

# 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: 1H22 EARNINGS UPDATE

Dear All,

I&M Group released its 1H22 results reporting a **15.9% y-o-y growth in after-tax profits to KES 4.9 BN**. This was supported by an 18.7% y-o-y improvement in net interest income to KES 10.5 BN and a 28.2% y-o-y rise in total non-interest income to KES 5.1 BN. EPS for the period stood at KES 2.83 compared to KES 2.44 in 1H21.

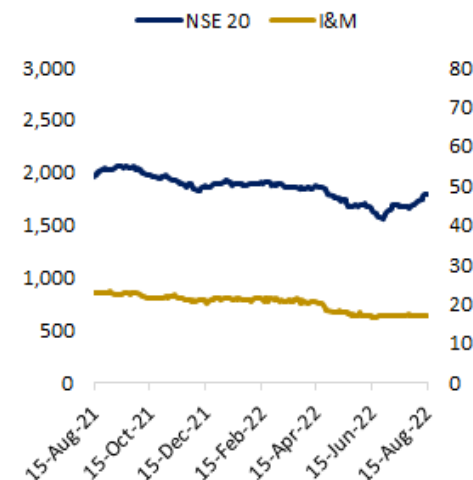
#### Key highlights:

**Net interest income increased by 18.7% y-o-y to KES 10.5 BN** propped up by a 19.3% y-o-y jump in interest income to KES 17.5 BN which offset a 20.2% y-o-y rise in interest expense to KES 6.9 BN. Annualized yield on interest earning assets fell slightly by 14 bps y-o-y to 9.3% whereas annualized cost of funds remained relatively unchanged at 3.8% (+5 bps y-o-y). As a result, the group's annualized net interest margin (NIM) edged down by 19 bps to 5.4%.

**Interest income from loans and advances increased by 16.1% y-o-y to KES 12.0 BN** bolstered by a 13.0% y-o-y rise in net customer loans and advances to KES 231.1 BN and a 40 bps y-o-y increase in the annualized yield on loans to 11.1%. **Interest income from investment securities advanced by 26.2% y-o-y to KES 5.2 BN** underpinned by an increase in the group's allocation to investment securities by 35.0% y-o-y to KES 121.4 BN. The group's annualized yield on government securities fell by 150 bps y-o-y to 9.9%.

**Interest expense from customer deposits went up by 16.9% y-o-y to KES 5.6 BN** buoyed by a 13.2% y-o-y growth in customer deposits to KES 313.2 BN along with an 18 bps y-o-y increase in the group's annualized cost of deposits to 3.8%.

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



(Source: NSE, DBIB Research)

PRICE	ABSOLUTE	EXCESS
RETURN	RETURN	RETURN
3 month (%)	(5.3)	(8.1)
6 month (%)	(20.7)	(15.0)
12 month (%)	(25.9)	(16.9)

#### KEY METRICS

Current Price (KES)	17.00
52 week high (KES)	23.25
52 week low (KES)	16.50
YTD Return (%)	(19.4)
Issued Shares (MN)	1,653.6
Market Cap (USD MN)	235.4

Trailing EPS (KES)	5.31
Book Value (KES)	40.23
Trailing P/E (x)	3.2
Trailing P/B (x)	0.4

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**Non-funded income went up by 28.2% y-o-y to KES 5.1 BN** occasioned by a 44.3% y-o-y growth in other fees and commissions to KES 1.9 BN, a 9.9% y-o-y improvement in fees and commissions on loans to KES 999.4 MN and a 147.7% y-o-y advancement in net income from forex dealings to KES 1.9 BN. Other operating income contracted by 71.1% y-o-y to KES 279.8 MN. The contribution of non-funded income to total income moved up by 168 bps y-o-y to 32.5%.

**Operating expenses (less loan loss provisions) rose by 18.4% y-o-y to KES 7.3 BN** primarily due to a 22.9% y-o-y increase in other operating expenses to KES 2.7 BN and a 10.8% y-o-y rise in staff costs to KES 3.0 BN. Cost-to-income ratio shrunk from 48.1% in 1H21 to 46.8%.

