

Counting on Non-Funded Income Recoveries

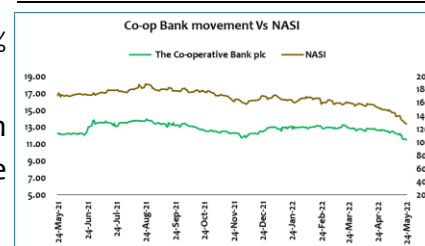
The Co-operative Bank Plc reported 56.3% spike in profits before tax (PBT) to KES 7.79Bn for Q1-22 compared to KES 4.98Bn announced same period last year. The lender's performance was heavily supported by a 41.7% and 19.5% jumps in non-funded income and interest income from government securities. This pushed the profit after tax (PAT) 68.9% y/y up from KES 3.46Bn to KES 5.84Bn.

The Group's earnings per shares (EPS) expand by 67.8% to 0.99 for Q1-22 from that of 0.59 recorded in Q1-21. We revise our valuation on the Group to a fair value of KES 17.45 per share, a 52.4% upside and therefore retain our BUY recommendation to our long-term investors.

- Net interest income (NII) grew 5.5% to KES 10.37Bn benefiting from a 4.1% increase in total interest income as interest expense remained relatively stable at KES 3.62Bn for Q1-22 in relation to KES 3.62Bn of Q1-21.
- NII was up largely on income from government securities that went up 19.5% y/y from KES 4.14Bn to KES 4.94Bn emanating from a 10.6% y/y growth in total investments in government securities from KES 167.25Bn to KES 185.04Bn.
- Yields on government securities improved 70bps y/y from 10.0% in Q1-21 to 10.7% in Q1-22 taking advantage of better returns witnessed in the securities market.
- Income from loans and advances however, dropped 2.9% y/y from KES 9.25Bn to KES 8.98Bn despite an 8.8% rise in loan book to KES 324.48Bn of which we perceive to be delays in revenue realization.
- Yield from loans and advances edged down 20.0bps from 11.5% to 11.3% on a faster growth in loan book compared to revenue achievement. Q-Q returns on government securities remained flat at 10.7%.
- Interest expenses were contained at KES 3.63Bn, a 0.3% marginal increase from KES 3.63Bn in Q-21 benefitting for cheap deposits amassed by the lender on a revamp in deposit campaigns dubbed "rejasha shilingi". Q-Q interest expense fell 2.1% as deposits went up by 0.8%.
- Non-funded income climbed 41.7% y/y from KES 4.52Bn to KES 6.41Bn largely gaining from fees and commissions on loans and advances that soared 94.4% up y/y to KES 2.59Bn. This is attributed to surges in the Bank's digital loans and mobile transactions. NFI contribution to total income improved from 31.5% to 32.1% but remained down in comparison to that of 35.4% in Q4-21.
- Forex revenue grew 7.5% up to KES 0.77Bn on the weakening shilling as the dollar remained strong in Q1-22.
- Total operating expenses were 2.5% lower y/y from KES 9.25Bn to KES 9.02Bn benefitting from a 32.3% drop in loan loss provisions. Improved business environments saw loan loss provisions drop from KES 2.28Bn to KES 1.54Bn.
- Expenses less loan loss provisions experienced a 7.3% growth on effect of staff costs. Staff costs went up 9.4% to KES 3.51Bn majorly on improved staff benefits.

Recommendation:	BUY
Bloomberg Ticker:	COOP KE
Share Stats	
Valuation Price	17.45
Current Price	11.45
Upside/Downside	52.4%
3-Month Av	12.64
6 Month Av	12.77
52 Week Av	12.87
52 Week High - Low	13.95 - 11.45
Issued shares Mn	5,867.17
Market Cap (KES Mn)	67,179.15
Market Cap (USD Mn)	576.07
P/E	2.89
BVPS	17.57
PB	0.65

Return Performance		
Periods	COOP	NASI
3-Months %Δ	-11.2%	-18.8%
6-Months %Δ	-9.8%	-23.0%
Y-T-D %Δ	-11.9%	-22.1%
Y-Y %Δ	-6.5%	-24.6%



