

# Standard Chartered PLC (2888)

## Buy SCB and Sell HSBC

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2888.HK | 2888.HK | 2888.HK

Industry: Banking



Phillip Securities (Hong Kong) Ltd

Phillip Securities Research

13 March 2013

### FY 2012 Review

Rating: Buy Close Price:207.50 Target Price: \$250

### Highlights of FY 2012

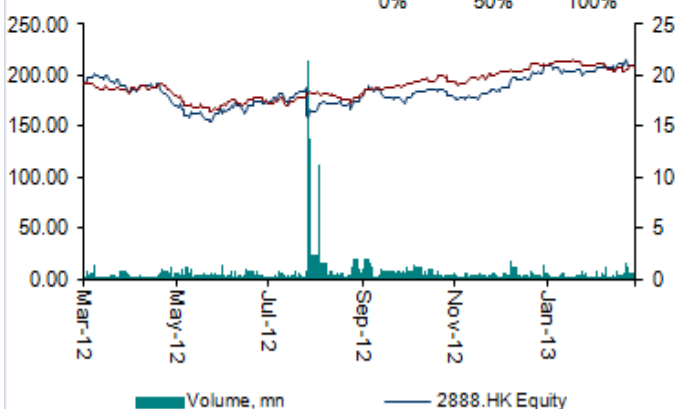
Tenth consecutive year of record high in income and profit growth:

- 1) Operating income of 19.071billion , up 1.575 billion or 8% y/y
- 2) EBT of \$ 6.876 billion, an increase of 1% y/y °
- 3) Annual dividend of 84 cents per share, up 10.5% y/y
- 4) EPS rose to 225.2 cents, up 13.7% y/y or 27.2 cents
- 5) Common shareholders' equity ROE was 12.8 % , up slightly by 0.6% y/y
- 6) Cost-effectiveness ratio was 53.8% , dropped slightly by 2.7% y/y
- 7) Group net interest margin to maintain the 2.3%

The Group recorded a tenth consecutive year new high in the profit of FY12, net profit of 4.985 billion USD (as below), up 1.05% y/y, NIM maintain at 2.3%, same as FY 11. The good result is mainly contributed by the proper balancing market strategy of development in emerging markets, especially in Asia, Africa and the Middle East market. Even the Asia-Pacific region contributing over 60% of the group's EBT, no country dominated the earning contribution over 20%, as Hong Kong is the major contributor in the area, only contributing about 20% of EBT or operating income. Meanwhile, 26 markets delivered over 100 million of income and 25 markets grew at a double digit rate, diversifying the market risk and country risk. In addition, we expect some special expenses will no longer exist, such as the fines from U.S. regulators of 667 million. Thus, we enhance the investment rating to "Buy" and rise the target price to \$250 HKD. In our view, compared with HSBC, SCB had a better cost control and less claims involved, the core business was also better than HSBC in FY12. We expect the price performance of SCB is better than HSBC in short-term, we suggest clients to change their positions from HSBC to SCB.

### STANDARD CHARTER

Rating	1.00	Buy
- Previous Rating	3.00	Neutral
Target Price (HKD)	250	
- Previous Target Price (HKD)	200	
Closing Price (HKD)	212.00	
Expected Capital Gains (%)	17.9%	
Expected Dividend Yield (%)	3.3%	
Expected Total Return (%)	21.2%	
Market Cap. (HKD mn)	511,569	
3M Average Daily T/O (mn)	0.5	
52 week range (HKD)	149 - 215	
Closing Price in 52 week range		



Major Shareholders	(%)
1. Temasek Holdings PRI	17.9
2. Blackrock	6.9
3. Aberdeen	6.6

