

# Kingdom Securities Limited

## Banking Industry Review and Outlook 2022 - Cover



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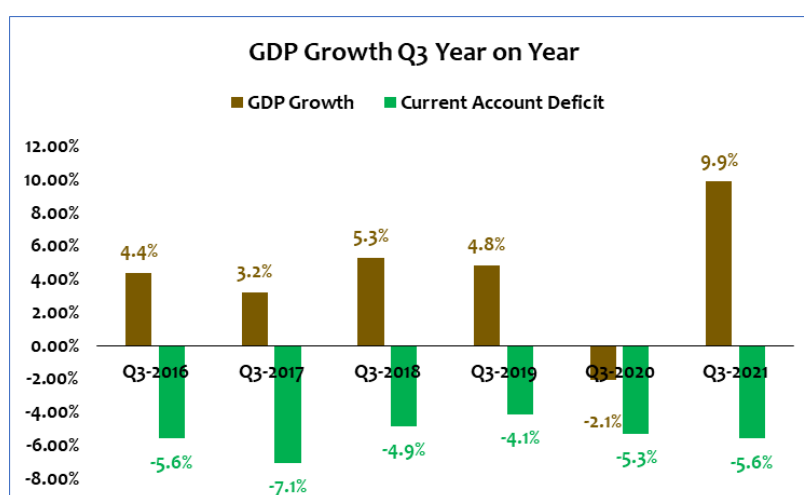
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### Recovering Banking Industry Supported by a Recovering Economy

The Kenyan banking industry has shown a spark to recover from the low of 2020. As of end of November, profits before tax were up 66.0% compared to November 2020 while performing 19.1% better to pre-covid-19 period of November 2019. The increase was due to a recovering economy as Gross Domestic Product (GDP) for Q3-21 at 9.9% compared to a contraction of 2.1% in Q3-20. The growing economy saw a private credit grow by 7.7% in Q3-21 while closing 2021 at 7.8% growth.

The industry also enjoyed a decline in loan loss provision with Q3-21 declining by 44.7% y-y while declining by 18.3% compared to Q2-21.



Industry gross loan book grew by 8.2% y-y as of November 2021 driven by deposit growth of 9.1%. The period NPLs stood at 13.4%, 30bps lower compared to 13.7% same period 2021. The Gross NPLs were up 6.3% in line with the growing loan book.

The sector remained risk averse as liquidity edged up to 56.5% from 54.0% over the same period. This is due to diversion of deposits and borrowing towards government securities which expanded by 15.8% y-y as at September 2021.

Banking Industry Performance			
	Nov-20	Nov-21	%Δ
Total Assets	5,421.8	5,906.40	8.9%
Shareholder's Fund	809.2	895.9	10.7%
Gross Loans	3,011.5	3,257.0	8.2%
Gross NPL	411.1	436.9	6.3%
Deposits	4,029.9	4,395.4	9.1%
PBT	107.7	178.80	66.0%
Liquidity	54.0%	56.5%	

- We expect a strong FY-21 performance based on declining loan loss provisions. Top line will continue with a stable growth in the single digit levels.
- In 2022, tier one banks continue to focus on regional market capture through digitization and micro, small and medium enterprises (MSMEs) lending at the subsidiaries level while stabilizing the local market through retail lending growth, in particular, personal lending for salaried clients. This sector tends to have the lowest NPL levels – Equity Group 2.8%, Co-operative Bank 6.0%, KCB Group 2.8%.
- Need to grow regional presence and expand on MSME lending in a market of slowing deposits, banks have opted to increase on borrowing to sustain their appetite for higher than normal risk lending in the category.
- Ethiopia has shown indication of dropping restrictions on entry of foreign banks. This will give an Kenyan banks an opportunity to enter the 117Mn population market that has a low banking penetration of 35% and mobile penetration of 51.2%. If allowed to set up shop, the lenders can extend their partnership with Safaricom on mobile lending. The market is lucrative with the Ethio Telecom has signed up 13Mn subscribers as of end December 2021 for a mobile money service that it launched in May. This is 21.7% of the total subscriber complement of 60Mn.
- Digital integration in the industry has led to an increase in volumes of transaction with branches left to handle high value transactions for SME, corporates, wealth management & advisory services.
- Despite the increase in digitization, we have tier one banks opening new branches in malls that located in upcoming residential areas with the aim of targeting the mushrooming MSMEs.
- Regulation of digital lending will favor banking institutions due to available cheap financing compared to non-financial lending platform.
- The market awaits the approval of risk-based pricing models which will assist lenders in credit pricing to enable them to categorize sectors and clients differently with reference to their risk categories.

