IPO Note

21 May 2010

Issue Data

Issue	Fixed price issue
Opening Date	25-May-10
Closing Date	28-May-10
Price Band	To be announced
IDRs Offered	240,000,000
Issue Size	Rs 26,400mn-Rs 27,547mn
Min Shares	To be announced
Max Shares	To be announced
Lead Managers	JM Financial, BofA Merrill Lynch, Kotak Investment Banking, SBI Capital Markets
Retail Discount	A discount of 5% to be applicable for retail investors

Source: RHP

Objectives of the issue

- To provide Indian investors with an opportunity to take an exposure to the other growing regions in the world: Africa and Middle East
- To improve the visibility and brand perception of the bank within India which will help it grow its business further within India
- To invest in the growing businesses of the company to pursue its growth strategy

Source: RHP

Largest Shareholder

- Temasek Holdings – 36.25%

Shareholding Pattern (%)

	Pre- IPO
Investment Advisors	75.64
Banks	2.62
Mutual Fund	2.06
Unclassified*	19.68
Total	**100.00**

* Includes holding companies and public holding

Source: RHP

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Standard Chartered Plc — Subscribe

‘Interesting for domestic investors seeking emerging market exposure’

FAQs of IDRs

- **What are IDRs?** IDRs, or Indian Depository Receipts, are similar to American Depository Receipts (ADR) or Global Depository Receipts (GDR), except that the issuer is a foreign company raising funds from the Indian market. IDRs are rupee-denominated equity derivative instrument, created by a domestic depository against the underlying equity shares of a foreign company.
- **How do IDRs work?** The process is similar to an IPO where a draft prospectus is filed with the SEBI. The minimum issue size is USD 500mn (around Rs 22.5bn). Shares underlying the IDRs are deposited with an overseas custodian who holds shares on behalf of a domestic depository. IDRs are issued through a public offer in India in the demat form and are to be listed on Indian exchanges. Trading and settlement is similar to those of domestic equity shares.
- **Who can apply for IDRs?** Individuals, NRIs, financial institutions, body corporates and eligible insurance companies can apply for IDRs. However, as per the IRDA regulation, Indian insurance companies are not allowed to buy stake in foreign companies as a result of which insurance companies will not be participating in the same.
- **What does the current IDR entitle me to?** The current IDR entitles the holder to own shares of StanChart Plc, the parent company which is listed on the London Stock Exchange (LSE).
- **Rights of IDR holders:** IDR holders have similar rights as common equity shareholders except that they can not be present in an AGM or vote in the same.
- **Tax treatment of IDR and how this is different from domestic equity:** IDRs are exempt from the Security Transaction Tax (STT), however, dividends in the hands of the investors are taxable. Besides this, investors are also liable to both long- and short-term capital gains tax on the sale of the same.

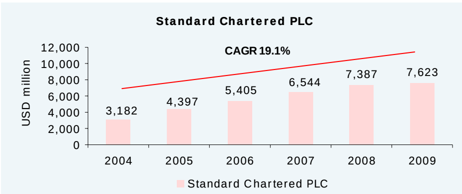
Valuation and investment justification

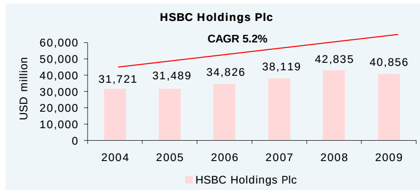
- **Overall group level strategy:** StanChart Plc focuses primarily on driving business and earnings growth through the organic route, looking at acquisitions only, if it needs to expand into a particular market which has stringent policy regulation or to acquire unique solutions and products. Moreover, the bank’s balanced approach ensured that it did not suffer significantly during the Great Recession, and it has therefore emerged stronger.

