

Kenyan banks

Rate caps off – Revising up

Rate caps are finally going off in Kenya. Parliament met yesterday (5 November) but lacked the numbers to veto the president's reservations. However, a simple majority voted to amend the Finance Bill, shielding legacy loans from immediate re-pricings. We therefore revise our TPs higher across the board by 20-50% and upgrade Kenya Commercial Bank (KCB) to BUY (from Hold). Maintain BUY on Equity Bank and Cooperative Bank of Kenya.

Rate caps off – legacy loans shielded

Yesterday, the house speaker accepted the house committee's recommendation to shield legacy loans from immediate re-pricing, saying it fully accommodated the president's desires. A simple majority voted this forward. However, dispute ensued in the house, leading to a walk-out by some parliamentarians. Eventually, when the quorum was checked, there were insufficient members – only 161 present out of 349, meaning the bill could not even proceed to the voting stage, according to a local *paper*. The bill should now move forward for presidential signing, likely this week.

Equity – maintain BUY, TP KES58.3 (previously KES44.2)

Following our catch-up with management in Nairobi this week and on the back of yesterday's news, we revise our TP higher by 32%. We think Equity remains best positioned in a higher rate environment because: 1) it has excess liquidity – 1H19 loans/assets and loans/deposits of 50% and 70%, respectively, vs KCB's 64% and 85%; 2) it has been shortening the duration of its loan and bond books over the past year, which not only gives it ammunition to quickly increase credit flows, but ensures its loan book re-prices relatively more quickly; and 3) the average maturity of its Kenyan shilling loan book is 3.5 years, implying that about 30% matures every year. We see NIM improving 70-100 bpts per year over the next three years, with credit growth accelerating to 20% and RoEs of 25-28% over the period. We maintain our BUY rating, with our revised TP implying 21% upside. M&A remains the key risk, in our view. When quizzed on Atlas Mara, management insisted on being responsible capital allocators, acknowledged investors' negative reaction and the history of banks' failure when they expand away from home, and how the removal of rate caps strengthens returns in Kenya, potentially diluting the attraction of M&A. There should be an update on the 9M19 call later this week or early next week.

KCB – upgrade to BUY, TP KES56.5 (previously KES45.7)

We upgrade KCB to BUY following improved clarity on its National Bank of Kenya (NBK) acquisition. Any improvements in NBK's earnings should be RoE-positive for KCB as no new capital is being raised; gearing simply rises post deal as NBK brings no capital either (core CAR: 1.5%). However, the first two years should see one-off costs arising from staff and branch reductions, while we also model for slightly elevated CoR. KCB has limited scope to benefit from caps off, so we model modest NIM improvement, credit growth at 8-13% over the next three years and RoE of 19-23%. We upgrade to BUY (from Hold), with our revised TP implying 18% upside.

Coop – maintain BUY, TP KES21.4 (previously KES14.3)

Coop has relatively cleaner exposure to the Kenyan banks' earnings recovery as there is no M&A in sight. We now see NIM improving 50-60 bpts pa over the next three years, and credit growth and RoE improving to 15-16% and 20-25%, respectively. Maintain BUY with our revised TP implying 36% upside.

Sector update

Equity Research
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Banks
Kenya

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Summary sector valuation and ratings

	KCB	Equity	Coop
Share price, KES	48.1	48.0	15.7
Target price, KES	56.5	58.3	21.4
Previous TP, KES	45.7	44.2	14.3
Upside/downside	17.6%	21.4%	36.1%
Rating	BUY	BUY	BUY
Previous rating	Hold	Buy	Buy
FY19E P/B, x	1.2	1.7	1.2
FY20E P/B, x	1.1	1.4	1.1
FY19E P/E, x	6.2	8.0	6.8
FY20E P/E, x	5.9	6.2	5.6
FY19E RoE, %	20.1	22.5	18.5
FY20E RoE, %	19.4	25.0	20.1
FY19E dividend yield, %	7.3	3.7	6.4
FY20E dividend yield, %	7.0	4.1	8.1

Source: Bloomberg, Renaissance Capital estimates

Figure 1: Valuations and ratings

	KCB	Equity	Coop
Risk-free rate	11.5%	11.5%	11.5%
Risk premium	7.0%	7.0%	6.5%
Beta	1.20	1.15	1.10
CoE	19.9%	19.6%	18.7%
Sustainable RoE	22.0%	26.0%	21.5%
G	10.0%	10.0%	10.0%
FV P/B, x	1.2	1.7	1.3
TP, KES	56.5	58.3	21.4
Current share price, KES	48.1	48.0	15.7
Potential upside/downside	17.6%	21.4%	36.1%
Rating	BUY	BUY	BUY
Previous TP	45.7	44.2	14.3
Previous rating	Hold	Buy	Buy
Change in TP	23.7%	31.8%	49.5%

Source: Renaissance Capital estimates

Figure 2: Summary ratios and multiples, KES (unless otherwise stated)