### Head Winds

- Being an election year, the industry is set to face headwinds as the economy tends to slow down during the election period. This will have a larger impact on regional banks as most economies in the region get served through the Kenyan economy.
- Nations are still affected by the aftermath effect of Covid-19 pandemic as governments continue to ramp up vaccination and easing of restrictions. Poor nations are yet to fully recover based on low vaccination drive limiting their participation in the global economy recovery.
- Global economy recovery remains vital for the Kenyan economy. Global conflicts in Eastern Europe on Ukraine and Russia, China and USA, Ethiopia peace remains key on entry to the country, Afghanistan remains unstable, Iran nuclear deal. These conflicts are bound to impact global petroleum prices upwards while supply chain challenges continue to be a logistical headache. These have a direct impact on Kenya economy including an expanding current account deficit and inflation levels. Trade and manufacturing are key to the banking sector with the two being key in managing NPLs especially at the global trade levels.
- Stability of Kenya currency key to market liquidity. Shilling has lost against the dollar for a second year running forcing the regulator to enter the market to manage liquidity with the aim of stabilizing the local currency.
- The regulatory requirement of credit reference bureau will have an effect the industry especially on the MSMEs and digital lending fronts.

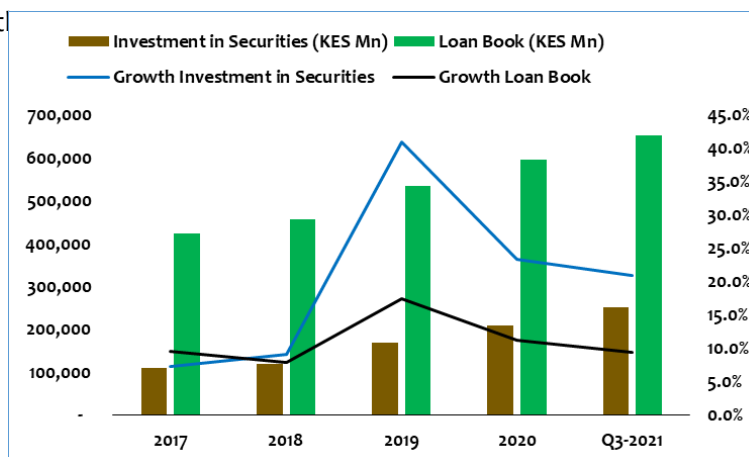
#### KCB Group Plc – Joining the Regional Growth Race

The group is set for a record PAT growth and return to pre-covid-19 dividend payment levels after issuing an interim dividend in Q3-21. We give an **ACCUMULATE** recommendation on the stock with a value of KES 52.30, 13.7% higher compared to KES 46.00 seen on February 24<sup>th</sup>, 2022. Will forecast reversion to a total dividend of KES 3.00 on a dividend yield of 6.5% and a total return of 20.2%.

The removal from the MSCI Frontier Markets Indexes to the MSCI Frontier Markets Small Cap Indexes, saw heavy foreign investors exit leaving the counter undervalued due to low demand.

- KCB Group continues with its regional quest after successfully acquiring 76.0% in Rwanda's Banque Populaire du Rwanda Plc (BPR) making it the second largest bank in Rwanda. The Group intends to acquire the remaining 24%. The fight remains on capturing forex market which remains competitive due to the growth rate of the central African countries which mostly rely on imports and foreign aid.
- The lender will be a beneficiary on reversion of account to wallet and account to wallet charges that were suspended by the CBK on March 16<sup>th</sup>, 2020. This has suppressed NFIs, and we expect to recover to above pre-covid-19 period.
- After a book cleanup and limit enhancement for its customers on mobile lending platform KCB M-Pesa, the lender has seen recovery of mobile lending after issuing a total of KES 115.00Bn as of Q3-21 compared to KES 118.00Bn in Q3-20 aided by Fuliza which has grown from KES 53Bn to KES 69Bn over the period.
- Consolidation of regional operation through integrating its technology system will assist with capital expenditure savings. Will improve on turnaround time on product disbursement while containing operation risks related to system malfunction.
- We forecast a slowdown on the bottom-line performance in FY-22 while on reversion to long-term loan loss provisions. Government securities will continue to be the growth revenue driver with the lenders portion on the same growing faster than loan book growth.

