



I&M GROUP: 3Q21 EARNINGS UPDATE

Dear All,

I&M Group released its 3Q21 results, recording a 25.1% y-o-y advancement in profit after tax (PAT) to KES 5.7 BN. This was mainly attributable to a 34.5% y-o-y increase in net interest income to KES 14.0 BN. Its EPS stands at KES 3.29. Its trailing EPS stands at KES 5.54. Annualized ROE rose by 96 bps y-o-y to 10.1% whereas annualized ROA rose by 13 bps to close at 1.8%.

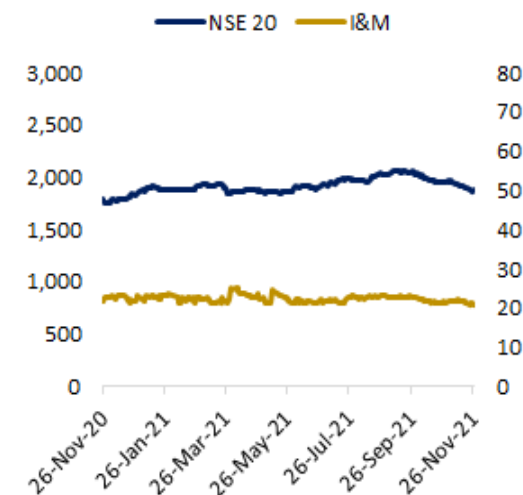
Below please find key highlights:

Net interest income grew by 34.5% y-o-y to KES 14.0 BN, on the back of a 15.7% y-o-y increase in interest income to KES 22.8 BN and a 5.2% y-o-y decrease in interest expense to KES 8.9 BN. Annualized yield on interest earning assets improved by 66 bps y-o-y to 9.5% whereas annualized cost of funds dropped by 84 bps y-o-y to 3.7%. As a result, annualized net interest margin grew by 150 bps y-o-y to 5.8%.

Interest income from loans and advances rose by 2.5% y-o-y to KES 16.2 BN while net customer loans grew by 11.8% y-o-y to KES 207.6 BN, placing the annualized yield on average loans at 11.0%, 73 bps down y-o-y. **Interest income from government securities grew by 76.2% y-o-y to KES 6.5 BN** placing the annualized yield on average government securities at 8.9%, 215 bps up y-o-y. **Interest expense from customer deposits shed 8.8% y-o-y to KES 7.5 BN** placing the annualized cost of average deposits at 3.7%, 79 bps down y-o-y.

Non-funded income dropped by 3.5% y-o-y to KES 6.2 BN, courtesy of a 21.3% y-o-y decrease in other operating income to KES 1.6 BN and a 13.7% y-o-y decline in net income from forex dealings to KES 1.2 BN. Fees and commission income rose by 12.8% y-o-y to KES 3.4 BN. As such, funded income reliance increased by 747 bps y-o-y to 69.3%. Under fees and commissions, fees and commissions on loans dropped by 3.8% y-o-y to KES 1.4 BN whereas other fees and commissions rose by 27.4% y-o-y to KES 2.1 BN. Total income rose by 20.0% y-o-y to KES 20.2 BN.

I&M HOLDINGS 52 WEEK PRICE PERFORMANCE



(Source: NSE, DBIB Research)

PRICE RETURN	ABSOLUTE RETURN	EXCESS RETURN
3 month (%)	(9.1)	(1.9)
6 month (%)	(3.0)	(4.3)
12 month (%)	(3.9)	(9.8)

KEY METRICS

Current Price (KES)	20.90
52 week Range (KES)	20.90-25.00
YTD Return (%)	(7.1)
Issued Shares (MN)	1,653.6
Market Cap (USD MN)	307.4
<i>*price adjusted to reflect the 1:1 bonus share issue</i>	
Recommendation	BUY
Trailing EPS (KES)	5.54
NAV (KES)	41.13
P/E (x)	3.8
P/B (x)	0.5

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Operating expenses (less loan loss provisions) rose by 27.9% y-o-y to KES 9.7 BN, following a 32.4% y-o-y increase in other operating expenses to KES 3.6 BN and a 22.9% y-o-y increase in staff costs to KES 4.3 BN. Consequently, cost to income ratio rose by 296 bps y-o-y to 48.1% owing to the faster growth in operating expenses (in line with the group's drive to invest in technology) as compared to operating income.

