

Slow PAT on Costly Deposits

Co-operative Bank Kenya reported KES 8.15Bn in profits before tax (PBT) in Q1-23, a 4.6% y-y rise compared to KES 7.79Bn in Q1-22. The lender saw profits after tax (PAT) increase by 4.7% y-y to KES 6.11Bn from KES 5.84Bn over the same period. The performance was supported by rising yield on loans and advances and fees and commission income from issuance of the loans. Headwind came from rising cost of funding with a surge in cost of deposits.

The lender has seen its EPS rise by 5.1% y-y in the quarter and book value per share of 19.2 for a 12-month PE of 3.3x and PB of 0.6x.

We retain a BUY on the stock with a valuation of KES 15.32, a 24.6% upside to KES 12.30. the share value has remained stable posting positive return on 6-months, y-t-d and one year share price. We also expect them to retain the dividend of KES 1.50.

- Net interest income (NII) was up 3.9% y-y to KES 10.77Bn from KES 10.37Bn on a 11.2% rise in interest income. The NII contribution to total income was down to 60.3% from 61.8% in Q1-22.
- Interest income was up 1.2% y-y to KES 15.57Bn from KES 14.00Bn driven by a 11.6% upward move on interest income from loans and advances. The loans and advance revenue line was buoyed by 11.0% growth in net loan book a 20bps rise in yields on loans from 11.3% in Q1-22 to 11.5%. contribution by income from investment in securities saw a 3.8% y-y growth limited by a 2.2% shrinking in book holding despite an 80.0bps rise in yields from 10.7% to 11.5%.
- Expensive customer deposit saw interest income grow by 32.2% y-y to KES 4.80Bn from KES 3.63Bn. deposit expense increased by 20.5% y-y influence by a 50bps rise in cost of deposit while the customer liability grew by 2.2%. the slow growth in customer deposit saw the lender support operation by increasing deposits from peers which surged by 204.1% pushing line expense up by 1,436.8%.
- Non-funded income (NFI) improved by 10.8% y-y from KES 6.41Bn to KES 7.10Bn pushing its contribution to total income up to 39.7% from 38.2%. the revenue category was supported by a 43.9% annual rise in foreign exchange trading income while fees and commission income were up 30.9% y-y.
- Operating expenses surged by 8.8% y-y to KES 9.82Bn from KES 9.02Bn. The growth was suppressed by a 0.7% y-y shrinking in loan loss provisions. Expense growth was affected by a 12.8% y-y rise in staff cost and 11.5% rise in other expenses. Cost to income was at 54.9% from 53.8% in Q1-22.
- Excluding loan loss provisions, expenses increased by 10.7% leaving CTI excluding provision worse at 46.3% from 44.3% during the period.

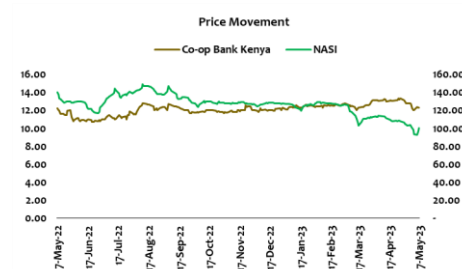
Balance Sheet

- Balance Sheet saw total assets expand by 5.7% y-y with net loan book expanding by 11.0% to KES 360.11Bn from KES 324.48Bn. This boosted loan book share to total asset to 57.1% from 54.4%. Rising yield curve saw holding on government

Recommendation:	BUY
Bloomberg Ticker:	COOP KN
Share Stats	
Valuation	15.32
Current Price	12.30
Upside / Downside	24.6%
3-Months Av	12.72
6-Months Av	12.49
Y-T-D Av	12.61
52-Wk Av	12.10
52 Wk High - Low	13.35 - 10.70
Issued shares Mn	5,867.17
Free Float	35.4%
Market Cap (KES Mn)	72,166.25
Market Cap (USD Mn)	525.33
EPS (LTM)	3.77
PE	3.3x
PB	0.6x

