

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: FY19 EARNINGS UPDATE

Dear All,

I&M Holdings released its FY19 results, recording a 26.6% y-o-y increase in Profit after Tax (PAT) to KES 10.8 BN. Earnings per share (EPS) stood at KES 12.47, 29.6% higher than the previous period. Dividend per share (DPS) for the period was placed at KES 2.55, representing a 30.8% y-o-y increase.

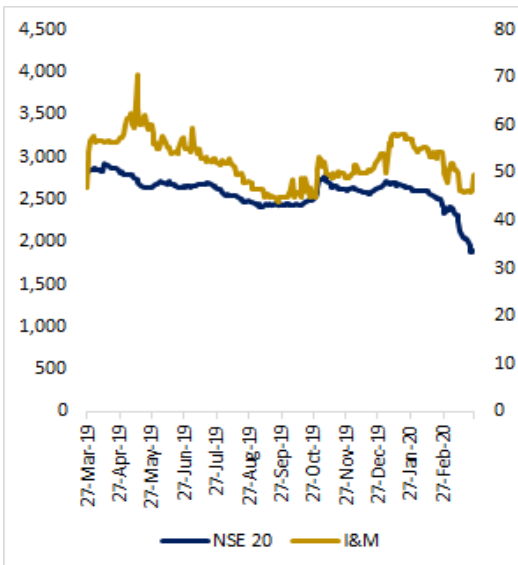
Key highlights:

Net interest income declined by 0.5% y-o-y to KES 15.5 BN courtesy of a 4.5% y-o-y increase in interest income to KES 27.2 BN and a 12.0% y-o-y increase in interest expense to KES 11.7 BN. Yield on interest earning assets dropped by 34 bps y-o-y to 10.0% whereas cost of funds rose 21 bps y-o-y to 4.7%. As a result, net interest margin declined 55 bps y-o-y to 5.3%.

Interest income from loans and advances edged up by 8.2% y-o-y to KES 22.4 BN placing the yield on average loans at 13.1%. Interest income from government securities declined 17.0% y-o-y to KES 4.1 BN placing the yield on average government securities at 7.8%. Interest expense from customer deposits rose 14.6% y-o-y to KES 10.1 BN placing the cost of average deposits at 4.6%.

Non-funded income saw an 8.6% y-o-y upswing to KES 8.0 BN. This was largely attributable to a 23.4% y-o-y increase in net income from forex dealings to KES 23.4 BN. Fees and commission income remained rather flat (+0.1% y-o-y) at KES 3.7 BN. Fees and commissions on loans rose 5.0% y-o-y to KES 1.9 BN whereas other fees and commissions declined by 1.5% y-o-y to KES 2.1 BN. Total income rose by 2.4% y-o-y to KES 23.5 BN. Funded income reliance declined by 195 bps y-o-y to 66.1%.

I&M HOLDINGS 52 WEEK PRICE PERFORMANCE



(Source: NSE, DBIB Research)

PRICE	ABSOLUTE	EXCESS
RETURN	RETURN	RETURN
3 months (%)	(6.0)	22.5
6 months (%)	10.7	33.1
12 months (%)	(6.0)	27.4

KEY METRICS

Current Price (KES)	49.80
52 week high (KES)	62.38
52 week low (KES)	43.80
YTD Return (%)	(7.8)
Issued Shares (Mn)	826.81
Market Cap (USD Mn)	387.7

Recommendation	BUY
Target price (KES)	59.0
Trailing EPS (KES)	12.47
Book Value (KES)	73.61
P/E (x)	4.0
P/B (x)	0.7
Div. Yld (%)	5.12

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Operating expenses (less loan provisions) increased by 11.2% y-o-y to KES 9.1 BN. This was driven by a 15.1% y-o-y increase in staff costs to KES 4.7 BN and a 3.8% y-o-y increase in other operating expenses to KES 3.1 BN. As a result, cost to income ratio edged up 310 bps y-o-y to 39.0%.

