

# 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: 3Q23 EARNINGS UPDATE

Dear All,

CO-OP Group released its 3Q23 results reporting a 7.6% y-o-y growth in after tax profits to KES 18.4 BN. The rise in profitability was mainly underpinned by a 2.1% y-o-y rise in non-funded income to KES 20.6 BN and a 2.5% y-o-y growth in net interest income to KES 32.8 BN. EPS for the period rose by 8.1% y-o-y to KES 3.15 (3Q22: KES 2.91).

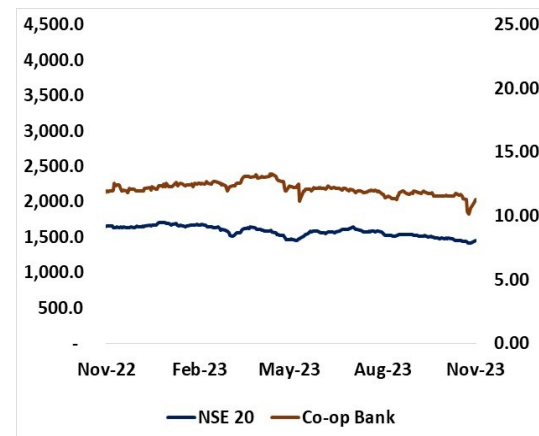
Below please find key highlights:

**Net interest income rose by 2.5% y-o-y to KES 32.8 BN**, buoyed by a 12.9% y-o-y growth in total interest income to KES 49.4 BN offsetting a 41.3% y-o-y growth in total interest expenses to KES 16.5 BN. The annualized yield on interest earning assets rose by 45 bps y-o-y to 11.4% while the annualized cost of funds advanced by 105 bps y-o-y to 4.3% and this led to a 60 bps y-o-y drop in the Net Interest Margin (NIM) to 7.2%.

**Interest income from loans and advances rose by 14.3% y-o-y to KES 31.8 BN** propelled by an 12.8% y-o-y growth in the group's net loan book to KES 378.1 BN. **Interest income from government securities inched higher by 8.1% y-o-y to KES 16.8 BN** as the group's holding of government & investment securities increased by 1.5% y-o-y to KES 185.1 BN. The group stated that their **Risk Based Pricing Model** had been approved by the CBK and it is expected to be rolled out in FY24.

**Interest expenses from customer deposits notched up by 27.5% y-o-y to KES 13.4 BN** and this was occasioned by a 103 bps y-o-y jump in the annualized cost of customer deposits to 6.0% and a 0.2% y-o-y growth in customer deposits to KES 432.8 BN. Customer deposits did however drop 6.7% q-o-q from 463.9 BN in 1H23 with the group noting a shedding of high deposits partially due to tightening in the global and Kenyan market and also attractive investment in attractive treasury bills in the Kenyan Market.

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



(Source: NSE, DBIB Research)

PRICE	ABSOLUTE	EXCESS
RETURN	RETURN	RETURN
3 months	(3.4%)	2.4%
6 months	(8%)	(6.6%)
12 months	(6%)	6.1%

### KEY METRICS

Current Price (KES)	11.30
52 week Range (KES)	10.20 - 13.35
YTD Return (%)	(8.1)
Issued Shares (Mn)	5,867
Market Cap (USD Mn)	436.4
Trailing EPS (KES)	4.0
NAV (KES)	18.4
P/E (x)	2.9
P/B (x)	0.6
Div. Yield (%)	-

