

DYER & BLAIR INVESTMENT BANK

EARNINGS UPDATE

Founder Member of the Nairobi Securities Exchange

29TH MARCH 2023



DYER & BLAIR
INVESTMENT BANK

WE KNOW. YOU KNOW.

I&M GROUP: FY22 EARNINGS UPDATE

Dear All,

I&M Group released its FY22 results reporting a **34.3% y-o-y growth in after-tax profits to KES 11.6 BN**. This improvement was mainly underpinned by a 45.7% y-o-y jump in the total non-funded income to KES 12.7 BN and a 9.9% y-o-y increase in net interest income to KES 22.9 BN. The EPS for the period went up by 37.6% y-o-y to KES 6.77 (FY21: KES 4.92). **The board announced a first and final dividend of KES 2.25 per share (FY21: KES 1.50)**. If approved, the dividend will be paid on or about 25th May 2023 to shareholders on the company's register at the close of business on 20th April 2023.

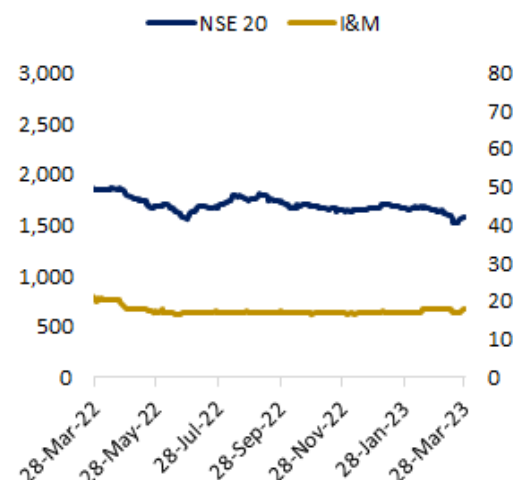
Key highlights:

Net interest income rose by 9.9% y-o-y to KES 22.9 BN supported by a 12.9% y-o-y growth in interest income to KES 37.4 BN against an 18.0% y-o-y increase in interest expense to KES 14.4 BN. Yield on interest earning assets rose by 60 bps y-o-y to 10.0% while cost of funds increased by 51 bps y-o-y to 4.1%. As a result, the group's net interest margin (NIM) rose marginally by 9 bps y-o-y to 5.9%.

Interest income from loans and advances increased by 10.5% y-o-y to KES 26.3 BN supported by a 13.3% y-o-y expansion in the group's net customer loans and advances to KES 238.6 BN. Yield on loans for the period came in at 11.7%, 25 bps lower y-o-y. Interest income from investment securities advanced by 15.5% y-o-y to KES 10.5 BN buoyed by an 80 bps y-o-y growth in the yield on investment securities to 8.8%. The group's investments securities dropped by 9.9% y-o-y to KES 113.1 BN.

Interest expense from customer deposits rose by a 13.1% y-o-y to KES 11.6 BN bolstered by a 5.3% y-o-y growth in customer deposits to KES 312.3 BN and a 14 bps y-o-y increase in 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 (%)	5.8	11.1
6 month (%)	4.6	12.9
12 month (%)	(10.6)	4.2

KEY METRICS

Current Price (KES)	18.10
52 week high (KES)	20.95
52 week low (KES)	16.50
YTD Return (%)	6.5
Issued Shares (MN)	1,653.6
Market Cap (USD MN)	227.1

EPS (KES)	6.77
Book Value (KES)	46.27
P/E (x)	2.7
P/B (x)	0.4
Div Yld (%)	12.4

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Non-funded income jumped by 45.7% y-o-y to KES 12.7 BN on account of a 191.0% y-o-y advancement in net income from forex dealings to KES 5.0 BN, a 26.0% y-o-y growth in other fees and commissions to KES 3.7 BN and a 12.8% y-o-y rise in fees and commissions on loans to KES 2.2 BN. Other operating income fell by 15.6% y-o-y to KES 1.8 BN. Total operating income inched higher by 20.4% y-o-y to KES 35.7 BN. The contribution of non-funded income to total operating income went up by 617 bps y-o-y to 35.7% (FY21: 29.5%).

