

KINGDOM SECURITIES

Co-op Bank Posts 8.6% Rise in Profits

The Co-operative Bank of Kenya reported KES 24.69Bn profits before tax (PBT) in Q3-2023, an 8.6% year-on-year (y-y) growth from that of 2e.72Bn recorded same time in 2022, being supported by strong rise in interest income and a better management of its operating expenses. Profit after tax (PAT) was 7.6% y-y up from KES 17.10Bn to KES 18.39Bn with a marginal rise on its effective tax rate from 24.8% to 25.5%.

The Group's earnings per share (EPS) went up 8.2% from 2.91 in Q3-2023 to 3.15 in Q3-2023 with a book value per share (BVPS) of 18.42 for 12-month PE of 3.59x and a price per book (PB) of 0.61x.

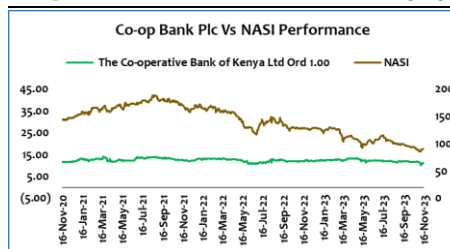
We retain a BUY recommendation on the Lender's share with a price target of KES 12.45 and an expected dividend of KES 1.50 for Full year 2023, giving a total return of 24.4% from the current price of KES 11.25 as at the close of Thursday, 16th November 2023.

Income Statement

- The Lender's Net interest income (NII) was 2.5 % y-y up from KES 32.04Bn to KES 32.82Bn being impacted by higher interest expense in the period in relation to a faster rise in interest income from its interest earning assets. Quarter-on-quarter (Q-Q) net interest income grew faster at 4.7% from KES 10.77Bn to KES 11.28Bn benefiting from the interest rate hikes from 9.5% in Q2-2023 to 10.5% by the Central Bank.
- NNI contribution to total income improved from 61.4% y-y to 61.5% while growing higher Q-Q at 60.0bps from 60.9% in Q2-2023.
- Interest income jumped 12.9% y-y from KES 43.73Bn in Q3-2023 to KES 49.35Bn being supported by expansions in the bank's overall loan book and government securities and rise in the lending rates.
- Income from loans and advances accelerated 14.3% y-y from KES 27.86Bn to KES 31.85Bn, strongly pushed up by a 12.8% overall loan book growth from KES 335.16Bn to KES 378.08Bn. This pushed the yield on loans and advances by 30.0bps up to 11.8%.
- Government securities income was 8.1% up y-y from KES 15.53Bn in first 3-quarters of 2022 to KES 16.78Bn majorly gaining from a general rise in government borrowing rates especially in the new bonds. Return on investment from government securities rose faster at 120.0bps from 11.2% in Q3-2022 to 12.4% in Q3-2023 being elevated by the overall rise in yield rates in the market.
- Interest expense spiked 41.3% y-y from KES 11.70Bn to KES 16.53Bn on costlier borrowings and customer deposits as the holders demanded higher compensation in a tight liquid market. Expenses on customer deposits were 27.5% y-y higher at KES 13.38Bn.
- Total operating expenses were contained at KES 29.00Bn in Q3 2023 from that of KES 29.63Bn on reductions in loan loss provisions and other operating expenses.
- Operating expenses excluding loan loss provisions were 3.7% up to KES 24.80Bn in Q3-2023 from KES 23.91Bn in Q3-2023 held by new recruitments and staff annual pay rise. Staff costs went up 12.4% y-y to KES 12.18Bn.

Co-operative Bank Group Earnings Update – Q3-2023

Recommendation:	BUY
Bloomberg Ticker:	COOP KE
Share Statistics	
Current Price (KES)	11.25
3-Month Av	11.57
6 Month Av	11.82
52 Week Av	12.14
52 Week High - Low	10.20 - 13.35
Issued shares Mn	5,867.17
Free float	35.4
Market Cap (KES Mn)	66,299.07
Market Cap (USD Mn)	435.87
P/E	3.59
BVPS	18.42
PB	0.61
EPS	3.15



Price movement		
	Co-op Bank	Nasi
16-Nov-23	11.25	90.17
3-Months Av	11.56	94.87
6-Months Av	11.56	94.87
12-Months Av	11.56	94.87
Y-T-D Av	12.15	107.38
52-Week Low	10.20	85.54
52-Week High	13.35	129.34

Return Performance		
Periods	Co-op	NASI
3-Months %Δ	-4.3%	-12.2%
6-Months %Δ	-9.3%	-3.0%
Y-T-D %Δ	-7.0%	-29.1%
Y-Y %Δ	-5.1%	-29.4%

