



CO-OP GROUP: 3Q20 EARNINGS UPDATE

Dear All,

Co-op saw a **10.2% y-o-y decline in profit after tax to KES 9.8 BN**. Pre-provisions operating profit rose 1.5% y-o-y to KES 17.8 BN but was impacted by an 89.4% y-o-y rise in loan loss provisions to KES 4.0 BN. EPS for the period stood at KES 1.67. Trailing EPS stands at KES 2.29. Annualized ROE declined 367 bps y-o-y to 15.6% whereas annualized ROA declined 74 bps y-o-y to 2.6%.

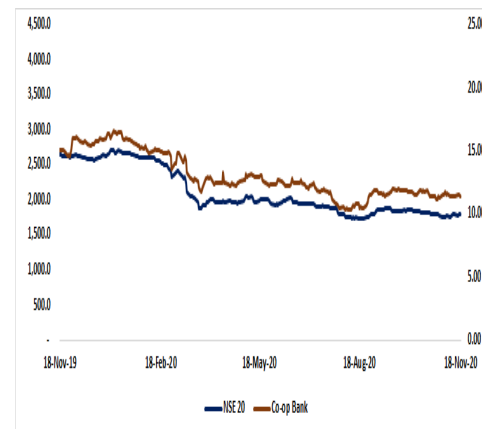
Below please find key highlights:

Net interest income rose 11.7% y-o-y to KES 23.6 BN on the back of a 7.1% y-o-y rise in interest income to KES 32.5 BN and a 3.5% y-o-y drop in interest expense to KES 8.9 BN. The annualized yield on interest earning assets declined 85 bps y-o-y to 9.5% whereas annualized cost of funds declined 57 bps y-o-y to 2.9%. Consequently, net interest margin declined 28 bps y-o-y to 6.6%.

Interest income from loans and advances rose 2.1% y-o-y to KES 22.3 BN placing the annualized yield on average loans at 10.8% (down 38 bps y-o-y). Interest income from government securities rose 19.9% y-o-y to KES 9.8 BN placing the annualized yield on average government securities at 10.9% (down 106 bps y-o-y). Interest expense from customer deposits declined 3.0% y-o-y to KES 7.8 BN placing the annualized cost of average customer deposits at 3.0% (down 49 bps y-o-y).

Non-funded income declined 3.5% y-o-y to KES 13.6 BN. This followed a 1.9% y-o-y drop in total fees and commissions to KES 11.3 BN. Fees and commissions on loans declined 31.7% y-o-y to KES 1.2 BN whereas other fees and commissions rose 3.5% y-o-y to KES 10.1 BN. Net income from forex dealings rose 13.9% y-o-y to KES 1.8 BN while other operating income declined 54.2% y-o-y to KES 417.2 MN. Funded income reliance ratio rose 346 bps y-o-y to 63.5%.

CO-OP GROUP: 52 WEEK PRICE PERFORMANCE



(Source: NSE, DBIB Research)

PRICE RETURN	ABSOLUTE RETURN	EXCESS RETURN
3 months (%)	(3.4)	25.1
6 months (%)	(8.8)	2.5
12 months (%)	(24.2)	8.4

KEY METRICS

Current Price (KES)	11.45
52 week Range (KES)	10.30-16.55
YTD Return (%)	(30.0)
Issued Shares (Mn)	5,867.2
Market Cap (USD Mn)	614.5

Recommendation	HOLD
Trailing EPS (KES)	2.29
NAV (KES)	13.98
Trailing P/E (x)	5.0
Trailing P/B (x)	0.8
Trailing Dividend Yield (%)	-

Research Analyst

Edwin Chui

echui@dyerandblair.com

+254 0709930129

Operating expenses (less loan loss provisions) rose 9.8% y-o-y to KES 19.4 BN. This was on the back of a 6.3% y-o-y rise in staff costs to KES 9.7 BN and a 15.8% y-o-y increase in other operating expenses to KES 6.5 BN. Cost to income ratio rose 198 bps y-o-y to 52.2%. Loan loss provision expense for the period rose 89.4% y-o-y to KES 4.0 BN placing annualized cost of risk on average loans at 1.4%.