**Loan loss provision expense inched higher by 24.4% y-o-y to KES 1.3 BN** placing the cost of risk at 1.1% (+10 bps y-o-y).

**Gross non-performing loans (NPLs) increased by a marginal 1.5% y-o-y to KES 23.3 BN (-1.5% q-o-q)** while interest in suspense rose by 13.3% y-o-y to KES 4.3 BN (+7.1% q-o-q). Thus, total NPLs remained relatively unchanged at KES 19.0 BN (-0.9% y-o-y; -3.3% q-o-q). As a result, group's NPL ratio stood at 9.2%, 94 bps lower y-o-y. Cumulative loan loss provisions went up by 18.3% y-o-y to KES 13.8 BN (+5.6% q-o-q) placing the NPL coverage ratio at 72.5%, (1H22: 60.8%)

**Customer loans and advances rose by 13.0% y-o-y to KES 231.1 BN (+5.8% q-o-q) while investment securities grew by 35.0% y-o-y to KES 121.4 BN (-64.5% q-o-q).** On the funding side, **customer deposits saw a 13.2% y-o-y increase to KES 313.2 BN (+1.2% q-o-q)** while borrowed funds edged up by 3.7% y-o-y to KES 19.3 BN (-3.1% q-o-q). The loans to deposits ratio remained fairly constant at 73.8% (-9 bps y-o-y) while the loans to deposits and borrowed funds ratio dropped by 28 bps y-o-y to 69.5%.

**I&M Group's core capital ratio (Core capital/TRWA) and total capital ratio (Total capital/TRWA)** dwindled by 86 bps and 89 bps y-o-y to 15.0% and 19.8% respectively. Both ratios remain above the statutory minimum of 10.5% and 14.5%, respectively. The liquidity ratio rose by 47 bps y-o-y to 48.8%, above the statutory minimum of 20.0%.

**On a trailing basis, I&M is trading at a P/E multiple of 3.2x, against an industry median of 4.1x, and a P/B multiple of 0.4x against an industry median of 0.8x.** ROE stands at 13.2% whereas ROA stands at 2.0%.

## PROFIT AND LOSS SUMMARY (KES MN)

Year End: December	1H22	1H21	y-y% ch	2q22	1q22	2q21	y-y% ch	q-q%ch
Interest income	17,455	14,635	19.3	8,852	8,604	7,503	18.0	2.9
Interest expense	6,934	5,770	20.2	3,536	3,398	2,951	19.8	4.0
Net interest income	10,521	8,866	18.7	5,316	5,205	4,552	16.8	2.1
Other operating income	279.8	968	(71.1)	59	221	551	(89.3)	(73.3)
Fees and commission income	2,870	2,206	30.1	1,508	1,362	1,145	31.7	10.8
Net income from forex dealings	1,908	770	147.7	1,295	613	422	207.1	111.4
Total non-interest income	5,058	3,944	28.2	2,863	2,195	2,118	35.1	30.4
Total income	15,579	12,809	21.6	8,179	7,401	6,671	22.6	10.5
Less operating expenses	7,288	6,155	18.4	3,918	3,369	3,351	16.9	16.3
Operating profit	8,291	6,654	24.6	4,260	4,031	3,319	28.3	5.7
Bad debt charge	1,309	1,053	24.4	829	481	294	181.9	72.3
Exceptional items	205.7	267.9	(23.2)	85	120	184	(53.6)	(29.0)
Profit before tax	7,188	5,869	22.5	3,517	3,671	3,210	9.6	(4.2)
Less tax	2,262	1,620	39.7	1,301	961	847	53.6	35.4
Profit after tax	4,926	4,250	15.9	2,216	2,710	2,363	(6.2)	(18.2)

(Source: Company, DBIB Research)

