

Research

28 November 2011 | 28 pages

Standard Chartered

“On The Cusp”

- **Euro-bank De-leveraging** – European banks are amongst the biggest balance sheets in global banking. Based on our global coverage universe plus Canada, European banks account for almost half of the total assets but only a quarter of shareholder equity. Since 2Q11, as the European sovereign debt crisis has unfolded into a broader banking and financial market crisis, European banks’ access to wholesale US dollar funding has got tighter (see Figure 1-2). As European banks withdraw from \$-based businesses outside their core client base, or just generally de-lever, this creates opportunities for North American, UK international and Japanese/Asian/Australian banks. Standard Chartered is one such bank, in our opinion.
- **Transaction Banking** - Between 2010 and 2030, we expect Emerging Asia to be the fastest growing region globally for trade and GDP (both above 12% per annum nominal). Transaction banking and trade finance should track the direction of trade and economic growth in the long term. This business line is also very high margin for the “winners” who enjoy cost-income ratios and pre-tax ROEs of c50%. Scale economies from IT and a global/regional network, makes it a “defendable” business for the profitable market leaders. StanChart CFO recently called cash mgt and trade finance the group’s best businesses.
- **Costs: Diverging Trends** – In a tight labour market, consumer banking staff costs remain under pressure. Unemployment in 2011 is close to zero in the key financial hubs such as Singapore and Hong Kong; meanwhile in large domestic markets such as China wage inflation is running in the mid-teens. StanChart’s 1H11 CB cost growth reported was +7% yoy and adjusted for one-off items was closer to +10% yoy. In Wholesale banking, lower revenues versus budget have driven pay and job cuts. In general global wholesale banks are quietly trimming WB staff across Asia. StanChart, overall, is still looking to raise headcount and should be able to capitalise on the industry dislocation by hiring talent more cheaply.
- **Credit: DM Focus, Mean Reversion Risks** – StanChart has more DM than EM exposure, albeit it is Asian DM. Three countries account for half of total loans: Hong Kong, Singapore and Korea. US\$ assets are about half of group assets. Indian rupee exposure is 12% of FX exposure but only c6% of group assets. The majority of the group’s exposure is in US\$ or linked currencies such as the HK\$. For a group that wants to be the Best Emerging Market Bank in the world it actually has relatively limited “real” EM exposure – StanChart is not an ItauUnibanco or Sberbank.
- **Buy the Shares** - Standard Chartered is geared to growth markets in Asia, the Persian Gulf and Africa and has structural balance sheet advantages, such as a solid capital base and strong funding, including US\$ liquidity. Financial markets are having a difficult 2H11, and India continues to be troubled. We have a target price of £17.50.

See Appendix A-1 for Analyst Certification, Important Disclosures and non-US research analyst disclosures.

■ Equities

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Europeans' Dollar Deleveraging & Re-Shaping of Global Banking

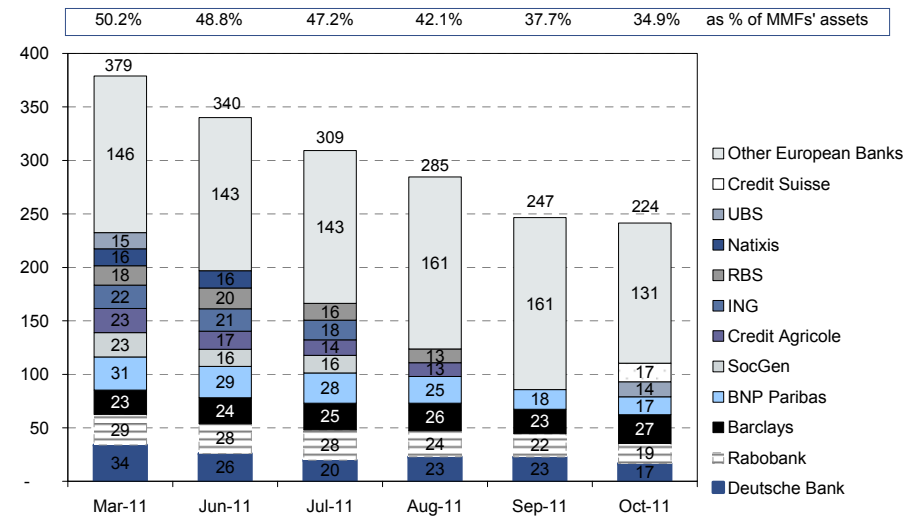
European banks are amongst the biggest balance sheets in global banking. Based on our global coverage universe plus Canada, European banks account for almost half of the total assets but only a quarter of shareholder equity. Since 2Q11, as the European sovereign crisis has unfolded into a broader banking and financial market crisis, European banks' access to wholesale US dollar funding has got tighter (see Figure 1-2). As European banks withdraw from \$-based businesses outside their core client base, or just generally de-lever, this creates opportunities for North American, UK international and Japanese/Asian/Australian banks. Standard Chartered is one such bank, in our view.

Figure 1. 3M Eur/US Basis Swap



Source: Bloomberg

Figure 2. Top 10 US MMFs' Exposure to European Banks (\$bn)



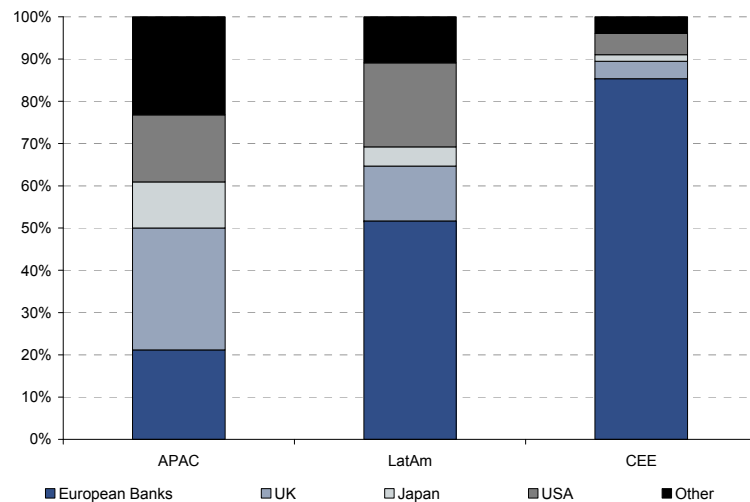
Source: Fitch, CIRA

StanChart Group CFO Richard Meddings wrapped up the 13-17 November analyst trip with some bullish comments on the outlook for the group: StanChart is "on the cusp of a remarkable few years", the group is "in great shape", "feel very good about 2011" and have "positive momentum" going into 2012. CFO Meddings noted that StanChart was one of the few banks that did not need to change their business model, had no problems with funding and had lots of market share gain opportunities as competitors withdrew. StanChart is still targeting mid-teens (eg 14-16%) ROE medium term but this is unlikely to be achieved in 2012-13 absent a pick up in wealth management or interest rates; 12-13% ROEs (on book) sounds more realistic to us. The group believes it can self-fund c12-13% RWA growth, as in 2011.

European Banks' Global Impact

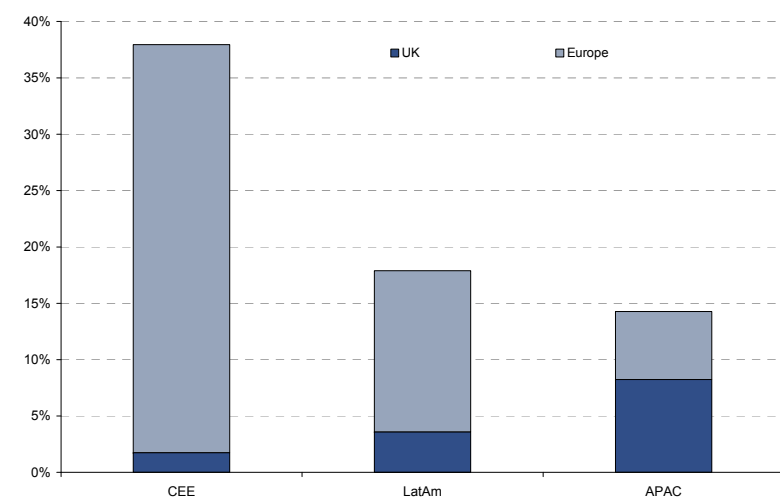
European bank lending is c35% of GDP for emerging Europe and in the teens for Lat Am and Asia. If we consider the mix of cross-border lending at a continental level, Europe dominates CEE lending whereas foreign bank lending in Asia is more diversified. The headwinds for Asian economies from deleveraging by Europe ex-UK banks are much less of an issue at the aggregate level than it theoretically could be in CEE (or Latin America). Less than a fifth of foreign bank claims to Asia is from Europe ex-UK. The largest single "foreign" presence is UK international banks. Other Asian, American and Japanese banks are also present. Until the mid-1990s, Japanese banks were the biggest foreign players in Asia.

