



### I&M GROUP: 3Q22 EARNINGS UPDATE

Dear All,

I&M Group released its 3Q22 results reporting a 25.1% y-o-y growth in after-tax profits to KES 7.2 BN. This improvement was mainly underpinned by a 43.0% y-o-y jump in the total non-funded income to KES 8.8 BN and a 15.6% y-o-y increase in the net interest income to KES 16.2 BN. The EPS for the period went up by 25.2% y-o-y to KES 4.12 (3Q21: KES 3.29).

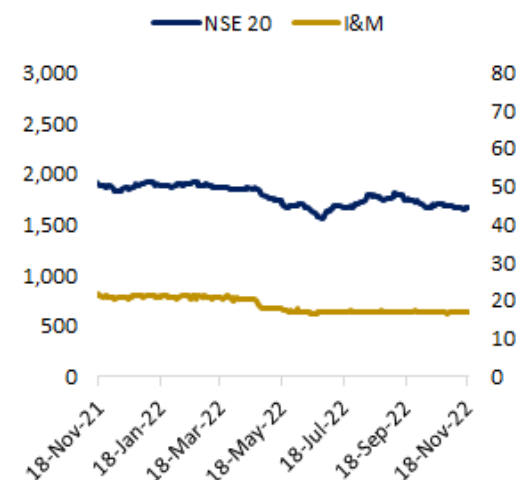
Below please find key highlights:

**Net interest income rose by 15.6% y-o-y to KES 16.2 BN** supported by a 17.3% y-o-y growth in interest income to KES 26.8 BN which outweighed the absolute increase in interest expense to KES 10.6 BN (+20.0% y-o-y). Annualized yield on interest earning assets improved by 67 bps y-o-y to 9.7% while annualized cost of funds rose by 43 bps y-o-y to 4.1%. As a result, annualized net interest margin rose marginally by 25 bps y-o-y to 5.6%.

**Interest income from loans and advances grew by 14.5% y-o-y to KES 18.5 BN** buoyed by an 11.4% y-o-y advancement in net customer loans to KES 231.2 BN and a 29 bps y-o-y rise in the annualized yield on loans to 11.3%. **Interest income from government securities inched higher by 21.3% y-o-y to KES 7.9 BN** supported by a 76 bps rise in the annualized yield on government securities to 9.0%. The group's allocation to government securities eased by 2.6% y-o-y to KES 114.4 BN.

**Interest expense from customer deposits went up by 13.8% y-o-y to KES 8.5 BN** bolstered by a 6.7% y-o-y growth in customer deposits to KES 308.0 BN and a slight increase in the annualized cost of deposits to 3.8% (+12 bps y-o-y).

### I&M HOLDINGS 52 WEEK PRICE PERFORMANCE



(Source: NSE, DBIB Research)

PRICE	ABSOLUTE	EXCESS
RETURN	RETURN	RETURN
3 month (%)	0.3	6.7
6 month (%)	(2.9)	(1.9)
12 month (%)	(20.7)	(8.7)

### KEY METRICS

Current Price (KES)	17.00
52 week Range (KES)	16.50-21.50
YTD Return (%)	(19.4)
Issued Shares (MN)	1,653.6
Market Cap (USD MN)	230.4
Trailing EPS (KES)	5.74
NAV (KES)	41.39
P/E (x)	3.0
P/B (x)	0.4

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**Non-funded income jumped by 43.0% y-o-y to KES 8.8 BN** on account of a 219.6% y-o-y advancement in net income from forex dealings to KES 3.8 BN, a 31.9% y-o-y growth in other fees and commissions to KES 2.7 BN and a 17.1% y-o-y rise in fees and commissions on loans to KES 1.6 BN. Total operating income grew by 24.0% y-o-y to KES 25.0 BN. The contribution of non-funded income to total operating income inched higher by 471 bps y-o-y to 35.4% (3Q21: 30.7%).

