

DYER & BLAIR INVESTMENT BANK

EARNINGS UPDATE

Founder Member of the Nairobi Securities Exchange

18TH MARCH 2022



DYER & BLAIR
INVESTMENT BANK

WE KNOW. YOU KNOW.

CO-OP GROUP: FY21 EARNINGS UPDATE

Dear All,

Co-op Group released its FY21 results reporting a **53.0% y-o-y growth in after tax profits to KES 16.5 BN**. The growth in earnings was mainly underpinned by a 12.3% y-o-y rise in total operating income to KES 60.4 BN and a 3.6% y-o-y reduction in operating expenses (excluding provisions) to KES 30.2 BN. EPS for the period went up by 43.9% y-o-y to KES 2.85. The board announced a first and final dividend per share of KES 1.00 (FY20: KES 1.00).

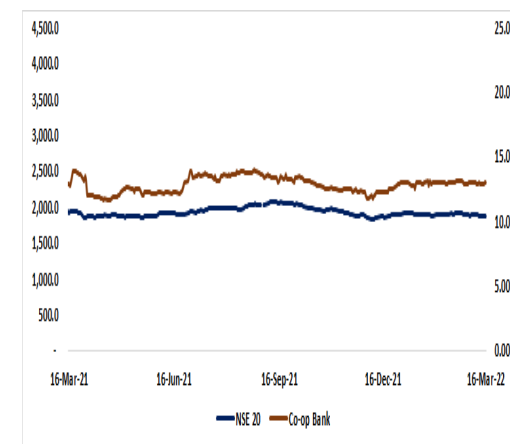
Below please find key highlights:

Net interest income advanced by 12.9% y-o-y to KES 41.0 BN principally buoyed by a 13.9% y-o-y increase in total interest income to KES 55.6 BN which outweighed a 17.0% y-o-y rise in total interest expenses to KES 14.6 BN. The yield on interest earning assets and the cost of funds both increased, rising by 13 bps y-o-y and 15 bps y-o-y to 11.5% and 3.3% respectively. Consequently, the NIM remained unchanged at 8.1% (-2 bps y-o-y).

Interest income from loans and advances climbed by 9.0% y-o-y to KES 36.5 BN occasioned by an 8.2% y-o-y growth in the loan book to KES 310.2 BN and a 13 bps y-o-y rise in the yield on loans to 12.2%. Interest income from government securities advanced at a higher pace, rising by 26.4% y-o-y to KES 18.7 BN reflecting the 14.0% y-o-y growth realized in the group's holding of government & investment securities to KES 185.8 BN coupled with a 24 bps y-o-y rise in the yield on government securities to 10.7%.

Interest expenses from customer deposits inched higher by 21.9% y-o-y to KES 13.3 BN as the group ramped up its customer deposits (+7.7% y-o-y to KES 407.7 BN). The cost of customer deposits increased by 32 bps y-o-y to 3.4%.

CO-OP GROUP: 52 WEEK PRICE PERFORMANCE



(Source: NSE, DBIB Research)

PRICE RETURN	ABSOLUTE RETURN	EXCESS RETURN
3 months (%)	6.1	6.2
6 months (%)	(0.4)	8.9
12 months (%)	(1.5)	2.4

KEY METRICS

Current Price (KES)	13.05
52 week Range (KES)	11.60 - 13.95
YTD Return (%)	0.8
Issued Shares (Mn)	5,867.2
Market Cap (USD Mn)	669.4

Trailing EPS (KES)	2.85
NAV (KES)	17.08
P/E (x)	4.6
P/B (x)	0.8
Div. Yield (%)	7.7

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Non-funded income edged up by 11.0% y-o-y to KES 19.4 BN supported mainly by a 26.2% y-o-y growth in other fees & commissions to KES 9.8 BN. Fees & commissions on loans and advances encountered modest growth, rising by 5.7% y-o-y to KES 5.4 BN. The contribution of non-funded income to total operating income eased marginally to 32.1% (FY20: 32.5%).

