Co-operative Bank of Kenya – Q3'2024

15th November, 2024

Below is a summary of Co-operative Bank of Kenya's Q3'2024 performance:

Balance Sheet	Q3'2023 (Kshs bn)	Q3'2024 (Kshs bn)	y/y change
Government Securities	185.1	211.6	14.3%
Net Loans and Advances	378.1	381.3	0.9%
Total Assets	**661.3**	**750.8**	**13.5%**
Customer Deposits	432.8	514.0	18.7%
Deposits per branch	2.3	2.7	16.3%
Total Liabilities	**553.2**	**620.0**	**12.1%**
Shareholders Funds	**108.1**	**131.8**	**22.0%**

Key Ratios	Q3'2023	Q3'2024	% point change
Loan to Deposit Ratio	87.3%	74.2%	(13.2%)
Government Securities to Deposits Ratio	42.8%	41.2%	(1.6%)
Return on average equity	22.3%	20.0%	(2.3%)
Return on average assets	3.6%	3.4%	(0.2%)

Income Statement	Q3'2023 (Kshs bn)	Q3'2024 (Kshs bn)	y/y change
Net Interest Income	32.8	36.9	12.3%
Non-Interest Income	20.6	22.3	8.2%
Total Operating income	**53.4**	**59.2**	**10.8%**
Loan Loss provision	(4.2)	(5.6)	32.5%
Total Operating expenses	(29.0)	(32.7)	12.7%
Profit before tax	24.7	26.8	8.5%
Profit after tax	**18.4**	**19.2**	**4.4%**
Core EPS	**3.1**	**3.3**	**4.4%**

Income Statement Ratios	Q3'2023	Q3'2024	y/y change
Yield from interest-earning assets	12.2%	13.3%	1.1%
Cost of funding	4.2%	5.9%	1.7%
Net Interest Spread	8.0%	7.4%	(0.6%)
Net Interest Income as % of operating income	61.5%	62.3%	0.9%
Non-Funded Income as a % of operating income	38.5%	37.7%	(0.9%)
Cost to Income	54.3%	55.2%	0.9%
CIR without provisions	46.4%	45.8%	(0.6%)
Cost to Assets	3.7%	3.6%	(0.1%)
Net Interest Margin	8.4%	8.0%	(0.4%)

Capital Adequacy Ratios	Q3'2023	Q3'2024	% points change
Core Capital/Total Liabilities	23.1%	22.8%	(0.3%)
Minimum Statutory ratio	8.0%	8.0%	
Excess	**15.1%**	**14.8%**	**(0.3%)**
Core Capital/Total Risk Weighted Assets	17.9%	18.5%	0.6%
Minimum Statutory ratio	10.5%	10.5%	
Excess	**7.4%**	**8.0%**	**0.6%**
Total Capital/Total Risk Weighted Assets	22.1%	21.6%	(0.5%)
Minimum Statutory ratio	14.5%	14.5%	
Excess	**7.6%**	**7.1%**	**(0.5%)**
Liquidity Ratio	50.3%	57.8%	7.5%
Minimum Statutory ratio	20.0%	20.0%	
Excess	**30.3%**	**37.8%**	**7.5%**

