

# Earnings Note

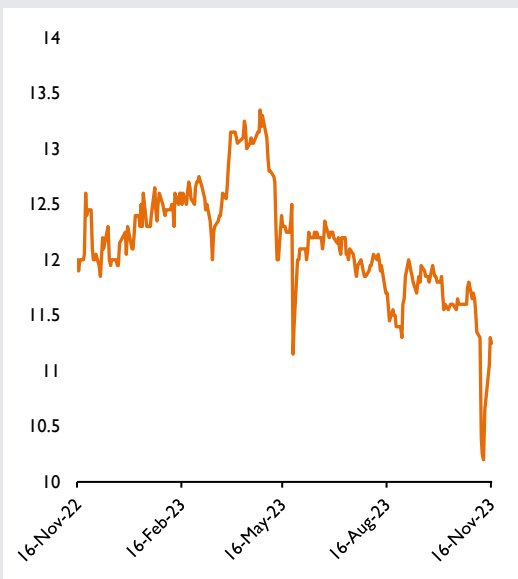


## Company details

<b>Bloomberg Ticker</b>	COOP:KN
<b>NSE Code:</b>	COOP
<b>Issued Shares (Bn)</b>	5.87
<b>52-week high price:</b>	KES 13.35
<b>52-week low price:</b>	KES 10.20

As at 16<sup>th</sup> November 2023

### Price chart – Last 12 Months



AIB-AXYS Research, NSE

### Historical Price Performance

	1m	3m	6m	12m
<b>Absolute</b>	<b>-2.60%</b>	<b>-3.85%</b>	<b>-8.54%</b>	<b>-11.07%</b>

AIB-AXYS Research, NSE

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## COOP Group Q3'23 Earnings Note

**Recommendation:**  
**BUY**

**Current Price:**  
KES 11.25

**Target Price:**  
**KES 14.39**

### Summary

- ♦ **COOP Group posted a 7.59% y/y climb in net earnings (PAT) to KES 18.39Bn by close of Q3'23.** The Group's earnings per share (EPS), on the other hand, rose 8.25% y/y to KES 3.15. Performance was supported by a moderate 2.46% y/y growth in net interest income and a 2.05% y/y increase in non-interest income. Trailing ROaE marginally declined 14bps y/y to 22.33% while trailing ROaA marginally increased y/y to 3.64% in Q3'23. The net profit margin accelerated 169bps y/y to 34.44%.
- ♦ **Loan Book growth of 12.80% y/y to KES 378.08Bn paced faster than the 0.19% y/y growth in Customer Deposits to KES 432.83Bn** – This led to a 976bps growth in loan-deposit ratio to 87.35% from 77.58% in Q3'22. On a q/q basis, we observed the 6.69% decline in customer deposits – which we attribute to increased sector-wide competition for sticky deposits and rising discretionary spending needs among depositors. We observed a growth in the balance sheet by 6.31% y/y to KES 661.341Bn – supported by leveraged loan-book growth. Asset allocation to government securities decreased by 130bps y/y to 28% driven by faster loan growth and bond maturities. Fair value losses from government securities decreased by 10.6% to KES 9.00Bn.

### Key Highlights

- **Rising cost of funds trims down net interest margins:** Net Interest Income grew moderately by 2.46% y/y to KES 32.82Bn. The growth was supported by a 12.85% y/y growth in interest income on account of credit repricing under the risk-based credit pricing (RBCP) regime and higher yields on government securities. The growth was however dampened by a faster surge in interest expense by 41.31% y/y on account of rising deposit-mobilization costs. The effective cost of funds increased by 97bps to 4.21% on account of the rising interest-rate environment. Non-Funded Income grew slower by 2.05% y/y to KES 20.59Bn. The growth in non-funded income was mainly driven by increased loan underwriting fees and commissions. Notably, incomes from foreign exchange trading declined 24.97% y/y – bucking the industry uptrend of forex trading income – pointing to a slump in cross-border trade finance activity. Broadly, the funded-to-non-funded revenue mix ratio held at 61:39.
- **Enhanced Efficiency yields Growth:** The Cost to Income ratio (excluding impairment provisions) declined marginally by 63bps y/y to 46.42% - attributable to the larger quantum rise in operating income relative to the increase in operating expenses. In contrast to Q2 industry patterns, there was a considerable decline in loan-loss provisioning by 26.49% y/y - pointing to optimistic management's expectations on loan-performance over coming quarters.
- **Asset Quality Resilience:** Gross NPLs edged up 19.50% y/y to KES 61.91Bn resulting in a 90bps y/y increase in the NPL ratio to 14.86%, lower than the latest industry average of 15.00%. NPL coverage decreased significantly by 719bps y/y to 62.15% from 69.34% in Q3'23. Cost of risk declined 309bps y/y to 7.88% on account of unwinding provisions. We expect mounting pressures on asset quality resulting from the challenging macroeconomic environment. Yet, Co-op Group's loan portfolio quality remains resilient due to its conservative distribution.