Operating expenses (excluding provisions) fell by 3.6% y-o-y to KES 30.2 BN leading to an 821 bps y-o-y reduction in the cost-to-income ratio to 49.9% (FY20: 58.1). Notably, all the cost items recorded declines; major reductions in cost were witnessed in depreciation charges (-10.2% y-o-y to KES 2.7 BN), amortisation charges (-19.1% y-o-y to KES 782.9 MN) and other expenses (-3.8% y-o-y to KES 12.1 BN). Staff costs eased marginally by 0.7% y-o-y to KES 13.3 BN.

Gross non-performing loans dropped by 15.9% y-o-y to KES 49.7 BN while interest in suspense eased by 12.5% y-o-y to KES 6.3 BN. As a result, total NPLs (gross NPLs less interest in suspense) sank by 16.4% y-o-y to KES 43.4 BN. The NPL ratio declined by 329 bps y-o-y to 13.8% (FY20: 17.1%). The NPL coverage rose to 57.1% from 43.3% in FY20. Loan loss provisions eased by 2.3% y-o-y to KES 7.9 BN pulling down the group's cost of risk which sank by 27 bps y-o-y to 2.6%

Net loans and advances rose by 8.2% y-o-y to KES 310.2 BN while government and investment securities increased by 14.0% y-o-y to KES 185.8 BN. On the funding side, customer deposits edged up by 7.7% y-o-y to KES 407.7 BN while borrowed funds eased by 6.8% y-o-y to KES 42.9 BN. The group's loan-to-deposit ratio increased by 38 bps y-o-y to 76.1% while the loan-to-deposit & borrowed funds ratio increased by 134 bps y-o-y to 68.8%.

Co-op Group's core capital ratio (Core capital/TRWA) advanced by 20 bps y-o-y to 15.6% above the statutory minimum of 10.5% while Total capital/TRWA rose by 30 bps y-o-y to 17.2% above the statutory minimum of 14.5%. Co-operative Bank's core capital ratio (Core capital/TRWA) edged up by 20 bps y-o-y to 15.7% above the statutory minimum of 10.5% while Total capital/TRWA went up by 10 bps y-o-y to 17.1% above the statutory minimum of 14.5%. The group's liquidity ratio improved to 53.8% (FY20: 52.2%).

We positively note on the significant improvement in efficiency and asset quality. We believe that the lower NPL ratio has been spurred by the group's strategy of taking a decentralized approach to asset quality monitoring.

Co-op Group is currently trading at a P/E multiple of 4.6x against an industry median of 4.7x and a P/B multiple of 0.8x against an industry median of 0.8x. Its ROE stands at 16.5% while its ROA stands at 2.9%.

PROFIT AND LOSS SUMMARY (KES MN)

Year End: December	FY21	FY20	y-y% ch	4q21	3q21	4q20	y-y% ch	q-q% ch
Interest income	55,648	48,841	13.9	16,074	13,615	16,293	(1.3)	18.1
Interest expense	14,611	12,492	17.0	3,705	3,778	3,580	3.5	(1.9)
Net interest income	41,037	36,349	12.9	12,368	9,837	12,713	(2.7)	25.7
Other operating income	1,313	1,742	(24.6)	-95	380	1,325	(107.2)	(125.0)
Fees and commission income	15,234	12,901	18.1	2,825	4,438	1,556	81.6	(36.3)
Net income from forex dealings	2,849	2,838	0.4	936	589	997	(6.1)	58.9
Total non-interest income	19,396	17,481	11.0	3,666	5,407	3,878	(5.5)	(32.2)
Total income	60,433	53,830	12.3	16,035	15,244	16,590	(3.4)	5.2
Less operating expenses	30,161	31,286	(3.6)	8,249	7,374	11,857	(30.4)	11.9
Operating profit	30,273	22,544	34.3	7,785	7,870	4,734	64.5	(1.1)
Bad debt charge	(7,929)	(8,112)	(2.3)	-1,884	-1,887	-4,091	(53.9)	(0.1)
Exceptional items	306	150	103.8	264	-23	188	40.2	(1253.0)
Profit before income tax	22,649	14,282	58.6	6,165	5,960	531	1061.7	3.4
Less tax	6,105	3,469	76.0	10,962	-1,699	7,445	47.2	(745.4)
Profit after tax	16,544	10,813	53.0	4,917	4,261	1,038	373.7	15.4
Attributable Income	16,544	10,813	53.0	4,917	4,261	1,038	373.7	15.4
EPS (KES)	2.85	1.98	43.9	0.9	0.7	0.3	177.1	20.8
DPS (KES)	1.00	1.00	-	1.00	-	1.00	-	-

