Berenberg Financials Speed Dating 2024

Q&A with:

Manus Costello – Group Head, Investor Relations, Standard Chartered PLC

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(Amended in places to improve accuracy and readability)

<<Pete Richardson - Director, Head of Banks and Diversified Financials, Berenberg>>
Thank you again, everybody for joining us. I think this is the second day of the banks and DivFins speed dating. I think it's day 4 of the financial speed dating. So, appreciate the perseverance from a lot of you. Very pleased to have Manus Costello, the new Head of Investor Relations at Standard Chartered joining us here. And so, thanks to all of you and Manus for this session.

Manus, before standardised questions, I wanted to just begin by inviting you to maybe just reiterate and recap on any financial guidance that you have out, that you think is relevant, and maybe recent events that you think investors need to have in their minds as we enter into another results season.

<<Manus Costello – Group Head, Investor Relations, Standard Chartered>>
Sure. Thanks, Pete, and thanks for inviting me on to speak, it's very good to be here. So, we spoke at a conference earlier this month and made a few comments which I think are worth repeating. First of all, on NII, we have said that a high rates environment overall is a good thing for the bank and for our income but over time the impact of that does become more mixed. In our Retail business, 'higher for longer' clearly means continued strong margins for us, which is helpful. In our Corporate business, you do start to see a pick-up in corporate deposit passthroughs over time and that impacts our CIB footprint somewhat. So, overall what we're saying on NII is sticking to our guidance for the full year 2024 of $10 to $10.25 billion, which is the guidance we gave at the beginning of this year. So, we're keeping that, notwithstanding the higher rates.

On non-interest income, we have said that our Markets income is expected to be broadly flat year over year in the second quarter, because we face a strong comparator last year. Our second quarter last year was up 15% year over year and so it's quite a tough comparison for us to come through. That said, we're very confident about the Markets business into the second half of the year. We think it's got good momentum, and it faces some easier comparisons for the second half of this year. So there's no issue to flag there whatsoever.

We're also seeing we have said, very strong outcome in our Wealth Solutions business. The momentum there is very strong in the second quarter, similar to what we saw in the first quarter and we're also seeing good lead indicators in terms of net new money and new to bank customers. So, we remain extremely upbeat and positive about both the near term and the medium term, and the long term for that Wealth business.

Moving down the P&L, on costs – our guidance is that we will deliver positive jaws each year and that we will have a cost cap of $12 billion in 2026 that's from a base of $11.1bn in 2023, which implies a 3% CAGR over the course of that period. We have said that would be linear; and we have said that this year will be higher than that 3% if you wanted to extrapolate it. And so that's consistent with the longer-term messaging. I would reiterate within the second quarter typically, we do see a pickup versus the first quarter in the absolute amount of expenses, because that's when a lot of our salary increases come through into the cost base. So just to flag that, but we're very comfortable with the guidance we've given for 2024 and beyond.

And then lastly, on impairment – our portfolios are remaining really quite resilient, and I think, in Corporates in particular, that is testament to the fact that the credit quality of those portfolios has improved significantly versus where it was in the past. So, to give you an example of that – in the corporates book, the percentage of investment grade exposure is now 72%, that was just 42% back in 2014. So, really big improvement in the risk profile has meant that even the ‘higher for longer’ rate environment has meant that that portfolio seems to be relatively resistant for now. I think everybody knows about our China Commercial Real Estate book and about the issues that we and others have faced in that in the last couple of years. We remain confident that that is well covered.It's got 88% coverage for stage 3 loans, including collateral and we're not flagging any incremental material problems that are appearing from a macro perspective in that portfolio.

The CIB business in the first quarter benefited from releases, small releases on the rest of the portfolio, and had a very low level of impairment. And that is certainly not the long term run rate that we would expect, but it is not showing any signs of material stress, as I said, now.

In Retail, we said that the first quarter run rate on impairment was more of a ‘business as usual’ kind of level. And we would stick to that. The one thing that I would reiterate is the fact that in our digital bank, Mox, we've seen some impairment issues over the last several quarters. We said that was improving. That trend is continuing to improve. We're confident that we're over the hump in that and the outlook for Mox is quite positive from here.

So hopefully, that's a useful walk through what we've been saying on the P&L at recent conferences and giving some clarity there.

<<Pete Richardson - Director, Head of Banks and Diversified Financials, Berenberg>>
Extremely useful and very reassuring as well. You touched on some of the some of the margin dynamics in terms of high level ‘what's going on with NII’, but just digging into the detail in terms of margin pricing, volume trends in some of the core lines, any kind of comments to call out there?

<<Manus Costello – Group Head, Investor Relations, Standard Chartered>>
So, like in the first quarter we've continued to see some green shoots in our CIB business in the second quarter, there are some signs of volume growth, and we are sticking to our guidance of low single digit volume growth for the bank as a whole in customer volume for 2024.

We've also seen, in the first quarter an excellent pipeline in our Banking business, in our Global Banking business within CIB, and that pipeline has been executed on and it has been refilled, and so, we're very confident on the outlook for that as well. As a reminder, most of that business is distributed, so it doesn't necessarily contribute to balance growth in terms of customer loans, but it certainly generates a lot of fee income and that business is going very well, and we're comfortable with that business.

Although we are seeing good CIB green shoots, I think there are a couple of comments I'd make about the group overall which are relevant. Firstly, overall customer volumes remain somewhat muted, because, as we've flagged before, there are headwinds in Korea and in Hong Kong on the mortgage book, and so there is a split there between Retail and Corporates. And, secondly, I'd also remind you that we have been optimising our treasury-related assets and liabilities over recent quarters, so that can change the mix of interest earning assets from a quarter-to-quarter basis and that can create itself some noise on the calculation of net interest margin. That’s one of the reasons that we moved our guidance from a NIM basis to an NII basis. But just to flag that, that mix is something which is worth pointing out.

