

Co-op Bank Posts a 47.0% Growth in Profits

Co-operative Bank Group reported a 47.0% jump on its profits after tax (PAT) to KES 17.10Bn for Q3-22 compared to that of KES 11.63Bn of Q3-21. The lender's profits before tax (PBT) were KES 22.73Bn supported by a 28.3% surge in non-funded income (NFI) and an 11.7% growth in interest income. This pushed total operating income 17.6% up from KES 44.40Bn to KES 52.21Bn.

Subsidiary contribution to income before tax improved from 6.4% to 7.5% y-y with the South Sudan subsidiary returning to profit making posting a PBT of KES 190.0Mn.

The Group's earnings per share stood at 2.91, a 47.0% rise from that of 1.98 of Q3-22. The group's price per earning and price per book stands at 1.03x and 0.7x respectively. The Group's Board of directors do not recommend an interim dividend.

We retain a BUY on the group's share price with a price valuation of KES 17.45, a 45.4% upside from the current price of KES 12.00 as at the close of Wednesday, 16th November 2022.

Income Statement

The Lender's net interest Income (NII) expanded by 11.7% y-y from KES 28.67Bn to KES 32.04Bn in Q3-22 occasioned by an additional KES 4.16Bn interest income on sustained growths in the bank's loan and government securities book.

Rising yields in the general market saw interest income from government securities grow faster at 12.5% from KES 13.80Bn to KES 15.53Bn compared to a 9.6% rise in interest income from loans from KES 25.43Bn to KES 27.86Bn in Q3-22. Quarter on quarter (Q-Q) performance saw government securities perform better with a 14.5% uptick of KES 5.65Bn in Q3-22 compared to that of 4.95Bn earned in Q2-22.

Yield on government securities spiked 90.0bps from 10.3% in Q3-21 to 11.2% in Q3-22 as return on loans and advances was relatively stable at 11.5% in Q3-22 in relation to that of 11.4% of Q3-21. We attribute this to a faster adoption of review of the Central Bank Rate (CBR) in government securities opposed to that of loans and advances.

Co-op Bank's non-funded income (NFI) expanded 28.3% y-y from KES 15.73Bn to KES 20.17Bn riding on a 52.0% jump in fees and commissions from loans and advances plus a 71.6% uptick in forex income.

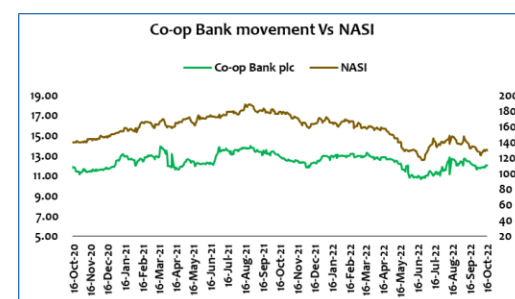
Fees and commissions income on loans & advances moved from KES 5.52Bn to KES 8.40Bn emanating from the Group's push for digital loans dubbed 'Mco-op Cash', which disbursed KES 62.5Bn month period, an average of KES 6.9Bn per month.

The local currency devaluation and tight dollar liquidity saw Foreign exchange trading income up 71.6% from KES 1.91Bn to KES 3.28Bn.

Operating expenses remained contained with a 6.0% y-y rise from KES 27.96Bn to KES 29.63Bn on account of 8.1% rise in staff costs from KES 10.02Bn to KES 10.83Bn and a 16.8% increase in other expenses. Excluding loan loss provisions, operating expenses were 3.3% up.

| Recommendation: | BUY |
|---------------------|---------------|
| Bloomberg Ticker: | COOP KE |
| Valuation Price | 17.45 |
| Current Price | 12.00 |
| Upside/Downside | 45.4% |
| 3-Month Av | 12.07 |
| 6 Month Av | 11.70 |
| 52 Week Av | 12.21 |
| 52 Week High - Low | 13.30 - 10.70 |
| Issued shares Mn | 5,867.17 |
| Market Cap (KES Mn) | 70,406.10 |
| Market Cap (USD Mn) | 577.20 |
| P/E | 1.03 |
| BVPS | 17.20 |
| PB | 0.70 |

| Return Performance | | |
|--------------------|-------|--------|
| Periods | Co-op | NASI |
| 3-Months %Δ | -5.1% | -12.4% |
| 6-Months %Δ | -1.2% | -7.8% |
| Y-T-D %Δ | -7.7% | -22.8% |
| Y-Y %Δ | -4.0% | -24.4% |



NNI + 11.7% Y/Y

Provisions - 5.3% Y/Y

Opex. + 6.0% Y/Y

PBT + 37.9% Y/Y

PAT + 47.0% Y/Y

Govt. Securities (Book) -5.5% Y/Y

Loan book + 9.5% Y/Y

Deposits + 2.8% y/y

Shareholder's Funds + 6.2% Y/Y

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Balance Sheet

Total assets went 4.9% up from KES 592.89Bn to KES 622.10Bn on account of an additional loan book of KES 28.84Bn or a 9.4% growth in net loan book from KES 306.32Bn to KES 335.16Bn.

