Earnings Update:

COOP

19th March 2018

AIB Capital Ltd.

Your Vision... Our Mission

Recommendation:

HOLD

Target Price: **KES 21.00**

Price on 19th March 2018:
KES 19.10

52-week Trading Range:
KES 11.30 to KES 19.90

EPS:
KES 1.94

P/E
9.8X

ROaE
17.4%

ROaA
3.1%

Dividend Yield:
9.4%

Market cap:
KES 111.5Bn

Estimated free float:
32.5%

Shares Outstanding:
5867.2 Million

Latest Full Year Results:
The full Year 2017

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COOPERATIVE BANK

Profits After Tax declines by 10.2%

Co-operative bank (COOP) released their Full-Year 2017 (FY17) results, posting a Profit before Tax (PBT) of **KES 16.4 Bn** compared to FY16 PBT of **KES 17.7 Bn,** a decrease of **7.3%.** Profit after Tax of registered a **10.2%** decline to **KES 11.4Bn** from **KES 12.7Bn** over the same period**.** The actual FY17 PBT (**KES 16.4 Bn**) and FY 17 PAT (**KES 11.4 Bn**) results were marginally below our expectation of **KES 17.1 Bn** and **KES 12.1 Bn** respectively.

The board proposed a final dividend of **0.80 cents** in addition to the previous interim dividend of **KES 1.00** for a total FY17 dividend of **KES 1.80,** which is the equivalent to the total dividends distributed in FY16.

Balance Sheet:

Cooperative bank saw its Total assets grow by **9.9%** to **KES 386.9 Bn** in FY17 from **KES 351.9Bn** witnessed in the same period last year. The upswing in Total assets was driven mainly by the **7.2%** increase in the loan book to **KES 253.9Bn** in FY17 from **KES 236.9Bn** in FY16. Government securities held also grew by **19.7%,** fueled by the **9.2%** increase in customer deposit**.** FY17 Shareholders' funds rose to **KES 69.6Bn**, an increase of **13.5%** from **KES 61.3Bn** in FY16. This increase was attributed to the steady growth in retained earnings and a progressive dividend policy.

Interest Income Decline:

The bank posted an interest income of **KES 40.4Bn** in FY17 a **4.5%** underperformance from the **KES 42.3Bn** penned in FY16**.** This decline was due to interest capping despite and slowed economic activity. The Net interest income also saw a marginally **4.7%** fall to **KES 28.1Bn** in FY17 from **KES 29.5Bn** in FY16. In FY17, Net interest margin declined to **8.9%** from **10.5%** in 2016.

The Non-Funding Income in FY17 rose to **KES 13.5Bn** from the **KES 12.8Bn** recorded in 2016. The **5.6%** growth in Non-Funded Income was driven by improved fees and commissions on loans and advances despite a decrease in ledger fees.

The Return On average Equity (ROaE) in FY17 decelerated to **17.4%** from **22.9%** in FY16. The return on average assets (ROaA) in FY17 also abated to **3.1%** from the **3.6%** witnessed in FY16.The decrease in ROaA and ROaE was due to the decline in profitability.

The Earning per Share (EPS) registered in FY17 declined to **KES 1.94** from the **KES 2.16** realized in FY16. The softening of the EPS resulted in an FY17 price to earnings ratio (P/E) of **9.8X**. The FY17 Price to Book Value (P/B) firmed up to **1.47x** from the FY16 of P/B ratio of **1.8x** on the back of growth in Book Value. The cost to income ratio (CTI) went up **60.9%** from **58.3%** in 2016 and this is due to the increase in cost versus declining income.

Challenges:

The Kenyan unit remains to be a huge contributor to the group's figures. The prolonged elections affected the profits in Q4 leading to the decrease in profits in 2017 which led to the slowdown in private sector.

Forecast 2018:

If the interest rate cap is revised or removed and the stabilization of the political environment we project a price of **KES 21.00** compared to **KES 19.00** currently. The EPS will grow. The bank's management is optimistic about an improved economy in 2018. The management projects the loans and advances to increase by **14%**, the cost to income ratio to decrease to **48%** due to improved interest income, cost of funds to decrease to **3.8%** and cost of risk to increase to **1.6%.** Non-performing loans to remain flat at **7%** net interest income to increase to **9%**. Cost of fund and cost of risk will be affected by the IFRS 9 which came into effect this year.

CERTIFICATIONS AND REQUIRED DISCLOSURES BEGIN ON PAGE 2

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Research Disclosure

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