

Co-op Bank Posts a 19.9% Rise in Profits – Q3 2021

Co-operatives Bank posted a 19.9% Y/Y growth on its profit before tax (PBT) to close Q3-2021 at Kes. 16.44Bn compared to Kes. 13.79Bn made the same time last year as Profit after tax (PAT) jumped 18.9% up to Kes. 11.63Bn. On a signal of a growing economic recovery, the group's topline of income remained 21.6% up on improving lending environment while earnings per share improved from 1.67 in Q3-2020 to 1.98 in Q3-2021.

We forecast a final dividend on the counter of about Kes. 1.00 in the FY-2021 gestured by better quarterly results for the FY-2021.

Income Statement

- The Net Interest Income (NII) spiked 22.4% Y/Y from Kes. 8.91Bn to Kes. 10.91Bn benefitting from an interest income of Kes. 39.57Bn, a 21.6% Y/Y increase from Kes. 32.55Bn same time last year. On Q/Q basis, interest income moved 8.8% up from that of Kes. 12.51Bn to Kes. 13.61Bn in Q3-2021 on improved loan repayments/recoveries in comparison to a negative growth in Q2-2021.
- Interest income from loans and advances grew 14.0% Y/Y and 10.9% Q/Q from Kes. 22.30Bn in Q3-2020 and Kes. 16.92Bn to close at Kes. 25.43Bn in Q3-2021 on steadily growing loan book. Interest income from government securities grew faster Y/Y at 40.2% from Kes. 9.84Bn to Kes. 13.80Bn. This slowed to a growth of 6.1% Q/Q from that of Kes. 4.69Bn Q2-2020 to Kes. 4.98Bn in Q3-2021.
- Non-funded income spiked 15.7% to Kes. 15.73Bn supported by income from digital loans dubbed "M-Co-op cash" whose disbursements stood at an average of Kes. 5.70Bn per month. Total fees and commissions rose by 9.4% Y/Y from Kes. 11.35Bn to Kes. 12.31Bn. Forex income moved 3.9% up on the dwindling Kenya shilling amid the rising inflation.
- The lender's total operating expenses jumped 19.2% Y/Y from Kes. 23.45Bn to Kes. 27.96Bn while edging down Q/Q at 1.9% from Kes. 9.44Bn to Kes. 9.26Bn. The increase is attributed to a 50.4% spike in loan loss provisions from Kes. 4.02Bn in Q3-2021 to Kes. 6.05Bn in Q3-2021 on rising loan book. Excluding provisions, operating expenses stood 12.5% up Y/Y partly on staff costs and other emolument costs among other costs.
- Staff costs escalated by 3.5% Y/Y on wage increment from Kes. 9.67Bn to 10.01Bn and a 6.5% Q/Q uptick on the implementation of the Collective Bargaining Agreement (CBA) in Q3-2021.
- The Bank's subsidiaries, Kingdom bank and Co-op Trust investment brought in profits before tax of Kes. 403.00Mn and Kes. 92.30Mn respectively recording an about turn for the subsidiary bank.

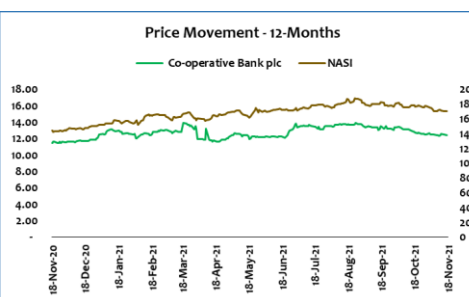
Balance Sheet

- Total assets grew 3.5% Q/Q and 16.0% Y/Y from Kes. 510.9Bn and Kes. 572.01Bn to Kes. 592.89Bn on a 10.9% Y/Y growth in loan book which moved from Kes. 276.17Bn to Kes. 306.32Bn. Investment in government securities moved 16.4% up from kes. 167.25Bn to Kes. 194.75Bn.
- Deposits from clients enlarged 3.1% Q/Q and 12.0% Y/Y from Kes. 375.46Bn in Q3-2021 and Kes. 407.69Bn to Kes. in Q3-2021 to Kes. 420.44Bn to support the growing loan book.
- Shareholders' funds gained 2.6% Q/Q and 15.8% Y/Y befitting from the growing retained earnings.
- Borrowed funds surged 67.6% Y/Y from Kes. 26.1Bn to Kes. 44.43Bn on increased focus on retail and SME lending in the reopened economy. This receded down 1.3% Q/Q to Kes. 43.84Bn on dues payments.

