

# 2016 Half Year Review

## Standard Chartered Bank Ghana

<b>Sector</b> Financial Services: Banking	<b>Ticker</b> SCB	<b>Price as of 14/10/2016</b> GHS14.19	<b>Annual Dividend Yield</b> 2.61%	<b>Market Cap</b> GHS1.64BN	<b>Shares Outstanding</b> 115,508,699	<b>52-Week Range</b> GHS14.15 – GHS16.35	<b>SELL</b>
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### Highlights

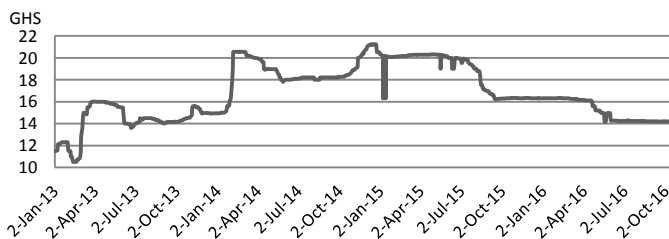
- Recommendation: **SELL**
- Year-To-Date performance of -13%
- Non-Performing Loans (NPL) shot up by 97%
- Capital Adequacy ratio increased by 31% from 2015HY to 2016HY
- Price to Book ratio fell by 39% as at 2016HY
- Total Shareholders' Funds appreciated by 18% in 2016
- Capital Adequacy Ratio increased to 21%

### Standard Chartered Bank Profile

Standard Chartered Bank Ghana ("SCB") was founded in 1896 and an 80% subsidiary of Standard Chartered, making the bank one of the oldest companies in Ghana. It is the successor to the Bank of British West Africa in Ghana.

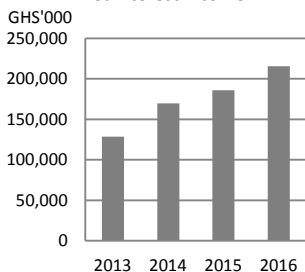
SCB's services include retail banking, commercial banking, and corporate and institutional banking. The bank has a network of 30 branches and about 42 automated teller machines (ATMs) across Ghana.

### Share Price Performance

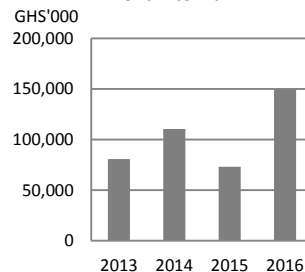


SCB shares appreciated by 30% as at the end of 2013, and further appreciated by 36% as at close of year 2014. The shares closed 2015 on a negative note at -20%, and further declined in 2016, currently at -13% (as at 11/10/2016).

### Net Interest Income



### Profit After Tax



### Analysis

Profit after Tax (PAT) increased significantly by 105% in 2016, after declining by 34% in 2015. PAT recorded in 2016 was the highest in the recent 4 years; this is mainly attributed to the increase in Interest Income in the year under review. Net Interest Income also increased by 16% closing the 2016HY at GHS215,402. SCB's financial position grew by 6%; however, this was less than the 19% average growth recorded from 2013 to 2015.

The current ratio declined to its lowest in 3 years. This is indicative of some difficulty in meeting short-term debt obligations. The 37% decline in Cost to Income ratio is indicative of the bank's increased efficiency in its operations. Net Interest Margin increased marginally by 7%, which was as a result of the favourable interest rate environment for banks and the bank's appetite for riskier and higher yielding loans. Operating Expenses to Assets ratio declined from 3% in 2015 to 2% in 2016 – the lowest in the past 4 years; this is mainly attributed to the 26% decline in Operating Expenses.

With regards to profitability, Net Profit Margin increased by 72% in 2016; this was largely due to the significant decline in Operating Expenses. Return on Assets increased from 2% in 2015 to 4% in 2016. Return on Equity also increased by 74% in 2016; this is indicative of the bank's profitability and growth potential.

The bank's NPL ratio increased consistently over the 4 year period, with the 97% growth recorded in 2016 being the most alarming. The NPL ratio of 52% recorded in 2016 implies that more than half of the bank's loans are either in default or close to being in default.

