

# 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-OP GROUP: 1Q23 EARNINGS UPDATE

Dear All,

Co-op Group released its 1Q23 results reporting a 4.7% y-o-y growth in after tax profits to KES 6.1 BN. The rise in profitability was mainly underpinned by a 10.8% y-o-y rise in non-funded income to KES 7.1 BN and a 3.9% y-o-y growth in net interest income to KES 10.8 BN. EPS for the period went up by 4.7% y-o-y to KES 1.04 (1Q23: KES 0.99).

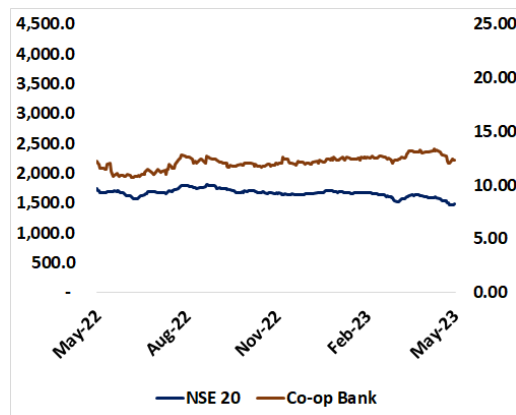
Below please find key highlights:

**Net interest income rose by 3.9% y-o-y to KES 10.8 BN**, lifted by an 11.2% y-o-y growth in total interest income to KES 15.6 BN against a 32.2% y-o-y rise in total interest expenses to KES 4.8 BN. The annualized yield on interest earning assets rose by 60 bps y-o-y to 11.5% while the annualized cost of funds advanced by 80 bps y-o-y to 4.0% and this led to a 21 bps y-o-y drop in the NIM to 7.5%.

**Interest income from loans and advances rose by 11.6% y-o-y to KES 10.0 BN** propelled by an 11.0% y-o-y growth in the group's net loan book to KES 360.1 BN and a 15 bps y-o-y rise in the annualized yield on loans to 11.5%. **Interest income from government securities inched higher by 3.8% y-o-y to KES 5.1 BN** fueled by an 86 bps y-o-y upswing in the annualized yield on government securities to 11.5% — as the group's holding of government & investment securities eased by 2.2% y-o-y to KES 181.0 BN.

**Interest expenses from customer deposits notched up by 20.5% y-o-y to KES 3.9 BN** and this was occasioned by a 54 bps y-o-y jump in the annualized cost of customer deposits to 3.7% and a 2.2% y-o-y growth in customer deposits to KES 419.8 BN.

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



(Source: NSE, DBIB Research)

PRICE	ABSOLUTE	EXCESS
RETURN	RETURN	RETURN
3 months (%)	(2.4)	9.2
6 months (%)	2.5	13.5
12 months (%)	0.4	15.0

#### KEY METRICS

Current Price (KES)	12.30
52 week Range (KES)	10.70-13.30
YTD Return (%)	-
Issued Shares (Mn)	5,867.2
Market Cap (USD Mn)	525.8

Trailing EPS (KES)	3.8
NAV (KES)	19.19
P/E (x)	3.2
P/B (x)	0.6
Div. Yield (%)	-

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**Non-funded income improved by 10.8% y-o-y to KES 7.1 BN** largely driven by a 43.9% y-o-y jump in forex trading income to KES 1.1 BN and a 30.9% y-o-y rise in fees and commissions on loans and advances to KES 3.4 BN. Other fees and commissions declined by 10.1% y-o-y to KES 2.5 BN while other income dwindled by 60.6% y-o-y to KES 107.6 MN. Total operating income rose by 6.5% y-o-y to KES 17.9 BN. The contribution of non-funded income to total operating income inched higher by 153 bps y-o-y to 39.7% (1Q22: 38.2%).

