

DYER & BLAIR INVESTMENT BANK

EARNINGS UPDATE

Founder Member of the Nairobi Securities Exchange

19TH MARCH 2020



DYER & BLAIR
INVESTMENT BANK

WE KNOW. YOU KNOW.

CO-OP GROUP: FY19 EARNINGS UPDATE

Dear All,

CO-OP GROUP released its FY19 results recording a **12.4% y-o-y increase in profit after tax to KES 14.3 BN**. EPS for the period stood at KES 2.48. ROE declined 18 bps y-o-y to 17.7% whereas ROA rose 5 bps y-o-y to 3.1%. The Directors recommend the payment of a first and final dividend of KES 1.00 to be paid on or about 5th June 2020 to shareholders on the register on 23rd April 2020.

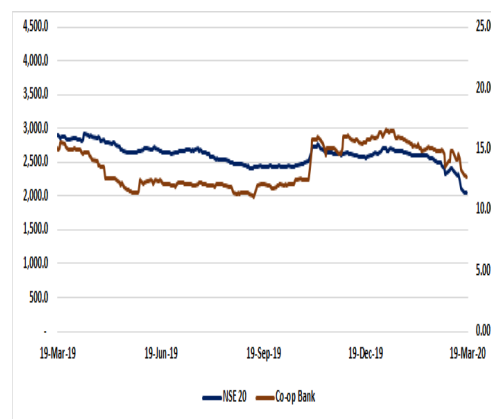
Below please find key highlights:

Net interest income rose 1.7% y-o-y to KES 31.3 BN on the back of a 1.4% y-o-y rise in interest income to KES 43.6 BN and a 0.8% y-o-y rise in interest expense to KES 12.3 BN. Yield on interest earning assets declined 139 bps y-o-y to 11.0% whereas cost of funds declined 27 bps y-o-y to 3.4%. Consequently, net interest margin declined 112 bps y-o-y to 7.6%.

Interest income from loans and advances declined 3.5% y-o-y to KES 31.8 BN placing the yield on average loans at 12.4%, down 80 bps y-o-y. Interest income from government securities rose 16.0% y-o-y to KES 11.4 BN placing the yield on average government securities at 11.2%, down 130 bps y-o-y. Interest expense from customer deposits declined 2.1% y-o-y to KES 10.7 BN placing the cost of average customer deposits at 3.3%, down 30 bps y-o-y.

Non-funded income rose 33.1% y-o-y to KES 17.2 BN. This followed a 34.7% y-o-y rise in total fees and commissions to KES 12.8 BN. Fees and commissions on loans rose 460.7% y-o-y to KES 3.2 BN whereas other fees and commissions rose 7.2% y-o-y to KES 9.6 BN. Net income from forex dealings declined 6.0% y-o-y to KES 2.1 BN while other operating income rose 100.7% y-o-y to KES 2.2 BN. Funded income reliance ratio declined 588 bps y-o-y to 64.6%.

CO-OP GROUP: 52 WEEK PRICE PERFORMANCE



(Source: NSE, DBIB Research)

PRICE RETURN	ABSOLUTE RETURN	EXCESS RETURN
3 months (%)	(18.6)	1.5
6 months (%)	4.5	20.7
12 months (%)	(15.7)	13.8

KEY METRICS

Current Price (KES)	12.65
52 week Range (KES)	11.00-16.55
YTD Return (%)	(22.6)
Issued Shares (Mn)	5,867.2
Market Cap (USD Mn)	712.1

Recommendation	BUY
Trailing EPS (KES)	2.48
NAV (KES)	13.52
P/E (x)	5.1
P/B (x)	0.9
Div. Yield (%)	7.9

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Operating expenses (less loan loss provisions) rose 5.9% y-o-y to KES 25.3 BN. This was on the back of a 8.1% y-o-y rise in staff costs to KES 12.4 BN and a 7.5% y-o-y increase in other operating expenses to KES 8.7 BN. Cost to income ratio declined 249 bps y-o-y to 52.1%. Loan loss provision expense for the period rose 37.9% y-o-y to KES 2.5 BN placing cost of risk on average loans at 0.95%.

Customer loans and advances rose 8.7% y-o-y to KES 266.7 BN whereas investment securities rose 43.9% y-o-y to KES 119.2 BN. On the funding side, customer deposits grew 8.7% y-o-y to KES 332.8 BN whereas borrowed funds rose 10.3% y-o-y to KES 26.4 BN. Loan to deposit ratio declined 3 bps y-o-y to 80.1% whereas loans to deposits and borrowed funds ratio declined 5 bps y-o-y to 74.2%.