	KCB			Equity			Coop		
	2018	2019E	2020E	2018	2019E	2020E	2018	2019E	2020E
EPS	7.8	7.8	8.1	5.2	6.0	7.7	2.2	2.3	2.8
P/E, x	6.1	6.2	5.9	9.2	8.0	6.2	7.2	6.8	5.6
BVPS	37.1	39.4	44.1	24.9	28.5	33.2	11.9	13.2	14.8
PB, x	1.3	1.2	1.1	1.9	1.7	1.4	1.3	1.2	1.1
DPS	3.5	3.5	3.4	2.0	2.4	3.1	1.0	1.0	1.3
Div yield, %	7.3	7.3	7.0	4.2	5.0	6.4	6.4	6.4	8.1
RoE, %	21.9	20.1	19.4	21.1	22.5	25.0	18.3	18.5	20.1
RoA, %	3.5	3.1	2.9	3.6	3.7	4.1	3.2	3.2	3.4

Source: Company data, Renaissance Capital estimates

Summary financials

Renaissance Capital
6 November 2019

Kenyan banks

Figure 3: Equity Bank summary financials, KESmn (unless otherwise stated)

Balance sheet	2017	2018	2019E	2020E	2021E
Assets					
Interbank	52,946	31,623	33,204	34,865	36,608
Securities	139,041	180,799	220,795	239,316	287,179
Net loans	279,092	297,227	332,877	402,089	482,342
Gross loans	286,541	316,710	353,258	423,910	508,692
Interest-earning assets	471,078	509,649	586,877	676,269	806,129
Total assets	524,466	573,385	661,470	763,587	900,982
Liabilities					
Interbank	1,736	922	4,608	4,838	5,080
Securities	0	0	0	0	0
Deposits	373,143	422,758	473,490	553,983	664,779
Interest-bearing liabilities	374,879	423,680	478,098	558,821	669,860
Total liabilities	524,466	573,385	661,470	763,587	900,982
Shareholders' equity	92,394	94,075	107,696	125,192	147,420

Income statement	2017	2018	2019E	2020E	2021E
Interest income	48,410	53,230	57,014	71,268	91,815
Interest expense	-10,841	-11,808	-13,671	-17,131	-21,096
Net interest income	37,570	41,422	43,343	54,137	70,719
Net fee income	19,280	18,264	21,004	25,205	28,985
Trading income	4,111	3,309	3,474	3,648	3,831
Other income	4,201	4,288	7,719	8,105	8,105
Total revenue	65,161	67,284	75,540	91,094	111,640
Staff costs	-11,545	-11,544	-12,006	-13,446	-15,060
Other costs	-23,303	-23,563	-27,355	-30,860	-37,520
Total costs	-34,848	-35,107	-39,361	-44,306	-52,580
Operating profit	30,314	32,176	36,179	46,788	59,060
Provisioning charge	-3,431	-3,714	-3,989	-5,440	-6,528
Other pre-tax items	0	0	0	0	0
Pre-tax profit	26,882	28,463	32,190	41,348	52,532
Tax	-7,964	-8,639	-9,335	-11,991	-15,234
Minorities	-49	-133	-154	-197	-251
Other post-tax gains/losses	0	0	0	1	2
Net profit	18,869	19,691	22,701	29,161	37,049
Dividend on common shares	7,547	7,547	9,081	11,664	14,819
Dividend on preferred shares	na	na	na	na	na

Key YoY growth rates (%)	2017	2018	2019E	2020E	2021E
Loans	4.5	10.5	11.5	20.0	20.0
Interest-earning assets	12.3	8.2	15.2	15.2	19.2
Deposits	10.7	13.3	12.0	17.0	20.0
Interest-bearing liabilities	11.1	13.0	12.8	16.9	19.9
Assets	10.7	9.3	15.4	15.4	18.0
Fee income	22.2	-5.3	15.0	20.0	15.0
Revenue	1.8	3.3	12.3	20.6	22.6
Costs	7.4	0.7	12.1	12.6	18.7
Operating profit	-4.0	6.1	12.4	29.3	26.2
Net profit	14.0	4.4	15.3	28.5	27.0
EPS	14.0	4.4	15.3	28.5	27.0

Per-share data (KES)	2017	2018	2019E	2020E	2021E
No. of common shares, mn	3,774	3,774	3,774	3,774	3,774
EPS	5.00	5.22	6.02	7.73	9.82
DPS	2.00	2.00	2.41	3.09	3.93
BVPS	24.5	24.9	28.5	33.2	39.1

Balance-sheet ratios (%)	2017	2018	2019E	2020E	2021E
Loans/assets	53.2	51.8	50.3	52.7	53.5
Deposits/liabilities	71.1	73.7	71.6	72.6	73.8
Loans/deposits	74.8	70.3	70.3	72.6	72.6
Equity/assets	17.6	16.4	16.3	16.4	16.4

Capital ratios (%)	2017	2018	2019E	2020E	2021E
Tier 1	15.8	14.0	14.2	14.9	15.3
Tier 2	0.7	0.0	1.7	1.5	1.3
Total	16.5	14.0	16.0	16.4	16.5

