

# 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: FY20 EARNINGS UPDATE

Dear All,

I&M Holdings released its FY20 results posting a 21.9% y-o-y decline in profit after tax (PAT) to KES 8.4 BN. Pre-provision operating profit saw a drop by 1.6% y-o-y to KES 14.1 BN and further declined due to a 288.5% y-o-y rise in loan loss provision expense to KES 2.5 BN. Earnings per share (EPS) for the period came in at KES 9.77, representing a 21.7% y-o-y decrease. The directors recommend the payment of a dividend of KES 2.25 per share on or around 20th May 2021 to be paid to shareholders on the company's register as at the close of business on 15th April 2021. They also recommend a bonus issue of 1:1 to shareholders on the company's register as at the close of business on 10th May 2021.

#### Key highlights:

**Net interest income edged up by 0.6% y-o-y to KES 15.6 BN** following a 2.5% y-o-y increase in interest income to KES 27.8 BN but bolstered by a 5.1% y-o-y increase in interest expense to KES 12.2 BN. Yield on interest earning assets declined 89 bps y-o-y to 9.1% whereas cost of funds dropped 38 bps y-o-y to 4.3%. As a result, the group's net interest margin (NIM) declined by 52 bps y-o-y to 4.8%.

**Interest income from loans and advances fell by 2.1% y-o-y to KES 21.9 BN**, placing the yield on average loans for the period at 12.1%, 101 bps lower y-o-y. Interest income from investment securities rose 35.9% y-o-y to KES 5.6 BN, placing the yield on average investment securities at 7.2%, 167 bps lower y-o-y. Interest expense from customer deposits rose 4.7% y-o-y to KES 10.6 BN placing the cost of average deposits at 4.3%, 27 bps lower y-o-y.

**Non-funded income (NFI) advanced by 4.3% y-o-y to KES 8.6 BN**, following a 4.4% y-o-y increase in fees and commission income to KES 4.2 BN and a 50.7% y-o-y increase in other operating income to KES 2.6 BN. Foreign exchange trading income saw a 26.9% y-o-y decrease to KES 1.9 BN. Fees and commissions on loans rose by 3.2% y-o-y to KES 1.9 BN whilst other fees and commissions rose by 5.5% y-o-y to KES 2.2 BN. As a result, funded income reliance shed 82 bps y-o-y to 64.4%.

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



(Source: NSE, DBIB Research)

PRICE RETURN	ABSOLUTE RETURN	EXCESS RETURN
3 month (%)	(2.2)	(2.7)
6 month (%)	(2.2)	(2.3)
12 month (%)	(11.6)	(7.3)

#### KEY METRICS

Current Price (KES)	44.00
52 week high (KES)	52.75
52 week low (KES)	42.10
YTD Return (%)	(2.2)
Issued Shares (MN)	826.8
Market Cap (USD MN)	332.2

Target price	Under Review
Trailing EPS (KES)	9.77
Trailing Book Value (KES)	77.63
P/E (x)	4.5
P/B (x)	0.6
Div Yld (%)	5.1

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**Operating expenses (less loan provisions) rose 7.1% y-o-y to KES 10.1 BN**, owing to a 15.3% y-o-y increase in other operating expenses to KES 3.6 BN. Staff costs dropped by 4.3% y-o-y to KES 4.5 BN. As a result, pre-provision operating profit declined 1.6% y-o-y to KES 14.1 BN. Cost to income ratio for the period rose by 205 bps y-o-y to 41.8%.

**Loan loss provision expense** saw a 288.5% y-o-y increase to KES 2.5 BN, placing the cost of risk at 1.3%, 96 bps up y-o-y.

**Income tax charge fell by 33.8% y-o-y to KES 2.5 BN** placing the group's effective tax rate at 23.2%, 307 bps lower y-o-y.

**Total assets grew 13.6% y-o-y to KES 358.1 BN** (+3.9 q-o-q). Customer loans and advances saw a 6.9% y-o-y increase to KES 187.4 BN (+0.9% q-o-q). The group's investments securities rose by 88.6% y-o-y to KES 101.7 BN (+11.3% q-o-q).

