

Co-op Bank Group Profits Accelerate 10.6% Up in Q1-2024

Co-operative Bank Plc reported KES 9.01Bn profit before tax (PBT) in the first quarter of 2024 (Q1-2024), a 10.6% rise compared to KES 8.15Bn recorded in Q1-2023. The Bank's performance was supported by strong growth in the Bank's core business, which pushed the net interest income contribution to total income moved from 60.3% to 62.3% to lead in the Banking sector. Profits after tax (PAT) went up 7.7% from KES 6.11Bn to 6.58Bn, impacted by a higher effective tax rate of 27.0% compared to that 25.0% same period last year.

The Group's cost to income ratio thinned from 54.9% in Q1-2023 to 52.5% on prudent cost management that saw operating cost contained at a 0.5% rise to KES 9.86Bn.

PBT contribution from subsidiaries grew from 8.2% of KES 0.67Bn in Q1-2023 to 10.8% or KES 0.97Bn in Q1-2024. Kingdom Bank, formerly a loss-making Jamii Bora Bank, reported a 33.3% jump in PBT from KES 265.26Mn to KES 341.68Mn.

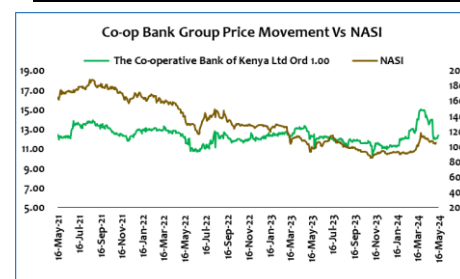
We retain a BUY recommendation in the Bank's stock at the current price of KES 12.40 for an implied value of KES 15.50 per share, a 25.0% upside. The Bank has been consistent in rewarding its investors, retaining KES 1.50 dividend for FY-2023 payable on 10th June after closing its books on 29th April 2024.

Income Statement

- Net interest income (NII) rose 8.6% from KES 10.77Bn to KES 11.70Bn on impact from high cost of financing on expensive deposits whose costs rose faster compared to rises in interest incomes This pushed the NII contribution to total income ratio mover upwards from 60.3% in Q1-2023 to close Q1-2024 at 62.3% of the total operating income.
- Interest income was 24.7% up year-on-year from KES 15.57Bn to KES 19.41Bn on income growths in both interest on loans and advances and government securities. The rise further emanated from continued interest rate hikes by the Central Bank which saw the Bank raise its base lending rate from 14.00% end of year 2023 to 16.5% by end of Q1-2024 even as the lender went slow on implementing its risk-based pricing model.
- Income from loans and advances soared 24.2% y-y higher from KES 10.02Bn to KES 12.47Bn in Q1-2024 gaining from the above rate hikes and a 5.0% growth on its loan book. As a result, the bank's yield on loans and advances went up from 11.5% in Q1-2023 to 13.2% in Q1-2024.
- Government securities income climbed 21.4% y-y from KES 5.13Bn to KES 6.23Bn benefiting from the better returns from new government papers that touched a high of 18.46% per annum. Further, the rise came from aggressive investing in government papers that saw the government securities book expand 11.5% y-y from KES 181.04Bn to KES 201.91Bn.
- The lender's interest expense jumped 60.8% up to KES 7.71Bn in Q1-2024 on effect from expensive customer deposits as clients demanded better returns informed by higher rates in the government securities. This pushed customers deposit expense 61.9% up from KES 3.94Bn to KES 6.39Bn.
- As a result, the cost of deposits jumped up from 4.6% in Q1-2023 to 6.6% by close of Q1-2024.

Recommendation: BUY	
Bloomberg Ticker: COOP KE	
Share Statistics	
Valuation price	15.50
Upside/Downside	25.0%
Current Price	12.40
3-Month Av	13.42
6 Month Av	12.45
52 Week Av	12.13
52 Week High - Low	15.05 - 10.20
Issued shares Mn	5,867.17
Free float	35.40
Market Cap (KES Mn)	72,752.97
Market Cap (USD Mn)	546.74
P/E	11.07
BVPS	21.43
PB	0.58
EPS (annualized)	4.48

Return Performance		
Periods	Co-op	NASI
3-Months %Δ	2.5%	19.9%
6-Months %Δ	10.2%	21.1%
Y-T-D %Δ	9.3%	18.7%
Y-Y %Δ	0.8%	9.2%



