

# DYER & BLAIR INVESTMENT BANK

## EARNINGS UPDATE

Founder Member of the Nairobi Securities Exchange

29<sup>th</sup> MAY 2020



DYER & BLAIR  
INVESTMENT BANK

WE KNOW. YOU KNOW.

### I&M HOLDINGS: 1Q20 EARNINGS UPDATE

Dear All,

I&M Holdings announced its 1Q20 results reporting a 29.7% y-o-y decline in profit after tax (PAT) to KES 1.7 BN, partly on account of a 178.4% y-o-y increase in the loan loss provision expense to KES 555.3 MN and a 10.7% y-o-y increase in operating expenses to KES 2.5 BN. Earnings per share (EPS) for the period closed at KES 1.89.

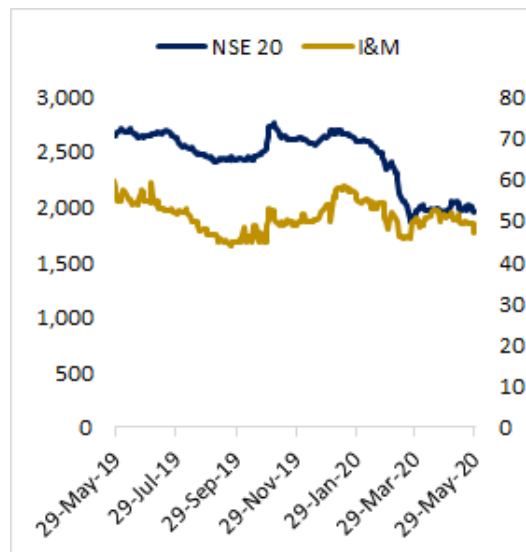
#### Key highlights:

**Net interest income rose 4.6% y-o-y to KES 3.5 BN** following a 5.7% y-o-y increase in interest income to KES 6.5 BN. This was eroded by a 7.1% y-o-y increase in interest expense to KES 3.0 BN following sizeable increases in borrowed funds (+11.2% y-o-y) and deposits (+8.8% y-o-y). Annualized yield on interest earning assets declined 72 bps y-o-y to 9.3% whereas annualized cost of funds declined 17 bps y-o-y to 4.5%. As a result, the bank's annualized net interest margin (NIM) declined 55 bps to 4.8%.

**Interest income from loans and advances rose 7.2% y-o-y to KES 5.3 BN**, in line with the 8.3% y-o-y loan book growth to KES 182.9 BN. This placed the annualized yield on loans for the period at 12.1%, 25 bps down y-o-y. Interest income from government securities declined 2.0% y-o-y to KES 1.0 BN placing the annualized yield on government securities at 9.5%, 2 bps down y-o-y. Interest expense from customer deposits rose 8.0% y-o-y to KES 2.6 BN placing the annualized cost of deposits at 4.5%, 40 bps down y-o-y.

**Non-funded income (NFI) rose 7.4% y-o-y to KES 2.2 BN**, ascribable to a 12.9% y-o-y increase in fees and commission income to KES 1.1 BN. Forex exchange trading income declined 9.1% y-o-y to KES 0.6 BN. Fees and commissions on loans saw a 20.9% y-o-y increase to KES 0.5 BN whilst other fees and commissions rose 7.7% y-o-y to KES 0.6 BN. As a result, funded income reliance declined by 62 bps y-o-y to 61.2%.

#### I&M HOLDINGS: 52 WEEK PRICE PERFORMANCE



(Source: NSE, DBIB Research)

PRICE	ABSOLUTE	EXCESS
RETURN	RETURN	RETURN
3 month (%)	(5.3)	11.3
6 month (%)	(3.3)	22.3
12 month (%)	(15.8)	11.4

#### KEY METRICS

Current Price (KES)	47.35
52 week high (KES)	59.50
52 week low (KES)	43.80
YTD Return (%)	(12.3)
Issued Shares (MN)	826.8
Market Cap (USD MN)	366.1

Recommendation	HOLD
Target price	Under review
Trailing EPS (KES)	12.17
Book Value (KES)	75.77
P/E (x)	3.9
P/B (x)	0.6
Div Yld (%)	-

#### Research Analyst

Mary Mukuria

mmukuria@dyerandblair.com

+254 709 930 128

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**Operating expenses (less loan provisions) rose 10.7% y-o-y to KES 2.5 BN** courtesy of a 3.6% y-o-y increase in staff costs to KES 1.2 BN and a 20.5% increase in other expenses to KES 0.8 BN. On account of this, pre-provision operating profit rose 2.2% y-o-y to KES 3.2 BN. The company's cost to income ratio rose 195 bps y-o-y to 43.1%.

