

CO-OP BANK

“Defying a turbulent year”

Co-op Bank this morning announced FY16 results posting 8.3% y/y rise in net income to KES 12.7B. This marks the highest growth in the banking sector amongst the banks that have so far released earnings. The fairly robust growth was driven by a 27.1% y/y surge in net interest income (-10.8% q/q) on the back of higher NIMs (+150 bps y/y) and a solid 11.0% y/y growth (+4.4% q/q) in the loan book. We however note a massive claw back in earnings in 4Q16, with net earnings falling 31.8% q/q as NIM shrunk 110bps q/q spurred by the rate cap. A stable dividend of KES 0.80 was proposed plus a 1:5 bonus offer.

A slump in customer deposits and stable borrowed funds ease pressure on cost of funds

Cost of funds declined 20bps y/y (-10bps q/q). This was despite fears of a surge in in the same owing to the introduction of the rate cap in 4Q16. The cap demands a 70% floor (on CBR currently at 14.0%) to be paid on interest earnings deposits. The ease in costs was supported by a well diversified deposits portfolio, with fixed, savings and call accounts accounting for 38.0% of total deposits. Consequently, interest expense fell 6.0% y/y (-3.0% q/q) on the back of a 2.0% y/y decline (+0.9% y/y) in customer deposits to KES 260.2B. We see cost of funds holding stable in 1Q17 as the bank maintains a similar deposit mix. Borrowed funds grew marginally by 2.8% y/y to KES 19.8B but marked a massive 25.2% q/q decline as some of the matured borrowed funds were not replaced.

Non interest income fails to pull its weight as woes in South Sudan worsen

Owing to currency devaluation in South Sudan, foreign exchange income fell 43.5% y/y to KES 1.8B (-6.9% q/q) resulting in a 3.1% y/y decline (-4.4% q/q) in non interest income to KES 12.8B. This was despite a 180.4% acceleration in other income (+25.2% q/q) on the back of gains in fixed income trading, as well as a 3.0% y/y rise in fees and commissions (-2.8% q/q). Consequently, non funded income to total income fell 6.0% y/y to 30.2%.

Asset quality deteriorates as gross NPLs accelerate, cost of risk rises

Similar to trends projected by the other banks, Co-op Bank's gross NPLs surged 37.7% y/y (+12.9% q/q) to KES 11.3B as some accounts in the corporate, micro and SME spaces were not adequately serviced as the businesses faced liquidity constraints. The NPL ratio increased 90bps y/y (+40bps q/q) to 4.7%. Despite the rise, Co-op Bank's NPL ratio remains fairly decent compared to an estimated banking sector average of 10.0%. Cost of risk grew 20bps y/y (stable q/q) to 1.1% as annual loan loss provisions accelerated 28.7% y/y (+ 3.0% q/q). We remain cautious about worsening asset quality in the face of a challenging macro economic environment in 2017.

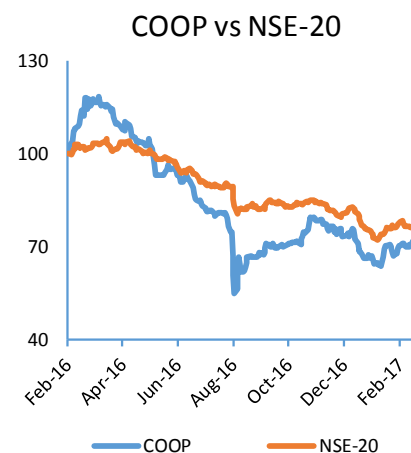
2017 outlook:

We see a challenging period in 2017 with constrained loan book growth as the government continues to crowd out the private sector. We expect NIMs to come down resulting in slowed net interest income growth. We also envisage a worsening stock of NPLs as the macro environment remains tough. Higher provisions are therefore likely to undermine bottom line performance. However, we may see some reprieve as costs ease with the cost to income ratio expected to fall below the current 52.1%.

Bloomberg Ticker :	COOP KN
Reuters Ticker:	COOP.NR

Share Statistics	
Current Price (KES)	12.90
Issued shares (M)	4,889
Market cap (USD)	611.5
Year end	Dec
Foreign ownership (%)	4.2
Free float (%)	35.4
Av daily trading vol (USD)	120,367

