

DYER & BLAIR INVESTMENT BANK

EARNINGS UPDATE

Founder Member of the Nairobi Securities Exchange

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DYER & BLAIR
INVESTMENT BANK

WE KNOW. YOU KNOW.

I&M HOLDINGS 1H18 EARNINGS UPDATE

Dear All,

I&M Holdings released their 1H18 results recording a **12.8% increase in PAT to KES 3.9 BN**. Attributable income rose 11.7% y-o-y to KES 3.6 BN. EPS for the period stood at KES 8.78. Trailing EPS rose 5.3% y-o-y to KES 17.39. Annualized ROA declined 21 bps y-o-y to 2.7% whereas annualized ROE gained 100 bps y-o-y to 16.2%.

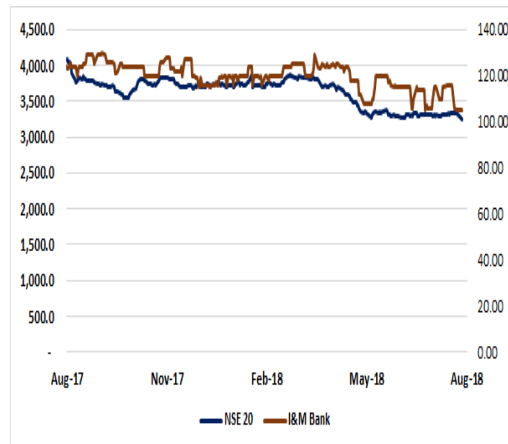
Below please find key highlights:

Net interest income was fairly flat at KES 6.9 BN (+0.1% y-o-y) as a 5.1% y-o-y rise in interest income to KES 11.7 BN was countered by a 13.2% y-o-y increase in interest expense to KES 4.8 BN. Annualized yield on interest earning assets declined 106 bps y-o-y to 9.8% whereas annualized cost of funds declined 70 bps y-o-y to 4.2%. As a result annualized net interest margin declined 36 bps y-o-y to 5.6%.

Interest income on loans and advances rose 7.3% y-o-y to KES 9.0 BN placing the annualized yield on average loans at 11.7%, down 40 bps y-o-y. Interest expense on customer deposits rose 16.6% y-o-y to KES 4.2 BN placing the annualized yield on average deposits at 4.5%, down 20 bps y-o-y.

Non-funded income grew 34.4% y-o-y to KES 3.7 BN. This followed a 25.5% y-o-y increase in forex income to KES 1.2 BN and a 39.5% y-o-y increase in fees and commission income to KES 2.0 BN comprising a 64.2% y-o-y rise in fees on loans to KES 790.21 MN and a 27.0% y-o-y increase in other fees and commissions to KES 1.2 BN. Other operating income rose 39.2% y-o-y to KES 479.55 MN. Altogether, total income for the period rose 9.9% y-o-y to KES 10.6 BN. Placing the funded Income reliance ratio at 64.9%, up 136 bps y-o-y.

I&M HOLDINGS 52 WEEK PRICE PERFORMANCE



(Source: NSE, DBIB Research)

PRICE	ABSOLUTE	EXCESS
RETURN	RETURN	RETURN
3 months	-2.8%	0.2%
6 months	-9.5%	2.7%
12 months	-14.6%	5.7%

KEY METRICS

Current Price (KES)	105.00
52 week Range (KES)	130.00-105.00
YTD Return (%)	-9.5
Issued Shares (Mn)	392.4
Market Cap (USD Mn)	408.5

Recommendation	BUY
Trailing EPS (KES)	17.39
NAV (KES)	115.66
P/E (x)	6.04
P/B (x)	0.91
Div Yld (%)	-

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Operating expenses (less loan loss provisions) grew 8.4% y-o-y to KES 4.3 BN. Staff costs rose 10.2% y-o-y to KES 2.0 BN whereas other operating expenses rose 6.6% y-o-y to KES 1.5 BN. Cost to income ratio shed 123 bps y-o-y to stand at 40.4% mainly on account of the strong growth in non-interest income.

Gross non-performing loans (NPLs) rose 118.1% y-o-y to KES 22.4 BN (down 0.1% q-o-q). Interest in suspense rose 41.4% y-o-y to KES 4.1 BN. As a result, total NPLs rose 148.5% y-o-y to KES 18.2 BN. Loan loss provision rose 64.1% y-o-y to KES 5.6 BN placing the net NPLs at KES 12.7 BN, up 221.3% y-o-y. The NPL ratio declined 71 bps y-o-y to 12.1% whereas the NPL coverage ratio rose 120 bps y-o-y to 25.0%.

