

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-OPERATIVE GROUP: 3Q22 EARNINGS UPDATE

Dear All,

CO-OP Group released its 3Q22 results reporting a 47.0% y-o-y growth in after tax profits to KES 17.1 BN. The rise in profitability was mainly underpinned by a 28.3% y-o-y rise in non-funded income to KES 20.2 BN and an 11.7% y-o-y growth in net interest income to KES 32.0 BN. EPS for the period inched higher by 47.0% y-o-y to KES 2.91 (3Q21: KES 1.98).

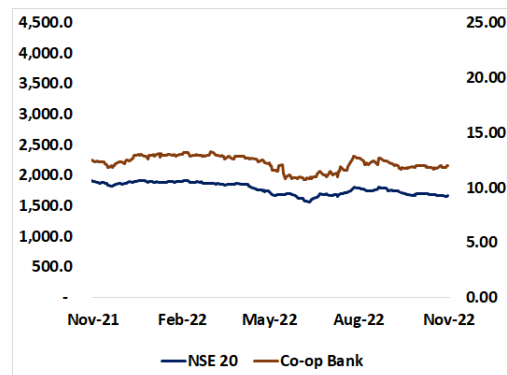
Below please find key highlights:

Net interest income rose by 11.7% y-o-y to KES 32.0 BN, buoyed by a 10.5% y-o-y growth in total interest income to KES 43.7 BN offsetting a 7.2% y-o-y growth in total interest expenses to KES 11.7 BN. The annualized yield on interest earning assets improved by 56 bps y-o-y to 11.3% while the annualized cost of funds remained flat at 3.3% on a y-o-y basis; the resulting effect was a 48 bps y-o-y increase in the annualized net interest margin (NIM) to 7.9%.

Interest income from loans and advances went up by 9.6% y-o-y to KES 27.9 BN supported by a 9.4% y-o-y growth in the net loan book to KES 335.2 BN; the annualized yield on loans edged up marginally by 8 bps y-o-y to 11.5%. Interest income from government and investment securities increased by 12.5% y-o-y to KES 15.5 BN, driven by a 91 bps y-o-y rise in the annualized yield on government securities. The group's portfolio of investment and government securities experienced a downtick of 0.4% y-o-y to KES 184.1 BN.

Interest expenses arising from customer deposits edged up by 6.6% y-o-y to KES 10.5 BN supported by a 2.8% y-o-y rise in customer deposits to KES 432.0 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	ABSOLUTE	EXCESS
RETURN	RETURN	RETURN
3 months (%)	(5.1)	2.0
6 months (%)	-	2.7
12 months (%)	(4.0)	8.8

KEY METRICS

Current Price (KES)	12.00
52 week Range (KES)	10.70 - 13.30
YTD Return (%)	(7.3)
Issued Shares (Mn)	5,862.7
Market Cap (USD Mn)	577.4

Trailing EPS (KES)	3.78
NAV (KES)	17.20
Trailing P/E (x)	3.2
Trailing P/B (x)	0.7
Dividend Yield (%)	-

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Non-funded income improved by 28.3% y-o-y to KES 20.2 BN largely driven by a 52.0% y-o-y growth in fees and commissions on loans and advances to KES 8.4 BN. Forex trading income went up by 71.6% y-o-y to KES 3.3 BN while other fees and commissions grew by 15.4% y-o-y to KES 7.9 BN. The contribution of non-funded income to total operating income inched higher by 321 bps y-o-y to 38.6% (3Q21: 35.4%).

The group's operating expenses (excluding provisions) scaled by 9.1% y-o-y to KES 23.9 BN driven by a 16.8 % y-o-y increase in other expenses to KES 9.9 BN and an 8.1% y-o-y rise in staff costs to KES 10.8 BN. Owing to a faster rise in total operating income (+17.6% y-o-y to KES 52.2 BN) vis-à-vis the growth registered in operating expenses (sans provisions), the group's cost-to-income ratio came down by 356 bps y-o-y to 45.8% (3Q21: 49.4%).

