

# DYER & BLAIR INVESTMENT BANK

## EARNINGS UPDATE

Founder Member of the Nairobi Securities Exchange

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DYER & BLAIR  
INVESTMENT BANK

WE KNOW. YOU KNOW.

### CO-OP GROUP: 1H21 EARNINGS UPDATE

Dear All,

Co-op Group released its 1H21 results reporting a 2.3% y-o-y rise in after tax profits to KES 7.4 BN. The financial performance was characterized by a 20.4% y-o-y growth in total operating income to KES 29.2 BN against a 28.3% y-o-y increase in total operating expenses (inclusive of loan loss provisions) to KES 18.7 BN. EPS for the period climbed by 2.4% y-o-y to stand at KES 1.26.

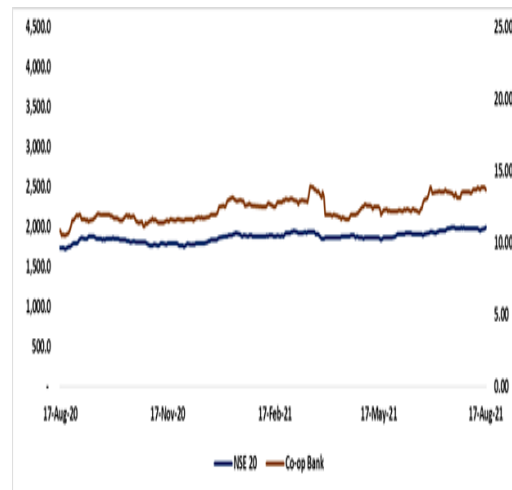
Below please find key highlights:

**Net interest income edged up by 18.3% y-o-y to KES 18.8 BN**, supported by a 19.0% y-o-y growth in total interest income to KES 26.0 BN but weighed down by a 20.9% y-o-y increase in total interest expenses to KES 7.1 BN. The annualized yield on interest earning assets declined by 20 bps to 10.4% while the annualized cost of funds rose by 30 bps to 3.1%, this led to a subsequent downturn in net interest margin by 40 bps y-o-y to 7.3%.

**Interest income from loans and advances grew by 12.7% y-o-y to KES 16.9 BN**, placing the annualized yield on loans at 11.2%, 20 bps higher y-o-y. Interest income from government securities advanced by 42.3% y-o-y to KES 8.8 BN resulting in an annualized yield on government securities of 9.6%, which was lower by 50 bps y-o-y. Interest expenses arising from customer deposits rose by 25.3% y-o-y to KES 6.4 BN placing the annualized cost of customer deposits at 3.1%, up 40 bps y-o-y.

**Non-funded income inched higher by 24.3% y-o-y to KES 10.3 BN** mainly supported by a 340.9% y-o-y surge in fees and commissions on loans and advances to KES 2.7 BN. Other income also surged by 336.8% y-o-y to KES 1.0 BN. Other fees & commissions eased by 14.4% y-o-y to KES 5.2 BN whereas forex income rose marginally by 1.4% y-o-y to KES 1.3 BN. The proportion of non-funded income to total income improved by 110 bps y-o-y to 35.4% from 34.3% in 1H20.

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



(Source: NSE, DBIB Research)

PRICE	ABSOLUTE	EXCESS
RETURN	RETURN	RETURN
3 months (%)	11.4	3.0
6 months (%)	10.0	3.8
12 months (%)	30.5	15.0

### KEY METRICS

Current Price (KES)	13.70
52 week Range (KES)	10.50-13.90
YTD Return (%)	9.6
Issued Shares (Mn)	5,867.2
Market Cap (USD Mn)	734.6

Trailing EPS (KES)	1.87
NAV (KES)	15.79
P/E (x)	7.3
P/B (x)	0.9
Div. Yield (%)	-

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**Operating expenses (excluding provisions) edged up by 14.4% y-o-y to KES 14.5 BN** predominantly driven by a 46.9% y-o-y growth in other expenses to KES 5.8 BN. Staff costs eased marginally by 1.3% y-o-y to KES 6.5 BN. The cost-to-income ratio (excluding provisions) shed 250 bps y-o-y to 49.9%, owing to the faster rise in total operating income against the rise in operating expenses (excluding provisions).