Figure 3. Global Banks Claims as a % Total Cross border Claims by Global Regions, June 2011



Source: BIS and Citi Investment Research and Analysis

Figure 4. European Banks Claims as a % of Region GDP, June 2011



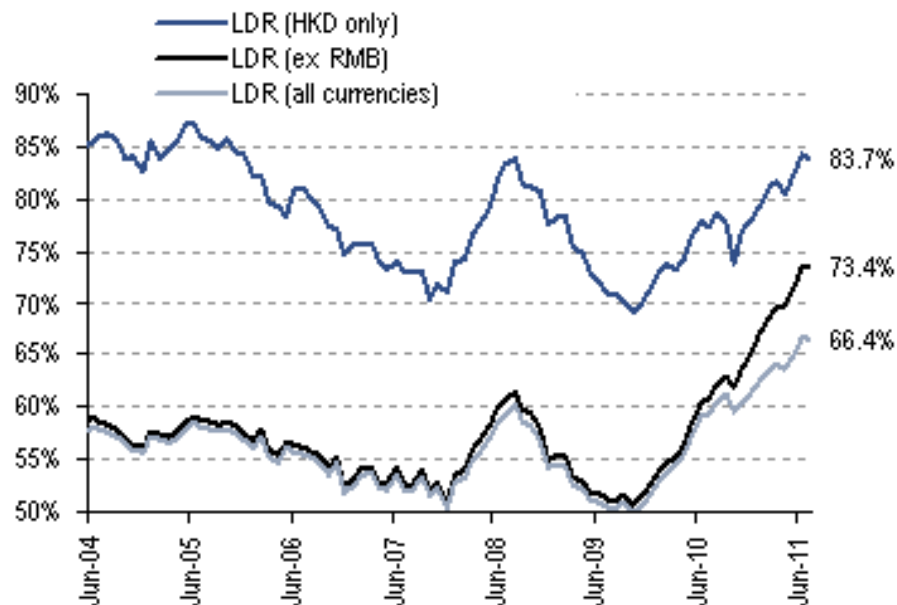
Source: BIS and Citi Investment Research and Analysis

French banks have pulled back from the Asian syndication market and from "club deals". There is anecdotal evidence of a Euro pull back in trade finance and asset-based finance eg shipping, aviation. Commodity trading clients are also seeing some pull back by the Euro banks that dominate this segment and prices are up from 3Q11. Global corporate client re-pricing is slow by contrast. US banks well funded and lending to local banks and MNCs – if this slows we could get a \$ crunch in some local markets, especially the likes of India and Indonesia where there is a considerable gap between local currency and US\$ funding rates.

Local Banks Are In A Different Market

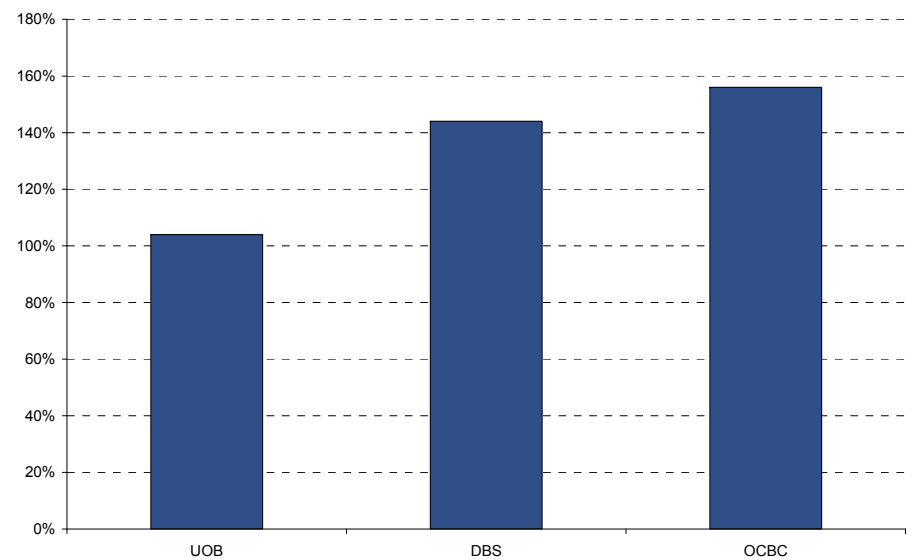
Local banks remain well funded so local corporate clients appear not to face a credit crunch in local currency. But headline LDRs don't tell the full story: in HK, underlying LDRs are rising faster than headline LDRs due to growth in RMB deposits. Other regional Asian banks, such as DBS, could be given an on opportunity to implement their super-regional strategy by the withdrawal of the Euros; although Singaporean banks are also facing funding pressure in non-SGD funding. **StanChart – and HSBC – are in an unusual position relative to Asian regional or local banks in having a strong FX as well as local currency funding base and a far-reaching regional and international network.**

Figure 5. Hong Kong HKD and ex RMB LDRs, 1H04 – 1H11 (%)



Source: HKMA, CIRA

Figure 6. Singapore Bank USD LDRs, 1H11 (%)



Source: Company Reports, CIRA

Other banks likely to step into gaps left in the market by any withdrawal of Euro capacity? Japanese banks, like UK international banks, have low LDRs (c75% on average). MUFG recently commented that its lending in Asia is growing strongly, with overseas lending recently growing at a c25% annualized rate. It has very stable FX funding. After years of retrenchment, the Japanese banks may have the scope to grow. We expect MUFG to be a winner from the Euro bank deleveraging theme. Chinese banks would likely want to step into any gaps left by withdrawing Europeans, but most do not have sufficient USD funding overseas.



Focus on GTS/FX

Banking on Trade: Trade Finance & Long Term Growth

- **Trade Transformed** –Between 2010 and 2030, we expect Emerging Asia to be the fastest growing region globally for trade and GDP (both above 12% per annum nominal).
- **Transaction Banking and Trade Finance will Benefit** - Should track the direction of trade and economic growth in the long term. This business line is also very high margin for the “winners” who enjoy cost-income ratios and pre-tax ROEs of c50%. Scale economies from IT and a global/regional network make it a “defendable” business for the profitable market leaders. **StanChart CFO recently called cash mgt and trade finance the group’s best businesses.**
- **Scale and Access to US\$ Funding Key** - The “winners” this time around are banks with strong dollar funding – two-thirds of international trade is priced and settled in US\$, even more in Asia – in addition to the corporate client base, international network, IT platforms, relevant trade-related business skills and an appetite for credit risk. The winners are typically US and UK International banks. Local and regional banks typically lack the scale and the access to US\$ funding to compete head-on with the global banks.
- **Standard Chartered Most Geared to Transaction Banking** - At a stock level, we think Standard Chartered is the best way to play the transaction banking theme:
 - (1) greatest gearing to the business line (GTS 18% of 1H11 revenues, GTS + FX 27%);
 - (2) greater focus on Asia (two-thirds of Wholesale Banking revenues), and
 - (3) a distinctive presence in Africa, the next frontier for GTS growth.
- **Winners & Losers** - Standard Chartered and HSBC should be among the “winners” in transaction banking (1H11 revenues +20% yoy), while JP Morgan and Deutsche Bank’s recent results highlight their momentum. The “losers” are mostly Euro banks (ex-Deutsche), which are forcibly de-leveraging, particularly in US\$-denominated assets such as trade.
- **Short-Term Shocks** - Events of 2011 are an echo of 2009. Economic growth is slowing, albeit not nearly as fast as a couple of years ago, and margins and market shares are moving up. In 2009, trade finance revenues did not track trade volumes.



StanChart derives c17-18% of its group revenues from GTS ...