Co-op Kenya's core capital ratio (Core capital/TRWA) rose 30 bps y-o-y to 15.3% above the statutory minimum of 10.5% while Total capital/TRWA rose 40 bps y-o-y to 15.8% above the statutory minimum of 14.5%.

Gross non-performing loans rose 7.5% y-o-y to KES 31.6 BN. Interest in suspense rose 21.5% y-o-y to KES 5.1 BN. As a result, total NPLs (Gross NPLs less interest in suspense) rose 5.2% y-o-y to KES 26.5 BN. The NPL ratio declined 10 bps y-o-y to 10.6%. The NPL coverage (Loan loss provision/ Total NPL) ratio rose 301 bps y-o-y to 42.5%.

South Sudan: Management is hopeful following the swearing in of Riek Machar as Vice President on 22nd February 2020. In addition, the recent (late 2019) completion of technical assistance capacity building by IMF, clearance of arrears for government workers and projected improvement in revenue collection bodes well for the 2020 outlook.

Proposed Acquisition of 100% shares of Jamii Bora Bank: Central Bank of Kenya has approved progress of discussions with Jamii Bora, a Kenyan Bank with over 350,000 customers in 17 branches and an asset base of KES 12.5 BN. The transaction is subject to the relevant approvals. In our view, this acquisition would be franchise negative.

On a trailing basis, Co-op is trading at a P/E ratio of 5.1x, against an industry median of 5.5x and a P/B of 0.9x against an industry median of 0.8x. Its ROE stands at 17.7% above the industry median of 15.8% whereas its ROA stands at 3.1% above the industry median of 2.4%. We maintain our **BUY** recommendation.

PROFIT AND LOSS SUMMARY (KES MN)

Year End: December	FY19	FY18	y-y% ch	4q19	3q19	4q18	y-y% ch	q-q% ch
Interest income	43,639	43,025	1.4	13,256	9,958	12,133	9.3	33.1
Interest expense	12,336	12,240	0.8	3,105	3,060	3,092	0.4	1.5
Net interest income	31,303	30,785	1.7	10,151	6,899	9,041	12.3	47.1
Other operating income	2,190	1,091	100.7	1,280	185	158	711.9	590.0
Fees and commission income	12,818	9,518	34.7	1,247	4,496	1,625	(23.3)	(72.3)
Net income from forex dealings	2,149	2,285	(6.0)	533	664	535	(0.4)	(19.7)
Total non-interest income	17,157	12,894	33.1	3,060	5,345	2,318	32.0	(42.8)
Total income	48,460	43,678	10.9	13,211	12,244	11,359	16.3	7.9
Less operating expenses	25,255	23,852	5.9	7,561	6,280	7,319	3.3	20.4
Operating profit	23,205	19,826	17.0	5,650	5,964	4,040	39.9	(5.3)
Bad debt charge	(2,539)	(1,841)	37.9	(417)	(3,304)	(568)	(26.7)	(87.4)
Exceptional items	40	171	(76.6)	17	(4)	39	(56.0)	(528.3)
Profit before income tax	20,706	18,157	14.0	5,251	5,018	3,511	49.5	4.6
Less tax	(6,395)	(5,425)	17.9	(1,823)	(7,538)	(1,093)	66.8	(75.8)
Profit after tax	14,311	12,732	12.4	3,428	3,414	2,419	41.7	0.4
Attributable Income	14,311	12,732	12.4	3,428	3,414	2,419	41.7	0.4
EPS (KES)	2.48	2.19	13.3	0.62	0.58	0.43	45.3	7.4
DPS (KES)	1.00	1.00	-	1.00	-	1.00	-	-

(Source: Company, DBIB Research)

BALANCE SHEET SUMMARY (KES MN)

