

Earnings Note



COOP Bank Group FY'22 Earnings Note

Recomm: BUY

Current Price: KES 12.36

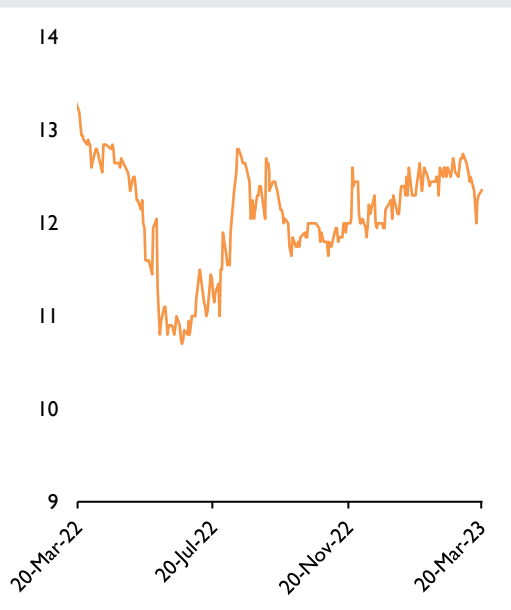
Target Price: KES 15.15

Company details

Bloomberg Ticker	COOP:KN
NSE Code:	COOP
Issued Shares (Bn)	5.87
52-week high:	13.30
52-week Low	10.70

