

### Co-op Bank Group Plc Reports 8.5% Rise in Profits

The Co-operative Bank Group plc reported KES 26.78Bn profits before tax (PBT) as of end of Q3-2024, representing an 8.5% uptick from KES 24.69Bn announced same time in 2023. The performance remained supported by faster growths in interest and non-funded income lines. The Group's subsidiary contribution to total income grew from 7.9% of KES 1.95Bn to an 8.6% of KES 2.31Bn PBT contribution. Co-op Bank Kenya's PBT rose 7.7% from KES 22.74Bn to KES 24.48Bn to contribute 91.4% of the Group's PBT.

Profits after tax (PAT) were 4.4% up from KES 18.39Bn to KES 19.21Bn on a higher effective tax rate of 28.3% in Q3-2024 compared to that of 25.5% recorded in Q3-2023.

The counter's earnings per share (EPS) grew 4.4% to 3.29, annualized to an EPS of 4.39 for a price to earning ratio (PE) of 4.45x compared to a sector PE of 4.08.

We revise our recommendation to ACCUMULATION with a fair value of KES 16.23, representing a 10.8% upside from the current price of KES 14.65 as of 14<sup>th</sup> November 2024.

### Income Statement

The Co-operative Bank Group's net interest income (NII) rose 12.3% up from KES 32.82Bn to KES 36.87Bn supported a faster rise in interest income from both loans and government securities. Total interest income accelerated 25.2% y-y up from KES 49.35Bn to KES 61.77Bn by taking advantage higher interest rates witnessed in the market.

NII contribution to total income improved from 61.5% in Q3-2023 to 62.3% in Q3-2024 on the higher hiked interest rate returns just before major interest rate cuts takes effect.

Interest income from loans from loans and advances accelerated up 23.7% up from KES 31.85Bn in Q3-2023 to KES 39.41Bn in Q3-2024 on account of the prevailing higher rates in the period. As a result, yield on loans and advanced shoot up 210.0bps from 11.8% in Q3-2024 to 13.9%.

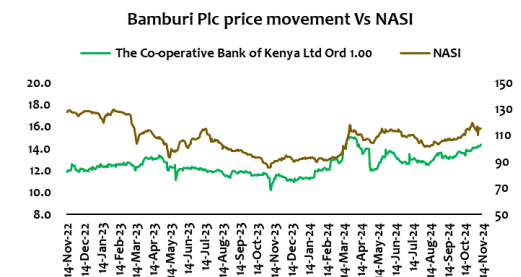
Income from government securities also rallied up 17.8% from KES 16.78Bn to KES 19.76Bn, also reaping off from the higher rates witnessed in the government paper. This pushed the return on government papers up from 12.6% to 13.0% year on year.

Interest expenses went up by half from KES 16.53Bn to KES 24.89Bn elevated by higher cost of financing the bank's loan book especially from customer deposits and borrowings. Cost on customer deposits surged 60.1% y-y up from KES 13.38Bn to KES 21.42Bn as customers demanded more compensation informed by higher returns in the government papers space. Other interest expenses also jumped 17.4% up to KES 3.01Bn on what we view to be the higher cost of the bank's borrowings. Quarter on quarter, interest expenses were up 8.8%.

Non funded income increased by 8.2% from KES 20.59Bn to KES 22.28Bn boosted by foreign exchange trading, which ballooned 51.3% y-y up from KES 2.46Bn to KES

Recommendation:	ACCUMULATE
Bloomberg Ticker:	COOP KE
Share Statistics	
Valuation price	16.23
Upside/Downside	10.8%
Current Price	14.65
3-Month Av	13.49
6 Month Av	13.27
52 Week Av	12.84
52 Week High - Low	15.05 - 10.20
Issued shares Mn	5,867.17
Free float	35.40%
Market Cap (KES Mn)	85,954.11
Market Cap (USD Mn)	645.95
P/E	4.45
BVPS	22.47
PB	0.65
EPS (annualized)	4.39

Return Performance		
Periods	Co-op	NASI
3-Months %Δ	15.8%	13.0%
6-Months %Δ	1.7%	4.7%
Y-T-D %Δ	29.1%	25.4%
Y-Y %Δ	32.6%	29.1%



NII +12.3.0% Y/Y
Provisions +32.5% Y/Y
Opex. +12.7% Y/Y
Opex. Excl Provisions +5.2% Y/Y
PBT +8.5% Y/Y
PAT +4.4% Y/Y
Govt. Securities +14.2% Y/Y
Loans +0.9% Y/Y
Deposits +18.7% Y/Y
Shareholder's Funds + 22.0% Y/Y

Shadrack Manyinsa  
Research Analyst  
[smanyinsa@co-opbank.co.ke](mailto:smanyinsa@co-opbank.co.ke)

# KINGDOM SECURITIES

3.73Bn taking advantage of the appreciating local currency. Slow growth in loan book however saw fees and commissions from loans and advanced drop relatively stable from KES 9.09Bn to KES 9.08Bn.

Operating expenses were contained enlarged 12.7% y-y from KES 29.00Bn to KES 32.68Bn largely on higher loan loss provisions which went up 32.5% from KES 4.21Bn to KES 5.58Bn to cushion the growing loan book. Quarter on quarter, the Bank contained its operating expenses at KES 11.41Bn.

Excluding loan loss provisions, operating expenses declined 5.2% y-y from KES 28.58Bn to KES 27.10Bn on low depreciation of its new Finacle System.

Staff costs rose 10.8% y- from KES 12.18Bn to KES 13.50Bn on normal annual increment and staff perks.