Price Trend



Source: Bloomberg

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	FY15	1Q16	2Q16	3Q16	4Q16	FY16	% chg y/y	% chg q/q
Income statement	KES '000	KES '000	KES '000	KES '000	KES '000	KES '000		
Interest income	36,791,204	10,665,826	10,806,269	10,867,545	9,925,081	42,264,721	14.9%	-8.7%
Interest expense	13,586,911	3,873,393	3,136,009	2,923,576	2,835,322	12,768,300	-6.0%	-3.0%
Net interest income	23,204,293	6,792,433	7,670,261	7,943,968	7,089,759	29,496,421	27.1%	-10.8%
Foreign exchange income	3,192,469	498,024	471,329	432,329	402,662	1,804,344	-43.5%	-6.9%
Gross fees and commissions	9,501,835	2,427,004	2,534,615	2,446,914	2,378,976	9,787,509	3.0%	-2.8%
Other income	421,775	538,713	306,734	149,816	187,393	1,182,656	180.4%	25.1%
Non interest income	13,185,486	3,463,750	3,385,670	3,029,059	2,896,030	12,774,509	-3.1%	-4.4%
Total operating income	36,389,779	10,256,183	11,055,931	10,973,027	9,985,789	42,270,930	16.2%	-9.0%
Loan loss provision	2,019,295	625,000	685,000	635,169	654,502	2,599,671	28.7%	3.0%
Total operating expenses	19,370,475	4,610,730	5,042,929	5,551,706	6,836,171	22,041,536	13.8%	23.1%
Profit before tax & exceptional items	15,000,009	5,020,453	5,328,002	4,786,152	2,495,116	17,629,723	17.5%	-47.9%
Early retirement costs	(1,908)	-	-	-	(3,738)	(3,738)	95.9%	
Share of profit of associate	384,991	80,294	17,183	(6,665)	6,734	97,546	-74.7%	-201.0%
Profit before tax	15,383,092	5,100,747	5,345,185	4,779,487	2,498,112	17,723,531	15.2%	-47.7%
Tax	3,677,533	1,505,146	1,530,703	1,648,386	363,088	5,047,323	37.2%	-78.0%
Profit after tax	11,705,559	3,595,601	3,814,482	3,131,101	2,135,024	12,676,208	8.3%	-31.8%
EPS (KES)	2.39	0.74	0.78	0.64	0.44	2.59	8.3%	-31.8%
DPS (KES)	0.80					0.80	0.0%	
No. of shares	4,889,316	4,889,316	4,889,316	4,889,316	4,889,316	4,889,316		
Balance sheet (KES 000)	FY15	1Q16	2Q16	3Q16	4Q16	FY16	% chg y/y	% chg q/q
Total shareholders' equity	50,207,064	55,297,730	57,936,673	59,174,512	61,314,523	61,314,523	22.1%	3.6%
Non-controlling interest	-386,497	-382,582	-374,007	-369,812	-195,558	-195,558	-49.4%	-47.1%
Deposits due to banks	3,421,219	5,745,751	1,315,008	2,800,224	3,411,977	3,411,977	-0.3%	21.8%
Borrowed funds	19,271,212	19,822,412	14,788,908	26,483,179	19,813,260	19,813,260	2.3%	-25.2%
Customer deposits	265,398,587	261,703,941	278,252,423	257,796,883	260,153,437	260,153,437	-2.0%	0.9%
Total liabilities	292,697,620	295,805,028	305,446,000	295,243,492	290,737,285	290,737,285	-0.7%	-1.5%
Total equity and liabilities	342,518,187	350,720,176	363,008,666	354,048,192	351,856,250	351,856,250	2.7%	-0.6%
Cash and CBK balances	29,455,691	29,011,359	30,571,133	25,900,376	25,682,704	25,682,704	-12.8%	-0.8%
Balances due from banks	13,977,237	7,454,970	4,533,906	8,557,875	5,017,303	5,017,303	-64.1%	-41.4%
Government and other securities	64,926,424	73,969,103	81,318,426	70,656,836	61,916,908	61,916,908	-4.6%	-12.4%
Net loans and advances	213,383,555	213,724,068	221,288,801	227,051,339	236,935,564	236,935,564	11.0%	4.4%
Fixed assets	8,020,778	213,724,068	7,779,437	7,169,246	8,308,698	8,308,698	3.6%	15.9%
Total assets	342,518,187	350,720,175	363,008,667	354,048,191	351,856,250	351,856,250	2.7%	-0.6%
Key ratios	FY15	1Q16	2Q16	3Q16	4Q16	FY16	% chg y/y	% chg q/q
Gross NPL (KES 000)	8,189,196	8,581,586	10,253,392	9,988,087	11,274,174	11,274,174	37.7%	12.9%
Interest in suspense (KES 000)	1,058,631	1,250,139	1,215,940	998,489	1,128,934	1,128,934	6.6%	13.1%
Total NPL (KES 000)	7,130,565	7,331,447	9,037,452	8,989,598	10,145,240	10,145,240	42.3%	12.9%
Loan loss provision (KES 000)	3,577,424	3,113,946	3,780,032	3,860,942	3,868,538	3,868,538	8.1%	0.2%
Net NPL	3,553,141	4,217,501	5,257,420	5,128,656	6,276,702	6,276,702	76.7%	22.4%
NPL ratio	3.8%	4.0%	4.6%	4.3%	4.7%	4.7%	0.9%	0.4%
Cost of risk	0.9%	1.2%	1.2%	1.1%	1.1%	1.1%	0.2%	0.0%
Loan to deposits	80.4%	81.7%	79.5%	88.1%	91.1%	91.1%	10.7%	3.0%
Yield on interest earning assets	12.6%	14.5%	14.1%	14.2%	13.1%	13.9%	1.3%	-1.1%
Cost of funds	4.7%	5.4%	4.3%	4.1%	4.0%	4.5%	-0.2%	-0.1%
NIM	7.9%	9.1%	9.8%	10.1%	9.1%	9.4%	1.5%	-1.1%
Non funded/Total income	36.2%	33.8%	30.6%	27.6%	29.0%	30.2%	-6.0%	1.4%
Cost to income ratio (CTI)	53.2%	45.0%	45.6%	50.6%	68.5%	52.1%	-1.1%	17.9%
ROE	23.3%	26.0%	26.3%	21.2%	13.9%	20.7%	-2.6%	-7.2%
ROA	3.4%	4.1%	4.2%	0.9%	0.6%	3.6%	0.2%	-0.3%
Core capital/TRWA	15.7%	15.4%	15.2%	15.7%	16.1%	16.1%	0.4%	0.4%
Total capital/TRWA	22.4%	21.7%	20.2%	22.2%	22.7%	22.7%	0.3%	0.5%
Liquidity ratio	37.1%	39.0%	41.6%	38.3%	33.7%	33.7%	-3.4%	-4.6%
P/E (x)						5.0		
P/B (x)						1.0		
Dividend Yield (%)						6.2		

Source: Company, ApexAfrica estimates

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