As at 20th March 2023

Price chart – Last 12 Months



AIB-AXYS Research, NSE

Historical Price Performance

	1m	3m	6m	12m
Absolute	-1.12%	3.00%	1.73%	-6.36%

AIB-AXYS Research, NSE

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March 20th 2023

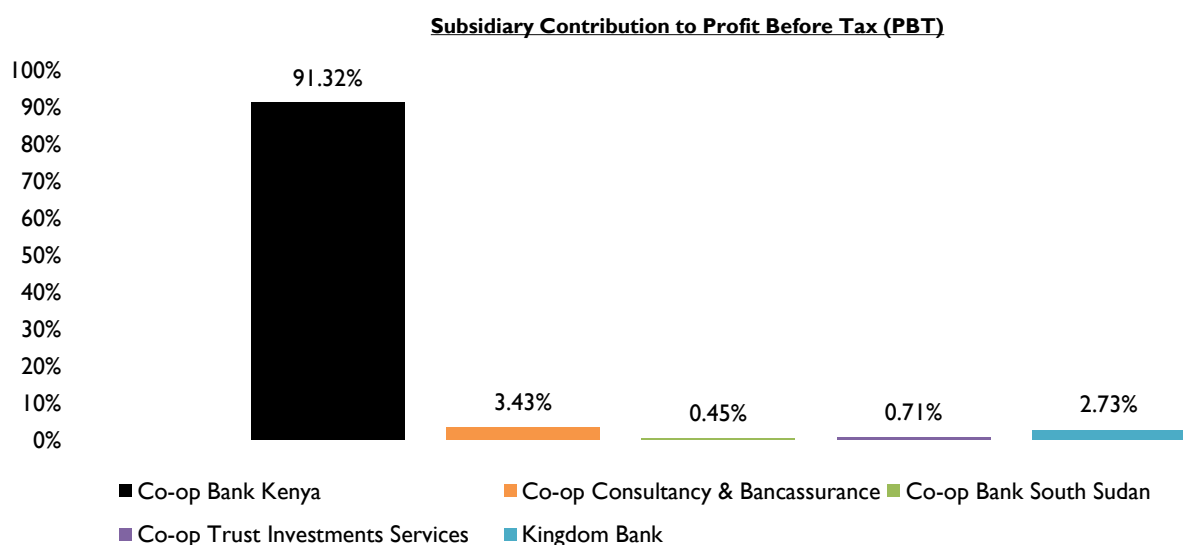
Summary

- COOP Group released their FY'22 earnings results posting a 30.53% & 33.25% climb in EPS & PAT respectively** to KES 3.72/share and KES 22.04Bn respectively driven by a 10.92% increase in net interest income and a 32.63% growth in non-interest income. Trailing ROaE & ROaA improved to 24.57% & 4.30% respectively in FY'22. NIMs remained adequate at 8.88% while the profit margin edged up 355bps y/y to 30.93%. In line with our expectation, the board of directors recommended a first and final dividend of KES 1.50 in FY'22 representing a 50.00% increase from KES 1.00 paid out in FY'21. The book closure of the dividends is set for 24th May 2023 while payment date is set for 9th June 2022.
- Loan book grew 9.41% y/y to KES 339.39Bn faster than the 3.94% y/y growth in the customer deposits to KES 423.80Bn** leading to a 4.00% points growth in the loan deposit ratio to 80.08%. We observed considerable growth in Total Assets of the group (+4.70%) to 607.20Bn, (+12.12%) in external funds from development funds to KES 48.10Bn from KES 42.90Bn in FY'21 and a 7.44% increase in shareholder funds to 107.68Bn from 100.22Bn recorded the prior year. Allocation to government securities declined 5.71% y/y to 175.15Bn in FY'22 indicating increased focus on lending. The customer deposits currency mix stood at 91.00% local Currency and 9.00% foreign currency.

Key Highlights

- Net Interest income lags Non-funded Income:** Net Interest Income grew 10.92% y/y to KES 45.52Bn slower than a 32.63% y/y increase in Non-Funded income to 25.73Bn mainly driven by a 38.65% y/y jump in income from loan fees and commissions. Furthermore, the impact of the prevailing dollar shortage and Kenya shilling depreciation challenges were seen in the Forex trading income growth of 65.61% to KES 4.72Bn from KES 2.85Bn in FY'21, as the bid/ask spreads have widened to between 5-8.00% above the CBK's indicative rate. On a trailing basis, Yield on assets grew 55ps y/y to 12.04% as income from government papers grew faster than interest earning assets in the year. Cost of funds edged up 17bps to 3.51% y/y from 3.33% in FY'21. Subsequently, profitability margin increased 355bps y/y to 30.93% and the Net Interest Margin (NIM) grew 40bps y/y to 8.88%
- Digital Transactions Drive Efficiency:** Increased efforts to push efficiency through investment in automation saw the banks digital transactions cross the 90.00% level and the Cost to Income ratio less impairment decline 280bps on a year-on-year basis to 47.11% mainly attributed to faster operating income growth (+17.91% y/y) to KES 71.25Bn compared to a 10.96% y/y increase in staff costs to 14.78Bn. Contrary to FY'21 industry trend, Loan loss provisions grew 9.43% y/y to KES 8.68Bn indicating increased lending risk.
- Asset Quality Concerns persist:** Gross NPLs edged up 5.23% y/y to KES 52.33Bn, leading to the NPL ratio declining 42bps y/y to 17.01% higher than the latest industry average of 13.30%. Meanwhile, the NPL Coverage improved to 65.15% from 62.60% in FY'21 driven by provisioning growing faster than Gross NPL. Cost of Risk remained constant y/y at 2.56% with management aiming to maintain it at 2-2.5% for FY'23.

Subsidiary Performance – The lender’s subsidiary consolidation continued to payoff with the the bank’s subsidiaries contribution to profit before tax edging up in FY’22. We observed commendable growth across all subsidiaries within the group and operating markets.