Recommendation:	ACCUMULATE
Bloomberg Ticker:	KNCB KN
Share Statistics	
Valuation	52.30
Current Price (Kes)	46.00
Upside/Downside	13.7%
3-Months Average	44.79
6-Months Average	45.33
12 Months Average	43.94
52 Week High - Low	49.90 - 37.95
Issued shares (Mn)	3,213.46
Free Float	70.3%
Market Cap (Kes Bn)	147,819
Market Cap (USD Bn)	1,300
EPS (Forecast)	10.4
P/E	4.4
PB (Forecast)	0.9
Dividend	3.00
Dividend Yield	6.5%
Total Return	20.2%



#### KCB Group Valuation

- We valued the company at **KES 52.31**. For valuation, we used equal weighting on DDM, residual income method, PE and PB relative valuation methods.
- A ten-year yield to maturity bond was used for risk free rate of 12.520% and an equity risk premium of 5.5%.
- Valuation beta of 1.04 for a cost of equity of 18.2% based on CAPM method.
- To normalize the valuation, we used the forward PB of 52.67 and PE 10.35 for the forecasted year 2021 and not the lower than normal 2020 figures.

DDM Methods	31-12-19	31-12-20	31-12-21	31-12-22	31-12-23	31-12-24	31-12-25	Terminal Value
Dividend	3.50	1.00	3.00	3.50	3.50	3.50	3.50	41.16
<b>Implied Price</b>	<b>38.03</b>		(0.15)	0.84	1.83	2.81	3.80	3.80
<b>Current Price</b>	<b>46.00</b>		1.02	0.89	0.78	0.68	0.60	0.60
<b>Upside/Downside</b>	<b>-17.3%</b>		<b>3.06</b>	<b>3.12</b>	<b>2.73</b>	<b>2.39</b>	<b>2.09</b>	<b>24.63</b>

Residual Income	31-12-19	31-12-20	31-12-21	31-12-22	31-12-23	31-12-24	31-12-25
Book Value	40.37	44.32	52.67	61.14	71.28	82.94	96.34
EPS	7.83	6.11	10.35	11.47	13.65	15.16	16.89
DPS	3.50	1.00	3.00	3.50	3.50	3.50	3.50
Retained Earnings	4.33	5.11	7.35	7.97	10.15	11.66	13.39
Ending Book Value	44.70	49.43	60.02	69.10	81.43	94.60	109.73
EPS	7.83	6.11	10.35	11.47	13.65	15.16	16.89
Equity Charge	1.43	1.11	1.89	2.09	2.49	2.76	3.08
	6.40	5.00	8.46	9.38	11.16	12.40	13.81
<b>Implied Price</b>	<b>86.78</b>		(0.15)	0.84	1.83	2.81	3.80
<b>Current Price</b>	<b>46.00</b>		1.02	0.89	0.78	0.68	0.60
<b>Upside/Downside</b>	<b>88.6%</b>		<b>8.63</b>	<b>8.37</b>	<b>8.72</b>	<b>8.47</b>	<b>8.26</b>

- For comparable, we used banks that have near similar market capitalization to KCB Group.