Asset quality	2017	2018	2019E	2020E	2021E
NPLs	17,985	24,024	31,793	33,913	35,608
NPL reserves	7,449	14,392	20,381	21,822	26,350
NPLs/gross loans, %	6.28	7.59	9.00	8.00	7.00
Reserves/NPLs, x	0.41	0.60	0.64	0.64	0.74
Credit charge, %	1.22	1.23	1.19	1.40	1.40

Margins (%)	2017	2018	2019E	2020E	2021E
Asset margin	10.9	10.9	10.4	11.3	12.4
Liability margin	3.0	3.0	3.0	3.3	3.4
NIM	8.4	8.4	7.9	8.6	9.5
Spread, ppts	7.8	7.9	7.4	8.0	9.0

Costs (%)	2017	2018	2019E	2020E	2021E
Cost/income	53.5	52.2	52.1	48.6	47.1
Cost/avg assets	6.98	6.40	6.38	6.22	6.32
Effective tax rate	29.6	30.4	29.0	29.0	29.0

Profitability ratios (%)	2017	2018	2019E	2020E	2021E
RoAE	21.7	21.1	22.5	25.0	27.2
RoAA	3.8	3.6	3.7	4.1	4.5

Other P&L ratios (%)	2017	2018	2019E	2020E	2021E
Interest income/revenue	57.7	61.6	57.4	59.4	63.3
Fees/revenue	29.6	27.1	27.8	27.7	26.0
Trading income/revenue	6.3	4.9	4.6	4.0	3.4
Fees/staff costs	167.0	158.2	175.0	187.4	192.5
Fees/total costs	55.3	52.0	53.4	56.9	55.1
Payout ratio	40.0	38.3	40.0	40.0	40.0

No of:	2014	2015	2016	2017	2018
Employees	8,690	8,043	7,669	7,351	7,669
Branches	228	263	266	284	290
POS	16,002	na	na	na	na
ATMs	601	672	697	693	694
Customers, mn	10	10	11	12	14
Agencies	17,523	23,991	29,561	35,272	42,635

Source: Company data, Renaissance Capital estimates

Figure 4: Equity Bank summary financials, \$mn (unless otherwise stated)

Balance sheet	2017	2018	2019E	2020E	2021E	Balance-sheet ratios (%)	2017	2018	2019E	2020E	2021E
Assets						Loans/assets	53.2	51.8	50.3	52.7	53.5
Interbank	512	311	316	314	330	Deposits/liabilities	71.1	73.7	71.6	72.6	73.8
Securities	1,345	1,776	2,103	2,156	2,587	Loans/deposits	74.8	70.3	70.3	72.6	72.6
Net loans	2,699	2,920	3,170	3,622	4,345	Equity/assets	17.6	16.4	16.3	16.4	16.4
Gross loans	2,771	3,111	3,364	3,819	4,583	Capital ratios (%)					
Interest-earning assets	4,556	5,006	5,589	6,093	7,262	Tier 1	15.8	14.0	14.2	14.9	15.3
Total assets	5,072	5,632	6,300	6,879	8,117	Tier 2	0.7	0.0	1.7	1.5	1.3
Liabilities						Total	16.5	14.0	16.0	16.4	16.5
Interbank	17	9	44	44	46	Asset quality					
Securities	0	0	0	0	0	NPLs	174	236	303	306	321
Deposits	3,609	4,153	4,509	4,991	5,989	NPL reserves	72	141	194	197	237
Interest-bearing liabilities	3,626	4,162	4,553	5,034	6,035	NPLs/gross loans, %	6.28	7.59	9.00	8.00	7.00
Total liabilities	5,072	5,632	6,300	6,879	8,117	Reserves/NPLs, x	0.41	0.60	0.64	0.64	0.74
Shareholders' equity	894	924	1,026	1,128	1,328	Credit charge, %	1.22	1.23	1.19	1.40	1.40
Income statement						Margins (%)					
Interest income	469	519	551	660	850	Asset margin	10.9	10.9	10.4	11.3	12.4
Interest expense	-105	-115	-132	-159	-195	Liability margin	3.0	3.0	3.0	3.3	3.4
Net interest income	364	404	419	501	655	NIM	8.4	8.4	7.9	8.6	9.5
Net fee income	187	178	203	233	268	Spread, ppts	7.8	7.9	7.4	8.0	9.0
Trading income	40	32	34	34	35	Costs (%)					
Other income	41	42	75	75	75	Cost/income	53.5	52.2	52.1	48.6	47.1
Total revenue	631	656	731	843	1,034	Cost/avg assets	6.98	6.40	6.38	6.22	6.32
Staff costs	-112	-113	-116	-125	-139	Effective tax rate	29.6	30.4	29.0	29.0	29.0
Other costs	-226	-230	-265	-286	-347	Profitability ratios (%)					
Total costs	-338	-342	-381	-410	-487	RoAE	21.7	21.1	22.5	25.0	27.2
Operating profit	294	314	350	433	547	RoAA	3.8	3.6	3.7	4.1	4.5
Provisioning charge	-33	-36	-39	-50	-60	Other P&L ratios (%)					
Other pre-tax items	0	0	0	0	0	Interest income/revenue	57.7	61.6	57.4	59.4	63.3
Pre-tax profit	260	277	311	383	486	Fees/revenue	29.6	27.1	27.8	27.7	26.0
Tax	-77	-84	-90	-111	-141	Trading income/revenue	6.3	4.9	4.6	4.0	3.4
Minorities	0	-1	-1	-2	-2	Fees/staff costs	167.0	158.2	175.0	187.4	192.5
Other post-tax gains/losses	0	0	0	0	0	Fees/total costs	55.3	52.0	53.4	56.9	55.1
Net profit	183	192	220	270	343	Payout ratio	40.0	38.3	40.0	40.0	40.0
Dividend on common shares	73	74	88	108	137	No of:					
Dividend on preferred shares	na	na	na	na	na	Employees	8,690	8,043	7,669	7,351	7,669
Key YoY growth rates (%)						Branches	228	263	266	284	290
Loans	3.6	12.3	8.1	13.5	20.0	POS	16,002	na	na	na	na
Interest-earning assets	11.3	9.9	11.6	9.0	19.2	ATMs	601	672	697	693	694
Deposits	9.7	15.1	8.6	10.7	20.0	Customers, mn	10	10	11	12	14
Interest-bearing liabilities	10.1	14.8	9.4	10.6	19.9	Agencies	17,523	23,991	29,561	35,272	42,635
Assets	9.8	11.0	11.8	9.2	18.0	Per-share data (KES)					
Fee income	20.2	-4.7	14.1	14.9	15.0	No. of common shares, mn	3,774	3,774	3,774	3,774	3,774
Revenue	0.1	3.9	11.4	15.5	22.6	EPS	0.05	0.05	0.06	0.07	0.09
Costs	5.6	1.3	11.2	7.8	18.7	DPS	0.02	0.02	0.02	0.03	0.04
Operating profit	-5.6	6.8	11.6	23.8	26.2	BVPS	0.2	0.2	0.3	0.3	0.4
Net profit	12.2	5.0	14.4	23.0	27.0						
EPS	12.2	5.0	14.4	23.0	27.0						