**Operating expenses (less loan loss provisions) went up by 16.6% y-o-y to KES 11.3 BN** owing to an 18.6% y-o-y rise in other operating expenses to KES 4.2 BN and a 10.2% y-o-y increase in staff costs to KES 4.8 BN. The cost-to-income ratio decreased by 285 bps y-o-y to 45.3%.

**Loan loss provisions increased by 27.5% y-o-y to KES 3.6 BN**, placing the cost of risk at 2.1%, 26 bps higher y-o-y. The cumulative loan loss provisions grew by 12.1% y-o-y to KES 13.6 BN, scaling the NPL coverage ratio by 555 bps y-o-y to 69.9%.

**Gross non-performing loans (NPLs) edged up by 4.2% y-o-y to KES 23.7 BN** while the interest in suspense rose by 9.0% y-o-y to KES 4.3 BN placing the total NPLs at KES 19.4 BN, 3.2% higher y-o-y. The NPL ratio dropped by 58 bps y-o-y to 9.3%.

**Customer loans and advances rose by 11.4% y-o-y to KES 231.2 BN (+0.1% q-o-q)** while investment securities fell by 2.6% y-o-y to KES 114.4 BN (-5.7% q-o-q). On the funding side, **customer deposits increased by 6.7% y-o-y to KES 308.0 BN (-1.6% q-o-q)** while borrowed funds shrunk by 8.1% y-o-y to KES 18.7 BN (-3.4% q-o-q). Loans-to-deposits ratio climbed by 315 bps y-o-y to 75.1% in line with the loans-to-deposits and borrowed funds ratio which increased by 359 bps y-o-y to 70.8%.

**I&M Group's core capital ratio (core capital/TRWA) shed 65 bps y-o-y to 15.3% while its total capital/TRWA ratio declined by 65 bps y-o-y to 20.1%.** Both ratios remain above the statutory minimum of 10.5% and 14.5% respectively. The bank's liquidity ratio dropped by 282 bps y-o-y to 46.6%, above the statutory minimum of 20.0%.

**On a trailing basis**, I&M Group is trading at a P/E ratio of 3.0x, against a sector median of 3.8x, and a P/B ratio of 0.4x against a sector median of 0.7x. ROE stands at 13.9% while ROA stands at 2.2%.

## PROFIT AND LOSS SUMMARY (KES MN)

Year End: December	3Q22	3Q21	y-y% ch	3q22	2q22	3q21	y-y% ch	q-q% ch
Interest income	26,796	22,845	17.3	9,341	8,852	8,210	13.8	5.5
Interest expense	10,631	8,857	20.0	3,697	3,536	3,087	19.8	4.6
Net interest income	16,165	13,988	15.6	5,643	5,316	5,123	10.2	6.2
Other operating income	742	1,569	(52.7)	462	59	601	(23.2)	684.5
Fees and commission income	4,325	3,433	26.0	1,455	1,508	1,228	18.5	(3.5)
Net income from forex dealings	3,777	1,182	219.6	1,869	1,295	412	354.1	44.3
Total non-interest income	8,844	6,184	43.0	3,786	2,863	2,241	69.0	32.3
Total income	25,009	20,173	24.0	9,430	8,179	7,363	28.1	15.3
Less operating expenses	11,317	9,702	16.6	4,029	3,918	3,547	13.6	2.8
Operating profit	13,692	10,470	30.8	5,400	4,260	3,816	41.5	26.8
Bad debt charge	(3,603)	(2,825)	27.5	(4,912)	829	(3,878)	26.7	(692.9)
Exceptional items	345.0	450.3	(23.4)	139	85	182	(23.6)	63.2
Profit before tax	10,434	8,095	28.9	3,246	3,517	2,226	45.8	(7.7)
Less tax	(3,258)	(2,357)	38.2	(5,520)	1,301	(3,977)	38.8	(524.2)
Profit after tax	7,176	5,738	25.1	2,250	2,216	1,488	51.2	1.6
Attributable Income	6,809	5,447	25.0	2,127	2,121	1,413	50.5	0.3
EPS (KES)	4.12	3.29	25.2	1.29	1.28	0.85	51.8	0.8

