



### CO-OP GROUP: FY20 EARNINGS UPDATE

Dear All,

Co-op Group released their FY20 earnings, recording a **24.4% y-o-y decline in profit after tax to KES 10.8 BN**. Pre-provisions operating profit dropped 2.8% y-o-y to KES 22.5 BN but plummeted further on the back of a 219.5% y-o-y upsurge in loan loss provisions to KES 8.11 BN occasioned by the effects of the COVID-19 pandemic. The EPS for the period stood at KES 1.98, 20.2% lower y-o-y. The Directors recommend the payment of a first and final dividend of KES 1.00 to be paid on or about 14<sup>th</sup> April 2021 to shareholders on the register on 31<sup>st</sup> March 2021.

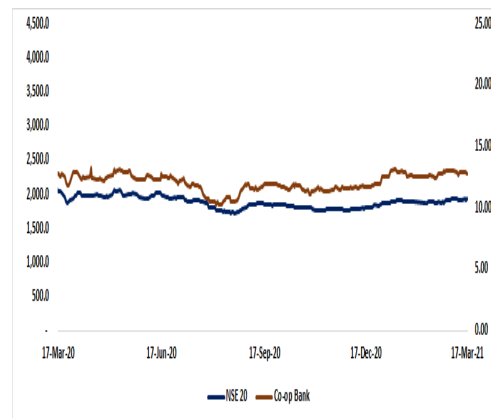
Below please find key highlights:

**Net interest income rose 16.1% y-o-y to KES 36.3 BN** attributable to a 11.9% y-o-y rise in interest income to KES 48.8 BN and was buffered by a 1.3% y-o-y increase in interest expense to KES 12.5 BN. Yield on interest earning assets declined 56 bps y-o-y to 10.5% whereas cost of funds declined 49 bps y-o-y to 2.9% leading to a subsequent decline in net interest margin by 7 bps y-o-y to 7.5%.

**Interest income from loans and advances rose by 5.4% y-o-y to KES 33.5 BN** placing the yield on average loans at 12.1%, down 30 bps y-o-y. Interest income from government securities increased by 30.5% y-o-y to KES 14.8 BN placing the yield on average government securities at 10.5%, down 410 bps y-o-y. Interest expense from customer deposits edged up 2.6% y-o-y to KES 10.9 BN placing the cost of average customer deposits at 3.1%, down 26 bps y-o-y.

**Non-interest income edged up 1.9% y-o-y to KES 17.5 BN** on the back of a 0.7% y-o-y increase in total fees and commissions to KES 12.9 BN. Fees and commissions on loans rose 58.8% y-o-y to KES 5.1 BN whereas other fees and commissions declined 18.9% y-o-y to KES 7.8 BN. Net income from forex dealings increased by 32.1% y-o-y to KES 2.8 BN while other operating income dropped 20.5% y-o-y to KES 1.7 BN. Funded income reliance ratio rose 293 bps y-o-y to 67.5%.

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



(Source: NSE, DBIB Research)

PRICE RETURN	ABSOLUTE RETURN	EXCESS RETURN
3 months (%)	8.9	1.4
6 months (%)	8.5	5.1
12 months (%)	1.2	7.0

### KEY METRICS

Current Price (KES)	12.80
52 week Range (KES)	10.30-13.30
YTD Return (%)	0.4
Issued Shares (Mn)	5,867.2
Market Cap (USD Mn)	684.6

Trailing EPS (KES)	1.84
NAV (KES)	15.46
P/E (x)	6.9
P/B (x)	0.8
Div. Yield (%)	7.8

### Research Analyst

Diana Omondi

[domondi@dyerandblair.com](mailto:domondi@dyerandblair.com)

+254 0709930128

**Operating expenses (less loan loss provisions) rose 23.9% y-o-y to KES 31.3 BN** following an 8.5% y-o-y rise in staff costs to KES 13.4 BN and a 104.9% y-o-y increase in other operating expenses to KES 17.9 BN. Cost to income ratio increased 600 bps y-o-y to 58.1%. Loan loss provision expense for the period rose 219.5% y-o-y to KES 8.1 BN placing cost of risk on average loans at 2.8%.