- I. **Co-operative Bank Of South Sudan** - We observed strong growth in the South Sudan subsidiary which is a Joint Venture Business with the South Sudanese government which recorded a profit of KES 132.70Mn in FY’22 representing a 131.00% growth from KES 421.70Mn recorded in FY’21. This growth was amplified by the decrease in inflation rate and cost of a basket of commodities measured by the consumer price index that further encouraged borrowing. However, we foresee strained growth of the subsidiary in FY’23 given the global & localized macroeconomic challenges as well as the political uncertainty currently underway given that the country is set to go to the polls in 2024.
- II. **Co-op Consultancy and Bancassurance** – The Bancassurance and consultancy subsidiary posted a profit before tax of KES 1.01Bn in FY’22 riding on strong penetration in the bancassurance business in the country. With the insurance penetration still low in operating markets, we see this business line as likely to continue growing at impressive levels driven by the need for underwriting intermediation. Recent trend in the banking sector of cross selling and creating a customer ecosystem is also likely to see COOP target customers within the other subsidiaries.
- III. **Co-op Trust Investment Services** – The asset management arm of the business also recorded impressive performance in the recently released FY’22 results having contributed KES 208.10Mn to the Profit Before Tax reported by the group. The Fund Management subsidiary recorded a 3.91% increase in the Assets Under Management to KES 196.60Bn from KES 189.20Bn in FY’21. Increased demand for personal wealth management is likely to contribute to a further growth especially in the unit trust business.
- IV. **Kingdom Bank Limited** - We observed an 86.86% increase in the PAT to KES 930.17Mn driven by Non-interest Income (+246.25%) to KES 308.17Mn despite an increase in impairment provisioning (+175.50%) to KES 462.98Mn. The loan book expanded 40.00% to KES 6.21Bn with customer deposits declining 18.16% to KES 1.42Bn from KES 1.73Bn in FY’21. Notably, Gross NPLs declined 24.99% to KES 4.51Bn. Despite commendable performance by Kingdom Bank in FY’22, we expect strained performance in FY’23 as it is set to pay interest charges on the KES 21.00Bn Loan facility they received from CBK for a capital boost.

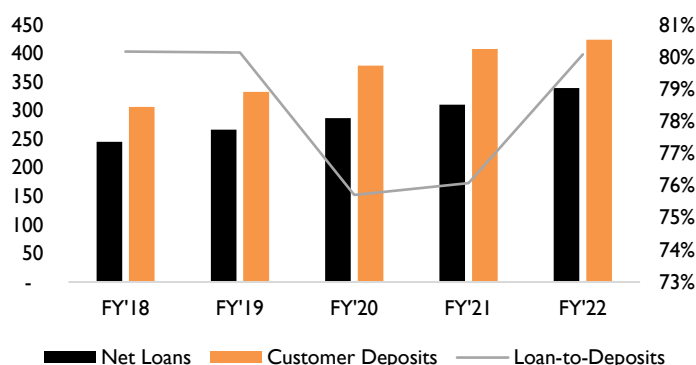
Source: NSE, CBK, Company Filings, AIB-AXYS Analyst Estimates

Outlook – We foresee COOP’s bottom-line growth being driven by interest income from lending (management guidance is at a 10% growth in key balance sheet items). Loan book performance will further be driven by the approval of the risk-based model and a focus on MSME lending better subsidiary performance and digital channels where the average M-coop cash mobile loan per month has improved to KES 7.00Bn from 6.00Bn in FY’21. The local currency depreciation is also expected to continue providing arbitrage opportunities for forex trading revenue. We see the exposure to low-risk sectors as a huge positive in lowering the NPL ratio to a single digit.

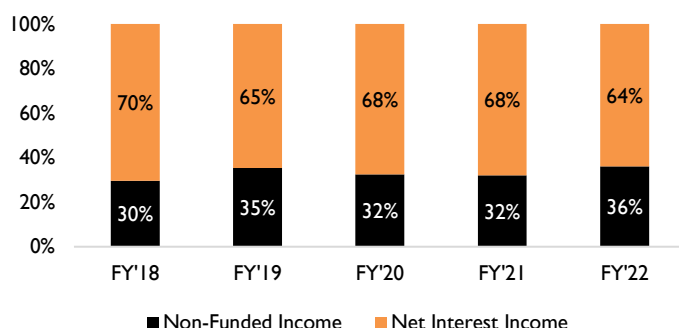
Valuation - COOP recorded an improved ROE of 21.20%. The counter is currently trading at a P/B multiple of 0.65x compared to a sector average of 0.77x pointing to an undervaluation. The counter closed yesterday’s trading at KES 12.36, a YTD gain of 49bps. We maintain our **BUY** recommendation on the counter given the upside potential as well as the dividend yield of 12.50%.

