



CO-OP GROUP: 1Q22 EARNINGS UPDATE

Dear All,

Co-op Group released its 1Q22 results reporting a 68.9% y-o-y growth in after tax profits to KES 5.8 BN. The rise in profitability was mainly underpinned by a 41.7% y-o-y rise in non-funded income to KES 6.4 BN, a 32.3% y-o-y reduction in loan loss provisions to KES 1.5 BN and a 5.5% y-o-y growth in net interest income to KES 10.4 BN. EPS for the period went up by 68.9% y-o-y to KES 0.99 (1Q21: KES 0.59).

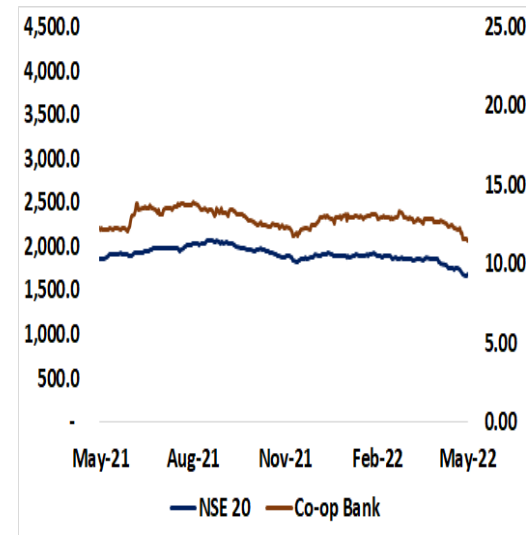
Below please find key highlights:

Net interest income rose by a modest 5.5% y-o-y to KES 10.4 BN, led by a 4.1% y-o-y growth in total interest income to KES 14.0 BN. Total interest expenses remained flat at KES 3.6 BN. The annualized yield on interest earning assets eased by 41 bps y-o-y to 10.9% while the annualized cost of funds shed 14 bps y-o-y to 3.2% resulting in a 26 bps y-o-y drop in the NIM to 7.7%.

Interest income from loans and advances declined by 2.9% y-o-y to KES 9.0 BN weighed down by a 133 bps y-o-y dip in the annualized yield on loans to 11.3% as the group's net loan book went up by 8.8% y-o-y to KES 324.5 BN. On the contrary, interest income from government securities advanced by 19.5% y-o-y to KES 4.9 BN following a 10.6% y-o-y upswing in the group's holding of government & investment securities to KES 185.0 BN coupled with a 64 bps y-o-y rise in the annualized yield on government securities to 10.7%.

Interest expenses from customer deposits notched up by 3.1% y-o-y to KES 3.3 BN and this was emblematic of the 4.3% y-o-y growth in customer deposits to KES 410.8 BN; the annualized cost of customer deposits came down marginally by 9 bps y-o-y to 3.2%.

CO-OP GROUP: 52 WEEK PRICE PERFORMANCE



(Source: NSE, DBIB Research)

PRICE RETURN	ABSOLUTE RETURN	EXCESS RETURN
3 months (%)	(12.5)	(0.2)
6 months (%)	(6.5)	3.7
12 months (%)	(5.7)	4.3

KEY METRICS

Current Price (KES)	11.50
52 week Range (KES)	11.50-13.95
YTD Return (%)	(11.2)
Issued Shares (Mn)	5,867.2
Market Cap (USD Mn)	578.6

Trailing EPS (KES)	3.25
NAV (KES)	17.50
P/E (x)	3.6
P/B (x)	0.7
Div. Yield (%)	-

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Non-funded income soared by 41.7% y-o-y to KES 6.4 BN largely driven by a 94.4% y-o-y jump in fees and commissions on loans and advances to KES 2.6 BN. Other fees and commissions edged up by 17.4% y-o-y to KES 2.8 BN while other income surged by 143.9% y-o-y to KES 273.3 MN. Forex trading income went up by 7.5% y-o-y to KES 766.8 MN. The contribution of non-funded income to total operating income inched higher by 667 bps y-o-y to 38.2% (1Q21: 31.5%).