Operating expenses (less loan loss provisions) went up by 18.8% y-o-y to KES 16.1 BN mainly owing to a 27.5% y-o-y rise in other operating expenses to KES 6.3 BN and a 9.8% y-o-y increase in staff costs to KES 6.5 BN. The cost-to-income ratio dwindled by 64 bps y-o-y to 45.1%.

Loan loss provisions increased by 24.9% y-o-y to KES 5.2 BN, placing the cost of risk at 2.2%, 20 bps up y-o-y.

Gross non-performing loans increased by 16.4% y-o-y to KES 25.0 BN (+5.4% q-o-q) while interest in suspense rose by 16.1% y-o-y to KES 4.3 BN (-0.9% q-o-q). As such total non-performing loans went up by 16.5% y-o-y to KES 20.7 BN (+6.8% q-o-q). The NPL ratio inched higher by 23 bps y-o-y to 9.5%. Cumulative loan loss provisions rose by 17.6% y-o-y to KES 13.7 BN (+1.0% q-o-q) placing the NPL coverage ratio at 66.1%, 64 bps up y-o-y.

Customer loans and advances rose by 13.3% y-o-y to KES 238.6 BN (+3.2% q-o-q) while investment securities fell by 9.9% y-o-y to KES 113.1 BN (-1.2% q-o-q). **On the funding side, customer deposits increased by 5.3% y-o-y to KES 312.3 BN (+1.4% q-o-q)** while borrowed funds shrunk by 14.1% y-o-y to KES 16.8 BN (-10.0% q-o-q). Loan-to-deposits ratio increased by 541 bps y-o-y to 76.4% while the loan-to-deposits and borrowed funds ratio rose by 590 bps y-o-y to 72.5%.

I&M Group's core capital ratio (Core capital/TRWA) and total capital ratio (Total capital/TRWA) contracted by 28 bps and 94 bps y-o-y to 16.3% and 20.5% respectively. Both ratios remain above the statutory minimum of 10.5% and 14.5% respectively. Liquidity ratio fell by 613 bps y-o-y to 46.1% above the statutory minimum of 20.0%.

I&M Group is currently trading at a P/E ratio of 2.7x, against a sector median of 4.1x, and a P/B ratio of 0.4x against a sector median of 0.7x. Its ROE stands at 14.6% while its ROA stands at 2.6%. As per current prices, its dividend yield stands at 12.4%.

PROFIT AND LOSS SUMMARY (KES MN)

Year End: December	FY22	FY21	y-y% ch	4q22	3q22	4q21	y-y% ch	q-q%ch
Interest income	37,351	33,081	12.9	10,555	9,341	13,343	(20.9)	13.0
Interest expense	14,407	12,205	18.0	3,775	3,697	2,867	31.7	2.1
Net interest income	22,945	20,877	9.9	6,780	5,643	10,476	(35.3)	20.1
Other operating income	1,794	2,127	(15.6)	1,053	462	132	695.5	127.8
Fees and commission income	5,886	4,876	20.7	1,561	1,455	1,831	(14.8)	7.3
Net income from forex dealings	5,043	1,733	191.0	1,266	1,869	363	248.3	(32.3)
Total non-interest income	12,724	8,736	45.7	3,880	3,786	2,327	66.7	2.5
Total income	35,668	29,613	20.4	10,659	9,430	12,803	(16.7)	13.0
Less operating expenses	16,093	13,549	18.8	4,776	4,029	5,962	(19.9)	18.5
Operating profit	19,575	16,064	21.9	5,883	5,400	6,841	(14.0)	8.9
Bad debt charge	(5,245)	(4,200)	24.9	(1,642)	(4,912)	(2,050)	(19.9)	(66.6)
Exceptional items	662	549	20.6	317	139	1,124	(71.8)	127.6
Profit before tax	14,992	12,413	20.8	4,559	3,246	5,915	(22.9)	40.4
Less tax	(3,409)	(3,789)	(10.0)	(151)	(5,520)	(1,880)	(92.0)	(97.3)
Profit after tax	11,584	8,624	34.3	4,408	2,250	4,036	9.2	95.9
Attributable Income	11,193	8,131	37.7	4,385	2,127	3,773	16.2	106.1