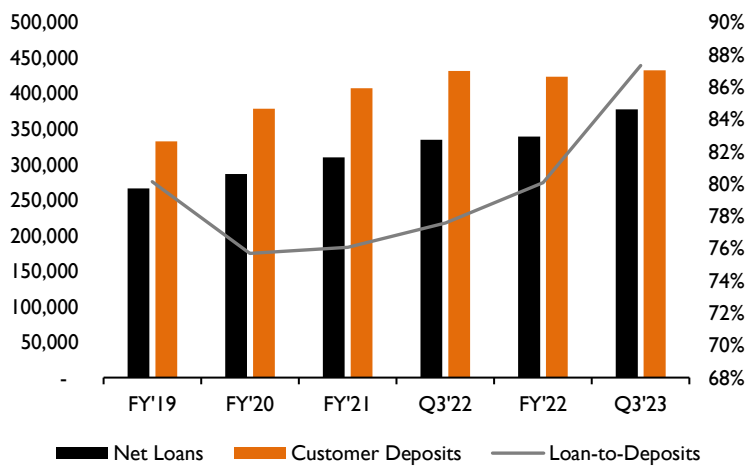
**Kingdom Bank Limited** – We observed improved performance of the subsidiary with an increase in PAT by 28.68% y/y to KES 0.78Bn primarily propelled by a 108.7% y/y surge in non-funded income to KES 0.33Bn and a 5.42% y/y growth in net interest income to KES 2.10Bn. Notably, forex trading income soared by 290.94% y/y to KES 0.10Bn as the lender capitalized on opportunities arising from the increased offshore-currency demand. The loan book expanded by 79.36% y/y to KES 9.05Bn faster than the growth in customer deposits by 39.81% to KES 11.90Bn leading to a 16.77% increase in the loan-deposit ratio to 76.05%. Notably, gross NPL's declined by 19.24% y/y to KES 4.49Bn while impairment provisioning increased 117.81% y/y to KES 0.15Bn. While Kingdom Bank demonstrated commendable performance in Q3'23, we anticipate a strained performance in FY'23 due to the obligation to settle the KES 21.00Bn loan facility received from CBK for a capital boost.

**Outlook** - We anticipate the lender's growth will be supported by increased adoption of digital banking channels, and the economies of scale from the vast scope for MSME working-capital lending. We expect that growth of their conservative loan portfolio – and topline interest revenues - will be driven by differentiated risk pricing. Additionally, we anticipate the long-term growth of the lender will be supported by the fast-growing banking and non-banking subsidiaries - with a specific focus on Kingdom Bank. However, we remain concerned about looming liquidity pressures owing to the shrinking deposit base.

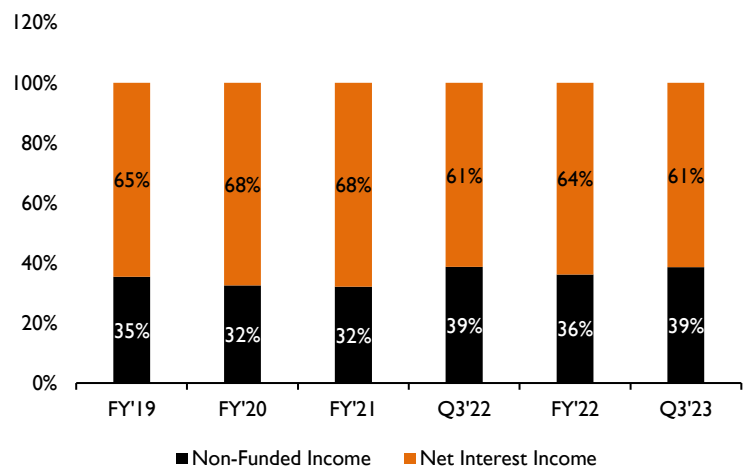
**Valuation** – The counter is currently trading at a P/B ratio of 0.61x and a P/E ratio of 2.84x. The counter closed yesterday's trading at KES 11.25 - representing a YTD loss of 8.54%. We maintain our **BUY** Recommendation on the counter with a target price of KES 14.39 representing an upside of 27.91% from yesterday's closing price.