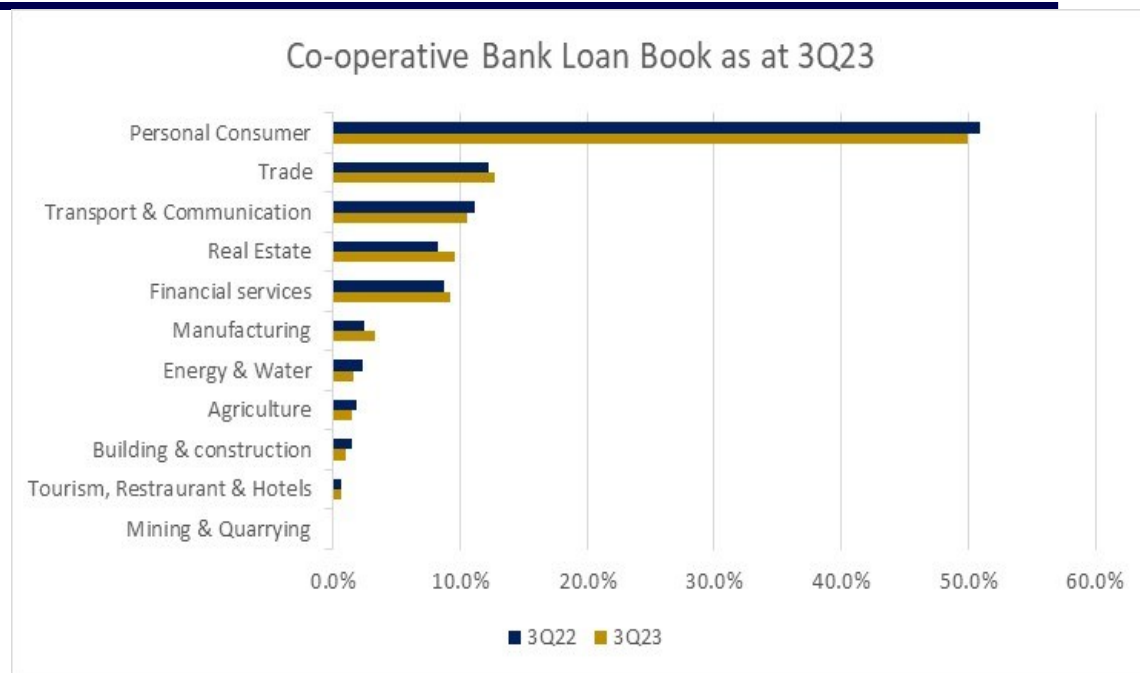
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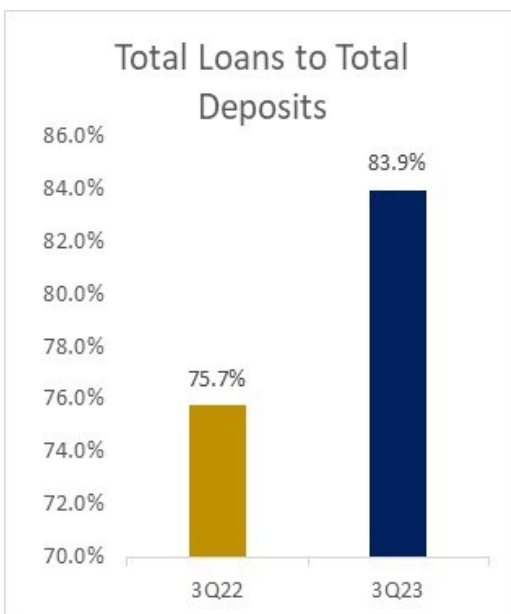
Co-operative loan book as at 3Q23 per sector.



(Source: Company, DBIB Research)

**Non-funded income rose by 2.1% y-o-y to KES 20.6 BN** largely driven by a 8.2% y-o-y growth in fees and commissions on loans and advances to KES 9.1 BN. Forex trading income decreased by 25.0% y-o-y to KES 2.5 BN while other fees and commissions grew by 7.4% y-o-y to KES 8.5 BN. The contribution of non-funded income to total operating income for the period stood at 38.5% (3Q22: 38.6%).

Co-operative group Total Loans to Total Deposit.



(Source: Company, DBIB Research)

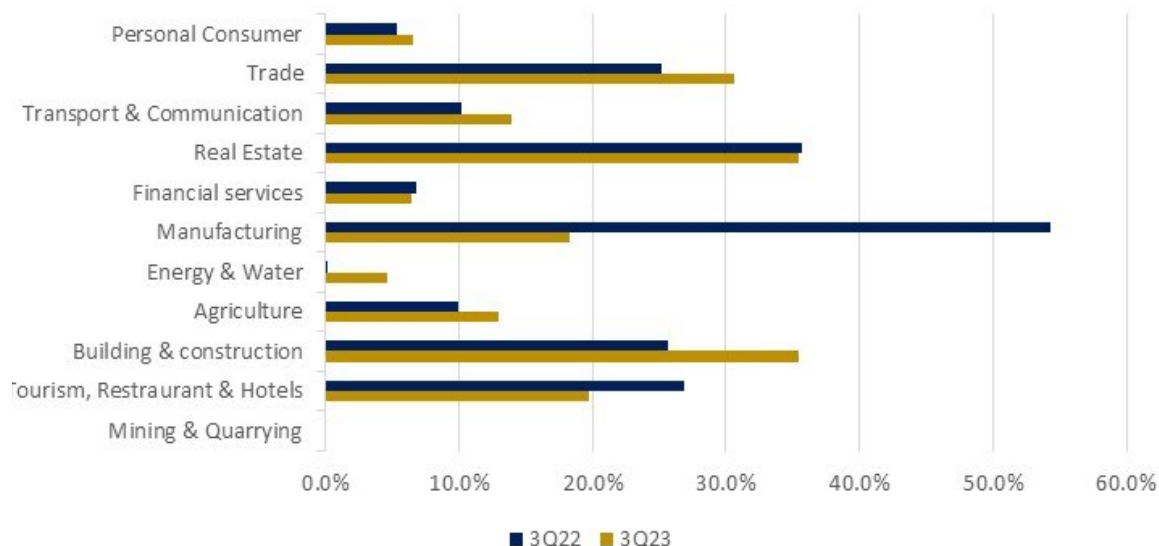
**The group's operating expenses (excluding provisions) scaled up by 3.7% y-o-y to KES 24.8 BN** driven by a 12.4% y-o-y increase in staff costs to KES 12.2 BN, a 19.7% y-o-y increase in rental charges and muted by a 10.4% y-o-y decline in other expenses to KES 8.8 BN. Owing to a slower rise in total operating income (+2.3% y-o-y to KES 53.4 BN) vis-à-vis the growth registered in operating expenses (sans provisions), the group's cost-to-income ratio went up by 63 bps y-o-y to 46.4% (3Q22: 45.8%).

