

# DYER & BLAIR INVESTMENT BANK

## EARNINGS UPDATE

Founder Member of the Nairobi Securities Exchange

26<sup>TH</sup> AUGUST 2022



DYER & BLAIR  
INVESTMENT BANK

WE KNOW. YOU KNOW.

### CO-OP GROUP: 1H22 EARNINGS UPDATE

Dear All,

Co-op Group released its 1H22 results reporting a 55.7% y-o-y growth in after tax profits to KES 11.5 BN. The rise in profitability was mainly underpinned by a 28.8% y-o-y rise in non-funded income to KES 13.3 BN, an 11.8% y-o-y growth in net interest income to KES 21.1 BN and a 19.6% y-o-y reduction in loan loss provisions to KES 3.3 BN. EPS for the period inched higher by 55.7% y-o-y to KES 1.95 (1H21: KES 1.26).

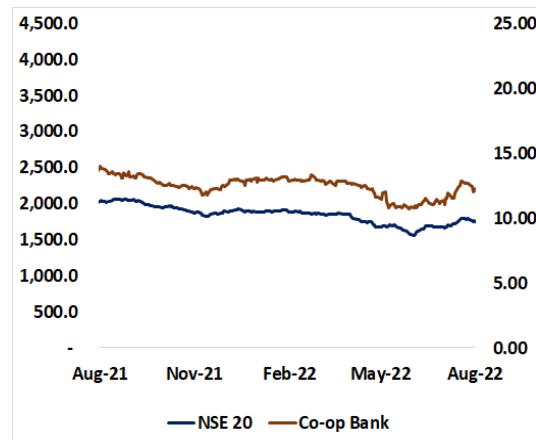
Below please find key highlights:

**Net interest income rose by 11.8% y-o-y to KES 21.1 BN**, buoyed by a 10.1% y-o-y growth in total interest income to KES 28.6 BN offsetting a 5.5% growth in total interest expenses to KES 7.5 BN. The annualized yield on interest earning assets improved by 28 bps y-o-y to 11.0% while the annualized cost of funds remained flat at 3.2% on a y-o-y basis; the resulting effect was a 27 bps y-o-y increase in the net interest margin (NIM) to 7.8%.

**Interest income from loans and advances went up by 9.4% y-o-y to KES 18.5 BN** supported by a 9.6% y-o-y growth in the net loan book to KES 330.1 BN as the annualized yield on loans remained relatively flat at 11.6% (+5 bps y-o-y). Interest income from government and investment securities increased by 11.9% y-o-y to KES 9.9 BN, driven by a 47 bps y-o-y rise in the annualized yield on government securities to 10.7%. The group's portfolio of investment and government securities experienced an uptick of 0.8% y-o-y to KES 184.9 BN (1H21: KES 183.4 BN).

**Interest expenses arising from customer deposits edged up by 5.9% y-o-y to KES 6.8 BN** supported by a 3.8% y-o-y rise in customer deposits to KES 423.0 BN, as the annualized cost of customer deposits remained flat at 3.3%.

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



(Source: NSE, DBIB Research)

| PRICE<br>RETURN | ABSOLUTE<br>RETURN | EXCESS<br>RETURN |
|-----------------|--------------------|------------------|
| 3 months (%)    | 7.0                | 2.6              |
| 6 months (%)    | (5.8)              | 1.7              |
| 12 months (%)   | (12.2)             | 1.6              |

#### KEY METRICS

|                     |               |
|---------------------|---------------|
| Current Price (KES) | 12.25         |
| 52 week Range (KES) | 10.70 - 13.95 |
| YTD Return (%)      | (5.4)         |
| Issued Shares (Mn)  | 5,867.2       |
| Market Cap (USD Mn) | 601.0         |

|                    |       |
|--------------------|-------|
| Trailing EPS (KES) | 3.54  |
| NAV (KES)          | 16.49 |
| P/E (x)            | 3.5   |
| P/B (x)            | 0.7   |
| Div. Yield (%)     | -     |

