

Co-op Bank Profits Rise 10.0%

Co-op Bank Group today reported a double-digit growth on its profits before tax (PBT), from KES 29.43Bn in full year (FY) 2022 to KES 32.36Bn in FY-2023. The performance remained elevated by interest income growths, loan loss provisions reductions and a better management of its operating expenses. Profits after tax (PAT) were 5.2% up year-on-year from KES 22.04Bn to KES 23.19Bn, being affected by a higher effective tax of 28.4% in 2023, from that of 25.1% in FY-2022.

The Group's Board declared a KES 1.50 dividend per share (DPS) whose book closure and payment dates are 28th April and 10th June respectively.

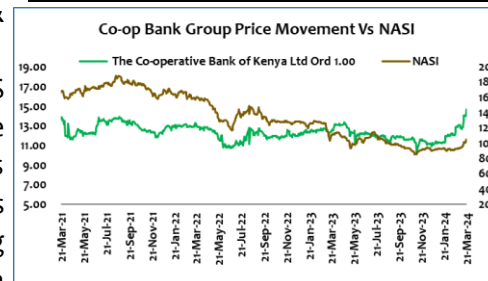
We retain our BUY recommendation on the Bank's share a revised price valuation of KES 15.50, which gives a total return of return of 14.6% from the current price of KES 14.05 per share. The dividend payout ratio stands at 38.3% from a total earnings per share of KES 3.92 for FY-2023.

Income Statement

- The Bank's total net interest income (NNI) stabilized at KES 45.23Bn, impacted by a higher cost of financing from both customer deposits and placements from banking institutions among other interest expenses.
- NII contribution to total income, however, declined marginally from 63.9% to 63.1% of a fast growth on the Group's non-funded income channels.
- Interest income was up 11.9% y-y from KES 61.75Bn to KES 69.07Bn being strongly supported by almost similar growths in both interest income from the loans & advances and that from government securities.
- Interest income from loans and advanced grew at a faster rate of 11.0% from KES 40.41Bn to KES 44.85Bn reaping off from its rising loan book. This was despite the Banks being averse in the interest rate hikes witnessed in the market. The Bank's loan book expanded by 10.3% to KES 374.23Bn. The yield on loans and advances improved from 12.4% to 12.6%, highly impacted by the high cost of financing witnessed in the market, brought about by the high government demand for cash to meet its obligation.
- Interest from government securities accelerated at 10.9% y-y to KES 23.13Bn as the Bank took advantage of the better returns witnessed in the government borrowing space to grow its securities book.
- Total Interest expense jumped 46.9% up y-y from KES 16.22Bn to KES 23.84Bn on higher cost of borrowing and expensive customer deposits. Cost of customer deposits enlarged 26.5% from KES 14.41Bn to KES 18.23Bn as clients demanded better compensation to avoid diverting cash to government papers.
- Non-funded income growths slowed down 2.8% growths from KES 25.73Bn to KES 26.46Bn, being heavily affected by the US dollar scarcity witnessed.
- Operating expenses declined 6.1% y-y from KES 42.24Bn to KES 39.67Bn supported by a 30.8% decline in loan loss provisions from KES 8.68Bn to KES 6.01Bn, on aggressive recoveries that happened in FY 2023. Staff costs were 12.9% higher on what we attribute to the annual salary reviews and increments.
- Excluding provisions, operating expenses remained stable at KES 33.67Bn from that of KES 33.57Bn the year before.

| Recommendation: | BUY |
|---------------------|---------------|
| Bloomberg Ticker: | COOP KE |
| Share Statistics | |
| Valuation price | 15.50 |
| Upside/Downside | 5.4% |
| Current Price | 14.70 |
| 3-Month Av | 12.13 |
| 6 Month Av | 11.79 |
| 52 Week Av | 12.01 |
| 52 Week High - Low | 10.10 - 14.70 |
| Issued shares Mn | 5,867.17 |
| Free float | 35.40 |
| Market Cap (KES Mn) | 86,247.47 |
| Market Cap (USD Mn) | 648.15 |
| P/E | 3.75 |
| BVPS | 19.38 |
| PB | 0.76 |
| EPS | 3.92 |
| DPS | 1.50 |
| Dividend Payout | 38.3% |
| Dividend Yield | 10.2% |

| Co-op Price Movement Vs NASI Index | | |
|------------------------------------|------------|--------|
| Period | Co-op bank | NASI |
| m-t-d %Δ | 7.28% | 11.09% |
| m-m %Δ | 13.36% | 12.37% |
| 3m-t-d %Δ | 20.69% | 14.14% |
| 6m-t-d %Δ | 18.14% | 6.87% |
| y-o-y %Δ | 12.90% | -5.74% |
| y-t-d %Δ | 23.35% | 12.63% |