## COOP Group Q3'23 Earnings Charts

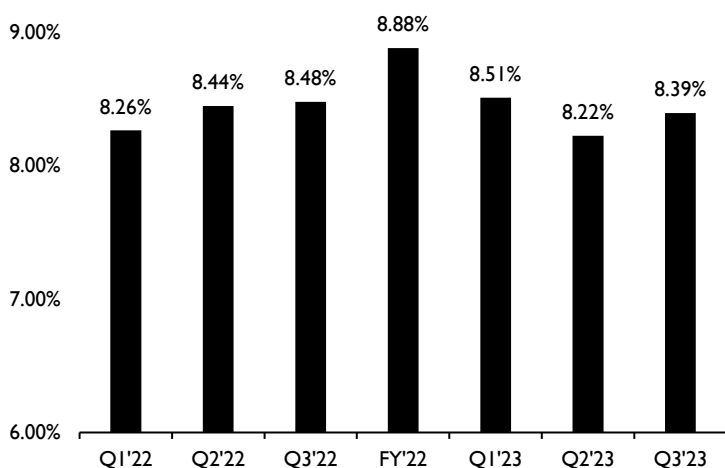
Graph 1: Faster deposit growth required to support further earnings growth



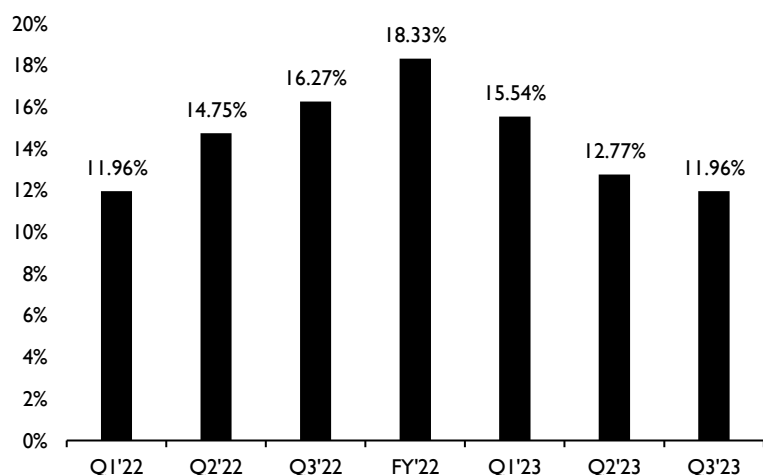
Graph 2: Revenue Mix Tilted in Favor Net Interest Income



Graph 3: A Moderate Y/Y Decrease in Net Yields on Deployable Assets



Graph 4: Declining Share of Forex Income as a % of Non-Funded Income



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

## Financial Statement Summary

### I. Statement of Profit and Loss

	FY'19	FY'20	FY'21	Q3'22	FY'22	Q3'23	% y/y change
Net Interest Income	31,303.33	36,348.97	41,036.91	32,036.47	45,524.94	32,824.66	2.46%
Net non-Interest Income	17,156.66	17,480.72	19,396.35	20,174.30	25,729.93	20,588.11	2.05%
<b>Total Operating income</b>	<b>48,459.99</b>	<b>53,829.69</b>	<b>60,433.27</b>	<b>52,210.77</b>	<b>71,254.88</b>	<b>53,412.77</b>	<b>2.30%</b>
Provision for Impairment	(2,539.07)	(8,111.82)	(7,929.26)	(5,725.45)	(8,676.74)	(4,208.57)	-26.49%
Total Operating expenses	(27,794.28)	(39,397.89)	(38,089.99)	(29,632.62)	(42,243.79)	(29,003.47)	-2.12%
<b>Profit before tax</b>	<b>20,705.75</b>	<b>14,281.86</b>	<b>22,648.86</b>	<b>22,730.72</b>	<b>29,427.22</b>	<b>24,689.00</b>	<b>8.62%</b>
<b>Profit after tax</b>	<b>14,311.25</b>	<b>10,812.88</b>	<b>16,543.90</b>	<b>17,096.87</b>	<b>22,038.17</b>	<b>18,394.58</b>	<b>7.59%</b>
Annualized EPS	2.44	1.84	2.82	3.64	3.76	3.92	7.59%

