

DYER & BLAIR INVESTMENT BANK

EARNINGS UPDATE

Founder Member of the Nairobi Securities Exchange

19TH NOVEMBER 2021



DYER & BLAIR
INVESTMENT BANK

WE KNOW. YOU KNOW.

CO-OPERATIVE GROUP: 3Q21 EARNINGS UPDATE

Dear All,

Co-operative Group released its 3Q21 results reporting an 18.9% y-o-y rise in after tax profits to KES 11.6 BN. The growth in profitability was principally underpinned by a 21.3% y-o-y advancement in net interest income to KES 28.7 BN and a 15.6% y-o-y growth in non-funded income to KES 15.7 BN. EPS for the period climbed by 18.6% y-o-y to stand at KES 1.98.

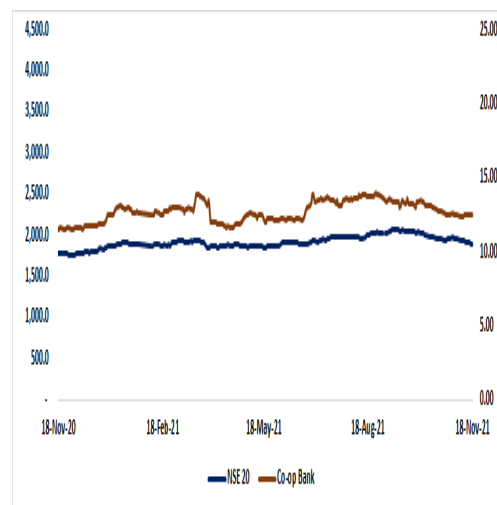
Below please find key highlights:

Net interest income edged up by 21.3% y-o-y to KES 28.7 BN, supported by a 21.6% y-o-y rise in total interest income to KES 39.6 BN but weighed down by a 22.4% y-o-y increase in total interest expenses to KES 10.9 BN. The annualized yield on interest earning assets improved by 50 bps y-o-y to 10.7% while the annualized cost of funds rose by 16 bps y-o-y to 3.3%. The net effect was a 33 bps y-o-y rise in the annualized net interest margin (NIM) to 7.4%.

Interest income from loans and advances went up by 14.0% y-o-y to KES 25.4 BN, buoyed by a 7.8% y-o-y growth in the net loan book to KES 306.3 BN and a 64 bps y-o-y rise in the annualized yield on loans to 11.4%. The Group's defensive strategy led to a 40.3% y-o-y jump in interest income from government securities to KES 13.8 BN, driven by a 35.9% y-o-y growth in its portfolio of government securities to KES 194.8 BN; the annualized yield on government securities rose by 29 bps y-o-y to 10.3%.

Interest expenses from customer deposits grew by 26.7% y-o-y to KES 9.8 BN occasioned by a 12.0% y-o-y rise in customer deposits to KES 420.4 BN coupled with a 36 bps y-o-y growth in the annualized cost of customer deposits to 3.3%.

CO-OP GROUP: 52 WEEK PRICE PERFORMANCE



(Source: NSE, DBIB Research)

PRICE	ABSOLUTE	EXCESS
RETURN	RETURN	RETURN
3 months (%)	(9.1)	(3.4)
6 months (%)	3.3	1.3
12 months (%)	6.9	0.9

KEY METRICS

Current Price (KES)	12.45
52 week Range (KES)	11.45 - 13.95
YTD Return (%)	(0.4)
Issued Shares (Mn)	5,862.7
Market Cap (USD Mn)	651.6

Trailing EPS (KES)	2.16
NAV (KES)	16.20
Trailing P/E (x)	5.8
Trailing P/B (x)	0.8
Dividend Yield (%)	-

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Non-funded income advanced by 15.6% y-o-y to KES 15.7 BN prompted by a 349.8% y-o-y surge in fees and commissions on loans and advances to KES 5.5 BN. Income from foreign exchange trading grew by 3.9% y-o-y to KES 1.9 BN whereas other fees and commissions dipped by 31.9% y-o-y to KES 6.9 BN. Given the higher rise in net interest income in comparison to the growth realized in non-funded income, the contribution of non-funded income to total income declined by 110 bps y-o-y to 35.4%.

