

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 GROUP: FY21 EARNINGS UPDATE

Dear All,

I&M Group released its FY21 results reporting a 2.5% y-o-y growth in profit after tax (PAT) to KES 8.6 BN mainly driven by a 33.8% y-o-y increase in net interest income to KES 20.9 BN but held back by a 69.8% y-o-y jump in loan loss provision expense to KES 4.2 BN and a 33.7% y-o-y rise in operating expenses (less loan provisions) to KES 13.5 BN. Earnings per share (EPS) for the period came in at KES 4.92 (FY20: KES 4.88). The board announced a dividend of KES 1.50 per share. If approved, the dividend will be payable on or around 26th May 2022 to shareholders on the company's register at the close of business on 21st April 2022.

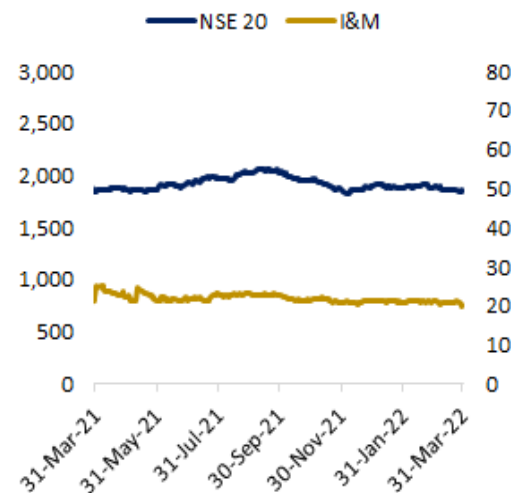
Key highlights:

Net interest income rose by 33.8% y-o-y to KES 20.9 BN due to an 18.8% y-o-y growth in interest income to KES 33.1 BN while interest expense remained flat at KES 12.2 BN (-0.4% y-o-y). Yield on interest earning assets held constant at 9.4% (-2 bps y-o-y) while cost of funds dropped by 67 bps y-o-y to 3.6%. As a result, the group's net interest margin (NIM) went up by 65 bps y-o-y to 5.8%.

Interest income from loans and advances increased by 8.6% y-o-y to KES 23.8 BN supported by a 12.4% y-o-y expansion in the group's net customer loans and advances to KES 210.6 BN. Yield on loans for the period came in at 11.9%, 12 bps lower y-o-y. Interest income from investment securities advanced by 62.0% y-o-y to KES 9.1 BN buoyed by a 23.4% y-o-y growth in the group's investment in government and investment securities to KES 125.5 BN. As such, yield on investment securities closed off at 8.0%, 9 bps higher y-o-y.

Interest expense from customer deposits fell by a slight 2.8% y-o-y to KES 10.3 BN, and this was despite a 13.0% y-o-y growth in customer deposits to KES 296.7 BN as the cost of deposits fell by 62 bps to 3.7%.

I&M HOLDINGS: 52 WEEK PRICE PERFORMANCE



(Source: NSE, DBIB Research)

PRICE	ABSOLUTE	EXCESS
RETURN	RETURN	RETURN
3 month (%)	(6.5)	(4.1)
6 month (%)	(12.3)	(3.6)
12 month (%)	(9.1)	(9.4)

KEY METRICS

Current Price (KES)	20.00
52 week high (KES)	25.00
52 week low (KES)	20.00
YTD Return (%)	(5.2)
Issued Shares (MN)	1,653.6
Market Cap (USD MN)	287.9

Trailing EPS (KES)	4.92
Trailing Book Value (KES)	42.09
P/E (x)	4.1
P/B (x)	0.5
Div Yld (%)	7.4

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Non-funded income (NFI) rose by a marginal 1.1% y-o-y to KES 8.7 BN, following a 31.0% y-o-y advancement in other fees and commissions income to KES 2.9 BN, a 17.7% y-o-y drop in other operating income to KES 2.1 BN and an 8.0% y-o-y decline in net income from forex dealings to KES 1.7 BN. Fees and commissions on loans remained fairly constant at KES 1.9 BN (+0.6% y-o-y). Funded income reliance went up by 614 bps y-o-y to 70.5%.

