

PBT growth slightly ahead of FY guidance

COOP's PBT increased by 33% y/y to KES 12.2bn, slightly ahead of management's full year guidance of 30%. The beat can be ascribed to a lower base as 9M14's PBT had increased by only 2.5%/y/y (1H14; +15%). The growth in 9M15 PBT, 200bps faster than 1H15's, was achieved despite a q/q deterioration in both CIR and CoR.

- Run-rate PBT of KES 16.1bn is 7% ahead of earlier estimates, the variance due to higher CIR and lower CoR projections of 50% and 0.7% respectively. 9M15's CoR came in at 1% after impairment charges doubled while CIR declined by 920bps y/y to 49% owing to lower staff costs (-7%). An additional boost was South Sudan's contribution to group profits buoyed by forex trading coupled by revenues from tax collection. Forex income grew by 59.6% to KES1.75bn, c.30% ascribed to the South Sudan business.
- NIMs declined by 50bps y/y to 9.1%, more resilient than EQB's (closest in customer profile) 80bps decline. Given the change in the interest rate environment, COOP intends to maintain the interest charged on existing loans while new loans will be issued 200bps higher as from November. Management attributes the more conservative increment to the fact that unlike a similar period in 2011 when lending rates increased by as much as 10% due to a prolonged surge in interest rates, the current situation is more transient. The 91day T-bill last week shed off 507bps to 13.76% signaling the gradual normalization of short term rates.
- In the just concluded period, COOP was a net lender in the interbank market as highlighted by a 136% increase in lending to KES 16.1bn within the quarter versus an 11%q/q decline in borrowings to KES 3.9bn. Their net-lending position was enabled by a relatively higher liquidity buffer of 12.9% vs. KCB's 6.2%. Loan and deposit growth remained robust at 20.7% and 26.5% respectively. Meanwhile COOP secured long-term debt of USD 337.39m from its development finance partners which is set to support high demand for foreign denominated loans from export oriented enterprises. KES 10.7bn from the IFC is specifically targeted to finance SME's as well as low-income mortgages.
- Impairments for the period doubled y/y to KES 1.5bn. This was mainly precautionary although it is also in line with management's objective to gradually improve its IFRS coverage ratio which increased from 34.1% in 3Q14 to 48.7% in 3Q15. Asset quality however improved by 40bps to 4.1%.

We maintain BUY at new TP of KES 21.83 (Prev. BUY at new TP of KES 25.97)

The decline in TP is largely due to a change in our risk-free rate assumption to 14% (+200bps) to reflect the surge in Kenyan interest rates. We also adjust our CoR and CIR to mgmt guidance resulting in EPS forecasts changes (FY15; +3.8%, FY16F; -4.9% and FY17F; +2.5%) to KES 2.17, 2.71, 3.33 respectively. Like EQB we expect COOP to accrue the benefits of NIMs expansion, especially upon re-pricing of new loans. CARs remain comfortable at 14.2% and 21.2% respectively supporting lending, which might however be tempered given high interest rates. 9M15 RoAE was 24.8% while the bank trades at a forward P/B of 1.66x. **BUY**

9th November 2015

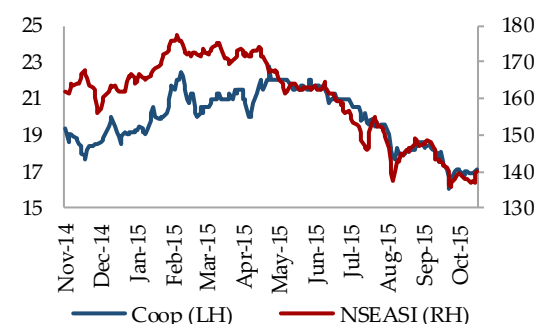
Share Data	
BIC	COOP.KN
RIC	COOP.NR
Recommendation	BUY
Last Price	19.70
Target Price	21.83
Upside	27.7%
Market Cap (USD'bn)	0.82
3M Av Daily Traded Val (USD'm)	0.14
Free Float	33%

Source: Bloomberg; NIC Securities Research

Key data

	KES 'M	FY13A	FY14A	FY15F	FY16F	FY16F
PBT	10,512	11,988	15,128	18,920	23,277	
EPS	2.17	1.64	2.17	2.71	3.33	
%Ch	18.0%	-24.6%	32.1%	25.1%	23.0%	
DPS	0.50	0.50	0.50	0.63	0.77	
%Ch	-	-	-	25%	23%	
NIMs	10.6%	9.9%	9.0%	8.3%	8.2%	
CIR	59.5%	59.0%	49.5%	49.6%	48.3%	
P/E (x)	8.18	12.66	7.90	6.31	5.13	
P/B (x)	1.81	2.34	1.66	1.36	1.12	
ROaE	27.6%	20.0%	22.6%	23.7%	24.0%	
ROaA	4.2%	3.1%	3.3%	3.4%	3.5%	

Price Performance, KES



Price Performance %	3M	6M	9M	1Y
Absolute	-13	-22	-14	-15
Relative to NSE	-8	-3	2	-3

Source: NSE data, NIC Securities Research

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Valuation– We maintain BUY at TP KES 21.83

Gordon Growth Valuation:

We derive our TP using a two stage Gordon growth model.