Pre-provision operating profit declined by 2.6% y-o-y to KES 14.3 BN. Loan loss provision expense declined drastically by 83.3% y-o-y to KES 636.5 MN. Share of profit of Joint venture edged up by 52.0% y-o-y to KES 905.0 MN. As a result, profit before tax increased by 27.0% y-o-y to KES 14.6 BN.

Total assets advanced by 9.3% y-o-y to KES 315.3 BN (-2.8% q-o-q). Loans and advances increased by 5.2% y-o-y to KES 175.3 BN (+0.7% q-o-q). Investment securities advanced 3.4% y-o-y to KES 53.9 BN (+32.5% q-o-q).

On the funding side, customer deposits advanced 7.8% y-o-y to KES 229.7 BN (-2.7% q-o-q) whereas borrowed funds declined by 21.1% y-o-y to KES 10.9 BN (-19.7% q-o-q). Loans to deposits ratio declined 191 bps y-o-y to 76.3% whereas loans to deposits and borrowed funds ratio declined 61 bps y-o-y to 72.9%.

Gross NPLs advanced by 12.3% y-o-y to KES 21.1 BN worsening the NPL ratio to 10.7%, up by 62 bps y-o-y. Total NPLs increased by 3.8% y-o-y to KES 15.9 BN on the back of a 50.0% y-o-y increase in interest in suspense to KES 5.2 BN. Loan loss provision declined by 11.3% y-o-y to KES 6.9 BN placing the NPL coverage ratio at 43.5%, down by 739 bps y-o-y.

I&M Bank Kenya's core capital ratio (core capital/TRWA) shed 129 bps y-o-y to 16.1% while its total capital/TRWA ratio shed 299 bps y-o-y to 18.2%. Both ratios remain above the statutory minimum of 10.5% and 14.5% respectively. The bank's liquidity ratio went up by 68 bps y-o-y to 47.0 (above the statutory minimum of 20.0%).

Going forward: On a trailing basis, I&M Holdings is trading at a P/E of **4.0x** and a P/B of **0.7x**, both below the sector medians of **4.9x** and **0.8x** respectively. Its ROE and ROA ratios stand at **17.7%** and **3.4%**, both **above** the respective sector medians of **15.7%** and **2.4%**. We therefore maintain our **BUY** recommendation.

PROFIT AND LOSS SUMMARY (KES MN)

Year End: December	FY19	FY18	y-y% ch	4q19	3q19	4q18	y-y% ch	q-q%ch
Interest income	27,164	25,999	4.5	8,005	6,475	8,119	(1.4)	23.6
Interest expense	11,654	10,405	12.0	3,081	2,907	2,810	9.7	6.0
Net interest income	15,510	15,594	(0.5)	4,924	3,568	5,310	(7.3)	38.0
Other operating income	456	554	(17.6)	(727)	55	(5)	N/A	(1413.7)
Fees and commission income	3,680	3,678	0.1	444	1,118	600	(26.0)	(60.3)
Net income from forex dealings	3,836	3,108	23.4	1,916	630	1,184	61.9	204.2
Total non-interest income	7,972	7,339	8.6	1,633	1,803	1,779	(8.2)	(9.4)
Total income	23,481	22,933	2.4	6,557	5,371	7,088	(7.5)	22.1
Less operating expenses	9,147	8,223	11.2	2,220	2,297	1,933	14.9	(3.3)
Operating profit	14,335	14,710	(2.6)	4,337	3,074	5,155	(15.9)	41.1
Bad debt charge	(636.5)	(3,807)	(83.3)	663	(191)	(1,909)	(134.7)	(447.7)
Exceptional items	905.0	595	52.0	301	200	(39)	(867.7)	50.4
Profit before tax	14,603	11,498	27.0	5,300	3,083	3,207	65.3	71.9
Less tax	(3,834)	(2,994)	28.1	(1,166)	(974)	(555)	110.3	19.7
Profit after tax	10,769	8,503	26.6	4,134	2,109	2,653	55.8	96.0
Attributable Income	10,309	7,951	29.7	4,007	2,010	2,426	65.2	99.4

(Source: Company, DBIB Research)

BALANCE SHEET SUMMARY (KES MN)