Source: Company data, Renaissance Capital estimates

Figure 5: KCB summary financials, KESmn (unless otherwise stated)

Balance sheet	2017	2018	2019E	2020E	2021E
Assets					
Interbank	43,335	32,017	35,218	38,740	42,614
Securities	121,295	131,132	164,594	192,719	198,936
Net loans	422,685	455,880	515,444	554,457	623,372
Gross loans	438,732	476,529	548,008	597,329	669,009
Interest-earning assets	587,315	619,029	715,257	785,916	864,923
Total assets	646,669	714,313	841,127	922,155	1,016,145

Liabilities					
Interbank	11,039	20,105	22,115	24,327	26,759
Securities	0	0	0	0	0
Deposits	499,549	537,460	644,952	696,548	766,202
Interest-bearing liabilities	510,588	557,564	667,067	720,874	792,962
Total liabilities	646,669	714,313	841,127	922,155	1,016,145
Shareholders' equity	105,966	113,661	126,680	141,771	161,196

Income statement	2017	2018	2019E	2020E	2021E
Interest income	63,673	66,281	69,937	82,442	94,011
Interest expense	-15,288	-17,450	-18,420	-23,029	-26,710
Net interest income	48,385	48,831	51,517	59,413	67,300
Net fee income	14,694	14,239	18,226	25,516	30,619
Trading income	4,665	4,374	4,593	5,052	5,558
Other income	3,641	4,360	4,578	5,494	5,933
Total revenue	71,385	71,804	78,914	95,475	109,410
Staff costs	-19,544	-17,347	-19,081	-26,714	-28,049
Other costs	-16,813	-17,654	-18,452	-21,328	-24,346
Total costs	-36,357	-35,001	-37,533	-48,042	-52,396
Operating profit	35,028	36,803	41,381	47,433	57,015
Provisioning charge	-5,914	-2,944	-6,916	-10,308	-10,764
Other pre-tax items	0	0	0	0	0
Pre-tax profit	29,114	33,858	34,465	37,125	46,251
Tax	-9,409	-9,864	-10,340	-11,137	-13,875
Minorities	0	0	0	0	0
Other post-tax gains/losses	0	0	0	1	2
Net profit	19,705	23,995	24,126	25,988	32,378
Dividend on common shares	9,198	10,731	11,255	10,896	12,950
Dividend on preferred shares	na	na	na	na	na

Key YoY growth rates (%)	2017	2018	2019E	2020E	2021E
Loans	10.1	8.6	15.0	9.0	12.0
Interest-earning assets	8.1	5.4	15.5	9.9	10.1
Deposits	11.5	7.6	20.0	8.0	10.0
Interest-bearing liabilities	10.7	9.2	19.6	8.1	10.0
Assets	8.6	10.5	17.8	9.6	10.2
Fee income	16.4	-3.1	28.0	40.0	20.0
Revenue	2.7	0.6	9.9	21.0	14.6
Costs	-0.6	-3.7	7.2	28.0	9.1
Operating profit	6.4	5.1	12.4	14.6	20.2
Net profit	-0.1	21.8	0.5	7.7	24.6
EPS	-0.1	21.8	-0.6	4.0	24.6