NNI + 5.5% Y/Y

Provisions - 32.3% Y/Y

Opex. – 2.5% Y/Y

PBT + 56.3% Y/Y

PAT + 68.9% Y/Y

Govt. Securities + 10.6% Y/Y

Loans + 8.8% Y/Y

Deposits + 3.5% y/y

Shareholder's Funds + 9.0% Y/Y

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Balance Sheet

- Growths in both government securities and loan book saw the bank's total assets enlarge by 8.0% or KES 44.05Bn to a total of KES 596.99Bn in Q1-22.
- Government securities improved by 10.6% to Kes 185.04Bn while loans and advances increased by 8.8% from KES 298.21Bn to KES 324.48Bn.
- Interest earning assts were finances by a 3.5% growth in customer deposits from KES 393.872Bn to KES 407.73Bn.
- Supported by inorganic growth in customer deposits pressed the borrowings 7.7% down from KES 46.88Bn to KES 43.28, thereby financing the interest earning assets cheaply.
- Growing revenues saw retained earnings rise 15.6% or by KES 12.17Bn to KES 90.07Bn improving the shareholders' funds by 9.0%/y from KES 94.62Bn to KES 103.10Bn.

Ratios

- Business resumptons and job reinstatements on improving economy, saw the company's non-performing loans (NPLs) drop 130bps y/y and 50bps Q-Q from 14.2% in Q1-21 to 12.9% in Q4-21 and 12.5% in Q1-22.
- Net interest margins declined 30bps from 8.0% to 7.7% depressed by reduced returns in interest income on loans and advances.
- Better utilization of customer deposits pulled the cost of funds 10bps down both y/y and Q-Q from 3.3% to 3.2%. This also resulted from a 7.7% drop in borrowings from KES 46.88Bn to KES 43.28Bn.
- Faster growth in net income rallied both return on average assets and average equity 140bps and 810bps from 2.5% and 14.8% to 4.0% and 23.0% respectively.

P&L (KES Mn)	Q1-2021	Q4-2021	Q1-2022	Y-Y %Δ	Q-Q %Δ
Interest Income	13,448	16,074	14,001	4.1%	-12.9%
Interest Expense	3,619	3,705	3,629	0.3%	-2.1%
NII	9,830	12,368	10,373	5.5%	-16.1%
NFI	4,524	3,666	6,408	41.7%	74.8%
Total Income	14,353	16,034	16,781	16.9%	4.7%
Loan Loss Provisions	2,282	1,884	1,544	-32.3%	-18.1%
Operating Expense	9,253	10,133	9,024	-2.5%	-10.9%
Opex excl Provision	6,971	8,249	7,480	7.3%	-9.3%
PBT	4,984	6,165	7,789	56.3%	26.3%
PAT	3,456	4,917	5,835	68.9%	18.7%
EPS	0.59	0.87	0.99	67.8%	13.8%

Balance Sheet (KES Mn)	Q1-2021	Q4-2021	Q1-2022	Y-Y %Δ
Investments	167,253	185,763	185,038	10.6%
Loans and Advances	298,211	310,195	324,483	8.8%
Total Asset	552,933	579,772	596,986	8.0%
Customer Deposit	393,816	407,726	407,726	3.5%
Borrowing	46,876	42,915	43,279	-7.7%
Shareholders' Fund	94,622	100,222	103,097	9.0%

Ratios	Q1-2021	FY-2021	Q1-2021
NII % of Total Income	68.5%	64.6%	67.9%
NFI % of Total Income	31.5%	35.4%	32.1%
CTI	64.5%	63.0%	63.0%
CTI exc Provision	48.6%	49.4%	49.9%
Cost of Funds	3.3%	3.3%	3.2%
Net Interest Margins	8.0%	8.1%	7.7%
Yield on Advances	12.6%	12.2%	11.3%
Yield on Govt Securities	10.0%	10.7%	10.7%
ROaA	2.5%	3.0%	4.0%
ROaE	14.8%	17.2%	23.0%
Cost of Risk	3.1%	2.7%	1.9%
AD Ratio	75.7%	76.1%	61.3%
Investment Securiteis to Assets	30.2%	32.0%	31.0%
Advances to Assets	53.9%	53.5%	54.4%
Debt to Equity	49.5%	42.8%	42.0%

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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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