Operating expenses (less loan provisions) surged by 33.7% y-o-y to KES 13.5 BN, owing to a 36.8% y-o-y increase in other operating expenses to KES 5.0 BN and a 32.1% y-o-y rise in staff costs to KES 5.9 BN. Cost-to-income ratio for the period increased by 394 bps y-o-y to 45.8% as a result of the group's increased investment in digitization.

Gross non-performing loans (NPLs) saw a 9.1% y-o-y drop to KES 21.4 BN (-5.6% q-o-q) while interest in suspense decreased by 25.2% y-o-y to KES 3.7 BN (-6.9% q-o-q). As such total loans fell by 4.9% y-o-y to KES 17.8 BN (-5.3% q-o-q). That said, the gross NPL ratio sunk by 194 bps y-o-y to 9.2%. Cumulative loan loss provisions rose by 7.4% y-o-y to KES 11.6 BN (-3.7% q-o-q) pivoting the NPL coverage ratio to 65.5%, 747 bps higher y-o-y.

Loan loss provision expense increased by 69.8% y-o-y to KES 4.2 BN, contrary to the industry-wide trend, placing the cost of risk at 2.0%, 67 bps higher y-o-y.

Customer loans and advances grew by 12.4% y-o-y to KES 210.6 BN (+1.5% q-o-q) while investment securities rose by 23.4% y-o-y to KES 125.5 BN (+6.8% q-o-q). Customer deposits advanced by 13.0% y-o-y to KES 296.7 BN (+2.8% q-o-q) placing the loan-to-deposit ratio at 71.0%, 36 bps lower y-o-y. Borrowed funds rose by 32.3% y-o-y to KES 19.5 BN (-3.8% q-o-q) placing the loans to deposits and borrowed funds ratio at 66.6%, 95 bps lower y-o-y.

I&M Group's core capital ratio (Core capital/TRWA) and total capital ratio (Total capital/TRWA) contracted by 207 bps and 51 bps y-o-y to 16.6% and 21.5% respectively. Both ratios remain well above the statutory minimum of 10.5% and 14.5% respectively. Liquidity ratio inched higher by 175 bps y-o-y to 52.3%, well above the statutory minimum of 20.0%.

I&M Group is currently trading at a P/E multiple of 4.1x against a sector median of 4.6x and a P/B multiple of 0.5x against a sector median 0.8x. Its ROE stands at 11.7% while its ROA stands at 2.0%. Its dividend yield stands at 7.4%.

PROFIT AND LOSS SUMMARY (KES MN)

Year End: December	FY21	FY20	y-y% ch	4q21	3q21	4q20	y-y% ch	q-q%ch
Interest income	33,081	27,849	18.8	10,236	8,210	8,690	17.8	24.7
Interest expense	12,205	12,249	(0.4)	3,348	3,087	3,676	(8.9)	8.4
Net interest income	20,877	15,600	33.8	6,889	5,123	5,014	37.4	34.5
Other operating income	2,127	2,584	(17.7)	557	601	1,400	(60.2)	(7.3)
Fees and commission income	4,876	4,170	16.9	1,443	1,228	935	54.3	17.5
Net income from forex dealings	1,733	1,884	(8.0)	551	412	(36)	(1619.4)	33.9
Total non-interest income	8,736	8,638	1.1	2,551	2,241	2,299	11.0	13.9
Total income	29,613	24,237	22.2	9,440	7,363	7,313	29.1	28.2
Less operating expenses	13,549	10,134	33.7	3,846	3,547	3,207	19.9	8.4
Operating profit	16,064	14,104	13.9	5,593	3,816	4,106	36.2	46.6
Bad debt charge	(4,200)	(2,473)	69.8	(1,375)	(3,878)	(1,173)	17.1	(64.6)
Exceptional items	549	(679)	(180.8)	99	182	(1,283)	(107.7)	(45.9)
Profit before tax	12,413	10,952	13.3	4,317	2,226	1,649	161.8	94.0
Less tax	(3,789)	(2,539)	49.2	(1,432)	(3,977)	129	(1213.1)	(64.0)
Profit after tax	8,624	8,413	2.5	2,886	1,488	1,778	62.3	93.9
Attributable Income	8,131	8,074	0.7	2,684	1,413	1,772	51.4	89.9