**Customer loans and advances rose 7.5% y-o-y to KES 286.6 BN** whereas investment securities rose 36.8% y-o-y to KES 163.0 BN. On the funding side, customer deposits grew 13.8% y-o-y to KES 378.6 BN whereas borrowed funds rose 74.2% y-o-y to KES 46.0 BN. Loan to deposit ratio declined 443 bps y-o-y to 75.7% whereas loans to deposits and borrowed funds ratio declined 674 bps y-o-y to 67.5%.

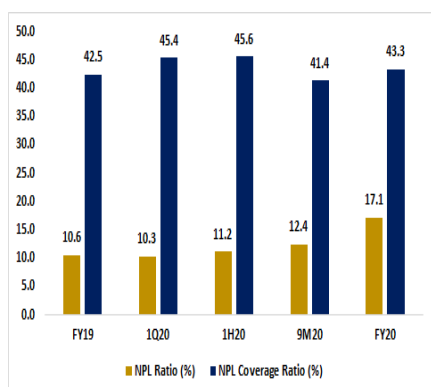
**Co-op Kenya's core capital ratio (Core capital/TRWA) rose 20 bps y-o-y to 15.5%** above the statutory minimum of 10.5% while Total capital/TRWA rose 120 bps y-o-y to 17.0% above the statutory minimum of 14.5%.

	Co-op Kenya		Group	
	Reported	Adjusted ratios	Reported	Adjusted ratios
Core capital ratio	15.5	13.9	15.4	13.9
Total capital ratio	17.0	15.4	16.9	15.4

*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.*

#### **NPL RATIO & NPL COVERAGE RATIO**



*Source: Company, DBIB Research*

**Gross non-performing loans rose 87.0% y-o-y to KES 59.1 BN.** Interest in suspense rose 41.9% y-o-y to KES 7.2 BN. As a result, total NPLs (Gross NPLs less interest in suspense) rose 95.7% y-o-y to KES 51.9 BN. The NPL ratio rose 650 bps y-o-y to 17.1%. The NPL coverage (Loan loss provision/ Total NPL) ratio rose 84 bps y-o-y to 43.3%.

**Co-op is currently trading at a P/E ratio of 6.9x, against an industry median of 6.6x** and a P/B of 0.8x against an industry median of 0.7x. Its ROE stands at 11.9% above the industry median of 11.0% whereas its ROA stands at 2.0% above the industry median of 1.8%.

## PROFIT AND LOSS SUMMARY (KES MN)

Year End: December	FY20	FY19	y-y% ch	4q20	3q20	4q19	y-y% ch	q-q% ch
Interest income	48,841	43,639	11.9	16,293	10,737	13,256	22.9	51.8
Interest expense	12,492	12,336	1.3	3,580	3,014	3,105	15.3	18.8
Net interest income	36,349	31,303	16.1	12,713	7,722	10,151	25.2	64.6
Other operating income	1,742	2,190	(20.5)	1,325	182	1,280	3.5	628.9
Fees and commission income	12,901	12,818	0.7	1,556	4,580	1,247	24.7	(66.0)
Net income from forex dealings	2,838	2,149	32.1	997	534	533	87.1	86.6
Total non-interest income	17,481	17,157	1.9	3,878	5,296	3,060	26.7	(26.8)
Total income	53,830	48,460	11.1	16,590	13,018	13,211	25.6	27.4
Less operating expenses	31,286	25,255	23.9	11,857	6,726	7,561	56.8	76.3
Operating profit	22,544	23,205	(2.8)	4,734	6,292	5,650	(16.2)	(24.8)
Bad debt charge	8,112	2,539	219.5	4,091	2,156	417	882.1	89.8
Exceptional items	150	40	274.5	188	16	17	983.7	1090.9
Profit before income tax	14,282	20,706	(31.0)	531	4,152	5,251	(89.9)	(87.2)
Less tax	3,469	6,395	(45.8)	7,445	1,575	10,966	(32.1)	372.7
Profit after tax	10,813	14,311	(24.4)	1,038	2,577	3,428	(69.7)	(59.7)
Attributable Income	10,813	14,311	(24.4)	1,038	2,577	3,428	(69.7)	(59.7)
EPS (KES)	1.98	2.48	(20.2)	0.31	0.44	0.62	(49.8)	(28.5)
DPS (KES)	1.00	1.00	-	1.00	-	1.00	-	-

