

CO-OPERATIVE BANK OF KENYA Q1 2024 EARNINGS UPDATE

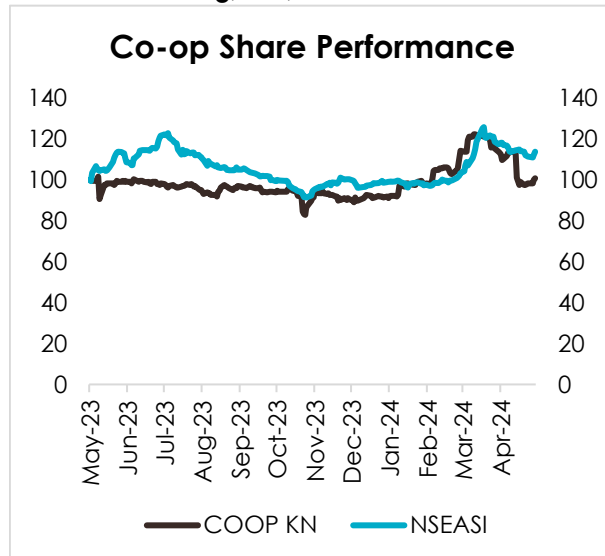
Co-operative Bank released 1Q2024 financial results posting a **7.7%** surge in PAT attributable to 8.6% increase in net interest income. Non-funded income however saw a decline of 0.3% to KES 7.08Bn. The **Return on Equity** dropped by 3.3% to **5.5%**. **Earnings per share** increased to **KES 1.12** from KES 1.04 recorded in the previous financial year.

Q1 2024 Performance – % y/y performance

- **Earnings:** Operating income grew by 5.1% to KES 18.77Bn mainly driven by net-interest income which grew by 8.6% to KES 11.70Bn. Earnings from foreign exchange increased by 30.8% to KES 1.44Bn.
- **Loan book:** The bank's loans and advances to customers grew by 5.0% to KES 378.08Bn slower than the 14.8% growth in deposits driven by increased lending to the SME and MSME market segments. The loan to deposit ratio dropped to 78.5% from 85.8% in Q1 2023.
- **Customer deposits** grew by 14.8% to KES 481.75Bn supported by deposit mobilization through the opening of new branches to scale retail expansion.
- **Government securities** saw an uptick of 11.7% to KES 200.21Bn as the bank leverages on the high interest rate environment.
- **Efficiency:** Cost to income ratio excluding provisions dropped to 44.1% from 46.3%. Cost to income ratio including provisions dropped to 52.5% from 54.9% in 2023. Operating costs grew by 5.1% to KES 18.77Bn.
- **Asset Quality:** Gross NPLs increased by 19.4% to KES 66.5Bn. Loan loss provisions increased by 3.9% to KES 1.59Bn driven by implementation of risk management initiatives. The NPL ratio deteriorated to 15.0% from 13.4%. The NPL ratio sits slightly below the industry average of 16.00% – This is indicative of worsening credit quality owing to tough macro-economic conditions.

Share Data	Co-operative Bank
Ticker	COOP KN
RECOMMENDATION	BUY
Current Price (KES)	12.40
Target Price (KES)	14.91
Upside	20.2%
52WK High (KES)	15.20
52WK Low (KES)	10.10
Market Cap (KES Bn)	72.16
Free Float	32.1%
P/B	0.6x
P/E	11.1x
Current Price = as of 15 th May 2024	

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 5.0% to KES 378.10Bn
Customer Deposits	Up 14.8% to KES 481.75Bn
Government Securities	Up 11.7% to KES 200.21Bn
Net Interest Income	Up 8.6% to KES 11.70Bn
Non-Funded Income	Down 0.7% to KES 7.07Bn
Forex trading income	Up 30.8% to KES 1.44Bn
Loan Loss Provisions	Up 3.9% to KES 1.59Bn
PBT	Up 10.6% to KES 8.911Bn
PAT	Up 7.7% to KES 6.58Bn
EPS	Up 7.7% To KES 1.12

Co-operative Bank Kenya	Key Ratios Y/Y
Loan Deposit ratio	Down to 78.5% from 85.8%
Net Interest Margin	Down to 1.6% from 1.7%
Cost to Income	Down 44.1% from 46.3%
NPL Ratio	Up 15.0% from 13.4%
Cost of Risk	Maintained at 0.4%.
ROE	Down to 5.5% from 5.7%
Current Market Price	KES 12.40
P/E	11.1x
P/B	0.6x
Target price	KES 14.91

Source: Company financials, NCBA IB Research

2024 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 that will allow for revenue diversification. The bank's newly launched program, Co-op Kwa Jirani Agency Banking, is expected to increase the trade flows. The bank's growing foothold in South Sudan will shore 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 contribute to loan growth.
- 3. Risk Management:** A 15% NPL ratio is just within the industry average of 16%. The bank's Project Kilele is expected to mitigate against the impairment of bank's loan book.

Investment recommendation:

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

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 on the back of geographical expansion, business diversification, and improved asset quality.

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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%

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