Bloomberg Ticker	CooPKE
Recommendation	BUY
Share Statistics	

Valuation	13.50
Current Price (kes)	12.45
Upside/Downside	8.43%
Six Month Average	13.05
12 Month Average	12.73
52 Week High - Low	13.95 - 11.45
Issued shares (Mn)	5,867.17
Market Cap (Kes Mn)	73,046.32
Market Cap (USD Mn)	651.57
EPS	1.98
P/E	6.29
BVPS	16.20
PB	1.30

Period	Equity Performance return	
	KCB	NASI
MTD	-1.6%	8.8%
3-Months	-9.5%	-8.8%
6-Months	1.2%	4.2%
YTD	-0.8%	11.5%
Y-Y	8.7%	17.6%



NNI + 21.3% Y/Y

Provisions + 50.3% Y/Y

Opex. + 19.2% Y/Y

PBT + 19.9% Y/Y

PAT + 18.9% Y/Y

Govt. Securities +35.9% Y/Y

Loans +7.8% Y/Y

Deposits +12.0 y/y

Shareholder's Funds +15.9 Y/Y%

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Key Ratios

- Return on average assets (ROaA) improved Y/Y to 3.0% in Q3-2021 from that of 2.7% on growths in the group's revenue. Return on average equity (ROaE) also scaled up from 15.8% in Q3-2020 and 16.0% in Q2-2021 to 17.6% on a steady rise of the shareholder's retained earnings.
- Increased borrowings by the lender pushed the cost of funds slightly up from 3.2% in Q2-2021 to 3.5% by Q3-2021.
- The Bank's gross non-performing loans fell 70bps Q/Q to 14.1%, 20bps above the industry NPLs of 13.9%, as efforts on loan arrears recovery heightened amid the economic recoveries and employment creation/reinstatements.

P&L (KES Mn)	Q3 - 2020	Q2 - 2021	Q3 - 2021	Q/QΔ%	Y/YΔ%
Interest Income	32,548	25,960	39,575	-47.6%	21.6%
Interest Expense	8,912	7,128	10,906	-47.0%	22.4%
NII	23,636	18,832	28,668	-47.8%	21.3%
NFI	13,603	10,324	15,730	-47.6%	15.6%
Total Income	37,239	29,155	44,399	-47.7%	19.2%
Deposits and placements	7,764	6,397	9,838	-46.2%	26.7%
Loan Loss Provisions	4,021	4,158	6,045	-54.6%	50.3%
Operating Expense	23,450	18,696	27,957	-50.5%	19.2%
Opex Excl Provisions	19,429	14,538	21,912	-49.3%	12.8%
PBT	13,789	10,459	16,484	-42.8%	19.9%
PAT	9,775	7,366	11,627	-42.1%	18.9%
EPS	1.67	1.26	1.98	57.1%	18.6%

Balance Sheet (KES Mn)	Q3 - 2020	Q2 - 2021	Q3 - 2021	Q/QΔ%	Y/YΔ%
Investments	143,267	153,106	158,594	3.6%	10.7%
Loans and Advances	284,226	301,191	306,317	1.7%	7.8%
Total Asset	510,900	573,009	592,887	3.5%	16.0%
Customer Deposit	375,457	407,686	420,438	3.1%	12.0%
Shareholders' Fund	82,029	92,619	95,037	2.6%	15.9%

	Q3 - 2020	Q2 - 2021	Q3 - 2021
NII % of Total Income	63.5%	64.6%	64.6%
NFI % of Total Income	36.5%	35.4%	35.4%
CTI	63.0%	64.1%	63.0%
CTI excl Provisions	52.2%	49.9%	49.4%
Cost of Funds	4.6%	3.3%	4.7%
Net Interest Margin	6.4%	9.7%	5.2%
ROaA	2.7%	2.7%	1.2%
ROaE	15.8%	16.0%	9.2%
Gross NPL to Net Loans	12.8%	14.8%	14.1%
AD Ratio	75.7%	73.9%	72.9%
Investment to Assets	28.0%	26.7%	26.7%
Loans to Assets	55.6%	52.6%	51.7%

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Recommendation Guide:

Analysts' stock ratings are defined as follows:

- **Buy** – A buy rating reflects 1) An analyst has a bullish conviction on a stock 2) A 30% or greater expected return.
- **Accumulate** – An accumulate rating reflects 1) An analyst has a lesser bullish conviction on a stock 2) Expected return falls between 10% and 30%.
- **Hold** – A hold rating reflects 1) An analyst has a neutral conviction (lack of bullish or bearish conviction) on a stock 2) Expected return falls within the range of 5% to 10%.
- **Speculative Buy** – A speculative buy rating reflects 1) An analyst has a bullish conviction accompanied by a substantially higher than normal risk 2) Expected return falls above 10%.
- **Sell** – A sell rating reflects 1) An analyst has a bearish conviction on a stock 2) Expected return falls below 5%.

*Expected Return (ER) represents the sum total of both capital appreciation and the dividend yield.

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