

DYER & BLAIR INVESTMENT BANK

EARNINGS UPDATE

Founder Member of the Nairobi Securities Exchange

24TH MAY 2022



DYER & BLAIR
INVESTMENT BANK

WE KNOW. YOU KNOW.

I&M GROUP: 1Q22 EARNINGS UPDATE

Dear All,

I&M Group released its 1Q22 results reporting a **43.6% y-o-y improvement in profit after tax (PAT) to KES 2.7 BN** mainly owing to a 20.7% y-o-y increase in net interest income to KES 5.2 BN, a 20.3% y-o-y growth in non-funded income to KES 2.2 BN and a 36.7% y-o-y drop in loan loss provision expense to KES 480.7 MN. Earnings per share (EPS) for the period came in at KES 1.55 (1Q21: KES 1.08).

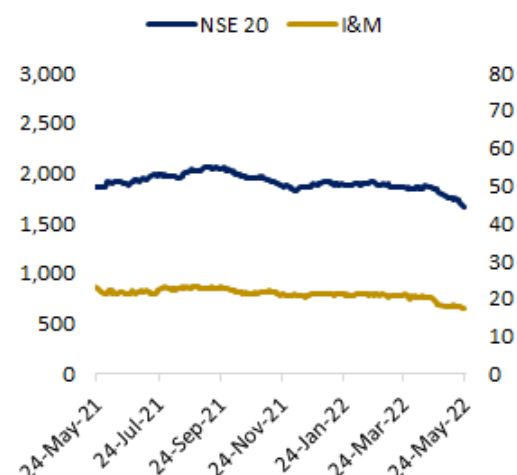
Key highlights:

Net interest income rose by 20.7% y-o-y to KES 5.2 BN due to a 20.6% y-o-y rise in interest income to KES 8.6 BN which offset a 20.6% y-o-y increase in interest expense to KES 3.4 BN. Annualized yield on interest earning assets rose marginally by 7 bps y-o-y to 9.4% while annualized cost of funds remained unchanged on a y-o-y basis at 3.9%. As a result, the group's annualized net interest margin (NIM) rose slightly by 7 bps to 5.5%.

Interest income from loans and advances increased by 19.0% y-o-y to KES 6.0 BN supported by a 13.1% y-o-y advancement in net customer loans and advances to KES 218.4 BN and a 93 bps y-o-y rise in the annualized yield on loans to 11.6%. Interest income from government securities grew by 23.8% y-o-y to KES 2.6 BN buoyed by a 21.0% y-o-y increase in the group's allocation to investment securities to KES 124.0 BN but held back by a 153 bps y-o-y decline in the group's annualized yield on government securities to 9.1%.

Interest expense from customer deposits grew by 18.3% y-o-y to KES 2.8 BN as the group beefed up its customer deposits by 17.6% y-o-y to KES 309.4 BN. Annualized cost of deposits rose by 15 bps y-o-y to 3.9%.

I&M HOLDINGS: 52 WEEK PRICE PERFORMANCE



(Source: NSE, DBIB Research)

PRICE	ABSOLUTE	EXCESS
RETURN	RETURN	RETURN
3 month (%)	(18.0)	(5.2)
6 month (%)	(16.7)	(5.8)
12 month (%)	(23.6)	(13.5)

KEY METRICS

Current Price (KES)	17.50
52 week high (KES)	23.35
52 week low (KES)	17.50
YTD Return (%)	(17.1)
Issued Shares (MN)	1,653.6
Market Cap (USD MN)	248.4

Trailing EPS (KES)	5.38
Book Value (KES)	42.64
P/E (x)	3.3
P/B (x)	0.4

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Non-funded income went up by 20.3% y-o-y to KES 2.2 BN on account of a 20.3% y-o-y growth in fees and commission on loans to KES 496.6 MN, a 33.6% y-o-y rise in other fees and commissions to KES 865.0 MN and a 75.8% y-o-y upswing in foreign exchange trading income to KES 612.8 MN. Other operating income declined by 47.0% y-o-y to KES 220.9 MN. The contribution of non-funded income to total operating income remained unchanged at 29.7% (1Q21: 29.7%).