We make the following assumptions

- Long term growth rate of 7.5% based on expected GDP growth.
- Risk free rate of 14% based on the average yield of a 10yr Treasury bond
- Equity risk premium of 5%
- Beta of 1.0 on stock's volatility relative to index
- Long term RoE of 23.8% based on FY20 forecast.

Valuation

Valuation Date	11/09/15
Common Shares(M)	4889,3
Long term growth rate	7.5%

Cost of Equity

Long Term CoE	19.0%
Beta	1.0
Risk free rate	14.0%
Equity Premium	5.0%

	FY12	FY13	FY14A	FY15F	FY16F	FY17F	FY18F	FY19F	FY20F
Medium Term									
Book Value	29,238.8	36,773.6	43,330.8	50,392.4	61,180.5	74,407.8	90,253.0	109,487.0	132,749.2
ROE	30.9%	27.6%	20.0%	22.6%	23.7%	24.0%	23.8%	24.2%	23.8%

Stage 2 (Long Term)

ROE	23.8%
Target P/BV	1.42
FY20F Target Market Cap	188,383.21
Discount Period	4.15
Discount Factor	0.49
Discounted Mkt Capt	91,554.05
Dividend Yield	2.4%
Target Price	21.83
Current Price	17.10
Upside (Downside)	27.7%
Recommendation	BUY

Source: Company financials; NIC Securities Research

COOP Bank Key Old and New Forecasts

Income Statement KES 'M	FY15F		FY16F		FY17F	
	Old	New	Old	New	Old	New
Interest Income	34,253	34,726	39,537	40,455	47,263	48,264
% Change y/y	16.7%	18.3%	15.4%	16.5%	19.5%	19.3%
Interest Expense	(10,171)	(10,171)	(12,238)	(12,239)	(14,674)	(14,675)
% Change y/y	25.9%	25.9%	20.3%	20.3%	19.9%	19.9%
Net Interest Income	24,082	24,555	27,299	28,216	32,589	33,589
% Change y/y	13.2%	15.4%	13.4%	14.9%	19.4%	19.0%
Non funded Income	11,331	11,398	14,266	14,355	17,231	17,328
% Change y/y	4.8%	5.4%	25.9%	25.9%	20.8%	20.7%
Total Income	35,413	35,954	41,565	42,571	49,821	50,917
% Change y/y	10.4%	12.1%	17.4%	18.4%	19.9%	19.6%
Operating Expenses	(17,870)	(17,813)	(20,057)	(21,132)	(25,192)	(24,618)
% Change y/y	-5.6%	-5.9%	12.2%	18.6%	25.6%	16.5%
Loan Loss Provisions	(3,242)	(3,337)	(1,977)	(2,908)	(2,373)	(3,490)
% Change y/y	175.7%	183.9%	-39.0%	-12.9%	20.0%	20.0%
Profit Before Tax	14,301	15,128	19,530	18,920	22,255	23,277
% Change y/y	19.3%	38.6%	36.6%	25.1%	14.0%	23.0%
Tax Charge	(4,388)	(4,538)	(5,976)	(5,676)	(6,817)	(6,983)
Profit After Tax	9,913	10,590	13,554	13,244	15,438	16,294
% Change y/y	9.1%	32.1%	36.7%	25.1%	13.9%	23.0%
EPS (KES)	2.09	2.17	2.85	2.71	3.25	3.33
% Change y/y	27.7%	32.1%	36.2%	25.1%	14.1%	23.0%
DPS (KES)	0.50	0.50	0.68	0.63	0.78	0.77
% Change y/y	0.0%	0.0%	36.2%	25.1%	14.1%	23.0%
Loans	224,496.18	231,257.89	274,709.91	282,070.53	330,279.70	338,318.04
% Change y/y	25.1%	28.8%	22.4%	22.0%	20.2%	19.9%
Deposits	263,414.97	263,414.97	317,415.04	317,415.04	380,898.05	380,898.05
% Change y/y	21.0%	21.0%	20.5%	20.5%	20.0%	20.0%
NPLs	9,261.78	9,535.63	10,734.40	11,051.79	13,559.25	13,960.16
% Change y/y	16.0%	19.5%	15.9%	15.9%	26.3%	26.3%