#### Research Analyst

John Jumwa

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

Telephone: +254 709 930 127

---

**Non-funded income improved by 28.8% y-o-y to KES 13.3 BN** largely driven by a 103.7% y-o-y jump in fees and commissions on loans and advances to KES 5.5 BN. Forex trading income went up by 48.1% y-o-y to KES 2.0 BN while other fees and commissions edged up by 2.4% y-o-y to KES 5.4 BN. The contribution of non-funded income to total operating income inched higher by 330 bps y-o-y to 38.7% (1H21: 35.4%).

**The group's operating expenses (excluding provisions) scaled by 8.8% y-o-y to KES 15.8 BN** driven by a 13.6 % y-o-y increase in other expenses to KES 6.6 BN and an 8.6% y-o-y rise in staff costs to KES 7.1 BN. Owing to a faster rise in total operating income (+17.8% y-o-y to KES 34.4 BN) vis-à-vis the growth registered in operating expenses (sans provisions), the group's cost-to-income ratio came down by 383 bps y-o-y to 46.0% (1H21: 49.9%).

**The group's gross non-performing loans increased marginally by 0.7% y-o-y to KES 51.2 BN** while interest in suspense declined by 12.3% y-o-y to KES 6.0 BN. Owing to these movements, total NPLs (gross NPLs less interest in suspense) edged up by 2.7% y-o-y to KES 45.2 BN. **The group's estimated NPL ratio declined by 102 bps y-o-y to 13.4% -- reflecting an improvement in asset quality.** Loan loss provisions dwindled by 19.6% y-o-y to KES 3.3 BN placing the estimated annualized cost of risk at 2.0%, down from 2.8% in 1H21.

**Net loans and advances to customers rose by 9.6% y-o-y to KES 330.1 BN (+1.7% q-o-q).** Government and investment securities rose marginally by 0.8% y-o-y to KES 184.9 BN (-0.1% q-o-q). On the funding side, **customer deposits increased by 3.8% y-o-y to KES 423.0 BN (+3.0% q-o-q)** while borrowed funds declined by 6.9% y-o-y to KES 41.4 BN (-4.4% q-o-q). Loan-to-deposit ratio soared by 414 bps y-o-y to 78.0% in line with the loan-to-deposit and borrowed funds ratio which climbed by 446 bps y-o-y to 71.1%.

**The group's core capital ratio (Core capital/TRWA) improved by 20 bps y-o-y to 15.5% while the total capital ratio (Total capital/TRWA) fell by 40 bps y-o-y to 16.6%.** Both ratios remain above the statutory minimum of 10.5% and 14.5% respectively. **Co-op bank's core capital ratio remained unchanged at 15.4% while the total capital ratio contracted by 60 bps y-o-y to 16.6%.** Both ratios remain above the statutory minimum of 10.5% and 14.5% respectively. The group's liquidity ratio declined by 490 bps y-o-y to 50.8% in concert with the bank's liquidity ratio which decreased by 480 bps y-o-y to 43.8%. Both liquidity ratios, however, remain above the statutory minimum requirement of 20.0%

**On a trailing basis,** Co-op Group is currently trading at a P/E multiple of 3.5x against an industry median of 3.6x and a P/B multiple of 0.7x commensurate with the industry median. Its ROE stands at 21.4% while its ROA stands at 3.4%.