Per-share data (KES)	2017	2018	2019E	2020E	2021E
No. of common shares (mn)	3,066	3,066	3,103	3,213	3,213
EPS	6.43	7.83	7.78	8.09	10.08
DPS	3.00	3.50	3.50	3.39	4.03
BVPS	34.6	37.1	39.4	44.1	50.2

Balance-sheet ratios (%)	2017	2018	2019E	2020E	2021E
Loans/assets	65.4	63.8	61.3	60.1	61.3
Deposits/liabilities	77.2	75.2	76.7	75.5	75.4
Loans/deposits	84.6	84.8	79.9	79.6	81.4
Equity/assets	16.4	15.9	15.1	15.4	15.9

Capital ratios (%)	2017	2018	2019E	2020E	2021E
Tier 1	14.9	16.4	15.4	15.6	15.9
Tier 2	1.2	1.4	1.5	1.6	1.8
Total	16.1	17.8	16.9	17.2	17.7

Asset quality	2017	2018	2019E	2020E	2021E
NPLs	37,496	32,692	65,761	56,746	60,211
NPL reserves	16,047	20,649	32,564	42,872	45,636
NPLs/gross loans (%)	8.55	6.86	12.00	9.50	9.00
Reserves/NPLs (x)	0.43	0.63	0.50	0.76	0.76
Credit charge (%)	1.41	0.64	1.35	1.80	1.70

Margins (%)	2017	2018	2019E	2020E	2021E
Asset margin	11.3	11.0	10.5	11.0	11.4
Liability margin	3.1	3.3	3.0	3.3	3.5
NIM	8.6	8.1	7.7	7.9	8.2
Spread (ppts)	8.1	7.7	7.5	7.7	7.9

Costs (%)	2017	2018	2019E	2020E	2021E
Cost/income	50.9	48.7	47.6	50.3	47.9
Cost/avg assets	5.86	5.14	4.83	5.45	5.41
Effective tax rate	32.3	29.1	30.0	30.0	30.0

Profitability ratios (%)	2017	2018	2019E	2020E	2021E
RoAE	19.5	21.9	20.1	19.4	21.4
RoAA	3.2	3.5	3.1	2.9	3.3

Other P&L ratios (%)	2017	2018	2019E	2020E	2021E
Interest income/revenue	67.8	68.0	65.3	62.2	61.5
Fees/revenue	20.6	19.8	23.1	26.7	28.0
Trading income/revenue	6.5	6.1	5.8	5.3	5.1
Fees/staff costs	75.2	82.1	95.5	95.5	109.2
Fees/total costs	40.4	40.7	48.6	53.1	58.4
Payout ratio	46.7	44.7	46.6	41.9	40.0

No. of:	2014	2015	2016	2017	2018
Employees	6,883	7,415	7,192	6,483	5,980
Branches	242	260	265	263	258
Mini/Sub branches	na	na	na	na	na
ATMs	962	962	962	962	946
Customers (mn)	4	10	12	16	17
Agents	10,102	11,667	13,562	15,082	16,642

Source: Company data, Renaissance Capital estimates

Figure 6: KCB summary financials, \$mn (unless otherwise stated)