Operating expenses (excluding provisions) grew by 12.8% y-o-y to KES 21.9 BN buoyed by a 29.2% y-o-y rise in other expenses to KES 8.4 BN. Staff costs grew by 3.6% y-o-y to KES 10.0 BN. Despite the growth in operating expenses, the cost-to-income ratio shed 282 bps y-o-y to settle at 49.4% owing to the higher growth realized in total operating income (+19.2% y-o-y to KES 44.4 BN).

Gross non-performing loans increased by 23.2% y-o-y to KES 49.5 BN. Interest in suspense advanced by 14.0% y-o-y to KES 6.8 BN. Consequently, total NPLs (gross NPLs less interest in suspense) rose by 24.8% y-o-y to KES 42.7 BN. The Group's asset quality weakened as the NPL ratio rose by 152 bps y-o-y to 13.9%. In terms of coverage, the NPL coverage rose to 60.0% (3Q20: 41.4%). Owing to the aforementioned deterioration in asset quality, **loan loss provisions jumped by 50.3% y-o-y to KES 6.0 BN**; consequently, the Group's cost of risk rose to 3.9% -- a 112 bps y-o-y rise.

Net loans and advances rose by 7.8% y-o-y to KES 306.3 BN in comparison to a 35.9% y-o-y rise in government and investment securities to KES 194.8 BN. On the funding side, customer deposits edged up by 12.0% y-o-y to KES 420.4 BN while borrowed funds increased by 67.6% y-o-y to KES 43.8 BN. The loan-to-deposit ratio eased to 72.9% (3Q20: 75.7%) while the loan-to-deposit and borrowed funds reduced to 66.0% (3Q20: 70.8%).

Co-operative Group's core capital ratio (Core capital/TRWA) declined by 130 bps y-o-y to 15.0% above the statutory minimum of 10.5% while Total capital/TRWA eased by 30 bps y-o-y to 16.5% above the statutory minimum of 14.5%. **Co-operative Bank's core capital ratio (Core capital/TRWA) rose by 20 bps y-o-y to 15.3%** above the statutory minimum of 10.5% while Total capital/TRWA went up by 120 bps y-o-y to 16.8% above the statutory minimum of 14.5%. The Group's liquidity ratio improved to 56.5% (3Q20: 50.2%).

On a trailing basis, Co-op Group is trading at a P/E multiple of 5.8x against an industry median of 6.0x and a P/B multiple of 0.8x against an industry median of 0.7x. Its ROE stands at 13.3% while its ROA stands at 2.1%.

PROFIT AND LOSS SUMMARY (KES MN)

Year End: December	3Q21	3Q20	y-y% ch	3q21	2q21	3q20	y-y% ch	q-q% ch
Interest income	39,575	32,548	21.6	13,615	12,512	10,737	26.8	8.8
Interest expense	10,906	8,912	22.4	3,778	3,510	3,014	25.3	7.6
Net interest income	28,668	23,636	21.3	9,837	9,002	7,722	27.4	9.3
Other operating income	1,408.4	417	237.6	380	915	182	109.1	(58.5)
Fees and commission income	12,409	11,345	9.4	4,438	4,273	4,580	(3.1)	3.8
Net income from forex dealings	1,913	1,841	3.9	589	611	534	10.2	(3.7)
Total non-interest income	15,730	13,603	15.6	5,407	5,800	5,296	2.1	(6.8)
Total income	44,399	37,239	19.2	15,244	14,802	13,018	17.1	3.0
Less operating expenses	21,912	19,429	12.8	7,374	7,566	6,726	9.6	(2.5)
Operating profit	22,487	17,810	26.3	7,870	7,236	6,292	25.1	8.8
Bad debt charge	(6,045)	(4,021)	50.3	(1,887)	(1,877)	(2,156)	(12.5)	0.5
Exceptional items	42	(38)	(210.4)	(23)	181	16	(244.8)	(112.6)
Profit before income tax	16,484	13,751	19.9	5,960	5,540	4,152	43.5	7.6
Less tax	(4,857)	(3,976)	22.2	(1,699)	(1,631)	(1,575)	7.8	4.2
Profit after tax	11,627	9,775	18.9	4,261	3,910	2,577	65.4	9.0
Attributable Income	11,627	9,775	18.9	4,261	3,910	2,577	65.4	9.0
EPS (KES)	1.98	1.67	18.8	0.72	0.67	0.44	63.9	7.5

