



Friday, 08 March 2019



March 2019

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FY2018 Earnings Expectations Note

Sector: Banking

Co-operative Bank of Kenya

CO-OP Bank

- We recommend a **BUY** on **CO-OP Bank** based on a fair value estimate of **KES.16.04** a 10.2% upside from the current market price of KES.14.55.
- The bank trades on a forward P/E of 7.3x and a P/B of 1.2x against sector average P/E of 6.2x and P/B of 1.3x
- We forecast EPS growth of 15.8% FY2018 to KES.2.20.
- Our ROaE and ROaA forecast FY2018 are 17.9% and 3.3% respectively.
- CO-OP has a diversified mix of income with the growth of digital banking expected to grow its Non-Funded Income by 8.1% to KES.14.6Bn.
- Emphasis on operating expense management should see the bank reduce its cost-to-income (CTI) ratio to 50.8%.
- Aggressive investment in Government securities (23.4%) will have a positive impact on total interest income growth +6.7% to KES.43.1Bn.
- The bank's asset quality is expected to deteriorate with the NPLs ratio worsening to 11.0% FY2018 compared to 7.0% FY2017.
- We expect the dividend per share to be maintained at KES.0.80.

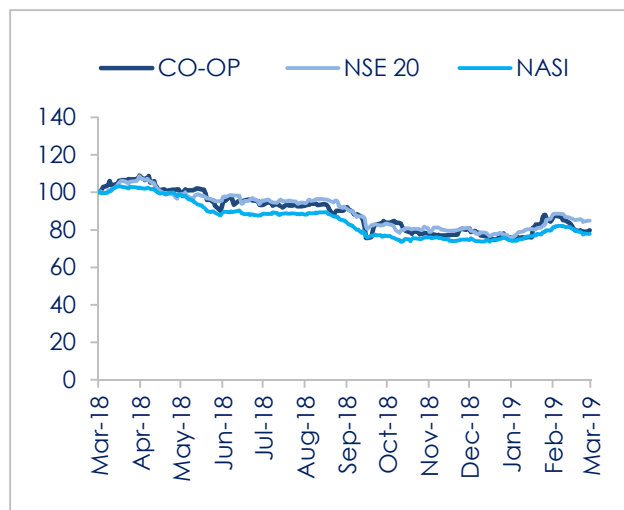
	2017A	2018E	% Change
Balance Sheet (KES.Bn)			
Loans & Advances	253.9	257.0	1.2
Government Securities	72.7	89.7	23.4
Total Assets	386.9	410.1	6.0
Customer Deposits	287.7	298.9	3.9
Income Statement (KES.Bn)			
Interest income (Loans & Advances)	31.9	33.2	4.1
Interest income (Gov't Securities)	8.2	9.7	18.3
Total Interest Income	40.4	43.1	6.7
Non-Interest Income	13.5	14.6	8.1
Total Income	41.6	44.5	7.0
Total Operating Expenses	25.3	25.9	2.4
PBT	16.4	18.7	14.0
PAT	11.4	13.1	14.9
Ratios			
Cost to Income Ratio	52.5	50.8	1.7
Loan to Deposit Ratio	88.2	86.0	2.2
NPL Ratio	7.0	11.0	4.0
NFI/Total Income	32.4	32.8%	0.4
NII/Total Income	67.6	67.2	0.4
Government Securities /Total Assets	17.9	21.1	3.2

Source: Bank Filings & Sterling Capital Research

Share Summary	
Fair Value Estimate (KES)	16.04
Recommendation	BUY
Current price (KES)	14.55 (6-Mar-19)
Upside (%)	10.2%
Price Change YoY (%)	↓20.5
Price Change YTD (%)	↑5.1
Dividend yield (%)	5.5%
P/E	7.3x
P/B	1.2x
Issued shares (m)	5,867.18
Free Float (%)	32.3
Market cap (KES. Bn)	85.4
NSE Code	COOP
Bloomberg Code	COOP:KN

Source: Nairobi Securities Exchange & Sterling Capital Research

Share Price Performance



Source: Nairobi Securities Exchange

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Buy: FV above 10% of CSP

Hold: FV between -10% and 10% around CSP

Sell: FV more than 10% below CSP

NB: The recommendation guide may change depending on the risk free rate.