

**CO-OPERATIVE BANK OF KENYA Q1 2023 EARNINGS UPDATE**

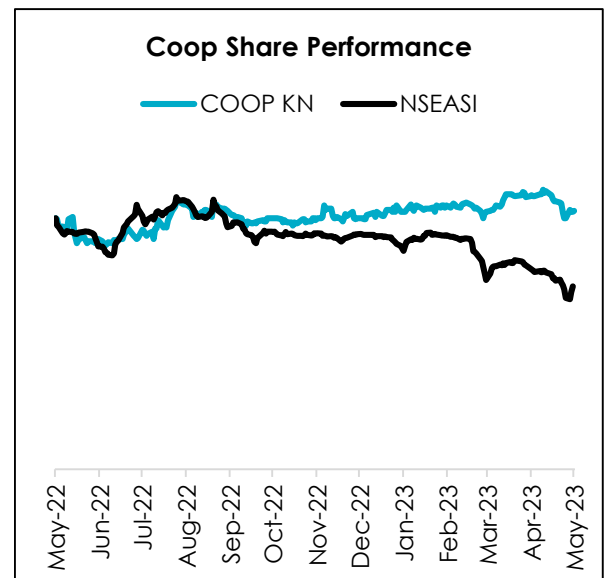
Co-operative Bank released its first quarter financial results posting a **4.7%** surge in profit after tax attributable to 10.8% increase in non-funded income and a 3.9% increase in net interest income. The **Return on Equity** rose to **5.7%**. **Earnings per share** increased to **KES 1.04** from KES 0.99 recorded in the previous financial year.

**Q1 2023 Performance – % y/y performance**

- Earnings:** Operating income grew by 6.5% to KES 17.8Bn mainly driven by non-interest income which grew by 3.9% to KES 10.77Bn coupled with a 11.2% 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 43.9% to KES 1.10Bn.
- Loan book:** The bank's loans and advances to customers grew by 11.0% to KES 360.1Bn faster than the 2.2% growth in deposits driven by increased lending to the SME and MSME market segments. The loan to deposit ratio rose to 85.8% from 79% in Q1 2022 indicating that the bank leveraged more on deposits to fund its loans and advances to customers.
- Customer deposits** grew by 2.2% to KES 419.76Bn supported by deposit mobilization through the opening of new branches to scale retail expansion. The lender plans to open seven new branches in expansion drive.
- Government securities** dropped by 2.3% to KES 179.23Bn as the bank remains skeptical on government securities. Interest income driven from investments in government securities rose by 3.8% to KES 5.13Bn attributable to the uptick in interest rates on government papers.
- Efficiency:** Cost to income ratio excluding provisions rose to 46.3% from 44.6%. Cost to income ratio including provisions rose to 54.9% from 53.8% in 2022. Operating costs grew by 8.8% to KES 9.82Bn.
- Asset Quality:** Gross NPLs increased by 12.6% to KES 55.6Bn. Loan loss provisions declined by 0.7% to KES 1.53Bn driven by implementation of risk management initiatives. 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)	12.30
Target Price (KES)	15.10
Upside	22.8%
52WK High (KES)	14.00
52WK Low (KES)	10.30
Market Cap (KES Bn)	72.16
Free Float	32.1%
P/B	0.6x
P/E	11.8x
Current Price = as of 18 <sup>th</sup> May 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 11.0% to KES 360.1Bn
Customer Deposits	Up 2.2% to KES 419.75Bn
Government Securities	Down 2.3% to KES 179.2Bn
<b>Net Interest Income</b>	<b>Up 3.9% to KES 10.77Bn</b>
<b>Non-Funded Income</b>	<b>Up 10.8% to KES 7.09Bn</b>
Forex trading income	Up 43.9% to KES 1.10Bn
Loan Loss Provisions	Down 0.7% to KES 1.53Bn
PBT	Up 3.9% to KES 8.06Bn
<b>PAT</b>	<b>Up 4.7% to KES 6.11Bn</b>
EPS	Up 5.1% to Kes 1.04

Co-operative Bank Kenya	Key Ratios Y/Y
Loan Deposit ratio	Up to 85.8% from 79.0%
<b>Net Interest Margin</b>	<b>maintained at 1.7%</b>
Cost to Income	Up 46.3% from 44.6%
<b>NPL Ratio</b>	<b>Up 13.4% from 13.2%</b>
Cost of Risk	Down to 0.4% from 0.5%
<b>ROE</b>	<b>Up to 5.7% from 5.4%</b>
Current Market Price	KES 12.3
P/E	11.8x
P/B	0.6x
<b>Target price</b>	<b>KES 15.1</b>

Source: Company financials, NCBA IB Research

## 2023 Outlook

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

- 1. Revenue Diversification:** The bank is optimizing on their digital capabilities such as M Co-op Cash mobile wallet among other digital strides will allow the bank diversify its revenue streams. The bank's newly launched program Co-op Kwa Jirani Agency Banking will increase the trade flows. The bank's growing foothold in South Sudan will help attribute to higher trading incomes.
- 2. 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. The bank's focus on co-creating solutions with customers to grow the loan book and increase product holding will see the loan book grow.
- 3. Risk Management:** Notably, the banks NPL ratio is commendable compared to the industry average of 13.93%. The bank's Project Kilele will help the bank improve its loan book.

## Investment recommendation:

The Bank continues to execute a proactive growth strategy anchored on a strong enterprise risk management framework and deepening of market dominance. The bank, riding on the unique synergies will continue to pursue strategic initiatives that focus on resilience and growth in the various sectors of the economy.

At the current market price, we believe the stock presents an opportunity for long-term investors to earn **capital gains** and an **attractive dividend yield**. Co-operative group will continue to deliver long-term profitability based on geographical expansion, business diversification, and improved asset quality.

## 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

[ncbaresearch@ncbagroup.com](mailto:ncbaresearch@ncbagroup.com)

## Key Contacts: Trading Team

[dealing@ncbagroup.com](mailto:dealing@ncbagroup.com)