

Below is a summary of Co-operative Bank of Kenya's H1'2024 performance:

Balance Sheet	H1'2023 (Kshs bn)	H1'2024 (Kshs bn)	y/y change
Kenya Government Securities	188.5	202.2	7.3%
Net Loans and Advances	365.4	375.6	2.8%
Total Assets	664.9	716.9	7.8%
Customer Deposits	463.9	507.4	9.4%
Deposits Per Branch	2.5	2.6	7.1%
Total Liabilities	556.4	589.8	6.0%
Shareholders' Funds	108.3	126.7	17.0%

Key Ratios	H1'2023	H1'2024	% point change
Loan to Deposit ratio	78.8%	74.0%	(4.7%)
Government Securities to Deposits ratio	40.6%	39.9%	(0.8%)
Return on Average Equity	22.2%	19.5%	(2.7%)
Return on Average Assets	3.6%	3.3%	(0.3%)

Income Statement	H1'2023 (Kshs bn)	H1'2024 (Kshs bn)	y/y change
Net interest Income	21.5	23.9	10.7%
Net non-interest income	13.8	15.4	11.2%
Total Operating income	35.4	39.2	10.9%
Loan loss provision	(2.9)	(3.0)	4.9%
Total Operating expenses	(19.1)	(21.3)	11.1%
Profit before tax	16.4	18.2	10.7%
Profit after tax	12.1	13.0	7.0%
Core EPS	2.1	2.2	7.0%

Income Statement Ratios	H1'2023	H1'2024	y/y change
Yield from interest-earning assets	11.6%	12.7%	1.0%
Cost of funding	3.8%	5.4%	1.6%
Net Interest Spread	7.8%	7.3%	(0.5%)
Net Interest Income as % of operating income	60.9%	60.8%	(0.1%)
Non-Funded Income as a % of operating income	39.1%	39.2%	0.1%
Cost to Income	54.1%	54.2%	0.1%
CIR without provisions	46.0%	46.6%	0.5%
Cost to Assets	2.4%	2.5%	0.1%
Net Interest Margin	8.2%	7.8%	(0.4%)

Capital Adequacy Ratios	H1'2023	H1'2024	% points change
Core Capital/Total Liabilities	21.2%	23.1%	1.9%
Minimum Statutory ratio	8.0%	8.0%	
Excess	13.2%	15.1%	1.9%
Core Capital/Total Risk Weighted Assets	16.5%	18.1%	1.6%
Minimum Statutory ratio	10.5%	10.5%	
Excess	6.0%	7.6%	1.6%
Total Capital/Total Risk Weighted Assets	20.5%	21.3%	0.8%
Minimum Statutory ratio	14.5%	14.5%	
Excess	6.0%	6.8%	0.8%
Liquidity Ratio	52.3%	54.0%	1.7%
Minimum Statutory ratio	20.0%	20.0%	
Excess	32.3%	34.0%	1.7%