### 2. Statement of Financial Position

Balance Sheet	FY'19	FY'20	FY'21	Q3'22	FY'22	Q3'23	% y/y change
Government Securities	117,802.68	161,885.82	184,061.07	182,361.44	173,281.09	185,127.31	1.52%
Loans and Advances	266,712.70	286,634.19	310,195.30	335,161.50	339,390.04	378,075.41	12.80%
<b>Total Assets</b>	<b>457,008.95</b>	<b>536,945.25</b>	<b>579,771.99</b>	<b>622,098.33</b>	<b>607,197.72</b>	<b>661,341.03</b>	<b>6.31%</b>
Customer Deposits	332,823.92	378,630.45	407,725.77	432,000.65	423,802.67	432,836.45	0.19%
Total Liabilities	376,152.06	444,896.98	479,026.05	520,887.38	499,250.54	553,220.71	6.21%
<b>Shareholder's Funds</b>	<b>79,335.18</b>	<b>90,725.87</b>	<b>100,222.44</b>	<b>100,887.49</b>	<b>107,678.25</b>	<b>108,082.28</b>	<b>7.13%</b>

### 3. Key Metrics

	Q1'22	Q2'22	Q3'22	FY'22	Q1'23	Q2'23	Q3'23
<b>Growth Metrics (y/y)</b>							
Loan book Growth	8.81%	9.58%	9.42%	9.41%	10.98%	10.70%	12.80%
Customer Deposits Growth	4.32%	3.76%	2.75%	3.94%	2.17%	9.65%	0.19%
PAT Growth	68.86%	55.70%	47.05%	33.21%	4.72%	5.87%	7.59%
<b>Spreads Analysis</b>							
Yield on Assets	11.17%	11.37%	11.41%	12.04%	11.73%	11.64%	12.21%
Cost of Funds	3.23%	3.22%	3.23%	3.51%	3.66%	3.82%	4.21%
Net Interest Margin	8.26%	8.44%	8.48%	8.88%	8.51%	8.22%	8.39%
ROaE	19.27%	21.81%	22.47%	21.20%	20.73%	22.16%	22.33%
ROaA	3.29%	3.51%	3.62%	3.71%	3.63%	3.58%	3.64%
Profit Margin	34.77%	33.38%	32.75%	30.93%	34.19%	34.32%	34.44%
<b>Operating Efficiency</b>							
Cost of Income Less LLP	44.57%	46.03%	45.79%	47.11%	46.35%	46.01%	46.42%
Cost of Assets	1.25%	2.62%	3.84%	5.53%	1.31%	2.45%	3.75%
Loan to Deposit	78.98%	78.02%	77.58%	80.08%	85.79%	78.77%	87.35%
<b>Asset Quality</b>							
NPL	13.86%	14.07%	13.96%	14.01%	14.11%	14.58%	14.86%
NPL Coverage	65.31%	65.83%	69.34%	65.15%	62.19%	60.73%	62.15%
Cost of Risk	9.20%	9.74%	10.97%	12.18%	8.57%	8.09%	7.88%
<b>Capital Adequacy</b>							
Core Capital/TRWA	15.30%	15.50%	15.70%	16.90%	16.30%	16.50%	17.90%
Total Capital /TRWA	16.60%	16.60%	16.80%	18.00%	17.20%	20.50%	22.10%
Liquidity	54.10%	44.50%	52.10%	48.30%	50.60%	52.30%	50.30%

Source: Company Filings, AIB-AXYS Estimates



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