**Loan loss provisions surged by 123.0% y-o-y to KES 4.2 BN** mirroring the rise in gross non-performing loans which increased by 48.2% y-o-y to KES 50.8 BN.

**The group continued to adopt a defensive strategy as customer loans and advances rose by 10.7% y-o-y to KES 301.2 BN** in comparison to a 48.7% y-o-y rise investment securities to KES 183.4 BN. On the funding side, customer deposits grew by 6.0% y-o-y to KES 407.7 BN. The loan to deposit ratio rose by 310 bps y-o-y to 73.9%. Borrowed funds grew by 73.3% y-o-y to KES 44.4 BN.

**The group's asset base rose by 11.5% y-o-y to KES 573.0 BN** while total liabilities increased by 11.1% y-o-y to KES 480.4 BN.

**Co-op Group's core capital ratio (Core capital/TRWA) declined 100 bps y-o-y to 15.3%** above the statutory minimum of 10.5% while Total capital/TRWA gained 20 bps y-o-y to 17.0% above the statutory minimum of 14.5%. **Co-op Bank's core capital ratio (Core capital/TRWA) rose 10 bps y-o-y to 15.4%** above the statutory minimum of 10.5% while Total capital/TRWA rose 140 bps y-o-y to 17.2% above the statutory minimum of 14.5%.

**On a trailing basis**, Co-op Group is trading at a P/E multiple of 7.3x against an industry median of 7.2x and a P/B multiple of 0.9x against an industry median of 0.8x. Its ROE stands at 11.9% while its ROA stands at 1.9%.

*(Source: Company)*

## PROFIT AND LOSS SUMMARY (KES MN)

Year End: December	1H21	1H20	y-y% ch	2q21	1q21	2q20	y-y% ch	q-q% ch
Interest income	25,960	21,811	19.0	12,512	13,448	11,272	11.0	(7.0)
Interest expense	7,128	5,897	20.9	3,510	3,619	2,876	22.0	(3.0)
Net interest income	18,832	15,914	18.3	9,002	9,830	8,395	7.2	(8.4)
Other operating income	1,028.32	235.42	336.8	915	113	142	544.9	709.5
Fees and commission income	7,971	6,765	17.8	4,273	3,697	2,379	79.6	15.6
Net income from forex dealings	1,324	1,307	1.4	611	713	803	(23.8)	(14.3)
Total non-interest income	10,323	8,307	24.3	5,800	4,524	3,324	74.5	28.2
Total income	29,155	24,221	20.4	14,802	14,353	11,719	26.3	3.1
Less operating expenses	14,538	12,703	14.4	7,566	6,971	6,340	19.3	8.5
Operating profit	14,618	11,518	26.9	7,236	7,382	5,379	34.5	(2.0)
Bad debt charge	(4,158)	(1,865)	123.0	(1,877)	-2,282	(965)	94.5	(17.8)
Exceptional items	65	(54)	(220.5)	181	-116	68	167.6	(255.7)
Profit before income tax	10,524	9,599	9.6	5,540	4,984	4,482	23.6	11.2
Less tax	(3,159)	(2,401)	31.5	(1,631)	-1,528	(872)	86.9	6.7
Profit after tax	7,365	7,198	2.3	3,910	3,456	3,609	8.3	13.1
Attributable Income	7,365	7,198	2.3	3,910	3,456	3,609	8.3	13.1
EPS (KES)	1.26	1.23	2.71	0.67	0.59	0.62	8.9	13.6

(Source: Company, DBIB Research)