<<Pete Richardson - Director, Head of Banks and Diversified Financials, Berenberg>>
Super, and then, I guess, back on your home territory here, given your previous role. But you obviously speak to a lot of investors as do we about Standard Chartered, and you have done for a little while as well. I guess reflections on areas that the market most misunderstands about you. Obviously, you've been a business that's changed, but interested to hear where you'd point people to do more work.

<<Manus Costello – Group Head, Investor Relations, Standard Chartered>>
Yeah, I mean, as you point out, I was a sell side analyst until a few months ago. So, I'm sure I shared a lot of the same misunderstandings as others. I probably contributed to a few of those misunderstandings as well. I would say historically, Standard Chartered has been thought of as a conglomerate of local emerging

market banks, which summed to a whole. So, to understand Standard Chartered, people have historically looked at what's going on in those underlying markets from an economic perspective, from a market structure perspective, and summed it up to create the whole of Standard Chartered. And I think that was probably historically roughly fair. And certainly, the underlying dynamics in those local markets for us are very important. But I think it's really shifted now, Standard Chartered, to become much more a conduit for flows between those markets, rather than a story which is about credit expansion within those markets. And that's a material change which I don't think has been fully reflected in market understanding. As an example, our CIB business used to be over 50% domestic in orientation, that's now 35% and falling, not because the domestic business is falling, but because the international portion of that business is growing much more quickly, so mathematically, that becomes a much bigger part of the business and generates much better growth for that business overall.

Similarly, in our Retail business, the trends that we're driven by, are much more focused on Affluent wealth accumulation now than they used to be. We are still a major player in a lot of local retail markets, offering a full suite of products to a full suite of customers, but a lot of the growth in recent years for us across that business overall has really come from the Affluent segment, our target segment within Wealth, and that brings us both NII by deposits that they give us, and fee income by the Wealth products that we sell to them. And our Wealth product income, that's almost entirely fees, was up 10% in 2023, it was up a further 23% in the first quarter of 2024 and, as I mentioned before, we're seeing good lead indicators to that for the rest of the year. So really, I think, understanding that international dimension and cross border dimension, Standard Chartered is something which we need to work on in coming quarters.

<<Pete Richardson - Director, Head of Banks and Diversified Financials, Berenberg>>
I totally agree. You got an amazing network, a unique network, and it's using that for the comparative advantage it has, rather than, as you say, the sort of local conglomerates. In terms of the final question, it all relates to that in a way, if we think back ten years when Bill first came in, and if you like, set in stone that pathway to get to that network business. Huge strategic change over that time. When we look ahead 5-10 years into some dream world future, what are the biggest strategic opportunities that you see, prospectively, rather than looking back?

<<Manus Costello – Group Head, Investor Relations, Standard Chartered>>
So, I would split this into two – a business opportunity and a stock price opportunity, if you like. From a business perspective, I think we've got a lot of opportunities which, if I had to put them into one overarching statement, I'd say, are about capturing that international banking flow that I mentioned before. So, for example, in CIB, I think we can benefit enormously from the internationalisation of the Chinese currency, the RMB. In the first quarter of this year as a stat for you, RMB-settled trade was 29% for Chinese trade, that's up from 14% five years ago. So, there's been a big shift in that settlement in RMB, and that shift really benefits our income in a number of different ways. Of course, it will help increase FX trading transactions, but it will also help our rates business. It can help on deposit business. It can help our lending business. It can help our Banking business. That broader trend is going to continue which is helpful. It is up to us to try and capture that, and it will be part of that cross-border flow.

Similarly, we’re seeing trade corridors get ever more complex and that should play to the strength of our network. We are often asked about the US-China corridor, which, of course, is very important for us, but it's less than 5% of our income, that direct corridor. More significant to us is the intra-Asia flow. That intra-Asia flow is more than 20% of our CIB income, and is growing fast, that was up 24% in in 2023. So, for us, as those supply chains, particularly within Asia become more complex, that provides us with a real opportunity.

And then, of course, in Retail, similarly the opportunity for us is to capture the international customer base, I think if we're sticking with the international theme. To give you an example of that, in the first quarter of this year, half of our Priority new to bank customers in Affluent were international customers. And so trying to grow that international portion of the customer base is really going to help us grow our AUM and help us grow our income. So that's the business bit, it’s about focusing on what I said before, about the international piece.

From a stock price perspective, I think we have an opportunity in the near term hopefully to reduce the cost of equity which remains very high, and I think doing that is about delivering against our targets and about being clear about our strategy and communicating that clearly. It's also about being aware of what our investors expect from us in terms of capital return particularly given the low price-to-book multiple which we're trading at. And as we have said many times publicly, will look to maximise distributions and reduce the share count as much as we can, always being cognisant that I just described a nice array of growth opportunities that we've got. So, we have to maintain that balancing act, but we're very aware that that reducing the share count is an important part of what investors are looking for.

And then over the longer term, you know, we need to put together all of the above to generate a better RoTE, to generate a better growth profile in terms of income, and then ultimately that should generate a better valuation for shareholders in the future, if we can tie both the business case and the stock price opportunity together.

<<Pete Richardson - Director, Head of Banks and Diversified Financials, Berenberg>>
Manus that's incredibly helpful. So in a true sense, around the world, in 15 minutes, hugely appreciate the clarity and insights in terms of the business. Thanks so much for joining us. I always find these really useful. Really good to hear your fresh insights and thanks to everybody else on the call as well, totally appreciate it.

<<Manus Costello – Group Head, Investor Relations, Standard Chartered>>
Thanks for listening everyone, cheers.