



## Co-operative Bank of Kenya Group

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Sector/Country: Commercial Bank/Kenya

Stock Rating: Overweight

Equity Market Cap : USD 871.4m  
 Current Share Price : KES 15.00  
 12 Mth Target Price : KES22.3  
 12 Mth Trading Range: KES11.00-16.55  
 Daily Avg Volume : 906.390  
 Free Float : 35.4%

### FY19 RESULTS EXPECTATIONS

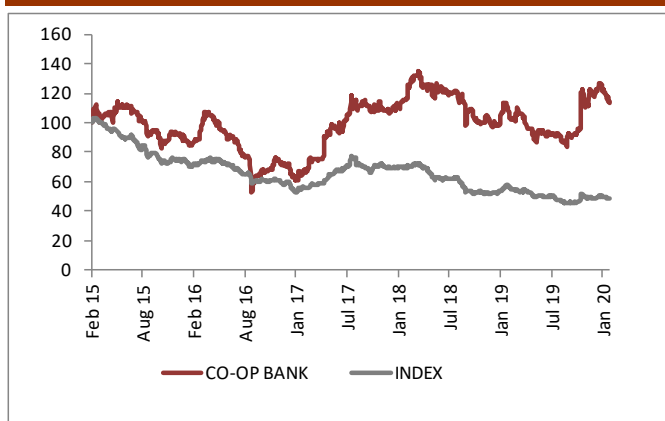
- Cooperative Bank of Kenya Group is due to release FY19 financial results in mid-March 2020. At the bottom line, we are forecasting that the Group will record an EPS of KES2.47, which is a +15.6% y/y growth with more notable growth in FY20 and FY21 of +16.7% y/y and +20.1% y/y respectively, mainly driven by improving efficiencies.
- For FY19, we are looking for net interest income to decline by -9.3% y/y, as interest income continues the downward trajectory at -6.5% y/y in FY19 on the back of lower yields. However, we anticipate stronger interest income growth in FY20 of +12.2% y/y to KES45.1bn, following the repeal of the interest rate cap. This growth will be largely on the back of consumer lending as well as from SMEs and the agricultural sector.
- In FY19, we forecast interest expense to remain relatively flat growing by only +0.3% y/y, while increasing by +10.9% y/y and +8.7% y/y in FY20 and FY21 respectively. We expect deposits growth to also only increase by +10.0% in FY19 compared to +8.8% in 3Q19, before growing by +14.0% in FY20 and FY21 as the Group intensifies its retail drive.
- We forecast an average cost of funds of 3.6% in FY19, which will decrease to 3.5% and 3.4% in FY20 and FY21 respectively, driven by cheaper deposits as we anticipate the Group to continue growing its demand deposits and leveraging off its wide network
- Non-funded income is expected to grow significantly by +51.0% y/y in FY19, driven largely by the mobile loans, as currently the Group is disbursing between KES4.5bn to KES5.0bn per month, this should continue through to FY20 and FY21 at +17.9% and +16.4%.
- Cost to income ratio is expected to decrease to 50.5% in FY19 from 54.6% in FY18, before improving further to 49.0% and 47.0% in FY20 and FY21 as a result of enhanced efficiencies.
- We anticipate cost of risk to increase to 1.0% in FY19 compared to 0.8% in FY18, with the NPL's decreasing to 10.0% in FY19 from 11.2% in 3Q19 as the Group's asset quality improves and some recoveries are made in particular in the real estate sector. The NPL ratio will continue to improve further in FY20 and FY21 to 9.2% and 8.4% respectively.
- We expect contribution from the South Sudan regional subsidiary to remain insignificant due to the instability of peace and security in the country.
- At the bottom line, PBT should grow by +15.3% y/y to KES20.7bn in FY19, as we see the effective tax rate remaining unchanged at 30.0%. PAT is also expected grow by +14.0% to KES14.51bn. We expect ROE of 19.6% and ROA of 3.3% in FY19.
- Cooperative Bank of Kenya Group is currently trading on an undemanding valuation of 2020 P/E of 6.1x and a P/B of 1.1x.

### Key Company Data

	FY18A	FY19E	FY20E	FY21E
EPS (KES)	2.14	2.47	2.89	3.47
EPS Growth	11.4%	15.6%	16.7%	20.1%
P/E	7.0x	6.1x	5.2x	4.3x
P/B	1.3x	1.1x	1.0x	0.9x
ROA	3.2%	3.3%	3.5%	3.7%
Dividend Yield	6.7%	6.6%	7.7%	9.2%
ROE	18.3%	19.6%	20.3%	21.4%

Source: Securities Africa Research Estimates, Company Data

### Share Price Relative Performance



Source: Stock Exchange Data

### Peer Comparison

2019	P/E	P/B	Dividend Yield	Market Cap (USD m)
Equity Bank	8.9x	1.6x	4.0%	\$1 886.8
Kenya Commercial Bank Ltd	6.5x	1.5x	5.9%	\$1 548.2
Co-operative Bank Of Kenya	6.1x	1.1x	6.6%	\$871.4
Standard Chartered Bank Ltd	8.4x	1.6x	9.3%	\$689.7
CFC Stanbic Holdings	6.2x	0.9x	4.6%	\$412.0