NNI + 8.6% Y/Y

Provisions + 3.9 Y/Y

Opex. + 0.5% Y/Y

Opex Exc. Loan loss prov. - 0.1% y-y

PBT + 10.6% Y/Y

PAT + 7.7% Y/Y

Govt. Securities + 11.5% Y/Y

Loans Book + 5.0% Y/Y

Deposits + 14.8% Y/Y

Shareholder's Funds + %12.9 Y/Y

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- Operating expenses were contained at KES 9.86Bn, a marginal rise of 0.5% from that of KES 9.82Bn in Q1-2023 held down by reductions in other operating expenses which fell 18.8% from KES 3.20Bn to KES 2.60Bn, after the completion the new core banking system, Finacle, that had costed over KES 6.95Bn.
- The Group's loan loss provisions were contained at 1 3.9% rise from KES 1.53Bn to KES 1.59Bn to cushion the above rise loan book while 'sustaining aggressive recoveries.
- Operating expenses excluding loan loss provisions declined 0.1% from KES 8.23Bn to KES 8.27Bn.

Balance Sheet

- The Bank's balance sheet expanded 13.2% y-y mainly supported by growths in government and loans and advances. The bank's government securities book grew faster at 11.5% from KES 181.04Bn to KES 201.91Bn to take advantage of the better returns witnessed in the sector.
- Loan book growths slowed to 5.0% from KES 360.11Bn to KES 378.10Bn in relation to 11.0% growths experienced same time 2023, attributed to low disbursements especially in the consumer loans sector impacted by statutory deductions and overall rise in lending rates. Customer deposits went up 14.8% y-y from KES 419.76Bn to KES 481.76Bn to support the rising asset book albeit at higher costs.
- Borrowed funds surged 24.1% from KES 48.10Bn to KES 60.06Bn further to support the bank's rising asset books.
- Shareholders' funds spiked 12.9% y-y from KES 112.61Bn to KES 127.10Bn n growths in retained earnings which shoot up 15.1% from KES 103.78Bn to KES 119.46Bn.

Key Ratios

- Expensive deposits and placements from financial institutions saw the overall cost of funds escalate from 4.0% to 5.7% year-on-year depressing the net interest margins to shrink from 7.5% in Q1-2023 to 7.1% in Q1-2024.
- Slow growth in net income compared to that of total assets saw return on average assets (ROaA) drop marginally from 3.9% to 3.8%. Further, the return on average equities (ROaE) also dropped from 22.1% to 22.00% on same effect of a faster rise in total shareholders' funds compared to net income.
- The cost of risk for the bank edged down from 1.8% to 1.7% on stringent lending that saw the overall loan loss provisions contained at KES 1.59Bn.

P&L (KES Mn)	Q1-2023	FY-2023	Q1-2024	%Δ y-y
Interest Income	15,570	69,066	19,414	24.7%
Interest Expense	4,798	23,835	7,713	60.8%
NII	10,773	45,231	11,701	8.6%
NFI	7,099	26,462	7,075	-0.3%
Total Income	17,872	71,693	18,776	5.1%
Loan Loss Provisions	1,532	6,008	1,593	3.9%
Operating Expense	9,815	39,675	9,864	0.5%
Opex excl Provision	8,283	33,666	8,271	-0.1%
PBT	8,149	32,364	9,012	10.6%
PAT	6,111	23,188	6,580	7.7%
EPS	1.04	3.92	1.12	7.7%

Balance Sheet (KES Mn)	Q1-2023	FY-2023	Q1-2024	%Δ y-y
Investments	181,043	190,823	201,913	11.5%
Loans and Advances	360,106	374,227	378,101	5.0%
Total Asset	631,066	671,131	714,672	13.2%
Customer Deposit	419,755	451,642	481,757	14.8%
Borrowing	48,394	67,334	60,060	24.1%
Shareholders' Fund	112,609	113,679	125,713	11.6%

Ratios	Q1-2023	FY-2023	Q1-2024
NII % of Total Income	60.3%	63.1%	62.3%
NFI % of Total Income	39.7%	36.9%	37.7%
CTI Ratio	54.9%	55.3%	52.5%
Advances to Deposit Ratio	85.8%	82.9%	78.5%
Investment Securities to Assets	28.7%	28.4%	28.3%
Advances to Assets	57.1%	55.8%	52.9%
Debt to Equity	43.0%	59.2%	47.8%
CTI exc Provision	46.3%	47.0%	44.1%
Cost of Funds	4.0%	4.8%	5.7%
cost of deposits	4.6%	5.4%	6.6%
Net Interest Margins	7.5%	7.6%	7.1%
Yield on Advances	11.5%	12.6%	13.2%
Yield on Govt Securities	11.5%	12.6%	12.7%
ROaA	3.9%	3.6%	3.8%
ROaE	22.1%	20.9%	22.0%
Cost of Risk	1.8%	1.7%	1.7%

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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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