Income Statement

- Core earnings per share grew by 4.4% to Kshs 3.3, from Kshs 3.1 in Q3’2023, driven by the 10.8% increase in total operating income to Kshs 59.2 bn, from Kshs 53.4 bn in Q3’2023. However, the performance was weighed down by an 12.7% increase in total operating expenses to Kshs 32.7 bn from Kshs 29.0 bn in Q3’2023,
- The 10.8% increase in total operating income was mainly driven by an 12.3% increase in Net Interest Income (NII) to Kshs 36.9 bn from Kshs 32.8 bn in Q3’2023, coupled with the 8.2% growth in Net Non Interest Income (NFI) to Kshs 22.3 bn, from Kshs 20.6 bn in Q3’2023,
- Interest income grew by 25.2% to Kshs 61.8 bn from Kshs 49.4 bn in Q3’2023, mainly driven by a 258.4% growth in interest income from placements to Kshs 2.6 bn from Kshs 0.7 bn in Q3’2023, coupled with a 23.0% increase in interest income from loans and advances to Kshs 39.4 bn, from Kshs 31.9 bn in Q3’2023. As such, the Yield on Interest-Earning Assets (YIEA) increased to 9.7% from 8.5% recorded in Q3’2023, mainly attributable to the faster 21.0% growth in trailing interest income compared to a 11.1% increase in average interest earning assets to Kshs 613.2 bn, from Kshs 551.9 bn in Q3’2023,
- Interest expenses rose by 50.6% to Kshs 24.9 bn from Kshs 16.5 bn in Q3’2023, mainly driven by a 60.1% increase in interest expense on customer deposits to Kshs 21.4 bn from Kshs 13.4 bn in Q3’2023. This was however weighed down by a 21.2% increase in interest expense from placements to Kshs 0.5 bn, from Kshs 0.6 bn recorded in Q3’2023. Consequently, Cost of funds (COF) increased by 1.7% points to 5.9% from 4.2% recorded in Q3’2023, owing to a faster 52.9% increase in Trailing interest expense to Kshs 32.2 bn from Kshs 21.1 bn recorded in Q3’2023, compared to an 9.8% increase in average interest bearing liabilities to Kshs 549.4 bn from Kshs 500.3 bn in Q3’2023. 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 8.0% from 8.4% in Q3’2023, attributable to a slower 6.4% increase in trailing net interest income to Kshs 49.3 bn from Kshs 46.3 bn recorded in Q3’2023 which was outpaced by the 11.1% growth in average interest earning assets,
- Non-Funded Income (NFI) increased by 8.2% to Kshs 22.3 bn from Kshs 20.6 bn in Q3’2023, mainly driven by a 51.3% increase in forex trading income to Kshs 3.7 bn, from Kshs 2.5 bn in Q3’2023, highlighting the bank’s increased foreign exchange margins, coupled with a 3.5% increase in income from other fees and commissions to Kshs 8.8 bn, from 8.5 bn in Q3’2023. Total fees and commissions, however, decreased marginally by 0.1% to remain relatively unchanged from Kshs 9.1 bn in Q3’2023. Consequently, the revenue mix shifted to 62:38 in Q3’2024 as from 61:39 for funded to non-funded income owing to the 12.3% growth in Funded Income faster than the 8.2% growth in the Non Funded Income,
- Total operating expenses increased by 12.7% to Kshs 32.7 bn from Kshs 29.0 bn in Q3’2023, driven by a 32.5% increase in loan loss provisions to Kshs 5.6 bn from Kshs 4.2 bn recorded in Q3’2023, coupled with a 10.8% increase in staff costs to Kshs 13.5 bn, from Kshs 12.2 bn recorded in Q3’2023 together with the 7.8% increase in other operating expenses to Kshs 13.6 bn, from Kshs 12.6 bn recorded in Q3’2023. The increase in provisioning comes amid the increased credit risk as a result of deteroriarated business environment as evidenced by the average Q3’2024 Purchasing Managers Index (PMI) of 47.8, down from an average of 48.0 in Q3’2023,
- Cost to Income Ratio (CIR) increased by 0.9% points to 55.2% from 54.3% in Q3’2023, owing to the 12.7% increase in total operating expenses, which outpaced the 10.8% increase in total operating income. Notably, CIR without LLP decreased by 0.6% points to 45.8% from 46.4% recorded in Q3’2023, and,
- Profit before tax increased by 8.5% to Kshs 26.8 bn, from Kshs 24.7 bn recorded in Q3’2023, with effective tax rate increasing to 29.5% in Q3’2024 from 28.5% in Q3’2023, leading to a 4.4% increase in profit after tax to Kshs 3.3 bn in Q3’2024, from Kshs 3.1 bn in Q3’2023.