NNI – 0.6% Y/Y

Provisions – 30.8% Y/Y

Opex. -6.1% Y/Y

Opex Exc. Loan loss prov. + 0.2% y-y

PBT + 10.0% Y/Y

PAT + 5.2% Y/Y

Govt. Securities + 8.9% Y/Y

Loans Book + 10.3% Y/Y

Deposits + 6.6% Y/Y

Shareholder's Funds + 5.3% Y/Y

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Balance Sheet

- The Group's total assets were expanded 10.5% y-y from KES 607.20Bn to KES 671.13Bn on supports from the bank's loan book and the government securities book. Overall loan book enlarged by 10.3% from KES 339.39Bn to KES 374.23Bn. The securities book grew by 8.9% y-y up to KES 190.82Bn.
- Shareholders' funds went up 5.3% y-y from KES 107.95Bn to KES 113.68Bn gaining from a 14.5% gain in retained earnings which moved from KES 97.69Bn to KES 111.89Bn.
- Borrowings shot up 40.0% y-y from KES 48.10Bn to KES 67.33Bn to support the KES 34.84Bn addition in the bank's loan book.

Key Ratios

- Overall return on average equity to shareholders declined from 21.2% in FY 2022 to 20.9% in FY 2023 lower growth in net profits compared to the rise in shareholders' funds. The same situation was witnessed in the average return on assets which marginally fell from 3.7% to 3.6%.
- Cost of funds rose by over a percentage point from 3.5% in 2022 to 4.8% on effect from a faster rise in the interest expense which soared 46.9% as explained above. This saw the net interest margins (NIMs) decline from 8.1% in 2022 to 7.6% in FY 2023 on depressed revenues.
- The Bank's cost of risk dropped from 2.7% to 1.7% supported by a fast-growing loan book and the drop in the loan loss provisions.

| P&L (KES Mn) | FY-2021 | FY2022 | FY-2023 | Y-Y %Δ |
|----------------------|---------------|---------------|---------------|--------------|
| Interest Income | 55,648 | 61,746 | 69,066 | 11.9% |
| Interest Expense | 14,611 | 16,221 | 23,835 | 46.9% |
| NII | 41,037 | 45,525 | 45,231 | -0.6% |
| NFI | 19,396 | 25,730 | 26,462 | 2.8% |
| Total Income | 60,433 | 71,255 | 71,693 | 0.6% |
| Loan Loss Provisions | 7,929 | 8,677 | 6,008 | -30.8% |
| Operating Expense | 38,090 | 42,244 | 39,675 | -6.1% |
| Opex excl Provision | 30,161 | 33,567 | 33,666 | 0.3% |
| PBT | 22,649 | 29,427 | 32,364 | 10.0% |
| PAT | 16,544 | 22,038 | 23,188 | 5.2% |
| EPS | 2.85 | 3.72 | 3.92 | 5.4% |
| EPS | 1.00 | 1.50 | 1.50 | 0.0% |

| Balance Sheet (KES Mn) | FY-2021 | FY2022 | FY-2023 | Y-Y %Δ |
|------------------------|---------|---------|---------|--------|
| Investments | 185,763 | 175,153 | 190,823 | 8.9% |
| Loans and Advances | 310,195 | 339,390 | 374,227 | 10.3% |
| Total Asset | 579,772 | 607,198 | 671,131 | 10.5% |
| Customer Deposit | 407,726 | 423,803 | 451,642 | 6.6% |
| Borrowing | 42,915 | 48,102 | 67,334 | 40.0% |
| Shareholders' Fund | 100,222 | 107,947 | 113,679 | 5.3% |

| Ratios | FY-2021 | FY2022 | FY-2023 |
|---------------------------------|---------|--------|---------|
| NII % of Total Income | 67.9% | 63.9% | 63.1% |
| NFI % of Total Income | 32.1% | 36.1% | 36.9% |
| CTI Ratio | 63.0% | 59.3% | 55.3% |
| CTI exc Provision | 49.9% | 47.1% | 47.0% |
| Cost of Funds | 3.3% | 3.5% | 4.8% |
| cost of deposits | 3.7% | 3.9% | 5.4% |
| Net Interest Margins | 8.1% | 8.5% | 7.6% |
| Yield on Advances | 12.2% | 12.4% | 12.6% |
| Yield on Govt Securities | 10.7% | 11.6% | 12.6% |
| ROaA | 3.0% | 3.7% | 3.6% |
| ROaE | 17.2% | 21.2% | 20.9% |
| Cost of Risk | 2.7% | 2.7% | 1.7% |
| Advances to Deposit Ratio | 76.1% | 80.1% | 82.9% |
| Investment Securiteis to Assets | 32.0% | 28.8% | 28.4% |
| Advances to Assets | 53.5% | 55.9% | 55.8% |
| Debt to Equity | 42.8% | 44.6% | 59.2% |

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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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