Source: Securities Africa Research Estimates, Company Data

### Share Ownership

Holder	Holding	% Holding
Co-op Holdings Co-operative Society Ltd	3,787,715,404	64.56

Source: Securities Africa Research Estimates, Company Data



### Income Statement

	FY 18A	FY 19E	FY 20E	FY 21E
Gross Earnings	55 918	59 687	68 075	77 259
% y-o-y growth	3.8%	6.7%	14.1%	13.5%
Net interest income	30 785	27 935	31 502	35 749
NIM margin	8.3%	6.9%	7.0%	7.0%
Other income	12 894	19 475	22 952	26 711
Operating income	43 678	47 410	54 454	62 460
margin	78.1%	79.4%	80.0%	80.8%
Operating expenses (excl. D&A)	-21 471	-21 833	-24 528	-27 175
Depreciation and Amortisation	-2 381	-2 109	-2 154	-2 182
Profit before tax	17 986	20 739	24 202	29 058
Extraordinary gain / (loss)	171	0	0	0
Taxation	-5 425	-6 222	-7 260	-8 717
effective tax rate	29.9%	30.0%	30.0%	30.0%
Profit after tax	12 732	14 517	16 941	20 341
Minority Interest	0	0	0	0
Net Income/(Loss)	12 732	14 517	16 941	20 341
Weighted avg. no. of shares (mn)	5 867	5 867	5 867	5 867
No. of shares outstanding (mn)	5 867	5 867	5 867	5 867
Adjusted EPS	2.14	2.47	2.89	3.47
Dividend per share	1.00	0.99	1.15	1.39

### Cash Flow Statement

Cash generated from operations	37 104	14 017	-20 719	-23 212
Finance income	0	59 687	68 075	77 259
Finance cost	0	-12 277	-13 621	-14 800
Tax paid	-5 186	-1 877	-6 481	-7 625
Net cash from operating activities	31 918	59 550	27 254	31 623
Purchase of PP&E	-774	-827	-943	-1 070
Purchase of intangible assets	-976	-976	-976	-976
Purchase of investments	-10 869	0	0	0
Others	2 050	-13 832	-9 666	-10 633
Net cash used in investing activities	-10 568	-15 635	-11 585	-12 678
Dividend paid to shareholders	-4 694	-5 807	-6 776	-8 136
Others	-924	-924	-924	-924
Net cash used in financing activities	-5 618	-6 731	-7 701	-9 061
Net increase in cash & cash equivalents	15 731	37 184	7 969	9 884
Opening cash and cash equivalents	16 382	32 113	69 297	77 265
Closing cash & cash equivalents	32 113	69 297	77 265	87 150

### Balance Sheet

	FY 18A	FY 19E	FY 20E	FY 21E
Cash and short term funds	32 479	44 706	47 756	51 739
Due from other banks	18 082	24 591	29 509	35 411
Treasury bills and government bonds	82 829	96 661	106 327	116 960
Investments in subsidiaries & associate	2 161	2 161	2 161	2 161
Investments	0	0	0	0
Loans and advances	245 410	255 286	292 540	335 442
Other assets	23 341	24 914	28 416	32 249
Property and equipment	6 614	5 895	5 246	4 697
Goodwill	0	0	0	0
Other Intangible Assets	2 497	2 910	3 323	3 736
<b>Total Assets</b>	<b>413 413</b>	<b>457 124</b>	<b>515 278</b>	<b>582 395</b>
Deposit and current accounts	306 560	337 216	384 427	438 246
Managed funds	0	0	0	0
Other liabilities	11 365	11 365	11 365	11 365
Taxation	321	4 666	5 445	6 538
Deferred tax	0	0	0	0
Dividend payable	0	0	0	0
Term loan	0	0	0	0
Borrowings	23 950	23 950	23 950	23 950
Shareholders' fund	69 864	78 574	88 739	100 943
Minority Interest	1 353	1 353	1 353	1 353
<b>Total Liabilities and Equity</b>	<b>413 413</b>	<b>457 124</b>	<b>515 278</b>	<b>582 395</b>

### Income Statement Ratios

	FY 18A	FY 19E	FY 20E	FY 21E
Profit After Tax growth	11.6%	14.0%	16.7%	20.1%
Net Interest margin growth	9.5%	-9.3%	12.8%	13.5%
Net Interest Margin	8.3%	6.9%	7.0%	7.0%
Operating Income Margin	78.1%	79.4%	80.0%	80.8%
Profit Before Tax margin	32.2%	34.7%	35.6%	37.6%
Net profit margin	22.8%	24.3%	24.9%	26.3%
Tax rate	29.9%	30.0%	30.0%	30.0%
Cost to Income ratio	54.6%	50.5%	49.0%	47.0%

### Balance Sheet Ratios

	FY 18A	FY 19E	FY 20E	FY 21E
Loans and advances growth	-3.3%	10.9%	15.0%	15.0%
Deposits growth	6.5%	10.0%	14.0%	14.0%
Return on average Assets	3.2%	3.3%	3.5%	3.7%
Return on average Equity	18.3%	19.6%	20.3%	21.4%
Leverage (Assets/Equity)	5.9x	5.8x	5.8x	5.8x
Loans/Assets	59.4%	55.8%	56.8%	57.6%
Loans/Deposits	80.1%	75.7%	76.1%	76.5%
NPL/Gross Loans	12.0%	10.0%	9.2%	8.4%

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