... and was growing these revenues at c20% yoy in 1H11

Adding FX to GTS, linked businesses, increases StanChart's gearing to 26-27%

Figure 7. GTS Total Revenue and GTS as % Total Group Revenue, 2008 – 1H11 (USD Millions)

	2008		2009		2010		1H11	
	GTS Revenue	% Group Revenue	GTS Revenue	% Group Revenue	GTS Revenue	% Group Revenue	GTS Revenue	% Group Revenue
Standard Chartered	2,663	19.1%	2,537	16.7%	2,770	17.2%	1,552	17.7%
HSBC	9,707	11.9%	7,399	11.2%	8,209	12.0%	4,779	13.4%
Citi	9,620	18.2%	9,789	12.2%	10,034	11.6%	5,213	12.9%
JP Morgan	10,782	14.8%	9,986	9.2%	10,013	9.6%	4,870	9.4%
Deutsche Bank	3,995	9.0%	3,757	9.3%	4,952	12.0%	2,534	9.3%
RBS	3,890	10.3%	3,979	7.8%	4,098	9.6%	1,763	7.7%

Source: Company Reports(including for Citi) (based on companies with largest GTS revenues globally, that disclose relevant segmental data)

Figure 8. GTS Revenue Growth, 1H10-1H11 (USD Millions)

Total GTS Revenues	1H10	2H10	1H11	hoh	yoy
Standard Chartered	1,282	1,488	1,552	4.3%	21.1%
HSBC	3,997	4,212	4,779	13.5%	19.6%
Citi	4,939	5,095	5,213	2.3%	5.5%
Deutsche Bank	2,457	2,496	2,534	1.6%	3.2%
JP Morgan	4,940	5,073	4,870	-4.0%	-1.4%
RBS	2,008	2,090	1,763	-15.6%	-12.2%

Source: Company Reports (incl. for Citi)

Figure 9. GTS and FX Total Revenue and GTS and FX as % Total Group Revenue, 2008 – 1H11 (USD Millions)

	2008		2009		2010		1H11	
	GTS + FX Rev	% Group Revenue	GTS + FX Rev	% Group Revenue	GTS + FX Rev	% Group Revenue	GTS + FX Rev	% Group Revenue
Standard Chartered	3,857	27.6%	3,886	25.6%	3,970	24.7%	2,321	26.5%
HSBC	13,549	16.6%	10,378	15.7%	10,961	16.1%	6,296	17.6%
RBS	6,352	16.8%	6,022	11.8%	5,490	12.9%	2,496	10.9%

Source: Company Reports, CIRA Estimates



Pure trade finance revenues are smaller, and only material for StanChart at c8-9%

Trade revenues growing double-digits 1H11 yoy and higher margins should help 2H11

Figure 10. Trade Finance Revenue and Trade Finance as % Total Group Rev, 2008 – 1H11 (USD Millions)

	2008		2009		2010		1H11	
	Trade Finance Rev	% Group Rev	Trade Finance Rev	% Group Rev	Trade Finance Rev	% Group Rev	Trade Finance Rev	% Group Reve
Standard Chartered	1,353	9.7%	1,289	8.5%	1,467	9.1%	767	8.8%
HSBC	1,655	2.0%	1,682	2.5%	2,123	3.1%	1,311	3.7%
Deutsche Bank	839	1.9%	789	2.0%	1,040	2.5%	532	1.9%
RBS	386	1.0%	464	0.9%	494	1.2%	242	1.1%

Source: Company Reports, CIRA Estimates. Note Deutsche Trade Finance estimated as 21% of GTS.

Figure 11. Trade Finance Revenue Growth, 1H10-1H11 (USD Millions)

	1H10	2H10	1H11	hoh	yoy
HSBC	1,126	1,110	1,311	18.1%	16.4%
Standard Chartered	691	776	767	-1.2%	11.0%
Deutsche Bank	516	524	532	1.6%	3.2%
RBS	235	259	242	-6.8%	2.7%

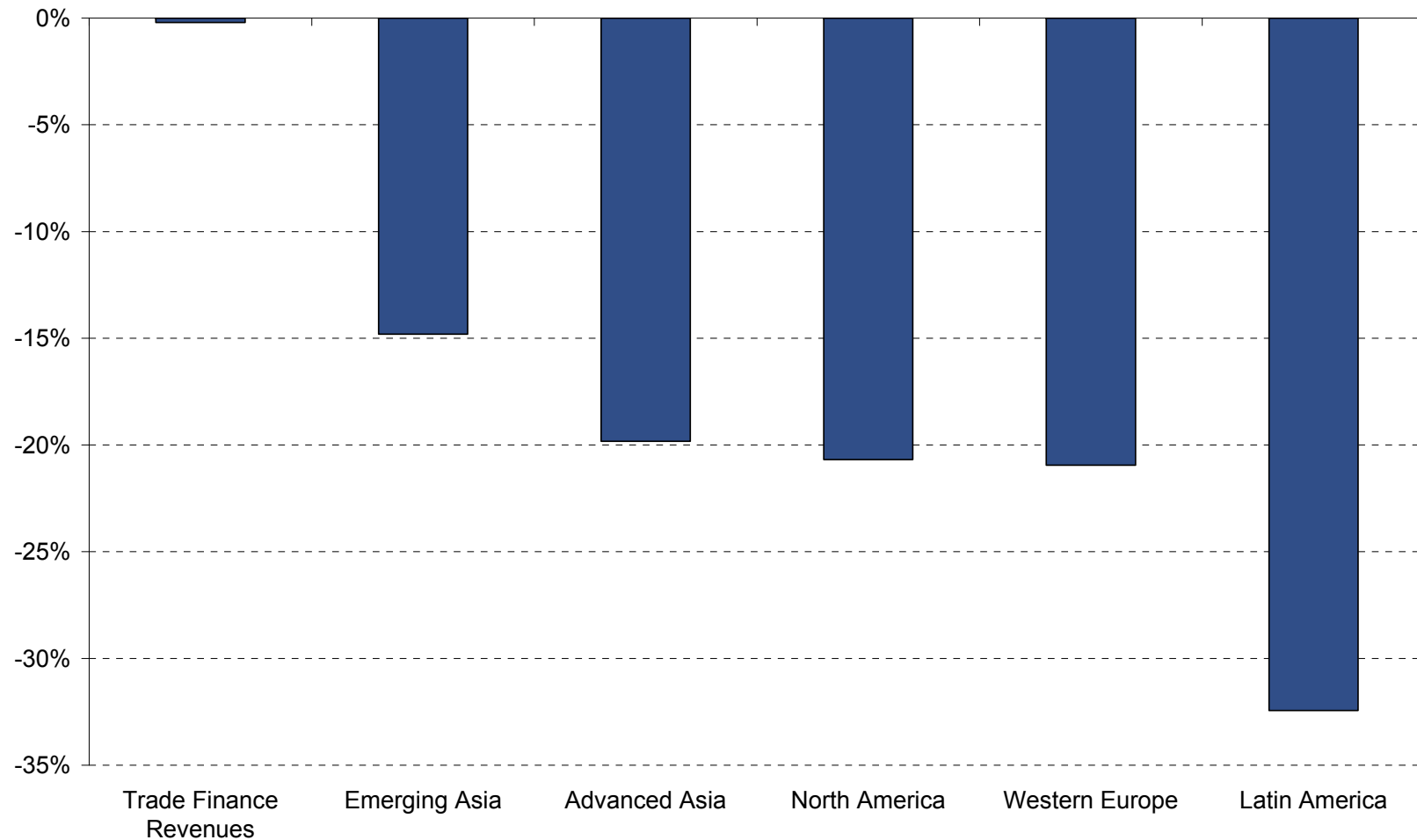
Source: Company Reports, CIRA Estimates.



Trade Finance vs Trade Flows

■ In 2009, trade finance margins and market shares expanded to offset the collapse in trade volumes

Figure 12. YoY Growth in Trade by Region and YoY Growth in Trade Finance*, 2008-09 (%)

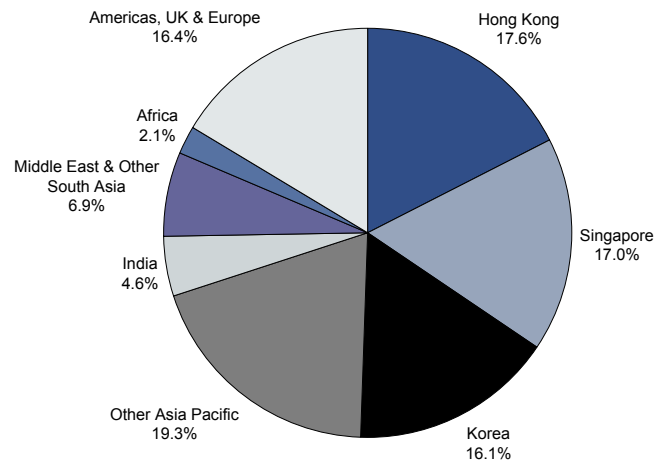


Source: Company Reports, WTO, CIRA Estimates. *Note: Banks used for Trade Finance revenue growth were Deutsche Bank, HSBC, RBS and Standard Chartered

Credit Exposure: Largely Asian DM, Main Risk Mean-Reversion

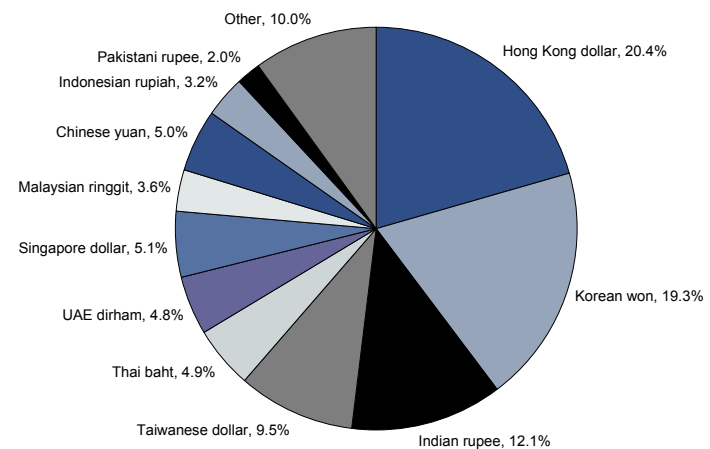
StanChart has more DM than EM exposure, albeit it is Asian DM. Three countries account for half of total loans: Hong Kong, Singapore and Korea. US\$ assets are about half of group assets. Indian rupee exposure is 12% of FX exposure but only c6% of group assets. The majority of the group's exposure is in US\$ or linked currencies such as the HK\$. For a group that wants to be the Best Emerging Market Bank in the world, and often described as racy in credit selection and structuring by competitors, it actually has relatively limited "real" EM exposure – StanChart is not an ItauUnibanco or Sberbank.