**The loan loss provision expense** saw a 178.4% y-o-y upswing to KES 555.3 MN placing the annualized cost of risk at 1.2%, up 74 bps y-o-y. This is ascribable to additional provisioning for restructured loans as dictated by IFRS 9 as well as provisioning for the newly issued stage 1 loans.

**Total assets rose 12.1% y-o-y to KES 336.0 BN** (+6.6 q-o-q). Customer loans and advances saw an 8.3% y-o-y increase to KES 182.9 BN (+4.3% q-o-q), plausibly as a result of increased demand for working capital related financing. The group's investments in government securities remained fairly flat y-o-y at KES 42.4 BN (+5.6% q-o-q). Cash and balances with central banks declined 2.0% y-o-y to KES 19.0 BN.

**On the funding side, customer deposits** rose 8.8% y-o-y to KES 240.7 BN (+4.8% q-o-q). Loans to deposits ratio declined 41 bps y-o-y to 76.0%. Borrowed funds rose 11.2% y-o-y to 11.8 BN owing to a 210.3% y-o-y increase in subordinated debt to KES 4.8 BN and a 22.8% y-o-y decline in long-term debt to 7.0 BN. Deposits due to other banks rose 78.1% y-o-y to KES 13.2 BN (+61.7% q-o-q). Overall, loans to deposits and borrowed funds ratio declined 47 bps y-o-y to 72.4%.

**Total non-performing loans (NPLs) saw a 5.9% y-o-y increase to KES 18.2 BN** as a result of a 6.4% y-o-y decline in gross NPLs to KES 22.2 BN and a 38.5% y-o-y decline in interest in suspense to KES 4.1 BN. The NPL ratio dropped 148 bps y-o-y to 10.8%. Loan loss provisions rose 28.0% y-o-y to KES 9.0 BN (+30.4% q-o-q). The NPL coverage ratio rose 858 bps y-o-y to 49.7%.

**I&M Bank's core capital ratio (Core capital/TRWA) and total capital ratio (Total capital/TRWA)** edged up 26 bps and 335 bps y-o-y to 17.6% and 21.4% respectively. Both ratios remain well above the statutory minimum of 10.5% and 14.5% respectively. Liquidity ratio rose 221 bps y-o-y to 47.8%, above the statutory minimum of 20.0%.

**On a trailing basis**, I&M is trading at a P/E multiple of 3.9x, against a sector median of 5.3x and a P/B multiple of 0.6x, against a sector median of 0.7x. Currently, its ROE stands at 16.1%, against a sector median of 16.5% whereas ROA stands at 3.0%, against a sector median of 2.3%. Dividend yield stands at 5.4%, against a sector median of 7.3%. We issue a **HOLD** recommendation.

## PROFIT AND LOSS SUMMARY (KES MN)

Year End: December	1Q20	1Q19	4Q19	y-y% ch	q-q%ch
Interest income	6,470	6,119	8,005	5.7	(19.2)
Interest expense	2,973	2,777	3,081	7.1	(3.5)
Net interest income	3,497	3,342	4,924	4.6	(29.0)
Other operating income	511	427	531	19.5	(3.8)
Fees and commission income	1,119	991	758	12.9	47.7
Foreign exchange trading income	587	645	657	(9.1)	(10.8)
Total non-interest income	2,217	2,064	1,946	7.4	13.9
Total income	5,714	5,406	6,871	5.7	(16.8)
Less operating expenses	2,465	2,227	2,534	10.7	(2.7)
Operating profit	3,249	3,179	4,337	2.2	(25.1)
Bad debt charge	555	199	(663)	178.4	(183.8)
Exceptional items	207	284	301	(27.2)	(31.4)
Profit before tax	2,487	3,263	5,300	(23.8)	(53.1)
Less tax	824	898	1,166	(8.3)	(29.4)
Profit after tax	1,663	2,365	4,134	(29.7)	(59.8)