As per the 2017 Annual Report, I&M's loan book is mainly concentrated in the Manufacturing (23.0%), Wholesale and Retail Trade (18.0%), Real Estate (18.0%), Business services (12.0%) and Building and Construction (9.0%) sectors. There is a question around the increase in statutory credit risk adjustment of **KES 897.1 MN (KES 746.2 MN under I&M Kenya)** under other comprehensive income. We will engage the management so as to understand the underlying issues.

Total assets rose 23.5% y-o-y to KES 283.1 BN. Loans and advances rose 12.6% y-o-y to KES 162.8 BN. Investment securities declined 28.3% y-o-y to KES 36.1 BN. Deposits due from banks rose 497.5% y-o-y to KES 39.8 BN. Funded income generating potential stood at 84.3% (-3 bps y-o-y).

Total liabilities rose 27.3% y-o-y to KES 235.3 BN. Customer deposits rose 30.6% y-o-y to KES 210.9 BN. We believe that this is due to the uptake of the amnesty on repatriated funds just before the deadline was extended to next year June 30th. Borrowed funds declined 2.8% y-o-y to KES 11.9 BN placing loans to deposits (LTD) and loans to deposits and borrowed funds (LTDB) at 77.2% (down 1,174 bps y-o-y) and 73.1% (down 978 bps y-o-y) respectively.

Capital adequacy: The holdings level core capital to total risk weighted assets (TRWA) declined 88 bps y-o-y to 16.5% whereas the total capital to TRWA gained 2 bps y-o-y to 18.2%. Liquidity ratio rose 981 bps y-o-y to 45.5%. I&M Bank Kenya's core capital ratio rose 25 bps y-o-y to 16.32% whereas total capital ratio declined 29 bps y-o-y to 17.01%. I&M remains adequately capitalised and we anticipate that this will hold for the foreseeable future.

On a trailing basis: I&M Holdings is trading at **P/E** and **P/B** multiples of **6.04** and **0.91x** below industry median P/E and P/B multiples of **7.9x** and **1.0x** respectively. Its annualized ROE and ROA multiples stand at 16.2% and 2.7% against industry median multiples of 16.1% and 2.3% respectively. We thus issue a **BUY** recommendation.

PROFIT AND LOSS SUMMARY (KES MN)

Year End: December	1H18	1H17	y-y% ch	2Q18	1Q18	2Q17	y-y% ch	q-q % ch
Interest income	11,654	11,091	5.1	6,034	5,621	5,609	7.6	7.3
Interest expense	(4,789)	(4,229)	13.2	(2,440)	(2,349)	(2,110)	15.6	3.9
Net interest income	6,866	6,861	0.1	3,594	3,272	3,499	2.7	9.8
Other operating income	480	345	39.2	225	254	220	2.2	(11.4)
Fees and commission income	1,998	1,432	39.5	965	1,033	725	33.1	(6.6)
Net income from forex dealings	1,243	990	25.5	649	594	515	25.9	9.3
Total non-interest income	3,720	2,767	34.4	1,839	1,881	1,460	25.9	(2.2)
Total income	10,586	9,629	9.9	5,433	5,153	4,959	9.6	5.4
Less operating expenses	(4,275)	(3,944)	8.4	(2,131)	(2,144)	(1,930)	10.4	(0.6)
Operating profit	6,310	5,684	11.0	3,302	3,009	3,029	9.0	9.8
Bad debt charge	(1,412)	(966)	46.2	(833)	(578)	(683)	22.1	44.1
Exceptional items	499	245	103.5	377	123	112	235.2	207.7
Profit before tax	5,398	4,964	8.7	2,845	2,553	2,458	15.7	11.5
Less tax	(1,530)	(1,534)	(0.3)	(790)	(740)	(808)	(2.3)	6.7
Profit after tax	3,868	3,430	12.8	2,056	1,812	1,650	24.6	13.4
Non-controlling interest	238	180	32.5	348	(110)	274	27.3	(416.4)
Attributable Income	3,630	3,250	11.7	1,928	1,702	1,564	23.3	13.2
EPS (KES)	8.78	7.86	11.7	5	4.12	3.78	23.3	13.1

(Source: Company, DBIB Research)

BALANCE SHEET SUMMARY (KES MN)