**On the funding side, customer deposits grew by 14.3% y-o-y to KES 262.7 BN** (+3.9% q-o-q), placing the loans to deposits ratio at 71.3%, 498 bps down y-o-y. Borrowed funds rose 36.1% y-o-y to 14.8 BN owing to a 66.1% y-o-y increase in long-term debt to KES 10.3 BN and a 4.1% y-o-y decline in long-term debt to 4.5 BN. As such, loans to deposits and borrowed funds ratio dropped by 533 bps y-o-y to 67.5%. Deposits due to other banks fell by 13.8% y-o-y to KES 7.0 BN (-25.4% q-o-q).

**Total non-performing loans (NPLs) saw a 7.7% y-o-y increase to KES 18.7 BN (+3.6% q-o-q)** as a result of a 10.7% y-o-y rise in gross NPLs to KES 23.6 BN (+4.6% q-o-q) and a 24.1% y-o-y increase in interest in suspense to KES 4.9 BN (+8.3% q-o-q). The NPL ratio rose by 43 bps y-o-y to 11.2%. Cumulative loan loss provisions rose 25.7% y-o-y to KES 10.8 BN (+3.0% q-o-q). The NPL coverage ratio rose 1,455 bps y-o-y to 58.0%.

**Dividends per share (DPS) for the period came in at KES 2.25**, 11.8% lower than the previous period.

**The directors recommend a bonus issue of 1:1** to shareholders on the company's register as at the close of business on 10th May 2021.

**I&M Group's core capital ratio (Core capital/TRWA) and total capital ratio (Total capital/TRWA)** edged up 130 bps and 75 bps y-o-y to 18.6% and 22.0% respectively. Both ratios remain well above the statutory minimum of 10.5% and 14.5% respectively. Liquidity ratio rose 420 bps y-o-y to 50.5%, well above the statutory minimum of 20.0%.

	I&M Group	
	Reported	Adjusted Ratios
Core capital ratio (%)	18.6	18.7
Total capital ratio (%)	22.0	22.0

*(Source: Company Filings, DBIB Research)*

*Adjusted ratios include the expected credit loss provisions added back to capital in line with the CBK guidance note issued in April 2018 on implementation of IFRS 9.*

**I&M holdings is currently trading at a P/E multiple of 4.5x**, below the sector median of 6.4x and a P/B multiple of 0.6x at par with the sector median. Its ROE stands at 12.6%, above the sector median of 10.3% whereas ROA stands at 2.3%, above the sector median of 1.6%. Currently, dividend yield stands at 5.1%.

**PROFIT AND LOSS SUMMARY (KES MN)**

<b>Year End: December</b>	<b>FY20</b>	<b>FY19</b>	<b>y-y% ch</b>	<b>4q20</b>	<b>3q20</b>	<b>4q19</b>	<b>y-y% ch</b>	<b>q-q%ch</b>
Interest income	27,849	27,164	2.5	8,110	6,622	9,284	(12.6)	22.5
Interest expense	12,249	11,654	5.1	2,911	3,141	4,059	(28.3)	(7.3)
Net interest income	15,600	15,510	0.6	5,199	3,481	5,225	(0.5)	49.3
Other operating income	2,584	1,714	50.7	589	783	1,156	(49.0)	(24.7)
Fees and commission income	4,170	3,994	4.4	1,125	986	916	22.8	14.2
Net income from forex dealings	1,884	2,578	(26.9)	515	427	653	(21.2)	20.5
Total non-interest income	8,638	8,286	4.3	2,229	2,195	2,725	(18.2)	1.5
Total income	24,237	23,795	1.9	7,428	5,677	7,950	(6.6)	30.9
Less operating expenses	10,134	9,461	7.1	2,547	2,562	3,170	(19.7)	(0.6)
Operating profit	14,104	14,335	(1.6)	4,881	3,115	4,780	2.1	56.7
Bad debt charge	(2,472.8)	(636)	288.5	(323)	(3,180)	1,262	(125.6)	(89.8)
Exceptional items	(679.0)	905	(175.0)	(104)	4	271	(138.3)	(2575.0)
Profit before tax	10,952	14,603	(25.0)	4,454	2,000	6,312	(29.4)	122.7
Less tax	(2,539)	(3,834)	(33.8)	(630)	(3,217)	(1,395)	(54.8)	(80.4)
Profit after tax	8,413	10,769	(21.9)	3,824	1,398	4,918	(22.2)	173.5
<b>Attributable Income</b>	<b>8,074</b>	<b>10,309</b>	<b>(21.7)</b>	<b>3,717</b>	<b>1,306</b>	<b>4,784</b>	<b>(22.3)</b>	<b>184.5</b>

