Standard Bank

Conference Call transcript

7 June 2019

PRE-CLOSE CONFERENCE CALL

Operator
Good day ladies and gentlemen and welcome to the Standard Bank's pre-close conference with investors. All participants are currently in listen-only mode and there will be an opportunity to ask questions later during the conference. If you should need assistance during the call, please signal an operator by pressing star and then zero. Please also note that this call is being recorded. I would now like to hand the conference over to Arno Daehnke. Please go ahead sir.

Arno Daehnke
Good afternoon everyone and thank you to the operator. We appreciate everyone dialing in this afternoon and thank you for your interest on this call. Before I get into the outlook I would like to start by introducing Barbara Bell. Barbara has recently been appointed as Head of Finance for PBB group and this follows the departure of Cedric Miller from the group, whom you would have met previously. Barbara has been with the bank for many years and has held many positions across various functions in CIB, Africa Regions as well as PBB SA specialising in capital, liquidity and credit finance. Barbara, we welcome you in your new role. I have also with me Brooks Mparutsa. You would have met him previously, he is our Head of CIB Finance. Also, with me is Sayuri Govender, Head of Group Finance, and then Sarah Rivett-Carnac, who is Head of Investor Relations.

I wish to make clear upfront that today we will comment on the operating environment year to date and on our expectations for the full year, and we're not going to specifically comment for the six months to June 2019.

Global growth appears to be slowing and US China developments and the implications thereof remain a concern. In South Africa business and consumer confidence levels remained low in the run-up to the elections in May. The electricity supply disruptions experienced in March exacerbated an already difficult environment. Disappointingly South Africa recorded a 3.2% quarter on quarter contraction in Q1 2019. On a more positive note, inflation has remained within the target band and interest rates have been flat.

With the election now being over and the new cabinet appointed we look forward to seeing some progress on key policy matters and the structural reforms that are required. Assuming inflation remains well anchored we expect a 25-basis point cut in the South African prime interest rate in the second half of 2019. I remind you that the impact of a 25-basis point cut is equivalent to approximately R300 million decline in net interest income on an annualised basis.

Across the other African economies in which we operate, inflation, interest rates and exchange rates have been relatively stable year to date. Whilst the macroeconomic outlook is generally favourable, lower commodity prices will weigh on certain economies such as Zambia, Angola and Nigeria.

Now turning to our performance year to date and our outlook for the 2019 year.

Let's start with loan book growth.

In South Africa our retail portfolio has grown by mid-single digits with mortgages growing lower and vehicle and asset finance growing higher. In line with our stated intent to grow our personal unsecured lending portfolio we rolled out our digitally enabled personal unsecured lending capability to our existing customers in February. Since launch digital disbursements have represented approximately 30% of our overall personal unsecured disbursements. PBB portfolio trends remain in line with expectation.

You may have noticed recent commentary in the press this week referring to 104 branches vis-à-vis 91 branches referred to in our press release in March. And these refer to branches being closed. I would like to clarify that the 104 branches which were referred to were closed in 2018 as well as those intended to be closed in 2019. This is on the Standard Bank website and was published for customer convenience and information. Most of the additional 13 branches were actually closed in 2018.

After a strong finish through 2018 CIB's momentum in terms of portfolio growth has continued into 2019. Banking proven asset growth has been stronger than expected. We would caution however that year to date portfolio growth should not be extrapolated for the full 2019 year. Across the CIB portfolio sectoral growth has been driven by the oil & gas and financial sectors.

Loan growth in our Africa Regions businesses continues to outpace that in South Africa.

Margin pressure from competitive pricing in South Africa and negative endowments in Africa Regions has continued. In contrast, good asset growth has supported net interest income growth. Non-interest revenue growth has remained subdued. Trading revenue growth has been muted due to the sluggish South African environment. Global markets flow has remained slow whilst TPS and investment banking volumes have been good, and we expect these trends to continue.

Whilst the overall credit performance remains good we have seen pockets of strain in the CIB South Africa portfolio, construction and the downstream impact thereof on certain business banking clients. Prolonged low growth and low spending in South Africa remains a threat to credit impairment charges. We remind you that in early 2018 we had a large recovery in CIB in West Africa Region which then plateaued the comparative portfolio performance. In 2019 group credit impairment charges are still expected to trend up from 2018 levels but are likely to remain below our 80 to 100 basis points through the cycle target range.

Turning to costs. Whilst the costs associated with the branch closures in South Africa will place pressure on costs in the first half of 2019 we continue to expect positive jaws for the full year. We will provide an update on the branch closure process when we report our interim results in August.

Now turning to our other banking interests. ICBC Standard Bank Plc's revenue remains constrained due to a combination of subdued client activity and low market volatility. In contrast, ICBC Argentina continues to perform well. Liberty, as you would know, provided an update on the operating performance on the 17th May.

Our capital position remains strong and will support a dividend cover at the lower end of our 1.8x to 2.2x cover. Our medium-term targets remain relevant, and I remind you these include the cost to income ratio trending down to low 50 percentile, sustainable headline earnings growth and return on equity in our range of 18% to 20%.

