

Cooperative Bank : FY19

Coop bank released its FY19 earnings reporting a **12.4%** increase in PAT to **KES 14.3Bn** from **KES 12.7Bn** recorded in FY18. This was above our forecasted 8% growth for FY19. This performance was mainly attributed to an increase in non-interest income which recorded a 33% growth.

Key highlights:

- **Increased mobile lending leads to subdued interest income growth:** During the year, the bank focused on increasing the number of transactions made through MCo-op Cash. The bank's loan book was up 8.7% as it increased its lending to the personal banking sector. However, interest income was up a merger 1.4% as most of the income from the mobile platform was in the form of Fees & Commission income which grew 47%.
- **Mobilization of cheap deposits helps reduce the growth of interest expense:** The bank was able to mobilize cheap retail deposits and managed to contain the growth of interest expense (up 0.8%) even as the deposit book was up 8.6%.
- **NPL ratio deteriorates to 11.2%:** The bank's NPLs are mainly from the Trade (32%), Personal consumer (18%) and Manufacturing (16%) sectors. During the period, the personal consumer book improved while NPLs in the Manufacturing sector increased. Meanwhile, provisions were up 38% which lead to an increase in coverage (52% in 2019 versus 48% in 2018).

Our View

- Digital banking continues to play a key role in the bank and it is likely to drive the growth of non-interest income. Currently loans worth KES 43.1 billion (24% of the bank's loan book) have been disbursed and it contributed 30% to non-interest income. This has helped drive the growth of non-funded income but led to subdued interest income growth.
- We view the bank's reduced exposure to the Building and construction sector as positive (currently at 2% of the loan book) as the poor performance in the sector is likely to continue to lead to an increase in NPLs. The sector accounted for 9% of the bank's total NPLs up from 4% in 2018.
- The bank's NPL ratio might continue to deteriorate. Following the measures taken by the government to decrease the spread of corona virus, economic activity is expected to decrease. Businesses will find it difficult to service their loans and NPLs in the banking sector are expected to increase in 2020.

March 19, 2020

Recommendation: BUY

Target Price: 17.50

Current Price: 12.55

Upside/Downside: 39%

52 week range:

KES 10.05 to KES 17.00

Earnings Per Share: KES 2.48

Latest Results: FY2019, KES 14.7Bn

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Income statement(KES Millions)	FY19	FY18	% Change
Loans and advances to Customers	31,779	32,946	-3.54%
Loans n Adv to Banks	506406	288966	75.25%
Government Securities	11,354	9,789	15.99%
Interest Income	43,639	43,025	1.43%
Deposits from Customers	10,661	10,890	-2.10%
Deposits from Banks	110551	133813	-17.38%
Other interest expense	1565	1216	28.70%
Interest Expense	12,336	12,240	0.78%
Net interest income	31,303	30,785	1.68%
Non interest income	17,157	12,894	33.06%
Total operating income	48,460	43,678	10.95%
Operating Expenses	27,794	25,692	8.18%
Operating profit	14,311	12,732	12.40%
Loan loss provisions	2,539	1,841	37.91%
PBT and associate income	20,665	17,985	14.90%
Share of profit of associate	40	171	-76.61%
PBT	20,705	18,157	14.03%
Tax	6,395	5,425	17.88%
Profit after tax	14,311	12,732	12.40%

Balance sheet	FY19	FY18	% Change
Cash with CBK	20,069	22,669	-11.47%
Government securities	76,872	49,701	54.67%
Deposits due from banks	2,588	7,880	-67.16%
Loans and advances	266,712	245,410	8.68%
Other assets	12,876	20,343	-36.71%
Total assets	457,009	413,413	10.55%
Liabilities			
Customer deposits	332,824	306,117	8.72%
Borrowed funds	26,424	23,950	10.33%
Other liabilities	16,686	11,365	46.82%
Total liabilities	376,152	342,196	9.92%
Shareholders Equity	79,335	69,864	13.56%
Non controlling interest	1,522	1353	12.49%
Total liabilities & Equity	457,009	413,413	10.55%

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