Source: PSHK Company report, Bloomberg

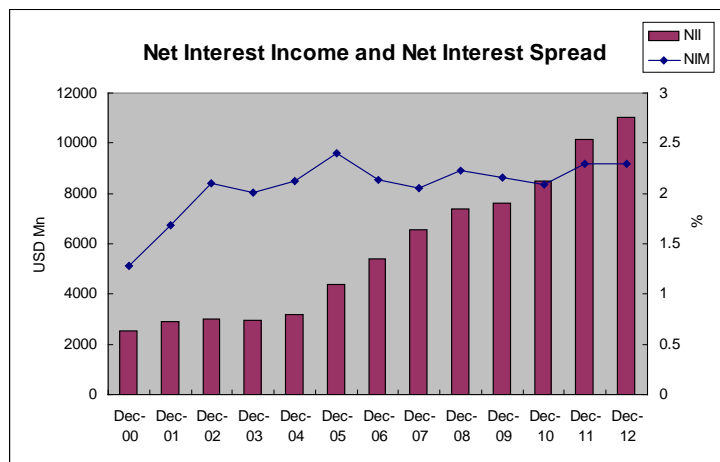
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## Net Interest Income and Non Interest Income



Source: Company Report, PSR, Bloomberg

It was a record high net interest income (NII) of SCB in 2012, the net interest income reached 11.010 billion, rose 8% y/y, higher than our expectation slightly, the NIM maintained at 2.3%. Meanwhile the non-NII up 7.7% y/y to 8.061 billion, mainly attributed by the growth in net trading income and other operating income which rose 4% and 50% respectively, better than our expectation.

The operating expenses of SCB rose 979 million or 10% y/y to 10.896 billion, mainly due to the fines of 667 million, deducting these special expenses, the actual expenses was only increased 3% in 2012, reflecting a good cost control, better than our expectation.

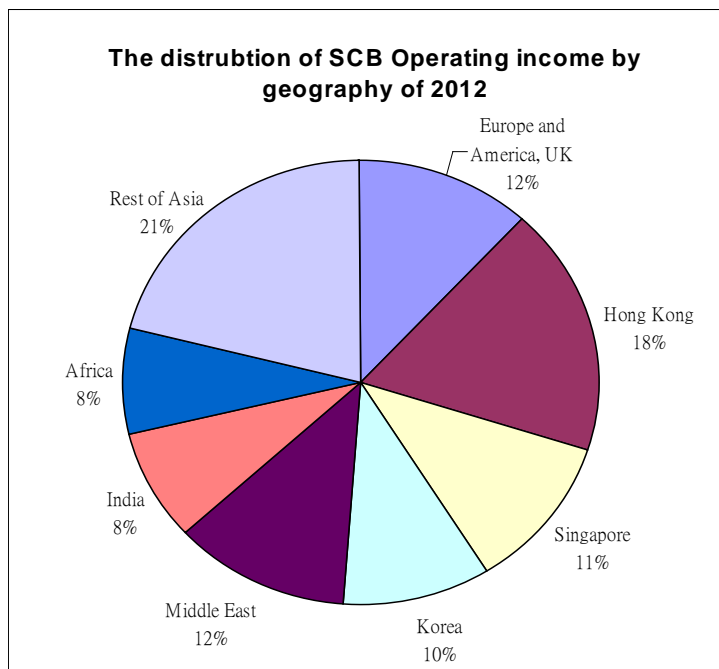
## Dividend Policy

Year	Dividend Per Share (US\$ cents)	Earning Per Share (US\$ cents)	Payout ratio
2001	36.7	48.9	75%
2002	42.2	50.4	84%
2003	45.5	71.7	63%
2004	50.4	113.4	44%
2005	56	130	43%
2006	62.2	147.9	42%
2007	69.5	176	39%
2008	61.6	192.1	32%
2009	66	167.9	39%
2010	69.2	196.3	35%
2011	76	198	38%
2012	84	225.2	37%
2013 (E)	89	240	37%
2014 (E)	100	263	38%

Source: PSR, Company annual report

Dividend policy, the dividend rate of SCB was 37% in 2012. We expect the group will maintain the payout ratio at 30-40%, expected EPS of 2013 is 18.67 HKD, DPS of 2013 is 6.9 HKD, the dividend payout ratio can be maintained at 37%.

