



### CO-OP GROUP: 1Q20 EARNINGS UPDATE

Dear All,

CO-OP GROUP released its 1Q20 results recording a 0.3% y-o-y decline in profit after tax to KES 3.6 BN. EPS for the period stands at KES 0.61. Trailing EPS stands at KES 2.48. As expected, cost of risk drove earnings performance with bad debt charges rising 79.5% y-o-y to KES 0.9 BN, effectively eating into operating profit which rose 9.7% y-o-y to KES 6.1 BN.

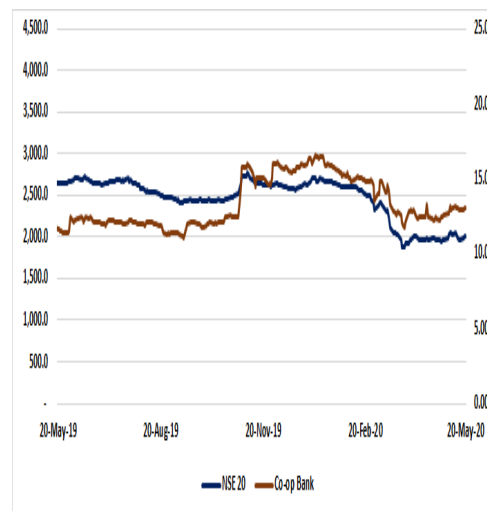
Below please find key highlights:

**Net interest income rose 8.5% y-o-y to KES 7.5 BN** on the back of a 4.5% y-o-y rise in interest income to KES 10.5 BN and a 4.4% y-o-y decline in interest expense to KES 3.0 BN. Annualized yield on interest earning assets declined 33 bps y-o-y to 10.4% whereas annualized cost of funds declined 40 bps y-o-y to 3.3%. Consequently, annualized net interest margin rose 7 bps y-o-y to 7.1%.

**Interest income from loans and advances rose 5.2% y-o-y to KES 7.6 BN** placing the annualized yield on average loans at 11.4%, flat y-o-y. Interest income from government securities rose 3.1% y-o-y to KES 2.9 BN placing the annualized yield on average government securities at 10.3%, down 180 bps y-o-y. Interest expense from customer deposits declined 5.0% y-o-y to KES 2.6 BN placing the annualized cost of average customer deposits at 3.2%, down 40 bps y-o-y.

**Non-funded income rose 19.0% y-o-y to KES 5.0 BN.** This followed a 28.3% y-o-y rise in total fees and commissions to KES 4.4 BN. Fees and commissions on loans rose 14.0% y-o-y to KES 617.8 MN whereas other fees and commissions rose 31.0% y-o-y to KES 3.8 BN. Net income from forex dealings declined 21.0% y-o-y to KES 0.5 BN while other operating income declined 29.1% y-o-y to KES 93.5 MN. Funded income reliance ratio declined 218 bps y-o-y to 60.1%.

### CO-OP GROUP: 52 WEEK PRICE PERFORMANCE



(Source: NSE, DBIB Research)

PRICE RETURN	ABSOLUTE RETURN	EXCESS RETURN
3 months (%)	(12.5)	7.9
6 months (%)	(13.0)	10.2
12 months (%)	11.6	35.4

### KEY METRICS

Current Price (KES)	13.00
Target Price (KES)	Under Review
52 week Range (KES)	11.00-16.55
YTD Return (%)	(20.5)
Issued Shares (Mn)	5,867.2
Market Cap (USD Mn)	714.2

Recommendation	HOLD
Trailing EPS (KES)	2.48
NAV (KES)	13.98
P/E (x)	5.2
P/B (x)	0.9
Div. Yield (%)	-

### Research Analyst

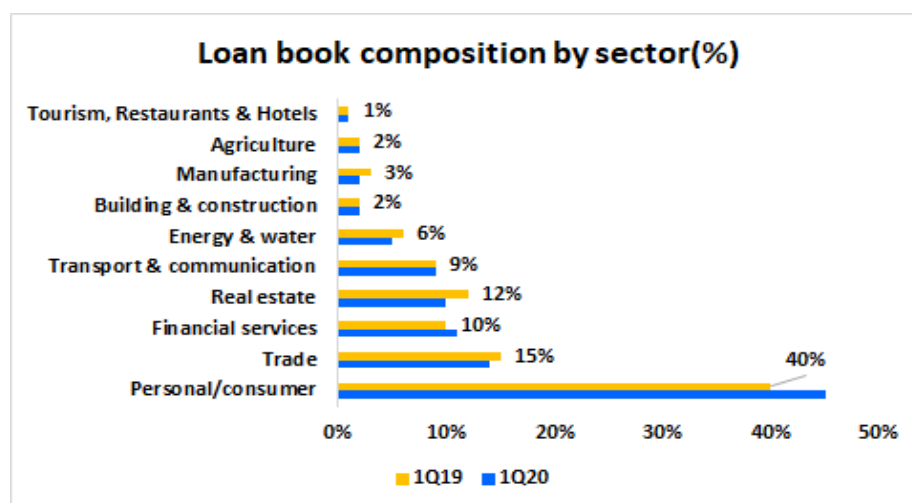
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**Operating expenses (less loan loss provisions) rose 15.2% y-o-y to KES 6.4 BN** on the back of a 25.0% y-o-y rise in staff costs to KES 3.5 BN. Other operating expenses held flat at KES 1.8 BN. Cost to income ratio rose 122 bps y-o-y to 50.9%. Loan loss provision expense for the period rose 79.5% y-o-y to KES 0.9 BN placing annualized cost of risk on average loans at 1.4%.

