

DYER & BLAIR INVESTMENT BANK

EARNINGS UPDATE

Founder Member of the Nairobi Securities Exchange

17TH MARCH 2023



DYER & BLAIR
INVESTMENT BANK

WE KNOW. YOU KNOW.

CO-OP GROUP: FY22 EARNINGS UPDATE

Dear All,

Co-op Group released its FY22 results reporting a **33.2% y-o-y growth in after-tax profits to KES 22.0 BN**. The rise in profitability was mainly underpinned by a 32.7% y-o-y rise in non-funded income to KES 25.7 BN and a 10.9% y-o-y growth in net interest income to KES 45.5 BN. EPS for the period inched higher by 30.5% y-o-y to KES 3.72 (FY21: KES 2.85). **The board announced a first and final dividend of KES 1.50 per share (FY21: KES 1.00)**. If approved, the dividend will be paid on or about 9th June 2023 to shareholders registered on the group's register at the close of business on 24th May 2023.

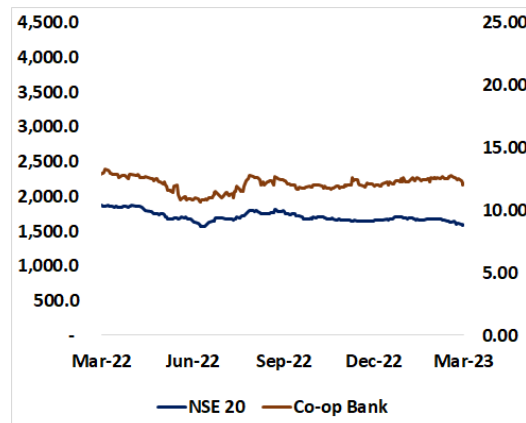
Below please find key highlights:

Net interest income rose by 10.9% y-o-y to KES 45.5 BN, buoyed by an 11.0% y-o-y growth in total interest income to KES 61.7 BN as total interest expenses rose by 11.0% y-o-y to KES 16.2 BN. The yield on interest earning assets rose by 54 bps y-o-y to 12.0% while the cost of funds edged up by 17 bps y-o-y, placing the net interest margin at 8.5% (FY21: 8.1%).

Interest income from loans and advances went up by 10.7% y-o-y to KES 40.4 BN supported by a 9.4% y-o-y growth in the net loan book to KES 339.4 BN and a 21 bps y-o-y rise in the yield on loans to 12.4%. Interest income from government and investment securities increased by 11.4% y-o-y to KES 20.9 BN, driven by an 82 bps y-o-y rise in the yield on government securities to 11.6% as the group's portfolio of investment and government securities declined by 5.7% y-o-y to KES 175.2 BN.

Interest expenses arising from customer deposits advanced up by 8.1% y-o-y to KES 14.4 BN fueled by a 3.9% y-o-y rise in customer deposits to KES 423.8 BN as the annualized cost of customer deposits ticked up marginally by 8 bps y-o-y to 3.5%.

CO-OP GROUP: 52 WEEK PRICE PERFORMANCE



(Source: NSE, DBIB Research)

PRICE RETURN	ABSOLUTE RETURN	EXCESS RETURN
3 months (%)	0.0	3.3
6 months (%)	(3.6)	7.5
12 months (%)	(7.3)	7.5

KEY METRICS

Current Price (KES)	12.00
52 week Range (KES)	10.70 - 13.30
YTD Return (%)	(2.4)
Issued Shares (Mn)	5,867.2
Market Cap (USD Mn)	543.3

Trailing EPS (KES)	3.72
NAV (KES)	18.35
P/E (x)	3.2
P/B (x)	0.7
Div. Yield (%)	12.5

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Non-funded income improved by 32.7% y-o-y to KES 25.7 BN largely driven by a 28.0% y-o-y growth in other fees and commissions to KES 12.6 BN. Forex trading income surged by 65.6% y-o-y to KES 4.7 BN while fees and commissions on loans and advances grew by 38.7% y-o-y to KES 7.5 BN. The contribution of non-funded income to total operating income inched higher by 401 bps y-o-y to 36.1% (FY21: 32.1%).