**The group's operating expenses (minus provisions) climbed by 10.7% y-o-y to KES 8.3 BN** mainly on the back of a 12.8% y-o-y rise in staff costs to KES 4.0 BN and an 11.5% y-o-y increase in other expenses to KES 3.2 BN. The group's cost-to-income ratio increased by 177 bps y-o-y to 46.3%.

**Loan loss provisions remained flat at KES 1.5 BN — placing the group's annualized cost of risk at 1.7%, down 200 bps y-o-y.** The group's gross non-performing loans increased by 12.6% y-o-y to KES 55.7 BN (+6.4% q-o-q) while interest in suspense eased by 0.1% y-o-y to KES 6.2 BN (+9.4% q-o-q). Consequently, total NPLs (gross NPLs less interest in suspense) advanced by 14.4% y-o-y to KES 49.5 BN (+6.0% q-o-q). **Owing to the rise in gross non-performing loans, the NPL ratio rose by 17 bps y-o-y to 13.4%.** NPL coverage declined from 60.3% in 1Q22 to 57.4% in 1Q23.

**Net loans and advances to customers rose by 11.0% y-o-y to KES 360.1 BN (+6.1% q-o-q).** Government and investment securities declined by 2.2% y-o-y to KES 181.0 BN (+3.4% q-o-q). **On the funding side, customer deposits increased by 2.2% y-o-y to KES 419.8 BN (-1.0% q-o-q)** while borrowed funds increased by 11.8% y-o-y to KES 48.4 BN (+0.6% q-o-q). The group's loan-to-deposit ratio went up by 681 bps y-o-y to 85.8% while the ratio of loans to customer deposits & borrowed funds rose by 547 bps y-o-y to 76.9%.

**The group's core capital ratio (Core capital/TRWA) improved by 100 bps y-o-y to 16.3% while the total capital ratio (Total capital/TRWA) rose by 60 bps y-o-y to 17.2%.** Both ratios remain above the statutory minimum of 10.5% and 14.5% respectively. **Co-op bank's core capital ratio advanced by 90 bps y-o-y to 16.3% while the total capital ratio climbed by 60 bps y-o-y to 17.3%.** 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 350 bps y-o-y and 420 bps y-o-y to 50.6% and 42.2% respectively, but remained 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 3.9x and a P/B multiple of 0.6x commensurate with the industry median of 0.6x. Its ROE stands at 19.8% while its ROA stands at 3.5%.

## PROFIT AND LOSS SUMMARY (KES MN)

Year End: December	1Q23	1Q22	4Q22	y-y% ch	q-q% ch	FY22
Interest income	15,570	14,001	18,014	11.2	(13.6)	61,746
Interest expense	4,798	3,629	4,525	32.2	6.0	16,221
Net interest income	10,773	10,373	13,488	3.9	(20.1)	45,525
Other operating income	108	273	385	(60.6)	(72.0)	933
Fees and commission income	5,888	5,367	3,737	9.7	57.6	20,079
Net income from forex dealings	1,103	767	1,434	43.9	(23.1)	4,717
Total non-interest income	7,099	6,407	5,556	10.8	27.8	25,730
Total income	17,871	16,780	19,044	6.5	(6.2)	71,255
Less operating expenses	8,283	7,480	9,660	10.7	(14.3)	33,567
Operating profit	9,588	9,299	9,384	3.1	2.2	37,688
Bad debt charge	(1,532)	(1,544)	(2,951)	(0.7)	(48.1)	(8,677)
Exceptional items	93	32	416	189.9	(77.6)	416
Profit before income tax	8,149	7,788	6,849	4.6	19.0	29,427
Less tax	(2,038)	(1,954)	13,023	4.3	(115.7)	7,389
Profit after tax	6,110	5,834	5,094	4.7	20.0	22,038
Attributable Income	6,110	5,834	5,094	4.7	20.0	22,038
EPS (KES)	1.04	0.99	0.81	5.1	29.0	3.72
DPS (KES)	-	-	1.50	-	-	1.50

(Source: Company, DBIB Research)