## BALANCE SHEET SUMMARY (KES MN)

Year End: December	1H21	1Q21	1H20	y-y% ch	q-q% ch
Total shareholder's equity	92,619	93,722	80,116	15.6	(1.2)
Minority interest	(20)	900	1,563	(101.3)	(102.2)
Total Equity	92,599	94,622	81,679	13.4	(2.1)
Deposits due to other banks	4,019	4,988	4,420	(9.1)	(19.4)
Customer deposits	407,686	393,816	384,637	6.0	3.5
Borrowed funds	44,428	46,876	25,637	73.3	(5.2)
Other liabilities	24,276	12,630	17,551	38.3	92.2
Total equity and liabilities	573,009	552,933	513,924	11.5	3.6
Central bank balances	37,445	32,134	73,966	(49.4)	16.5
Deposits due from banks	12,987	19,984	17,728	(26.7)	(35.0)
Investment securities	183,376	167,253	123,348	48.7	9.6
Held for dealing securities	-	-	-	-	-
Customer loans and advances	301,191	298,211	272,157	10.7	1.0
Other assets	21,619	18,339	14,514	49.0	17.9
Intangible assets	6,813	6,862	3,135	117.3	(0.7)
Fixed assets	9,576	10,150	9,076	5.5	(5.7)
Total assets	573,009	552,933	513,924	11.5	3.6

(Source: Company, DBIB Research)

## INVESTMENT RETURN

	1H21	1Q21	1H20	y-y bps ch	q-q bps ch
ROA (%)*	2.6	2.5	2.8	(23)	7
ROIC (%)*	2.7	2.6	2.9	(23)	12
ROE (%)*	15.9	14.6	17.6	(172)	130

(Source: Company, DBIB Research)

\*Annualized

## CAPITAL ADEQUACY, LIQUIDITY & ASSET QUALITY

	1H21	1Q21	1H20	y-y bps ch	q-q bps ch
Core capital/TRWA (%)	15.3	15.2	16.3	(100)	10
Min. Statutory Ratio (%)	10.5	10.5	10.5	-	-
Total capital/TRWA (%)	17.0	16.9	16.8	20	10
Min. Statutory Ratio (%)	14.5	14.5	14.5	-	-
Liquidity Ratio (%)	55.7	54.8	54.1	160	90
Min. Statutory Ratio (%)	20.0	20.0	20.0	-	-
Leverage Ratio (%)	16.2	16.9	15.6	57	(79)
Equity-to-Loans Ratio (%)	30.7	31.7	30.0	73	(99)
NPL Ratio (%) **	14.4	14.8	11.2	325	(40)
NPL Coverage Ratio (%) **	57.9	52.2	45.6	1,226	565
Long Term Debt to Total Liabilities and Equity (%)	7.8	8.5	5.0	277	(72)
NTA/share (KES)	14.6	14.8	13.1	150	(18)
Book value/share (KES)	15.8	16.0	13.7	213	(19)

(Source: Company, DBIB Research)

\*\*Total Loan Portfolio net of Interbank Lending

## OPERATING PERFORMANCE

	1H21	1Q21	1H20	y-y bps ch	q-q bps ch
Yield on interest earning assets (%) *	10.4	11.1	10.6	(12)	(68)
Cost of funds (%) *	3.1	3.2	2.8	28	(12)
Net Interest Margin (%) *	7.3	7.9	7.7	(40)	(56)
Loan-to-Deposits ratio (%)	73.9	75.7	70.8	312	(185)
Loan-to-Dep.&Borrowed Funds ratio (%)	66.0	66.9	65.6	40	(88)
Funded Income Generating Potential (%)	86.8	87.8	80.4	642	(96)
Funded Income Reliance (%)	64.6	68.5	65.7	(111)	(389)
Cost to income ratio (%)	49.9	48.6	52.4	(258)	129
Pre-tax margin (%)	36.1	34.7	39.6	(353)	137
PAT margin (%)	25.3	24.1	29.7	(445)	119

(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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