INTUITION
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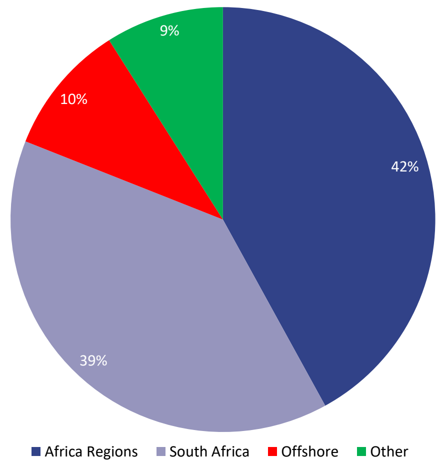
Standard Bank: taking charge

Africa's largest bank by assets, Standard Bank, has established a well-diversified scale across the African continent. The bank's centric focus on Africa is a key differentiator that has driven strong performance over the past and positions the Group to benefit from high potential growth in African markets over the coming years. Amid near-term headwinds and the persistent economic challenges of low economic growth and high unemployment in its home market, recent euphoria over the Government of National Unity (GNU) election outcome presents a positive outlook for Standard Bank, and the banking sector alike. Hopes of accelerated reform and political certainty underpin improved prospects of economic growth.

James Clarke

Standard Bank began in the early 1860s and was a prominent player in financing the development of the diamond fields of Kimberely in 1867 and later, the country's famous gold rush. Today, Standard Bank is Africa's largest bank by assets, serving an active base of close to 19 million clients. The Johannesburg-based lender has a dominant presence across 20 countries in Sub-Saharan Africa and continues to defend its market position in South Africa as one of the country's "big four" banks (Absa, FirstRand, Nedbank, and Standard Bank).

EARNINGS BY GEOGRAPHY



42% of earnings are generated from African countries, far more than a decade ago. This provides Standard Bank with the potential to capitalize on higher economic growth in Africa versus South Africa over the coming years.

SPEED READ

- **Started in the early 1860s, Standard Bank is Africa's largest bank by assets with a strong pan-African presence across 20 countries in Sub-Saharan Africa.**
- **The Bank's African focus is a key differentiator and provides the opportunity to capitalize on potentially higher growth in Africa versus South Africa over the coming years.**
- **Amid near-term cyclical challenges as interest rates remain elevated, Standard Bank stands protected by a well-capitalized balance sheet.**
- **Recent euphoria over the GNU election outcome provides a positive outlook for Standard Bank, and the banking sector alike, as hopes of accelerated reform underpin improving prospects of economic growth.**

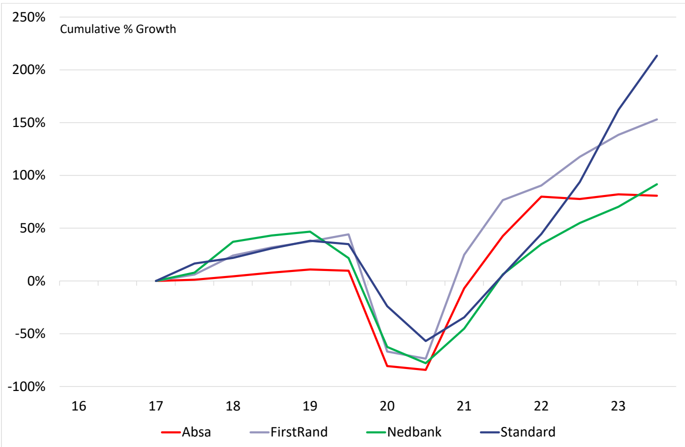
African Purpose

Driven by the purpose statement "Africa is our home, we drive her growth", the Group has positioned itself to capitalize on the growth that is transforming several countries on the African continent. Many African markets are growing at a faster rate than South Africa and Standard Bank continues to allocate capital to these regions. In 2023, the economy of sub-Saharan Africa grew at 3.3%, which was 20 basis points (bps) faster than the 2023 world average. GDP Growth of 3.8% is expected for sub-Saharan Africa in 2024 and is likely to be sustained at this rate over the medium term, according to Standard Bank's CEO, Sim Tshabalala.

> *"Although Standard Bank has moved to diversify its business outside of South Africa, the Bank still holds a dominant position as a leader in its home market."*

Despite the difficulties of currency volatility within some African markets, Standard Bank's Africa Regions division has been a key driver of the Group's performance over the past decade. The division has a higher return on equity (ROE) than the South African business and recorded record earnings in 2023 that grew by 49% (70% in constant currency). As a result, Standard Bank's business outside of South Africa surpassed its home market as the largest contributor of profits in 2023. Africa Regions now make up 42% of Standard Bank's headline earnings, which has increased from 25% in 2016, while South Africa contributes 39%. Importantly, each country within the Group's African regions division is weighted below 16% of the division's profits, highlighting the Bank's diversified business across the African continent.

CUMULATIVE HEADLINE EARNINGS GROWTH



Standard Bank's pan-African presence is a key differentiator that has contributed to the Bank's earnings outperformance relative to its competitors over recent years.

