

Co-op Bank– 9M17 Earnings Update

Co-op Bank announced a 9.5% y/y (-15.0% q/q) decline in net earnings to KES 9.5B against a back drop of tight operating environment. Net interest income tumbled 7.3% y/y (+9.2% q/q). However, non-interest income closed in the green, posting a growth of 2.7% y/y (-18.4% q/q) to KES 10.1B.

Total interest income slid 7.7% y/y (+8.8% q/q) to KES 29.9B. This was attributed to a 6.9% y/y decline in loans and advances to KES 23.6B even though loan book grew 14.2% y/y to KES 259.4B. Interest income from government securities dropped 8.2% y/y to KES 6.1B in contrast to a marginal growth in the stock of government securities held (+0.85 y/y to KES 71.2B.

Total interest expense shed 8.5% y/y (+7.8% q/q) to KES 9.0B. Interest expense from customer deposits decreased 11.4% y/y to KES 8.1B while customer deposits grew 12.1% y/y to KES 288.9B. This implies that the bulk of the deposits were non-interest bearing. As interest expense grew faster than interest income, the bank's net interest margin (NIM) dropped 210bps y/y to 7.8%.

Non-interest income climbed 2.7% y/y (-18.4% q/q) to KES 10.1B. This was supported by a 9.9% y/y increase in foreign exchange income to KES 1.5B coupled with a 5.9% y/y rise in gross fees and commission. Non funded income comprised 32.8% of total income.

Total operating expenses declined 3.3% y/y (-2.8% q/q) to KES 14.7B. In line with Co-op bank's multi-channel strategy, the bank has moved 86% of customer transactions to alternative channels particularly mobile banking. These measures have increased efficiency resulting in the bank's cost-to-income ratio remaining below the 50.0% mark at 47.6% in 9M17.

Loan loss provision expense surged 31.7% y/y (+38.6% q/q) to KES 2.6B as gross NPLs shot up 69.5% y/y (+38.5% q/q) to KES 16.9B. Thus, the bank's NPL ratio worsened 210bps to 6.4% and coverage ratio decreased 590bps to 32.8%.

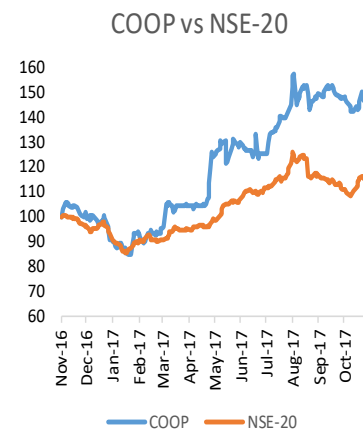
Looking ahead the stock currently trades at 7.8x P/E and 1.4x P/B, with an ROE of 17.2%. Co-op Bank's effort in reduce costs and increase efficiency will provide support to the bottom line going forward. However, the rise in NPLs remains worrisome and bank will have to enhance its asset quality.

Furthermore the bank is venturing into a new business of leasing in a joint venture with Super Group of Africa. According to management, the joint venture will boost loan book growth from lending to the lessee as well as non-interest income.

Bloomberg Ticker :	COOP KN
Reuters Ticker:	COOP.NR

Share Statistics	
Current Price (KES)	16.10
Issued shares (M)	5,867.2
Market cap (USD M)	992.1
Year end	Dec
Foreign ownership (%)	4.2
Free float (%)	32.9
Av daily trading vol (USDk)	105.7