Customer loans and advances rose 5.7% y-o-y to KES 284.2 BN (+4.4% q-o-q) whereas investment securities rose 48.3% y-o-y to KES 143.3 BN. On the funding side, customer deposits grew 16.4% y-o-y to KES 375.5 BN whereas borrowed funds declined 12.0% y-o-y to KES 26.2 BN. Loan to deposit ratio declined 766 bps y-o-y to 75.7% whereas loans to deposits and borrowed funds ratio declined 645 bps y-o-y to 69.6%.

Co-op Kenya's core capital ratio (Core capital/TRWA) rose 60 bps y-o-y to 15.1% above the statutory minimum of 10.5% while Total capital/TRWA rose 80 bps y-o-y to 15.6% above the statutory minimum of 14.5%.

	Co-op Kenya		Group	
	Reported	Adjusted ratios	Reported	Adjusted ratios
Core capital ratio	15.1	14.3	16.3	15.5
Total capital ratio	15.6	14.8	16.8	15.9

Source: Company

Adjusted ratios include the expected credit loss provisions added back to capital in line with the CBK guidance note issued in April 2018 on implementation of IFRS 9.

Gross non-performing loans rose 33.6% y-o-y to KES 40.2 BN. Interest in suspense rose 13.8% y-o-y to KES 6.0 BN. As a result, total NPLs (Gross NPLs less interest in suspense) rose 37.8% y-o-y to KES 34.2 BN. The NPL ratio rose 233 bps y-o-y to 12.4%. The NPL coverage (Loan loss provision/ Total NPL) ratio declined 470 bps y-o-y to 41.4%.

On a trailing basis, Co-op is trading at a P/E ratio of 5.0x, against the industry median of 4.7x and a P/B of 0.8x against the industry median of 0.6x. Its ROE stands at 15.6% whereas its ROA stands at 2.6%. We maintain a **HOLD** recommendation.

PROFIT AND LOSS SUMMARY (KES MN)

Year End: December	3Q20	3Q19	y-y% ch	3q20	2q20	3q19	y-y% ch	q-q% ch
Interest income	32,548	30,384	7.1	10,737	11,272	9,958	7.8	(4.7)
Interest expense	8,912	9,231	(3.5)	3,014	2,876	3,060	(1.5)	4.8
Net interest income	23,636	21,152	11.7	7,722	8,395	6,899	11.9	(8.0)
Other operating income	417.2	910	(54.2)	182	142	185	(2.0)	28.1
Fees and commission income	11,345	11,570	(1.9)	4,580	2,379	4,496	1.9	92.5
Net income from forex	1,841	1,616	13.9	534	803	664	(19.5)	(33.4)
Total non-interest income	13,603	14,097	(3.5)	5,296	3,324	5,345	(0.9)	59.3
Total income	37,239	35,249	5.6	13,018	11,719	12,244	6.3	11.1
Less operating expenses	19,429	17,695	9.8	6,726	6,340	6,280	7.1	6.1
Operating profit	17,810	17,555	1.5	6,292	5,379	5,964	5.5	17.0
Bad debt charge	(4,021)	(2,122)	89.4	(2,156)	(965)	(941)	129.0	123.4
Exceptional items	(38)	23	(267.9)	16	68	(4)	(489.8)	(76.7)
Profit before income tax	13,751	15,455	(11.0)	4,152	4,482	5,018	(17.3)	(7.4)
Less tax	(3,976)	(4,571)	(13.0)	(1,575)	(872)	(1,604)	(1.8)	80.5
Profit after tax	9,775	10,884	(10.2)	2,577	3,609	3,414	(24.5)	(28.6)
Attributable Income	9,775	10,884	(10.2)	2,577	3,609	3,414	(24.5)	(28.6)
EPS (KES)	1.67	1.86	(10.2)	0.44	0.62	0.58	(24.5)	(28.6)

(Source: Company, DBIB Research)

BALANCE SHEET SUMMARY (KES MN)

