



**I&M Holdings
FY'23 Earnings
Note**





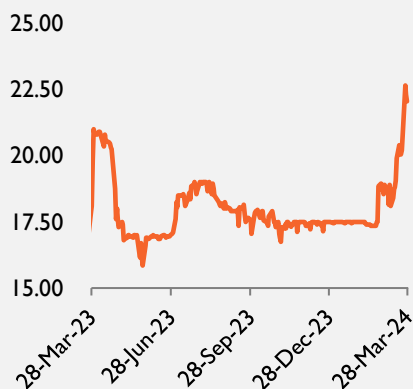
I&M Group FY'23 Earnings Note

April 2nd, 2024

Ticker Information

NSE Code:	IMH
Issued Shares (Bn):	1.65
52-week high:	KES 24.50
52-week low:	KES 15.80

Chart 1: Price Trend (Last 12 Months)



Source: NSE, AIB-AXYS Research

Historical Share Performance

Last	1M	3M	6M	12M
Change	17.9%	26.0%	25.3%	23.2%

Source: NSE, AIB-AXYS Research

Analysts

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Recommendation

BUY

Current Price

KES 22.05

Target Price

KES 25.35

Summary

- **I&M Group exceeded in-house expectation to record a modest 15.2% y/y growth in net earnings to KES 13.34Bn throughout 2023.** Revenue growth was driven by accelerated customer growth across subsidiaries – prompting an upswing in both funded and non-funded incomes. Net interest margin flatlined at 6.6% attributable to an offsetting rise in cost of funds to the improved yield on interest earning assets.
- **The Board of Directors recommend a first and final Dividend of KES 2.55 per share.** This distribution fell within our expected range, translating to a dividend payout ratio of 31.6%. The dividend will be payable on 24th May 2024 to shareholders on register as of 18th April 2024.

Key Highlights

- **Robust Core Banking Performance:** Growth in Net Interest Income accelerated markedly by 14.9 ppts y/y to 24.8% driven by organic demand growth and credit up pricing in the last quarter of 2024. Non-funded income grew 10.4% y/y to KES 14.05Bn – prompted by increased digital transaction volumes. The average Yield on Interest Earning Assets paced up 119bps y/y to 11.99% whereas the cost of funds hastened 118bps y/y to 5.40% - reflecting the rising interest rate landscape. The lender's continued focus on inexpensive deposit mobilization paid off as evidenced by the 500bps y/y improvement of the CASA ratio to 47%.
- **Asset Quality Deterioration:** Gross Non-Performing Loans (NPLs) significantly increased by 41.7% y/y to KES 35.37Bn – triggering a 90bps y/y increase in the Gross NPL ratio to 10.8%. NPL coverage declined by 16.2% y/y to 55.76%. In response to the mounting credit risks, the management team raised credit impairment provisions by 31.0% y/y – adopting a cautious and prudent approach amidst a highly uncertain macroeconomic environment.

Balance Sheet Dynamics

Customer deposits grew 33.4% y/y to KES 416.67Bn – driven by faster customer growth in Kenya, Rwanda, and Mauritius subsidiaries. This supported a further 30.5% y/y expansion of the loan book to KES 311.33Bn. Management strategically increased its stock of government securities by 18.5% y/y, capitalizing on the attractive yields offered throughout 2023. Despite the sharp rise in yields, the bank proactively managed its duration risk of investment securities portfolio, resulting in a 55.7% y/y decrease in fair value losses from government securities to KES 1.33Bn. The lender leaned back into local currency, with upto 68% of its balance sheet denominated in local currency, affording a fair hedge against adverse foreign exchange movements.

Declining Efficiency

The Cost-to-Income ratio (excluding loan-loss provisions) increased 253bps y/y to 47.6% attributable to increased investments in platform enhancements and brand marketing efforts. The cost-to-income ratio was notably higher in Uganda at 80% - driven by lagged income growth in the market. Management outlined their target of reducing the Group cost-to-income ratio to 45% - reflecting a commitment to optimize cost efficiencies across subsidiaries.