Price Trend



Source: Bloomberg

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	1Q16	2Q16	3Q16	4Q16	FY16	1Q17	2Q17	3Q17	chg y/y	chg y/y
	KES '000	KES '000	KES '000	KES '000	KES '000	KES '000			9M17 vs 9M16	3Q17 vs 2Q17
Income Statement										
Interest Income	10,665,826	10,806,269	10,867,545	9,925,081	42,264,721	9,517,597	9,740,234	10,594,992	-7.7%	8.8%
Interest Expense	3,873,393	3,136,009	2,923,576	2,835,322	12,768,300	2,831,307	3,008,314	3,244,184	-8.5%	7.8%
Net Interest Income	6,792,433	7,670,261	7,943,968	7,089,759	29,496,421	6,686,290	6,731,920	7,350,808	-7.3%	9.2%
Foreign Exchange Income	498,024	471,329	432,329	402,662	1,804,344	560,271	683,331	296,514	9.9%	-56.6%
Gross Fees and Commission	2,427,004	2,534,615	2,446,914	2,378,976	9,787,509	2,571,122	2,691,691	2,585,739	5.9%	-3.9%
Other Income	538,713	379,735	76,815	187,393	1,182,656	257,204	342,526	79,415	-31.8%	-76.8%
Non Interest Income	3,463,750	3,385,670	3,029,059	2,896,030	12,774,509	3,388,597	3,717,548	3,034,545	2.7%	-18.4%
Total Operating Income	10,256,183	11,055,931	10,973,027	9,985,789	42,270,930	10,074,887	10,449,468	10,385,353	-4.3%	-0.6%
Loan Loss Provision Expense	625,000	685,000	635,169	654,502	2,599,671	750,000	759,311	1,052,754	31.7%	38.6%
Total Operating Expenses	4,610,730	5,042,929	5,551,706	6,836,171	22,041,536	4,826,360	5,011,572	4,870,929	-3.3%	-2.8%
Profit Before Tax & Exceptional Items	5,020,453	5,328,002	4,786,152	2,495,116	17,629,723	4,498,537	4,678,584	4,461,671	-9.9%	-4.6%
Exceptional Items (Early retirement costs)	-	-	-	(3,738)	(3,738)	-	0	0		
Exceptional Items (Share of profit of associate)	80,294	17,183	(6,665)	6,734	97,546	11,552	80,747	6,794	9.1%	-91.6%
Profit Before Tax	4,940,159	5,345,185	4,779,487	2,498,112	17,723,531	4,510,089	4,759,331	4,468,465	-9.8%	-6.1%
Tax	1,505,146	1,530,703	1,648,386	363,088	5,047,323	1,282,237	1,349,772	1,569,617	-10.3%	16.3%
Profit After Tax	3,435,013	3,814,482	3,131,101	2,135,024	12,676,208	3,227,852	3,409,559	2,898,848	-9.5%	-15.0%
EPS (KES)	0.70	0.82	0.64	0.44	2.59	0.66	0.47	0.5	-24.5%	6.4%
DPS (KES)					0.80					
No. of shares	4,889,316	4,889,316	4,889,316	4,889,316	4,889,316	4,889,316	5,867,179	5,867,179		
Balance Sheet										
Total Shareholders' Equity	55,297,730	57,936,673	59,174,512	61,314,523	61,314,523	63,827,452	64,477,546	67,337,517	13.8%	4.4%
Non-controlling interest	382,582	-374,007	-369,812	-195,558	-195,558	215,536	196,522	176,342	-52.3%	-10.3%
Deposits due to Banks & Financial Institutions	5,745,751	1,315,008	2,800,224	3,411,977	3,411,977	1,769,854	1,407,597	1,226,379	-56.2%	-12.9%
Borrowed funds	19,822,412	14,788,908	26,483,179	19,813,260	19,813,260	24,276,912	24,341,096	27,989,100	5.7%	15.0%
