

CO-OPERATIVE BANK OF KENYA FY'2022 EARNINGS UPDATE

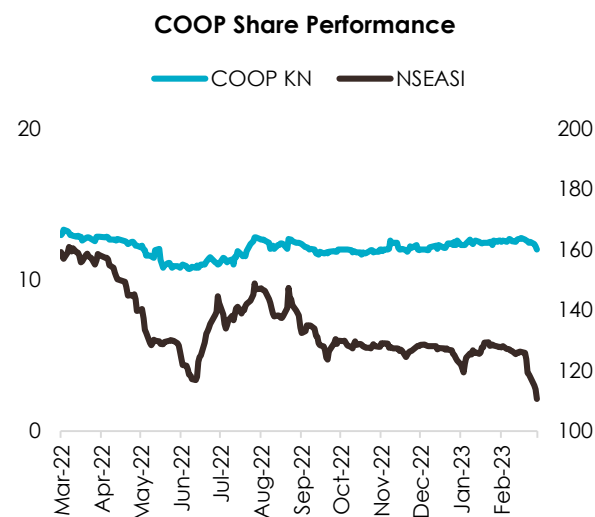
Co-operative Bank released its financial results posting a **33%** surge in profit after tax attributable to 32.7% increase in non-interest income and a 10.9% increase in net interest income. The **Return on Equity** and Return on Assets rose to **21.2%** and 3.7%, respectively. **Earnings per share** increased to **KES 3.72** from KES 2.85 recorded in the previous financial year. The Board of directors recommended payment of a **KES 1.50** first and final dividend (KES 1.00 in FY2021), which translates to **12.5%** dividend yield.

FY2022 Performance – % y/y performance

- **Earnings:** Operating income grew by 17.9% to KES 71.3Bn mainly driven by non-interest income which grew by 32.7% to KES 25.7Bn coupled with a 10.9% rise in interest income. This was largely attributable to growth in foreign exchange trading income as the bank leveraged on wider spreads. Forex trading income grew by 65.6% to KES 4.7Bn.
- **Loan book:** The bank's loans and advances to customers grew by 9.4% to KES 339.4Bn faster than the 3.9% growth in deposits. The loan to deposit ratio rose to 80.1% from 76.1% in FY2021 indicating that the bank leveraged more on deposits to fund its loans and advances to customers.
- **Customer deposits** grew by 3.9% to KES 423.8Bn supported by deposit mobilization through the opening of new branches to scale retail expansion.
- **Government securities** recorded 6.2% growth to KES 184.1Bn albeit lower than industry as the lender shifted its strategy towards aggressive lending and revenue diversification in the region.
- **Efficiency:** Cost to income ratio excluding provisions reduced to 47.1% from 49.9%. Cost to income ratio including provisions declined to 59.3% from 63.0% in 2021. Operating costs grew by 11.3% to KES 33.6Bn.
- **Asset Quality:** Gross NPLs increased by 5.2% to KES 52.3Bn. Credit impairment charges increased by 9.4% to KES 8.7Bn. The NPL ratio improved to 13.4% lower than the industry average of 13.70% – reflective of improved asset quality.

Share Data	Co-operative Bank
Ticker	COOP KN
RECOMMENDATION	BUY
Current Price (KES)	12.00
Target Price (KES)	15.10
Dividend Yield	12.5%
Upside(Exc. Div. Yield)	25.8%
52WK High (KES)	14.00
52WK Low (KES)	10.30
Market Cap (KES Bn)	980.30
Free Float	13.5%
P/B	0.7x
P/E	3.2x
Current Price = as of 15th March 2023	

Source: Bloomberg, NSE, NCBA IB Research



Source: NSE, NCBA IB Research

Financial Summary

Co-operative Bank Kenya	Key Metrics Y/Y
Loans and Advances	Up 9.4% to KES 339.4Bn
Customer Deposits	Up 3.9% to KES 423.8Bn
Government Securities	Up 6.2% to KES 184.1Bn
Net Interest Income	Up 10.9% to KES 45.5Bn
Non-Funded Income	Up 32.7% to KES 25.7Bn
Forex trading income	Up 65.6% to KES 4.7Bn
Loan Loss Provisions	Up 9.4% to 8.7Bn
PBT	Up 29.9% to KES 29.4Bn
PAT	Up 33.2% to KES 22Bn
EPS	Up 30.5% to KES 3.72
DPS	Up 50% to KES 1.50

Source: Company financials, NCBA IB Research

Co-operative Bank Kenya	Key Ratios Y/Y
Loan Deposit ratio	Up to 80.1% From 76.1%
Net Interest Margin	Up to 7.5% from 7.1%
Cost to Income	Down to 47.1% from 49.9%
NPL Ratio	Down to 13.4% from 13.8%
Cost of Risk	Unchanged at 2.6%
ROE	Up to 21.2% from 15.9%
Current Market Price	KES 12.00
P/E	3.2x
P/B	0.7x
Dividend payout	40.3%
Dividend Yield	12.5%