Balance sheet	2017	2018	2019E	2020E	2021E	Balance-sheet ratios (%)	2017	2018	2019E	2020E	2021E
Assets						Loans/assets	65.4	63.8	61.3	60.1	61.3
Interbank	419	315	335	349	384	Deposits/liabilities	77.2	75.2	76.7	75.5	75.4
Securities	1,173	1,288	1,568	1,736	1,792	Loans/deposits	84.6	84.8	79.9	79.6	81.4
Net loans	4,088	4,478	4,909	4,995	5,616	Equity/assets	16.4	15.9	15.1	15.4	15.9
Gross loans	4,243	4,681	5,219	5,381	6,027						
Interest-earning assets	5,680	6,081	6,812	7,080	7,792	Capital ratios (%)	2017	2018	2019E	2020E	2021E
Total assets	6,254	7,017	8,011	8,308	9,154	Tier 1	14.9	16.4	15.4	15.6	15.9
						Tier 2	1.2	1.4	1.5	1.6	1.8
						Total	16.1	17.8	16.9	17.2	17.7
Liabilities											
Interbank	107	197	211	219	241	Asset quality	2017	2018	2019E	2020E	2021E
Securities	0	0	0	0	0	NPLs	363	321	626	511	542
Deposits	4,831	5,280	6,142	6,275	6,903	NPL reserves	155	203	310	386	411
Interest-bearing liabilities	4,938	5,477	6,353	6,494	7,144	NPLs/gross loans (%)	8.55	6.86	12.00	9.50	9.00
Total liabilities	6,254	7,017	8,011	8,308	9,154	Reserves/NPLs (x)	0.43	0.63	0.50	0.76	0.76
Shareholders' equity	1,025	1,117	1,206	1,277	1,452	Credit charge (%)	1.41	0.64	1.35	1.80	1.70
						Margins (%)	2017	2018	2019E	2020E	2021E
Income statement	2017	2018	2019E	2020E	2021E	Asset margin	11.3	11.0	10.5	11.0	11.4
Interest income	617	646	676	763	870	Liability margin	3.1	3.3	3.0	3.3	3.5
Interest expense	-148	-170	-178	-213	-247	NIM	8.6	8.1	7.7	7.9	8.2
Net interest income	469	476	498	550	623	Spread (ppts)	8.1	7.7	7.5	7.7	7.9
Net fee income	142	139	176	236	284						
Trading income	45	43	44	47	51	Costs (%)	2017	2018	2019E	2020E	2021E
Other income	35	42	44	51	55	Cost/income	50.9	48.7	47.6	50.3	47.9
Total revenue	692	700	763	884	1,013	Cost/avg assets	5.86	5.14	4.83	5.45	5.41
Staff costs	-189	-169	-185	-247	-260	Effective tax rate	32.3	29.1	30.0	30.0	30.0
Other costs	-163	-172	-178	-197	-225						
Total costs	-352	-341	-363	-445	-485	Profitability ratios (%)	2017	2018	2019E	2020E	2021E
Operating profit	339	359	400	439	528	RoAE	19.5	21.9	20.1	19.4	21.4
Provisioning charge	-57	-29	-67	-95	-100	RoAA	3.2	3.5	3.1	2.9	3.3
Other pre-tax items	0	0	0	0	0						
Pre-tax profit	282	330	333	344	428	Other P&L ratios (%)	2017	2018	2019E	2020E	2021E
Tax	-91	-96	-100	-103	-128	Interest income/revenue	67.8	68.0	65.3	62.2	61.5
Minorities	0	0	0	0	0	Fees/revenue	20.6	19.8	23.1	26.7	28.0
Other post-tax gains/losses	0	0	0	0.0	0.0	Trading income/revenue	6.5	6.1	5.8	5.3	5.1
Net profit	191	234	233	241	300	Fees/staff costs	75.2	82.1	95.5	95.5	109.2
Dividend on common shares	89	105	109	101	120	Fees/total costs	40.4	40.7	48.6	53.1	58.4
Dividend on preferred shares	na	na	na	na	na	Payout ratio	46.7	44.7	46.6	41.9	40.0
						No. of:	2014	2015	2016	2017	2018
Key YoY growth rates (%)	2017	2018	2019E	2020E	2021E	Employees	6,883	7,415	7,192	6,483	5,980
Loans	9.1	10.3	11.5	3.1	12.0	Branches	242	260	265	263	258
Interest-earning assets	7.2	7.1	12.0	3.9	10.1	Mini/Sub branches	na	na	na	na	na
Deposits	10.5	9.3	16.3	2.2	10.0	ATMs	962	962	962	962	946
Interest-bearing liabilities	9.7	10.9	16.0	2.2	10.0	Customers (mn)	4	10	12	16	17
Assets	7.7	12.2	14.2	3.7	10.2	Agents	10,102	11,667	13,562	15,082	16,642
Fee income	14.5	-2.5	27.0	34.0	20.0						
Revenue	1.1	1.2	9.1	15.8	14.6						
Costs	-2.2	-3.2	6.4	22.5	9.1						
Operating profit	4.7	5.7	11.6	9.7	20.2						
Net profit	-1.7	22.5	-0.2	3.1	24.6						
EPS	-1.7	22.5	-1.4	-0.4	24.6						
Per-share data (\$)	2017	2018	2019E	2020E	2021E						
No. of common shares (mn)	3,066	3,066	3,103	3,213	3,213						
EPS	0.06	0.08	0.08	0.07	0.09						
DPS	0.03	0.03	0.03	0.03	0.04						
BVPS	0.3	0.4	0.4	0.4	0.5						

Source: Company data, Renaissance Capital estimates

Figure 7: Coop summary financials, KESmn (unless otherwise stated)

