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Standard Chartered Share Slump Increases Pressure on CEO

By Stephen Morris and Alfred Liu - Oct 28, 2014

Peter Sands, the chief executive officer of Standard Chartered Plc (STAN), faces pressure from shareholders after the lender's stock slumped to the lowest in more than five years on a forecast drop in profit.

The shares fell 2.4 percent to HK$128.10 as of 10:36 a.m. in Hong Kong today after a 5.5 percent decline yesterday.They are heading for the lowest close since May 2009.

"It may simply be time for Peter Sands to seek employment opportunities elsewhere," said David Fergusson, chief investment officer of Singapore-based Woodside Holdings Investment Management Pte, who owns the stock. "The 0.8 price-to-book ratio clearly shows that the capital markets have lost patience with the management team. That should be a wake-up call for even the most somnolent of chairmen."

In London, the lender's stock slid 8.8 percent to close at the lowest since April 2009. The shares dropped 27 percent this year, paring Standard Chartered's market value to 24.6 billion pounds ($40 billion), 20 percent less than its book value.

The bank posted a 16 percent drop in third-quarter pretax profit to $1.53 billion from a year ago as impairments for bad loans almost doubled and regulatory and compliance costs increased. Underlying profit for the second half will decline from a year earlier, the bank said in a statement yesterday.

Cost Cuts

Sands, 52, the longest-serving head of any major European bank, is targeting about $400 million of cost savings in 2015 as he tries to steer the bank through falling commodity prices and a faltering economic expansion across Asia, where the bank makes about three-quarters of its earnings. A drop in profit last year ended more than a decade of earnings growth.

The stock is the worst performer among lenders in the FTSE 350 Banks Index this year. Its price has fallen to 0.8 times its book value, compared with 1 at HSBC Holdings Plc. (HSBA) Analysts at JPMorgan Chase & Co. and Numis Securities Ltd. downgraded their outlook for the bank.

"This has been a more difficult year, but we are still very profitable and we are absolutely aware that many of our shareholders are invested in us because of the dividend," Finance Director Andy Halford said in a telephone interview."Therefore, it's always going to be high in our thinking."

The company has an indicated gross dividend yield of 5.2 percent in Hong Kong, data compiled by Bloomberg show, compared with 3.8 percent for the benchmark Hang Seng Index.

Standard Chartered is targeting "productivity improvements" for next year as part of efforts to return to profits, it said in its statement yesterday. Bad-loan provisions rose 86 percent to $536 million in the third quarter.

China, India

Standard Chartered's operating income rose 1 percent to $4.5 billion in the third quarter from a year ago, while costs rose 4 percent to $2.5 billion. Revenue gains in corporate and institutional, consumer banking and private banking were hurt by a decline in commercial banking, the bank said.

"We struggle to see a silver lining in the results,"Jefferies International Ltd. analysts led by Joe Dickerson said in a note. "Third-quarter revenue was weak across the board"and "further revenue downgrades appear likely," it said. Jefferies has an underperform rating on the company.

Standard Chartered said it remains "watchful" of Chinaand continues to monitor India and global commodity markets. The bank is also "reshaping" its South Korean unit after posting a loss in the first half at the division.

"Sands is not doing a particularly poor job compared to some of his compatriots," said Julian Chillingworth, chief investment officer for Rathbone Brothers Plc, a London-based investment firm. "This is a tough environment and it's more about the overall outlook for Asian economies. This shouldn't really have surprised the market."

U.K. Levy

The lender's share of a U.K. government levy on bank balance sheets increased by more than $100 million to about $375 million this year as the calculations were reviewed. The charge will be taken in the fourth quarter.

As the bank takes steps including exiting non-core businesses and reallocating capital, "some of these actions will impact near-term performance," it said.

"The conduct side of regulation is more formidable now than in it has been in the past and every bank has to do far more on that, whilst also having to deal with trading conditions that are more challenging," Halford said. "It's a phase we need to go through."

An independent monitor oversees the bank to ensure it complies with sanctions and anti-money laundering rules, installed in 2012 after it breached a U.S. ban on transactions in Iran. In August, the lender reached an agreement to pay $300 million for failing to flag suspicious transactions as required under the settlement with New York's banking regulator.

HSBC, the other U.K. bank that gets most of its profit fromemerging markets, will report earnings on Nov. 3.

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