

Co-op Bank – FY17 Earnings Update- ‘Still Stuck in the Mud’

Co-op bank registered a **10.0% y/y (-35.5% q/q)** drop in net earnings to **KES 11.4B**. The performance was attributable to a tough 4Q17 due to the stretched electioneering period which saw its loan book and deposits contract **2.1% q/q** and **0.6% q/q** respectively. In addition, the prevailing rate cap has weighed down on performance across the banking sector. In line with expectations, the lender announced a proposed total dividend of **KES 0.80**.

Total interest income dipped **4.5% y/y (-0.7% q/q)** to **KES 40.4B** despite the growth in the lender’s loan book (+7.1% y/y to KES 253.9B) and its total stock of government securities (+17.4% y/y to KES 72.7B). The growth in the lender’s loan book was supported by a 35.3% contribution of personal loans to total loans (+6.4% y/y) and a 17.9% contribution of mortgage loans (+1.8%) to total loans.

Total interest expenses shrunk **3.9% y/y (-1.8% q/q)** to **KES 12.3B** despite customer deposits increasing 10.5% y/y (-0.6% q/q) to KES 287.4B. Deposit distribution saw retail lead with a 22.8% (+2.6% y/y) contribution to the total deposit base followed by SME which accounted for 17.6% (+1.9% y/y) of deposits. Co-op bank’s total interest income decreased faster than its total interest expenses which saw its net interest income slide 4.7% y/y (-0.2% q/q) to KES 28.1B and its net interest margin contract to 7.8% (130bps y/y).

Total non-interest income rose **5.6% y/y (+10.4% q/q)** to **KES 13.5B** attributable to robust foreign exchange income (+ 23.6% y/y to KES 2.2B). Non-funded income comprised 32.4% of total income, a gallop of 220bps y/y.

Total operating expenses marginally dropped **1.4% y/y to KES 21.7B**, registering a largely unchanged cost-to-income ratio of 52.2% (+10bps y/y). Co-op bank’s focus on electronic delivery channels and better management and control of bank resources may push the lender’s cost-to-income ratio slightly lower than 50%.

Loan loss provision expenses hiked **38.5% y/y to KES 3.6B** on the back of higher gross non-performing loans (+66.4% y/y to KES 18.8B). This is as a result of aggressive lending to the real estate sector, which has experienced a slow-down in the past year. Their focus on SME lending has also led to the increase in NPLs but is expected to bear fruit on margins if the rate cap is repealed in the coming months. Consequently, the lender’s NPL ratio worsened to 7.2% (+250bps y/y) but is still below the industry average of 10.6%. Co-op Bank’s coverage ratio of 32.5% is at the lower spectrum of the banking sector and remains a key threat for the bank to effectively manage its financial obligations.

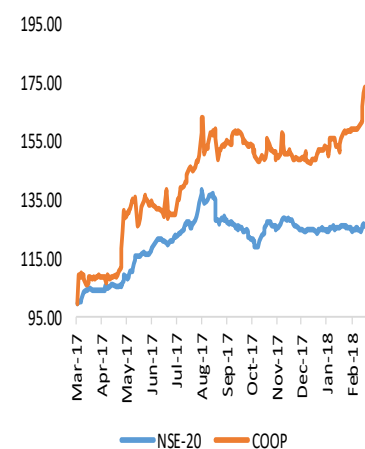
Looking ahead, the lender’s ability to attract cheap deposits will give headroom for loan book growth and its quest in implementing better NPL management will lift weight off its bottom line. It’s leasing joint venture with Super Group Africa may boost loan book growth as well as non-interest income going forward. **The stock trades at 10.0x P/E, 1.6x P/B and a dividend yield of 4.1%.**

Bloomberg Ticker : COO.PKN
Reuters Ticker: COOP.NR

Share Statistics	
Current Price (KES)	19.40
Issued shares (M)	5,867.2
Market cap (USD M)	992.1
Year end	Dec
Foreign ownership (%)	4.2
Free float (%)	32.2
Av daily trading vol (USD M)	1,100.5