Year End: December	1H18	1Q18	1H17	y-y % ch	q-q % ch
Total shareholder's equity	45,085	44,892	41,930	7.5	0.4
Minority interest	2,730	2,854	2,438	12.0	(4.4)
Total Equity	47,815	47,746	44,368	7.8	0.1
Deposits due to other banks	7,422	9,088	5,901	25.8	(18.3)
Customer deposits	210,898	171,668	161,527	30.6	22.9
Borrowed funds	11,887	12,599	12,224	(2.8)	(5.7)
Other liabilities	5,049	5,227	5,204	(3.0)	(3.4)
Total equity and liabilities	283,070	246,327	229,224	23.5	14.9
Central bank balances	12,882	12,564	10,271	25.4	2.5
Deposits due from banks	39,780	11,163	6,657	497.5	256.4
Investment Securities	36,131	43,964	50,372	(28.3)	(17.8)
Financial assets at FV via P & L	10,234	7,309	-	#DIV/0!	40.0
Customer loans and advances	162,823	152,691	144,547	12.6	6.6
Other assets	11,125	9,078	8,449	370.8	338.2
Intangible assets	4,146	3,588	4,022	3.1	15.5
Fixed assets	5,949	5,969	4,906	21.3	(0.3)
Total assets	283,070	246,327	229,224	23.5	14.9

(Source: Company, DBIB Research)

INVESTMENT RETURN

	1H18	1Q18	1H17	y-y bps ch	q-q bps ch
ROA (%)*	2.7	2.9	3.0	(21)	(26)
ROIC (%)*	13.0	12.0	12.1	95	84
ROE (%)*	16.2	15.2	15.5	100	72

(Source: Company, DBIB Research)

*Annualized

OPERATING PERFORMANCE

	1H18	1Q18	1H17	y-y bps ch	q-q bps ch
Yield on interest earning assets (%)*	9.8	10.8	11.0	(106)	(124)
Cost of funds (%)*	4.2	4.9	-4.7	(70)	887
Net Interest Margin (%)*	5.6	6.0	15.7	(36)	(1,011)
Loan-to-Deposits ratio (%)	77.2	88.9	89.5	(1,174)	(1,228)
Loan-to- Dep.& Borrowed Funds ratio (%)	73.1	82.9	83.2	(978)	(1,011)
Funded Income Generating Potential (%)	84.3	84.4	87.9	(3)	(360)
Funded Income Reliance (%)	64.9	63.5	71.3	136	(640)
Cost to income ratio (%)	40.4	41.6	41.0	(123)	(58)
Pre-tax margin (%)	51.0	49.5	51.6	146	(56)
PAT margin (%)	36.5	35.2	35.6	137	92

*Annualized

(Source: Company, DBIB Research)

CAPITAL ADEQUACY, LIQUIDITY & ASSET QUALITY

	1H18	1Q18	1H17	y-y bps ch	q-q bps ch
Core capital/TRWA (%)	16.5	17.4	16.1	(88)	41
Min. Statutory Ratio (%)	10.5	10.5	10.5	-	-
Total capital/TRWA (%)	18.2	18.2	17.3	2	94
Min. Statutory Ratio (%)	14.5	14.5	14.5	-	-
Liquidity Ratio (%)	45.5	35.7	35.9	981	960
Min. Statutory Ratio (%)	20.0	20.0	20.0	-	-
Leverage Ratio (%)	16.9	19.4	16.0	(249)	93
Equity-to-Loans Ratio (%)	29.4	31.3	24.8	(190)	460
NPL Ratio (%)**	12.1	12.8	4.8	(71)	730
NPL Coverage Ratio (%)**	25.0	23.8	24.9	120	3
Long Term Debt to Total Liabilities and Equity (%)	4.2	5.1	7.4	(92)	(322)
NTA/share (KES)	105.6	106.8	72.2	(118)	3,348
Book value/share (KES)	115.7	115.5	74.3	17	4,133

**Exclusive of Inter-bank lending

(Source: Company, DBIB Research)

APPENDIX

COMPANY INVESTMENT RATINGS

Buy: Share price may generate more than 15.0% upside over the next 12 months

Overweight: Share price may generate between 5.0% and 15.0% upside over the next 12 months

Hold: Share price may fall within the range of <+5.0/ -10.0% over the next 12 months

Take Profit: Target price has been attained. Look to accumulate at lower levels. Company fundamentals however remain strong

Underweight: Share price may generate between 10.0% and 15.0% downside over the next 12 months

Sell: Share price may generate more than 15.0% downside over the next 12 months, significant business and/or financial risks present, industry concerns

Not Rated: Counter is not within regular research coverage

SECTOR INVESTMENT RATINGS

Overweight: Industry performance better than that of the whole market

Equal weight: Industry performance about the same as that of the whole market

Underweight: Industry performance worse than that of the whole market

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