The group's operating expenses (excluding provisions) scaled by 11.3% y-o-y to KES 33.6 BN driven by a 19.3% y-o-y increase in other expenses to KES 14.5 BN and an 11.0% y-o-y rise in staff costs to KES 14.8 BN. Owing to a faster rise in total operating income (+17.9% y-o-y to KES 71.3 BN) vis-à-vis the growth registered in operating expenses (sans provisions), the group's cost-to-income ratio came down by 280 bps y-o-y to 47.1% (FY21: 49.9%).

The group's gross non-performing loans increased by 5.2% y-o-y to KES 52.3 BN (+1.0% q-o-q) while interest in suspense declined by 10.3% y-o-y to KES 5.7 BN (-7.2% q-o-q). Owing to these movements, total NPLs (gross NPLs less interest in suspense) edged up by 7.5% y-o-y to KES 46.6 BN (+2.1% q-o-q). The group's estimated NPL ratio declined by 46 bps y-o-y to 13.4%.

Loan loss provisions went up by 9.4% y-o-y to KES 8.7 BN placing the estimated cost of risk at 2.6% -- unchanged from FY21. The group's estimated NPL coverage ratio stood at 60.9% (FY21:57.1%).

Net loans and advances to customers rose by 9.4% y-o-y to KES 339.4 BN (+1.3% q-o-q). Government and investment securities eased by 5.7% y-o-y to KES 175.2 BN (-4.9% q-o-q). **On the funding side, customer deposits increased by 3.9% y-o-y to KES 423.8 BN (-1.9% q-o-q)** while borrowed funds increased by 12.1% y-o-y to KES 48.1 BN (+14.7% q-o-q).

The group's core capital ratio (Core capital/TRWA) improved by 130 bps y-o-y to 16.9% while the total capital ratio (Total capital/TRWA) rose by 80 bps y-o-y to 18.0%. Both ratios remain above the statutory minimum of 10.5% and 14.5% respectively. **Co-op bank's core capital ratio advanced by 80 bps y-o-y to 16.5% while the total capital ratio climbed by 50 bps y-o-y to 17.6%.** Both ratios remain above the statutory minimum of 10.5% and 14.5% respectively. The group's and the bank's liquidity ratios declined by 550 bps y-o-y and 570 bps y-o-y to 48.3% and 41.9% respectively, but remained above the statutory minimum requirement of 20.0%.

Co-op Group is currently trading at a P/E multiple of 3.2x against an industry median of 3.6x and a P/B multiple of 0.7x commensurate with the industry median of 0.7x. Its ROE stands at 20.5% while its ROA stands at 3.6%.

PROFIT AND LOSS SUMMARY (KES MN)

Year End: December	FY22	FY21	y-y% ch	4q22	3q22	4q21	y-y% ch	q-q% ch
Interest income	61,746	55,648	11.0	18,014	15,158	16,074	12.1	18.8
Interest expense	16,221	14,611	11.0	4,525	4,177	3,705	22.1	8.3
Net interest income	45,525	41,037	10.9	13,488	10,981	12,368	9.1	22.8
Other operating income	933	1,313	(28.9)	385	117	(95)	504.8	228.8
Fees & commission income	20,079	15,234	31.8	3,737	5,437	2,825	32.3	(31.3)
Income from forex dealings	4,717	2,849	65.6	1,434	1,322	936	53.3	8.5
Total non-interest income	25,730	19,396	32.7	5,556	6,875	3,666	51.5	(19.2)
Total income	71,255	60,433	17.9	19,044	17,857	16,035	18.8	6.7
Less operating expenses	33,567	30,161	11.3	9,660	8,093	8,249	17.1	19.4
Operating profit	37,688	30,273	24.5	9,384	9,763	7,785	20.5	(3.9)
Bad debt charge	(8,677)	(7,929)	9.4	(2,951)	(2,381)	(1,884)	56.6	24.0
Exceptional items	416	306	36.2	416	-	306	36.2	-
Profit before income tax	29,427	22,649	29.9	6,849	7,383	6,207	10.3	(7.2)
Less tax	7,389	6,105	21.0	13,023	(1,819)	10,962	18.8	(816.1)
Profit after tax	22,038	16,544	33.2	5,094	5,564	4,959	2.7	(8.4)
Attributable Income	22,038	16,544	33.2	5,094	5,564	4,959	2.7	(8.4)
EPS (KES)	3.72	2.85	30.5	0.8	1.0	0.9	(7.4)	(16.0)
DPS (KES)	1.50	1.00	50.0	1.50	-	1.00	-	-