This pan-African presence stands out when compared to their large South African-based competitors. For context, Absa's African exposure makes up roughly 30% of earnings while Nedbank only receives 12% of its earnings from African regions. FirstRand also has a small exposure to other African markets but remains focused on its UK operations. High growth in African markets outside of South Africa has been a key driver of Standard Bank's earnings outperformance relative to its competitors over recent years. Consequently, the Bank has achieved the largest expansion in ROE in the past decade relative to the other big three banks, a key driver of its valuation.

Looking forward, diversified exposure and a well-established market position in many African markets orientates Standard Bank to benefit from the potential for Africa to grow at a faster rate than South Africa over the coming years. This African focus is a key differentiator that provides the Group with a competitive advantage over its banking peers. Additionally, Africa is a relatively unbanked population when compared to South Africa, creating opportunity for faster growth in these markets as financial inclusion continues to grow in Africa.

South African Prospects

Although Standard Bank has moved to diversify its business outside of South Africa, the Bank still holds a dominant position as a leader in its home market. The lender services 24.2% of South Africa's R11 trillion loans and advances market, according to data from the South African Reserve Bank (SARB). This makes it the largest lender in South Africa, when compared to the respective market shares of competitors, Absa (22.5%), FirstRand (20.8%), Nedbank (16.6%), and other (16%). Although largely indexed to mortgages and commercial loans, Standard Bank's lending is well-diversified across household and commercial categories.

While the South African economy has battled persistent economic challenges of low growth and high unemployment, recent euphoria over the Government of National Unity (GNU) creates an improved economic outlook for the Group's home market. Hopes of accelerated reform underpin improved prospects of economic growth, which will drive lending activity in the long run. The Rand has reflected this more upbeat outlook, which has positive repercussions for the financial sector. In the near term, the knock-on effect of a stronger currency has the potential to

Standard Bank is South Africa's dominant banking organisation despite its African footprint.

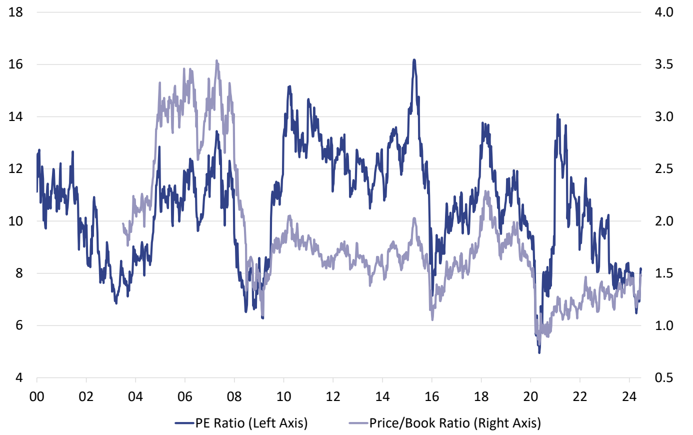
stimulate lending activity in the banking sector as SA banks have recently tightened the taps on credit extension, due to the expected cyclical challenges of rising impairment charges.

Conclusion

Despite generating record earnings and paying record dividends to shareholders, Standard Bank's share price is still lower than the peak it reached in March 2018 of R227 per share. Valuations were compressed to extremely low levels, due to ongoing negativity and deteriorating sentiment towards SA. This is reflected in the chart below, which shows both the Price / Book ratio (a key valuation measure for the banking sector) and the PE Ratio. Simply returning to the average valuation over the past 25 years would imply a share price of R270 per share, upside of 27%. That is before any further earnings growth. This simple analysis is a stark reminder of just how poor sentiment towards SA has been over the past five years, and the opportunity ahead if it turns.

In conclusion, Standard Bank is a fundamentally strong banking operation that is well-diversified across regions and service offering and has established scale and balance sheet strength, which substantiates its investment case. The Bank continues to navigate its way through the near-term cyclical challenges induced by elevated interest rates, but recent euphoria over the GNU election outcome paints a positive picture for South Africa's future. Provided that parties can work cooperatively, the GNU outcome will be positive for the local economy, likely leading to more foreign direct investment and the tailwinds associated with a stronger currency. Overall, this bodes well for Standard Bank, and the banking sector alike.

STANDARD BANK VALUATIONS



On both core valuation measures Standard Bank is cheap relative to its own trading history, a function of the poor sentiment towards SA assets. This has the potential to correct should the GNU be successful in driving faster economic growth.

Standard Bank Headquarters, Rosebank

Our next seminar will be held in September. The topic will be advertised in due course.

Topic: TBC

Natal Midlands	
Date:	12 September, 2024
Venue:	Christ Church Howick, 23 Mare Street, Howick
Morning Time:	10am for 10.30am
Evening Time:	5.30pm for 6pm

Johannesburg	
Date:	10 September, 2024
Venue:	Rosebank Union Church, Cnr William Nichol and St Andrews Road, Hurlingham
Time:	7am for 7.30am

Cape Town	
Date:	n/a
Venue:	SSISA Conference Centre, Boundary Road, Newlands, Classroom 1, 3rd Floor
Time:	7.30am
Venue:	ABRU Motor Studio, Lourensford Wine Estate, Somerset West
Time:	5.30pm for 6pm

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