



STANDARD BANK

Price (MWK)	1 200
DPS (MWK)	44.74
P/E (x)	11.86
P/B (x)	2.66
DPS Yield (%)	3.73
Market Cap (MWK)	281 601 794 400
Recommendation	BUY

	Dec-20	Dec-19	YoY
Interest Income	46,309	43,171	7%
Interest Expense	(5,096)	(4,294)	19%
Net Interest Income	41,213	38,877	6%
Loan loss Charge	(1,622)	(1,872)	-13%
NII after credit losses	39,591	37,005	7%
Non-Funded Income	28,489	21,979	30%
Loan Recoveries	7,105		
Total Income	75,185	58,984	27%
Operating Expenses	(39,393)	(35,612)	11%
PBT	35,792	23,372	53%
Tax	(12,049)	(7,493)	61%
PAT	23,743	15,879	50%

Loans	165,445	148,490	11%
Bank Placements	82,507	59,930	38%
Investment Securities	155,460	100,631	54%
Earning Assets	433,479	333,244	30%
Total Assets	479,560	375,116	28%
Deposits	314,756	242,082	30%
Borrowings			
Capital/NAV	105,721	87,239	21%

	Dec-20	Dec-19
NIM	10.75%	11.97%
NFI/Total Income	38%	37%
CIR	52%	60%
LDR	53%	61%
ROA	5.6%	4.3%
ROE	25%	19%
NPLs Ratio	1.36%	3.14%
Yield on Book	11%	12%
Cost of Funding	2%	2%
Leverage (x)	4.54	4.30

Solid deposit mobilisation – flight to quality....

Headlining the bank's FY20 solid performance was a 30% growth in deposits to MWK315bln. The growth in customer balances exceeded the 21% registered by the entire banking sector, which closed FY20 at MWK1.4trn. The cost of these deposits for SBM was 2%pa, unchanged from the prior year resulting in a debit in the income statement of MWK5bln in interest expenses.

Prudent asset creation & investment ...

The deposits were deployed into; (a) loans which grew 11% to MWK165bln; (b) fixed income securities which expanded 42% to MWK143bln, and (c) placements with other banks which were up 38% to MWK83bln. This interest-earning asset book yielded MWK46.3bln of interest income, which is equivalent to an 11%pa return, down from 12%pa in FY19.

The loan to deposit ratio (LDR) closed at 53%, down 10 percentage points from 63% in FY19. The entire banking sector's loan portfolio expanded by 13% to MWK725bln giving a sector LDR of 51%, down from 54% last year.

Credit quality was superb as evidenced by the NPL ratio of 1.36%, against 6% for the overall sector and the 13% decline in the provisioning charge to MWK1.6bln.

Income and Expense outcome...

Net interest income rose 6% to MWK41bln, with the net interest margin coming out at 10.75%pa, down 122bps on FY19. Non-funded income grew 30% to MWK28bln driven by fees on forex transactions as the MWK depreciated. Non funded income contributed 38% to total income which, in turn grew by 27% to MWK75bln, enhanced by a MWK7 bln loan recovery. The growth would have been 15% stripping out the loan recovery. Operating costs grew slightly ahead of inflation at 11% to MWK39bln. With income growing at twice the pace of expenses, the cost to income ratio (CIR) improved to 52% from 60%. Basic PAT was up 50% to MWK24bln, or up 22% on a headline basis to approximately MWK20bln. ROE rose to 25% from 19%.

Better value going forward ...

We value banks based on a 2-year exit price-to-book (P/B) multiple using the average ROE. Using this approach, we get an intrinsic value of **MWK1 454.36** per share, implying a potential upside of 20% on the current price. **BUY**

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