Figure 13. Standard Chartered Loan Book by Geography, 1H11 (%)



Source: Company Reports

Figure 14. Standard Chartered Principle Structural Foreign Exchange Exposures*, 1H11 (%)



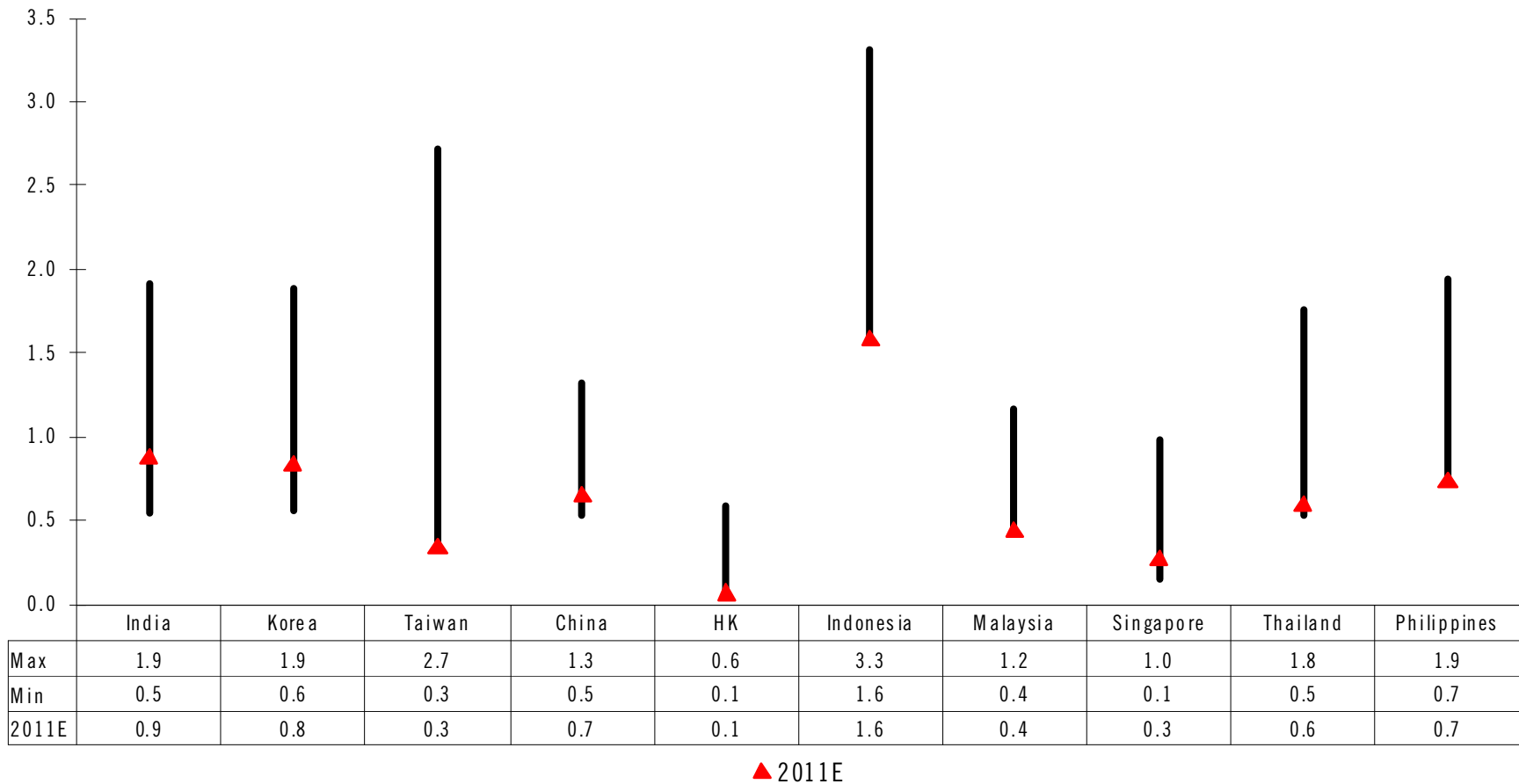
Source: Company Reports. *Note: Net of Investment Hedges.

StanChart management confident: "not seeing any stress in portfolio", "forward indicators stable". In wholesale banking, the only sector concentration in "early alerts" was in Indian telco (an end 1H11 decision to increased watchfulness on the Indian telco book). StanChart expect no extra material impairments, or recoveries, for now in India. Telco accounts for the largest part of the Indian loan book (at c20%). Exposure to power and airline sectors is limited. Reiterated they had zero GIIPS exposure. And in Asian real estate sector, their LTVs are low. Still sees a good market for selling down large loans, mainly to Asian banks.

Credit Costs At Cyclical Lows

■ Across Asia, 2011E system credit costs are at the lower end of experience for the current / last economic cycle

Figure 15. Asian Banking Cycles: Credit Costs % - Limited Room to Improve

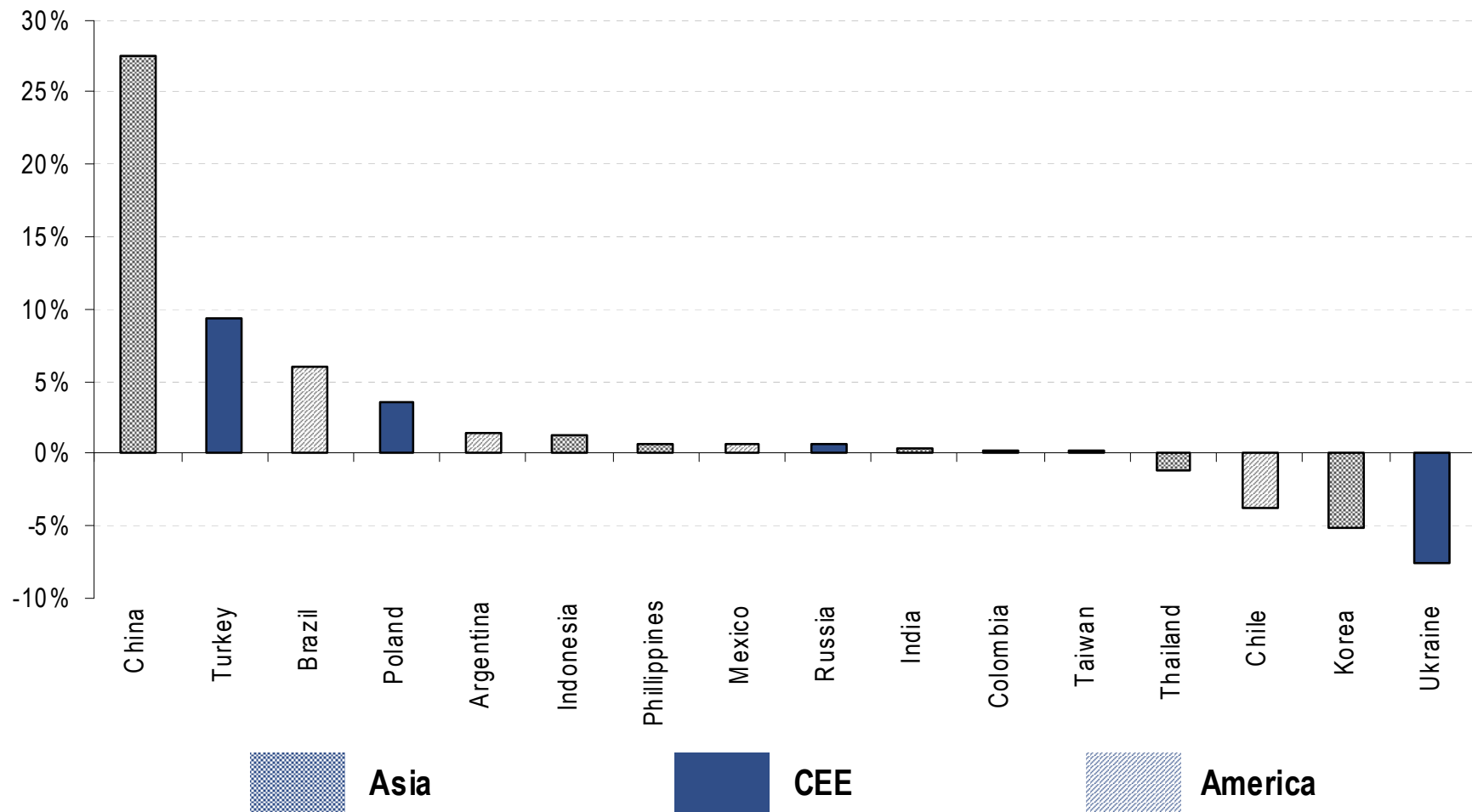


Source: Citi Investment Research and Analysis

Tracking Risky Credit Growth

■ Only China – and Hong Kong – have experienced rapid increases in leverage since 2008