Year End: December	3Q20	1H20	3Q19	y-y% ch	q-q% ch
Total shareholder's equity	82,029	80,116	73,946	10.9	2.4
Minority interest	1,614	1,563	1,417	13.9	3.3
Total Equity	83,643	81,679	75,363	11.0	2.4
Deposits due to other banks	6,857	4,420	1,369	401.0	55.1
Customer deposits	375,457	384,637	322,549	16.4	(2.4)
Borrowed funds	26,152	25,637	29,719	(12.0)	2.0
Other liabilities	18,791	17,551	11,766	59.7	7.1
Total equity and liabilities	510,900	513,924	440,765	15.9	(0.6)
Central bank balances	29,541	73,966	27,496	7.4	(60.1)
Deposits due from banks	27,224	17,728	24,330	11.9	53.6
Investment securities	143,267	123,348	96,590	48.3	16.1
Held for dealing securities	-	-	-	-	-
Customer loans and advances	284,226	272,157	268,871	5.7	4.4
Other assets	14,318	14,514	15,514	(7.7)	(1.3)
Intangible assets	3,409	3,135	2,974	14.6	8.7
Fixed assets	8,915	9,076	4,990	78.7	(1.8)
Total assets	510,900	513,924	440,765	15.9	(0.6)

(Source: Company, DBIB Research)

INVESTMENT RETURN

	3Q20	1H20	3Q19	y-y bps ch	q-q bps ch
ROA (%)*	2.6	2.8	3.3	(74)	(25)
ROIC (%)*	2.7	2.9	3.4	(71)	(24)
ROE (%)*	15.6	17.6	19.3	(367)	(204)

(Source: Company, DBIB Research)

*Annualized

CAPITAL ADEQUACY, LIQUIDITY & ASSET QUALITY

	3Q20	1H20	3Q19	y-y bps ch	q-q bps ch
Core capital/TRWA (%)	15.1	16.3	14.5	60	(120)
Min. Statutory Ratio (%)	10.5	10.5	10.5	-	-
Total capital/TRWA (%)	15.6	16.8	14.8	80	(120)
Min. Statutory Ratio (%)	14.5	14.5	14.5	-	-
Liquidity Ratio (%)	48.6	54.1	41.7	690	(550)
Min. Statutory Ratio (%)	20.0	20.0	20.0	-	-
Equity-to-Loans Ratio (%)	29.4	30.0	28.0	140	(58)
NPL Ratio (%)**	12.4	11.2	10.1	233	119
NPL Coverage Ratio (%)**	41.4	45.6	46.1	(470)	(424)
Long Term Debt to Total Liabilities and Equity (%)	5.1	5.0	6.7	(162)	13
NTA/share (KES)	13.4	13.1	12.1	130	28
Book value/share (KES)	14.0	13.7	12.6	138	33

(Source: Company, DBIB Research)

**Total Loan Portfolio net of Interbank Lending

OPERATING PERFORMANCE

	3Q20	1H20	3Q19	y-y bps ch	q-q bps ch
Yield on interest earning assets (%)*	9.5	10.6	10.4	(85)	(101)
Cost of funds (%)*	2.9	2.8	3.5	(57)	6
Net Interest Margin (%)*	6.6	7.7	6.9	(28)	(108)
Loan-to-Deposits ratio (%)	75.7	70.8	83.4	(766)	494
Loan-to-Dep.& Borrowed Funds ratio (%)	69.6	65.6	76.0	(645)	396
Funded Income Generating Potential (%)	89.0	80.4	88.4	57	860
Funded Income Reliance (%)	63.5	65.7	60.0	346	(223)
Cost to income ratio (%)	52.2	52.4	50.2	198	(27)
Pre-tax margin (%)	36.9	39.6	43.8	(692)	(271)
PAT margin (%)	26.2	29.7	30.9	(463)	(347)

(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

DISCLAIMER

While every care has been taken in preparing this report and it has been prepared from sources believed to be reliable, no representation, warranty, or undertaking (express or implied) is given and no responsibility is accepted by Dyer and Blair Investment Bank Limited, its related companies, subsidiaries, affiliates, its employees and agents, as to the accuracy and completeness of the information contained herein or in respect of any reliance on or use thereof. This report is solely intended for distribution to clients of Dyer and Blair Investment Bank Limited. Any information may be changed after distribution at any time without any notice.