(Source: Company, DBIB Research)

## BALANCE SHEET SUMMARY (KES MN)

Year End: December	FY20	9M20	FY19	y/y ch%	q-q% ch
Total shareholder's equity	90,726	82,029	79,335	14.4	10.6
Minority interest	1,322	1,614	1,522	(13.1)	(18.1)
Total Equity	92,048	83,643	80,857	13.8	541.9
Deposits due to other banks	222	6,857	177	25.4	146.7
Customer deposits	378,630	375,457	332,824	13.8	0.8
Borrowed funds	46,026	26,152	26,424	74.2	76.0
Other liabilities	20,018	18,791	16,727	19.7	6.5
Total equity and liabilities	536,945	510,900	457,009	17.5	5.1
Central bank balances	26,348	29,541	29,029	(9.2)	(10.8)
Deposits due from banks	16,915	27,224	9,710	74.2	(37.9)
Investment securities	163,018	143,267	119,188	36.8	13.8
Held for dealing securities	-	-	-	-	-
Customer loans and advances	286,634	284,226	266,713	7.5	0.8
Other assets	25,609	14,318	18,241	40.4	78.9
Intangible assets	6,119	3,409	2,708	126.0	79.5
Fixed assets	12,302	8,915	11,421	7.7	38.0
Total assets	536,945	510,900	457,009	17.5	5.1

(Source: Company, DBIB Research)

## INVESTMENT RETURN

	FY20	9M20*	FY19	y-y bps ch	q-q bps ch
ROA (%)	2.0	2.6	3.1	(112)	(54)
ROIC (%)	2.1	2.7	3.3	(117)	(60)
ROE (%)	2.0	15.6	17.7	(1,569)	(1,357)

(Source: Company, DBIB Research)

\*Annualized

## CAPITAL ADEQUACY, LIQUIDITY & ASSET QUALITY

	FY20	9M20	FY19	y-y bps ch	q-q bps ch
Core capital/TRWA (%)	15.4	15.1	16.3	(90)	30
Min. Statutory Ratio (%)	10.5	10.5	10.5	-	-
Total capital/TRWA (%)	16.9	15.6	16.8	10	130
Min. Statutory Ratio (%)	14.5	14.5	14.5	-	-
Liquidity Ratio (%)	52.2	48.6	46.2	600	360
Min. Statutory Ratio (%)	20.0	20.0	20.0	-	-
Leverage Ratio (%)	16.9	16.1	17.4	(46)	84
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Equity-to-Loans Ratio (%)	187.3	29.4	30.3	15,701	15,790
NPL Ratio (%)	17.1	12.4	10.6	650	472
NPL Coverage Ratio (%)	43.3	41.4	42.5	84	196
Long Term Debt to Total Liabilities and Equity (%)	8.6	5.1	5.8	279	345
NTA/share (KES)	14.4	13.4	13.1	136	102
Book value/share (KES)	15.5	14.0	13.5	194	148
Payout ratio (%)	50.5	-	40.3	1,018	5,051
Adj payout ratio (%)	55.0	-	41.1	1,391	5,502

(Source: Company, DBIB Research)

\*\*Total Loan Portfolio net of Interbank Lending

## OPERATING PERFORMANCE

	FY20	9M20*	FY19	y-y bps ch	q-q bps ch
Yield on interest earning assets (%)	10.5	9.5	11.0	(56)	92
Cost of funds (%)	2.9	2.9	3.4	(49)	3
Net Interest Margin (%)	7.5	6.6	7.6	(7)	89
Loan-to-Deposits ratio (%)	75.7	75.7	80.1	(443)	0
Loan-to-Dep.&Borrowed Funds ratio (%)	67.5	69.6	74.2	(674)	(212)
Funded Income Generating Potential (%)	86.9	89.0	86.6	33	(211)
Funded Income Reliance (%)	67.5	63.5	64.6	293	405
Cost to income ratio (%)	58.1	52.2	52.1	600	595
Pre-tax margin (%)	26.5	36.9	42.7	(1,620)	(1,039)
PAT margin (%)	20.1	26.2	29.5	(944)	(616)

(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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