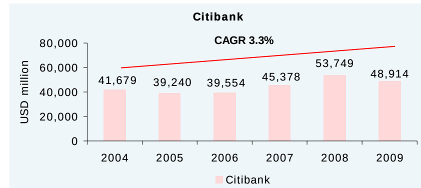
HSBC InvestDirect

- **Strong financial performance:** The bank has consisitently reported a robust financial performance.
  - **Core Banking business:** Has recorded a robust 19% CAGR growth in net interest income over 2004-09 to USD 7,623mn in CY09. In contrast, its peer banks, such as HSBC Holdings and Citibank, have recorded lower growth rates of 5% and 4% respectively during the same period. StanChart Plc has also recorded a steady margin (NIM) which stands at 2.31%.

Net Interest Income



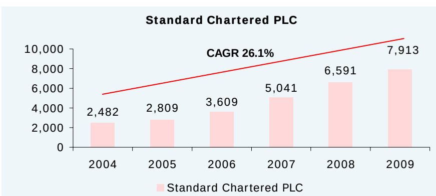


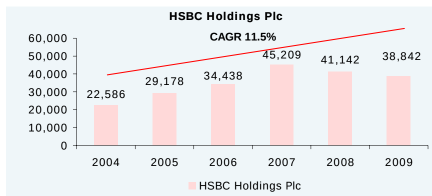


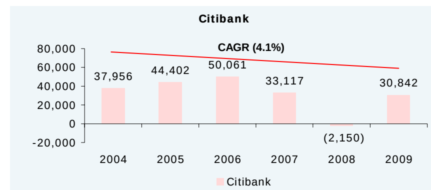
Source: Bloomberg

  - **Non-Core Banking business:** Non Core banking business which contributes close to 50% of the total revenue, has also **recorded a CAGR of close to 26%** since 2004 as compared to peer banks like HSBC Holding and Citibank which have recorded growth rates of 11% and -4% respectively during the same period