(Source: Company, DBIB Research)

## BALANCE SHEET SUMMARY (KES MN)

Year End: December	1Q20	FY19	1Q19	y-y% ch	q-q%ch
Total shareholder's equity	59,329	57,739	50,128	18.4	2.8
Minority interest	3,319	3,124	3,043	9.1	6.3
Total Equity	62,648	60,862	53,171	17.8	2.9
Deposits due to other banks	13,183	8,153	7,404	78.1	61.7
Customer deposits	240,729	229,737	221,169	8.8	4.8
Borrowed funds	11,770	10,856	10,584	11.2	8.4
Other liabilities	7,627	5,683	7,296	4.5	34.2
Total equity and liabilities	335,957	315,291	299,624	12.1	6.6
Central bank balances	18,994	15,386	19,385	(2.0)	23.4
Deposits due from banks	52,867	43,662	32,937	60.5	21.1
Investment Securities	42,419	40,180	42,370	0.1	5.6
Held for dealing securities	-	-	-	N/A	N/A
Customer loans and advances	182,882	175,329	168,937	8.3	4.3
Other assets	23,076	25,424	23,216	(0.6)	(9.2)
Intangible assets	5,355	5,157	4,995	7.2	3.9
Fixed assets	10,364	10,152	7,784	33.2	2.1
Total assets	335,957	315,291	299,624	12.1	6.6

(Source: Company, DBIB Research)

## INVESTMENT RETURN

	1Q20*	1Q19*	FY19	y-y bps ch	q-q bps ch
ROA (%)	2.0	3.2	3.4	(118)	(144)
ROIC (%)	2.0	3.2	3.5	(121)	(145)
ROE (%)	10.6	17.8	16.9	(717)	(632)

(Source: Company, DBIB Research)

\*Annualized

## CAPITAL ADEQUACY, LIQUIDITY & ASSET QUALITY

	1Q20	1Q19	FY19	y-y bps ch	q-q bps ch
Core capital/TRWA (%)	17.6	17.3	16.1	26	153
Min. Statutory Ratio (%)	10.5	10.5	10.5	-	-
Total capital/TRWA (%)	21.4	18.0	18.2	335	315
Min. Statutory Ratio (%)	14.5	14.5	14.5	-	-
Liquidity Ratio (%)	47.8	45.6	47.0	221	82
Min. Statutory Ratio (%)	20.0	20.0	20.0	-	-
Leverage Ratio (%)	18.6	17.7	19.3	90	(66)
Equity-to-Loans Ratio (%)	34.3	31.5	34.7	278	(46)
NPL Ratio (%)**	10.8	12.3	10.7	(148)	9
NPL Coverage Ratio (%)**	49.7	41.1	43.5	858	619
L.T. Debt to Total Liabilities and Equity (%)	3.5	3.5	3.4	(3)	6
NTA/share (KES)	69.3	58.3	67.4	1,103	192
Book value/share (KES)	75.8	64.3	73.6	1,146	216

(Source: Company, DBIB Research)

\*\*Total Loan Portfolio net of Interbank Lending

## OPERATING PERFORMANCE

	1Q20	1Q19	FY19	y-y bps ch	q-q bps ch
Yield on interest earning assets (%)*	9.3	10.0	10.5	(72)	(118)
Cost of funds (%)*	4.5	4.6	4.7	(17)	(21)
Net Interest Margin (%)*	4.8	5.4	5.8	(55)	(97)
Loan-to-Deposits ratio (%)	76.0	76.4	76.3	(41)	(35)
Loan-to-Dep.& Borrowed Funds ratio (%)	72.4	72.9	72.9	(47)	(45)
Funded Income Generating Potential (%)	82.8	89.1	82.2	(631)	60
Funded Income Reliance (%)	61.2	61.8	65.2	(62)	(398)
Cost to income ratio (%)	43.1	41.2	39.8	195	339
Cost of risk (%)*	1.2	0.5	0.7	74	47
Pre-tax margin (%)	43.5	60.4	61.4	(1,684)	(1,785)
PAT margin (%)	29.1	43.7	45.3	(1,465)	(1,615)

(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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