The group's gross non-performing loans increased by 4.7% y-o-y to KES 51.8 BN while interest in suspense declined by 10.3% y-o-y to KES 6.1 BN. Owing to these movements, total NPLs (gross NPLs less interest in suspense) edged up by 7.1% y-o-y to KES 45.7 BN. **The group's estimated NPL ratio declined by 52 bps y-o-y to 13.4% -- reflecting an improvement in asset quality.**

Loan loss provisions dwindled by 5.3% y-o-y to KES 5.7 BN placing the estimated annualized cost of risk at 3.4%, down from 3.9% in 3Q21. The group's NPL coverage ratio stood at 65.2%, lower by 522 bps y-o-y.

Net loans and advances to customers rose by 9.4% y-o-y to KES 335.2 BN (+1.5% q-o-q). Government and investment securities eased by 5.5% y-o-y to KES 184.1 BN (-0.4% q-o-q). **On the funding side, customer deposits increased by 2.8% y-o-y to KES 432.0 BN (+2.1% q-o-q)** while borrowed funds declined by 4.3% y-o-y to KES 41.9 BN (+1.4% q-o-q). Loan-to-deposit ratio soared by 473 bps y-o-y to 77.6% in line with the loan-to-deposit and borrowed funds ratio which climbed by 474 bps y-o-y to 70.7%.

The group's core capital ratio (Core capital/TRWA) improved by 70 bps y-o-y to 15.7% while the total capital ratio (Total capital/TRWA) rose by 30 bps y-o-y to 16.8%. Both ratios remain above the statutory minimum of 10.5% and 14.5% respectively. **Co-op bank's core capital ratio advanced by 20 bps y-o-y to 15.5% while the total capital ratio contracted by 20 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 440 bps y-o-y to 52.1%, which is above the statutory minimum requirement of 20.0%.

On a trailing basis, Co-op Group is currently trading at a P/E multiple of 3.2x 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 21.8% while its ROA stands at 3.5%.

PROFIT AND LOSS SUMMARY (KES MN)

Year End: December	3Q22	3Q21	y-y% ch	3q22	2q22	3q21	y-y% ch	q-q% ch
Interest income	43,732	39,575	10.5	15,158	14,573	13,615	11.3	4.0
Interest expense	11,696	10,906	7.2	4,177	3,890	3,778	10.6	7.4
Net interest income	32,036	28,668	11.7	10,981	10,683	9,837	11.6	2.8
Other operating income	549	1,408	(61.0)	117	158	380	(69.2)	(26.2)
Fees and commission income	16,343	12,409	31.7	5,437	5,539	4,438	22.5	(1.9)
Net income from forex dealings	3,283	1,913	71.6	1,322	1,194	589	124.5	10.7
Total non-interest income	20,174	15,730	28.3	6,875	6,892	5,407	27.2	(0.2)
Total income	52,211	44,399	17.6	17,857	17,575	15,244	17.1	1.6
Less operating expenses	23,907	21,912	9.1	8,093	8,334	7,374	9.8	(2.9)
Operating profit	28,304	22,487	25.9	9,763	9,241	7,870	24.1	5.7
Bad debt charge	(5,725)	(6,045)	(5.3)	(2,381)	(1,801)	(1,887)	26.2	32.2
Exceptional items	-	-	-	-	(32)	(65)	(100.0)	(100.0)
Profit before income tax	22,578	16,442	37.3	7,383	7,408	5,918	24.8	(0.3)
Less tax	(5,634)	(4,857)	16.0	(1,819)	(1,861)	(1,699)	7.1	(2.3)
Profit after tax	16,944	11,585	46.3	5,564	5,547	4,219	31.9	0.3
Attributable Income	16,944	11,585	46.3	5,564	7,925	4,219	31.9	(29.8)
EPS (KES)	2.91	1.98	47.2	0.96	0.96	0.72	33.2	(0.5)