Price Trend

COOP vs NSE-20



Source: Bloomberg

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	FY16	1Q17	2Q17	3Q17	4Q17	FY17	% chg y/y	% chg q/q
	KES '000	KES '000	KES '000	KES '000	KES '000	KES '000		
Income Statement								
Interest Income	42,264,721	9,517,597	9,740,234	10,594,992	10,520,365	40,373,188	-4.5%	-0.7%
Interest Expense	12,768,300	2,831,307	3,008,314	3,244,184	3,185,414	12,269,219	-3.9%	-1.8%
Net Interest Income	29,496,421	6,686,290	6,731,920	7,350,808	7,334,951	28,103,969	-4.7%	-0.2%
Foreign Exchange Income	1,804,344	560,271	683,331	296,514	690,794	2,230,910	23.6%	133.0%
Gross Fees and Commission	9,787,509	2,571,122	2,691,691	2,585,739	1,966,859	9,815,411	0.3%	-23.9%
Other Income	1,182,656	257,204	342,526	152,291	620,822	1,372,843	16.1%	307.7%
Non Interest Income	12,774,509	3,388,597	3,717,548	3,034,544	3,351,351	13,492,040	5.6%	10.4%
Total Operating Income	42,270,930	10,074,887	10,449,468	10,385,352	10,686,302	41,596,009	-1.6%	2.9%
Total Operating Expenses	22,041,536	4,826,350	5,011,572	4,870,929	7,017,172	21,726,023	-1.4%	44.1%
Loan Loss Provision Expense	2,599,671	750,000	759,311	1,052,754	1,039,187	3,601,252	38.5%	-1.3%
Operating Profit	20,229,394	5,248,537	5,437,896	5,514,423	3,669,130	19,869,986	-1.8%	-33.5%
Profit Before Tax and exceptional items	17,629,724	4,498,538	4,678,584	4,461,670	2,629,942	16,268,734	-7.7%	-41.1%
Exceptional items- early retirement costs	3,738	0	0	0	0	0		
Exceptional items- share of profit of associate	97,546	11,552	80,747	6,794	30,811	129,904	33.2%	353.5%
Profit Before Tax	17,723,532	4,510,091	4,759,330	4,468,464	2,660,753	16,398,638	-7.5%	-40.5%
Current Tax	5,047,323	1,282,237	1,349,772	1,569,617	791,947	4,993,573	-1.1%	-49.5%
Profit After Tax	12,676,209	3,227,853	3,409,559	2,898,847	1,868,806	11,405,065	-10.0%	-35.5%
EPS (KES)	2.16	0.55	0.58	0.49	0.32	1.94	-10.0%	-35.5%
DPS (KES)	0.80					0.80	0.0%	
Balance Sheet								
Total Shareholders' Equity	61,118,965	63,611,916	64,281,024	67,337,517	69,564,967	69,564,967	13.8%	3.3%
Deposits due to Banks & Financial Institutions	3,411,977	1,769,854	1,407,597	1,226,379	373,464	373,464	-89.1%	-69.5%
Balances due to banking institutions in the group	0	0	0	0	0	0		
Customer Deposits	260,153,437	279,846,932	285,753,364	288,964,029	287,371,708	287,371,708	10.5%	-0.6%
Total Liabilities	290,737,285	314,850,509	319,045,270	321,138,218	316,564,707	316,564,707	8.9%	-1.4%
Total Equity and Liabilities	351,856,250	378,462,425	383,326,294	388,475,735	386,129,674	386,129,674	9.7%	-0.6%
Cash and CBK Balances	25,682,704	30,720,569	21,794,593	24,101,376	24,260,196	24,260,196	-5.5%	0.7%
Balances due from Banks & Financial Institutions	5,017,303	5,017,303	11,286,225	12,035,359	7,730,354	7,730,354	54.1%	-35.8%
Government and Other Securities	61,916,908	64,369,217	74,199,805	71,189,160	72,682,053	72,682,053	17.4%	2.1%
Net Loans and Advances	236,935,564	245,858,224	252,612,566	259,389,953	253,861,644	253,861,644	7.1%	-2.1%
Fixed Assets	8,308,698	8,267,979	8,305,024	7,637,282	7,493,574	7,493,574	-9.8%	-1.9%
Total Assets	351,856,250	378,462,425	383,326,294	388,299,393	386,857,657	386,857,657	9.9%	-0.4%
Key Ratios								
Gross NPL (KES M)	11,274,174	11,234,835	12,222,665	16,931,341	18,761,317	18,761,317	66.4%	10.8%
Interest In Suspense (KES M)	1,128,934	946,488	971,548	897,372	948,481	948,481	-16.0%	5.7%
Total NPL (KES M)	10,145,240	10,288,347	11,251,117	16,033,969	17,812,836	17,812,836	75.6%	11.1%
Loan Loss Provision (KES M)	3,868,538	3,527,216	4,492,687	5,559,896	6,102,049	6,102,049	57.7%	9.8%
Net NPL	6,276,702	6,761,131	6,758,430	10,474,073	11,710,787	11,710,787	86.6%	11.8%
NPL Ratio	4.7%	4.5%	4.8%	6.4%	7.2%	7.2%		
Coverage Ratio	34.3%	31.4%	36.8%	32.8%	32.5%	32.5%		
Cost of Risk	1.1%	1.2%	1.2%	1.6%	1.6%	1.4%		
Loan to Deposits	91.1%	87.9%	88.4%	89.8%	88.3%	88.3%		
Yield on Interest Earning Assets	13.9%	12.1%	11.5%	12.4%	12.6%	12.1%		
Cost of Funds	4.8%	4.0%	4.2%	4.5%	4.4%	4.3%		
NIM	9.1%	8.1%	7.3%	7.9%	8.2%	7.8%		
Non Funded/Total Income	30.2%	33.6%	35.6%	29.2%	31.4%	32.4%		
Cost to Income Ratio	52.1%	47.9%	48.0%	46.9%	65.7%	52.2%		
ROE	20.7%	20.3%	21.2%	17.2%	10.7%	16.4%		
ROA	3.6%	3.4%	3.6%	3.0%	1.9%	2.9%		
Core Capital/TRWA	16.1%	17.0%	15.9%	15.9%	15.8%	15.8%		
Total Capital/TRWA	22.2%	24.8%	22.8%	22.6%	22.0%	22.0%		
Liquidity Ratio	33.7%	38.2%	35.3%	35.0%	33.8%	33.8%		
P/E (x)						10.0		
P/B (x)						1.6		
Dividend Yield (%)						4.1		

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