The group's operating expenses (minus provisions) climbed by 7.3% y-o-y to KES 7.5 BN mainly on the back of a 9.4% y-o-y rise in staff costs to KES 3.5 BN and a 9.9% y-o-y increase in other expenses to KES 2.9 BN. On a positive note, the group's cost-to-income ratio came down by 399 bps y-o-y to 44.6% as a result of a faster rise in total operating income (+16.9% y-o-y to KES 16.8 BN) vis-à-vis the growth registered in operating expenses.

Gross non-performing loans dwindled by 4.9% y-o-y to KES 49.5 BN while interest in suspense eased by 7.8% y-o-y to KES 6.2 BN. As a result, total NPLs (gross NPLs less interest in suspense) slipped by 4.4% y-o-y to KES 43.2 BN. The estimated NPL ratio declined by 162 bps y-o-y to 13.2% (1Q21: 14.8%). The NPL coverage rose to 60.3% from 52.2% in 1Q21. **Loan loss provisions eased by 32.3% y-o-y to KES 1.5 BN mirroring the decline in gross non-performing loans and this led to an estimated cost of risk of 1.9% which was 116 bps lower y-o-y.**

Net loans and advances to customers rose by 8.8% y-o-y to KES 324.5 BN (+4.6% q-o-q). Government and investment securities also edged up further, increasing by 10.6% y-o-y to KES 185.0 BN (-0.4% q-o-q). **On the funding side, customer deposits increased by 4.3% y-o-y to KES 410.8 BN (+0.8% q-o-q)** while borrowed funds came down by 7.7% y-o-y to KES 43.3 BN (+0.8% q-o-q). The group's loan-to-deposit ratio increased by 326 bps y-o-y to 79.0% while the loan-to-deposit & borrowed funds ratio increased by 379 bps y-o-y to 71.5%.

Co-op Group's core capital ratio (Core capital/TRWA) advanced by 10 bps y-o-y to 15.3% above the statutory minimum of 10.5% while Total capital/TRWA eased by 30 bps y-o-y to 16.6% above the statutory minimum of 14.5%. **Co-operative Bank's core capital ratio (Core capital/TRWA) edged up by 10 bps y-o-y to 15.4%** above the statutory minimum of 10.5% while Total capital/TRWA came down by 40 bps y-o-y to 16.7% above the statutory minimum of 14.5%. The group's liquidity ratio declined by 70 bps y-o-y to 54.1% above the statutory minimum of 20.0%.

On a trailing basis, Co-op Group is currently trading at a P/E multiple of 3.6x against an industry median of 3.8x and a P/B multiple of 0.7x against an industry median of 0.7x. Its ROE stands at 18.4% while its ROA stands at 3.2%.

PROFIT AND LOSS SUMMARY (KES MN)

Year End: December	1Q22	1Q21	4Q21	y-y% ch	q-q% ch	FY21
Interest income	14,001	13,448	16,074	4.1	(12.9)	55,648
Interest expense	3,629	3,619	3,705	0.3	(2.1)	14,611
Net interest income	10,373	9,830	12,368	5.5	(16.1)	41,037
Other operating income	273	113	(95)	141.7	(387.8)	1,313
Fees and commission income	5,367	3,697	2,825	45.2	90.0	15,234
Net income from forex dealings	767	713	936	7.5	(18.1)	2,849
Total non-interest income	6,407	4,524	3,666	41.6	74.8	19,396
Total income	16,780	14,353	16,035	16.9	4.6	60,433
Less operating expenses	7,480	6,971	8,249	7.3	(9.3)	30,161
Operating profit	9,299	7,382	7,785	26.0	19.4	30,273
Bad debt charge	(1,544)	(2,282)	(1,884)	(32.3)	(18.1)	(7,929)
Exceptional items	32	(116)	264	(127.6)	(87.8)	306
Profit before income tax	7,788	4,984	6,165	56.3	26.3	22,649
Less tax	(1,954)	(1,528)	10,962	27.9	(117.8)	6,105
Profit after tax	5,834	3,456	4,917	68.8	18.6	16,544
Attributable Income	3,456	3,456	4,917	0.0	(29.7)	16,544
EPS (KES)	0.99	0.59	0.87	67.8	13.8	2.85
DPS (KES)	0.00	0.00	1.00	-	-	1.00