**Customer loans and advances rose 9.8% y-o-y to KES 276.2 BN** whereas investment securities rose 10.4% y-o-y to KES 117.2 BN. On the funding side, customer deposits grew 6.9% y-o-y to KES 339.6 BN whereas borrowed funds rose 15.5% y-o-y to KES 27.4 BN. Loan to deposit ratio rose 215 bps y-o-y to 81.3% whereas loans to deposits and borrowed funds ratio rose 169 bps y-o-y to 74.9%.



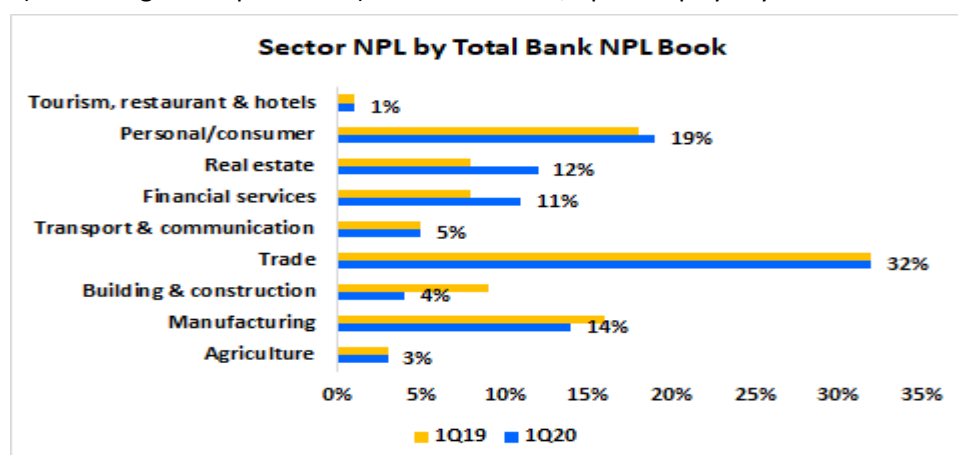
(Source: Company)

#### Asset Quality (KES BN)

	Exposure	Provisions.
Stage 1	236.9	4.6
Stage 2	26.1	1.7
Stage 3	31.3	13.2
<b>Total</b>	<b>294.3</b>	<b>19.5</b>

(Source: Company)

**Gross non-performing loans rose 7.1% y-o-y to KES 31.8 BN.** Interest in suspense rose 18.5% y-o-y to KES 5.5 BN. As a result, total NPLs (Gross NPLs less interest in suspense) rose 5.0% y-o-y to KES 26.3 BN. The NPL ratio declined 23 bps y-o-y to 10.3%. The NPL coverage (Loan loss provision/ Total NPL) ratio rose 200 bps y-o-y to 45.4%. Coverage by Central Bank's standard (includes general provisions) stands at 61.2%, down 90 bps y-o-y while coverage by IFRS standard (excludes general provisions) stands at 54.8%, up 260 bps y-o-y.



(Source: Company)

**Co-op Kenya's core capital ratio (Core capital/TRWA)** held flat y-o-y at 14.7% above the statutory minimum of 10.5% while Total capital/TRWA rose 20 bps y-o-y to 15.2% above the statutory minimum of 14.5%.

	Co-op Kenya		Group	
	Adjusted	Unadjusted	Adjusted	Unadjusted
Core capital ratio	14.6	14.7	15.5	15.6
Total capital ratio	15.1	15.2	15.9	16.1

*Source: Company,*

*The adjusted capital ratios include the expected credit loss provisions added back to capital in line with the CBK guidance note on implementation of IFRS 9*

**On a trailing basis,** Co-op is trading at a P/E ratio of 5.2x, against an industry median of 4.9x and a P/B of 0.9x against an industry median of 0.8x. Its ROE stands at 17.2% above the industry median of 16.7% whereas its ROA stands at 3.1% above the industry median of 2.4%. We maintain our **HOLD** recommendation.