In closing, while we expect the environment in South Africa to improve it is likely to be a slow and bumpy recovery. We will report our 2019 interim results on Thursday the 8th August 2019. I will now take questions. Operator, thank you.

Operator
Thank you very much sir. Ladies and gentlemen, at this time if you do wish to ask a question please press star and then one on your touchtone phone. If you decide to withdraw your question please press star and then two to remove yourself from the queue. Again if you wish to ask a question please press star and then one now. Our first question is from James Starke of SBG Securities. Please go ahead.

James Starke
Hi. Good afternoon, Arno and team. Thank you for the opportunity. Just one question from my side. If you could comment on the trend in customer numbers within PBB SA that you've seen year to date. Obviously we saw the ombudsman complaints for the quarter and it looks very favourable. I'm just wondering about the trends you're seeing and how they're playing out this year. Thank you.

Arno Daehnke
Thanks James. I'll hand over to Barbara for that.

Barbara Bell
Hi James. First time for me, so thanks everyone. From a SA perspective it has been pretty flat client numbers. So, we have seen a little bit of attrition coming through in terms of the portfolio but normal new customer growth coming through, which is allowing for a pretty flat customer portfolio at this stage. So we haven't lost any customers from an SA perspective in terms of primary accounts or asset accounts, customer accounts.

Arno Daehnke
And then in Africa Regions we've seen a slightly continued growth in customer numbers.

Barbara Bell
Africa Regions continue to see increasing customer numbers, although it is at a slightly slower pace than we saw last year.

James Starke
Thank you.

Operator
Thank you. The next question is from Harry Botha of Avior Capital Markets. Please go ahead.

Harry Botha
Hi. Good afternoon everyone. Thanks very much for the update. Just two questions please. Can you give us a sense of how things are going in the Zimbabwean operations? Should we be concerned about any impact on profitability or is it more the foreign currency translation impact? I know you mentioned a through the cycle credit loss ratio target. Has there been any progress towards setting a range post IFRS 9? Should we still work on 80 to 100 basis points range through the cycle? Thanks.

Arno Daehnke
Thanks Harry. That first one on Zimbabwe, there is the FCTR impact. You are quite correct. Around R1.7 billion FCTR impact. We are translating our accounts at a current exchange rate RTGS Dollar to real Dollar of 3.2x. And that clearly is diluting our earnings from that entity so there is obviously a translation headwind as well from that perspective. So there will be an impact on the group's numbers, but obviously in the context of the overall group it's not material relative to the overall group.

Harry Botha

And the profitability of the operations?

Arno Daehnke
Our entity continues to be profitable. We are tracking slightly below expectations, but when we put our budget together we did not expect the current constraints in that entity. But overall the entity continues to deliver.

Harry Botha
Thanks.

Arno Daehnke
Your second part on the credit loss ratio, Harry. I quoted just now the 80 to 100 basis points, and when we spoke last year we indicated we'd put in a new range. We haven't finalised that yet, not because we're not applying our minds. It's just we do want to have our IFRS models properly settling down as opposed to rushing into a guidance range. But I did indicate just now on the call that we expect to be below the lower part of that range, so we expect something below 80 basis points.

Harry Botha
Okay. Thank you.

Operator
Thank you. Ladies and gentlemen, again if you wish to ask a question please press star then one now. Our next question is from Charles Russell of City. Please go ahead.

Charles Russell
Good afternoon. Just a question on the CIB activity in South Africa over the first half of this year. Could you perhaps just comment on that in the context of headwinds like Eskom in the first quarter, elections in the second quarter? How has that been, because there was a bit of an uptick in activity in the second half of last year? Is that still in the first half of this year?

Arno Daehnke
Great. Thanks Charles. I will hand over to Brooks on this.

Brooks Mparutsa
Afternoon Charles. In terms of CIB for South Africa maybe it is best answered in the business units that we have. In terms of TPS and our liability volumes and transaction volumes we've actually seen very good year on year growth in the low double digits. So the performance there has been actually quite pleasing. And in terms of asset growth, particularly in the investment banking, that has been in the mid-single digits. So we have continued to see some growth. And the sectors that have grown in South Africa are financial institutions, power and infrastructure, and a little bit in mining as well as telecoms. I think in as far as headwinds are concerned really where we've seen headwinds is within the global markets business. We are still showing growth year on year, but that is where we have faced the strongest headwinds in our South African business this year.

Charles Russell
Great. Thanks very much, Brooks.

Operator
Thank you very much. Ladies and gentlemen, again if you wish to ask a question please press star and then one now. Sir, it would appear we have no further questions in the queue.

Arno Daehnke
Great. Thanks very much everyone. As I said, I appreciate you dialling in and we're looking forward to having our detailed discussions on the 8th August. Thank you, operator, for facilitating the call.

Operator
Thank you very much sir. Ladies and gentlemen, that then concludes this conference call. You may now disconnect your lines.

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