## BALANCE SHEET SUMMARY (KES MN)

Year End: December	1H22	1Q22	1H21	y-y% ch	q-q%ch
Total shareholder's equity	66,524	70,512	65,870	1.0	(5.7)
Minority interest	4,927	4,732	4,215	16.9	4.1
Total Equity	71,451	75,244	70,085	1.9	(5.0)
Deposits due to other banks	28,235	17,737	8,670	225.7	59.2
Customer deposits	313,179	309,424	276,755	13.2	1.2
Borrowed funds	19,315	19,939	18,629	3.7	(3.1)
Other liabilities	7,486	8,487	8,432	(11.2)	(11.8)
Total equity and liabilities	439,665	430,831	382,571	14.9	2.1
Central bank balances	24,945	28,835	21,527	15.9	(13.5)
Deposits due from banks	24,590	22,886	17,016	44.5	7.4
Investment Securities	121,404	342,384	89,936	35.0	(64.5)
Customer loans and advances	231,070	218,406	204,458	13.0	5.8
Other assets	18,159	17,265	31,347	(42.1)	5.2
Intangible assets	6,738	6,531	5,790	16.4	3.2
Fixed assets	12,760	12,930	12,497	2.1	(1.3)
Total assets	439,665	430,831	382,571	14.9	2.1

(Source: Company, DBIB Research)

## INVESTMENT RETURN

	1H22	1Q22	1H21	y-y bps ch	q-q bps ch
ROA (%) *	2.1	2.5	2.1	2	(39)
ROIC (%) *	2.2	2.6	2.2	1	(40)
ROE (%) *	13.1	14.4	11.5	159	(130)

(Source: Company, DBIB Research)

\*Annualized

## CAPITAL ADEQUACY, LIQUIDITY & ASSET QUALITY

	1H22	1Q22	1H21	y-y bps ch	q-q bps ch
Core capital/TRWA (%)	15.0	15.8	15.9	(86)	(77)
Min. Statutory Ratio (%)	10.5	10.5	10.5	-	-
Total capital/TRWA (%)	19.8	20.6	20.7	(89)	(74)
Min. Statutory Ratio (%)	14.5	14.5	14.5	-	-
Liquidity Ratio (%)	48.8	52.8	48.3	47	(394)
Min. Statutory Ratio (%)	20.0	20.0	20.0	-	-
Leverage Ratio (%)	16.3	17.5	18.3	(207)	(121)
Equity-to-Loans Ratio (%)	30.9	34.5	34.3	(336)	(353)
NPL Ratio (%)	9.2	9.8	10.1	(94)	(61)
NPL Coverage Ratio (%)	72.5	66.4	60.8	1,173	610
LT Debt to Total Liabilities and Equity (%)	4.4	4.6	4.9	(48)	(23)
NTA/share (KES)	39.1	41.6	38.9	25	(242)
Book value/share (KES)	43.2	45.5	42.4	83	(229)

(Source: Company, DBIB Research)

## OPERATING PERFORMANCE

	1H22	1Q22	1H21	y-y bps ch	q-q bps ch
Yield on interest earning assets (%)*	9.3	9.4	9.4	(14)	(16)
Cost of funds (%)*	3.8	3.9	3.8	5	(7)
Net Interest Margin (%)*	5.4	5.5	5.6	(19)	(9)
Loan-to-Deposits ratio (%)	73.8	70.6	73.9	(9)	320
Loan-to-Dep. & Borrowed Funds ratio (%)	69.5	66.3	69.2	28	318
Funded Income Generating Potential (%)	85.8	84.8	81.4	436	98
Funded Income Reliance (%)	67.5	70.3	69.2	(168)	(280)
Cost to income ratio (%)	46.8	45.5	48.1	(127)	125
Cost of risk (%) *	1.1	0.9	1.0	10	25
Pre-tax margin (%)	46.1	49.6	45.8	32	(346)
PAT margin (%)	31.6	36.6	33.2	(156)	(500)

(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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