

DYER & BLAIR INVESTMENT BANK

EARNINGS UPDATE

Founder Member of the Nairobi Securities Exchange

13TH AUGUST 2020



DYER & BLAIR
INVESTMENT BANK

WE KNOW. YOU KNOW.

CO-OP GROUP: 1H20 EARNINGS UPDATE

Dear All,

CO-OP GROUP released its 1H20 results recording a 3.6% y-o-y drop in profit after tax to KES 7.2 BN. EPS for the period stood at KES 1.23. Trailing EPS stands at KES 2.43. Annualized ROE declined 301 bps y-o-y to 17.6% whereas annualized ROA declined 68 bps y-o-y to 2.8%.

Below please find key highlights:

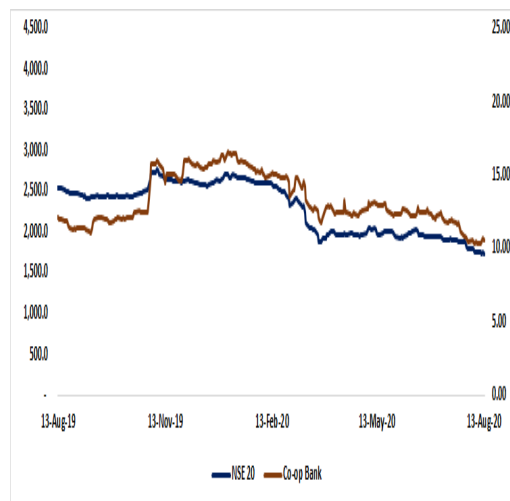
Net interest income rose 11.6% y-o-y to KES 15.9 BN on the back of a 6.8% y-o-y rise in interest income to KES 21.8 BN and a 4.4% y-o-y decline in interest expense to KES 5.9 BN. The annualized yield on interest earning assets declined 45 bps y-o-y to 10.6% whereas annualized cost of funds declined 72 bps y-o-y to 2.8%. Consequently, the net interest margin rose 27 bps y-o-y to 7.7%.

Interest income from loans and advances rose 2.4% y-o-y to KES 15.0 BN placing the annualized yield on average loans at 11.3%. Interest income from government securities rose 12.1% y-o-y to KES 6.2 BN placing the annualized yield on average government securities at 11.3%. Interest expense from customer deposits declined 4.7% y-o-y to KES 5.1 BN placing the annualized cost of average customer deposits at 2.9%.

Non-funded income declined 5.1% y-o-y to KES 8.3 BN. This followed a 37.2% y-o-y rise in forex income to KES 1.3 BN, a 4.4% y-o-y decline in fees and commission income to KES 6.8 BN and a 67.5% y-o-y decline in other income to KES 235.4 MN. Funded income reliance ratio rose 374 bps y-o-y to 65.7%.

Operating expenses (less loan loss provisions) rose 11.3% y-o-y to KES 12.7 BN. This was on the back of a 15.5% y-o-y rise in staff costs to KES 6.6 BN and a 5.1% y-o-y increase in other operating expenses to KES 4.0 BN. Cost to income ratio rose 283 bps y-o-y to 52.4%. Loan loss provision expense for the period rose 57.9% y-o-y to KES 1.9 BN placing cost of risk at 1.4%.

CO-OP GROUP: 52 WEEK PRICE PERFORMANCE



(Source: NSE, DBIB Research)

PRICE RETURN	ABSOLUTE RETURN	EXCESS RETURN
3 months (%)	(17.8)	(5.8)
6 months (%)	(29.3)	2.7
12 months (%)	(12.0)	19.6

KEY METRICS

Current Price (KES)	10.60
52 week Range (KES)	10.30-16.55
YTD Return (%)	(35.2)
Issued Shares (Mn)	5,867.2
Market Cap (USD Mn)	573.8

Recommendation	BUY
Trailing EPS (KES)	2.43
NAV (KES)	13.65
P/E (x)	4.4
P/B (x)	0.8
Div. Yield (%)	-