**Loan loss provisions dwindled by 26.5% y-o-y to KES 4.2 BN** while the groups' gross non-performing loans rose by 19.5% y-o-y to KES 61.9 BN. The group's estimated NPL ratio edged up by 68 bps y-o-y to 14.1%.

**Net loans and advances to customers rose by 12.8% y-o-y to KES 378.1 BN (+3.5% q-o-q).** Government and investment securities increased by 1.5% y-o-y to KES 186.9 BN (-1.8% q-o-q). On the funding side, customer deposits edged up by 0.2% y-o-y to KES 432.8 BN (-6.7% q-o-q) while borrowed funds advanced by 56.5% y-o-y to KES 65.6 BN (+10.5% q-o-q).

## Co-operative Bank NPLs per Sector as at 3Q23

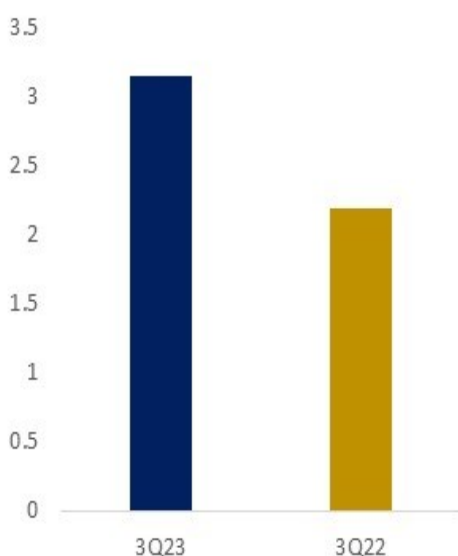
Co-operative Bank NPLs per sector as at 3Q23.



(Source: Company, DBIB Research)

Co-operative group Earnings per share.

## Earnings Per share



(Source: Company, DBIB Research)

The group has noted an increase in its efficiency with 91.0% of all transactions being carried out on alternative channels. This has been as a result of growth in its digital channels which include Mobile, Internet, ATM, CDM and Agency

The group's core capital ratio improved by 220 bps y-o-y to 17.9% while the total capital ratio rose by 530 bps y-o-y to 22.1%. Both ratios remain above the statutory minimum of 10.5% and 14.5% respectively. Co-op bank's core capital ratio advanced by 160 bps y-o-y to 17.1% while the total capital ratio climbed by 490 bps y-o-y to 21.5%. 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 180 bps y-o-y and 150 bps y-o-y to 50.3% and 43.1% 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 2.9x against an industry median of 3.4x and a P/B multiple of 0.6x commensurate with the industry median of 0.6x. Its ROE stands at 21.6% while its ROA stands at 3.5%.

## PROFIT AND LOSS SUMMARY (KES MN)

Year End: December	3Q23	3Q22	1H23	y-y% ch	q-q% ch	FY22
Interest income	49,352	43,732	31,990.5	12.9	5.7	61,746.1
Interest expense	16,528	11,696	10,443.9	41.3	7.7	16,221.2
Net interest income	32,825	32,036	21,546.5	2.5	4.7	45,524.9
Other operating income	503	549	240.4	(8.4)	97.6	933.3
Fees and commission income	17,622	16,343	11,819.1	7.8	(2.2)	20,079.3
Net income from forex dealings	2,463	3,283	1,765.0	(25.0)	5.5	4,717.3
Total non-interest income	20,588	20,174	13,824.5	2.1	0.6	25,729.9
Total income	53,413	52,211	35,371.0	2.3	3.1	71,254.9
Less operating expenses	24,795	23,907	16,274.3	3.7	6.6	33,567.1
Operating profit	28,618	28,304	19,096.7	1.1	0.1	37,687.8
Bad debt charge	(4,209)	(5,725)	(2,862.6)	(26.5)	1.2	(8,676.7)
Exceptional items	280	153	173.0	-	33.4	416.1
Profit before income tax	24,689	22,731	16,407.1	8.6	0.3	29,427.2
Less tax	(6,294)	(5,634)	(4,266.3)	11.7	(9.0)	7,389.1
Profit after tax	18,395	17,097	12,140.8	7.6	3.7	22,038.2
Attributable Income	18,395	16,944	12,140.8	8.6	3.7	22,038.2
EPS (KES)	3	3	2.1	8.1	2.9	3.7
DPS (KES)	-	-	-	-	-	1.5

