	NA.

Market Stats

Bloomberg Ticker	SCB:GN
52- Week High (GHS)	16.2
52- Week Low (GHS)	8.48
Issued Shares	115.5M
Free Float (%)	-
Market Cap. (GHS)	1.7B
Market Cap (USD)	0.37B
Dividend Yield	2.27%

Source: Ghana Stock Exch., Bloomberg and FCA Research.

SCB: Price Volume Chart



Source: Bloomberg

Five-Year Stock Performance



Source: Bloomberg

Five-Year Performance Comparison (%)

	2012	2013	2014	2015	2016
SCB	51.7	29.9	36.2	(19.9)	(25.3)
GSE-CI	23.8	78.8	5.4	(11.8)	(15.3)

Annualized Return (%)

	2012-2016
SCB	9.95
GSE-CI	11.75

Metrics of Comparable Firms

	P/E	P/B	YTD (%)
SCB	17.22	2.49	23.15
GCB	3.45	1.23	37.36
EGH	6.41	2.26	12.03

DISCUSSION

Bull Story

SCB amongst the other banks has the added advantage of having a loyal customer base which in part has to do with its focus on a targeted niche market. In addition, officials of the domestic economy anticipate broad economic activity to rebound, thus we believe that taking SCBs loan portfolio structure into account this increased activity could provide the impetus for robust interest income.

Bear Story

With an NPL ratio of 45 per cent, asset quality will continue to be the greatest risk the company faces in the short to medium term. The increasing trajectory of its NPL position could greatly constrain the growth potential of the bank. In addition, with more banks and non-bank financial service firms competing for the same deposits the competitive landscape has become immensely fierce.

Technical Analysis in Brief

Trading activity in SCB shares have hit levels not seen in the past couple of years, consequently we have seen the stock recover 81 per cent from its 52 week low of GHS8.48 and in the process making some investors “smile all the way to the bank”. With the 50 day moving average below both the 100 and 200 day moving averages, the stock still appears bearish and for contrarian investors this might represent an opportunistic entry point. We however remain cautiously optimistic because of SCBs NPL position.

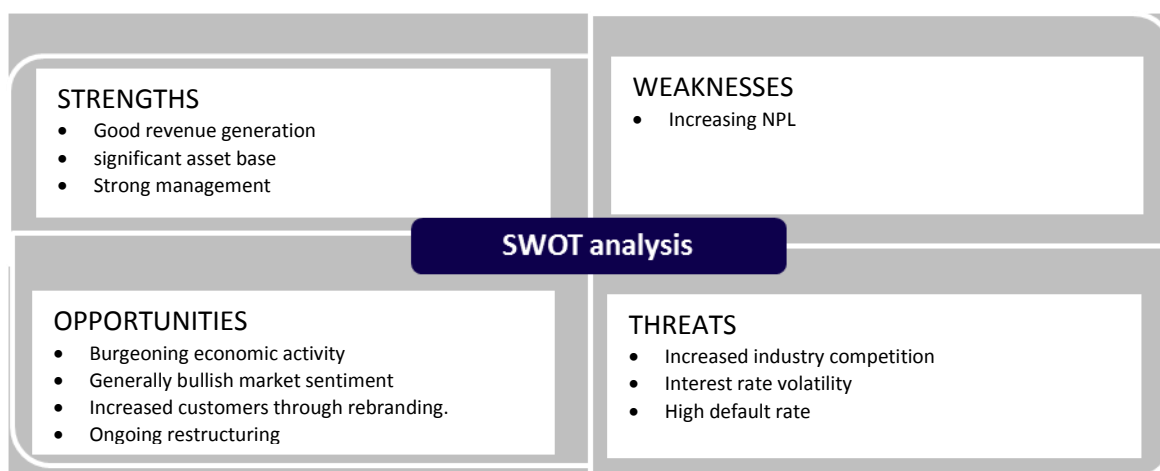


FY 2017 Expectation: On account of rebound in broad economic activity, we anticipate SCB to return to growing its loan portfolio and consequently increasing its assets. Restructuring its debt to reduce its NPL position will be the catalyst for 2017

VALUATION

Valuation: We recommend a HOLD on SCB shares based on a 12-month fair value price target of GHS16.58. This represents 10.6% capital gain in local currency terms. The stock’s five-year annualized return of 9.95% is below that of the market at 11.75%. The stock is currently trading at 6.5x forward earnings, lower than a five-year range of 12.8x. On a forward P/B basis, it is trading at 2.2x forward book value. Applying both P/E and P/B valuations of (10x and 1.5x respectively), we arrive at a target price of **GHS16.58**

SWOT ANALYSIS



The most obvious risk is monetary instability in interest rates and currency. Competition is still rife in the banking industry and thus, issues of prudence, product innovation and revenue generation will determine the bank’s fortunes.

RISKS

