

DYER & BLAIR INVESTMENT BANK

EARNINGS UPDATE

Founder Member of the Nairobi Securities Exchange

27TH AUGUST 2020



DYER & BLAIR
INVESTMENT BANK

WE KNOW. YOU KNOW.

I&M HOLDINGS: 1H20 EARNINGS UPDATE

Dear All,

I&M Holdings announced its 1H20 results reporting a 29.5% y-o-y decline in profit after tax (PAT) to KES 3.2 BN. This partly because I&M's joint venture investment made a loss of KES 579.5 MN compared to a profit of KES 404.1 MN in 1H19. Total income saw a 3.6% y-o-y decline while operating expenses rose 8.5% y-o-y. Earnings per share (EPS) for the period closed at KES 3.69.

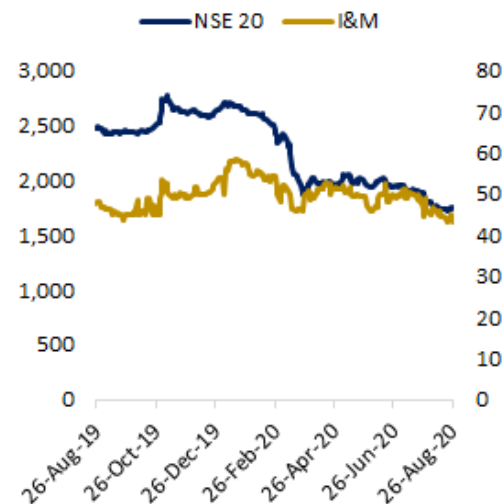
Key highlights:

Net interest income declined 1.4% y-o-y to KES 6.9 BN following a 3.4% y-o-y increase in interest income to KES 13.1 BN and a 9.4% y-o-y increase in interest expense to KES 6.2 BN. Annualized yield on interest earning assets declined 36 bps y-o-y to 9.0% whereas annualized cost of funds rose 11 bps y-o-y to 4.6%. As a result, the group's annualized net interest margin (NIM) declined 47 bps to 4.4%.

Interest income from loans and advances rose 5.0% y-o-y to KES 10.8 BN, placing the annualized yield on loans for the period at 12.1%, 17 bps down y-o-y. Interest income from government securities rose 0.7% y-o-y to KES 2.1 BN, placing the annualized yield on government securities at 8.4%, 189 bps down y-o-y. Interest expense from customer deposits rose 6.4% y-o-y to KES 5.4 BN placing the annualized cost of deposits at 4.4%, 12 bps down y-o-y.

Non-funded income (NFI) declined 7.1% y-o-y to KES 4.2 BN, following a 27.0% y-o-y decrease in foreign exchange trading income to KES 942.1 MN and a 2.8% y-o-y decrease in fees and commission income to KES 2.1 BN. Fees and commissions on loans saw a 7.7% y-o-y increase to KES 959.4 MN whilst other fees and commissions declined 10.4% y-o-y to KES 1.1 BN. As a result, funded income reliance rose 142 bps y-o-y to 62.2%. On the back of zero-rated mobile transfer charges, waivers on restructuring fees, a slump in recoveries and cross-selling, we expect a similar downward trajectory in NFI come 3Q20.

I&M HOLDINGS: 52 WEEK PRICE PERFORMANCE



(Source: NSE, DBIB Research)

PRICE RETURN	ABSOLUTE RETURN	EXCESS RETURN
3 month (%)	(13.0)	(2.0)
6 month (%)	(21.1)	6.4
12 month (%)	(10.9)	18.2

KEY METRICS

Current Price (KES)	43.00
52 week high (KES)	58.25
52 week low (KES)	43.00
YTD Return (%)	(20.4)
Issued Shares (MN)	826.8
Market Cap (USD MN)	328.7

Recommendation	HOLD
Target price	Under Review
Trailing EPS (KES)	11.41
Book Value (KES)	75.07
P/E (x)	3.8
P/B (x)	0.6
Div Yld (%)	-

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Operating expenses (less loan provisions) rose 8.5% y-o-y to KES 5.0 BN, owing to a 21.9% y-o-y increase in other operating expenses to KES 1.8 BN. Staff costs remained flat y-o-y to KES 2.3 BN. As a result, pre-provision operating profit declined 11.8% y-o-y to KES 6.1 BN. Cost to income ratio for the period rose 507 bps y-o-y to 45.1%.