(Source: Company, DBIB Research)

BALANCE SHEET SUMMARY (KES MN)

Year End: December	3Q22	1H22	3Q21	y-y% ch	q-q% ch
Total shareholder's equity	100,887	96,726	95,037	6.2	4.3
Minority interest	323	261	354	(8.7)	23.8
Total Equity	101,211	96,988	95,391	6.1	4.4
Deposits due to other banks	10,476	10,887	3,861	171.4	(3.8)
Customer deposits	432,001	423,031	420,438	2.8	2.1
Borrowed funds	41,933	41,357	43,839	(4.3)	1.4
Other liabilities	36,477	31,659	29,358	24.3	15.2
Total equity and liabilities	622,098	603,922	592,887	4.9	3.0
Central bank balances	36,932	27,057	29,856	23.7	36.5
Deposits due from banks	12,154	15,153	18,583	(34.6)	(19.8)
Investment securities	184,110	184,930	194,751	(5.5)	(0.4)
Held for dealing securities	-	-	-	-	-
Customer loans and advances	335,162	330,056	306,317	9.4	1.5
Other assets	38,169	31,100	27,277	39.9	22.7
Intangible assets	7,258	7,324	6,911	5.0	(0.9)
Fixed assets	8,312	8,301	9,193	(9.6)	0.1
Total assets	622,098	603,922	592,887	4.9	3.0

(Source: Company, DBIB Research)

INVESTMENT RETURN

	3Q22	1H22	3Q21	y-y bps ch	q-q bps ch
ROA (%)*	3.6	3.8	2.6	103	(14)
ROIC (%)*	3.9	4.1	2.8	117	(13)
ROE (%)*	22.3	23.5	16.2	613	(115)

(Source: Company, DBIB Research)

*Annualized

CAPITAL ADEQUACY, LIQUIDITY & ASSET QUALITY

	3Q22	1H22	3Q21	y-y bps ch	q-q bps ch
Core capital/TRWA (%)	15.5	15.5	15.3	20	-
Min. Statutory Ratio (%)	10.5	10.5	10.5	-	-
Total capital/TRWA (%)	16.6	16.6	16.8	(20)	-
Min. Statutory Ratio (%)	14.5	14.5	14.5	-	-
Liquidity Ratio (%)	44.6	50.8	50.2	(560)	(620)
Min. Statutory Ratio (%)	20.0	20.0	20.0	-	-
Leverage Ratio (%)	16.2	16.0	16.0	19	20
Equity-to-Loans Ratio (%)	30.2	29.4	31.1	(94)	81
NPL Ratio (%)	13.4	13.4	13.9	(52)	(4)
NPL Coverage Ratio (%)	65.2	63.0	60.0	522	227
LT Debt to Total Liabilities and Equity (%)	6.7	6.8	7.4	(65)	(11)
NTA/share (KES)	16.0	15.2	15.0	94	72
Book value/share (KES)	17.2	16.5	16.2	100	71

(Source: Company, DBIB Research)

OPERATING PERFORMANCE

	3Q22	1H22	3Q21	y-y bps ch	q-q bps ch
Yield on interest earning assets (%)*	11.3	11.0	10.7	56	21
Cost of funds (%)*	3.3	3.2	3.3	8	9
Net Interest Margin (%)*	7.9	7.8	7.4	48	12
Loan-to-Deposits ratio (%)	77.6	78.0	72.9	473	(44)
Loan-to-Dep. & Borrowed Funds ratio (%)	69.2	69.4	65.4	376	(26)
Funded Income Generating Potential (%)	85.4	87.8	87.6	(222)	(236)
Funded Income Reliance (%)	61.4	61.3	64.6	(321)	7
Cost to income ratio (%)	45.8	46.0	49.4	(356)	(24)
Pre-tax margin (%)	43.2	44.2	37.0	621	(99)
PAT margin (%)	32.5	33.1	26.1	636	(67)

(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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