COOP Group FY’22 Earnings Charts

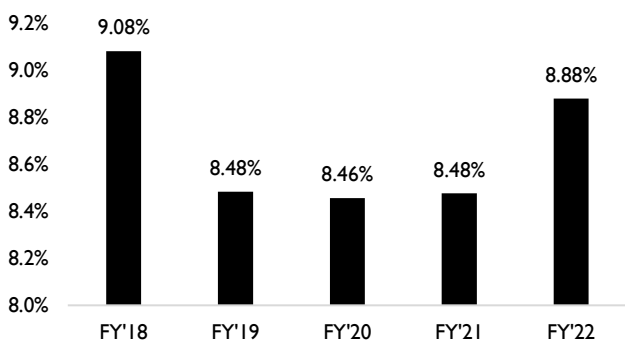
Graph 1: Customer Deposits continue to drive Balance sheet growth



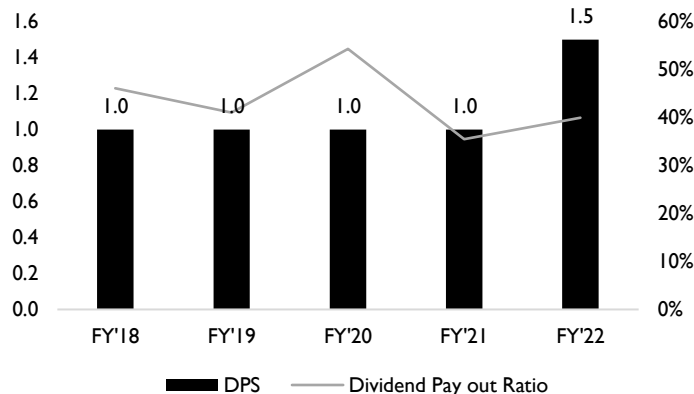
Graph 2: Revenue mix continues to favour Net Interest Income



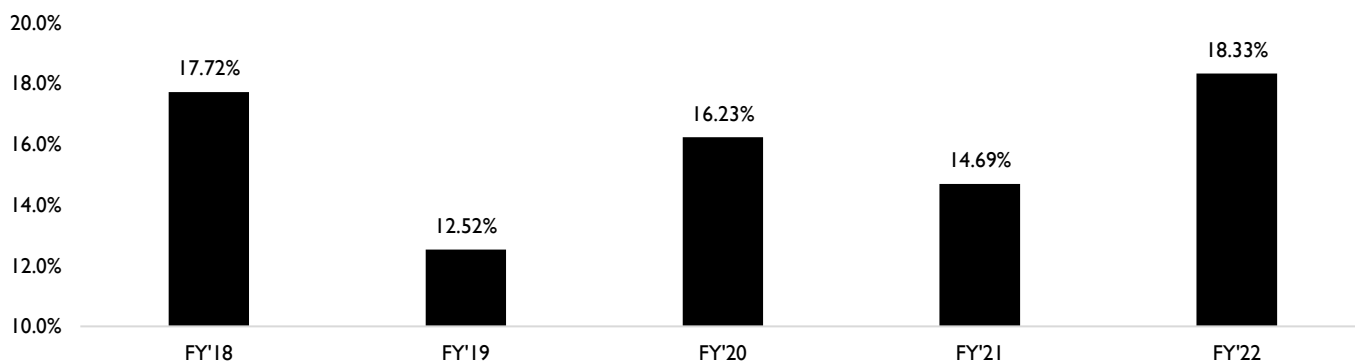
Graph 3: We observed an uptick in Net Interest Margins