Operating expenses (less loan loss provisions) inched higher by 20.2% y-o-y to KES 3.4 BN mainly attributable to a 13.8% y-o-y increase in staff costs to KES 1.3 BN and a 15.5% y-o-y increase in other operating expenses to KES 1.3 BN. Cost to income ratio for the period fell by 14 bps y-o-y to 45.5%.

Customer loans and advances advanced by 13.1% y-o-y to KES 218.4 BN (+3.7% q-o-q) while **investment securities rose by 21.0% y-o-y to KES 124.0 BN (-1.2% q-o-q)**.

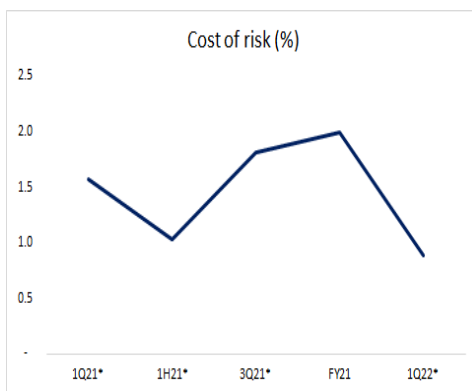
Customer deposits increased by 17.6% y-o-y to KES 309.4 BN (+4.3% q-o-q) while **borrowed funds rose by 35.4% y-o-y to KES 19.9 BN (+2.0% q-o-q)**. Loans-to-deposits ratio dropped by 282 bps y-o-y to 70.6% while loans-to-deposits and borrowed funds ratio decreased by 321 bps y-o-y to 66.3%.

Loan loss provision expense dropped by 36.7% y-o-y to KES 480.7 MN placing the annualized cost of risk at 0.9%, 69 bps lower y-o-y.

Gross non-performing loans for the group declined by 4.4% y-o-y to KES 23.6 BN while interest in suspense edged up by 3.1% y-o-y to KES 4.0 BN placing total loans at KES 19.6 BN, 5.8% lower on a y-o-y basis. **As such, NPL ratio dropped by 159 bps y-o-y to 9.8%**. Cumulative loan loss provisions rose by 16.1% y-o-y to KES 13.0 BN (+12.0% q-o-q) placing the NPL coverage ratio at 66.4% (1Q21: 53.9%).

I&M Group's core capital ratio (Core capital/TRWA) and total capital ratio (Total capital/TRWA) dwindled by 224 bps and 106 bps y-o-y to 15.8% and 20.6% respectively. Both ratios remain above the statutory minimum of 10.5% and 14.5% respectively. Liquidity ratio grew by 565 bps y-o-y to 52.8%, above the statutory minimum of 20.0%.

On a trailing basis, I&M is trading at a P/E multiple of 3.3x against a sector median of 4.0x and a P/B multiple of 0.4x against a sector median of 0.7x. Its ROE stands at 12.6% while its ROA stands at 2.1%.



(Source: Company, DBIB Research)

* Annualized

PROFIT AND LOSS SUMMARY (KES MN)

Year End: December	1Q22	1Q21	4q21	y-y% ch	q-q%ch
Interest income	8,604	7,132	10,236	20.6	(15.9)
Interest expense	3,398	2,819	3,348	20.6	1.5
Net interest income	5,205	4,313	6,889	20.7	(24.4)
Other operating income	221	417	557	(47.0)	(60.4)
Fees and commission income	1,362	1,060	1,443	28.4	(5.6)
Foreign exchange trading income	613	349	551	75.8	11.2
Total non-interest income	2,195	1,825	2,551	20.3	(13.9)
Total income	7,401	6,139	9,440	20.6	(21.6)
Less operating expenses	3,369	2,804	3,846	20.2	(12.4)
Operating profit	4,031	3,335	5,593	20.9	(27.9)
Bad debt charge	481	759	(1,375)	(36.7)	(135.0)
Exceptional items	120	84	99	43.6	22.0
Profit before tax	3,671	2,660	4,317	38.0	(15.0)
Less tax	961	773	(1,432)	24.3	(167.1)
Profit after tax	2,710	1,887	2,886	43.6	(6.1)
Attributable Income	2,561	1,791	2,684	43.0	(4.6)
EPS (KES)	1.55	1.08	1.63	43.5	(4.9)

