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Standard Bank's 'battle' takes centre stage

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The success of Standard Bank's pledge to "fight to win" the battle for customers and grow revenues will be known when the largest banking group by market capitalisation releases its first-half results to June on Thursday, 16 August 2012.

The battle call was made in March this year by Peter Schlebusch, the head of personal and business banking, when he announced the unit's record 40% full-year earnings growth to R6.1bn in the year to December.

Standard's (SBK) results - expected to be presented by executives led by group CEO Jacko Maree - closes the curtain on the half-year reporting season of the three big banks. FirstRand reports its year-end results to June on 11 September.

As an industry bellwether, Standard is regarded as your typical cash-churning and cash-rich banking titan, which, however, still needs to sweat its balance sheet and produce a higher return on equity for shareholders, according to analysts.

The group's balance sheet was last year boosted by two asset disposals and the transfer of capital from its UK-based subsidiary to fund high growth markets in SA and Africa where Standard is the largest bank by assets and income.

Analysts say the market will be keen to assess the earnings performance of both the domestic operations and those outside SA where the return on equity rose to about 8% in the year to December compared with 6.4% the prior year.

Standard says some of the units outside SA are still growing and therefore still require more capital to gain scale. In the year to December, Standard transferred US$110 million to fund their growth, according to its latest annual report.

The group however still sees potential for further revenue growth in SA where it has been aggressively expanding the unsecured and secured lending business.

But Johan Scholtz, head of research at Afrifocus Securities, warns asset growth in secured and unsecured lending usually comes at a cost of elevated impairments if not properly managed and this is something Standard has to get under control.

In addition, he says costs can erode margins and suggests Standard's cost to income ratio in the first half may not have improved significantly from the 58.4% recorded in the same period to June last year.

Maree admitted in May when he released Standard's trading update that its cost-to-income ratio for the first four months of this year was "slightly higher" than that for the 2011 year of 58.8% (December 2010: 61.4%).

Overall, Scholtz expects "favourable" trading numbers from Standard.

The bank said in its update net interest income for the first four months benefited from strong loan growth and new business lending margins. It also said non-interest revenue grew, boosted by higher trading revenues even though these were off a lower base from the prior year.

Like Old Mutual, whose first-half earnings were boosted by Nedbank, Standard will also have benefited from the first half performance of Liberty, the listed wealth management group which grew headline earnings to June by 42.5% to R1.6bn.

"If you look at (Standard's) numbers reported in the first quarter, they were pretty much on track to meet (market) consensus for the full year of 16%-17% earnings growth," Scholtz says. "But it appears the cost to income ratio deteriorated and debts peaked, which tells me that costs have been growing ahead of revenue and you also have the problem of bad debts peaking," he says.

Adrian Cloete, equity analyst at Cadiz Asset Management, projects Standard's full-year normalised headline earnings per share to be up by 20% this year.

Standard has since last year lifted its market share in secured lending to more than 32% snatching the top position from Absa, which has been hurt by bad debts in its mortgage book.

Standard also has the largest market share in credit cards among the big banks (over 31%) and as of the December had about 27% of the retail deposit market.

Analysts are particularly fixated with Standard's ability to begin to grow return on equity (ROE) from its operations outside SA, which are expected to be positive. ROE rose to 14.3% in the year to December compared with 12.5% in the prior year. It is believed the bank aims to lift this to more than 20% within the next five years.

Analysts say this can be achieved by expanding earnings growth from the African operations, which have been chewing more capital than producing profits.

However, markets such as Uganda have shown strong growth in ROE of above 40% compared with Tanzania at below 30% in the year to December, says Jihad Jhaveri, an equity analyst at Kagiso Asset Management.

In contrast, Nigeria is not yet yielding much (return on equity) but the growth outlook over the next decade is positive," Jhaveri says in a note.

Scholtz also says Standard needs to start demonstrating the success of its investments outside SA which produced headline earnings of R1.03bn in the year to December (December 2010: R749m) on income of R11.3bn (December 2010: R9.8bn).

"I think the market will be looking on profits outside SA because that is (also) a key area where Standard needs to convince the market about its profitability," Scholtz says. "The Africa growth strategy needs to demonstrate that it can be achieved at profitable levels," he says.