Year End: December	FY19	9M19	FY18	y/y ch%	q-q% ch
Total shareholder's equity	79,335	73,946	69,864	13.6	7.3
Minority interest	1,522	1,417	1,353	12.5	7.4
Total Equity	80,857	75,363	71,217	13.5	7.3
Deposits due to other banks	177	1,369	443	N_A	609.4
Customer deposits	332,824	322,549	306,117	8.7	3.2
Borrowed funds	26,424	29,719	23,950	10.3	(11.1)
Other liabilities	16,727	11,766	11,686	43.1	42.2
Total equity and liabilities	457,009	440,765	413,413	10.5	3.7
Central bank balances	29,029	27,496	32,479	(10.6)	5.6
Deposits due from banks	9,710	24,330	18,082	(46.3)	(60.1)
Investment securities	119,188	96,590	82,829	43.9	23.4
Held for dealing securities	-	-	-	-	-
Customer loans and advances	266,713	268,871	245,410	8.7	(0.8)
Other assets	18,241	15,514	25,503	(28.5)	17.6
Intangible assets	2,708	2,974	2,497	8.4	(9.0)
Fixed assets	11,421	4,990	6,614	72.7	128.9
Total assets	457,009	440,765	413,413	10.5	3.7

(Source: Company, DBIB Research)

INVESTMENT RETURN

	FY19	9M19*	FY18	y-y bps ch	q-q bps ch
ROA (%)	3.1	3.3	3.1	5	(16)
ROIC (%)	3.3	3.4	3.2	8	(14)
ROE (%)	17.7	19.3	17.9	(18)	(156)

(Source: Company, DBIB Research)

*Annualized

CAPITAL ADEQUACY, LIQUIDITY & ASSET QUALITY

	FY19	9M19	FY18	y-y bps ch	q-q bps ch
Core capital/TRWA (%)	15.3	14.5	15.0	30	80
Min. Statutory Ratio (%)	10.5	10.5	10.5	-	-
Total capital/TRWA (%)	15.8	14.8	15.4	40	100
Min. Statutory Ratio (%)	14.5	14.5	14.5	-	-
Liquidity Ratio (%)	44.8	41.7	41.5	330	310
Min. Statutory Ratio (%)	20.0	20.0	20.0	-	-
Leverage Ratio (%)	17.4	16.8	16.9	46	58
Equity-to-Loans Ratio (%)	30.3	28.0	29.0	130	229
NPL Ratio (%)**	10.6	10.1	10.7	(10)	54
NPL Coverage Ratio (%)**	42.5	46.1	39.5	301	(358)
Long Term Debt to Total Liabilities and Equity (%)	5.8	6.7	5.8	(1)	(96)
NTA/share (KES)	13.1	12.1	11.5	158	96
Book value/share (KES)	13.5	12.6	11.9	161	92
Payout ratio (%)	40.3	-	45.7	(538)	4,032
Adj payout ratio (%)	41.1	-	46.7	(560)	4,111

(Source: Company, DBIB Research)

**Total Loan Portfolio net of Interbank Lending

OPERATING PERFORMANCE

	FY19	9M19*	FY18	y-y bps ch	q-q bps ch
Yield on interest earning assets (%)	11.0	10.4	12.4	(139)	64
Cost of funds (%)	3.4	3.5	3.7	(27)	(5)
Net Interest Margin (%)	7.6	6.9	8.7	(112)	69
Loan-to-Deposits ratio (%)	80.1	83.4	80.2	(3)	(322)
Loan-to-Dep. & Borrowed Funds ratio (%)	74.2	76.0	74.3	(5)	(182)
Funded Income Generating Potential (%)	86.6	88.4	83.8	279	(187)
Funded Income Reliance (%)	64.6	60.0	70.5	(588)	459
Cost to income ratio (%)	52.1	50.2	54.6	(249)	192
Pre-tax margin (%)	42.7	43.8	41.6	116	(112)
PAT margin (%)	29.5	30.9	29.2	38	(134)

(Source: Company, DBIB Research)

* Annualized

APPENDIX

COMPANY INVESTMENT RATINGS

Buy: Share price may generate more than 15.0% upside over the next 12 months

Overweight: Share price may generate between 5.0% and 15.0% upside over the next 12 months

Hold: Share price may fall within the range of <+5.0/ -10.0% over the next 12 months

Take Profit: Target price has been attained. Look to accumulate at lower levels. Company fundamentals however remain strong

Underweight: Share price may generate between 10.0% and 15.0% downside over the next 12 months

Sell: Share price may generate more than 15.0% downside over the next 12 months, significant business and/or financial risks present, industry concerns

Not Rated: Counter is not within regular research coverage

SECTOR INVESTMENT RATINGS

Overweight: Industry performance better than that of the whole market

Equal weight: Industry performance about the same as that of the whole market

Underweight: Industry performance worse than that of the whole market

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