(Source: Company, DBIB Research)

BALANCE SHEET SUMMARY (KES MN)

Year End: December	FY21	9M21	FY20	y/y ch%	q-q% ch
Total shareholder's equity	100,222	95,037	90,726	10.5	5.5
Minority interest	523	354	1,322	(60.4)	47.8
Total Equity	100,746	95,391	92,048	9.4	507.8
Deposits due to other banks	792	3,861	222	257.0	121.1
Customer deposits	407,726	420,438	378,630	7.7	(3.0)
Borrowed funds	42,915	43,839	46,026	(6.8)	(2.1)
Other liabilities	27,594	29,358	20,018	37.8	(6.0)
Total equity and liabilities	579,772	592,887	536,945	8.0	(2.2)
Central bank balances	30,828	29,856	26,348	17.0	3.3
Deposits due from banks	8,536	18,583	16,915	(49.5)	(54.1)
Investment securities	185,763	194,751	163,018	14.0	(4.6)
Held for dealing securities	-	-	-	-	-
Customer loans and advances	310,195	306,317	286,634	8.2	1.3
Other assets	28,333	27,277	25,609	10.6	3.9
Intangible assets	5,828	6,911	6,119	(4.8)	(15.7)
Fixed assets	10,289	9,193	12,302	(16.4)	11.9
Total assets	579,772	592,887	536,945	8.0	(2.2)

(Source: Company, DBIB Research)

INVESTMENT RETURN

	FY21	9M21	FY20	y-y bps ch	q-q bps ch
ROA (%)	2.9	2.6	2.0	84	24
ROIC (%)	3.0	2.8	2.1	91	23
ROE (%)	2.9	16.3	2.0	84	(1,340)

(Source: Company, DBIB Research)

CAPITAL ADEQUACY, LIQUIDITY & ASSET QUALITY

	FY21	9M21	FY20	y-y bps ch	q-q bps ch
Core capital/TRWA (%)	15.5	15.3	15.5	-	20
Min. Statutory Ratio (%)	10.5	10.5	10.5	-	-
Total capital/TRWA (%)	17.1	16.8	17.0	10	30
Min. Statutory Ratio (%)	14.5	14.5	14.5	-	-
Liquidity Ratio (%)	47.6	50.2	45.8	180	(260)
Min. Statutory Ratio (%)	20.0	20.0	20.0	-	-

Leverage Ratio (%)	17.3	16.0	16.9	39	126
Equity-to-Loans Ratio (%)	186.9	31.1	187.3	(42)	15,576
NPL Ratio (%)**	13.8	13.9	17.1	(329)	(9)
NPL Coverage Ratio (%)**	57.1	60.0	43.3	1,382	(289)
Long Term Debt to Total Liabilities and Equity (%)	7.4	7.4	8.6	(117)	1
NTA/share (KES)	16.1	15.0	14.4	167	107
Book value/share (KES)	17.1	16.2	15.5	162	88
Payout ratio (%)	35.1	-	50.5	(1,542)	3,509

(Source: Company, DBIB Research)

**Total Loan Portfolio net of Interbank Lending

OPERATING PERFORMANCE

	FY21	9M21*	FY20	y-y bps ch	q-q bps ch
Yield on interest earning assets (%)	11.5	10.7	11.3	13	78
Cost of funds (%)	3.3	3.3	3.2	15	8
Net Interest Margin (%)	8.1	7.4	8.1	(2)	70
Loan-to-Deposits ratio (%)	76.1	72.9	75.7	38	322
Loan-to-Dep.&Borrowed Funds ratio (%)	68.7	65.4	67.5	125	328
Funded Income Generating Potential (%)	87.0	87.6	86.9	12	(63)
Funded Income Reliance (%)	67.9	64.6	67.5	38	333
Cost to income ratio (%)	49.9	49.4	58.1	(821)	56
Pre-tax margin (%)	37.5	37.1	26.5	1,095	35
PAT margin (%)	27.4	26.2	20.1	729	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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