## Operating Income distribution



Source: PSR, company report

The Asia Pacific region distributed for about 60% of overall business, we expect China and ASEAN countries will be the growth generator in future. 26 markets delivered over 100 million of income and 25 markets grew at a double digit rate, with no country dominated the earning contribution over 20% diversifying market risk and country risk

Apart from that the corporate banking revenue from Africa reached 1 billion first time, revenue grew 10% y/y, the revenue from MESA also grew 4% y/y, reflecting SCB group is not suffered from the money laundering allegations.

The group is the only major bank who are operating in all 10 ASEAN countries, the ASEAN countries enjoy 14% CAGR growth. The business of SCB in Indonesia, Malaysia, Thailand, Philippines and Vietnam, recorded an increase of 13%, 18%, 13%, 11% and 27%, respectively. India dropped significantly due to last year's gross domestic product (GDP), down to 5.2% from the five-year growth averages 7.9%, revenue and profit fell by 12% and 16%, respectively.

## Risk

1. The Fed stop QE policy
2. The amounts of fines are out of expectation
3. Monitoring cost surge significantly
4. Income growth declining in emerging market

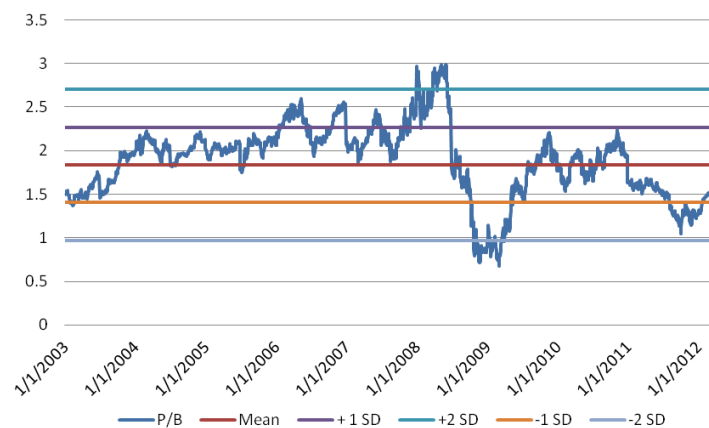
## Valuation

### 10 yrs P/E Band of SCB



Source: Company report, PSR, Bloomberg

### 10 yrs P/B Band of SCB



Source: Company report, PSR, Bloomberg

The P/B of SCB is trading at nearly 1.5 times, close to the 10-year average minus one standard deviation, as the group focus on the emerging markets, enjoying a higher valuation when comparing from its peers, with the cost-benefit ratio is better than its peers, and capital adequacy ratio in line with our expectations, enhance the investment rating to "buy" rating and rose target price to \$250 HKD. Expected P/E about 13x and expected P/B about 1.8X, which is near the mean of last 10 years..

## Financial Status

Income Statement (US\$ mn)	2010 A	2011 A	2012 A	2013 (E)	2014 (E)
Interest Income	13,500	16,584	18,258	20,113	22,547
Interest Expense	-5030	-6431	-7,248	-7589	-8,507
Net interest income	8,470	10,153	11,010	12,524	14,039
					0
Fee and commission Income	4,556	4,466	4,618	4,904	5,497
Fee and commission Expense	-318	-420	-497	-516	-578
Net Fee and commission Expense	4,238	4,046	4,121	4,388	4,919
					0
Net Trading income	2,577	2,645	2,748	2,778	3,114
Other operating income	777	793	1,192	799	896
					0
Operating Income	16,062	17,637	19,071	20,489	22,968
Operating expenses	-9023	-9,917	-10,896	-11,023	-12,357
Loan impairment losses and provisions	-883	-908	-1,221	-1,351	-1,514
Other impairment	-76	-111	-194	-235	-263
Profit from associates	42	74	116	123	138
Profit before tax	6,122	6,775	6,876	8,003	8,971
Tax Expense	-1,708	-1,842	-1,891	-2,161	-2,422
Profit for the year	4,414	4,933	4,985	5,842	6,549
					0
Profit attributable to non-controlling interests	82	84	98	100	112
Profit attributable to shareholders	4,332	4,849	4,887	5,742	6,437
					0
Diluted earning per share (US\$ cent)	193	198.2	197.7	238	267
Dividend per share (US\$ cent)	69.200	76	84	89	100