(Source: Company, DBIB Research)

BALANCE SHEET SUMMARY (KES MN)

Year End: December	FY22	9M22	FY21	y/y ch%	q-q% ch
Total shareholder's equity	107,678	100,887	100,222	7.4	6.7
Minority interest	269	323	523	(48.6)	(16.9)
Total Equity	107,947	101,211	100,746	7.1	499.9
Deposits due to other banks	1,088	10,476	792	37.3	(4.8)
Customer deposits	423,803	432,001	407,726	3.9	(1.9)
Borrowed funds	48,102	41,933	42,915	12.1	14.7
Other liabilities	26,258	36,477	27,594	(4.8)	(28.0)
Total equity and liabilities	607,198	622,098	579,772	4.7	(2.4)
Central bank balances	28,106	36,932	30,828	(8.8)	(23.9)
Deposits due from banks	9,972	12,154	8,536	16.8	(18.0)
Investment securities	175,153	184,110	185,763	(5.7)	(4.9)
Held for dealing securities	-	-	-	-	-
Customer loans and advances	339,390	335,162	310,195	9.4	1.3
Other assets	39,301	38,169	28,333	38.7	3.0
Intangible assets	5,987	7,258	5,828	2.7	(17.5)
Fixed assets	9,288	8,312	10,289	(9.7)	11.7
Total assets	607,198	622,098	579,772	4.7	(2.4)

(Source: Company, DBIB Research)

INVESTMENT RETURN

	FY22	9M22	FY21	y-y bps ch	q-q bps ch
ROA (%)	3.6	3.6	2.9	78	-
ROIC (%)	3.8	3.9	3.0	80	(13)
ROE (%)	3.6	22.3	2.9	78	(1,869)

(Source: Company, DBIB Research)

CAPITAL ADEQUACY, LIQUIDITY & ASSET QUALITY

	FY22	9M22	FY21	y-y bps ch	q-q bps ch
Core capital/TRWA (%)	16.5	15.5	15.7	80	100
Min. Statutory Ratio (%)	10.5	10.5	10.5	-	-
Total capital/TRWA (%)	17.6	16.6	17.1	50	100
Min. Statutory Ratio (%)	14.5	14.5	14.5	-	-
Liquidity Ratio (%)	41.9	44.6	47.6	(570)	(270)
Min. Statutory Ratio (%)	20.0	20.0	20.0	-	-
Leverage Ratio (%)	17.7	16.2	17.3	45	152
Equity-to-Loans Ratio (%)	178.9	30.2	186.9	(800)	14,871
NPL Ratio (%)	13.4	13.4	13.8	(46)	(3)
NPL Coverage Ratio (%)	60.9	65.2	57.1	377	(433)
LT Debt to Total Liabilities and Equity (%)	7.9	6.7	7.4	52	118
NTA/share (KES)	17.3	16.0	16.1	124	137
Book value/share (KES)	18.4	17.2	17.1	127	116
Payout ratio (%)	40.3	-	35.1	523	4,032

(Source: Company, DBIB Research)

OPERATING PERFORMANCE

	FY22	9M22	FY21	y-y bps ch	q-q bps ch
Yield on interest earning assets (%)	12.0	11.3	11.5	54	74
Cost of funds (%)	3.5	3.3	3.3	17	18
Net Interest Margin (%)	8.5	7.9	8.1	37	57
Loan-to-Deposits ratio (%)	80.1	77.6	76.1	400	250
Loan-to-Dep. & Borrowed Funds ratio (%)	71.8	69.2	68.7	304	256
Funded Income Generating Potential (%)	86.4	85.4	87.0	(63)	96
Funded Income Reliance (%)	63.9	61.4	67.9	(401)	253
Cost to income ratio (%)	47.1	45.8	49.9	(280)	132
Pre-tax margin (%)	41.3	43.2	37.5	382	(195)
PAT margin (%)	30.9	32.5	27.4	355	(152)

(Source: Company, DBIB Research)

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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