

DYER & BLAIR INVESTMENT BANK

EARNINGS UPDATE

Founder Member of the Nairobi Securities Exchange

30TH AUGUST 2021



DYER & BLAIR
INVESTMENT BANK

WE KNOW. YOU KNOW.

I&M GROUP: 1H21 EARNINGS UPDATE

Dear All,

I&M Group released its 1H21 results reporting a Profit after tax (PAT) of KES 4.3 BN, a 33.2% y-o-y improvement. This was mainly on account of an 11.6% y-o-y growth in interest income to KES 14.6 BN and a 6.9% y-o-y drop in interest expense to KES 5.8 BN. The EPS for the period closed at KES 2.44 compared to KES 1.85 in 1H20.

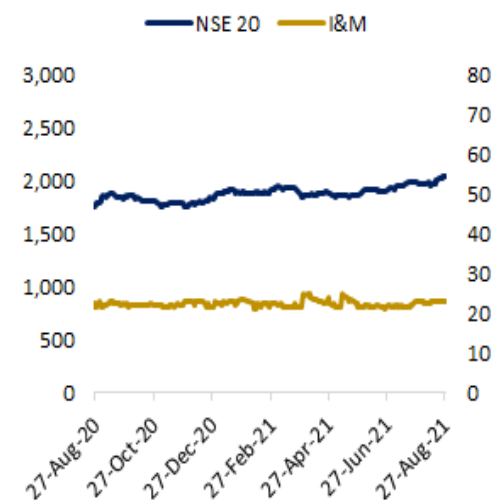
Key highlights:

Net interest income advanced 28.1% y-o-y to KES 8.9 BN on the back of an 11.6% y-o-y increase in interest income to KES 14.6 BN and a 6.9% y-o-y decrease in interest expense to KES 5.8 BN. Annualized yield on interest earning assets gained 42 bps y-o-y to 9.4% whereas annualized cost of funds shed 76 bps y-o-y to 3.8%. As a result, the group's annualized net interest margin (NIM) grew 118 bps to 5.6%.

Interest income from loans and advances dropped 3.6% y-o-y to KES 10.4 BN, placing the annualized yield on average loans for the period at 10.7%, 140 bps down y-o-y. Interest income from investment securities advanced 92.6% y-o-y to KES 4.1 BN, placing the annualized yield on average government securities at 11.4%, 364 bps up y-o-y. Interest expense from customer deposits fell 11.8% y-o-y to KES 4.8 BN placing the annualized cost of average deposits at 3.6%, 81 bps down y-o-y.

Non-funded income declined 6.4% y-o-y to KES 3.9 BN, courtesy of a 18.2% y-o-y decline in net income from forex dealings to KES 770.3 MN and a 20.1% y-o-y decline in other operating income to KES 967.9 MN. Fees and commission income saw a 7.1% y-o-y increase to KES 2.2 BN following a 17.9% y-o-y growth in other fees and commissions to KES 1.3 BN but held back by a 5.2% y-o-y decrease in fees and commissions on loans to KES 909.2 MN. As a result, funded income reliance rose 706 bps y-o-y to 69.2%.

I&M HOLDINGS: 52 WEEK PRICE PERFORMANCE



(Source: NSE, DBIB Research)

PRICE	ABSOLUTE	EXCESS
RETURN	RETURN	RETURN
3 month (%)	6.7	(2.5)
6 month (%)	2.3	(3.9)
12 month (%)	2.3	(12.5)

KEY METRICS

Current Price (KES)	23.00
52 week high (KES)	25.00
52 week low (KES)	21.05
YTD Return (%)	2.2
Issued Shares (MN)	1,653.6
Market Cap (USD MN)	346.3
<i>*price adjusted for a 1:1 bonus share issue</i>	
Target price	Under Review
Trailing EPS (KES)	5.48
Book Value (KES)	39.83
Trailing P/E (x)	4.2
Trailing P/B (x)	0.6

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Operating expenses (less loan loss provisions) rose 22.5% y-o-y to KES 6.2 BN mainly on the back of a 23.7% y-o-y increase in other operating expenses to KES 2.2 BN and a 17.0% y-o-y rise in staff costs to KES 2.7 BN. As a result, pre-provision operating profit grew 9.0% y-o-y to KES 6.7 BN. Cost to income ratio for the period rose 291 bps y-o-y to 48.1%.