(Source: Company, DBIB Research)

BALANCE SHEET SUMMARY (KES MN)

Year End: December	FY21	3Q21	FY20	y-y% ch	q-q% ch
Total shareholder's equity	69,593	68,006	64,189	8.4	2.3
Minority interest	4,455	4,205	3,874	15.0	5.9
Total Equity	74,048	72,212	68,063	8.8	2.5
Deposits due to other banks	19,114	9,578	7,024	172.1	99.6
Customer deposits	296,747	288,685	262,681	13.0	2.8
Borrowed funds	19,546	20,319	14,773	32.3	(3.8)
Other liabilities	5,726	8,276	5,558	3.0	(30.8)
Total equity and liabilities	415,181	399,069	358,100	15.9	4.0
Central bank balances	27,547	24,568	19,403	42.0	12.1
Deposits due from banks	15,518	11,219	18,335	(15.4)	38.3
Investment Securities	125,535	117,524	101,711	23.4	6.8
Held for dealing securities	-	-	-	N/A	N/A
Customer loans and advances	210,620	207,605	187,391	12.4	1.5
Other assets	16,499	19,686	13,545	21.8	(16.2)
Intangible assets	6,579	5,815	5,592	17.7	13.1
Fixed assets	12,884	12,651	12,122	6.3	1.8
Total assets	415,181	399,069	358,100	15.9	4.0

(Source: Company, DBIB Research)

INVESTMENT RETURN

	FY21	3Q21	FY20	y-y bps ch	q-q bps ch
ROA (%)	2.1	1.8	2.3	(27)	26
ROIC (%)	2.1	1.9	2.4	(28)	25
ROE (%)	11.0	10.1	11.9	(88)	92

(Source: Company, DBIB Research)

*Annualized

CAPITAL ADEQUACY, LIQUIDITY & ASSET QUALITY

	FY21	3Q21	FY20	y-y bps ch	q-q bps ch
Core capital/TRWA (%)	16.6	15.6	18.64	(207)	99
Min. Statutory Ratio (%)	10.5	10.5	10.5	-	-
Total capital/TRWA (%)	21.5	21.2	21.97	(51)	23
Min. Statutory Ratio (%)	14.5	14.5	14.5	-	-
Liquidity Ratio (%)	52.3	46.5	50.51	175	580
Min. Statutory Ratio (%)	20.0	20.0	20.0	-	-
Leverage Ratio (%)	17.8	18.1	19.0	(117)	(26)
Equity-to-Loans Ratio (%)	35.2	34.8	36.3	(116)	37
NPL Ratio (%)	9.2	9.9	11.2	(194)	(62)
NPL Coverage Ratio (%)	65.5	64.4	58.0	747	110
LT Debt to Total Liabilities and Equity (%)	4.7	70.6	4.1	58	(6,588)
NTA/share (KES)	40.8	5.1	75.6	(3,476)	3,571
Book value/share (KES)	44.8	40.2	82.3	(3,754)	463

(Source: Company, DBIB Research)

OPERATING PERFORMANCE

	FY21	3Q21	FY20	y-y bps ch	q-q bps ch
Yield on interest earning assets (%)*	9.4	9.1	9.4	(2)	35
Cost of funds (%)*	3.6	3.7	4.3	(67)	(7)
Net Interest Margin (%)*	5.8	5.3	5.1	65	42
Loan-to-Deposits ratio (%)	71.0	71.9	71.3	(36)	(94)
Loan-to-Dep. & Borrowed Funds ratio (%)	66.6	67.2	67.5	(95)	(60)
Funded Income Generating Potential (%)	84.7	84.3	82.5	217	42
Funded Income Reliance (%)	70.5	69.3	64.4	614	116
Cost to income ratio (%)	45.8	48.1	41.8	394	(234)
Pre-tax margin (%)	41.9	40.1	45.2	(327)	179
PAT margin (%)	29.1	28.4	34.7	(559)	68

(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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