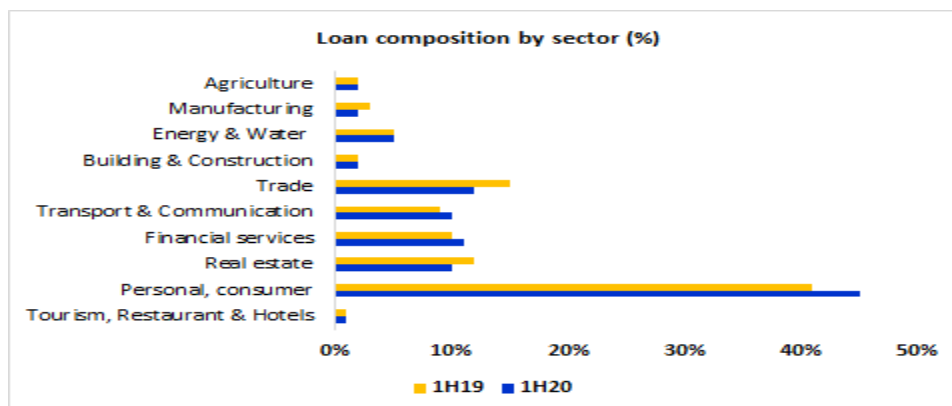
Research Analyst

Edwin Chui

echui@dyerandblair.com

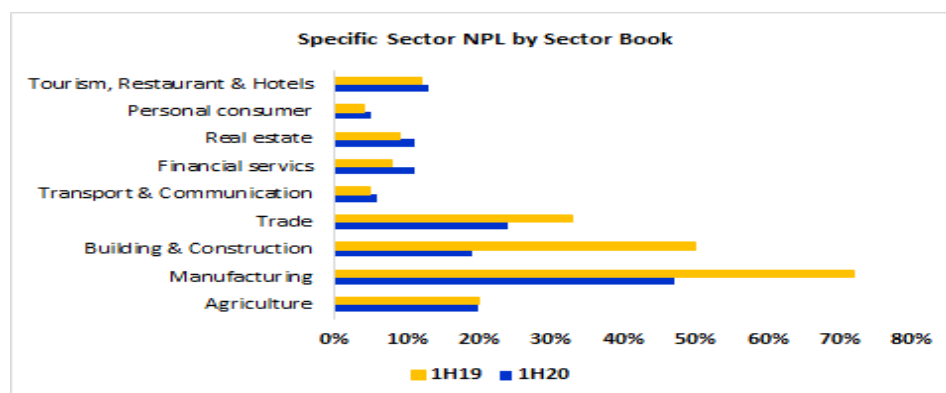
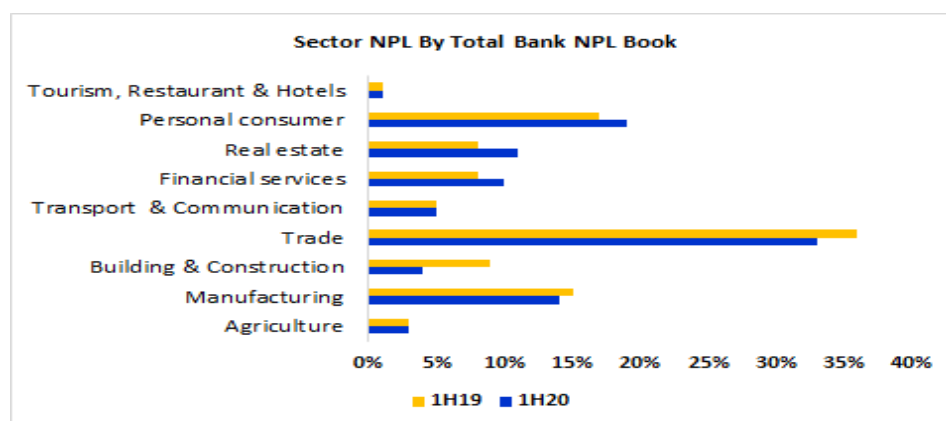
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Customer loans and advances rose 5.7% y-o-y to KES 272.2 BN (down 1.5% q-o-q) whereas investment securities rose 27.2% y-o-y to KES 123.3 BN. On the funding side, customer deposits grew 18.9% y-o-y to KES 384.6 BN whereas borrowed funds rose 19.4% y-o-y to KES 25.6 BN. Loan to deposit ratio declined 884 bps y-o-y to 70.8% whereas loans to deposits and borrowed funds ratio declined 869 bps y-o-y to 65.6%.