Pre-provision operating profit rose by 13.5% y-o-y to KES 10.5 BN. I&M's loan loss provisions expense rose by 31.4% y-o-y to KES 2.8 BN plausibly due to increased lending by the group to the private sector. As a result, the cost of risk at 1.8%, 27 bps up y-o-y. Share of profit of joint venture stood at KES 450.3 MN as compared to a loss of KES 575.4 MN as at 3Q20. As such, pre-tax profit rose by 24.6% y-o-y to KES 8.1 BN.

Total assets rose by 15.8% y-o-y to KES 399.1 BN. Customer loans and advances rose by 11.8% y-o-y to KES 207.6 BN (+1.5% q-o-q) while investment securities rose by 11.9% y-o-y to KES 102.3 BN (+13.7% q-o-q).

On the funding side, customer deposits saw a 14.2% y-o-y increase to KES 288.7 BN (+4.3% q-o-q) whilst borrowed funds saw a 73.3% y-o-y rise to KES 20.3 BN (+9.1% q-o-q). Loans to deposits ratio declined by 153 bps y-o-y to 71.9% whereas loans to deposits and borrowed funds ratio declined by 301 bps y-o-y to 67.2%.

Gross NPLs edged up by 0.7% y-o-y to KES 22.7 BN whereas gross loans rose by 10.6% y-o-y to KES 230.3 BN placing the NPL ratio at 9.9%, 97 bps down y-o-y and lower than an industry average ratio of 13.9% as at August 2021. Total NPLs rose by 4.1% y-o-y to KES 18.8 BN on the back of a 13.0% y-o-y drop in interest in suspense to KES 4.0 BN. Cumulative loan loss provision rose by 14.8% y-o-y to KES 12.1 BN placing the NPL coverage ratio at 64.4%, 599 bps up y-o-y.

I&M Bank Kenya's core capital ratio (core capital/TRWA) shed 140 bps y-o-y to 15.6% while its total capital/TRWA ratio rose by 33 bps y-o-y to 21.2%. Both ratios remain above the statutory minimum of 10.5% and 14.5% respectively. The bank's liquidity ratio dropped by 67 bps y-o-y to 46.5%, above the statutory minimum of 20.0%.

On a trailing basis, I&M Group is trading at a P/E ratio of 3.8x, against a sector median of 5.1x, and a P/B ratio of 0.5x against a sector median of 0.7x. ROE stands at 13.5%, against a sector median of 13.3%, whereas ROA stands at 2.3%, against a sector median of 2.2%. We maintain our **BUY** recommendation.

PROFIT AND LOSS SUMMARY (KES MN)

Year End: December	9M21	9M20	y-y% ch	3Q21	2Q21	3Q20	y-y% ch	q-q% ch
Interest income	22,845	19,739	15.7	8,210	7,503	6,622	24.0	9.4
Interest expense	8,857	9,338	(5.2)	3,087	2,951	3,141	(1.7)	4.6
Net interest income	13,988	10,401	34.5	5,123	4,552	3,481	47.1	12.5
Other operating income	1,569	1,994	(21.3)	601	551	783	(23.1)	9.1
Fees and commission income	3,433	3,045	12.8	1,228	1,145	986	24.5	7.2
Net income from forex dealings	1,182	1,369	(13.7)	412	422	427	(3.7)	(2.4)
Total non-interest income	6,184	6,409	(3.5)	2,241	2,118	2,195	2.1	5.8
Total income	20,173	16,809	20.0	7,363	6,671	5,677	29.7	10.4
Less operating expenses	9,702	7,587	27.9	3,547	3,351	2,562	38.5	5.8
Operating profit	10,470	9,223	13.5	3,816	3,319	3,115	22.5	15.0
Bad debt charge	(2,825)	(2,150)	31.4	(3,878)	294	(3,180)	21.9	(1419.6)
Exceptional items	450.3	(575.4)	(178.3)	182	184	4	4256.5	(1.0)
Profit before tax	8,095	6,498	24.6	2,226	3,210	2,000	11.3	(30.6)
Less tax	(2,357)	(1,909)	23.5	(3,977)	847	(3,217)	23.6	(569.6)
Profit after tax	5,738	4,588	25.1	1,488	2,363	1,398	6.4	(37.0)
Attributable Income	5,447	4,357	25.0	1,413	2,243	1,306	8.2	(37.0)
EPS (KES)	3.29	5.27	(37.6)	0.85	0.27	3.42	(75.1)	214.8

