

## Co-operative Bank of Kenya – 1H18 Earnings Update

### “NPL’s High ”

**Co-operative bank’s profit after tax rose 7.6% y/y to KES 7.1B on the back of a 10.4% y/y rise in net interest income to KES 14.8B and a 27.6% y/y dip in loan loss provision expense to KES 1.1B. Key highlights are as follows;**

**Total interest income improved by 7.9% y/y to KES 20.8B** on account of: interest income from government securities increasing by 17.5% y/y to KES 4.6B and a 5.7% y/y rise in interest income from loans & advances to KES 16.1B.

**Loans and advances remained almost flat, –0.6% y/y to KES 251.1B** a result of the banks stringent lending amidst the prevailing rate cap. In effect, income from gross fees and commission declined 2.6% y/y to KES 5.1B. Net NPLs surged 188.0% y/y to KES 19.5B a result of stringent liquidity in the market and challenges at the national treasury in meeting supplier payment dues on time. However, the bank’s NPL ratio of 10.9%, though quite high, stands below industry average of 12.0% (June 2018). Coverage ratio declined 880bps y/y to 28.0% further exacerbating the bank’s struggle with debt collections.

**Customer deposits growth amidst tight liquidity conditions:** Customer deposits grew 8.5% y/y to KES 393.7B fueled by increased foreign inflows with the bank able to attract cheap deposits (cost of risk at 0.3%). In effect, interest expense grew marginally at 2.2% y/y to KES 6.0B.

In line with other banking players actions, **preference for government papers** drove investment in government securities up 37.5% y/y to KES 158.9B. Foreign exchange income compressed 1.7% y/y to KES 1.2B with margins inhibited by a stable shilling against the dollar in 1H18.

**Non-interest income declined 1.6% y/y to KES 7.0B;** a worrying trend given our expectation of NFI as a mainstream growth driver in the rate cap regime. Operating expenses rose 10.6% y/y to KES 10.9B fueled by a 13.0% y/y increase in staff costs to KES 5.3B and a 10.1% y/y increase in other operating expenses to KES 3.5B.

### Looking ahead:

We expect the bank to act more aggressively in improving asset quality given its high NPL ratio. As liquidity opens once the government releases payment to suppliers, we expect to see a decline in NPLs. To boost its bottom-line, we expect the bank grow its non-funded income and optimize costs. With the bank anticipated to sustain its dividend of KES 0.80 (full year) and improved performance in FY18, we encourage exposure in the counter.

Bloomberg Ticker : COOP.KN  
Reuters Ticker: COOP.NR

Share Statistics	
Current Price (KES)	17.05
Issued shares (M)	5867.2
Market cap (USD M)	992.1
Year end	Dec
Foreign ownership (%)	4.2
Free float (%)	32.2
Av daily trading vol (USDk)	1100.5

### Price Trend

COOP vs NSE-20



Source: Bloomberg

### Research Analyst

Linda Kiraithe

LKiraithe@apexafrica.com

Tel: 020-7602534

[www.apexafrica.com](http://www.apexafrica.com)