Figure 16. Total Loans-to-GDP, % Change 2008-10

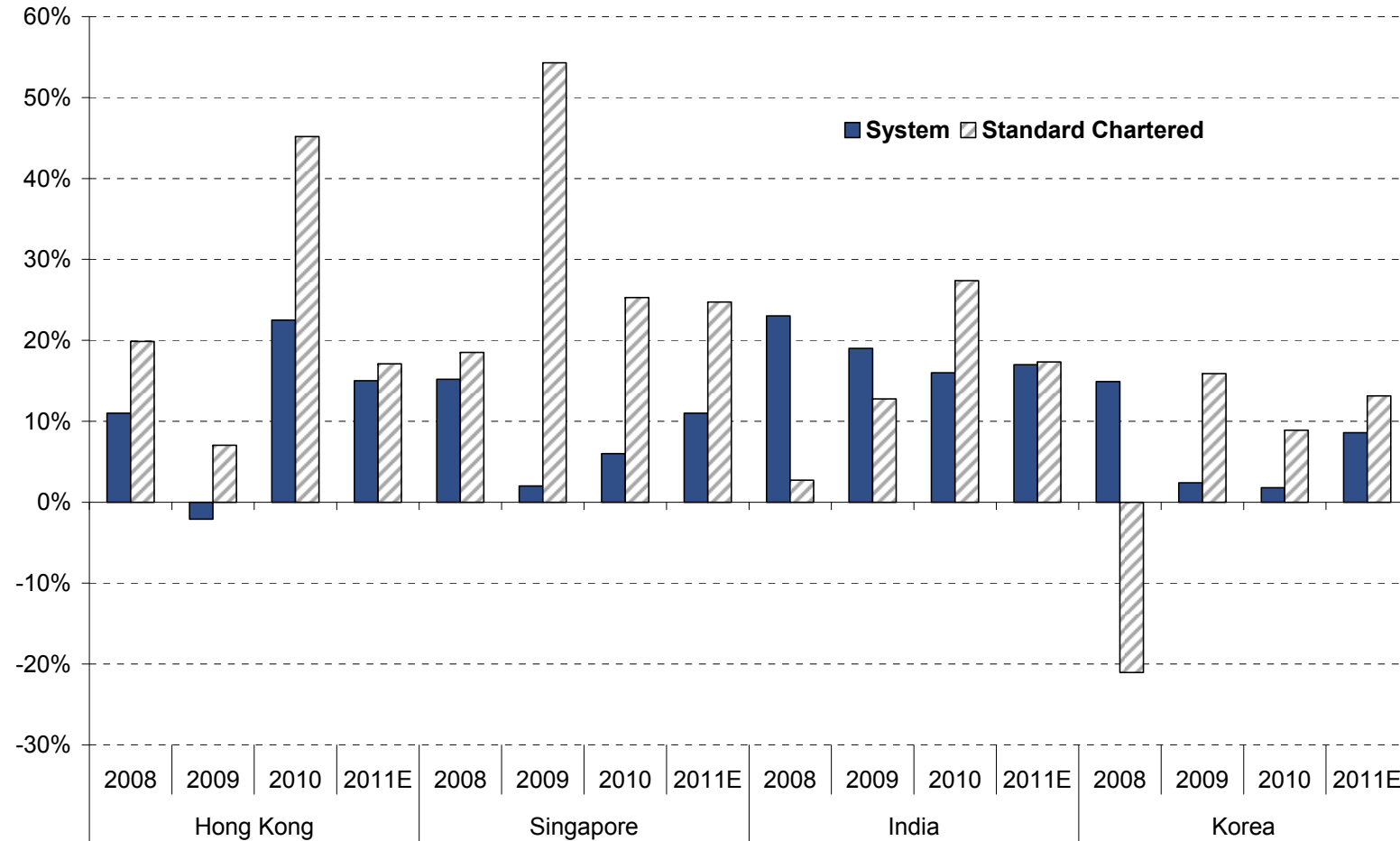


Source: Local Central Banks, IMF and CIRA Estimates

StanChart Outpaces System Growth in Hubs – Lags in India, Korea

■ In 2009, trade finance margins and market shares expanded to offset the collapse in trade volumes.

Figure 17. Standard Chartered Loan Growth vs System Loan Growth, 2008–11E (%)

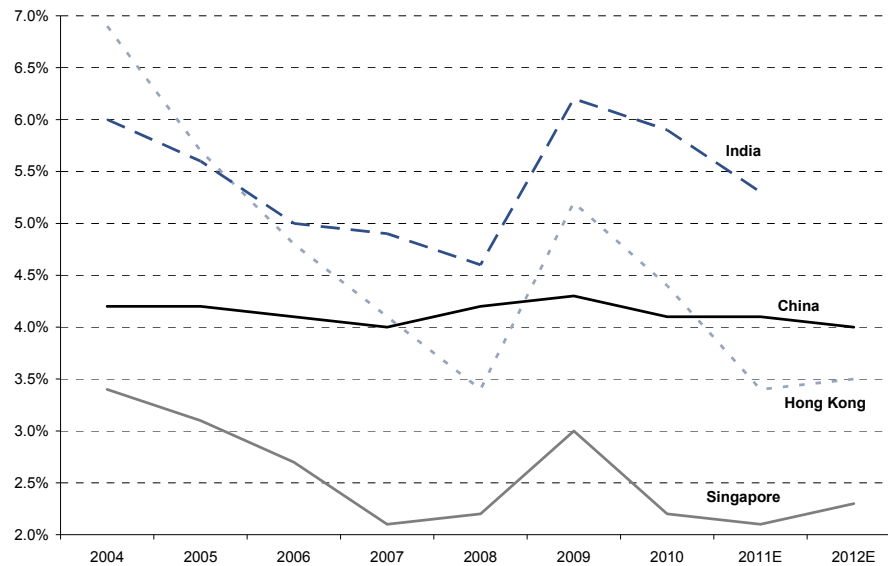


Source: CEIC, Company Reports, CIRA

Costs (1) – Consumer Banking Inflation

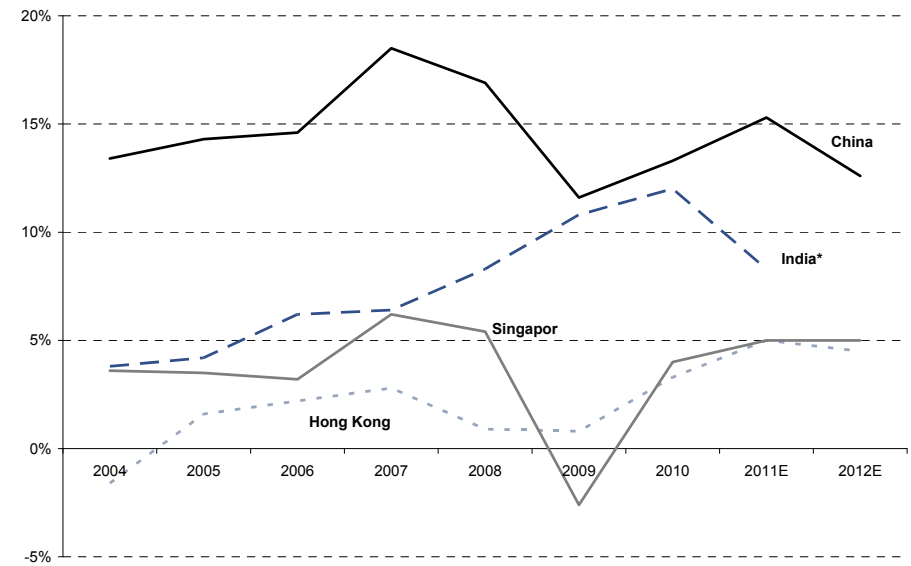
In a tight labour market, consumer banking staff costs remain under pressure. Unemployment in 2011 is close to zero in the key financial hubs such as Singapore and Hong Kong, while in large domestic markets such as China wage inflation is running in the mid-teens. StanChart's 1H11 CB cost growth reported was +7% yoy and adjusted for one-off items was closer to +10% yoy.