Customer Deposits	261,703,941	278,252,423	257,796,883	260,153,437	260,153,437	279,846,932	285,753,364	288,964,029	12.1%	1.1%
Total Liabilities	295,805,028	305,446,000	295,243,492	290,737,285	290,737,285	314,850,509	319,045,270	321,138,218	8.8%	0.7%
Total Equity and Liabilities	350,720,176	363,008,666	354,048,191	351,856,250	351,856,250	378,893,497	383,326,294	388,299,393	9.7%	1.3%
Cash and CBK Balances	29,011,359	30,571,133	25,900,376	25,682,704	25,682,704	30,720,569	21,794,593	24,101,376	-6.9%	10.6%
Balances due from Banks & Financial Institutions	7,454,970	4,533,906	8,557,875	5,017,303	5,017,303	13,162,911	11,286,225	12,035,359	40.6%	6.6%
Balances due from group										
Government and Other Securities	73,969,102	81,318,426	70,656,836	61,916,908	61,916,908	64,369,217	74,199,805	71,189,160	0.8%	-4.1%
Net Loans and Advances	213,724,068	221,288,801	227,051,339	236,935,564	236,935,564	245,858,224	252,612,566	259,389,953	14.2%	2.7%
Fixed Assets	7,958,116	7,779,437	7,169,246	8,308,698	8,308,698	8,267,979	8,305,024	7,637,282	6.5%	-8.0%
Total Assets	350,720,175	363,008,665	354,048,191	351,856,250	351,856,250	378,462,425	383,326,294	388,299,393	9.7%	1.3%
Key Ratios										
Gross NPL (KES M)	8,581,586	10,253,392	9,988,087	11,274,174	11,274,174	11,234,835	12,222,665	16,931,341	69.5%	38.5%
Interest In Suspense (KES M)	1,250,139	1,215,940	998,489	1,128,934	1,128,934	946,488	971,548	897,372	-10.1%	-7.6%
Total NPL (KES M)	7,331,447	9,037,452	8,989,598	10,145,240	10,145,240	10,288,347	11,251,117	16,033,969	78.4%	42.5%
Loan Loss Provision (KES M)	3,113,946	3,780,032	3,860,942	3,868,538	3,868,538	3,527,216	4,492,687	5,559,896	44.0%	23.8%
Net NPL	4,217,501	5,257,420	5,128,656	6,276,702	6,276,702	6,761,131	6,758,430	10,474,073	104.2%	55.0%
NPL Ratio	4.0%	4.6%	4.3%	4.7%	4.7%	4.5%	4.8%	6.4%		
Coverage Ratio	36.3%	36.9%	38.7%	34.3%	34.3%	31.4%	36.8%	32.8%		
Cost of Risk	1.2%	1.2%	1.1%	1.1%	1.1%	1.2%	1.2%	1.6%		
Loan to Deposits	81.7%	79.5%	88.1%	91.1%	91.1%	87.9%	88.4%	89.8%		
Yield on Interest Earning Assets	14.5%	14.1%	14.2%	13.1%	13.9%	11.8%	11.5%	12.4%		
Cost of Funds	5.4%	4.3%	4.1%	4.0%	4.5%	3.7%	3.9%	4.1%		
NIM	9.1%	9.8%	10.1%	9.1%	9.4%	8.1%	7.7%	8.3%		
Non Funded/Total Income	33.8%	30.6%	27.6%	29.0%	30.2%	33.6%	35.6%	29.2%		
Cost to Income Ratio	45.0%	45.6%	50.6%	68.5%	52.1%	47.9%	48.0%	46.9%		
ROE	24.8%	26.3%	21.2%	13.9%	20.7%	20.2%	21.2%	17.2%		
ROA	3.9%	4.2%	3.5%	2.4%	3.6%	3.4%	3.6%	3.0%		
Core Capital/TRWA	15.4%	15.2%	15.7%	16.1%	16.1%	17.0%	15.9%	15.9%		
Total Capital/TRWA	21.7%	20.2%	22.2%	22.7%	22.7%	24.8%	22.8%	22.6%		
Liquidity Ratio	39.0%	41.6%	38.3%	33.7%	33.7%	38.2%	35.3%	35.0%		
P/E (x)								7.8		
P/B (x)								1.4		
Dividend Yield								5.0%		

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