(Source: Company)

Gross non-performing loans rose 12.3% y-o-y to KES 34.3 BN (+7.8% q-o-q). Interest in suspense rose 17.1% y-o-y to KES 5.6 BN. As a result, total NPLs (Gross NPLs less interest in suspense) rose 11.4% y-o-y to KES 28.7 BN. The NPL ratio rose 59 bps y-o-y to 11.2%. The NPL coverage (Loan loss provision/ Total NPL) ratio rose 335 bps y-o-y to 45.6%.



(Source: Company)

CBK required NPL coverage rose from 61.6% in 1H19 to 66.2% in 1H20. IFRS based NPL coverage declined from 61.6% to 60.0% in 1H19 and 1H20 respectively.

LOAN BOOK QUALITY

	1H20	1H19	FY19
Normal	80%	78%	80%
Watch	9%	11%	9%
Substandard	5%	4%	5%
Doubtful	6%	7%	6%
Loss	0%	0%	0%
Gross	100%	100%	100%

(Source: Company)

Co-op Group's core capital ratio (Core capital/TRWA) rose 30 bps y-o-y to 16.3% above the statutory minimum of 10.5% while Total capital/TRWA rose 48 bps y-o-y to 16.8% above the statutory minimum of 14.5%.

Co-op Kenya's core capital ratio (Core capital/TRWA) rose 20 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%.

Acquisition of Jamii Bora: Co-op has received all the requisite approvals to acquire 90.0% of Jamii Bora Bank Kenya through the subscription of 224,153,154 new class of ordinary shares that would enable Co-op to inject KES 1.0 BN and appoint a new Board to run the business. Jamii Bora has 444,000 customers and 17 branches with a strong presence in the MSME segments.

On a trailing basis, Co-op is trading at a P/E ratio of 4.4x, against an industry median of 4.8x and a P/B of 0.8x above the industry median of 0.7x. Its ROA stands at 2.8% against an industry median of 2.0%, while its ROE stands at 17.6% against an industry median of 15.4%. We maintain our **BUY** recommendation.

PROFIT AND LOSS SUMMARY (KES MN)

Year End: December	1H20	1H19	y-y% ch	2q20	1q20	2q19	y-y% ch	q-q% ch
Interest income	21,811	20,425	6.8	11,272	10,540	10,339	9.0	6.9
Interest expense	5,897	6,172	(4.4)	2,876	3,021	3,013	(4.5)	(4.8)
Net interest income	15,914	14,254	11.6	8,395	7,519	7,326	14.6	11.7
Other operating income	235.42	725	(67.5)	142	93	593	(76.1)	51.8
Fees and commission income	6,765	7,074	(4.4)	2,379	4,386	3,655	(34.9)	(45.8)
Net income from forex dealings	1,307	952	37.2	803	504	315	155.1	59.2
Total non-interest income	8,307	8,752	(5.1)	3,324	4,984	4,563	(27.2)	(33.3)
Total income	24,221	23,005	5.3	11,719	12,502	11,889	(1.4)	(6.3)
Less operating expenses	12,703	11,414	11.3	6,340	6,363	5,892	7.6	(0.4)
Operating profit	11,518	11,591	(0.6)	5,379	6,139	5,997	(10.3)	(12.4)
Bad debt charge	(1,865)	(1,181)	57.9	(965)	(900)	1,683	(157.3)	7.2
Exceptional items	(54)	27	(301.5)	68	(122)	7	903.2	(155.7)
Profit before income tax	9,599	10,437	(8.0)	4,482	5,118	5,324	(15.8)	(12.4)
Less tax	(2,401)	(2,967)	(19.1)	(872)	(1,529)	4,481	(119.5)	(42.9)
Profit after tax	7,198	7,469	(3.6)	3,609	3,589	3,870	(6.7)	0.6
Attributable Income	7,198	7,469	(3.6)	3,609	3,589	3,870	(6.7)	0.6
EPS (KES)	1.23	1.27	(3.6)	0.62	0.61	0.66	(7.2)	0.6