Balance sheet	2017	2018	2019E	2020E	2021E	Balance-sheet ratios (%)	2017	2018	2019E	2020E	2021E
Assets						Loans/assets	65.6	59.4	59.3	59.7	60.1
Interbank	7,730	18,082	18,986	20,884	22,973	Deposits/liabilities	74.3	74.0	74.8	76.0	76.5
Securities	81,709	92,638	109,694	130,603	149,627	Loans/deposits	88.3	80.2	79.2	78.5	78.5
Net loans	253,862	245,410	266,811	309,351	355,671	Equity/assets	18.0	16.9	17.2	16.7	16.8
Gross loans	262,552	259,621	285,583	328,421	377,684						
Interest-earning assets	343,301	356,130	395,491	460,838	528,271	Capital ratios (%)	2017	2018	2019E	2020E	2021E
Total assets	386,858	413,413	450,165	518,327	592,276	Tier 1	16.5	15.0	16.8	16.5	16.8
						Tier 2	6.2	0.3	0.0	0.0	0.0
						Total	22.7	15.4	16.8	16.5	16.8
Liabilities						Asset quality	2017	2018	2019E	2020E	2021E
Interbank	4,366	443	488	536	590	NPLs	18,761	29,402	28,558	29,558	30,215
Securities	0	0	0	0	0	NPL reserves	10,178	17,046	18,772	19,070	22,013
Deposits	287,372	306,117	336,729	393,973	453,069	NPLs/gross loans, %	7.15	11.32	10.00	9.00	8.00
Interest-bearing liabilities	291,737	306,560	337,216	394,509	453,659	Reserves/NPLs, x	0.54	0.58	0.66	0.65	0.73
Total liabilities	386,858	413,413	450,165	518,327	592,276	Credit charge, %	1.42	0.71	1.00	1.40	1.40
Shareholders' equity	69,565	69,864	77,620	86,624	99,400						
						Margins (%)	2017	2018	2019E	2020E	2021E
Income statement	2017	2018	2019E	2020E	2021E	Asset margin	12.3	12.3	11.1	12.0	12.7
Interest income	40,373	43,025	41,860	51,285	63,042	Liability margin	4.4	4.1	3.9	4.2	4.4
Interest expense	-12,269	-12,240	-12,530	-15,398	-18,485	NIM	8.6	8.8	7.8	8.4	9.0
Net interest income	28,104	30,785	29,330	35,887	44,557	Spread, ppts	7.9	8.2	7.2	7.8	8.4
Net fee income	9,815	9,518	13,800	15,870	18,568						
Trading income	2,231	2,285	1,828	1,828	1,919	Costs (%)	2017	2018	2019E	2020E	2021E
Other income	1,446	1,091	1,418	1,560	1,716	Cost/income	52.2	54.6	52.6	50.0	47.6
Total revenue	41,596	43,678	46,376	55,146	66,761	Cost/avg assets	5.88	5.96	5.65	5.69	5.73
Staff costs	-10,281	-11,649	-12,115	-13,326	-14,659	Effective tax rate	30.5	29.9	30.0	30.0	30.0
Other costs	-11,445	-12,203	-12,289	-14,239	-17,133						
Total costs	-21,726	-23,852	-24,403	-27,565	-31,792	Profitability ratios (%)	2017	2018	2019E	2020E	2021E
Operating profit	19,870	19,826	21,973	27,581	34,969	RoAE	17.4	18.3	18.5	20.1	22.9
Provisioning charge	-3,601	-1,841	-2,726	-4,298	-4,943	RoAA	3.1	3.2	3.2	3.4	3.8
Other pre-tax items	130	171	226	298	394						
Pre-tax profit	16,399	18,157	19,473	23,581	30,420	Other P&L ratios (%)	2017	2018	2019E	2020E	2021E
Tax	-4,994	-5,425	-5,842	-7,074	-9,126	Interest income/revenue	67.6	70.5	63.2	65.1	66.7
Minorities	0	0	0	0	0	Fees/revenue	23.6	21.8	29.8	28.8	27.8
Other post-tax gains/losses	0	0	0	0	0	Trading income/revenue	5.4	5.2	3.9	3.3	2.9
Net profit	11,405	12,732	13,631	16,507	21,294	Fees/staff costs	95.5	81.7	113.9	119.1	126.7
Dividend on common shares	4,694	5,867	5,876	7,503	8,518	Fees/total costs	45.2	39.9	56.6	57.6	58.4
Dividend on preferred shares	na	na	na	na	na	Payout ratio	41.2	46.1	43.1	45.5	40.0
Key YoY growth rates (%)	2017	2018	2019E	2020E	2021E	No. of:	2015	2016	2017	2018	
Gross loans	7.4	-1.1	10.0	15.0	15.0	Employees	4,069	4,127	4,069	4,251	
Interest-earning assets	9.9	3.7	11.1	16.5	14.6	Branches	144	148	152	155	
Deposits	10.5	6.5	10.0	17.0	15.0	Mini/sub branches					
Interest-bearing liabilities	10.7	5.1	10.0	17.0	15.0	ATMs	571	580	580	580	
Assets	9.9	6.9	8.9	15.1	14.3	Customers, mn	6	6	7	7	
Fee income	0.3	-3.0	45.0	15.0	17.0						
Revenue	-1.6	5.0	6.2	18.9	21.1						
Costs	-1.4	9.8	2.3	13.0	15.3						
Operating profit	-1.8	-0.2	10.8	25.5	26.8						
Net profit	-10.1	11.6	7.1	21.1	29.0						
EPS	-25.0	11.6	7.1	21.1	29.0						
Per-share data (KES)	2017	2018	2019E	2020E	2021E						
No. of common shares, mn	5,867	5,867	5,867	5,867	5,867						
EPS	1.94	2.17	2.32	2.81	3.63						
DPS	0.80	1.00	1.00	1.28	1.45						
BVPS	11.9	11.9	13.2	14.8	16.9						

Source: Company data, Renaissance Capital estimates

Figure 8: Coop summary financials, \$mn (unless otherwise stated)

Balance sheet	2017	2018	2019E	2020E	2021E
Assets					
Interbank	75	178	181	188	207
Securities	790	910	1,045	1,177	1,348
Net loans	2,455	2,411	2,541	2,787	3,204
Gross loans	2,539	2,550	2,720	2,959	3,403
Interest-earning assets	3,320	3,498	3,767	4,152	4,759
Total assets	3,741	4,061	4,287	4,670	5,336