Relative Valuation			
	PE		PB
EPS	10.35	BVPS	52.67
Comparable PE	7.30	Comparable PB	0.89
Implied Price	75.56	Implied Price	46.88
Current Share Price	46.00	Current Share Price	46.00
<b>Upside/Downside</b>	<b>64.3%</b>	<b>Upside/Downside</b>	<b>1.9%</b>
Valuation Summary			
Valuation Method	Implied Price	Weighting	Weighted Value
DDM	38.03	25.0%	9.51
Residual Income	86.78	25.0%	21.69
PBV Multiple	46.88	25.0%	11.72
PE Multiple	75.56	25.0%	18.89
<b>Estimated Fair Value</b>		<b>100.0%</b>	<b>52.30</b>
<b>Current Price</b>			<b>46.00</b>
<b>Upside/Downside</b>			<b>13.7%</b>
<b>Dividend Yield</b>			<b>6.5%</b>
<b>Total Probable Return</b>			<b>20.2%</b>



#### KCB Group 5-Year Forecast

Income Statement	2018	2019	2020	2021	2022	2023	2024	2025
Interest Income	66,281	74,351	88,745	101,145	107,971	118,772	130,654	143,724
Interest Expense	17,450	18,220	20,808	23,053	24,990	27,547	30,367	33,478
Net Interest Income	48,831	56,131	67,938	78,092	82,981	91,225	100,286	110,246
Non-Income Expense	22,974	28,172	28,451	28,389	32,430	35,226	38,309	41,709
Total Operating Income	71,804	84,303	96,388	106,482	115,412	126,451	138,596	151,955
Total Operating Expenses	37,945	47,405	70,669	58,964	62,777	63,804	69,006	74,416
PBT	33,859	36,898	25,719	47,517	52,635	62,647	69,590	77,539
PAT	23,995	25,165	19,604	33,262	36,844	43,853	48,713	54,277
EPS	7.83	7.83	6.11	10.35	11.47	13.65	15.16	16.89
DPS	3.50	3.50	1.00	3.00	3.50	3.50	3.50	3.50

Balance Sheet	2018	2019	2020	2021	2022	2023	2024	2025
Investment in Securities	120,070	169,243	208,765	258,938	237,360	261,096	287,206	315,926
Loan Book	455,880	535,370	595,254	668,924	735,816	809,398	890,338	979,371
PPE	11,008	20,163	26,003	28,045	31,217	34,766	38,713	43,106
Intangible Assets	3,003	6,337	5,499	6,731	7,492	8,344	9,291	10,345
<b>Total Assets</b>	<b>714,313</b>	<b>898,572.213</b>	<b>987,810</b>	<b>1,121,802</b>	<b>1,248,663</b>	<b>1,390,632</b>	<b>1,548,535</b>	<b>1,724,250</b>
Customer Deposits	537,460	686,583	767,224	863,128	949,440	1,044,384	1,148,823	1,263,705
Borrowing	22,447	21,485	37,032	38,083	45,367	52,987	61,382	70,678
<b>Total Liabilities</b>	<b>600,651</b>	<b>768,831.105</b>	<b>845,386</b>	<b>952,543</b>	<b>1,052,200</b>	<b>1,161,563</b>	<b>1,282,000</b>	<b>1,414,685</b>
Share Holders Funds	113,661	129,741	142,424	169,259	196,463	229,069	266,535	309,565
<b>Liabilities and Shareholders' Funds</b>	<b>714,313</b>	<b>898,572</b>	<b>987,810</b>	<b>1,121,802</b>	<b>1,248,663</b>	<b>1,390,632</b>	<b>1,548,535</b>	<b>1,724,250</b>

#### Equity Group Holdings – A Trillion Shilling Asset Book

The Group profit recovery was catapulted by a 62.5% decline in Q3-21 loan loss provisions, 28.7% increase in interest income supported by collections and loan book growth in the local unit plus a 34.2% increase in return on government securities. With the regional economies continue with an uptick, Equity Group is poised to benefit on the sheer size of its balance sheet, high liquidity position and ability to deploy technology to serve both their retail and corporate clients. This ensures the growth trajectory remains on point with deposit and loan book growth of 20%.

We give a HOLD recommendation at a value of at KES 54.04, a 4.9% upside compared to KES 51.50 as of February 24<sup>th</sup>, 2022. We anticipate return to dividend payment with a payment of KES 2.00 on low need for expansion cash. This will leave a total return of 8.8%.