(Source: Company, DBIB Research)

BALANCE SHEET SUMMARY (KES MN)

Year End: December	1H20	1Q20	1H19	y-y% ch	q-q% ch
Total shareholder's equity	80,116	82,011	71,006	12.8	(2.3)
Minority interest	1,563	1,534	1,386	12.8	1.9
Total Equity	81,679	83,545	72,393	12.8	(2.2)
Deposits due to other banks	4,420	1,711	1,494	195.8	158.4
Customer deposits	384,637	339,567	323,600	18.9	13.3
Borrowed funds	25,637	27,405	21,465	19.4	(6.5)
Other liabilities	17,551	18,183	10,639	65.0	(3.5)
Total equity and liabilities	513,924	470,410	429,591	19.6	9.3
Central bank balances	73,966	32,385	34,548	114.1	128.4
Deposits due from banks	17,728	19,284	16,754	5.8	(8.1)
Investment securities	123,348	117,150	96,995	27.2	5.3
Held for dealing securities	-	-	-	-	-
Customer loans and advances	272,157	276,173	257,564	5.7	(1.5)
Other assets	14,514	12,769	15,819	(8.2)	13.7
Intangible assets	3,135	3,228	2,504	25.2	(2.9)
Fixed assets	9,076	9,420	5,407	67.9	(3.6)
Total assets	513,924	470,410	429,591	19.6	9.3

(Source: Company, DBIB Research)

INVESTMENT RETURN

	1H20	1Q20	1H19	y-y bps ch	q-q bps ch
ROA (%)*	2.8	3.1	3.5	(68)	(25)
ROIC (%)*	2.9	3.2	3.6	(65)	(26)
ROE (%)*	17.6	17.2	20.6	(301)	44

(Source: Company, DBIB Research)

*Annualized

CAPITAL ADEQUACY, LIQUIDITY & ASSET QUALITY

	1H20	1Q20	1H19	y-y bps ch	q-q bps ch
Core capital/TRWA (%)	16.3	15.6	16.0	30	70
Min. Statutory Ratio (%)	10.5	10.5	10.5	-	-
Total capital/TRWA (%)	16.8	16.1	16.3	48	70
Min. Statutory Ratio (%)	14.5	14.5	14.5	-	-
Liquidity Ratio (%)	54.1	49.0	44.6	950	510
Min. Statutory Ratio (%)	20.0	20.0	20.0	-	-

Leverage Ratio (%)	15.6	17.4	16.5	(94)	(184)
Equity-to-Loans Ratio (%)	30.0	30.3	28.1	191	(24)
NPL Ratio (%)**	11.2	10.3	10.6	59	86
NPL Coverage Ratio (%)**	45.6	45.4	42.2	335	24
Long Term Debt to Total Liabilities and Equity (%)	5.0	5.8	5.0	(1)	(84)
NTA/share (KES)	13.1	13.4	11.7	145	(31)
Book value/share (KES)	13.7	14.0	12.1	155	(32)

(Source: Company, DBIB Research)

**Total Loan Portfolio net of Interbank Lending

OPERATING PERFORMANCE

	1H20	1Q20	1H19	y-y bps ch	q-q bps ch
Yield on interest earning assets (%)*	10.6	10.4	11.0	(45)	17
Cost of funds (%)*	2.8	3.3	3.6	(72)	(43)
Net Interest Margin (%)*	7.7	7.1	7.4	27	61
Loan-to-Deposits ratio (%)	70.8	81.3	79.6	(884)	(1,057)
Loan-to-Dep. & Borrowed Funds ratio (%)	65.6	74.9	74.3	(869)	(928)
Funded Income Generating Potential (%)	80.4	87.7	86.4	(603)	(731)
Funded Income Reliance (%)	65.7	60.1	62.0	374	556
Cost to income ratio (%)	52.4	50.9	49.6	283	155
Pre-tax margin (%)	39.6	40.9	45.4	(573)	(130)
PAT margin (%)	29.7	28.7	32.5	(275)	101

(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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