

Below is a summary of Co-operative Group's FY'2024 performance:

Balance Sheet Items	FY'2023	FY'2024	y/y change
Government Securities	189.0	217.6	15.1%
Net Loans and Advances	374.2	373.7	(0.1%)
Total Assets	671.1	743.2	10.7%
Customer Deposits	451.6	506.1	12.1%
Deposits per branch	2.4	2.5	3.3%
Total Liabilities	557.5	597.6	7.2%
Shareholders Funds	113.6	145.4	28.0%

Balance Sheet Ratios	FY'2023	FY'2024	y/y change
Loan to Deposit Ratio	82.9%	73.8%	(9.0%)
Government Securities to Deposits Ratio	41.9%	43.0%	1.1%
Return on average equity	21.0%	19.7%	(1.3%)
Return on average assets	3.6%	3.6%	(0.0%)

Income Statement	FY'2023	FY'2024	y/y change
Net Interest Income	45.2	51.5	13.9%
Non-Interest Income	26.5	29.1	10.1%
Total Operating income	71.7	80.6	12.5%
Loan Loss provision	(6.0)	(8.7)	44.2%
Total Operating expenses	(39.7)	(46.7)	17.7%
Profit before tax	32.4	34.8	7.5%
Profit after tax	23.2	25.5	9.8%
Core EPS	4.0	4.3	9.8%
Dividend per Share	1.5	1.5	0.0%
Dividend Payour Ratio	38.3%	34.6%	(9.5%)
Dividend Yield	13.3%	9.4%	(29.2%)

Income Statement Ratios	FY'2023	FY'2024	Y/Y Change
Yield from interest-earning assets	12.4%	13.9%	1.5%
Cost of funding	4.8%	6.4%	1.6%
Net Interest Spread	7.6%	7.6%	(0.1%)
Net Interest Income as % of operating income	63.1%	63.9%	0.8%
Non-Funded Income as a % of operating income	36.9%	36.1%	(0.8%)
Cost to Income	55.3%	57.9%	2.6%
CIR without provisions	47.0%	47.2%	0.2%
Cost to Assets	5.0%	5.1%	0.1%
Net Interest Margin	8.1%	8.3%	0.2%

Capital Adequacy Ratios	FY'2023	FY'2024	% points change
-------------------------	---------	---------	-----------------

Core Capital/Total deposit Liabilities	23.4%	24.2%	0.8%
Minimum Statutory ratio	8.0%	8.0%	
Excess	15.4%	16.2%	0.8%
Core Capital/Total Risk Weighted Assets	18.2%	18.3%	0.1%
Minimum Statutory ratio	10.5%	10.5%	
Excess	7.7%	7.8%	0.1%
Total Capital/Total Risk Weighted Assets	22.5%	21.2%	(1.3%)
Minimum Statutory ratio	14.5%	14.5%	
Excess	8.0%	6.7%	(1.3%)
Liquidity Ratio	52.0%	59.9%	7.9%
Minimum Statutory ratio	20.0%	20.0%	
Excess	32.0%	39.9%	7.9%