Income Statement

- Core earnings per share grew by 7.0% to Kshs 2.2, from Kshs 2.1 in H1'2023, driven by the 10.9% increase in total operating income to Kshs 39.2 bn, from Kshs 35.4 bn in H1'2023. However, the performance was weighed down by an 11.1% increase in total operating expenses to Kshs 21.3 bn from Kshs 19.1 bn in H1'2023,
- The 10.9% increase in total operating income was mainly driven by an 11.2% increase in Non Interest Income (NFI) to Kshs 15.4 bn from Kshs 13.8 bn in H1'2023, coupled with the 10.7% growth in Net Interest Income (NII) to Kshs 23.9 bn, from Kshs 21.5 bn in H1'2023,
- Interest income grew by 24.4% to Kshs 39.8 bn from Kshs 32.0 bn in H1'2023, mainly driven by a 21.9% growth in interest income from loans and advances to Kshs 25.6 bn from Kshs 21.0 bn in H1'2023, coupled with a 19.5% increase in interest income from government securities to Kshs 12.6 bn, from Kshs 10.5 bn in H1'2023. As such, the Yield on Interest-Earning Assets (YIEA) increased to 6.4% from 5.6% recorded in H1'2023, mainly attributable to the faster 24.4% growth in interest income compared to a 8.6% increase in average interest earning assets to Kshs 607.5 bn, from Kshs 559.7 bn in H1'2023,
- Interest expenses rose by 52.6% to Kshs 15.9 bn from Kshs 10.4 bn in H1'2023, mainly driven by a 63.2% increase in interest expense on customer deposits to Kshs 13.6 bn from Kshs 8.3 bn in H1'2023, coupled with a 154.5% increase in interest expense from placements to Kshs 0.4 bn, from Kshs 0.1 bn recorded in H1'2023. Consequently, Cost of funds (COF) increased slightly by 0.2% points to 4.0% from 3.8% recorded in H1'2023, owing to a faster 13.4% increase in Trailing interest expense to Kshs 21.7 bn from Kshs 19.1 bn recorded in H1'2023, compared to an 8.9% increase in average interest bearing liabilities to Kshs 545.6 bn from Kshs 501.1 bn in H1'2023. Trailing interest expense refers to the performance of the interest expense for the past 12 consecutive months. Net Interest Margin (NIM) decreased by 0.4% points to 7.8% from 8.2% in H1'2023, attributable to a slower 3.3% increase in trailing net interest income to Kshs 47.5 bn from Kshs 46.0 bn recorded in H1'2023 which was outpaced by the 8.6% growth in average interest earning assets,
- Non-Funded Income (NFI) increased by 11.2% to Kshs 15.4 bn from Kshs 13.8 bn in H1'2023, mainly driven by a 50.1% increase in forex trading income to Kshs 2.6 bn , from Kshs 1.8 bn in H1'2023, highlighting the bank's increased foreign exchange margins, coupled with a 13.3% increase in income from other fees and commissions to Kshs 6.3 bn, from 5.6 bn in H1'2023. Total fees and commissions, however, decreased by 3.5% to Kshs 6.0 bn, from Kshs 6.2 bn in H1'2023. Consequently, the revenue mix remained unchanged in H1'2024 as 61:39 for the funded to Non-funded income as recorded in H1'2023,
- Total operating expenses increased by 11.1% to Kshs 21.3 bn from Kshs 19.1 bn in H1'2023, driven by a 14.8% increase in staff costs to Kshs 9.1 bn from Kshs 8.0 bn recorded in H1'2023, coupled with a 9.8% increase in other operating expenses to Kshs 9.1 bn, from Kshs 8.3 bn recorded in H1'2023 together with the 4.9% increase in loan loss provisions to Kshs 3.0 bn, from Kshs 2.9 bn recorded in H1'2023. The increase in provisioning is despite the reducing credit risk as a result of improved economic environment as evidenced by the average H1'2024 Purchasing Managers Index (PMI) of 50.0, up from an average of 48.7 in H1'2023,
- Cost to Income Ratio (CIR) increased by 0.1% points to 54.2% from 54.1% in H1'2023, owing to the 11.1% increase in total operating expenses, which outpaced the 10.9% increase in total operating income. Notably, CIR without LLP increased by 0.5% points to 46.6% from 46.0% recorded in H1'2023, and,
- Profit before tax increased by 10.7% to Kshs 18.2 bn, from Kshs 16.4 bn recorded in H1'2023, with effective tax rate increasing to 29.5% in H1'2024 from 29.0% in H1'2023, leading to a 7.0% increase in profit after tax to Kshs 2.2 bn in H1'2024, from Kshs 2.1 bn in H1'2023.