(Source: Company, DBIB Research)

BALANCE SHEET SUMMARY (KES MN)

Year End: December	1Q22	FY21	1Q21	y-y% ch	q-q%ch
Total shareholder's equity	70,512	69,593	65,556	7.6	1.3
Minority interest	4,732	4,455	3,970	19.2	6.2
Total Equity	75,244	74,048	69,526	8.2	1.6
Deposits due to other banks	17,737	19,114	10,249	73.1	(7.2)
Customer deposits	309,424	296,747	263,133	17.6	4.3
Borrowed funds	19,939	19,546	14,721	35.4	2.0
Other liabilities	8,487	5,726	6,813	24.6	48.2
Total equity and liabilities	430,831	415,181	364,442	18.2	3.8
Central bank balances	28,835	27,547	14,963	92.7	4.7
Deposits due from banks	22,886	15,518	21,903	4.5	47.5
Investment Securities	123,978	125,535	102,437	21.0	(1.2)
Customer loans and advances	218,406	210,620	193,159	13.1	3.7
Other assets	17,265	16,499	14,153	22.0	4.6
Intangible assets	6,531	6,579	5,649	15.6	(0.7)
Fixed assets	12,930	12,884	12,178	6.2	0.4
Total assets	430,831	415,181	364,442	18.2	3.8

(Source: Company, DBIB Research)

INVESTMENT RETURN

	1Q22*	1Q21*	FY21	y-y bps ch	q-q bps ch
ROA (%)	2.5	2.1	2.1	44	44
ROIC (%)	2.6	2.1	2.1	46	46
ROE (%)	14.4	10.9	11.0	355	343

(Source: Company, DBIB Research)

*Annualized

CAPITAL ADEQUACY, LIQUIDITY & ASSET QUALITY

	1Q22	1Q21	FY21	y-y bps ch	q-q bps ch
Core capital/TRWA (%)	15.8	18.1	16.6	(224)	(76)
Min. Statutory Ratio (%)	10.5	10.5	10.5	-	-
Total capital/TRWA (%)	20.6	21.6	21.5	(106)	(90)
Min. Statutory Ratio (%)	14.5	14.5	14.5	-	-
Liquidity Ratio (%)	52.8	47.1	52.3	565	49
Min. Statutory Ratio (%)	20.0	20.0	20.0	-	-
Leverage Ratio (%)	17.5	19.1	17.8	(161)	(37)
Equity-to-Loans Ratio (%)	34.5	36.0	35.2	(154)	(71)
NPL Ratio (%)**	9.8	11.4	9.2	(159)	52
NPL Coverage Ratio (%)**	66.4	53.9	65.5	1,254	89
LT Debt to Total Liabilities and Equity (%)	4.6	4.0	4.7	59	(8)
NTA/share (KES)	41.6	38.6	40.8	292	75
Book value/share (KES)	45.5	42.0	44.8	346	72

(Source: Company, DBIB Research)

OPERATING PERFORMANCE

	1Q22	1Q21	FY21	y-y bps ch	q-q bps ch
Yield on interest earning assets (%)*	9.4	9.4	9.4	7	1
Cost of funds (%)*	3.9	3.9	3.6	0	28
Net Interest Margin (%)*	5.5	5.4	5.8	7	(26)
Loan-to-Deposits ratio (%)	70.6	73.4	71.0	(282)	(39)
Loan-to-Dep. & Borrowed Funds ratio (%)	66.3	69.5	66.6	(321)	(28)
Funded Income Generating Potential (%)	84.8	83.7	84.7	109	8
Funded Income Reliance (%)	70.3	70.3	70.5	7	(16)
Cost to income ratio (%)	45.5	45.7	45.8	(14)	(22)
Cost of risk (%)*	0.9	1.6	2.0	(69)	(111)
Pre-tax margin (%)	49.6	43.3	41.9	627	768
PAT margin (%)	36.6	30.7	29.1	588	749

(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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