Contrary to other banks, I&M's loan loss provision expense saw a 7.0% y-o-y decline to KES 1.0 BN, placing the annualized cost of risk at 1.1%, 8 bps down y-o-y. We highlight that the group's loan book grew marginally (+0.9% q-o-q) and the group's gross NPLs saw a marginal decline (-0.5% q-o-q).

Total assets grew 7.4% y-o-y to KES 340.6 BN (+1.4 q-o-q). Customer loans and advances saw a 7.2% y-o-y increase to KES 184.6 BN (+0.9% q-o-q). The group's investments in government securities rose by 19.3% y-o-y to KES 55.4 BN (+30.5% q-o-q) whilst held for trading assets rose by 85.4% y-o-y to KES 16.9 BN (+45.0% q-o-q). Central bank balances declined 5.3% y-o-y to KES 19.1 BN (+0.4% q-o-q).

On the funding side, customer deposits grew by 6.4% y-o-y to KES 252.5 BN (+4.9% q-o-q), placing the loans to deposits ratio at 73.1%, 53 bps up y-o-y. Borrowed funds declined 1.6% y-o-y to 10.0 BN owing to a 197.7% y-o-y increase in subordinated debt to KES 4.6 BN and a 37.1% y-o-y decline in long-term debt to 5.4 BN. As such, loans to deposits and borrowed funds ratio rose 73 bps y-o-y to 70.3%. Deposits due to other banks rose 23.8% y-o-y to KES 9.5 BN (-28.2% q-o-q).

Total non-performing loans (NPLs) saw a 2.5% y-o-y increase to KES 17.9 BN (-1.4% q-o-q) as a result of a 9.4% y-o-y decline in gross NPLs to KES 22.1 BN (-0.5% q-o-q) and a 39.5% y-o-y decline in interest in suspense to KES 4.2 BN (+3.4% q-o-q). The NPL ratio dropped 172 bps y-o-y to 10.7%. Loan loss provisions rose 17.4% y-o-y to KES 9.8 BN (+8.2% q-o-q). The NPL coverage ratio rose 694 bps y-o-y to 54.5%.

I&M Bank's core capital ratio (Core capital/TRWA) and total capital ratio (Total capital/TRWA) edged up 38 bps and 337 bps y-o-y to 17.5% and 21.6% respectively. Both ratios remain well above the statutory minimum of 10.5% and 14.5% respectively. Liquidity ratio rose 70 bps y-o-y to 48.6%, well above the statutory minimum of 20.0%. We opine that the group is fundamentally backed to acquire 90.0% of the issued share capital of Orient Bank Ltd, Uganda.

On a trailing basis, I&M is trading at a P/E multiple of 3.8x, against a sector median of 5.2x and a P/B multiple of 0.6x, in line with a sector median of 0.6x. Currently, its ROE stands at 16.1%, against a sector median of 14.1% whereas ROA stands at 2.8%, against a sector median of 2.0%. Dividend yield stands at 5.9%, against a sector median of 5.5%. We maintain a **HOLD** recommendation.

PROFIT AND LOSS SUMMARY (KES MN)

Year End: December	1H20	1H19	y-y% ch	2q20	1q20	2q19	y-y% ch	q-q%ch
Interest income	13,116	12,684	3.4	6,646	6,470	6,565	1.2	2.7
Interest expense	6,197	5,666	9.4	3,224	2,973	2,890	11.6	8.4
Net interest income	6,919	7,018	(1.4)	3,423	3,497	3,676	(6.9)	(2.1)
Other operating income	1,212	1,128	7.4	701	511	701	0.0	37.2
Fees and commission income	2,059	2,118	(2.8)	940	1,119	1,126	(16.6)	(16.1)
Net income from forex dealings	942	1,290	(27.0)	355	587	645	(44.9)	(39.4)
Total non-interest income	4,213	4,536	(7.1)	1,996	2,217	2,472	(19.3)	(10.0)
Total income	11,132	11,554	(3.6)	5,419	5,714	6,148	(11.9)	(5.2)
Less operating expenses	5,025	4,630	8.5	2,560	2,465	6,857	(62.7)	3.8
Operating profit	6,108	6,924	(11.8)	2,859	3,249	3,745	(23.7)	(12.0)
Bad debt charge	1,031	1,109	(7.0)	475	555	1,308	(63.7)	(14.4)
Exceptional items	(580)	404.1	(243.4)	(786)	207	120	(752.9)	(480.6)
Profit before tax	4,497	6,220	(27.7)	2,011	2,487	2,956	(32.0)	(19.1)
Less tax	1,307	1,694	(22.8)	483	824	2,592	(81.4)	(41.3)
Profit after tax	3,190	4,526	(29.5)	1,527	1,663	2,161	(29.3)	(8.1)
Attributable Income	3,051	4,292	(28.9)	1,521	1,530	2,021	(24.8)	(0.6)

