

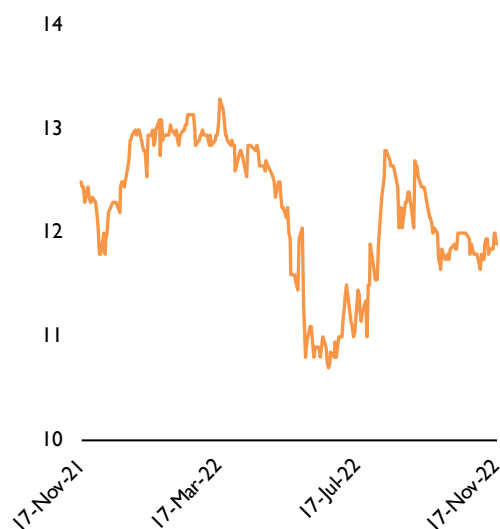


## Company details

<b>Bloomberg Ticker</b>	COOP: KN
<b>NSE Code:</b>	COOP
<b>Issued Shares (Bn)</b>	5.87
<b>Market Cap (Bn)</b>	70.41
<b>52-week high:</b>	14.00
<b>52-week Low</b>	10.30

As at 17<sup>th</sup> November 2022

### Price chart – Last 12 Months



AIB-AXYS Research, NSE

### Historical Price Performance

	1m	3m	6m	12m
Absolute	-0.83%	-5.93%	-2.06%	-4.80%

AIB-AXYS Research, NSE

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## Co-op Bank Group Earnings Note

**Recomm: BUY**

**Current Price: KES 11.90**

**Target Price: KES 14.30**

### Summary

- ♦ **Coop Bank released their 3Q22 earnings results where PAT and EPS were above our expectations** by edging up 47.05% and 46.95% y/y respectively driven by a 11.75% increase in net interest income and a 28.25% growth in non-interest income. Trailing Return on Equity improved to 21.02% while NIMs remained strong at 8.48%.
- ♦ **Loan book grew 9.42% y/y to 335.16Bn faster than the 2.75% growth in customer deposits y/y to KES 432.00Bn.** Allocation to government securities fell 5.46% to 184.11Bn in 3Q22 on the back of the FV loss as a percentage of government securities increasing to 10.45% compared to 0.46% in 3Q21.

### Key Highlights

- **Net Funded Income Lifts Margins:** Non-Interest income jumped 28.25% to KES 20.17Bn mainly driven by forex trading income (+71.58%) & fees and commissions (+31.70%). As such, NII: NFI shifted to 61:39 from 65:35 in Q3'21. NII grew at 11.75% y/y to close the quarter at KES 32.04 Bn mainly on account of a 9.58% growth in interest from government securities, leading to an 11.41% Yield on earning assets. Interest expenses grew 7.24% to KES 11.70Bn leading to the cost of funds increasing to 3.23% y/y even as the bank's stock of borrowed funds decreased by 4.35% to KES 41.93Bn.
- **Staff costs weighs down on efficiency:** The CTI ratio less impairment provisioning improved 356bps to 45.79% mainly on the back of faster-operating income growth (+17.60% y/y) compared to an 8.14% y/y increase in staff costs to 10.83Bn. In line with observed industry trend, Loan loss provisions declined 5.29% y/y to KES 5.73Bn indicating reduced lending risk.
- **Asset quality still a concern:** Gross NPLs increased 4.70% y/y to KES 51.81Bn, leading to the NPL ratio declining to 13.96% (below the latest industry average of 14.20%) owing to a faster loan book growth. NPL coverage further improved to 69.34% from 65.53% in 3Q21. Kingdom Bank's NPL also improved by Gross NPL declining 13.20% y/y to KES 5.55Bn to further support the Group's asset quality.

**Valuation** - At the Current Market Price, the stock is trading at 4.12x P/E above the industry median of 3.80x and a P/B multiple of 0.70x equal to the industry median. We expect the bank's performance to be driven by a focus on MSME lending better subsidiary performance and digital channels where the average Mcoop cash mobile loan per month has improved to KES 6.90Bn from KES 6.00Bn in FY'21. However, Deteriorating local & global macroeconomic conditions will lead to continuous pressure on the company's loan book and the lack of an interim dividend is likely to provide minimal upside potential. Nevertheless, we maintain a **BUY** recommendation with a revised price target of KES 14.30