- The Group seems to have finished with its acquisition spree having entered DRC. The group diversified into life insurance, an industry with gross written premiums of KES 33.13Bn in 2020, a 2.2% penetration levels while life insurance gross written premiums stood at KES 102.08Bn and a penetration at 0.7%.
- The Group international brand recognition has enhanced partnership to inject low cost finance to be lent to the MSME sector. This will give it an upper hand especially in central Africa where MSME lending remains low. This will aid in maintaining low cost of funds while expanding net interest margins with subsidiary contribution to interest on loans and advances increasing to 36.4% in Q3-2021 compared to 32.6% in Q3-20 and 31.5% in Q3-19.
- Of the top tier 1 banks, the Group has retained the lowest levels of NPL compared to industry NPLs of 8.9% against industry's 13.6% in Q3-21 while the Kenyan subsidiary NPL stood at 9.0% over the same period.
- Equity Group leads in technology deployment across its subsidiaries. Agency banking and mobile and internet transaction have been on the rise continuously with the platforms having the highest return margins.
- Mobile lending and forex income have boosted non-funded income (NFI) contribution stands c.40.0% for the last four quarter reporting. This remains higher compared to tier 1 average of ≈35.0%. The company liquidity positioning, growth in mobile lending and regional coverage will continue to drive NFIs at the current levels.
- Equity Group will be another beneficiary of reinstatement of account to wallet and wallet to account charges when reversed by the regulator.

Recommendation:	HOLD
Bloomberg Ticker:	EQBL KN
Share Stats	
Valuation	54.04
Current Price	51.50
Upside/Downside	4.9%
3-Months Average	50.70
6-Month Average	50.81
12-Months Average	47.21
52 Week High - Low	54.25 - 37.50
Issued shares Mn	3,773.67
Free Float	93.7%
Market Cap (KES Mn)	194,344.25
Market Cap (USD Mn)	1,770.74
EPS	8.7
P/E	5.9
PB	1.1
Dividend	2.00
Dividend Yield	3.9%
Total Gain	8.8%

### Equity Group Holdings Valuation

- We valued the company at **KES 54.04**. For valuation, we used equal weighting on DDM, residual income method, PE and PB relative valuation methods.
- A ten-year yield to maturity bond was used for risk free rate of 12.520% and an equity risk premium of 5.5%.
- Valuation beta of 1.19 for a cost of equity of 19.1% based on CAPM method.
- To normalize the valuation, we used the forward PB of 45.45 and PE 8.71 for the forecasted year 2021 and not the lower than normal 2020 financials.
- For comparable, we used banks that have near similar market capitalization to Equity Group.

DDM Methods	31-12-19	31-12-20	31-12-21	31-12-22	31-12-23	31-12-24	31-12-25	Terminal Value
Dividend	-	-	2.00	2.00	2.00	2.00	2.00	31.18
			(0.15)	0.84	1.82	2.81	3.80	3.80
			1.02	0.90	0.80	0.71	0.63	0.63
<b>Implied Price</b>	<b>27.87</b>		<b>2.04</b>	<b>1.81</b>	<b>1.61</b>	<b>1.43</b>	<b>1.27</b>	<b>19.73</b>
<b>Current Price</b>	<b>51.50</b>							
<b>Upside/Downside</b>	<b>-45.9%</b>							

Residual Income	31-12-19	31-12-20	31-12-21	31-12-22	31-12-23	31-12-24	31-12-25
Book Value	29.62	36.74	45.45	53.43	62.41	72.29	83.24
EPS	5.93	5.24	8.71	9.98	10.97	11.89	12.95
DPS	-	-	2.00	2.00	2.00	2.00	2.00
Retained Earnings	5.93	5.24	6.71	7.98	8.97	9.89	10.95
Ending Book Value	35.55	41.98	52.16	61.41	71.38	82.18	94.19
EPS	5.93	5.24	8.71	9.98	10.97	11.89	12.95
Equity Charge	1.13	1.00	1.66	1.90	2.09	2.27	2.47
	4.80	4.24	7.05	8.08	8.88	9.62	10.48
<b>Implied Price</b>	<b>71.83</b>		(0.15)	0.84	1.82	2.81	3.80
<b>Current Price</b>	<b>51.50</b>		1.02	0.90	0.80	0.71	0.63
<b>Upside/Downside</b>	<b>39.5%</b>		7.18	7.30	7.13	6.86	6.63

