



COOP Bank: 3Q21 Earnings Note

COOP Bank 3Q21 EPS edged up 17.86% to KES 1.98, in line with our expectations. PAT edged up 18.95% y/y to **KES 11.63Bn** driven by a 15.57% y/y increase in Total operating income to **KES 44.40Bn** supported by interest income from loans and government securities. Customer deposits grew 11.98% (versus our forecast of a 10% growth) to **KES 420.44Bn** while the loan book growing slower at 7.77% to **KES 306.32Bn** (below our 14% forecast). Notably, Kingdom Bank also registered a PAT of **KES 413.34Mn** from a loss of **KES 200.90Mn** in 3Q20 while the balance sheet remained flat at **KES 30.97Bn**.

➤ **Efficiency improves despite Opex growth:** Cost to income ratio improved 282bps y/y (-51bps q/q) to 49.35%, underpinned by the banks push for alternative channels. The improvement was driven by a faster 19.23% y/y increase in Total operating income compared to an 12.78% increase in Operating expenses less loan impairments to **KES 21.91Bn**. The bank went against the industry wide trend by increasing the Loan loss provisioning 50.35% to **KES 6.04Bn**.

➤ **Non funded Income shifts the revenue mix:** Non Interest income was in line with our expectations having grown by 15.6% to **KES 15.73Bn** mainly driven by income from fees and commissions. Interest income grew faster at 21.59% y/y to **KES 39.58Bn** mainly on account of a 40.33% growth in interest from government securities, leading to an increase in yield on interest earning assets to 7.6%. Interest expenses grew 22.38% to **KES 10.91Bn** leading to the cost of funds declined to 2.5% as the bank's stock of borrowed funds increased 67.63% to **KES 43.84Bn**. The Revenue mix shifted to **65:35** for NII:NFI from **64:36** in 3Q20.

➤ **Asset quality deteriorates:** Gross NPLs increased 23.16% y/y to **KES 49.48Bn**, while NPL ratio worsened to 14.61% in the review period, above an industry average of 14.0%. Loan loss provisions surged 50.35% y/y leading to an increase in NPL coverage to 65.53% mainly underpinned by the exposure to the MSME sector. We anticipate the continued recovery in the general economy coupled with the bank's diverse loan book to support an improvement in the bank's asset quality.

Outlook

The results were mainly driven by an increase in Interest Income from government securities. We take note of the increase in Loan loss provision contrary to our expectations and what has been observed with other banks. We expect the bank's performance to be driven by focus on SME lending and digital channels. Improving economic condition and better performance from subsidiaries will boost asset quality recovery.

18th November 2021

Current price: KES 12.45

Target price: KES 14.99

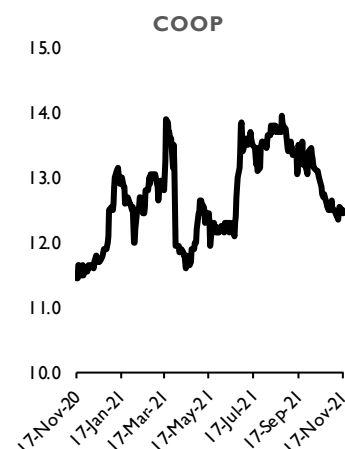
Upside: 20.40%

52 Week High: KES 13.95

52 Week Low: KES 11.40

YTD Performance: 0.40%

EPS (3Q21): KES 1.98



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Table I : Financial Statement Summary

Income Statement (KES Millions)	3Q20	FY20	1H21	3Q21	q/q % Change	y/y % Change
Interest Income	32,548	48,841	25,960	39,575	52.45%	21.59%
Interest Expense	8,912	12,492	7,128	10,906	53.00%	22.38%
Net Interest Income	23,636	36,349	18,832	28,668	52.23%	21.29%
Non Interest Income	13,603	17,481	10,324	15,730	52.37%	15.64%
Total Operating Income	37,239	53,830	29,155	44,399	52.28%	19.23%
Loan Loss Provision	4,021	8,112	4,158	6,045	45.38%	50.35%
Operating expenses	23,450	39,398	18,696	27,957	49.53%	19.22%
Profit Before Tax	13,751	14,282	10,524	16,484	56.63%	19.87%
Profit For the period	9,775	10,813	7,366	11,627	57.85%	18.95%
Basic and Diluted EPS	1.68	1.98	1.26	1.98	57.14%	17.86%

Balance Sheet (KES Millions)	3Q20	FY20	1H21	3Q21	q/q % Change	y/y % Change
Cash Balances	29,541	26,348	37,445	29,856	-20.27%	1.07%
Government Securities	143,267	163,018	183,376	194,751	6.20%	35.94%
Net Loans	284,226	286,634	301,191	306,317	1.70%	7.77%
Total Assets	510,900	536,945	573,009	592,887	3.47%	16.05%
Customer Deposits	375,457	378,630	407,686	420,438	3.13%	11.98%
Total Liabilities	427,257	444,897	480,409	497,496	3.56%	16.44%
Total Shareholder Equity	82,029	90,726	92,619	95,037	2.61%	15.86%

Key Ratios	3Q20	FY20	1H20	3Q20	y/y % points
Loan to Deposit	75.70%	75.70%	73.88%	72.86%	(2.84%)
NPL Ratios	13.20%	18.69%	15.25%	14.61%	1.41%
NPL Coverage	50.09%	50.26%	63.50%	65.53%	15.44%
NFI to Total Income	36.53%	32.47%	35.41%	35.43%	(1.10%)
NII to Total Income	63.47%	67.53%	64.59%	64.57%	1.10%
Cost to Income	52.17%	58.12%	49.86%	49.35%	(2.82%)
ROE	15.94%	12.52%	12.50%	13.13%	(2.81%)
ROA	2.66%	2.15%	1.99%	2.11%	(0.55%)
Liquidity Ratio	50.20%	52.20%	55.70%	56.50%	6.30%
Core Capital/TRWA	15.50%	13.90%	13.10%	12.50%	(3.00%)
Total Capital/ TRWA	15.90%	15.40%	14.80%	14.00%	(1.90%)

Source: Company filings, AIB-AXYS

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