Figure 18. Standard Chartered – Unemployment in Major Markets, 2004–12E (%)



Source: CEIC, DataStream, CIRA

Figure 19. Standard Chartered – Nominal Wage YoY Growth*, 2004–2012E (%)



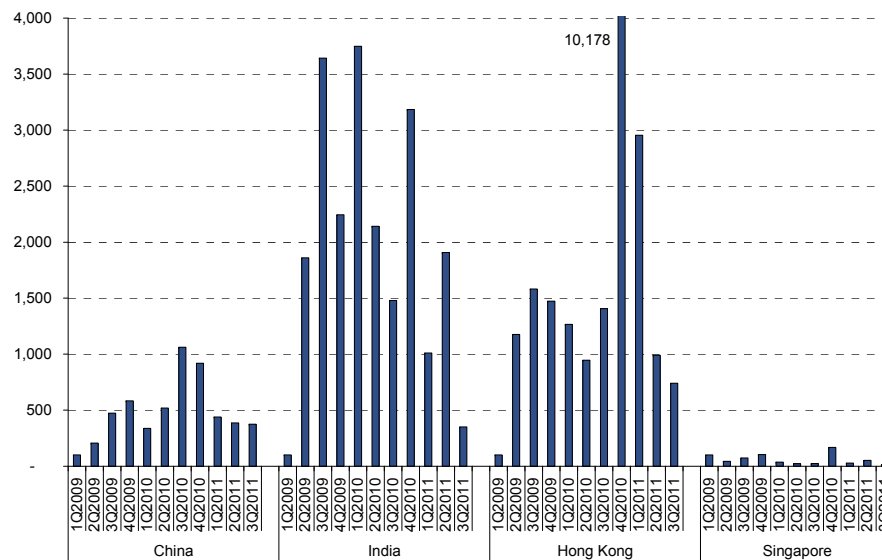
Source: CEIC, DataStream, CIRA. * Note: Nominal Wage Growth in India not available, so CPI used.

StanChart are trying to maintain CB cost focus via greater use of automation and hubbing/offshoring activities, and moving staff into advisory roles.

Costs (2) – Wholesale Banking Cuts

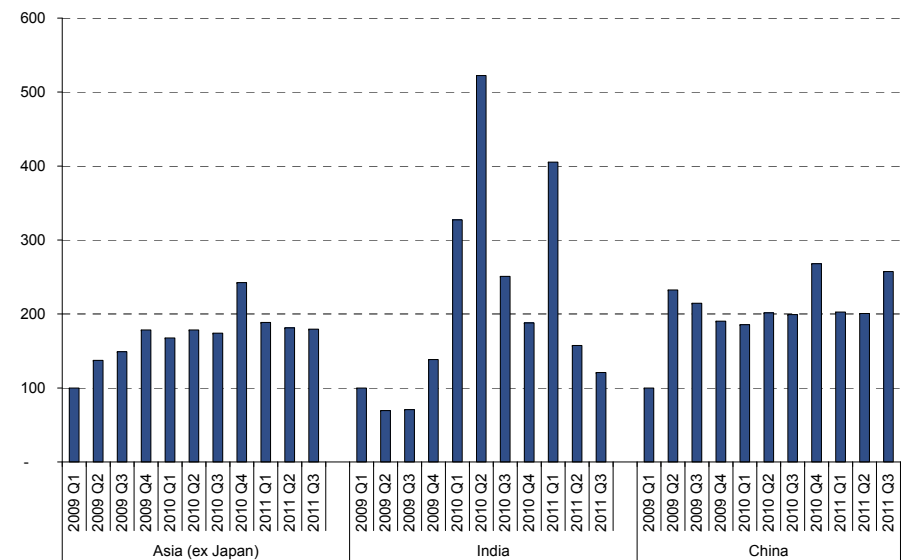
The El Dorado for bankers of 2009-10 is looking more and more like London and New York: job cuts and bonus cuts are topic du jour in Mumbai, Shanghai and elsewhere. Staff cuts in Mumbai have come from likes of BAML, BNP, BARC and Nomura. Dealogic ytd data shows Indian ECM is down 67% yoy, M+A down 44% yoy and DCM -25%. And low revenues = lower pay, fewer jobs. Of course some bankers are still in demand – Chinese-speaking, client-facing bankers suffer least - but in general global banks are quietly trimming staff across Asia. The large jump in business in 2009 and 2010 has not followed through into 2011 and many banks are now below budget.

Figure 20. ECM Volume (1Q2009 = 100), 1Q2009–3Q2011



Source: Dealogic, CIRA

Figure 21. M&A Volume (1Q2009 = 100), 1Q2009 – 3Q2011



Source: Dealogic, CIRA

Banks are looking to cut costs in other ways too: for instance, in HK moving bankers from Central to Quarry Bay at the eastern end of the MTR line helps save HK\$... Back in Central, morale in the Main Building is low as HSBC looks to cut 3k out of 23k HK staff. The shock from HSBC, a veritable HK institution, cutting staff goes deeper than similar action at US banks. **StanChart, overall, is still looking to raise headcount and should be able to capitalise on the industry dislocation by hiring talent more cheaply.**



3Q11 IMS & 1H11 Results

- **Confident 9M11 IMS** – Management noted that, "Income in the first nine months of 2011 has grown by a high single-digit percentage over the first nine months of 2010. Over the same period, operating profits before tax grew at a double-digit rate. Income growth continues to exceed cost growth. Credit quality remains good in both businesses and loan impairment for the Group overall was slightly below the first half run rate. The Group is in excellent shape and well positioned in growth markets." **Our conclusion: revenues look a touch light versus consensus while costs and asset quality are better.**
- **Wholesale Bank** – Financial Markets income was ahead of the level seen in 3Q10, boosted by strong FX & rates volumes. "Own Account" income was up on the 1H11 run-rate. Cost-income jaws were negative in 9M11, with 3Q11 expenses in-line with the 1H11 run-rate. Provisions remained low.
 - **Transaction Banking** income was ahead of the 1H11 run-rate and showed double-digit growth over 3Q10, boosted by improving margins in cash management and in trade finance. Trade volumes have not slowed in the third quarter.
 - **Corporate Finance** income was ahead of 3Q10.
 - **Principal Finance** income was weaker.
- **Consumer Bank** – Income was up by a double-digit rate over 3Q10, cost-income jaws remained positive in the first 9 months of 2011. Expenses were ahead of first-half run rate due to non-recurrence of a 1H11 cost and increased investment.
 - **Mortgage income** growth was weaker (less than 1H11 run rate) as margins remained under pressure.
 - **Deposit income** was up on the first half run rate.
 - **SME** saw good growth, in particular in trade, FX and cash management.
 - **Wealth management** was slightly weaker (below first-half run rate) as a result of weaker investor sentiment.



CB strong result driven by double-digit top-line growth and better than expected operating and credit costs. HK and Other Asia-Pacific is strong. Product revenue strength is focused on unsecured lending (+16% yoy; \$1.1bn), wealth management (+23%; \$0.7bn) and deposits (+21%; \$0.7bn).

WB revenues increased 8% yoy, in-line with Citi. A small uptick in provisions yoy explains the PBT miss. Client income accounted for over 80% of WB income, and increased 9% yoy. StanChart's WB has a greater reliance on client revenues, relative to trading income, compared to global investment banks

Figure 22. Standard Chartered – Consumer Bank P&L, 2H09–1H11 (USD in Millions)

Consumer Bank	2H09	1H10	2H10	1H11	% HoH	% YoY	% vs CIRA
Total Revenues	2,944	2,912	3,167	3,337	5%	15%	1%
Operating Costs	(1,929)	(1,966)	(2,210)	(2,109)	-5%	7%	-2%
Pre-Provision Profit	1,015	946	957	1,228	28%	30%	7%
Bad Debts	(489)	(299)	(279)	(211)	-24%	-29%	-18%
Other	(7)	-	(8)	(4)	-50%		-33%
Trading Profit	519	643	670	1,013	51%	58%	15%

Source: Company Reports and CIRA Estimates

Figure 23. Standard Chartered – Wholesale Bank P&L, 2H09–1H11 (USD in Millions)

Wholesale Bank	2H09	1H10	2H10	1H11	% HoH	% YoY	% vs CIRA
Total Revenues	4,264	5,012	4,967	5,427	9%	8%	0%
Operating Costs	-1,938	-2,357	-2,483	-2,568	3%	9%	0%
Pre-Provision Profit	2,326	2,655	2,484	2,859	15%	8%	0%
Bad Debts	-423	-138	-167	-201	20%	46%	19%
Other	-76	-47	-17	-68	300%	45%	112%
Trading Profit	1,827	2,470	2,300	2,590	13%	5%	-2%

Source: Company Reports

At a country level, the stand out performance was Hong Kong. HK pre-tax profits are the biggest single country contributor to the group result, well ahead of Singapore and a diminished India. HK 1H11 WB revenues increased 33% yoy to \$889m. HK 1H11 CB revenues increased 23% yoy to \$642m.