## Financial Statement Summary

### I. Statement of Profit and Loss

	FY18	FY19	FY20	Q3'21	FY21	Q3'22	Y/Y Change (%)
Net Interest Income	30.78	31.30	36.35	28.67	41.04	32.04	11.75%
Net non-Interest Income	12.89	17.16	17.48	15.73	19.40	20.17	28.25%
<b>Total Operating income</b>	<b>43.68</b>	<b>48.46</b>	<b>53.83</b>	<b>44.40</b>	<b>60.43</b>	<b>52.21</b>	<b>17.60%</b>
Provision for Impairment	(1.84)	(2.54)	(8.11)	(6.05)	(7.93)	(5.73)	-5.29%
Total Operating expenses	(25.69)	(27.79)	(39.40)	(27.96)	(38.09)	(29.63)	5.99%
<b>Profit before tax</b>	<b>18.16</b>	<b>20.71</b>	<b>14.28</b>	<b>16.48</b>	<b>22.65</b>	<b>22.73</b>	<b>37.90%</b>
<b>Profit after tax</b>	<b>12.73</b>	<b>14.31</b>	<b>10.81</b>	<b>11.63</b>	<b>16.54</b>	<b>17.10</b>	<b>47.05%</b>
Core EPS	2.17	14.31	1.84	1.98	2.85	2.91	46.97%

### 2. Statement of Financial Position

	FY18	FY19	FY20	Q3'21	FY21	Q3'22	Y/Y Change (%)
Government Securities	82.83	119.19	163.02	194.75	185.76	184.11	-5.46%
Loans and Advances	245.41	266.71	286.63	306.32	310.20	335.16	9.42%
<b>Total Assets</b>	<b>413.41</b>	<b>457.01</b>	<b>536.95</b>	<b>592.89</b>	<b>579.77</b>	<b>622.10</b>	<b>4.93%</b>
Customer Deposits	306.12	332.82	378.63	420.44	407.73	432.00	2.75%
Total Liabilities	342.20	376.15	444.90	497.50	479.03	520.89	4.70%
<b>Shareholder's Funds</b>	<b>69.86</b>	<b>79.34</b>	<b>90.73</b>	<b>95.04</b>	<b>100.22</b>	<b>100.89</b>	<b>6.16%</b>

### 3. Key Metrics

	Q1'21	Q2'21	Q3'21	FY'21	Q1'22	Q2'22	Q3'22
<b>Growth Metrics (y/y)</b>							
Loan book Growth	7.98%	10.67%	7.77%	8.22%	8.81%	9.58%	9.42%
Customer Deposits Growth	15.98%	5.99%	11.98%	7.68%	4.32%	3.76%	2.75%
PAT Growth	-3.71%	2.33%	23.25%	53.00%	68.86%	55.70%	47.05%
<b>Spreads Analysis</b>							
Yield on Assets	11.56%	11.67%	11.50%	11.49%	11.17%	11.37%	11.41%
Cost of Funds	3.21%	3.15%	3.31%	3.33%	3.23%	3.22%	3.23%
Net Interest Margin	8.63%	8.65%	8.52%	8.48%	8.26%	8.44%	8.48%
ROaE	12.29%	12.50%	9.18%	28.56%	15.46%	17.27%	21.02%
ROaA	2.00%	1.99%	1.47%	4.88%	2.64%	2.78%	3.39%
Profit Margin	24.08%	25.26%	26.19%	27.38%	34.77%	33.38%	32.75%
<b>Operating Efficiency</b>							
Cost of Income Less LLP	48.57%	49.86%	49.35%	49.91%	44.57%	46.03%	45.79%
Cost of Assets	1.26%	2.54%	3.70%	5.20%	1.25%	2.62%	3.84%
Loan to Deposit	75.72%	73.88%	72.86%	76.08%	78.98%	78.02%	77.58%
<b>Asset Quality</b>							
NPL	15.82%	15.25%	14.61%	14.57%	13.86%	14.07%	13.96%
NPL Coverage	58.41%	63.50%	65.53%	62.60%	65.31%	65.83%	69.34%
Cost of Risk	15.90%	14.26%	13.62%	13.12%	9.20%	9.74%	10.97%
<b>Capital Adequacy</b>							
Core Capital/TRWA	15.20%	15.30%	15.00%	15.60%	15.30%	15.50%	15.70%
Total Capital /TRWA	16.90%	17.00%	16.50%	17.20%	16.60%	16.60%	16.80%
Liquidity	54.80%	55.70%	56.50%	53.80%	54.10%	44.50%	52.10%



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