## PROFIT AND LOSS SUMMARY (KES MN)

| Year End: December             | 1H22    | 1H21    | y-y% ch | 2q22    | 1q22    | 2q21    | y-y% ch | q-q% ch |
|--------------------------------|---------|---------|---------|---------|---------|---------|---------|---------|
| Interest income                | 28,574  | 25,960  | 10.1    | 14,573  | 14,001  | 12,512  | 16.5    | 4.1     |
| Interest expense               | 7,519   | 7,128   | 5.5     | 3,890   | 3,629   | 3,510   | 10.8    | 7.2     |
| Net interest income            | 21,055  | 18,832  | 11.8    | 10,683  | 10,373  | 9,002   | 18.7    | 3.0     |
| Other operating income         | 432     | 1,028   | (58.0)  | 158     | 273     | 915     | (82.7)  | (42.0)  |
| Fees and commission income     | 10,906  | 7,971   | 36.8    | 5,539   | 5,367   | 4,273   | 29.6    | 3.2     |
| Net income from forex dealings | 1,961   | 1,324   | 48.1    | 1,194   | 767     | 611     | 95.4    | 55.7    |
| Total non-interest income      | 13,299  | 10,323  | 28.8    | 6,892   | 6,407   | 5,800   | 18.8    | 7.6     |
| Total income                   | 34,354  | 29,155  | 17.8    | 17,575  | 16,780  | 14,802  | 18.7    | 4.7     |
| Less operating expenses        | 15,814  | 14,538  | 8.8     | 8,334   | 7,480   | 7,566   | 10.1    | 11.4    |
| Operating profit               | 18,540  | 14,618  | 26.8    | 9,241   | 9,299   | 7,236   | 27.7    | (0.6)   |
| Bad debt charge                | (3,345) | (4,158) | (19.6)  | (1,801) | (1,544) | (1,877) | (4.0)   | 16.7    |
| Exceptional items              | -       | 65      | (100.0) | (32)    | 32      | 181     | (117.7) | (200.0) |
| Profit before income tax       | 15,196  | 10,524  | 44.4    | 7,408   | 7,788   | 5,540   | 33.7    | (4.9)   |
| Less tax                       | (3,815) | (3,159) | 20.8    | (1,861) | (1,954) | (1,631) | 14.2    | (4.7)   |
| Profit after tax               | 11,380  | 7,365   | 54.5    | 5,547   | 5,834   | 3,910   | 41.9    | (4.9)   |
| Attributable Income            | 11,380  | 7,365   | 54.5    | 7,925   | 3,456   | 3,910   | 102.7   | 129.3   |
| EPS (KES)                      | 1.95    | 1.26    | 55.13   | 0.96    | 0.99    | 0.67    | 44.0    | (2.6)   |

(Source: Company, DBIB Research)

## BALANCE SHEET SUMMARY (KES MN)

| Year End: December           | 1H22    | 1Q22    | 1H21    | y-y% ch   | q-q% ch |
|------------------------------|---------|---------|---------|-----------|---------|
| Total shareholder's equity   | 96,726  | 102,698 | 92,619  | 4.4       | (5.8)   |
| Minority interest            | 261     | 400     | (20)    | (1,419.9) | (34.6)  |
| Total Equity                 | 96,988  | 103,097 | 92,599  | 4.7       | (5.9)   |
| Deposits due to other banks  | 10,887  | 6,361   | 4,260   | 155.6     | 71.1    |
| Customer deposits            | 423,031 | 410,825 | 407,686 | 3.8       | 3.0     |
| Borrowed funds               | 41,357  | 43,279  | 44,428  | (6.9)     | (4.4)   |
| Other liabilities            | 31,659  | 33,423  | 24,035  | 31.7      | (5.3)   |
| Total equity and liabilities | 603,922 | 596,986 | 573,009 | 5.4       | 1.2     |
| Central bank balances        | 27,057  | 27,603  | 37,445  | (27.7)    | (2.0)   |
| Deposits due from banks      | 15,153  | 14,099  | 12,987  | 16.7      | 7.5     |
| Investment securities        | 184,930 | 185,038 | 183,376 | 0.8       | (0.1)   |
| Held for dealing securities  | -       | -       | -       | -         | -       |
| Customer loans and advances  | 330,056 | 324,483 | 301,191 | 9.6       | 1.7     |
| Other assets                 | 31,100  | 30,365  | 21,619  | 43.9      | 2.4     |
| Intangible assets            | 7,324   | 6,823   | 6,813   | 7.5       | 7.3     |
| Fixed assets                 | 8,301   | 8,574   | 9,576   | (13.3)    | (3.2)   |
| Total assets                 | 603,922 | 596,986 | 573,009 | 5.4       | 1.2     |