(Source: Company, DBIB Research)

BALANCE SHEET SUMMARY (KES MN)

Year End: December	3Q21	1H21	3Q20	y-y% ch	q-q% ch
Total shareholder's equity	95,037	92,619	82,029	15.9	2.6
Minority interest	354	(20)	1,614	(78.1)	(1,889.0)
Total Equity	95,391	92,599	83,643	14.0	3.0
Deposits due to other banks	3,861	4,019	6,857	(43.7)	(3.9)
Customer deposits	420,438	407,686	375,457	12.0	3.1
Borrowed funds	43,839	44,428	26,152	67.6	(1.3)
Other liabilities	29,358	24,276	18,791	56.2	20.9
Total equity and liabilities	592,887	573,009	510,900	16.0	3.5
Central bank balances	29,856	37,445	29,541	1.1	(20.3)
Deposits due from banks	18,583	12,987	27,224	(31.7)	43.1
Investment securities	194,751	183,376	143,267	35.9	6.2
Held for dealing securities	-	-	-	-	-
Customer loans and advances	306,317	301,191	284,226	7.8	1.7
Other assets	27,277	21,619	14,318	90.5	26.2
Intangible assets	6,911	6,813	3,409	102.8	1.4
Fixed assets	9,193	9,576	8,915	3.1	(4.0)
Total assets	592,887	573,009	510,900	16.0	3.5

(Source: Company, DBIB Research)

INVESTMENT RETURN

	3Q21	1H21	3Q20	y-y bps ch	q-q bps ch
ROA (%)*	2.6	2.6	2.6	6	4
ROIC (%)*	2.8	2.7	2.7	8	7
ROE (%)*	16.3	15.9	15.6	67	34

(Source: Company, DBIB Research)

*Annualized

CAPITAL ADEQUACY, LIQUIDITY & ASSET QUALITY –EQUITY KENYA

	3Q21	1H21	3Q20	y-y bps ch	q-q bps ch
Core capital/TRWA (%)	15.3	15.3	15.1	20	-
Min. Statutory Ratio (%)	10.5	10.5	10.5	-	-
Total capital/TRWA (%)	16.8	17.0	15.6	120	(20)
Min. Statutory Ratio (%)	14.5	14.5	14.5	-	-
Liquidity Ratio (%)	50.2	55.7	48.6	160	(550)
Min. Statutory Ratio (%)	20.0	20.0	20.0	-	-
Leverage Ratio (%)	16.0	16.2	16.1	(3)	(13)
Equity-to-Loans Ratio (%)	31.1	30.7	29.4	171	40
NPL Ratio (%) **	13.9	14.4	12.4	152	(54)
NPL Coverage Ratio (%) **	60.0	57.9	41.4	1,867	216
Long Term Debt to Total Liabilities and Equity (%)	7.4	7.8	5.1	228	(36)
NTA/share (KES)	15.0	14.6	13.4	162	40
Book value/share (KES)	16.2	15.8	14.0	222	41

(Source: Company, DBIB Research)

**Total Loan Portfolio net of Interbank Lending

OPERATING PERFORMANCE

	3Q21	1H21	3Q20	y-y bps ch	q-q bps ch
Yield on interest earning assets (%)*	10.2	10.4	9.5	61	(28)
Cost of funds (%)*	3.1	3.1	2.9	20	(2)
Net Interest Margin (%)*	7.0	7.3	6.6	41	(26)
Loan-to-Deposits ratio (%)	72.9	73.9	75.7	(284)	(102)
Loan-to-Dep.& Borrowed Funds ratio (%)	65.4	66.0	69.6	(415)	(60)
Funded Income Generating Potential (%)	87.6	86.8	89.0	(136)	82
Funded Income Reliance (%)	64.6	64.6	63.5	110	(2)
Cost to income ratio (%)	49.4	49.9	52.2	(282)	(51)
Pre-tax margin (%)	37.1	36.1	36.9	20	103
PAT margin (%)	26.2	25.3	26.2	(6)	92

(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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