Source: NIC Securities Research

COOP Bank Quarterly Financials

Quarterly Comparisons (KES'm)	3Q15	3Q14	% Ch y/y	3Q15	2Q15	% Ch q/q
Total Interest Income	25,953	20,855	24.4%	9,269	8,518	8.8%
Total interest expenses	(8,574)	(5,818)	47.4%	(3,665)	(2,590)	41.5%
Net interest income	17,378	15,037	15.6%	5,604	5,928	-5.5%
Total non-interest income	9,181	8,394	9.4%	3,280	3,030	8.2%
Total Income	26,559	23,431	13.3%	8,884	8,958	-0.8%
Total Operating expenses	(13,060)	(13,679)	-4.5%	(4,668)	(4,440)	5.1%
Loan Loss Provision	(1,520)	(748)	103.1%	(853)	(317)	169.0%
Profit Before Taxation	12,164	9,132	33.2%	3,411	4,250	-19.7%
Profit After Taxation	8,621	6,313	36.6%	2,381	3,067	-22.4%
Earnings per share	2.31	1.72	36.6%	1.95	2.51	-22.4%
Loans	212,360	175,970	20.7%	212,360	204,840	3.7%
Deposits	253,532	200,439	26.5%	253,532	248,347	2.1%
Assets	332,885	270,677	23.0%	332,885	325,076	2.4%
Gross NPL	8,743	7,875	11.0%	8,743	8,324	5.0%
NIM	9.1%	9.5%	-0.4%	9.1%	9.4%	-0.3%
RoAE	25.1%	22.1%	3.0%	25.1%	28.6%	-3.5%
RoAA	3.8%	3.4%	0.4%	3.8%	4.2%	-0.4%
NPL Ratio	4.1%	4.3%	-0.2%	4.1%	4.1%	0.1%
Cost to Income Ratio	49.0%	58.2%	-9.2%	49.0%	47.3%	1.8%
Tier 1 Ratio	14.2%	14.5%	-0.3%	14.2%	13.8%	0.4%
Loan Deposit Ratio	83.8%	87.8%	-4.0%	83.8%	82.5%	1.3%

Source: Company financials; NIC Securities Research

Key Financials
Income Statement

KES 'M	FY12A	FY13A	FY14A	FY15F	FY16F	FY17F
Interest Income	22,261	24,542	29,352	34,726	40,455	48,264
Interest Expense	(8,680)	(5,916)	(8,076)	(10,171)	(12,239)	(14,675)
Net Interest Income	13,581	18,626	21,276	24,555	28,216	33,589
Non funded Income	10,200	9,264	10,810	11,398	14,355	17,328
Total Income	23,781	27,890	32,086	35,954	42,571	50,917
Operating Expenses	(13,171)	(16,605)	(18,922)	(17,813)	(21,132)	(24,618)
Loan Loss Provisions	(1,000)	(773)	(1,176)	(3,337)	(2,908)	(3,490)
Profit Before Tax	9,610	10,512	11,988	15,128	18,920	23,277
Tax Charge	(2,260)	(1,764)	(2,901)	(4,538)	(5,676)	(6,983)
Profit After Tax	7,350	8,748	9,087	10,590	13,244	16,294
EPS (KES)	1.84	2.17	1.64	2.17	2.71	3.33
DPS (KES)	0.50	0.50	0.50	0.50	0.63	0.77

Balance Sheet

KES 'M	FY12A	FY13A	FY14A	FY15F	FY16F	FY17F
Cash and Balances with CBK	22,214	20,713	24,335	23,586	21,327	14,191
Net Loans and Advances	119,088	137,087	179,486	231,258	282,071	338,318
Government Securities	33,361	39,365	45,814	63,719	75,326	89,244
Other Assets	26,224	34,049	35,760	38,275	46,711	62,531
Total Assets	200,887	231,215	285,395	356,837	425,435	504,284
Customer Deposits	162,084	175,425	217,698	263,415	317,415	380,898
Borrowings	4,572	10,252	18,269	27,404	32,885	39,462
Other Liabilities	4,864	8,400	6,016	15,541	13,866	9,424
Total Liabilities	171,519	194,077	241,983	306,360	364,166	429,784
Shareholders Equity	29,239	36,774	43,331	50,392	61,181	74,408
Non Controlling Interest	129	365	82	85	89	92
Total Liabilities and Equity	200,887	231,215	285,396	356,837	425,435	504,284

Key Ratios

	FY12A	FY13A	FY14A	FY15F	FY16F	FY17F
Net Interest Margin	8.4%	10.6%	9.9%	9.0%	8.3%	8.2%
Cost to Income Ratio	57.1%	59.5%	59.0%	49.5%	49.6%	48.3%
Non Funded Income/Total Income	42.9%	33.2%	33.7%	31.7%	33.7%	34.0%
Loans to Deposit Ratio	73.5%	80.5%	82.4%	87.8%	88.9%	88.8%
NPL Ratio	5.0%	4.2%	4.2%	4.1%	3.9%	4.1%

Source: Company financials; NIC Securities Research

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