

Coop Bank Half Year Earnings Update

Coop bank has just reported a 5% increase in PAT which was below our 7% growth forecast. This underperformance was mainly attributed to a decline in the bank's net interest income as interest income declined 1.7% while interest expense rose 3.5%. Meanwhile, non-interest income growth of 25.11% (above our expectations of an 18% growth) was driven by an increase in fees and commission income. We maintain our **BUY** recommendation on the counter with a target price of KES 17.5 as we anticipate a stronger 2H19 as the bank grows its loan book.

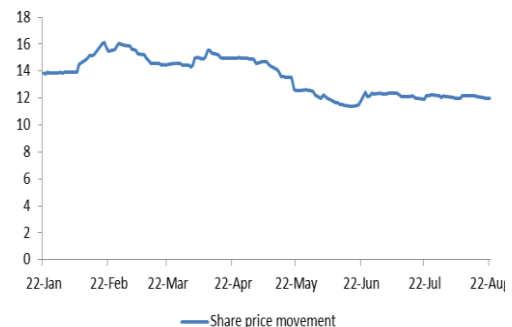
- Profit after tax (PAT) was up 5% to 7.5Bn from 7.1Bn registered in HY18. This was attributed to a 25.11% rise to KES 8.8Bn from KES 7Bn in HY18 and the management of operating costs. The cost to income ratio was flat at 50%
- The net interest income was down 4% mainly due to a 1.7% decline in interest income while interest expense rose 3.5%. The decline in interest income was attributed to a decline in both the yield on loans and the loan book. The bank's average yield on loans declined to 11.4% in 2Q19 from 12.4% in 2Q18. Meanwhile, the increase in interest expense was driven by a 9.0% increase in customer deposits, which the bank was able to achieve even as the cost of deposits declined to 1.66% from 1.81% in 1H18.
- The non-funded income growth of 25.1% driven by increase in fees & commission income. The bank made up for the decline on yield on loans by increasing their fees and commissions on loans and advances. We believe that the bank will continue to focus on alternative channels as it aims to grow this line item.

Date: 22nd August 2019

Target Price: KES 17.5

52 week range: KES 20.00 to KES 11.20

Latest Results: HY2019, KES 7.5 Bn



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Income statement(KES Millions)	HY19	HY18	% Change
Loans and advances to Customers	14,671	16,133	-9.06%
Loans n Adv to Banks	221	99	123.81%
Government Securities	5,533	4,548	21.65%
Interest Income	20,425	20,780	-1.70%
Deposits from Customers	5,356	5,365	-0.16%
Deposits from Banks	21	28	-26.17%
Other interest expense	795	573	38.77%
Interest Expense	6,172	5,966	3.45%
Net interest income	14,254	14,814	-3.78%
Non interest income	8,752	6,995	25.11%
Total operating income	23,005	21,809	5.49%
Operating Expenses	11,414	10,881	4.90%
Operating profit	11,591	10,928	6.07%
Loan loss provisions	1,181	1,093	8.05%
PBT and associate income	10,410	9,835	5.85%
Share of profit of associate	27	141	-81.08%
PBT	10,437	9,976	4.62%
Tax	2,967	2,836	4.64%
Profit after tax	7,469	7,140	4.61%

Balance sheet	HY19	HY18	% Change
Cash with CBK	28,357	16,710	-41.08%
Government securities	94,971	80,184	-15.57%
Deposits due from banks	16,754	13,453	-19.70%
Loans and advances	257,564	251,110	2.57%
Other assets	31,945	39,970	25.12%
Total assets	429,591	398,427	-7.25%
Liabilities			
Customer deposits	323,600	296,965	8.97%
Balances due to banks	1494.468	3193.775	-53.21%
Borrowed funds	21,465	18,426	16.49%
Other liabilities	10,639	11,055	-3.76%
Total liabilities	357,198	329,639	8.36%
Shareholders Equity	71,006	68,018	4.39%
Non controlling interest	1,386	770	80.17%
Total liabilities & Equity	429,591	398,427	7.82%

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