Year End: December	FY19	3Q19	FY18	y-y% ch	q-q%ch
Total shareholder's equity	57,739	54,519	47,869	20.6	5.9
Minority interest	3,124	3,100	3,005	3.9	0.8
Total Equity	60,862	57,618	50,874	19.6	5.6
Deposits due to other banks	8,153	10,779	5,825	40.0	(24.4)
Customer deposits	229,737	236,229	213,139	7.8	(2.7)
Borrowed funds	10,856	13,513	13,756	(21.1)	(19.7)
Other liabilities	5,683	6,210	4,928	15.3	(8.5)
Total equity and liabilities	315,291	324,350	288,522	9.3	(2.8)
Central bank balances	15,386	18,091	14,867	3.5	(15.0)
Deposits due from banks	43,662	51,989	33,675	29.7	(16.0)
Investment Securities	53,924	40,699	52,157	3.4	32.5
Held for dealing securities	-	-	-	N/A	N/A
Customer loans and advances	175,329	174,111	166,737	5.2	0.7
Other assets	11,680	25,853	9,490	23.1	(54.8)
Intangible assets	5,157	5,022	4,872	5.8	2.7
Fixed assets	10,152	8,584	6,725	51.0	18.3
Total assets	315,291	324,350	288,522	9.3	(2.8)

(Source: Company, DBIB Research)

INVESTMENT RETURN

	FY19	3Q19*	FY18	y-y bps ch	q-q bps ch
ROA (%)	3.4	2.9	2.9	47	56
ROIC (%)	3.5	2.9	3.8	(32)	56
ROE (%)	16.9	16.3	20.3	(333)	61

(Source: Company, DBIB Research)

*Annualized

CAPITAL ADEQUACY, LIQUIDITY & ASSET QUALITY

	FY19	3Q19	FY18	y-y bps ch	q-q bps ch
Core capital/TRWA (%)	16.1	17.1	17.3	(129)	(105)
Min. Statutory Ratio (%)	10.5	10.5	10.5	-	-
Total capital/TRWA (%)	18.2	18.2	21.2	(299)	5
Min. Statutory Ratio (%)	14.5	14.5	14.5	-	-
Liquidity Ratio (%)	47.0	47.9	46.3	68	(95)
Min. Statutory Ratio (%)	20.0	20.0	20.0	-	-
Leverage Ratio (%)	19.3	17.5	17.6	167	182
Equity-to-Loans Ratio (%)	34.7	32.2	30.5	420	251
NPL Ratio (%)**	10.7	12.4	10.1	62	(166)
NPL Coverage Ratio (%) **	43.5	47.6	50.9	(739)	(411)
Long Term Debt to Total Liabilities and Equity (%)	3.4	3.2	4.8	(132)	25
NTA/share (KES)	67.4	61.1	55.6	1,174	624
Book value/share (KES)	73.6	67.0	61.5	1,208	656
Payout ratio (%)	20.4	-	20.3	18	2,045

(Source: Company, DBIB Research)

**Total Loan Portfolio net of Interbank Lending

OPERATING PERFORMANCE

	FY19	3Q19	FY18	y-y bps ch	q-q bps ch
Yield on interest earning assets (%)*	10.0	9.6	10.3	(34)	38
Cost of funds (%)*	4.7	4.4	4.5	21	30
Net Interest Margin (%)*	5.3	5.2	5.8	(55)	8
Loan-to-Deposits ratio (%)	76.3	73.7	78.2	(191)	261
Loan-to-Dep.& Borrowed Funds ratio (%)	72.9	69.7	73.5	(61)	316
Funded Income Generating Potential (%)	86.6	82.3	87.5	(98)	430
Funded Income Reliance (%)	66.1	62.5	68.0	(195)	351
Cost to income ratio (%)	39.0	40.9	35.9	310	(197)
Pre-tax margin (%)	62.2	55.0	50.1	1,205	722
PAT margin (%)	45.9	39.2	37.1	878	666

(Source: Company, DBIB Research)

* Annualized

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 10.0% and 15.0% upside over the next 12 months

Hold: Share price may fall within the range of +/- 10% 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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