Liabilities					
Interbank	42	4	5	5	5
Securities	0	0	0	0	0
Deposits	2,779	3,007	3,207	3,549	4,082
Interest-bearing liabilities	2,821	3,011	3,212	3,554	4,087
Total liabilities	3,741	4,061	4,287	4,670	5,336
Shareholders' equity	673	686	739	780	895

Income statement	2017	2018	2019E	2020E	2021E
Interest income	391	419	405	475	584
Interest expense	-119	-119	-121	-143	-171
Net interest income	272	300	284	332	413
Net fee income	95	93	133	147	172
Trading income	22	22	18	17	18
Other income	14	11	14	14	16
Total revenue	403	426	449	511	618
Staff costs	-100	-114	-117	-123	-136
Other costs	-111	-119	-119	-132	-159
Total costs	-211	-232	-236	-255	-294
Operating profit	193	193	213	255	324
Provisioning charge	-35	-18	-26	-40	-46
Other pre-tax items	1	2	2	3	4
Pre-tax profit	159	177	188	218	282
Tax	-48	-53	-56	-66	-85
Minorities	0	0	0	0	0
Other post-tax gains/losses	0	0	0	0	0
Net profit	111	124	132	153	197
Dividend on common shares	45	57	57	69	79
Dividend on preferred shares	na	na	na	na	na

Key YoY growth rates (%)	2017	2018	2019E	2020E	2021E
Loans	6.5	0.4	6.6	8.8	15.0
Interest-earning assets	9.0	5.4	7.7	10.2	14.6
Deposits	9.5	8.2	6.6	10.7	15.0
Interest-bearing liabilities	9.7	6.7	6.6	10.7	15.0
Assets	9.0	8.5	5.6	8.9	14.3
Fee income	-1.4	-2.5	43.9	10.1	17.0
Revenue	-3.2	5.6	5.4	13.8	21.1
Costs	-3.1	10.4	1.5	8.1	15.3
Operating profit	-3.4	0.4	10.0	20.2	26.8
Net profit	-11.5	12.3	6.2	15.9	29.0
EPS	-26.3	12.3	6.2	15.9	29.0

Per-share data (KES)	2017	2018	2019E	2020E	2021E
No. of common shares, mn	5,867	5,867	5,867	5,867	5,867
EPS	0.02	0.02	0.02	0.03	0.03
DPS	0.01	0.01	0.01	0.01	0.01
BVPS	0.1	0.1	0.1	0.1	0.2

Balance-sheet ratios (%)	2017	2018	2019E	2020E	2021E
Loans/assets	65.6	59.4	59.3	59.7	60.1
Deposits/liabilities	74.3	74.0	74.8	76.0	76.5
Loans/deposits	88.3	80.2	79.2	78.5	78.5
Equity/assets	18.0	16.9	17.2	16.7	16.8

Capital ratios (%)	2017	2018	2019E	2020E	2021E
Tier 1	16.5	15.0	16.8	16.5	16.8
Tier 2	6.2	0.3	0.0	0.0	0.0
Total	22.7	15.4	16.8	16.5	16.8

Asset quality	2017	2018	2019E	2020E	2021E
NPLs	181	289	272	266	272
NPL reserves	98	167	179	172	198
NPLs/gross loans, %	7.15	11.32	10.00	9.00	8.00
Reserves/NPLs, x	0.54	0.58	0.66	0.65	0.73
Credit charge, %	1.42	0.71	1.00	1.40	1.40

Margins (%)	2017	2018	2019E	2020E	2021E
Asset margin	12.3	12.3	11.1	12.0	12.7
Liability margin	4.4	4.1	3.9	4.2	4.4
NIM	8.6	8.8	7.8	8.4	9.0
Spread, ppts	7.9	8.2	7.2	7.8	8.4

Costs (%)	2017	2018	2019E	2020E	2021E
Cost/income	52.2	54.6	52.6	50.0	47.6
Cost/avg assets	5.88	5.96	5.65	5.69	5.73
Effective tax rate	30.5	29.9	30.0	30.0	30.0

Profitability ratios (%)	2017	2018	2019E	2020E	2021E
RoAE	17.4	18.3	18.5	20.1	22.9
RoAA	3.1	3.2	3.2	3.4	3.8

Other P&L ratios (%)	2017	2018	2019E	2020E	2021E
Interest income/revenue	67.6	70.5	63.2	65.1	66.7
Fees/revenue	23.6	21.8	29.8	28.8	27.8
Trading income/revenue	5.4	5.2	3.9	3.3	2.9
Fees/staff costs	95.5	81.7	113.9	119.1	126.7
Fees/total costs	45.2	39.9	56.6	57.6	58.4
Payout ratio	41.2	46.1	43.1	45.5	40.0

No. of:	2017	2018
Employees	4,069	4,251
Branches	152	155
Mini/sub branches	0	0
ATMs	580	580
Customers, mn	7	7

Source: Company data, Renaissance Capital estimates