Source: Company report, PSR, Thomson Reuters

Balance Sheet (US\$ mn)	2010 A	2011 A	2012 A	2013 (E)	2014 (E)
Cash & Interbanking Assets	140,388	157,475	187,540	200,410	226,602
Net Loans	292,416	332,771	352,266	380,412	419,310
Long Term Assets	83,756	102,440	96,712	105,230	119,015
Total Assets	516,560	592,686	636,518	686,052	764,927
Payables and Accrued Expenses	4,528	4,458	4,860	5,212	6,885
Deposits	335,543	381,022	414,116	442,321	500,025
Other Current Liabilities	104,557	124,261	127,304	137,125	148,210
Total Long Term Debt	15,939	16,717	18,799	22,812	25,331
Other Liabilities	17,781	25,514	26,077	29,123	32,621
Total Liabilities	478,348	551,972	591,156	636,593	713,072
Common Equity	1,174	1,192	1,207	1,297	1,327
Retained Earnings	32,064	35,484	39,555	43,350	45,265
Other Equities	4,974	4,038	4,600	4,812	5,263
Total Equity	38,212	40,714	45,362	49,459	51,855

Source: Company report, PSR, Thomson Reuters

Cash Flow Statement (US\$ mn)	2010 A	2011 A	2012 A	2013 (E)	2014 (E)
Cash Flow From Operations Activities	-16,635	18,370	17,880	19,321	17,265
Cash Flow From Investing Activities	1,872	-12,472	-11,442	-9,341	-11,325
Cash Flow From Financing Activities	5,121	4,909	3,672	5,375	4,937
Currency Translation Adjustments	1,303	-91	40	1,521	892
Net Change in Cash	-8,339	10,716	10,150	16,876	11,769

Source: Company report, PSR, Thomson Reuters

Per Share Data \$ US Cent	2010 A	2011 A	2012 A	2013 (E)	2014 (E)
EPS (Basic)	196.3	200.8	199.7	240	263
DPS	69.2	76	84	89	100
Payout ratio	0.35	0.38	0.42	0.37	0.38
Book Value	1573.2	1653.2	1822.9	2050	2,120

Source: Company report, PSR

**Peers**

	EST P/E (Times)	P/B (Times)	ROE %	Loan to Deposit (%)	NIM (%)	Efficient Ratio (%)	P/E (Times)	Current Market Cap (Mn HKD\$)	Dividend Yield (%)
2888	11.44	1.45	12.8	76.00	2.3	53.80	13.39	511,086.33	3.08
5	11.11	1.17	8.37	75.65	1.85	62.8	14.17	1,572,106.78	4.10
11	11.86	2.70	22.59	65.67	1.68	55.31	12.84	249,495.48	4.06
2388	13.90	2.02	14.75	66.57	1.71	41.75	14.45	284,407.79	4.10
23	14.42	1.26	11.56	77.25	1.60	59.43	11.28	72,269.51	3.27

All based on the closing price of 12th March 2013

Source: Company report, PSR, Bloomberg

#### PHILLIP RESEARCH STOCK SELECTION SYSTEMS

Total Return	Recommendation	Rating	Remarks
>+20%	Buy	1	>20% upside from the current price
+5% to +20%	Accumulate	2	+5% to +20% upside from the current price
-5% to +5%	Neutral	3	Trade within $\pm$ 5% from the current price
-5% to -20%	Reduce	4	-5% to -20% downside from the current price
<-20%	Sell	5	>20% downside from the current price

We do not base our recommendations entirely on the above quantitative return bands. We consider qualitative factors like (but not limited to) a stock's risk reward ratio, market sentiment, recent rate of share price appreciation, presence or absence of stock price catalysts, and speculative undertones surrounding the stock, before making a recommendation.

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