Graph 4: Dividend Payout Ratio improved marginally



Graph 5: Forex Income as a % of Net Income edged up



Source: NSE, CBK, Company Filings, AIB-AXYS Analyst Estimates

Financial Statement Summary

I. Statement of Profit and Loss

Income Statement	FY20	FY'21	Q1'22	Q2'22	Q3'22	FY'22	y/y % Change	FY'22e	Variance
Net Interest Income	36,348.97	41,036.91	10,372.64	21,055.31	32,036.47	45,524.94	10.94%	46,341.80	-1.76%
Net non-Interest Income	17,480.72	19,396.35	6,408.48	13,298.89	20,174.30	25,729.93	32.65%	24,088.18	6.82%
Total Operating income	53,829.69	60,433.27	16,781.12	34,354.20	52,210.77	71,254.88	17.91%	70,429.98	1.17%
Provision for Impairment	(8,111.82)	(7,929.26)	(1,543.88)	(3,344.85)	(5,725.45)	(8,676.74)	9.43%	(6,568.92)	32.09%
Total Operating expenses	(39,397.89)	(38,089.99)	(9,024.06)	(19,158.60)	(29,632.62)	(42,243.79)	10.91%	(40,047.85)	5.48%
Profit before tax	14,281.86	22,648.86	7,789.18	15,283.51	22,730.72	29,427.22	29.93%	30,687.71	-4.11%
Profit after tax	10,812.88	16,543.90	5,835.22	11,468.21	17,096.87	22,038.17	33.21%	21,481.40	2.59%
Core EPS	1.84	2.82	0.99	1.95	2.91	3.72	30.53%	3.66	2.59%
DPS	1.00	1.00	0.00	0.00	0.00	1.50	50.00%	1.30	15.38%

2. Statement of Financial Position

	FY20	FY'21	Q1'22	Q2'22	Q3'22	FY'22	y/y % Change	FY'22e	Variance
Government Securities	163,018.03	185,762.84	185,037.70	184,930.21	184,110.07	175,152.77	-5.71%	192,271.36	-8.90%
Loans and Advances	286,634.19	310,195.30	324,483.41	330,056.25	335,161.50	339,390.04	9.41%	346,696.32	-2.11%
Total Assets	536,945.25	579,771.99	579,771.99	579,771.99	579,771.99	607,197.72	4.73%	633,698.77	-4.18%
Customer Deposits	378,630.45	407,725.77	410,825.41	423,031.28	432,000.65	423,802.67	3.94%	439,056.86	-3.47%
Total Liabilities	444,896.98	479,026.05	479,026.05	479,026.05	479,026.05	499,250.54	4.22%	519,098.54	-3.82%
Shareholder's Funds	90,725.87	100,222.44	102,697.58	96,726.28	100,887.49	107,678.25	7.44%	114,076.74	-5.61%

3. Key Metrics

	FY'20	FY'21	Q1'22	Q2'22	Q3'22	FY'22
Growth Metrics (y/y)						
Loan book Growth	7.47%	8.22%	8.81%	9.58%	9.42%	10.80%
Customer Deposits Growth	13.76%	7.68%	4.32%	3.76%	2.75%	0.80%
PAT Growth	-24.44%	53.00%	68.86%	55.70%	47.05%	33.21%
Spreads Analysis						
Yield on Assets	11.36%	11.49%	9.82%	10.04%	10.12%	12.04%
Cost of Funds	3.19%	3.33%	3.23%	3.22%	3.23%	3.51%
Net Interest Margin	8.46%	8.48%	8.26%	8.44%	8.48%	8.88%
ROaE	12.52%	20.99%	13.18%	17.27%	21.02%	24.57%
ROaA	2.15%	3.59%	2.29%	2.84%	3.51%	4.30%
Profit Margin	20.09%	27.38%	34.77%	33.38%	32.75%	30.93%
Operating Efficiency						
Cost of Income Less LLP	58.12%	49.91%	44.57%	46.03%	45.79%	47.11%
Cost of Assets	5.83%	5.20%	1.29%	2.73%	4.12%	5.53%
Loan to Deposit	75.70%	76.08%	78.98%	78.02%	77.58%	80.08%
Asset Quality						
NPL	18.69%	14.57%	13.86%	14.07%	13.96%	14.01%
NPL Coverage	50.26%	62.60%	65.31%	65.83%	69.34%	65.15%
Cost of Risk	2.83%	2.56%	0.48%	1.01%	1.71%	2.56%
Capital Adequacy						
Core Capital/TRWA	15.40%	15.60%	15.30%	15.50%	15.70%	16.90%
Total Capital /TRWA	16.90%	17.20%	16.60%	16.60%	16.80%	18.00%
Liquidity	52.20%	53.80%	54.10%	44.50%	52.10%	48.30%

Source: Company Filings, AIB-AXYS Estimates



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