(Source: Company, DBIB Research)

## BALANCE SHEET SUMMARY (KES MN)

Year End: December	3Q22	1H22	3Q21	y-y% ch	q-q% ch
Total shareholder's equity	68,442	66,524	68,006	0.6	2.9
Minority interest	5,052	4,927	4,205	20.1	2.5
Total Equity	73,495	71,451	72,212	1.8	2.9
Deposits due to other banks	16,077	28,235	9,578	67.8	(43.1)
Customer deposits	308,045	313,179	288,685	6.7	(1.6)
Borrowed funds	18,667	19,315	20,319	(8.1)	(3.4)
Other liabilities	12,391	7,486	8,276	49.7	65.5
Total equity and liabilities	428,676	439,665	399,069	7.4	(2.5)
Central bank balances	23,844	24,945	24,568	(2.9)	(4.4)
Deposits due from banks	21,529	24,590	11,219	91.9	(12.5)
Investment Securities	114,440	121,404	117,524	(2.6)	(5.7)
Held for dealing securities	-	-	-	N/A	N/A
Customer loans and advances	231,240	231,070	207,605	11.4	0.1
Other assets	18,277	18,159	19,686	(7.2)	0.6
Intangible assets	6,791	6,738	5,815	16.8	0.8
Fixed assets	12,555	12,760	12,651	(0.8)	(1.6)
Total assets	428,676	439,665	399,069	7.4	(2.5)

(Source: Company, DBIB Research)

## INVESTMENT RETURN

	3Q22	1H22	3Q21	y-y bps ch	q-q bps ch
ROA (%)*	2.1	2.1	1.8	30	(1)
ROIC (%)*	2.2	2.2	1.9	32	1
ROE (%)*	12.4	13.1	10.1	229	(75)

(Source: Company, DBIB Research)

\*Annualized

## CAPITAL ADEQUACY, LIQUIDITY & ASSET QUALITY

	3Q22	1H22	3Q21	y-y bps ch	q-q bps ch
Core capital/TRWA (%)	15.3	15.0	15.9	(65)	24
Min. Statutory Ratio (%)	10.5	10.5	10.5	-	-
Total capital/TRWA (%)	20.1	19.8	20.7	(65)	23
Min. Statutory Ratio (%)	14.5	14.5	14.5	-	-
Liquidity Ratio (%)	46.6	48.8	49.4	(282)	(221)
Min. Statutory Ratio (%)	20.0	20.0	20.0	-	-
Leverage Ratio (%)	17.1	16.3	18.1	(95)	89
Equity-to-Loans Ratio (%)	31.8	30.9	34.8	(300)	86
NPL Ratio (%)	9.3	9.2	9.9	(58)	14
NPL Coverage Ratio (%)	69.9	72.5	64.4	555	(254)
Long Term Debt to Total Liabilities and Equity (%)	4.4	4.4	5.1	(74)	(4)
NTA/share (KES)	40.3	39.1	40.2	19	120
Book value/share (KES)	44.4	43.2	43.7	78	124

(Source: Company, DBIB Research)

## OPERATING PERFORMANCE

	3Q22	1H22	3Q21	y-y bps ch	q-q bps ch
Yield on interest earning assets (%)*	9.7	9.3	9.1	67	47
Cost of funds (%)*	4.1	3.8	3.7	43	29
Net Interest Margin (%)*	5.6	5.4	5.3	25	18
Loan-to-Deposits ratio (%)	75.1	73.8	71.9	315	129
Loan-to-Dep. & Borrowed Funds ratio (%)	70.8	69.5	67.2	359	128
Funded Income Generating Potential (%)	85.7	85.8	84.3	138	(10)
Funded Income Reliance (%)	64.6	67.5	69.3	(471)	(290)
Cost to income ratio (%)	45.3	46.8	48.1	(285)	(153)
Cost of risk (%)*	2.1	1.1	1.8	26	94
Pre-tax margin (%)	41.7	46.1	40.1	159	(442)
PAT margin (%)	28.7	31.6	28.4	25	(292)

(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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