Balance Sheet

- The balance sheet recorded an expansion as total assets grew by 13.5% to Kshs 750.8 bn, from Kshs 661.3 bn in Q3’2024, driven by a 14.3% increase in government securities to Kshs 211.6 bn, from 185.1 bn in Q3’2023, coupled with a 0.9% increase in net loans and advances to customers to Kshs 381.3 bn, from Kshs 378.1 bn in

Q3'2023,

- Total liabilities rose by 12.1% to Kshs 620.0 bn from Kshs 553.2 bn in Q3'2024, driven by a 18.7% growth in customer deposits to Kshs 514.0 bn, from Kshs 432.8 bn in Q3'2023. This was however weighed down by a 40.3% decrease in placements to 10.6 bn from Kshs 17.7 bn recorded in Q3'2023, together with the 11.6% decline in borrowings to Kshs 58.0 bn, from Kshs 65.6 bn in Q3'2023. With 193 branches countrywide, compared to 189 branches in Q3'2023, deposits per branch increased by 16.3% to Kshs 2.7 bn, from Kshs 2.3 bn in Q3'2023,
- The faster 18.7% growth in customer deposits as compared to the slower 0.9% increase in loans led to a decrease in the loan to deposits ratio to 74.2%, from 87.3% in Q3'2023,
- The bank's Asset Quality deteriorated, with Gross NPL ratio increasing to 16.5% in Q3'2024, from 14.9% in Q3'2023, attributable to a 13.1% increase in Gross non-performing loans to Kshs 70.0 bn, from Kshs 61.9 bn in Q3'2023, compared to the 1.7% increase in gross loans to Kshs 423.7 bn, from Kshs 416.6 bn recorded in Q3'2023,
- General Provisions (LLP) increased by 13.5% to Kshs 37.2 bn in Q3'2024 from Kshs 32.9 bn in Q3'2023. The NPL coverage ratio decreased to 60.5% in Q3'2024, from 62.1% in Q3'2023, attributable to the 13.4% increase in general provisions and 8.6% decrease in interest in suspense to Kshs 5.1 bn, from Kshs 5.6 bn in Q3'2023, coupled with the 13.1% increase in gross non performing loans,
- Shareholders' funds increased by 22.0% to Kshs 131.8 bn in Q3'2024, from Kshs 108.1 bn in Q3'2023, supported by a 14.1% increase in retained earnings to Kshs 132.2 bn, from Kshs 115.9 bn in Q3'2023,
- Co-operative bank remains capitalized with a core capital to risk-weighted assets ratio of 18.5%, 8.0% points above the statutory requirement of 10.5%. In addition, the total capital to risk-weighted assets ratio came in at 21.6%, exceeding the statutory requirement of 14.5% by 7.1% points, and,
- The bank currently has a Return on Average Assets (ROaA) of 3.4%, and a Return on Average Equity (ROaE) of 20.0%.

Key Take-Outs:

1. **Increased earnings -** Core earnings per share (EPS) grew by 4.4% to Kshs 3.3, from Kshs 3.1 in Q3'2023, driven by the 10.8% increase in total operating income to Kshs 59.2 bn, from Kshs 53.4 bn in Q3'2023.

2. **Deteriorated asset quality –** The bank's Asset Quality deteriorated, with Gross NPL ratio increasing to 16.5% in Q3'2024, from 14.9% in Q3'2023, attributable to a 13.1% increase in Gross non-performing loans to Kshs 70.0 bn, from Kshs 61.9 bn in Q3'2023, compared to the 1.7% increase in gross loans to Kshs 423.7 bn, from Kshs 416.6 bn recorded in Q3'2023, and,

3. **Expanded Balanced sheet** - The balance sheet recorded an expansion as total assets grew by 13.5% to Kshs 750.8 bn, from Kshs 661.3 bn in Q3'2024, driven by a 14.3% increase in government securities to Kshs 211.6 bn, from 185.1 bn in Q3'2023, coupled with a 0.9% increase in net loans and advances to customers to Kshs 381.3 bn, from Kshs 378.1 bn in Q3'2023,

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 0.9% to Kshs 381.3 bn from Kshs 378.1 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 22.3 bn, an 8.2% increase from Kshs 20.6 bn in Q3’2024.

Valuation Summary

- We are of the view that Co-operative bank is a “buy” with a target price of Kshs 18.8 representing an upside of 29.5%, from the current price of 14.5 as of 15th November 2024.
- Co-operative Bank is currently trading at a P/TBV of 0.7x and a P/E of 2.9x vs an industry average of 0.9x and 4.2x respectively.