Income Statement

- Core earnings per share grew by 9.8% to Kshs 4.3, from Kshs 4.0 in FY'2023, driven by the 12.5% increase in total operating income to Kshs 80.6 bn, from Kshs 71.7 bn in FY'2023. However the performance was weighed down by a 17.7% increase in total operating expenses to Kshs 46.7 bn from Kshs 39.7 bn in FY 2023.
- The 12.5% increase in total operating income was mainly driven by a 13.9% growth in Net Interest Income (NII) to Kshs 51.5 bn, from Kshs 45.2 bn in FY'2023, coupled with the 10.1% increase in Non- Funded Income (NFI) to Kshs 29.1 bn from Kshs 26.5 bn in FY'2023,
- Interest income grew by 24.9% to Kshs 86.2 bn from Kshs 69.1 bn in FY'2023, mainly driven by a 24.5% growth in interest income from loans and advances to Kshs 55.9 bn, from Kshs 44.9 bn in FY'2023, coupled with a 16.2% increase in interest income from government securities to Kshs 26.9 bn, from Kshs 23.1 bn in FY'2023. As such, the Yield on Interest-Earning Assets (YIEA) decreased by 2.4% points to 9.4% from 11.9% recorded in FY'2023, attributable to the faster 24.9% growth in trailing interest income to Kshs 86.2 bn, from Kshs 69.1 bn in FY'2023, compared to a slower 5.3% Increase in average interest earning assets to Kshs 585.9 bn, from Kshs 556.6 bn in FY'2023,
- Interest expenses rose by 45.7% to Kshs 34.7 bn from Kshs 23.8 bn in FY'2023, mainly driven by a 60.9% increase in interest expense on customer deposits to Kshs 29.3 bn from Kshs 18.2 bn in FY'2023, this was however weighed down by a 12.5% decrease in interest expense from placements to Kshs 1.1 bn, from Kshs 1.2 bn recorded in FY'2023. Consequently, Cost of funds (COF) increased by 1.9% points to 6.7% from 4.8% recorded in FY'2023, owing to a faster 45.7 % increase in Trailing interest expense to Kshs 34.7 bn from Kshs 23.8 bn recorded in FY'2023, compared to a 4.3% increase in average interest-bearing liabilities to Kshs 519.8 bn from Kshs 498.2 bn in FY'2023. Trailing interest expense refers to the performance of the interest expense for the past 12 consecutive months. Net Interest Margin (NIM) increased by 0.7% points to 8.8% from 8.1% in FY'2023, attributable to a faster 13.9% increase in trailing net interest income to Kshs 51.5 bn from Kshs 45.2 bn recorded in FY'2023, which outpaced the 5.3% growth in average interest earning assets,
- Non-Funded Income (NFI) increased by 10.1% to Kshs 29.1 bn from Kshs 26.5 bn in FY'2023, mainly driven by a 56.4% increase in forex trading income to Kshs 5.0 bn, from Kshs 3.2 bn in FY'2023, highlighting the bank's increased foreign exchange margins. Total fees and commissions also increased by 3.2% to Kshs 23.1 bn from

Kshs 22.4 bn in FY'2023. The revenue mix shifted to 64:36, from 63:37 for the funded to Non-funded income owing to the faster 13.9% growth in Funded Income compared to a 10.1% increase in the Non-Funded Income,

- Total operating expense increased by 17.7% to Kshs 46.7 bn in FY'2024, from Kshs 39.7 bn in FY'2023, mainly attributable to 9.8% increase in staff cost to Kshs 18.3 bn, from Kshs 16.7 bn in FY'2023, coupled with the 16.1% increase in other operating expenses to 19.7 bn from 17.0 in FY 2023. Notably, loan loss provisions expense increased by 44.2% to Kshs 8.7 bn, from 6.0 bn in FY'2023. The increase in provisioning comes amid improved business environment and reduced credit risk as evidenced by the average FY'2024 Purchasing Managers Index (PMI) of 49.6, up from an average of 48.1 in FY'2023,
- Cost to Income Ratio (CIR) increased by 2.6% points to 57.9% from 55.3% in FY'2023, owing to the faster 17.7% increase in total operating expenses, which outpaced the 12.5% increase in total operating income. Notably, CIR without LLP increased by 0.2% points to 47.2%, from 47.0% recorded in FY'2023,
- Profit before tax increased by 7.5% to Kshs 34.8 bn, from Kshs 32.4 bn recorded in FY'2023, with effective tax rate decreasing to 28.4% in FY'2024, from 28.9% in FY'2023, leading to a 9.8% increase in profit after tax to Kshs 25.5 bn in FY'2024, from Kshs 23.2 bn in FY'2023.
- The Board of Directors recommended a final dividend of Kshs 1.5 for FY' 2024, unchanged from FY'2023. The Dividend yield and Payout ratio decreased to 9.3% and 34.6% respectively from 13.3% and 38.3% respectively in FY' 2023.