	FY16	1H17	3Q17	FY17	1H18	% chg y/y
	KES '000	KES '000	KES '000	KES '000	KES '000	
<b>Income Statement</b>						
Interest Income	42,264,721	19,257,831	10,594,992	40,373,188	20,779,695	7.9
Interest Expense	12,768,300	5,839,621	3,244,184	12,269,219	5,965,784	2.2
<b>Net Interest Income</b>	<b>29,496,421</b>	<b>13,418,210</b>	<b>7,350,808</b>	<b>28,103,969</b>	<b>14,813,911</b>	<b>10.4</b>
Foreign Exchange Income	1,804,344	1,243,602	296,514	2,230,910	1,222,313	-1.7
Gross Fees and Commission	9,787,509	5,262,813	2,585,739	9,815,411	5,124,098	-2.6
Other Income	1,182,656	599,730	152,291	1,372,843	565,417	-5.7
<b>Non Interest Income</b>	<b>12,774,509</b>	<b>7,106,145</b>	<b>3,034,544</b>	<b>13,492,040</b>	<b>6,995,115</b>	<b>-1.6</b>
Total Operating Income	42,270,930	20,524,355	10,385,352	41,596,009	21,809,026	6.3
Total Operating Expenses	22,041,536	9,837,922	4,870,929	21,726,023	10,881,393	10.6
Loan Loss Provision Expense	2,599,671	1,509,311	1,052,754	3,601,252	1,093,122	-27.6
Operating Profit	20,229,394	10,686,433	5,514,423	19,869,986	10,927,633	2.3
Profit Before Tax and exceptional items	17,629,724	9,177,122	4,461,670	16,268,734	9,834,512	7.2
Exceptional items- share of profit of associate	97,546	92,299	6,794	129,904	141,326	53.1
<b>Profit Before Tax</b>	<b>17,727,270</b>	<b>9,269,421</b>	<b>4,270,278</b>	<b>16,398,638</b>	<b>9,975,838</b>	<b>7.6</b>
Current Tax	5,047,323	2,632,009	1,569,617	4,993,573	2,835,677	7.7
<b>Profit After Tax</b>	<b>12,679,947</b>	<b>6,637,412</b>	<b>2,700,661</b>	<b>11,405,065</b>	<b>7,140,161</b>	<b>7.6</b>
<b>EPS (KES)</b>	<b>2.16</b>	<b>1.13</b>	<b>0.46</b>	<b>1.94</b>	<b>1.22</b>	<b>7.8</b>
<b>DPS (KES)</b>	<b>0.80</b>			<b>0.80</b>		
<b>Balance Sheet</b>						
Total Shareholders' Equity	61,118,965	64,281,024	67,337,517	69,564,967	68,018,281	5.8
Deposits due to Banks & Financial Institutions	3,411,977	1,407,597	1,226,379	373,464	3,193,775	126.9
<b>Customer Deposits</b>	<b>260,153,437</b>	<b>285,753,364</b>	<b>288,964,029</b>	<b>287,371,708</b>	<b>296,964,959</b>	<b>3.9</b>
Total Liabilities	290,737,285	319,045,270	321,138,218	316,564,707	329,639,186	3.3
Total Equity and Liabilities	351,856,250	383,326,294	388,475,735	386,129,674	398,426,995	3.9
Cash and CBK Balances	25,682,704	21,794,593	24,101,376	24,260,196	23,222,789	6.6
Balances due from Banks & Financial Institutions	5,017,303	11,286,225	12,035,359	7,730,354	13,453,092	19.2
<b>Government and Other Securities</b>	<b>61,916,908</b>	<b>74,199,805</b>	<b>71,189,160</b>	<b>72,682,053</b>	<b>83,128,697</b>	<b>12.0</b>
<b>Net Loans and Advances</b>	<b>236,935,564</b>	<b>252,612,566</b>	<b>259,389,953</b>	<b>253,861,644</b>	<b>251,110,256</b>	<b>-0.6</b>
Fixed Assets	8,308,698	8,305,024	7,637,282	7,493,574	6,959,656	-16.2
Total Assets	351,856,250	383,326,294	388,299,393	386,857,657	398,426,995	3.9
<b>Key Ratios</b>						
Gross NPL (KES 000)	11,274,174	12,222,665	16,931,341	18,761,317	28,215,338	130.8
Interest In Suspense (KES 000)	1,128,934	971,548	897,372	948,481	861,331	-11.3
Total NPL (KES 000)	10,145,240	11,251,117	16,033,969	17,812,836	27,354,007	143.1
Loan Loss Provision (KES 000)	3,868,538	4,492,687	5,559,896	6,102,049	7,888,289	75.6
Net NPL	6,276,702	6,758,430	10,474,073	11,710,787	19,465,718	188.0
NPL Ratio	4.7%	4.8%	6.4%	7.2%	10.9%	
Coverage Ratio	34.3%	36.8%	32.8%	32.5%	28.0%	
Cost of Risk	1.1%	1.2%	1.6%	1.4%	0.9%	
Loan to Deposits	91.1%	88.4%	89.8%	88.3%	84.6%	
Yield on Interest Earning Assets	13.9%	11.4%	12.4%	12.1%	12.0%	
Cost of Funds	4.8%	4.1%	4.5%	4.3%	4.0%	
NIM	9.1%	5.3%	7.9%	7.8%	5.9%	
Non Funded/Total Income	30.2%	34.6%	29.2%	32.4%	32.1%	
Cost to Income Ratio	52.1%	47.9%	46.9%	52.2%	49.9%	
ROE	20.7%	10.3%	16.0%	16.4%	10.5%	
ROA	3.6%	3.5%	2.8%	2.9%	3.6%	
Core Capital/TRWA	16.1%		15.9%	15.8%		
Total Capital/TRWA	22.2%		22.6%	22.0%		
Liquidity Ratio	33.7%		35.0%	33.8%		
<b>P/E (x)</b>				<b>10.0</b>		
<b>P/B (x)</b>				<b>1.6</b>		
<b>Dividend Yield (%)</b>				<b>4.1</b>		

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ApexAfrica Capital Ltd  
**A** The Riverfront, 1<sup>st</sup> Floor, Prof. David Wasawo Drive, Off Riverside Drive | P.O. Box 43676-00100 | Nairobi | Kenya |  
**T**: +254-20-2226440 | **Fax**: +254-20-2319092 | **Cell**: +254-723-420204|  
**W** : [www.apexafrica.com](http://www.apexafrica.com)  
Part of AXYS Group  
**W** : [www.axys-group.com](http://www.axys-group.com)