Relative Valuation			
	PE		PB
EPS	8.71	BVPS	45.45
Comparable PE	8.11	Comparable PB	1.01
Implied Price	70.64	Implied Price	45.81
Current Share Price	51.50	Current Share Price	51.50
<b>Upside/Downside</b>	<b>37.2%</b>	<b>Upside/Downside</b>	<b>-11.0%</b>
Valuation Summary			
Valuation Method	Implied Price	Weighting	Weighted Value
DDM	27.87	25.0%	6.97
Residual Income	71.83	25.0%	17.96
PBV Multiple	45.81	25.0%	11.45
PE Multiple	70.64	25.0%	17.66
<b>Estimated Fair Value</b>		<b>100.0%</b>	<b>54.04</b>
<b>Current Price</b>			<b>51.50</b>
<b>Upside/Downside</b>			<b>4.9%</b>
<b>Dividend Yield</b>			<b>3.9%</b>
<b>Total Probable Return</b>			<b>8.8%</b>



# KINGDOM SECURITIES

## Equity Group Holdings Plc Company Valuation FY-2021

### Equity Group Holdings 5-Year Forecast

Income Statement KES Mn	2018	2019	2020	2021	2022	2,023	2024	2025
Interest Income	53,230	59,723	73,765	92,194	102,339	115,147	129,551	145,762
Interest Expense	11,808	14,740	18,616	23,674	26,841	30,404	34,393	38,866
Net Interest Income	41,422	44,982	55,149	68,520	75,498	84,743	95,158	106,896
Non-Income Expense	25,861	30,780	38,508	40,295	47,751	53,187	59,440	66,298
Total Operating Income	67,284	75,762	93,657	108,816	123,248	137,929	154,598	173,194
Total Operating Expenses	38,821	44,285	72,664	61,847	69,447	78,765	90,518	103,388
PBT	28,463	31,477	22,170	46,968	53,801	59,165	64,080	69,806
PAT	19,691	22,386	19,789	32,568	37,350	41,105	44,546	48,554
EPS	5.25	5.93	5.24	8.71	9.98	10.97	11.89	12.95
DPS	2.00	-	-	2.00	2.00	2.00	2.00	2.00

Balance Sheet	2018	2019	2020	2021	2022	2,023	2024	2025
Investment in Securities	160,952	172,208	217,408	365,434	308,335	346,876	390,236	439,015
Loan Book	297,227	366,440.46	477,847	555,601	650,053	731,309	822,723	925,563
PPE	10,276	11,031	15,904	15,835	16,445	16,958	20,813	23,414
Intangible Assets	7,363	7,244	9,621	13,399	13,704	15,417	17,344	19,512
<b>Total Assets</b>	<b>573,385</b>	<b>673,683</b>	<b>1,015,093</b>	<b>1,200,207</b>	<b>1,363,144</b>	<b>1,545,472</b>	<b>1,749,322</b>	<b>1,977,604</b>
Customer Deposits	422,758	482,752	740,801	888,961	1,000,081	1,125,091	1,265,728	1,423,944
Borrowing	44,180	56,601	87,221	102,911	120,979	141,300	163,685	188,475
<b>Total Liabilities</b>	<b>478,427</b>	<b>561,906</b>	<b>876,453</b>	<b>1,028,688</b>	<b>1,161,513</b>	<b>1,309,972</b>	<b>1,476,513</b>	<b>1,663,479</b>
Share Holders Funds	94,958	111,777	138,641	171,519	201,632	235,500	272,809	314,126
<b>Liabilities and Shareholders' Funds</b>	<b>573,385</b>	<b>673,683</b>	<b>1,015,093</b>	<b>1,200,207</b>	<b>1,363,144</b>	<b>1,545,472</b>	<b>1,749,322</b>	<b>1,977,604</b>

#### Co-operative Bank of Kenya Limited – Stable Bottomline

The Co-operative Bank of Kenya has retained its position as the third largest bank in assets, loan book and profitability without regional expansion or major local acquisition. The lender has grown its personal consumer loan book while banking on its customers to grow its e-credit. In 2020, the Group's strategy on loan provisions managed to contain the large swings faced by the tier one banks leaving the expense line more stable. This affected the upside on the profitability a factor that will sit well with profit movement in 2022.