(Source: Company, DBIB Research)

\*q-q% ch shows change between 2q23 and 3q23.

## BALANCE SHEET SUMMARY (KES MN)

Year End: December	3Q23	1H23	3Q22	y/y% ch	q-q%ch
Total shareholder's equity	108,082	108,280	100,887	7.1	(0.2)
Minority interest	38	287	323	(88.2)	(86.8)
Total Equity	108,120	108,567	101,211	6.8	(0.4)
Deposits due to other banks	17,713	3,614	10,476	69.1	390.2
Customer deposits	432,836	463,874	432,001	0.2	(6.7)
Borrowed funds	65,605	59,369	41,933	56.5	10.5
Other liabilities	37,065	29,522	36,477	1.6	25.6
Total equity and liabilities	661,341	664,946	622,098	6.3	(0.5)
Central bank balances	30,850	20,803	36,932	(16.5)	48.3
Deposits due from banks	10,912	37,068	12,154	(10.2)	(70.6)
Investment securities	186,872	190,247	184,110	1.5	(1.8)
Customer loans and advances	378,075	365,388	335,162	12.8	3.5
Other assets	37,840	35,930	38,169	(0.9)	5.3
Intangible assets	6,080	6,047	7,258	(16.2)	0.5
Fixed assets	10,712	9,463	8,312	28.9	13.2
Total assets	661,341	664,946	622,098	6.3	(0.5)

(Source: Company, DBIB Research)

## INVESTMENT RETURN

	3Q23	1H23	3Q22	y-y bps ch	q-q bps ch
ROA (%)*	3.7	3.7	3.7	4	6
ROIC (%)*	4.0	3.8	4.0	8	20
ROE (%)*	22.7	22.4	22.3	36	32

(Source: Company, DBIB Research)

\*Annualized

## CAPITAL ADEQUACY, LIQUIDITY & ASSET QUALITY

	3Q23	1H23	3Q22	y-y bps ch	q-q bps ch
Core capital/TRWA (%)	17.9	16.5	15.7	220	140
Min. Statutory Ratio (%)	10.5	10.5	10.5	-	-
Total capital/TRWA (%)	22.1	20.5	16.8	530	160
Min. Statutory Ratio (%)	14.5	14.5	14.5	-	-
Liquidity Ratio (%)	50.3	52.3	52.1	(180)	(200)
Min. Statutory Ratio (%)	20.0	20.0	20.0	-	-
Leverage Ratio (%)	16.3	16.3	16.2	13	6
Equity-to-Loans Ratio (%)	28.6	29.7	30.2	(160)	(112)
NPL Ratio (%)	14.1	13.8	13.4	68	28
NPL Coverage Ratio (%)	58.4	56.0	65.2	(687)	235
Long Term Debt to Total Liabilities and Equity (%)	9.9	8.9	6.7	318	99
NTA/share (KES)	17.4	17.4	16.0	143	(4)
Book value/share (KES)	18.4	18.5	17.2	123	(3)

(Source: Company, DBIB Research)

## OPERATING PERFORMANCE

	3Q23	1H23	3Q22	y-y bps ch	q-q bps ch
Yield on interest earning assets (%)*	11.4	10.8	11.0	45	63
Cost of funds (%)*	4.3	4.0	3.2	105	30
Net Interest Margin (%)*	7.2	6.8	7.8	(60)	33
Loan-to-Deposits ratio (%)	87.3	78.8	77.6	976	858
Loan-to-Dep. Borrowed Funds ratio (%)	73.2	69.4	69.2	406	390
Funded Income Generating Potential (%)	87.1	89.1	85.4	165	(206)
Funded Income Reliance (%)	61.5	60.9	61.4	9	54
Cost to income ratio (%)	46.4	46.0	45.8	63	41
Pre-tax margin (%)	46.2	46.4	43.5	269	(16)
PAT margin (%)	34.4	34.3	32.7	169	11

(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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