(Source: Company, DBIB Research)

BALANCE SHEET SUMMARY (KES MN)

Year End: December	9M21	1H21	9M20	y-y% ch	q-q% ch
Total shareholder's equity	68,006	65,870	60,465	12.5	3.2
Minority interest	4,205	4,215	3,376	24.6	(0.2)
Total Equity	72,212	70,085	63,841	13.1	3.0
Deposits due to other banks	9,578	8,670	9,410	1.8	10.5
Customer deposits	288,685	276,755	252,829	14.2	4.3
Borrowed funds	20,319	18,629	11,724	73.3	9.1
Other liabilities	8,276	8,432	6,867	20.5	(1.9)
Total equity and liabilities	399,069	382,571	344,671	15.8	4.3
Central bank balances	24,568	21,527	14,869	65.2	14.1
Deposits due from banks	11,219	17,016	21,233	(47.2)	(34.1)
Investment Securities	102,289	89,936	91,382	11.9	13.7
Held for dealing securities	-	-	-	-	-
Customer loans and advances	207,605	204,458	185,694	11.8	1.5
Other assets	34,922	31,347	14,084	148.0	11.4
Intangible assets	5,815	5,790	5,557	4.6	0.4
Fixed assets	12,651	12,497	11,852	6.7	1.2
Total assets	399,069	382,571	344,671	15.78	4.3

(Source: Company, DBIB Research)

INVESTMENT RETURN

	9M21	1H21	9M20	y-y bps ch	q-q bps ch
ROA (%)	1.8	2.1	1.7	13	(29)
ROIC (%)	1.9	2.2	1.7	14	(30)
ROE (%)	10.1	11.5	9.1	96	(145)

(Source: Company, DBIB Research)

*Annualized

CAPITAL ADEQUACY, LIQUIDITY & ASSET QUALITY

	9M21	1H21	9M20	y-y bps ch	q-q bps ch
Core capital/TRWA (%)	15.6	15.9	17.0	(140)	(32)
Min. Statutory Ratio (%)	10.5	10.5	10.5	-	-
Total capital/TRWA (%)	21.2	20.7	20.9	33	52
Min. Statutory Ratio (%)	14.5	14.5	14.5	-	-
Liquidity Ratio (%)	46.5	48.3	47.1	(67)	(188)
Min. Statutory Ratio (%)	20.0	20.0	20.0	-	-
Leverage Ratio (%)	18.1	18.3	17.8	33	(22)
Equity-to-Loans Ratio (%)	34.8	34.3	34.4	40	50
NPL Ratio (%) **	9.9	10.1	10.8	(97)	(23)
NPL Coverage Ratio (%) **	64.4	60.8	58.4	599	364
IFRS 9 Coverage Ratio (%) **	70.6	67.2	66.8	381	337
Long Term Debt to Total Liabilities and Equity (%)	5.1	4.9	3.4	169	22
NTA/share (KES)	40.2	38.9	70.5	(3,034)	127
Book value/share (KES)	43.7	42.4	77.2	(3,354)	129

(Source: Company, DBIB Research)

**Total Loan Portfolio net of Interbank Lending

OPERATING PERFORMANCE

	9M21	1H21	9M20	y-y bps ch	q-q bps ch
Yield on interest earning assets (%)*	9.5	9.4	8.8	66	9
Cost of funds (%)*	3.7	3.8	4.5	(84)	(9)
Net Interest Margin (%)*	5.8	5.6	4.3	150	17
Loan-to-Deposits ratio (%)	71.9	73.9	73.4	(153)	(196)
Loan-to-Dep.& Borrowed Funds ratio (%)	67.2	69.2	70.2	(301)	(203)
Funded Income Generating Potential (%)	80.5	81.4	86.5	(608)	(93)
Funded Income Reliance (%)	69.3	69.2	61.9	747	13
Cost to income ratio (%)	48.1	48.1	45.1	296	5
Cost of risk (%)*	1.8	1.0	1.5	27	78
Pre-tax margin (%)	40.1	45.8	38.7	148	(569)
PAT margin (%)	28.4	33.2	27.3	115	(473)

(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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