Loan loss provision expense saw a 2.1% y-o-y increase to KES 1.1 BN placing the annualized cost of risk at 1.0%, 9 bps down y-o-y. We highlight that the group's loan book grew by 10.8% y-o-y while gross NPLs rose 3.8% y-o-y. The share of profit of joint venture stood at KES 267.9 MN compared to a loss of KES 579.5 MN in 1H20. As a result, profit before tax rose 30.5% y-o-y to KES 5.9 BN.

Total assets grew 12.3% y-o-y to KES 382.6 BN (+5.0 q-o-q). Customer loans and advances saw a 10.8% y-o-y increase to KES 204.5 BN (+5.8% q-o-q). The group's investment securities rose by 62.4% y-o-y to KES 89.9 BN (flat q-o-q) while held for dealing securities dropped 19.3% y-o-y to KES 13.6 BN.

On the funding side, customer deposits grew by 9.6% y-o-y to KES 276.8 BN (+5.2% q-o-q), placing the loans to deposits ratio at 73.9%, 78 bps up y-o-y. Borrowed funds rose 86.7% y-o-y to 18.6 BN owing to a 106.2% y-o-y increase in subordinated debt to KES 9.5 BN and a 69.9% y-o-y increase in long-term debt to 9.1 BN. As such, loans to deposits and borrowed funds ratio dropped 110 bps y-o-y to 69.2%. Deposits due to other banks fell 8.4% y-o-y to KES 8.7 BN (-15.4% q-o-q).

Total non-performing loans (NPLs) saw a 6.9% y-o-y increase to KES 19.2 BN (-8.1% q-o-q) as a result of a 3.8% y-o-y rise in gross NPLs to KES 22.9 BN (-7.2% q-o-q) and a 9.7% y-o-y decline in interest in suspense to KES 3.8 BN (-2.6% q-o-q). NPL ratio dropped 61 bps y-o-y to 10.1%. Loan loss provisions rose 19.1% y-o-y to KES 11.6 BN (+3.7% q-o-q). The NPL coverage ratio rose 623 bps y-o-y to 60.8%.

I&M Group's core capital ratio (Core capital/TRWA) and total capital ratio (Total capital/TRWA) edged down 38 bps and 70 bps y-o-y to 15.9% and 20.7% respectively. Both ratios remain well above the statutory minimum of 10.5% and 14.5%, respectively. Liquidity ratio rose 135 bps y-o-y to 48.3%, well above the statutory minimum of 20.0%.

On a trailing basis, I&M is trading at a P/E ratio of 4.2x, below an industry median of 6.3x, and a P/B of 0.6x below an industry median of 0.8x. ROE stands at 13.7% above an industry average of 12.8% whereas ROA stands at 2.4% above an industry average of 2.0%.

PROFIT AND LOSS SUMMARY (KES MN)

Year End: December	1H21	1H20	y-y% ch	2q21	1q21	2q20	y-y% ch	q-q%ch
Interest income	14,635	13,116	11.6	7,503	7,132	6,646	12.9	5.2
Interest expense	5,770	6,197	(6.9)	2,951	2,819	3,224	(8.5)	4.7
Net interest income	8,866	6,919	28.1	4,552	4,313	3,423	33.0	5.5
Other operating income	967.9	1,212	(20.1)	551	417	701	(21.3)	32.3
Fees and commission income	2,206	2,059	7.1	1,145	1,060	940	21.9	8.0
Net income from forex dealings	770.3	942	(18.2)	422	349	355	18.6	21.0
Total non-interest income	3,944	4,213	(6.4)	2,118	1,825	1,996	6.1	16.1
Total income	12,809	11,132	15.1	6,671	6,139	5,419	23.1	8.7
Less operating expenses	6,155	5,025	22.5	3,351	2,804	2,560	30.9	19.5
Operating profit	6,654	6,108	9.0	3,319	3,335	2,859	16.1	(0.5)
Bad debt charge	1,053	1,031	2.1	294	759	475	(38.2)	(61.3)
Exceptional items	267.9	(579.5)	(146.2)	184	84	(786)	(123.4)	119.8
Profit before tax	5,869	4,497	30.5	3,210	2,660	2,011	59.6	20.7
Less tax	1,620	1,307	23.9	847	773	483	75.3	9.6
Profit after tax	4,250	3,190	33.2	2,363	1,887	1,527	54.7	25.2
Attributable Income	4,034	3,051	32.2	2,243	1,791	1,521	47.5	25.3