Other Operating Income

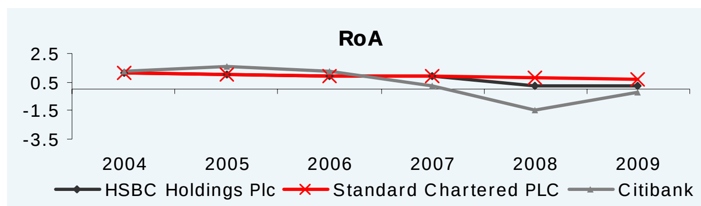






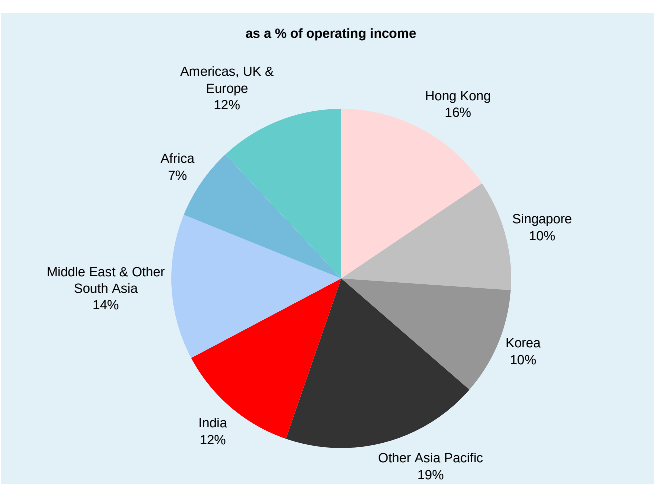
Source: Bloomberg

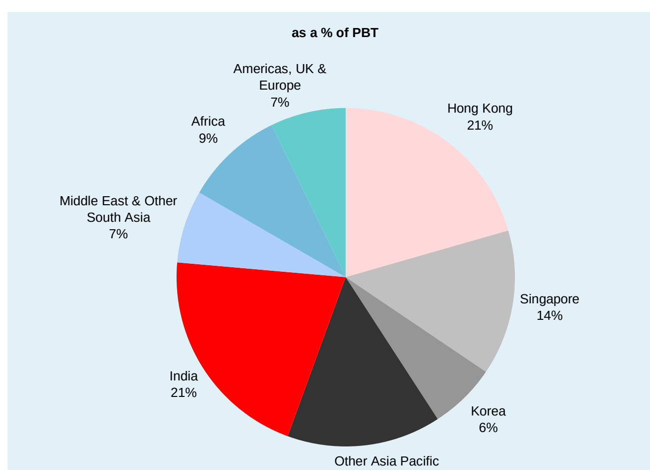
  - **Stable operating performance:** The bank has been able to maintain a very stable operating performance with an RoE in the range of 13%–18% and an RoA in the range of 0.754–1.15 as compared to a very volatile performance by its peer banks on both fronts as depicted in the adjacent chart.



Source: Bloomberg

  - **Good geographical diversification with exposure in key growth markets:** The bank's revenues are well-diversified geographically with significant focus on emerging regions. StanChart's diversification has ensured that **no single region accounts for more than 20%–25% of total profit before tax**. Currently, Hong Kong and India, which contribute more than USD 1bn to its profits, are the two largest contributors to the bank's PBIT. Overall, the emerging regions of Asia Pacific, the Middle East and Africa contribute close to 90% of its PBIT, with the remainder being contributed by the developed countries.

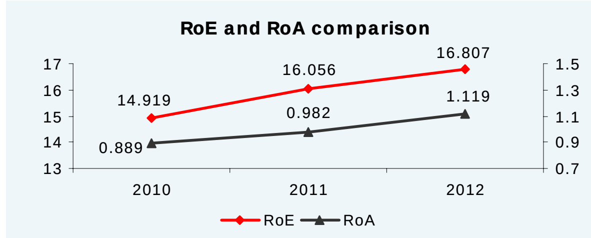




Source: RHP

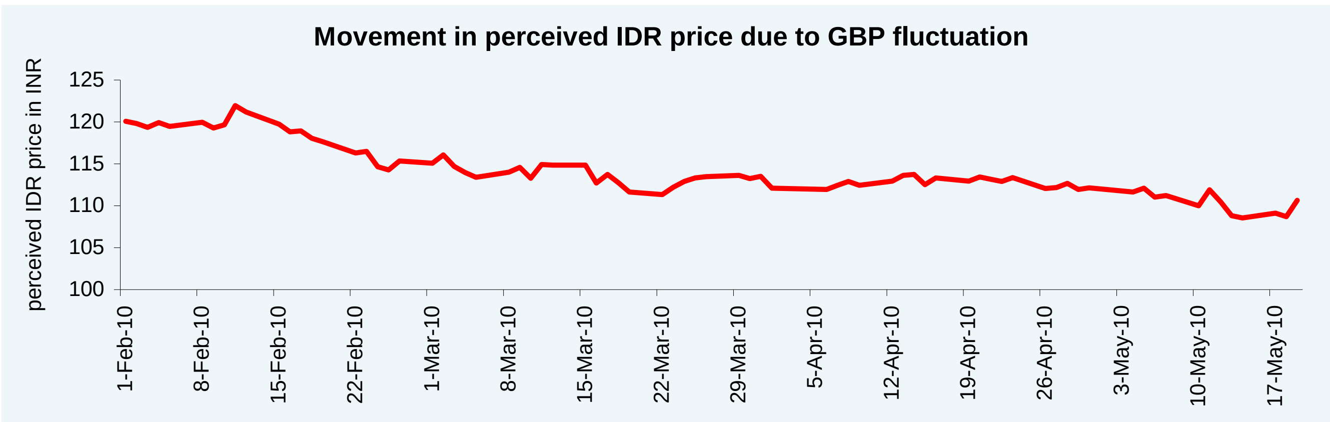
– **Stable dividend inflow:** Since 2004, the bank has maintained a very stable dividend payout ratio of 40% on an average and a stable dividend yield of close to 3% on an average.