*(Source: Company, DBIB Research)***BALANCE SHEET SUMMARY (KES MN)**

<b>Year End: December</b>	<b>FY20</b>	<b>3Q20</b>	<b>FY19</b>	<b>y-y% ch</b>	<b>q-q%ch</b>
Total shareholder's equity	64,189	60,465	57,739	11.2	6.2
Minority interest	3,874	3,376	3,124	24.0	14.7
Total Equity	68,063	63,841	60,862	11.8	6.6
Deposits due to other banks	7,024	9,410	8,153	(13.8)	(25.4)
Customer deposits	262,681	252,829	229,737	14.3	3.9
Borrowed funds	14,773	11,724	10,856	36.1	26.0
Other liabilities	5,558	6,867	5,683	(2.2)	(19.1)
Total equity and liabilities	358,100	344,671	315,291	13.6	3.9
Central bank balances	19,403	14,869	15,386	26.1	30.5
Deposits due from banks	18,335	21,233	43,662	(58.0)	(13.6)
Investment Securities	101,711	91,382	53,924	88.6	11.3
Held for dealing securities	-	-	-	NA	NA
Customer loans and advances	187,391	185,694	175,329	6.9	0.9
Other assets	13,545	14,084	11,680	16.0	(3.8)
Intangible assets	5,592	5,557	5,157	8.4	0.6
Fixed assets	12,122	11,852	10,152	19.4	2.3
<b>Total assets</b>	<b>358,100</b>	<b>344,671</b>	<b>315,291</b>	<b>13.6</b>	<b>3.9</b>

*(Source: Company, DBIB Research)***INVESTMENT RETURN**

	<b>FY20</b>	<b>3Q20</b>	<b>FY19</b>	<b>y-y bps ch</b>	<b>q-q bps ch</b>
ROA (%)	2.3	1.7	3.4	(107)	66
ROIC (%)	2.4	1.7	3.5	(109)	67
ROE (%)	11.9	9.1	16.9	(508)	276

*(Source: Company, DBIB Research)**\*Annualized*

## CAPITAL ADEQUACY, LIQUIDITY & ASSET QUALITY

	FY20	3Q20	FY19	y-y bps ch	q-q bps ch
Core capital/TRWA (%)	18.6	17.0	17.3	130	166
Min. Statutory Ratio (%)	10.5	10.5	10.5	-	-
Total capital/TRWA (%)	22.0	20.9	21.2	75	107
Min. Statutory Ratio (%)	14.5	14.5	14.5	-	-
Liquidity Ratio (%)	50.5	47.1	46.3	420	338
Min. Statutory Ratio (%)	20.0	20.0	20.0	-	-
Leverage Ratio (%)	19.0	17.8	19.3	(30)	124
Equity-to-Loans Ratio (%)	36.3	34.4	34.7	161	194
NPL Ratio (%)	11.2	10.8	10.7	43	35
NPL Coverage Ratio (%)	58.0	58.4	43.5	1,455	(38)
Long Term Debt to Total Liabilities and Equity (%)	4.1	66.8	3.4	68	(6,266)
NTA/share (KES)	75.6	3.4	67.4	818	7,216
Book value/share (KES)	82.3	70.5	73.6	871	1,183

(Source: Company, DBIB Research)

## OPERATING PERFORMANCE

	FY20	3Q20	FY19	y-y bps ch	q-q bps ch
Yield on interest earning assets (%)*	9.1	8.8	10.0	(89)	24
Cost of funds (%)*	4.3	4.5	4.7	(38)	(24)
Net Interest Margin (%)*	4.8	4.3	5.3	(52)	47
Loan-to-Deposits ratio (%)	71.3	73.4	76.3	(498)	(211)
Loan-to-Dep.&Borrowed Funds ratio (%)	67.5	70.2	72.9	(533)	(265)
Funded Income Generating Potential (%)	85.9	86.5	86.6	(71)	(70)
Funded Income Reliance (%)	64.4	61.9	65.2	(82)	249
Cost to income ratio (%)	41.8	45.1	39.8	205	(332)
Pre-tax margin (%)	45.2	1.5	61.4	(1,618)	4,364
PAT margin (%)	34.7	38.7	45.3	(1,055)	(395)

(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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