We give the bank a BUY recommendation at a value of KES 17.21, a 32.4% upside on KES 13.15 seen on February 24<sup>th</sup>, 2022. We expect the board to maintain the tradition of dividend payment as we forecast a KES 1.00 dps in FY-21. This will have a dividend yield of 7.6% for a total valuation return of 40.1%.

- Co-op Bank continues to grow its presence in the country, one of the few tier one banks that have opened branches in order to reach the MSME client base. The bank continues to show no interest in the short term to grow its regional presence but continue to focus on milking full potential of the Kenyan economy.
- Co-op Bank M-Coop Cash mobile banking service has seen positive response especially in growing e-credit product. The bank targets e-credit lending of KES 6.00Bn per month to its internal clients, with a fee of 8.034%, the product will be a key contributor to NFI. The focus on client will improve on credit analysis to minimize probability of default.
- Reduction of NPL remains a key concern for the bank. Q3-21 NPLs stood at 13.9% compared industry levels of 13.6%. The loan book's quality is affected by Trade, Construction and Manufacturing sectors which hold 11.9%, 1.8% and 2.2% of the loan book and NPLs of 30%, 55% and 75% respectively. The re-opening of the global economy and recovery of the local economy, we expect an upswing in the trade and manufacturing sector.
- Being a bank that supports MSMEs, the Group has benefited from cheap credit from international partners aiding in managing cost of funds and having a positive impact on NIMs.

Recommendation:	BUY
Bloomberg Ticker:	COOP KN
Share Stats	
Valuation	17.21
Current Price	13.00
Upside/Downside	32.4%
3-Months Average	12.70
6-Month Average	12.85
12-Months Average	12.84
52 Week High - Low	13.95 - 11.60
Issued shares Mn	5,867.17
Free Float	60.3%
Market Cap (KES Mn)	76,273.27
Market Cap (USD Mn)	694.95
EPS	2.6
P/E	4.9
PB	17.3
Dividend	1.00
Dividend Yield	7.7%
Total Gain	40.1%

#### Co-op Bank Kenya - Valuation

- We valued the company at KES 17.21. For valuation, we used equal weighting on DDM, residual income method, PE and PB relative valuation methods.
- We considered a ten-year yield to maturity bond for risk free rate and an equity risk premium of 5.5%.
- Valuation beta of 0.96 for a cost of equity of 17.8% based on CAPM method.
- With the bank with stable performance, we used 2020 PB of 15.69 and PE of 1.98 for valuation.
- For comparable, we used banks that have near similar market capitalization to Co-operative Ban.

DDM Methods	31-12-14	31-12-19	31-12-20	31-12-21	31-12-22	31-12-23	31-12-24	31-12-25	Terminal Value
Dividend	0.50	1.00	1.00	1.00	1.00	1.00	1.00	1.00	13.27
<b>Implied Price</b>	<b>12.25</b>			(0.15)	0.84	1.83	2.81	3.80	3.80
<b>Current Price</b>	<b>13.00</b>			1.02	0.90	0.79	0.70	0.62	0.62
<b>Upside/Downside</b>	<b>-5.8%</b>			<b>1.02</b>	<b>0.90</b>	<b>0.79</b>	<b>0.70</b>	<b>0.62</b>	<b>8.22</b>

Residual Income		31-12-19	31-12-20	31-12-21	31-12-22	31-12-23	31-12-24	31-12-25
<b>Book Value</b>		<b>13.78</b>	<b>15.69</b>	<b>17.34</b>	<b>19.25</b>	<b>21.54</b>	<b>24.18</b>	<b>27.38</b>
<b>EPS</b>		<b>2.48</b>	<b>1.98</b>	<b>2.65</b>	<b>2.91</b>	<b>3.29</b>	<b>3.64</b>	<b>4.20</b>
<b>DPS</b>		<b>1.00</b>	<b>1.00</b>	<b>1.00</b>	<b>1.00</b>	<b>1.00</b>	<b>1.00</b>	<b>1.00</b>
Retained Earnings		1.48	0.98	1.65	1.91	2.29	2.64	3.20
Ending Book Value		15.26	16.67	18.99	21.16	23.83	26.83	30.58
EPS		2.48	1.98	2.65	2.91	3.29	3.64	4.20
Equity Charge		0.44	0.35	0.47	0.52	0.59	0.65	0.75
		2.04	1.63	2.18	2.39	2.71	2.99	3.45
<b>Implied Price</b>	<b>26.44</b>			(0.15)	0.84	1.83	2.81	3.80
<b>Current Price</b>	<b>13.00</b>			1.02	0.90	0.79	0.70	0.62
<b>Upside/Downside</b>	<b>103.4%</b>			<b>2.22</b>	<b>2.15</b>	<b>2.15</b>	<b>2.10</b>	<b>2.14</b>