NNI + 2.8% Y/Y

Provisions -21.5% Y/Y

Opex. + 3.7% Y/Y

PBT + 8.6% Y/Y

PAT + 7.6% Y/Y

Govt. Securities (Book) +1.5% Y/Y

Loan book + 12.8% Y/Y

Deposits + 0.2% y/y

Shareholder's Funds + -7.1% Y/Y

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Balance sheet

- The Balance sheet saw total assets expand 6.3% or KES 39.24Bn from KES 622.10Bn in Q3-2022 to KES 661.34Bn in Q3-2023, mainly supported by its growth in loan book.
- Loan book and advances surged at 12.8% from KES 335.16Bn in Q3-2022 to KES 378.08Bn. Q-Q the book grew at 3.5% from KES 365.39Bn.
- Government securities book grew at a slower pace of 1.5% y-y from KES 184.11Bn to KES 186.87Bn. Q-Q the book shrunk 1.8% from KES 190.25Bn in Q2-2023. This was as trading declined at 1.5% to KES 96.62Bn while the book held to maturity grew 4.9% on new additions in the new attractive papers.
- Push for more lending saw the bank's borrowings jump 56.5% y-y from KES 41.93Bn to KES 65.61Bn. This was as Customer deposits growth was low with marginal at 0.2% y-y from KES 432.00Bn to KES 432.84Bn in comparison to loan book growths.
- The rise in borrowings saw the Cost of funds escalate to 4.5% y-y from 3.3% in Q3-2022.

Key Ratios

- Rise in gross non-performing loans pushed the lender's NPLS by 130.0bps up from 12.7% in Q3-2022 to 14.0% in Q3-2023 but remained low compared to the industry NPL of 15.0% as of August 2023.
- The cost to income (CTI) ratio reduced to 54.3% in Q3-2023 from 56.8% at the same time last year. Cost to income excluding loan loss provisions however edged up 60.0 bps to 46.4%.
- Growth in overall profits saw return on average assets (ROaA) rise from 3.8% to 3.9% as return on average equity (ROaE) moved up from 26.6% to 26.7%.

P&L (KES Mn)	Q3-2022	Q2-2023	Q3-2023	Y-Y %Δ	Q-Q %Δ
Interest Income	43,732	31,990	49,352	12.9%	5.7%
Interest Expense	11,696	10,444	16,528	41.3%	7.7%
NII	32,036	21,547	32,825	2.5%	4.7%
NFI	20,174	13,824	20,588	2.1%	0.6%
Total Income	52,211	35,371	53,413	2.3%	3.1%
Loan Loss Provisions	5,725	2,863	4,209	-26.5%	1.2%
Operating Expense	29,633	19,137	29,003	-2.1%	5.8%
Opex excl Provision	23,907	16,274	24,795	3.7%	6.6%
PBT	22,731	16,407	24,689	8.6%	0.3%
PAT	17,097	12,141	18,395	7.6%	3.7%
EPS	2.91	2.08	3.15	8.2%	2.9%

Balance Sheet (KES Mn)	Q3-2022	Q2-2023	Q3-2023	Y-Y %Δ
Investments	184,110	190,247	186,872	1.5%
Loans and Advances	335,162	365,388	378,075	12.8%
Total Asset	622,098	664,946	661,341	6.3%
Customer Deposit	432,001	463,874	432,836	0.2%
Borrowing	41,933	59,369	65,605	56.5%
Shareholders' Fund	100,887	108,280	108,082	7.1%

Ratios	Q3-2022	Q2-2023	Q3-2023
NII % of Total Income	61.4%	60.9%	61.5%
NFI % of Total Income	38.6%	39.1%	38.5%
CTI Ratio	56.8%	54.1%	54.3%
CTI exc Provision	45.8%	46.0%	46.4%
Cost of Funds	3.3%	4.2%	4.5%
cost of deposits	3.7%	4.7%	5.1%
Net Interest Margins	7.9%	7.3%	7.5%
Yield on Advances	11.5%	11.9%	11.8%
Yield on Govt Securities	11.2%	11.5%	12.4%
ROaA	3.8%	3.8%	3.9%
ROaE	22.6%	22.4%	22.7%
Cost of Risk	2.4%	1.6%	1.6%
Advances to Deposit Ratio	77.6%	78.8%	87.3%
Investment Securities to Assets	29.6%	28.6%	28.3%
Advances to Assets	53.9%	54.9%	57.2%
Debt to Equity	41.6%	54.8%	60.7%
NPL Ratio	12.7%	13.4%	14.0%

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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.

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