

Co-op Bank of Kenya – Earnings Update H1-2020

We maintain a long-term hold on Co-operative Bank of Kenya as they reported a 3.6% decline in profit after tax (PAT) to KES 7.20Bn from KES 7.47Bn. Profit before tax (PBT) declined by 8.0% to KES 9.65Bn from KES 10.41Bn in H1-19. The Group has restructured KES 39.2Bn in loans to support its customers from the effects of the COVID-19 pandemic on their business and economy. EPS eased to 1.23 in H1-2020 from 1.27 seen in H1-19.

- Interest Income:** Net interest income increased by 11.6% from KES 14.25Bn in H1-19 to KES 15.91Bn in H1-2020. The NII performance was buoyed by 6.8% y-y upward jump in interest income to KES 21.871Bn from KES 20.43Bn in H1-19. The performance was boosted by a 12.1% y-y increase in returns from government securities.
- Interest expense** decline by 4.4% to KES 5.90Bn from KES 6.17Bn boosted by a 4.7% y-y drop on cost of customer deposit.
- Non-Funded Income (NFI)** shrunk marginally by 1.6% to KES 8.31Bn from KES 8.75Bn in H1-19. The decline was due to a 4.7% drop in income from fees and commissions from loans on lower book size and 63.1% drop in other income. Contributions of NFI to total income decline to 33.4% from 35.8% in H1-19.
- Operating expense** increased by 16.8% to KES 14.57Bn from KES 12.60Bn same period in 2019. Expenses excluding provisions increased by 11.3% forced up staff cost which increased by 15.65% y-y. Company efficiency improved with staff cost growing by 89.4% q-q. cost to income (CTI) improved to 50.1% from 55.7% while CTI excluding provisions worsened to 52.5% from 49.3% over the same period in 2019.
- Balance Sheet:** The Groups performance was funded by a 18.9% growth in customer deposit and 19.4% increase in borrowed funds.
- The bank total assets** grew by 19.6% y-y to KES 513.92Bn from KES 429.59Bn. The growth was boosted by a 27.2% growth in investment securities, 5.7% increase in loan book and 67.9% jump in property, plant and equipment.
- Risk management and loan restructuring** saw Q-Q net loan book shrink by 1.5%. Advance to Deposit (AD) ration eased to 70.8% from 79.6% with net loans as ration of total assted declining to 53.0% from 60.0% seen in H1-2020.
- Loan Restructuring:** The conventional nature of the bank helped protect its soft underbelly as the bank restructured a total of KES 39.2Bn. The restructure saw c.61% concentration on Real Estate, Transport and Communication and Trade.
- Overall restructure** which did not warrant much movement on loan loss provisions which increased by 57.9% y-y with Gross Non-Performing Loans growing by 12.3% y-y. Non-Performing Loans (NPLs) stood at 10.5% remaining below the industry levels of 13.1%.

Recommendation:	LONG TERM HOLD
Bloomberg Ticker:	COOP KN
Share Stats	
Current Price	10.60
52 Week Average	13.29
52 Week High	16.55
52 Week Low	10.30
Issued shares Mn	5,867.18
Free Float	35.4%
Market Cap (KES Mn)	62,192.06
Market Cap (USD Mn)	573.77
EPS (annualized)	2.45
P/E	4.4
PB	0.8

Profit and Loss (KES Mn)	H1 2019	H1 2020
Interest Income	20,425	21,811
Interest Expense	6,172	5,897
NII	14,254	15,914
NFI	8,752	8,307
Total Income	23,005	24,221
Provisions	1,181	1,865
Expenses	12,595	14,568
Expense excl Provisions	11,414	12,703
PBT	10,437	9,599
PAT	7,469	7,198
EPS (annualized)	2.55	2.45

Balance Sheet (KES Mn)	H1 2019	H1 2020
Investment Securities	96,995	123,348
Loans and Advances	257,564	272,157
Total Assets	429,591	513,924
Customer Deposit	323,600	384,637
Shareholders' Equity	72,393	81,679

Regulatory Ratios	H1-2019	H1-2020
Core Capital/Total deposits Liabilities	20.20%	18.20%
Core Capital / TWAR	16.30%	16.30%
Total Capital/TWAR	16.80%	16.80%
Adjusted Core Capital/Total Deposit Liabilities	20.20%	17.70%
Adjusted Core Capital/TWAR	16.30%	15.90%
Adjusted Total Capital/TWAR	16.80%	16.40%
Liquidity Ratio	46.20%	54.10%