This could mean that the bank's plans of restructuring and recovering NPLs, as announced by the bank's CEO at SCB's Ghana Stock Exchange 'Facts Behind the Figures' session in March 2016 is yet to achieve the desired results. Capital Adequacy Ratio (CAR) significantly increased by 31% to 21% in 2016; this is proof of the bank's ability to protect depositors' funds, and also to absorb significant losses before becoming insolvent.

SCB's Price to Book ratio declined by 16% in 2015, and further declined by 39% in 2016. This is an indication of the market's unwillingness to pay a premium for SCB's shares and is reflective of the decline in the value that investors attach to the company; thus, giving bank's shares a negative outlook. Also, dividend payments have not been heart-warming considering the price of SCB shares. This is reflected in the low Dividend Yield recorded in 2015 and 2016.

### Stock Performance

	3 Mo.	6 Mo.	1 Yr	4 Yr
Price Change (%)	(0.77)	(11.86)	(12.88)	(64.97)
<b>Growth (Half Year)</b>				
	2014	2015	2016	4 Yr CAGR
Operating Income (%)	23.56	6.97	18.06	11.77
Net Income (%)	37.06	(34.00)	105.00	16.70
Earnings Per Share (%)	37.14	(52.38)	104.76	16.51

### FINANCIAL STATEMENTS SUMMARY (HALF YEAR)

Income Statement	2013	2014	2015	2016
	GHS'000	GHS'000	GHS'000	GHS'000
Interest Income	171,272	210,813	231,870	257,833
Interest Expense	42,680	40,997	45,763	42,431
Net Interest Income	128,592	169,816	186,107	215,402
Operating Income	190,352	235,212	251,600	297,029
Profit before Tax	107,299	138,643	110,991	203,416
Profit after Tax	80,654	110,547	72,965	149,576
<b>Balance Sheet</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>
	GHS'000	GHS'000	GHS'000	GHS'000
Cash & Bank Bal.	490,814	609,983	783,527	774,780
Loans & Advances	993,860	1,449,660	1,444,489	1,107,476
Fixed Assets	24,521	27,546	24,917	26,281
<b>Total Assets</b>	<b>2,658,056</b>	<b>3,138,213</b>	<b>3,735,077</b>	<b>3,968,759</b>
Customer Deposits	1,627,204	2,143,983	2,412,713	2,748,812
<b>Total Liabilities</b>	<b>2,320,810</b>	<b>2,710,283</b>	<b>3,174,385</b>	<b>3,309,452</b>
Share Capital	61,631	61,631	61,631	61,631
Shareholders' Funds	336,528	427,930	560,692	659,307

### FINANCIAL RATIOS (HALF YEAR)

	2013	2014	2015	2016
<b>Liquidity &amp; Efficiency</b>				
Current Ratio	0.82	0.90	0.96	0.86
Cost to Income (%)	36.60	33.64	41.53	26.06
Net Interest Margin (%)	9.84	10.23	9.38	10.03
Oper. Exp. to Assets (%)	2.62	2.52	3.10	2.07
<b>Profitability</b>				
Net Profit Margin (%)	42.37	47.00	29.00	50.36
Return on Assets (%)	3.03	3.52	1.95	3.77
Return on Equity (%)	23.97	25.83	13.01	22.69
<b>Asset Quality</b>				
NPL Ratio (%)	12.52	16.99	26.30	51.73
<b>Other Ratios</b>				
Capital Adequacy (%)	16.85	15.32	16.28	21.13
Earnings Per Share (GHS)	0.70	0.96	0.63	1.29
Price/Earnings	19.94	18.85	31.65	11.04
Price/Book	4.87	4.95	4.14	2.51
Div/Share (GHS)	1.15	0.35	0.37	-
Dividend Yield (%)	3.38	6.35	1.76	2.61

### OUR OPINION

Although the bank's financial position has improved over the period, its credit risk exposure as a result of its high NPLs, together with the low Dividend Yield does not make it as attractive as other relatively cheaper financial stocks with higher Dividend Yields. SCB is therefore rated as a SELL.