Balance Sheet

- The balance sheet recorded an expansion as total assets increased by 10.7% to Kshs 743.2 bn, from Kshs 671.1 bn in FY'2023, mainly driven by a 15.1% increase in governments securities holdings to Kshs 217.6 bn, from 189.0 bn in FY'2023. Notably Net loans and advances declined by 0.1% to Kshs 373.7 bn, from Kshs 374.2 bn in FY'2023. Total liabilities increased by 7.2% to Kshs 597.6 bn from Kshs 557.5 bn in FY'2023, mainly driven by a 12.1% increase in customer deposits to Kshs 506.1 bn, from Kshs 451.6 bn in FY'2023, coupled with the 17.7% decline in borrowings to Kshs 55.4 bn, from Kshs 67.3 bn in FY'2023. With 205 branches, compared to 189 branches in FY'2023, deposits per branch increased by 3.3% to Kshs 2.5 bn, from Kshs 2.4 bn in FY'2023,
- The 12.1% increase growth in customer deposits, compared to the 0.1% decline in net loans led to a decrease in the loan to deposits ratio to 73.8%, from 82.9% in FY'2023,
- The bank's Asset Quality deteriorated, with Gross NPL ratio increasing to 17.0% in FY'2024, from 16.2% in FY'2023, attributable to a 6.2% increase in Gross non-performing loans to Kshs 71.1 bn, from Kshs 66.9 bn in FY'2023, relative to the 1.6% increase in gross loans to Kshs 419.2 bn, from Kshs 412.5 bn recorded in FY'2023,
- General Provisions (LLP) increased by 21.9% to Kshs 40.3 bn in FY'2024 from Kshs 33.1 bn in FY'2023. The NPL coverage increased to 63.9% in FY'2024, from 57.2% in FY'2023, attributable to the 21.9% increase in general provisions coupled with the 0.9% decrease in interest in suspense to Kshs 5.1 bn from 5.2 bn in FY 2023 which outpaced the 6.2% increase in Gross Non-performing Loans to Kshs 71.1 bn, from Kshs 66.9 bn in FY'2023.
- Shareholders' funds increased by 28.0% to Kshs 145.4 bn in FY'2024, from Kshs 113.6 bn in FY'2023, supported by a 15.8% increase in retained earnings to Kshs 16.7 bn, from Kshs 14.4 bn in FY'2023,
- Cooperative BankGroup remains capitalized with a core capital to risk-weighted assets ratio of 18.3%, 7.8% points above the statutory requirement of 10.5%. In addition, the total capital to risk-weighted assets ratio came in at 21.2%, exceeding the statutory requirement of 14.5% by 6.7% points, and,
- The bank currently has a Return on Average Assets (ROaA) of 3.6%, and a Return on Average Equity (ROaE) of 19.7%.

Key Take-Outs:

- 1. Increased earnings** - Core earnings per share (EPS) grew by 9.8% to Kshs 4.3, from Kshs 4.0 in FY'2023, driven by the 12.5% increase in total operating income to Kshs 80.6 bn, from Kshs 71.7 bn in FY'2023. However the performance was weighed down by a 17.7% increase in total operating expenses to Kshs 46.7 bn from Kshs 39.7 bn in FY 2023
- 2. Deteriorated asset quality** –The bank's Asset Quality deteriorated, with Gross NPL ratio increasing to 17.0% in FY'2024, from 16.2% in FY'2023, attributable to a 6.2% increase in Gross non-performing loans to Kshs 71.1 bn, from Kshs 66.9 bn in FY'2023, relative to the 1.6% increase in gross loans to Kshs 419.2 bn, from Kshs 412.5 bn recorded in FY'2023
- 3. Expanded Balanced sheet** - The balance sheet recorded an expansion as total assets increased by 10.7% to Kshs 743.2 bn, from Kshs 671.1 bn in FY'2023, mainly driven by a 15.1% increase in governments securities holdings to Kshs 217.6 bn, from 189.0 bn in FY'2023, Notably Net loans and advances declined by 0.1% to Kshs 373.7 bn, from Kshs 374.2 bn in FY'2023.
- 4. Declaration of dividends** - The Board of Directors recommended a final dividend of Kshs 1.5 for FY' 2024, unchanged from FY'2023. The Dividend yield and Payout ratio decreased to 9.3% and 34.6% respectively from 13.3% and 38.3% respectively in FY' 2023, and,
- 5. Reduced lending**- Customer net loans and advances decreased by 0.1% to Kshs 373.7 bn in FY'2024, from Kshs 374.2 bn in FY'2023 attributed to increased credit risk with high NPLs in the industry, with the lender preferring to limit customer lending.

Going forward, the factors that would drive the bank's growth would be:

- **Strong Customer Base** – Cooperative Bank still retains a loyal yet diverse customer base that includes cooperatives, SMEs, retail customers, and government institutions. We anticipate that the bank will keep leveraging on this base to improve its loan book which this year contracted by 0.1% to Kshs 373.7 bn from Kshs 374.2 bn in FY'2023.
- **Diversified products** – The bank has in recent days launched a number of products and continues to simultaneously offer differentiated products for diaspora bankers, micro and small enterprises, home and vehicle insurance, bancassurance and the Sacco Mco-op cash. This diversification is expected to continue improving the Non-funded Income of the bank which came in at 29.1 bn, an 10.1% increase from Kshs 26.5 bn in FY'2024

Valuation Summary

- We are of the view that Cooperative Bank is a “buy” with a target price of Kshs 20.28 representing an upside of 27.1%, from the current price of 15.95 as of 21st March 2025, inclusive of a dividend yield of 9.4%
- Co-operative Bank is currently trading at a P/TBV of 0.8x and a P/E of 3.7x vs an industry average of 1.1x and 4.9x respectively.