(Source: Company, DBIB Research)

BALANCE SHEET SUMMARY (KES MN)

Year End: December	1Q22	FY21	1Q21	y/ych%	q-q%ch
Total shareholder's equity	102,698	100,222	93,722	9.6	(6.5)
Minority interest	400	523	900	(55.6)	71.9
Total Equity	103,097	100,746	94,622	9.0	(6.1)
Deposits due to other banks	6,361	792	4,988	27.5	529.7
Customer deposits	410,825	407,726	393,816	4.3	(3.4)
Borrowed funds	43,279	42,915	46,876	(7.7)	9.2
Other liabilities	33,423	27,594	12,630	164.6	(54.2)
Total equity and liabilities	596,986	579,772	552,933	8.0	(4.6)
Central bank balances & cash	27,603	30,828	32,134	(14.1)	4.2
Deposits due from banks	14,099	8,536	19,984	(29.4)	134.1
Investment securities	185,038	185,763	167,253	10.6	(10.0)
Held for dealing securities	-	-	-	-	-
Customer loans and advances	324,483	310,195	298,211	8.8	(3.9)
Other assets	30,365	28,333	18,339	65.6	(35.3)
Intangible assets	6,823	5,828	6,862	(0.6)	17.7
Fixed assets	8,574	10,289	10,150	(15.5)	(1.3)
Total assets	596,986	579,772	552,933	8.0	(4.6)

(Source: Company, DBIB Research)

INVESTMENT RETURN

	1Q22	FY21	1Q21	y-y bps ch	q-q bps ch
ROA (%)*	3.9	2.9	2.5	141	106
ROIC (%)*	4.2	3.0	2.6	160	119
ROE (%)*	22.6	2.9	14.6	803	1,978

(Source: Company, DBIB Research)

*Annualized

CAPITAL ADEQUACY, LIQUIDITY & ASSET QUALITY

	1Q22	FY21	1Q21	y-y bps ch	q-q bps ch
Core capital/TRWA (%)	15.4	15.5	15.2	20	(10)
Min. Statutory Ratio (%)	10.5	10.5	10.5	-	-
Total capital/TRWA (%)	16.7	17.1	16.9	(20)	(40)
Min. Statutory Ratio (%)	14.5	14.5	14.5	-	-
Liquidity Ratio (%)	46.4	47.6	54.8	(840)	(120)
Min. Statutory Ratio (%)	20.0	20.0	20.0	-	-
Leverage Ratio (%)	17.2	17.3	16.9	25	(8)
Equity-to-Loans Ratio (%)	31.8	186.9	31.7	4	(15,513)
NPL Ratio (%)	13.2	13.8	14.8	(162)	(59)
NPL Coverage Ratio (%)	60.3	57.1	52.2	811	318
LT Debt to Total Liabilities and Equity (%)	7.2	7.4	8.5	(123)	(15)
NTA/share (KES)	16.3	16.1	14.8	154	25
Book value/share (KES)	17.5	17.1	16.0	153	42

(Source: Company, DBIB Research)

OPERATING PERFORMANCE

	1Q22	FY21	1Q21	y-y bps ch	q-q bps ch
Yield on interest earning assets (%)*	10.9	11.3	11.5	(41)	(57)
Cost of funds (%)*	3.2	3.3	3.3	(14)	(15)
Net Interest Margin (%)*	7.7	8.0	8.1	(26)	(42)
Loan-to-Deposits ratio (%)	79.0	76.1	75.7	326	290
Loan-to-Dep.&Borrowed Funds ratio (%)	70.5	68.7	66.9	356	175
Funded Income Generating Potential (%)	87.7	87.0	87.8	(8)	69
Funded Income Reliance (%)	61.8	67.9	68.5	(667)	(609)
Cost to income ratio (%)	44.6	49.9	48.6	(399)	(533)
Pre-tax margin (%)	46.4	37.5	34.7	1,169	893
PAT margin (%)	34.8	27.4	24.1	1,069	739

(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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