2023 Outlook

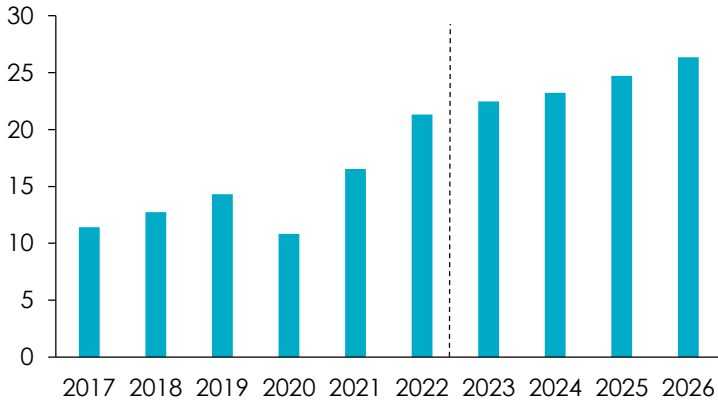
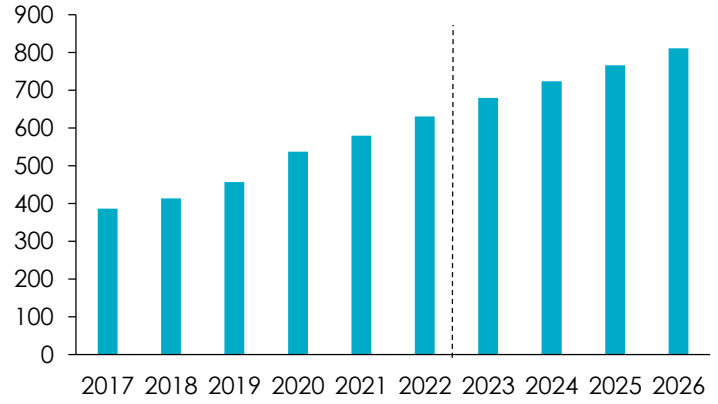
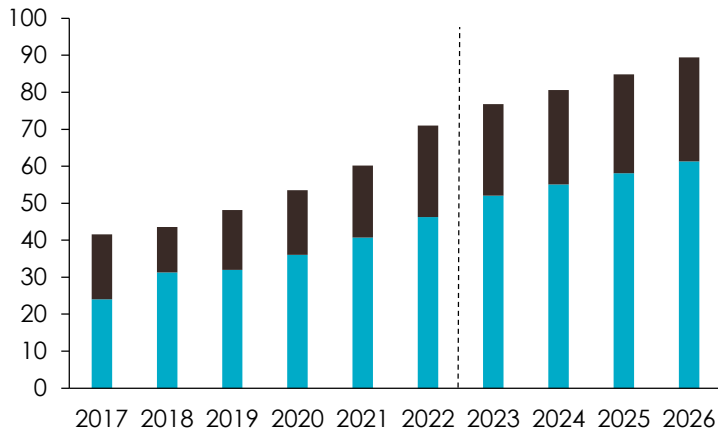
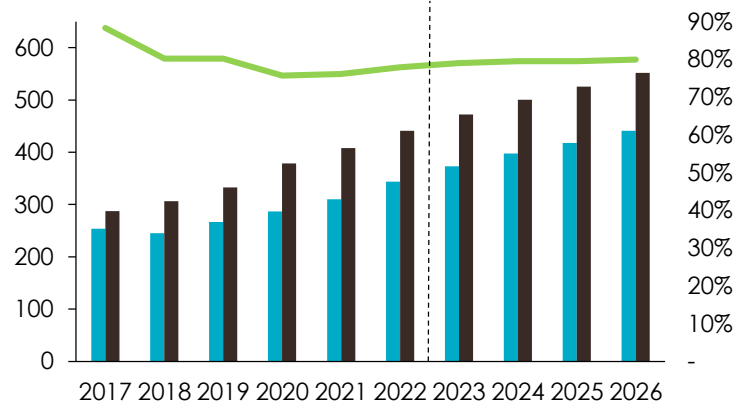
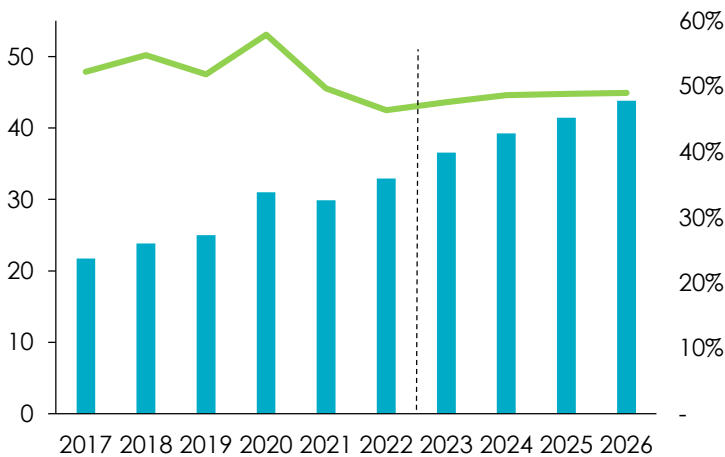
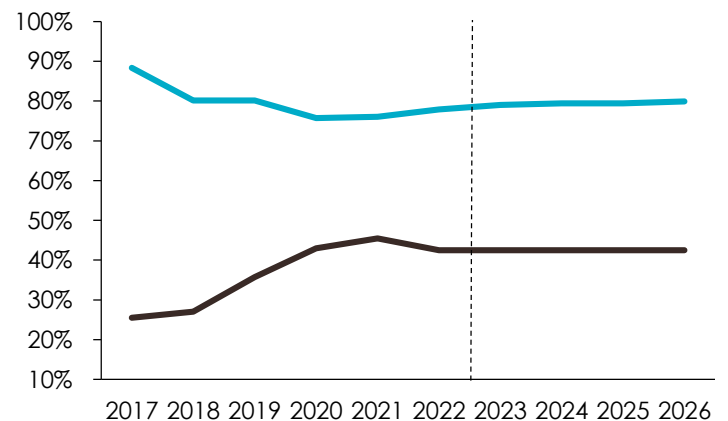
We expect Co-operative bank to record steady growth boosted by:

- 1. Loan book growth:** Growth in the topline boosted by a strong customer base.
- 2. Improved efficiency levels:** The bank's cost to income ratio without loan loss provisions decreased to 45.8% in Q3'2022, owing to management efforts to contain recurrent expenditures. These efforts, if sustained, will lead to increased profitability for the lender in the long-term as focus shifts to the topline.
- 3. Digital loans growth:** The bank's main clients, co-operatives, will continue to provide a stable source of revenue. The bank's focus on digital lending through its M-Co-op Cash products will support NFI line growth.
- 4. Improved asset quality:** We expect the bank to implement the risk-based pricing model to boost loan interest income in the short term.

Investment recommendation:

At the current market price, we believe the stock presents an opportunity for long-term investors to earn capital gains and its reliable dividend payout.

We expect the bank to continue to generate long-term profitability based on its focus on digital lending, strong customer base, and improved asset quality.

Financial highlights – Co-operative Bank
PAT (KES Bn)

Total Assets (KES Bn)

Non-Funded Income (KES Bn) Net Interest Income (KES Bn)

Net Loans (KES Bn) Deposits (KES Bn)
Loan to Deposits Ratio

Operating Expenses (KES Bn) Cost to Income Ratio (without LLP)

Loan to Deposits Ratio Govt. Securities to Deposits Ratio


About NCBA Investment Bank

NCBA Investment Bank is a subsidiary of NCBA Group. The services offered by the brokerage department include equities trading for listed securities, fixed income trading for both corporate and government bonds, Over the Counter (OTC) equity transactions as well as execution of equities transactions across the East African countries. Additionally, NCBA Investment Bank backs these activities with solid advice from the research team to enable investors meet their return objectives. NCBA Investment Bank deploys simple and convenient client driven technologies, robust risk management, highly competent and experienced staff and has the backing of robust research capabilities to differentiate itself from other players in the market.

Physical Address

NCBA Annex,
Hospital Road, Upper Hill, Tel: +254 20 2884444
Mobile: +254 711 056444/+254 732 156444

Certification

The following analyst(s) who prepared this research report: Victoria Mututu hereby certifies(y) that: (i) all of the views and opinions expressed in this research report accurately reflect the research analyst's(s') personal views about the subject investment(s) and companies (y) and (ii) no part of the analyst's(s') compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed by the analyst(s) in this research report.

Rating Definitions

BUY – Total expected 12-month return (incl. dividends) greater than 20%

ACCUMULATE - Total expected 12-month return (incl. dividends) between 10% - 20%

HOLD – Total expected 12-month return (incl. dividends) between 0% -10%

SELL – Total expected 12-month return (incl. dividends) less than 0%

Disclaimer

Any opinion or other information in this document is not an invitation to buy or sell any asset class. Legally binding obligations can only arise for or be entered into on behalf of NCBA Group by means of a written instrument signed by a duly authorized signatory. You are cautioned to ensure that you have made an independent decision in accordance with your own objectives, experience, operational and financial resources and any other appropriate factors including independent professional advice. No guarantee, warranty, or representation is made in respect of the performance or return on any transaction.

Key Contacts: Research Team

ncbaibresearch@ncbagroup.com

victoria.mututu@ncbagroup.com

Key Contacts: Trading Team

dealing@ncbagroup.com