## BALANCE SHEET SUMMARY (KES MN)

Year End: December	1Q23	FY22	1Q22	y/y% ch	q-q% ch
Total shareholder's equity	112,609	107,678	102,698	9.7	(4.6)
Minority interest	270	269	400	(32.5)	48.6
Total Equity	112,879	107,947	103,097	9.5	(4.5)
Deposits due to other banks	21,767	1,088	6,361	242.2	484.9
Customer deposits	419,755	423,803	410,825	2.2	(3.1)
Borrowed funds	48,394	48,102	43,279	11.8	(10.0)
Other liabilities	28,270	26,258	33,423	(15.4)	27.3
Total equity and liabilities	631,066	607,198	596,986	5.7	(1.7)
Central bank balances & cash	27,250	28,106	27,603	(1.3)	(1.8)
Deposits due from banks	18,413	9,972	14,099	30.6	41.4
Investment securities	181,043	175,153	185,038	(2.2)	5.6
Held for dealing securities	-	-	-	-	-
Customer loans and advances	360,106	339,390	324,483	11.0	(4.4)
Other assets	28,507	39,301	30,365	(6.1)	(22.7)
Intangible assets	7,518	5,987	6,823	10.2	14.0
Fixed assets	8,229	9,288	8,574	(4.0)	(7.7)
Total assets	631,066	607,198	596,986	5.7	(1.7)

(Source: Company, DBIB Research)

## INVESTMENT RETURN

	1Q23	FY22	1Q22	y-y bps ch	q-q bps ch
ROA (%)*	3.9	3.6	3.9	(4)	24
ROIC (%)*	4.2	3.8	4.2	2	41
ROE (%)*	21.7	3.6	22.6	(98)	1,802

(Source: Company, DBIB Research)

\*Annualized

## CAPITAL ADEQUACY, LIQUIDITY & ASSET QUALITY

	1Q23	FY22	1Q22	y-y bps ch	q-q bps ch
Core capital/TRWA (%)	16.3	16.5	15.4	90	(20)
Min. Statutory Ratio (%)	10.5	10.5	10.5	-	-
Total capital/TRWA (%)	17.3	17.6	16.7	60	(30)
Min. Statutory Ratio (%)	14.5	14.5	14.5	-	-
Liquidity Ratio (%)	42.2	41.9	46.4	(420)	30
Min. Statutory Ratio (%)	20.0	20.0	20.0	-	-
Leverage Ratio (%)	17.8	17.7	17.2	64	11
Equity-to-Loans Ratio (%)	31.3	178.9	31.8	(43)	(14,756)
NPL Ratio (%)	13.4	13.4	13.2	17	3
NPL Coverage Ratio (%)	57.4	60.9	60.3	(288)	(347)
LT Debt to Total Liabilities and Equity (%)	7.7	7.9	7.2	42	(25)
NTA/share (KES)	17.9	17.3	16.3	157	58
Book value/share (KES)	19.2	18.4	17.5	169	84

(Source: Company, DBIB Research)

## OPERATING PERFORMANCE

	1Q23	FY22	1Q22	y-y bps ch	q-q bps ch
Yield on interest earning assets (%)*	11.5	12.0	10.49	60	(51)
Cost of funds (%)*	4.0	3.5	3.2	80	48
Net Interest Margin (%)*	7.5	8.5	7.7	(21)	(99)
Loan-to-Deposits ratio (%)	85.8	80.1	79.0	681	571
Loan-to-Dep. & Borrowed Funds ratio (%)	73.5	71.8	70.5	303	175
Funded Income Generating Potential (%)	88.7	86.4	87.7	96	229
Funded Income Reliance (%)	60.3	63.9	61.8	(154)	(361)
Cost to income ratio (%)	46.3	47.1	44.6	177	(76)
Pre-tax margin (%)	45.6	41.3	46.4	(81)	430
PAT margin (%)	34.2	30.9	34.8	(58)	326

(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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