(Source: Company, DBIB Research)

BALANCE SHEET SUMMARY (KES MN)

Year End: December	1H21	1Q21	1H20	y-y% ch	q-q%ch
Total shareholder's equity	65,870	65,556	58,716	12.2	0.5
Minority interest	4,215	3,970	3,354	25.7	6.2
Total Equity	70,085	69,526	62,070	12.9	0.8
Deposits due to other banks	8,670	10,249	9,466	(8.4)	(15.4)
Customer deposits	276,755	263,133	252,484	9.6	5.2
Borrowed funds	18,629	14,721	9,977	86.7	26.5
Other liabilities	8,432	6,813	6,644	26.9	23.8
Total equity and liabilities	382,571	364,442	340,640	12.3	5.0
Central bank balances	21,527	14,963	19,068	12.9	43.9
Deposits due from banks	17,016	21,903	35,246	(51.7)	(22.3)
Investment Securities	89,936	89,959	55,366	62.4	(0.0)
Held for dealing securities	13,612	12,478	16,872	(19.3)	9.1
Customer loans and advances	204,458	193,159	184,565	10.8	5.8
Other assets	17,736	14,153	13,268	33.7	25.3
Intangible assets	5,790	5,649	5,448	6.3	2.5
Fixed assets	12,497	12,178	10,808	15.6	2.6
Total assets	382,571	364,442	340,640	12.3	5.0

(Source: Company, DBIB Research)

INVESTMENT RETURN

	1H21	1Q21	1H20	y-y bps ch	q-q bps ch
ROA (%) *	2.1	2.1	1.8	32	4
ROIC (%) *	2.2	2.1	1.8	33	5
ROE (%) *	11.5	10.9	9.8	168	66

(Source: Company, DBIB Research)

*Annualized

CAPITAL ADEQUACY, LIQUIDITY & ASSET QUALITY

	1H21	1Q21	1H20	y-y bps ch	q-q bps ch
Core capital/TRWA (%)	15.9	18.1	16.3	(38)	(215)
Min. Statutory Ratio (%)	10.5	10.5	10.5	-	-
Total capital/TRWA (%)	20.7	21.6	21.4	(70)	(91)
Min. Statutory Ratio (%)	14.5	14.5	14.5	-	-
Liquidity Ratio (%)	48.3	47.1	47.0	135	124
Min. Statutory Ratio (%)	20.0	20.0	20.0	-	-
Leverage Ratio (%)	18.3	19.1	18.2	10	(76)
Equity-to-Loans Ratio (%)	34.3	36.0	33.6	65	(172)
NPL Ratio (%) **	10.1	11.4	10.7	(61)	(126)
NPL Coverage Ratio (%) **	60.8	53.9	54.5	623	691
IFRS 9 Coverage Ratio (%) **	67.2	61.1	63.1	409	613
Long Term Debt to Total Liabilities and Equity (%)	4.9	4.0	2.9	194	83
NTA/share (KES)	38.9	38.6	68.5	(2,960)	25
Book value/share (KES)	42.4	42.0	75.1	(3,269)	34

(Source: Company, DBIB Research)

**Total Loan Portfolio net of Interbank Lending

OPERATING PERFORMANCE

	1H21	1Q21	1H20	y-y bps ch	q-q bps ch
Yield on interest earning assets (%)*	9.4	9.4	9.0	42	5
Cost of funds (%)*	3.8	3.9	4.6	(76)	(12)
Net Interest Margin (%)*	5.6	5.4	4.4	118	16
Loan-to-Deposits ratio (%)	73.9	73.4	73.1	78	47
Loan-to-Dep.&Borrowed Funds ratio (%)	69.2	69.5	70.3	(110)	(30)
Funded Income Generating Potential (%)	81.4	87.1	85.7	(434)	(572)
Funded Income Reliance (%)	69.2	70.3	62.2	706	(105)
Cost to income ratio (%)	48.1	45.7	45.1	291	238
Cost of risk (%) *	1.0	1.6	1.1	(9)	(54)
Pre-tax margin (%)	45.8	43.3	40.4	542	249
PAT margin (%)	33.2	30.7	28.7	452	244

(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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