Price Movement		
Period	Co-op Bank	NASI
3-Months Av	12.72	112.38
6-Months Av	12.49	119.68
Y-T-D Av	12.61	117.25
52-Week Av	12.10	126.47
52-High	13.35	148.81
52-Low	10.70	93.04

Price Return		
Period	Co-op Bank	NASI
3-Months Av	-2.4%	-21.9%
6-Months Av	2.5%	-22.2%
Y-T-D Av	1.7%	-21.5%
52-Week Av	0.4%	-28.8%



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securities dip by 2.2% y-y to KES 181.04Bn from KES 185.04Bn leaving its share to total assets down to 28.7% from 31.0%.

- Customer deposits expanded by 2.2% with on tight liquidity conditions. The advance to deposit (AD) ratio climbed to 85.8% from 79.0% an indication of improved risk appetite by the lender.
- To support lending business, the bank increased its borrowing levels by 11.8% pushing debt to equity levels to 42.9% from 42.0%.

Key Ratios

- There was a rise in non-performing loans with gross NPLs up 12.6% while total NPLs increased by 14.4% which left NPL levels at a high of 13.7%, worse compared to 13.3% in Q1-22 and above industry levels of 13.1% seen in February 2023.
- The slow growth in profitability affected returns with return on average assets dipping to 3.9% while return on average equity at 22.1% from 4.0% and 22.9% respectively.
- Downward performance in provisions saw cost of risk thin to 1.7% from 1.9%.

Income Statement (KES Mn)	Q1-2022	Q1-2023	%Δ Y-Y
Interest Income	14,001	15,570	11.2%
Interest Expense	3,629	4,798	32.2%
NII	10,373	10,773	3.9%
NFI	6,408	7,099	10.8%
Total Income	16,781	17,872	6.5%
Provisions	1,544	1,532	-0.7%
Expenses	9,024	9,815	8.8%
Expense excl Provisions	7,480	8,283	10.7%
PBT	7,789	8,149	4.6%
PAT	5,835	6,111	4.7%
EPS	0.99	1.04	5.1%

Balance Sheet (KES Mn)	Q1-2022	Q1-2023	%Δ Y-Y
Investment Securities	185,038	181,043	-2.2%
Loans and Advances	324,483	360,106	11.0%
Total Assets	596,986	631,066	5.7%
Customer Deposit	410,825	419,755	2.2%
Borrowings	43,279	48,394	11.8%
Shareholders Equity	103,097	112,879	9.5%

NPLs KES Mn	Q1-2022	Q1-2023	%Δ Y-Y
Gross NPLs	49,461	55,684	12.6%
Total NPL	43,233	49,462	14.4%
Key Ratios	Q1-2022	Q1-2023	%Δ Y-Y
NII Contribution	61.8%	60.3%	-1.5%
NFI Contribution	38.2%	39.7%	1.5%
CTI	53.8%	54.9%	1.1%
CTI ex Provisions	44.6%	46.3%	1.8%
Yield on Loans	11.3%	11.5%	0.2%
Yield on Government Securities	10.7%	11.5%	0.8%

KINGDOM SECURITIES

Co-operative Bank of Kenya Ltd

Earnings Update – Q1-2023

Cost of Deposit	3.2%	3.7%	0.5%
Cost of Funds	3.2%	4.1%	0.9%
Net Interest Margin	7.7%	7.4%	-0.3%
ROaA	4.0%	3.9%	-0.1%
ROaE	22.9%	22.1%	-0.8%
Gross NPL to Net Loans	13.3%	13.7%	0.4%
Cost of Risk	1.9%	1.7%	-0.2%
Advance to Deposit	79.0%	85.8%	6.8%
Advance to Deposit and Debt	71.5%	76.9%	5.5%
Investment to Assets	31.0%	28.7%	-2.3%
Loans to Assets	54.4%	57.1%	2.7%
Debt to Equity	42.0%	42.9%	0.9%

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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 of both capital appreciation and the dividend yield.

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