By product, the two WB growth areas are Transaction Banking, +21% yoy to \$1.5bn and Financial Markets +14% yoy to \$2.0bn. Within Financial Markets, revenue strength is focused on FX (+19% yoy, \$769m) and Commodities & Equities (+93%, \$319m).

Figure 24. Standard Chartered – PBT by Geography, 1H10–1H11 (USD Millions)

	1H10	2H10	1H11	hoh	yoy
Hong Kong	510	593	790	33%	55%
Singapore	419	299	465	56%	11%
Other Asia Pacific	579	504	846	68%	46%
Korea	149	239	193	-19%	30%
UK and Americas	137	96	244	154%	78%
Africa	311	248	291	17%	-6%
India	624	573	378	-34%	-39%
MESA	400	441	429	-3%	7%
Total	3,129	2,993	3,636	21%	16%

Source: Company Reports

Figure 25. Standard Chartered – Wholesale Banking Revenue split by Product, 1H10–1H11

USD in Millions	1H10	2H10	1H11	hoh	yoy
Lending and portfolio man.	465	403	435	8%	-6%
Transaction banking	1,282	1,488	1,552	4%	21%
Global markets	3,265	3,076	3,440	12%	5%
- Financial markets	1,711	1,592	1,951	23%	14%
- ALM	488	424	431	2%	-12%
- Corporate finance	932	778	912	17%	-2%
- Principal finance	134	282	146	-48%	9%
Total	5,012	4,967	5,427	9%	8%
Financial markets income	1,711	1,592	1,951	23%	14%
FX	646	554	769	39%	19%
Rates	512	325	450	38%	-12%
Commodities and Equities	165	246	319	30%	93%
Capital markets	233	308	271	-12%	16%
Credit and other	155	159	142	-11%	-8%
Own Account	949	997	991	-1%	4%
Client Account	4,063	3,970	4,436	12%	9%

Source: Company Reports and CIRA Estimates



Valuation

Hong Kong, Other Asia Pacific (eg Asean, Taiwan, China) and India are the key value drivers; with Singapore a key hub.

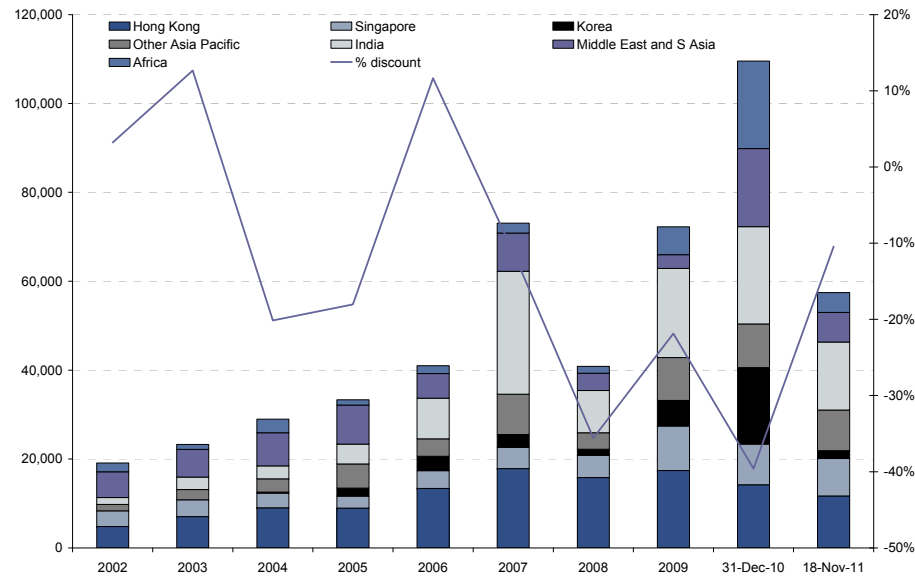
Figure 26. Standard Chartered – SOTP's Valuations (USD Millions)

USDm FY11e	Loans	Net Income	Citi* Implied PE	Implied Value
Hong Kong	50,960	1,279	14.4	18,405
Singapore	49,063	703	11.7	8,236
Korea	45,335	275	7.3	2,009
Other Asia Pacific	56,066	1,155	16.1	18,636
India	12,601	540	26.6	14,369
Middle East and S Asia	19,159	801	8.3	6,623
Africa	5,869	445	12.3	5,494
Americas, UK & Europe and Other	47,510	-670	14.2	(9,504)
Total of divisions (USDm)	286,562	4,529		64,268
Per Share (USD)				27.0
Per Share (GBP)				17.5
Market Value \$m				46,785
Difference (USDm)				17,483
Difference (%)				37%

Source: Citi Investment Research and Analysis. *Note: PE's based on Citi's target prices.

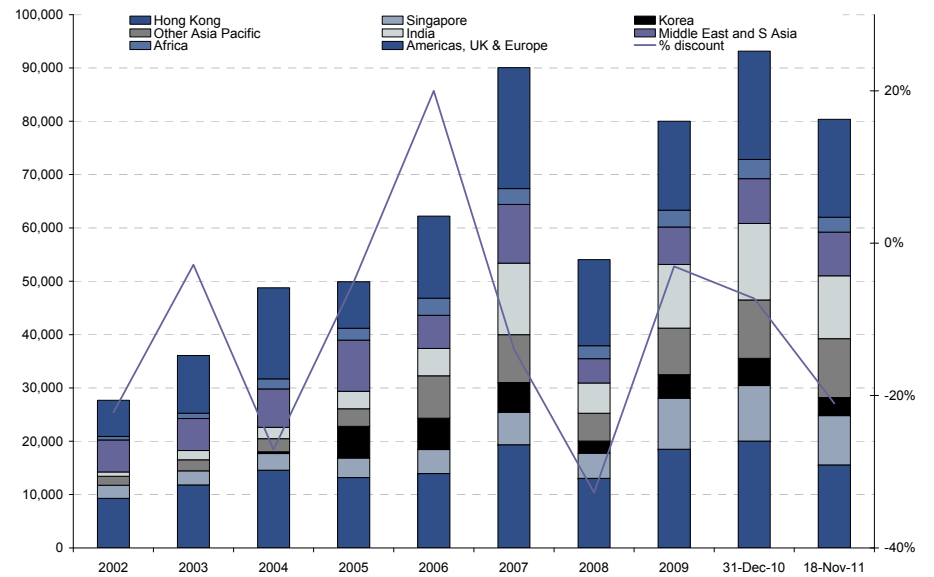
Standard Chartered's share price has fallen by 26% YTD, however peer banks have fallen even further. Standard Chartered remains at a discount to its parts using both PE and PBV SOTP's valuation methodologies.