## Balance Sheet

The top tier one's assets expanded faster at 13.5% y-y from KES 661.34Bn to KES 750.78Bn mainly supported by its government securities book which added KES 26.53Bn or a 14.2% rise from e186.87Bn to KES 213.40Bn. We view the faster rise as a measure to manager rise as well as invest excess loan funds on low loan book growth in the Banking industry.

The bank's loan book grew marginally at 0.9% y- from KES 378.08Bn to KES 381.34Bn defying the trend of others in the industry whose loan book shrunk. This was largely supported by the banks' low interest rates compared to peers in the industry.

Shareholders' funds improved 22.0% y-y from KES 108.08Bn to KES 131.83Bn on a faster growth of retained earnings which went up 14.1% to KES 132.17Bn among other reserves.

Borrowed funds dropped 11.6% from KES 65.61Bn to KES 58.03Bn as there was no need for borrowing following slow loan disbursements which were supported by customer deposits to manage the cost of financing.

## Key Ratios

The faster growth in the cost of funds from 4.5% in Q3-2023 to 6.0% in Q3-2024 saw the net interest margins (NIMs) drop marginally from 7.5% to 7.2% in the same period respectively. This was fairly supported by a rise in the bank's asset yield from 12.0% in Q3-2023 to 13.2% as of Q3-2024.

Return on average assets (ROaA) fell marginally from 3.9% to 3.7% on a faster growth in assets compared to profits. The same movement was reflected in the return on average equity (ROaE) which dropped from 22.7% by Q3-2023 to 21.6% by Q3-2024 on a faster rise in shareholders' funds in relation to net returns.

Higher provisions from KES 4.21Bn to KES 5.58Bn elevated the Group's cost of risk from 1.6% to 2.0% by end of September 2024.

## PBT Subsidiary Contribution

	Q3-2023	Q3-2024
Co-op Bank (K)	92.1%	91.4%
Subsidiaries	7.9%	8.6%

## Contribution to Total Assets

Co-op Bank (K)	92.6%	93.0%
Subsidiaries	7.4%	7.0%

# KINGDOM SECURITIES

P&L (KES Mn)	Q3-2023	Q2-2024	Q3-2024	%Δ Q-Q-	%Δ y-y
Interest Income	49,352	39,800	61,767	7.8%	25.2%
Interest Expense	16,528	15,943	24,893	8.8%	50.6%
<b>NII</b>	<b>32,825</b>	<b>23,858</b>	<b>36,874</b>	<b>7.1%</b>	<b>12.3%</b>
NFI	20,588	15,375	22,281	-16.8%	8.2%
<b>Total Income</b>	<b>53,413</b>	<b>39,232</b>	<b>59,155</b>	<b>-2.6%</b>	<b>10.8%</b>
Loan Loss Provisions	421	3,002	5,578	82.7%	1225.4%
Operating Expense	29,003	21,269	32,679	0.0%	12.7%
Opex excl Provision	28,583	18,267	27,101	-11.6%	-5.2%
<b>PBT</b>	<b>24,689</b>	<b>18,161</b>	<b>26,785</b>	<b>-5.7%</b>	<b>8.5%</b>
<b>PAT</b>	<b>18,395</b>	<b>12,991</b>	<b>19,208</b>	<b>-3.0%</b>	<b>4.4%</b>
EPS	3.15	2.21	3.29	-0.9%	4.4%

Balance Sheet (KES Mn)	Q3-2023	Q2-2024	Q3-2024	%Δ Q-Q-	%Δ y-y
Investments	186,872	203,977	213,403	4.6%	14.2%
Loans and Advances	378,075	375,629	381,342	1.5%	0.9%
Total Asset	661,341	716,925	750,781	4.7%	13.5%
Customer Deposit	432,836	507,391	513,979	1.3%	18.7%
Borrowing	65,605	50,217	58,017	15.5%	-11.6%
Shareholders' Fund	108,082	126,703	131,831	4.0%	22.0%

Ratios	Q3-2023	Q2-2024	Q3-2024
NII % of Total Income	61.5%	60.8%	62.3%
NFI % of Total Income	38.5%	39.2%	37.7%
CTI Ratio	54.3%	54.2%	55.2%
CTI exc Provision	53.5%	46.6%	45.8%
Cost of Funds	4.5%	5.9%	6.0%
cost of deposits	5.1%	6.6%	6.9%
Net Interest Margins	7.5%	7.1%	7.2%
Yield on Advances	11.8%	13.7%	13.9%
Yield on Govt Securities	12.4%	12.8%	13.0%
ROaA	3.9%	3.7%	3.6%
ROaE	22.7%	21.6%	21.0%
Cost of Risk	1.6%	1.6%	2.0%
Advances to Deposit Ratio	87.3%	74.0%	74.2%
Investment Securiteis to Assets	28.3%	28.5%	28.4%
Advances to Assets	57.2%	52.4%	50.8%
Debt to Equity	60.7%	39.6%	44.0%
NPL Ratio	13.1%	14.9%	14.8%

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- **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.

Kingdom Securities Ltd – A subsidiary of Co-operative Bank Limited. Co-operative Bank House- 5th Floor, P.O Box 48231 - 00100 Nairobi, Kenya

Office: 0711049039

Email: [kingdomresearch@co-opbank.co.ke](mailto:kingdomresearch@co-opbank.co.ke)

### Research Department

### Equities Trading

Shadrack Manyinsa [smanyinsa@co-opbank.co.ke](mailto:smanyinsa@co-opbank.co.ke)

Alfred Too [atoo@co-opbank.co.ke](mailto:atoo@co-opbank.co.ke)

Dennis Langat [dlangat@co-opbank.co.ke](mailto:dlangat@co-opbank.co.ke)

Asena Moffat [amoffat@co-opbank.co.ke](mailto:amoffat@co-opbank.co.ke)