(Source: Company, DBIB Research)

BALANCE SHEET SUMMARY (KES MN)

Year End: December	1H20	1Q20	1H19	y-y% ch	q-q%ch
Total shareholder's equity	58,716	59,329	52,377	12.1	(1.0)
Minority interest	3,354	3,319	3,058	9.7	1.0
Total Equity	62,070	62,648	55,434	12.0	(0.9)
Deposits due to other banks	9,466	13,183	7,643	23.8	(28.2)
Customer deposits	252,484	240,729	237,242	6.4	4.9
Borrowed funds	9,977	11,770	10,139	(1.6)	(15.2)
Other liabilities	6,644	7,627	6,595	0.7	(12.9)
Total equity and liabilities	340,640	335,957	317,054	7.4	1.4
Central bank balances	19,068	18,994	20,142	(5.3)	0.4
Deposits due from banks	35,246	52,867	43,968	(19.8)	(33.3)
Investment Securities	55,366	42,419	46,415	19.3	30.5
Held for dealing securities	16,872	11,634	9,098	85.4	45.0
Customer loans and advances	184,565	182,882	172,164	7.2	0.9
Other assets	13,268	11,442	11,949	11.0	16.0
Intangible assets	5,448	5,355	4,889	11.4	1.7
Fixed assets	10,808	10,364	8,428	28.2	4.3
Total assets	340,640	335,957	317,054	7.4	1.4

(Source: Company, DBIB Research)

INVESTMENT RETURN

	1H20	1Q20	1H19	y-y bps ch	q-q bps ch
ROA (%) *	1.8	3.2	2.9	(106)	(137)
ROIC (%) *	1.8	3.2	2.9	(109)	(141)
ROE (%) *	9.8	17.8	16.3	(650)	(796)

(Source: Company, DBIB Research)

*Annualized

CAPITAL ADEQUACY, LIQUIDITY & ASSET QUALITY

	1H20	1Q20	1H19	y-y bps ch	q-q bps ch
Core capital/TRWA (%)	17.5	17.6	17.1	38	(10)
Min. Statutory Ratio (%)	10.5	10.5	10.5	-	-
Total capital/TRWA (%)	21.6	21.4	18.2	337	17
Min. Statutory Ratio (%)	14.5	14.5	14.5	-	-
Liquidity Ratio (%)	48.6	47.8	47.9	70	83
Min. Statutory Ratio (%)	20.0	20.0	20.0	-	-
Leverage Ratio (%)	18.2	18.6	17.5	74	(43)
Equity-to-Loans Ratio (%)	33.6	34.3	32.2	143	(63)
NPL Ratio (%) **	10.7	10.8	12.4	(172)	(14)
NPL Coverage Ratio (%) **	54.5	49.7	47.6	694	486
IFRS 9 Coverage Ratio (%) **	63.1	58.8	62.4	70	430
Long Term Debt to Total Liabilities and Equity (%)	2.9	3.5	3.2	(27)	(57)
NTA/share (KES)	68.5	69.3	61.1	735	(81)
Book value/share (KES)	75.1	75.8	67.0	803	(70)

(Source: Company, DBIB Research)

**Total Loan Portfolio net of Interbank Lending

OPERATING PERFORMANCE

	1H20	1Q20	1H19	y-y bps ch	q-q bps ch
Yield on interest earning assets (%) *	9.0	8.9	9.3	(36)	5
Cost of funds (%) *	4.6	4.5	4.4	11	8
Net Interest Margin (%) *	4.4	4.5	4.9	(47)	(3)
Loan-to-Deposits ratio (%)	73.1	76.0	72.6	53	(287)
Loan-to-Dep.&Borrowed Funds ratio (%)	70.3	72.4	69.6	73	(211)
Funded Income Generating Potential (%)	85.7	86.3	85.7	6	(53)
Funded Income Reliance (%)	62.2	61.2	60.7	142	96
Cost to income ratio (%)	45.1	43.1	40.1	507	199
Cost of risk (%) *	1.1	1.2	1.2	(8)	(10)
Pre-tax margin (%)	40.4	43.5	53.8	(1,343)	(312)
PAT margin (%)	28.7	29.1	39.2	(1,052)	(44)

(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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