Figure 27. Standard Chartered – Sum of the Parts (PE)



Source: DataStream, CIRA

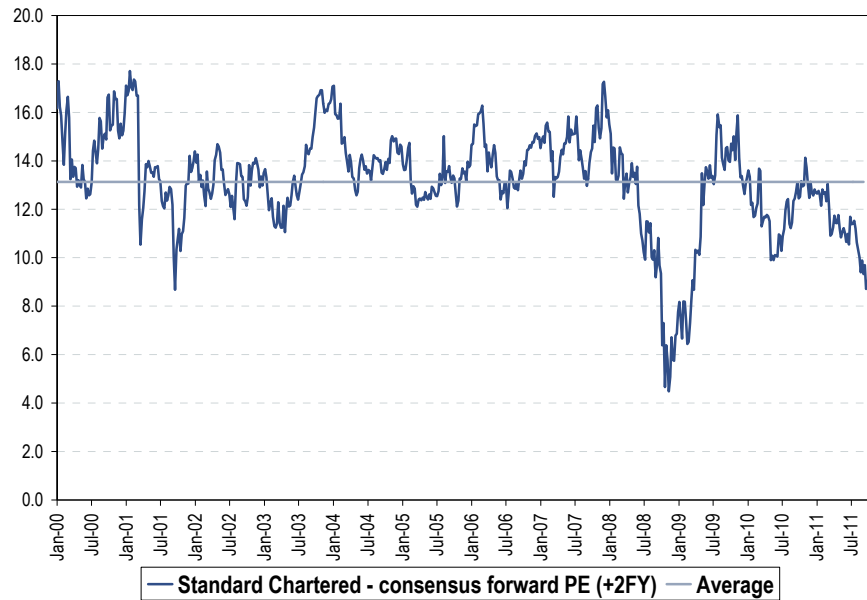
Figure 28. Standard Chartered – Sum of the Parts (PBV)



Source: DataStream, CIRA

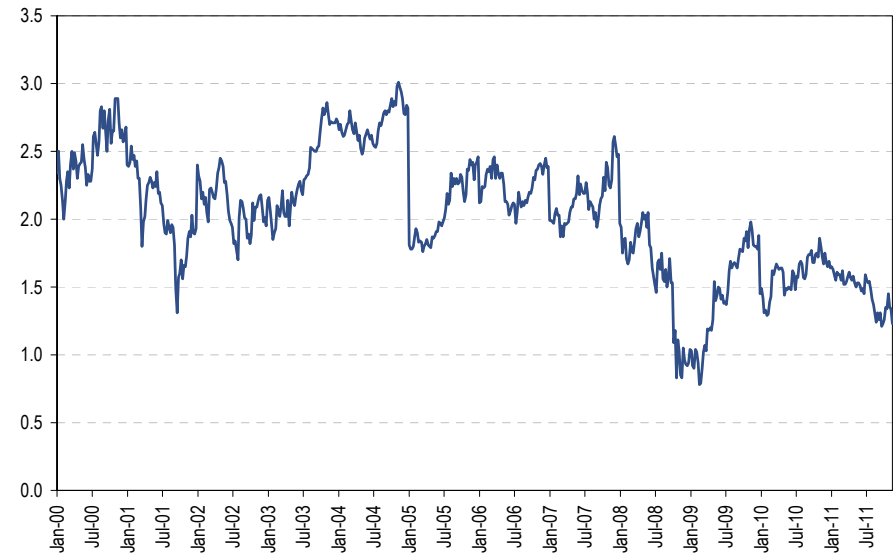
Standard Chartered is trading at a PE of 10x and a PTBV of 1.3x, this is below both the historical PE and PTBV.

Figure 29. Standard Chartered Historical PE, 2000 - 11



Source: DataStream, CIRA

Figure 30. Standard Chartered Historical PTBV, 2000 - 11



Source: DataStream, CIRA



Standard Chartered PLC

(STAN.L; £12.95; 1)

Valuation

Our Standard Chartered (SCB) target price of £17.50 is based on a consideration of SCB's P/E and P/B valuation multiples over history and peer group multiples. At our target price, SCB would trade at c14.1x 2011E EPS and 1.5x 2011E tangible book - a discount to both the stock's historical average P/E and its historical average P/TB.

Price/tangible book multiple - SCB's average P/TB over the past 13 years (1997-2011) is 2.9x. At our target price, SCB would trade at 1.5x, below the historical average. SCB is targeting an ROE of c15% on reported book, equivalent to c18% on tangible book. We forecast c11-12% for 2011-13 on reported book or c13-14% on tangible book. Price/earnings multiple - In the past 13 years, SCB has traded at an average (forward) P/E of 14.7x. At our target, the implied forward P/E is 14.1x 2011E, a discount to historical average.

Risks

Risks to the share price reaching our target price could come, in our view, from the following:

Economic Risks and Growth Risks: SC has grown its balance sheet rapidly in recent years. WB loans in particular have grown quickly, with a 2006-10 CAGR of 20.5%. While we do not have any evidence of poor underwriting standards, we need to be watchful when any bank grows its balance sheet so rapidly. We have an upbeat economic forecast for SC's key markets in 2011-12 but any deterioration in the economic environment could raise asset quality concerns.

Competition and Margin Weakness: Low interest rates put pressure on returns in deposit-heavy businesses, including cash management in WB and current accounts in CB. The group's low LDR (78%, 2010) is a drag on returns in a low rate environment and higher rates will help returns, in particular in CB. Many of the markets in which SC operates are a strategic growth priority for many banks, international and regional, and this is also placing pressure on product margins (eg trade finance) and staff and general costs.

Rising Rates and EM Valuation: Emerging market stocks often underperform when US\$ rates rise. Our analysis of banks' performance through rate cycles shows that UK international banks (HSBC, Standard Chartered) have underperformed the broader European equity market when \$ short rates increase faster than long rates and the yield curve flattens (bear flattening). In other rate scenarios (long-end led flattening or steepening, or a short-end led steepening) UK international banks have typically outperformed or performed in-line with the broader market.

Political Risks: SC operates in many countries which are considered higher risk political environments, including South Asia and Africa.



Notes

Appendix A-1

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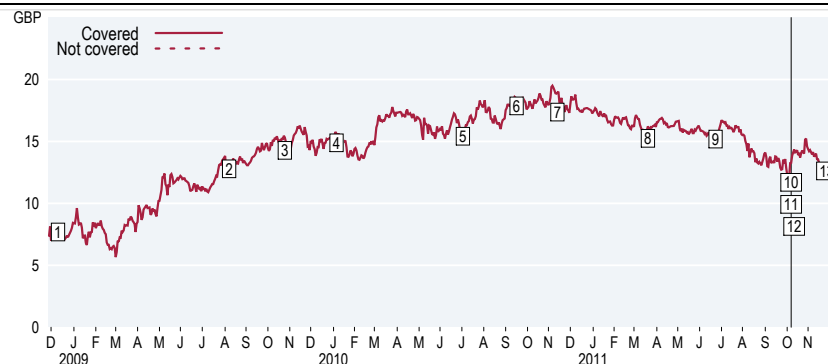
Standard Chartered PLC (STAN.L)

Ratings and Target Price History

Fundamental Research

Analyst: Ronit Ghose

Covered since May 28 2009



	Date	Rating	Target Price	Closing Price
1	10-Dec-08	3M	*6.26	7.23
2	7-Aug-09	*2M	*13.97	13.24
3	25-Oct-09	2M	*14.93	15.46
4	6-Jan-10	*1M	*19.27	15.60
5	2-Jul-10	1M	*20.23	15.52

* Indicates change

	Date	Rating	Target Price	Closing Price
6	16-Sep-10	1M	*21.68	18.38
7	12-Nov-10	1M	*22.50	18.94
8	21-Mar-11	1M	*22.00	16.22
9	23-Jun-11	1M	*20.00	15.34
10	7-Oct-11	Stock rating system changed		

	Date	Rating	Target Price	Closing Price
11	7-Oct-11	*1	20.00	13.27
12	12-Oct-11	1	*18.00	14.35
13	28-Nov-11	1	*17.50	12.74

Rating/target price changes above reflect Eastern Standard Time



Standard Chartered PLC (STAN.L)

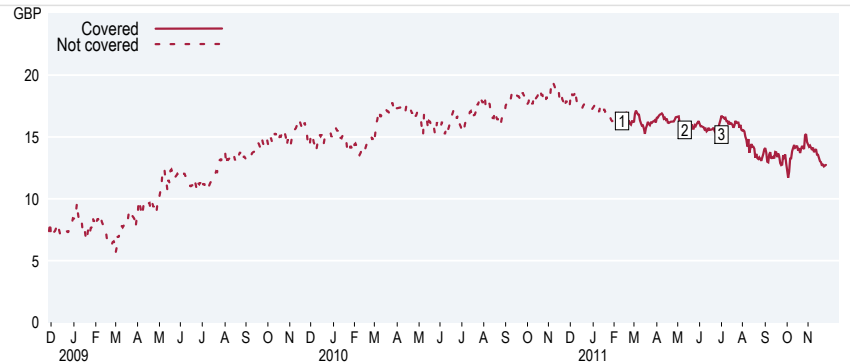
Ratings and Target Price History

Best Ideas Research

Relative Call (3 Month)

Analyst: Ronit Ghose

Covered since May 28 2009



	Date	Rating	Target Price	Closing Price
1	11-Feb-11	*ADD MP	-	16.70
	Date	Rating	Target Price	Closing Price
2	11-May-11	*REM MP	-	15.88
	Date	Rating	Target Price	Closing Price
3	1-Jul-11	*ADD MP	-	16.72

* Indicates change

Rating/target price changes above reflect Eastern Standard Time

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Data current as of 10 Oct 2011

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% of companies in each rating category that are investment banking clients

12 Month Rating			Relative Rating		
Buy	Hold	Sell	Buy	Hold	Sell
59%	34%	7%	10%	79%	10%
45%	42%	37%	50%	43%	46%

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