Balance Sheet

- The balance sheet recorded an expansion as total assets grew by 7.8% to Kshs 716.9 bn, from Kshs 664.9 bn in H1'2024, driven by a 7.3% increase in government securities to Kshs 202.2 bn, from 188.5 bn in H1'2023, coupled with a 2.8% increase in net loans and advances to customers to Kshs 375.6 bn, from Kshs 365.4 bn in

H1'2023,

- Total liabilities rose by 6.0% to Kshs 589.8 bn from Kshs 556.4 bn in H1'2024, driven by a 9.4% growth in customer deposits to Kshs 507.4 bn, from Kshs 463.9 bn in H1'2023, coupled with an 83.7% increase in placements to 6.6 bn from Kshs 3.6 bn recorded in H1'2023, which outpaced the 15.4% decline in borrowings to Kshs 50.2 bn, from Kshs 59.4 bn in H1'2023. With 193 branches countrywide, compared to 189 branches in H1'2023, deposits per branch increased by 7.1% to Kshs 2.6 bn, from Kshs 2.5 bn in H1'2023,
- The faster 9.4% growth in customer deposits as compared to the slower 2.8% increase in loans led to a decrease in the loan to deposits ratio to 74.0%, from 78.8% in H1'2023,
- The bank's Asset Quality deteriorated, with Gross NPL ratio increasing to 16.7% in H1'2024, from 14.6% in H1'2023, attributable to a 19.0% increase in Gross non-performing loans to Kshs 69.9 bn, from Kshs 58.4 bn in H1'2023, compared to the 4.0% increase in gross loans to Kshs 417.0 bn, from Kshs 400.9 bn recorded in H1'2023,
- General Provisions (LLP) increased by 24.2% to Kshs 36.3 bn in H1'2024 from Kshs 29.2 bn in H1'2023. The NPL coverage ratio decreased to 59.5% in H1'2024, from 60.7% in H1'2023, attributable to the 24.2% increase in general provisions and 18.2% decrease in interest in suspense to Kshs 5.1 bn, from Kshs 6.3 bn in H1'2023, coupled with the 19.0% increase in gross non performing loans,
- Shareholders' funds increased by 17.0% to Kshs 126.7 bn in H1'2024, from Kshs 108.3 bn in H1'2023, supported by a 13.8% increase in retained earnings to Kshs 124.8 bn, from Kshs 109.8 bn in H1'2023,
- Co-operative bank remains capitalized with a core capital to risk-weighted assets ratio of 18.1%, 7.6% points above the statutory requirement of 10.5%. In addition, the total capital to risk-weighted assets ratio came in at 21.3%, exceeding the statutory requirement of 14.5% by 6.8% points, and,
- The bank currently has a Return on Average Assets (ROaA) of 3.5%, and a Return on Average Equity (ROaE) of 20.5%.

Key Take-Outs:

1. **Increased earnings** - Core earnings per share (EPS) grew by 7.0% to Kshs 2.2, from Kshs 2.1 in H1'2023, driven by the 10.9% increase in total operating income to Kshs 39.2 bn, from Kshs 35.4 bn in H1'2023.
2. **Deteriorated asset quality** – The bank's Asset Quality deteriorated, with Gross NPL ratio increasing to 16.7% in H1'2024, from 14.6% in H1'2023, attributable to a 19.0% increase in Gross non-performing loans to Kshs 69.9 bn, from Kshs 58.4 bn in H1'2023, compared to the 4.0% increase in gross loans to Kshs 417.0 bn, from Kshs 400.9 bn recorded in H1'2023,
3. **Expanded Balanced sheet** - The balance sheet recorded an expansion as total assets grew by 7.8% to Kshs 716.9 bn, from Kshs 664.9 bn in H1'2024, driven by a 7.3% increase in government securities to Kshs 202.2 bn, from 188.5 bn in H1'2023, coupled with a 2.8% increase in net loans and advances to customers to Kshs 375.6 bn, from Kshs 365.4 bn in H1'2023,

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 expanded by 2.8% to Kshs 375.6 bn from Kshs 365.4 bn in FY'2022.
- **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 15.4 bn, an 11.2% increase from Kshs 13.8 bn in H1'2024.

Valuation Summary

- We are of the view that Co-operative bank is a “buy” with a target price of Kshs 17.2 representing an upside of 34.9%, from the current price of 12.8 as of 17th May 2024, inclusive of a dividend yield of 11.8%.
- Co-operative Bank is currently trading at a P/TBV of 0.6x and a P/E of 3.2x vs an industry average of 0.8x and 3.6x respectively.