Customer deposits was 2.9% higher at KES 432.00Bn compared to that of KES 420.44Bn and thereby helping cushion the growing loan book.

The soaring net income helped push retained earnings 18.5% up from KES 85.24Bn to KES 100.99Bn and 5.7% Q-Q up from that of KES 95.53Bn in Q2-22. This saw shareholder's funds 6.2% y-y and 4.3% Q-Q up to KES 100.89Bn.

Key Ratios

Return on average assets (ROaA) was 104.9bps y-y up from 2.7% to 3.8% on the above growths in net income. Return on average equity soared 609.3bps from 16.5% to 22.6% on a faster rise in net revenue compared to total equity.

Cost to income (CTI) ration receded to 45.8% in Q3-22 from that of 49.4% in Q3-21. Including loan loss provisions, CTI remained on down at 61.4% from 64.6% of Q3-21.

Cost of funds was stable at 3.3% y-y in comparison to same time in 2021.

Cost of risk fell to 2.4% in Q3-22 compared to that of 2.7% in Q3-21 on reduction in loan loss provisions as loan repayments from customers improved on the resumption of businesses in the general economy.

This saw the bank's non-performing loans ratio 20.0bps down from 12.9% to 12.7%, below the banking industry NPLs of 14.2% as of August 2022.

| P&L (KES Mn) | Q3-2021 | Q2-2021 | Q3-2022 | Y-Y %Δ | Q-Q %Δ |
|----------------------|---------------|---------------|---------------|--------------|-------------|
| Interest Income | 39,575 | 28,574 | 43,732 | 10.5% | 4.0% |
| Interest Expense | 10,906 | 7,519 | 11,696 | 7.2% | 7.4% |
| NII | 28,668 | 21,055 | 32,036 | 11.7% | 2.8% |
| NFI | 15,730 | 13,299 | 20,174 | 28.3% | -0.2% |
| Total Income | 44,399 | 34,354 | 52,211 | 17.6% | 1.6% |
| Loan Loss Provisions | 6,045 | 3,345 | 5,725 | -5.3% | 32.2% |
| Operating Expense | 27,957 | 19,159 | 29,633 | 6.0% | 3.3% |
| Opex excl Provision | 21,912 | 15,814 | 23,907 | 9.1% | -2.9% |
| PBT | 16,484 | 15,284 | 22,731 | 37.9% | -0.6% |
| PAT | 11,627 | 11,468 | 17,097 | 47.0% | -0.1% |
| EPS | 1.98 | 1.95 | 2.91 | 47.0% | 0.0% |

| Balance Sheet (KES Mn) | Q3-2021 | Q2-2021 | Q3- 2022 | Y-Y %Δ |
|---------------------------|---------|---------|-------------|-----------|
| Investments | 194,751 | 184,930 | 184,110 | -5.5% |
| Loans and Advances | 306,317 | 330,056 | 335,162 | 9.4% |
| Total Asset | 592,887 | 603,922 | 622,098 | 4.9% |
| Customer Deposit | 420,438 | 420,438 | 407,726 | -3.0% |
| Borrowing | 43,839 | 41,357 | 43,279 | -1.3% |
| Shareholders' Fund | 94,980 | 96,726 | 100,887 | 6.2% |

| Ratios | Q3- 2021 | Q2- 2021 | Q3- 2022 |
|------------------------------------|-------------|-------------|-------------|
| NII % of Total Income | 64.6% | 61.3% | 61.4% |
| NFI % of Total Income | 35.4% | 38.7% | 38.6% |
| CTI | 63.0% | 55.8% | 56.8% |
| CTI exc Provision | 49.4% | 46.0% | 45.8% |
| Cost of Funds | 3.3% | 3.2% | 3.3% |
| cost of deposits | 3.6% | 3.6% | 3.7% |
| Net Interest Margins | 7.4% | 7.8% | 7.9% |
| Yield on Advances | 11.4% | 11.6% | 11.5% |
| Yield on Govt Securities | 10.3% | 10.7% | 11.2% |
| ROaA | 2.7% | 3.9% | 3.8% |
| ROaE | 16.5% | 23.3% | 22.6% |
| Cost of Risk | 2.7% | 2.1% | 2.4% |
| AD Ratio | 72.9% | 78.5% | 82.2% |
| Investment Securiteis to Assets | 32.8% | 30.6% | 29.6% |
| Advances to Assets | 51.7% | 54.7% | 53.9% |
| Debt to Equity | 46.2% | 42.8% | 42.9% |
| NPL Ratio | 12.9% | 12.9% | 12.7% |

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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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