(Source: Company, DBIB Research)

## INVESTMENT RETURN

|           | 1H22 | 1Q22 | 1H21 | y-y bps ch | q-q bps ch |
|-----------|------|------|------|------------|------------|
| ROA (%)*  | 3.8  | 3.9  | 2.6  | 120        | (14)       |
| ROIC (%)* | 4.1  | 4.2  | 2.7  | 135        | (13)       |
| ROE (%)*  | 23.5 | 22.6 | 15.9 | 756        | 83         |

(Source: Company, DBIB Research)

\*Annualized

## CAPITAL ADEQUACY, LIQUIDITY & ASSET QUALITY

|  | 1H22 | 1Q22 | 1H21 | y-y bps ch | q-q bps ch |
|--|------|------|------|------------|------------|
| Core capital/TRWA (%)                  | 15.4 | 15.4 | 15.4 | -          | -          |
| Min. Statutory Ratio (%)               | 10.5 | 10.5 | 10.5 | -          | -          |
| Total capital/TRWA (%)                 | 16.6 | 16.7 | 17.2 | (60)       | (10)       |
| Min. Statutory Ratio (%)               | 14.5 | 14.5 | 14.5 | -          | -          |
| Liquidity Ratio (%)                    | 43.8 | 46.4 | 48.6 | (480)      | (260)      |
| Min. Statutory Ratio (%)               | 20.0 | 20.0 | 20.0 | -          | -          |
|  |      |      |      |            |            |
| Leverage Ratio (%)                     | 16.0 | 17.2 | 16.2 | (15)       | (119)      |
| Equity-to-Loans Ratio (%)              | 29.4 | 31.8 | 30.7 | (136)      | (239)      |
| NPL Ratio (%)                          | 13.4 | 13.2 | 14.4 | (102)      | 20         |
| NPL Coverage Ratio (%)                 | 63.0 | 60.3 | 57.9 | 511        | 265        |
| LT to Total Liabilities and Equity (%) | 6.8  | 7.2  | 7.8  | (91)       | (40)       |
| NTA/share (KES)                        | 15.2 | 16.3 | 14.6 | 61         | (110)      |
| Book value/share (KES)                 | 16.5 | 17.5 | 15.8 | 70         | (102)      |

(Source: Company, DBIB Research)

## OPERATING PERFORMANCE

|  | 1H22 | 1Q22 | 1H21 | y-y bps ch | q-q bps ch |
|--|------|------|------|------------|------------|
| Yield on interest earning assets (%)*  | 11.0 | 10.9 | 10.8 | 28         | 15         |
| Cost of funds (%)*                     | 3.2  | 3.2  | 3.2  | 1          | 6          |
| Net Interest Margin (%)*               | 7.8  | 7.7  | 7.5  | 27         | 9          |
| Loan-to-Deposits ratio (%)             | 78.0 | 79.0 | 73.9 | 414        | (96)       |
| Loan-to-Dep.& Borrowed Funds ratio (%) | 69.4 | 70.5 | 66.0 | 345        | (102)      |
| Funded Income Generating Potential (%) | 87.8 | 87.7 | 86.8 | 95         | 7          |
| Funded Income Reliance (%)             | 61.3 | 61.8 | 64.6 | (330)      | (53)       |
| Cost to income ratio (%)               | 46.0 | 44.6 | 49.9 | (383)      | 145        |
| Pre-tax margin (%)                     | 44.2 | 46.4 | 36.1 | 814        | (218)      |
| PAT margin (%)                         | 33.1 | 34.8 | 25.3 | 786        | (164)      |

(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.*