(Source: Company, DBIB Research)

BALANCE SHEET SUMMARY (KES MN)

Year End: December	FY22	3Q22	FY21	y-y% ch	q-q% ch
Total shareholder's equity	76,517	68,442	69,593	9.9	11.8
Minority interest	5,132	5,052	4,455	15.2	1.6
Total Equity	81,650	73,495	74,048	10.3	11.1
Deposits due to other banks	18,153	16,077	19,114	(5.0)	12.9
Customer deposits	312,336	308,045	296,747	5.3	1.4
Borrowed funds	16,795	18,667	19,546	(14.1)	(10.0)
Other liabilities	7,666	12,391	5,726	33.9	(38.1)
Total equity and liabilities	436,600	428,676	415,181	5.2	1.8
Central bank balances	22,818	23,844	27,547	(17.2)	(4.3)
Deposits due from banks	21,467	21,529	15,518	38.3	(0.3)
Investment Securities	113,112	114,440	125,535	(9.9)	(1.2)
Held for dealing securities	-	-	-	NA	NA
Customer loans and advances	238,590	231,240	210,620	13.3	3.2
Other assets	21,212	18,277	16,499	28.6	16.1
Intangible assets	6,886	6,791	6,579	4.7	1.4
Fixed assets	12,515	12,555	12,884	(2.9)	(0.3)
Total assets	436,600	428,676	415,181	5.2	1.8

(Source: Company, DBIB Research)

INVESTMENT RETURN

	FY22	3Q22	FY21	y-y bps ch	q-q bps ch
ROA (%)*	2.7	2.1	2.1	58	54
ROIC (%)*	2.7	2.2	2.1	59	52
ROE (%)*	13.7	12.4	11.0	273	136

(Source: Company, DBIB Research)

*Annualized

CAPITAL ADEQUACY, LIQUIDITY & ASSET QUALITY

	FY22	3Q22	FY21	y-y bps ch	q-q bps ch
Core capital/TRWA (%)	16.3	15.3	16.57	(28)	101
Min. Statutory Ratio (%)	10.5	10.5	10.5	-	-
Total capital/TRWA (%)	20.5	20.1	21.46	(94)	47
Min. Statutory Ratio (%)	14.5	14.5	14.5	-	-
Liquidity Ratio (%)	46.1	46.6	52.26	(613)	(47)
Min. Statutory Ratio (%)	20.0	20.0	20.0	-	-
Leverage Ratio (%)	18.7	17.1	17.8	87	156
Equity-to-Loans Ratio (%)	34.2	31.8	35.2	(94)	244
NPL Ratio (%)	9.5	9.3	9.2	23	18
NPL Coverage Ratio (%)	66.1	69.9	65.5	64	(380)
Long Term Debt to Total Liabilities and Equity (%)	3.8	75.4	4.7	(86)	(7,156)
NTA/share (KES)	45.2	4.4	40.8	441	4,086
Book value/share (KES)	49.4	40.3	44.8	460	904

(Source: Company, DBIB Research)

OPERATING PERFORMANCE

	FY22	3Q22	FY21	y-y bps ch	q-q bps ch
Yield on interest earning assets (%)*	10.0	9.7	9.4	60	28
Cost of funds (%)*	4.1	4.1	3.6	51	1
Net Interest Margin (%)*	5.9	5.6	5.8	9	27
Loan-to-Deposits ratio (%)	76.4	75.1	71.0	541	132
Loan-to-Dep. & Borrowed Funds ratio (%)	72.5	70.8	66.6	590	171
Funded Income Generating Potential (%)	85.5	85.7	84.7	77	(19)
Funded Income Reliance (%)	64.3	64.6	70.5	(617)	(31)
NFI contribution to total income	35.7	35.4	29.5	617	31
Cost to income ratio (%)	45.1	45.3	45.8	(64)	(13)
Cost of risk (%)*	2.2	2.1	2.0	20	12
Pre-tax margin (%)	42.0	41.7	41.9	12	31
PAT margin (%)	32.5	28.7	29.1	335	378

(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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