Relative Valuation				
	PE		PB	
EPS	2.65	BVPS	17.34	
Comparable PE	5.98	Comparable PB	0.82	
Implied Price	15.86	Implied Price	14.28	
Current Share Price	13.00	Current Share Price	13.00	
<b>Upside/Downside</b>	<b>22.0%</b>	<b>Upside/Downside</b>	<b>9.9%</b>	

Valuation Summary				
Valuation Method	Implied Price	Weighting	Weighted Value	
DDM	12.25	25.0%	3.06	
Residual Income	26.44	25.0%	6.61	
PBV Multiple	14.28	25.0%	3.57	
PE Multiple	15.86	25.0%	3.96	
<b>Estimated Fair Value</b>		<b>100.0%</b>	<b>17.21</b>	
<b>Current Price</b>			<b>13.00</b>	
<b>Upside/Downside</b>			<b>32.4%</b>	
<b>Dividend Yield</b>			<b>7.7%</b>	
<b>Total Probable Return</b>			<b>40.1%</b>	

#### Co-operative Bank of Kenya 5-Year Valuation

Income Statement	2018	2019	2020	2021	2022	2023	2024	2025
Interest Income	43,025	43,639	48,841	54,141	59,076	65,483	71,973	80,610
Interest Expense	12,240	12,336	12,492	14,893	16,633	18,600	20,816	23,332
Net Interest Income	30,785	31,303	36,349	39,248	42,444	46,883	51,157	57,278
Non-Interest Income	12,894	17,157	17,481	19,268	20,826	22,777	24,945	27,642
Total Income	43,678	48,460	53,830	58,516	63,270	69,660	76,102	84,920
Expenses	25,693	27,794	39,398	36,307	38,889	42,062	45,571	49,738
PBT	17,986	20,666	14,432	22,209	24,381	27,598	30,532	35,182
PAT	12,732	14,311	10,813	15,546	17,067	19,319	21,372	24,627
EPS	2.18	2.48	1.98	2.65	2.91	3.29	3.64	4.20
DPS	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00

BALANCE SHEET KES Mn	2018	2019	2020	2021	2022	2023	2024	2025
Investment in Securities	82,829	119,188	163,018	201,431	225,603	252,676	282,997	316,956
Loan Book	245,410	266,713	286,634	318,050	344,342	385,663	431,942	483,775
PPE	6,614	11,421	12,302	11,958	13,361	14,961	16,767	18,833
Intangible Assets	2,497	2,708	6,119	2,989	3,340	3,740	4,192	4,708
<b>Total Assets</b>	<b>413,413</b>	<b>457,009</b>	<b>536,945</b>	<b>597,882</b>	<b>668,061</b>	<b>748,073</b>	<b>838,370</b>	<b>941,671</b>
Customer Deposits	306,117	332,824	378,630	424,066	474,954	531,949	595,782	667,276
Borrowing	23,950	26,424	46,026	50,864	56,464	63,189	70,942	80,322
<b>Total Liabilities</b>	<b>342,196</b>	<b>376,152</b>	<b>444,897</b>	<b>496,155</b>	<b>555,134</b>	<b>621,695</b>	<b>696,486</b>	<b>781,028</b>
Share Holders Funds	71,217	80,857	92,048	101,727	112,927	126,379	141,884	160,644
<b>Liabilities and Shareholders' Funds</b>	<b>413,413</b>	<b>457,009</b>	<b>536,945</b>	<b>597,882</b>	<b>668,061</b>	<b>748,073</b>	<b>838,370</b>	<b>941,671</b>

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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.

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