## PROFIT AND LOSS SUMMARY (KES MN)

Year End: December	1Q20	1Q19	4Q19	y-y% ch	q-q% ch	FY19
Interest income	10,540	10,086	13,256	4.5	(20.5)	43,639
Interest expense	3,021	3,159	3,105	(4.4)	(2.7)	12,336
Net interest income	7,519	6,928	10,151	8.5	(25.9)	31,303
Other operating income	93	132	1,280	(29.1)	(92.7)	2,190
Fees and commission income	4,386	3,419	1,247	28.3	251.6	12,818
Net income from forex dealings	504	638	533	(21.0)	(5.4)	2,149
Total non-interest income	4,984	4,189	3,060	19.0	62.9	17,157
Total income	12,502	11,116	13,211	12.5	(5.4)	48,460
Less operating expenses	6,363	5,522	7,561	15.2	(15.8)	25,255
Operating profit	6,139	5,594	5,650	9.7	8.7	23,205
Bad debt charge	(900)	(501)	(417)	79.5	116.0	(2,539)
Exceptional items	(122)	20	17	(708.8)	(801.1)	40
Profit before income tax	5,118	5,113	5,251	0.1	(2.5)	20,706
Less tax	(1,529)	(1,513)	(1,823)	1.0	(16.2)	(6,395)
Profit after tax	3,589	3,599	3,428	(0.3)	4.7	14,311
Attributable Income	3,589	3,599	3,428	(0.3)	4.7	14,311
EPS (KES)	0.61	0.61	0.62	0.3	(2.1)	2.48
DPS (KES)	-	-	-	-	-	1.00

(Source: Company, DBIB Research)

## BALANCE SHEET SUMMARY (KES MN)

Year End: December	1Q20	FY19	1Q19	y/y% ch	q-q% ch
Total shareholder's equity	82,011	79,335	72,803	12.6	(8.2)
Minority interest	1,534	1,522	1,371	11.8	(9.9)
Total Equity	83,545	80,857	74,175	12.6	(8.3)
Deposits due to other banks	1,711	177	2,151	(20.5)	1,115.7
Customer deposits	339,567	332,824	317,770	6.9	(4.5)
Borrowed funds	27,405	26,424	23,732	15.5	(10.2)
Other liabilities	18,183	16,727	7,846	131.7	(53.1)
Total equity and liabilities	470,410	457,009	425,674	10.5	(6.9)
Central bank balances	32,385	29,029	25,698	26.0	(11.5)
Deposits due from banks	19,284	9,710	15,185	27.0	56.4
Investment securities	117,150	119,188	106,109	10.4	(11.0)
Held for dealing securities	-	-	-	-	-
Customer loans and advances	276,173	266,713	251,629	9.8	(5.7)
Other assets	12,769	18,241	18,816	(32.1)	3.2
Intangible assets	3,228	2,708	2,370	36.2	(12.5)
Fixed assets	9,420	11,421	5,868	60.5	(48.6)
Total assets	470,410	457,009	425,674	10.5	(6.9)

(Source: Company, DBIB Research)

## INVESTMENT RETURN

	1Q20*	FY19	1Q19*	y-y bps ch	q-q bps ch
ROA (%)	3.1	3.1	3.4	(33)	(8)
ROIC (%)	3.2	3.3	3.5	(28)	(7)
ROE (%)	17.2	17.7	19.4	(223)	(52)

(Source: Company, DBIB Research)

\*Annualized

## CAPITAL ADEQUACY, LIQUIDITY & ASSET QUALITY

	1Q20	FY19	1Q19	y-y bps ch	q-q bps ch
Core capital/TRWA (%)	14.7	15.3	14.7	-	(60)
Min. Statutory Ratio (%)	10.5	10.5	10.5	-	-
Total capital/TRWA (%)	15.2	15.8	15.0	20	(60)
Min. Statutory Ratio (%)	14.5	14.5	14.5	-	-
Liquidity Ratio (%)	47.5	44.8	44.7	280	270
Min. Statutory Ratio (%)	20.0	20.0	20.0	-	-
Equity-to-Loans Ratio (%)	30.3	30.3	29.5	77	(7)
NPL Ratio (%)**	10.3	10.6	10.6	(23)	(27)
NPL Coverage Ratio (%)**	45.4	42.5	43.4	200	288
Long Term Debt to Total Liabilities and Equity (%)	5.8	5.8	5.6	25	4
NTA/share (KES)	13.4	13.1	12.0	142	37
Book value/share (KES)	14.0	13.5	12.4	157	46

(Source: Company, DBIB Research)

\*\*Total Loan Portfolio net of Interbank Lending

## OPERATING PERFORMANCE

	1Q20	FY19	1Q19	y-y bps ch	q-q bps ch
Yield on interest earning assets (%)*	10.4	11.0	10.7	(33)	(65)
Cost of funds (%)*	3.3	3.4	3.7	(40)	(15)
Net Interest Margin (%)*	7.1	7.6	7.0	7	(49)
Loan-to-Deposits ratio (%)	81.3	80.1	79.2	215	119
Loan-to-Dep.& Borrowed Funds ratio (%)	74.9	74.2	73.2	169	70
Funded Income Generating Potential (%)	87.7	86.6	87.6	11	115
Funded Income Reliance (%)	60.1	64.6	62.3	(218)	(446)
Cost to income ratio (%)	50.9	52.1	49.7	122	(122)
Pre-tax margin (%)	40.9	42.7	46.0	(506)	(179)
PAT margin (%)	28.7	29.5	32.4	(367)	(83)

(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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