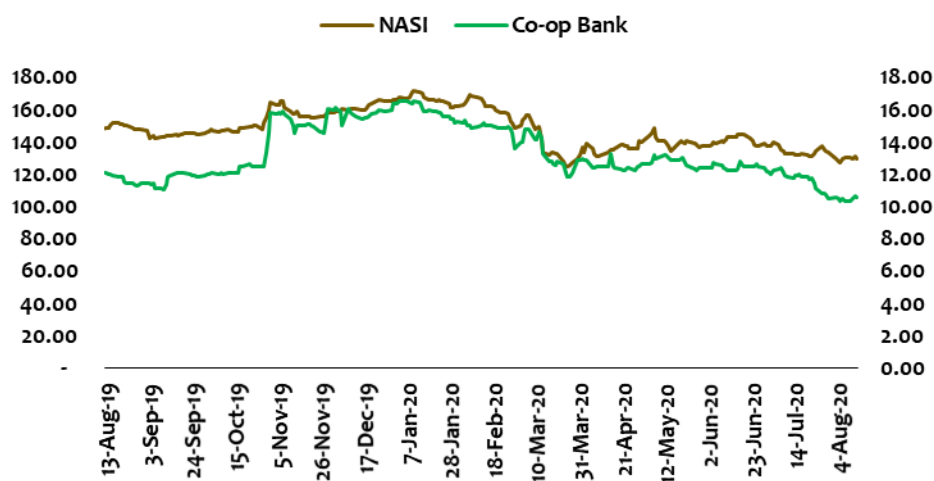
KINGDOM SECURITIES

- **Shareholders' funds** grew by 12.8% to KES 81.68Bn from KES 72.39Bn driven by 13.0% increase in retained earnings.
- **Key ratios** Return on average Assets eased (ROaA) to 3.1% from 3.6% in H1-19 while Return on average Equities dipped to 19.1% from 21.5% over the same period.
- **Net Interest Margin** improved to 8.0% from 7.7% in H1-19 as cost of funds easing from 3.7% to 3.1% of cheaper deposits
- Management of loan book growth due to credit risk has seen the lender's liquidity levels improve from 46.2% to 54.1%.
- **Subsidiaries** - The Kenyan banking unit continues to dominate the Group's performance with subsidiaries contributing 4.9% in PAT and PBT. Subsidiaries also contributed 4.6% of total income and 4.1% in expense.
- **Acquisition** - Co-op Bank acquired 90% of Jamii Bora Bank through a subscription of 224.15Mn shares. The bank is set to inject KES 1.0Bn into the new subsidiary.

Outlook:

- SME Focus – the bank continues to focus on growing its MSME book with over KES 15.2Bn for MSME.
- The conserving loan book by growing investment in securities while further restructuring of loans to support customer business.

Co-op Bank Price vs NASI



The Co-operative Bank of Kenya

Earnings Update – H1-2020

Profit and Loss (KES Mn)	H1 2019	H1 2020
Interest Income	-1.7%	6.8%
Interest Expense	3.5%	-4.4%
NII	-3.8%	11.6%
NFI	25.1%	-5.1%
Total Income	5.5%	5.3%
Provisions	8.1%	57.9%
Expenses	5.2%	15.7%
Expense excl Provisions	4.9%	11.3%
PBT	4.6%	-8.0%
PAT	4.3%	-3.6%
EPS (annualized)	4.10%	-5.90%

Balance Sheet (KES Mn)	H1 2019	H1 2020
Investment Securities	16.7%	27.2%
Loans and Advances	2.6%	5.7%
Total Assets	7.8%	19.6%
Customer Deposit	9.0%	18.9%
Shareholders' Equity	5.2%	12.8%

Key Ratios	H1 2019	H1 2020
NII Contribution	62.0%	65.7%
NFI Contribution	38.0%	34.3%
CTI	54.8%	60.1%
CTI ex Provisions	49.6%	52.4%
ROaA	3.6%	3.1%
ROaE	21.5%	19.1%
AD	79.2%	69.8%
NPL	10.0%	10.5%
NIM	7.7%	8.0%
Cost of Funds	3.7%	3.1%
Investment to Assets	22.6%	24.0%
Loans to Assets	60.0%	53.0%
Debt to Equity	30.2%	32.0%

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Recommendation Guide:

Analysts' stock ratings are defined as follows:

- **Buy** – A buy rating reflects 1) An analyst has a bullish conviction on a stock 2) A 30% or greater expected return.
- **Accumulate** – An accumulate rating reflects 1) An analyst has a lesser bullish conviction on a stock 2) Expected return falls between 10% and 30%.
- **Hold** – A hold rating reflects 1) An analyst has a neutral conviction (lack of bullish or bearish conviction) on a stock 2) Expected return falls within the range of 5% to 10%.
- **Speculative Buy** – A speculative buy rating reflects 1) An analyst has a bullish conviction accompanied by a substantially higher than normal risk 2) Expected return falls above 10%.
- **Sell** – A sell rating reflects 1) An analyst has a bearish conviction on a stock 2) Expected return falls below 5%.

*Expected Return (ER) represents the sum total of both capital appreciation and the dividend yield.

Kingdom Securities Ltd – A subsidiary of Co-operative Bank Limited.

Co-operative Bank House- 5th Floor, P.O Box 48231 - 00100 Nairobi, Kenya

Office: 0711049540/0711049956

Email: kingdomresearch@co-opbank.co.ke/

Research Department

Willis Nalwenge, CFA wnalwenge@co-opbank.co.ke

Fred Mwireri fmwireri@co-opbank.co.ke

Equities Trading

Andrew Karanja amkaranja@co-opbank.co.ke

Justus Ogalo jogalo@co-opbank.co.ke