- **Future strategies:** StanChart Plc intends to maintain its growth rates going forward, and intends to improve its RoE from the current sub-15% levels to 15%-18%. The bank will continue to invest in expansion and brand building going forward and will focus on driving the consumer banking business on the similar lines as the wholesale banking business by focusing on client-driven banking.



Source: Bloomberg

- **Value emerging from the depreciation of pound sterling (GBP):** The issue price would be decided based on the closing price of StanChart Plc on the last trading day on the LSE before the issue opens. If we look closely at the way the currency (INR vs GBP) has moved since February (as shown in the chart below), the same issue would be have been priced 8.5% higher then (comparing closing price of 19 May 2010 and 1 Feb 2010). This coupled with a further 5% discount on issue price for retail investors, makes the issue attractive for investors looking to diversify into other growing global economies.



Source: Bloomberg

Key Risks

In FY09, the bank recorded impaired loans of close to USD 3.8bn. This is an increase of close to USD 1.1bn as compared to FY08, primarily on account of impairment in the consumer banking business and two large exposures in the Middle East market in the wholesale banking business. Hence, given the bank's exposure to emerging markets it needs to take a careful look at its business in the event that these economies start overheating.

Outlook & Valuation

Investors looking at taking an exposure to other emerging economies of Asia, the Middle East and Africa are advised to consider subscribing to this issue at the current valuations. The stock is currently trading on the LSE (based on closing price on 19 May 2010) at 1.9x CY09 BV and 2.14x adjusted book value. Historically, the stock has traded in the range of 1.8–2.5x times book value and is currently trading at 1.69x FY10 and 1.56x FY12 Bloomberg consensus book value (calculated based on closing price on 19 May 10). As compared to this, HSBC Holdings with a RoE of 5% (13% for Standard Chartered) is trading at 1.23x FY11 earnings and 1.14x FY12 earnings. Adjusted for RoE, Standard Chartered Bank is still trading at an attractive valuation.

Stable RoE, RoA and growth performance of the bank coupled with fair valuations and the current depression in the European markets makes StanChart an attractive investment opportunity at the current price.

Peer Comparison

	Avg RoE (5 yr)	Avg RoA (5 yr)	Price to Book (CY10)	Market Cap (US$ billion)
Standard Chartered	15.31	0.90	1.69	47.79
HSBC Holdings	11.74	0.67	1.23	158.86
Citibank	1.59	0.28	0.70	105.20

Source: Bloomberg

Company background

Standard Chartered (StanChart) Plc is a leading global bank with operations primarily in the growing markets of Asia, Middle East and Africa along with the developed countries. The bank earns close to 90% of its PBIT and 88% of its revenue from the growing economies.

The large exposure of StanChart Plc to the emerging economies can be attributed to its history. The bank was formed in 1969 through a merger of two banks––the Standard Bank of British South Africa, founded in 1863; and the Chartered Bank of India, Australia and China, founded in 1853.

Currently the bank has operations in 70 countries and operates close to 1,700 branches globally with more than 5,600 ATMs. It also has presence in Islamic banking and operates the same through its subsidiary Saadiq.

Summary of Financials (In USD mn)

Year Ending	FY09	FY08
Total Revenue	15,536.00	13,978.00
Net Interest Income	7,623.00	7,387.00
NIM margin (%)	*2.31%*	*2.55%*
Profit after tax	3,380.00	3,241.00
NPA	26.7	55.6
EPS	1.65	1.91
Book Value	13.50	11.68
Total Networth	27,920.00	22,695.00
RoE	14.3%	15.2%
RoA	0.74	0.81
Total Assets	436,653.00	435,068.00
Number of Branches	1691	1600
Number of ATM	5600	5500

Source: Bloomberg and Annual Report

Disclaimer:

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