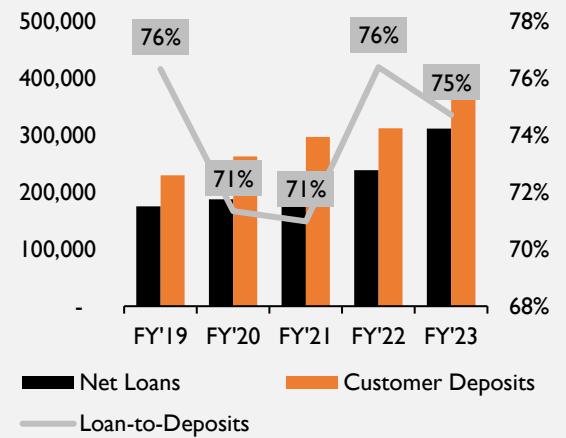
Outlook

We anticipate the lender's growth to be propelled balanced growth in corporate and institutional banking as well as personal and business banking. We expect the continued investments in digital channels to scale the lender's digital footprint to drive revenue growth and enhance efficiency. We further anticipate the group's deepening market penetration and strategic global partnerships to unlock new growth opportunities in trade finance.

Recommendation

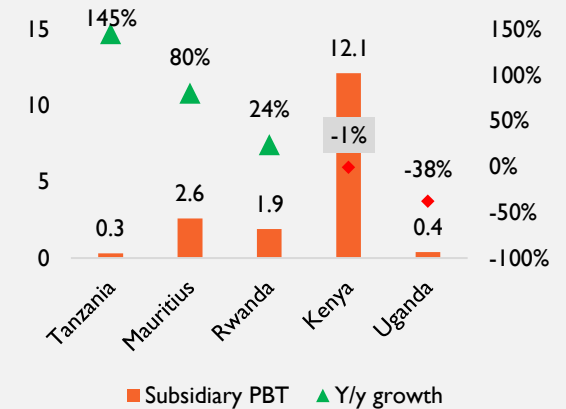
- **We upgrade our recommendation to BUY on I&M Group on account of its rebounded subsidiary performance amid ongoing implementation of Imara 3.0 strategic plan.** At the current market price, the stock is trading at P/E ratio of 2.9x and a P/B ratio of 0.4x. Our one-year target price for I&M Group currently stands at KES 25.35 - representing a c.15.0% upside potential from current levels.

Chart 2: Faster Deposit Mobilization



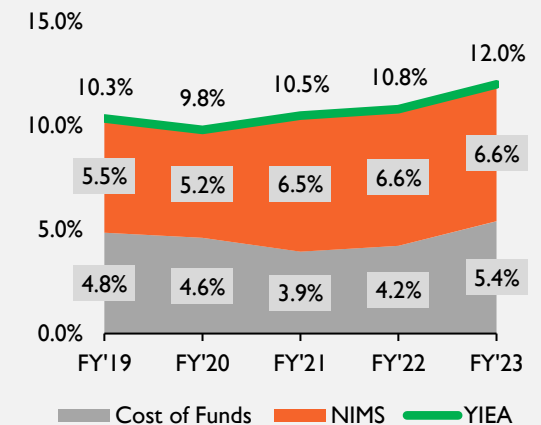
Source: Company filings, AIB-AXYS Research.

Chart 3: Subsidiary Growth in Pre-tax Earnings



Source: Company filings, AIB-AXYS Research.

Chart 4: Resilient Net Interest Margin



Source: Company filings, AIB-AXYS Research.

Income Statement (KES Mn)	FY'19	FY'20	FY'21	FY'22	FY'23	% y/y change
Net Interest Income	15,509.8	15,599.6	20,876.9	22,944.5	28,630.5	▲ 24.8%
Net non-Interest Income	8,285.5	8,637.8	8,735.6	12,723.6	14,051.3	▲ 10.4%
Total Operating income	23,795.4	24,237.3	29,612.5	35,668.1	42,681.7	▲ 19.7%
Provision for Impairment	(636.5)	(2,472.8)	(4,199.6)	(5,245.0)	(6,869.5)	▲ 31.0%
Total Operating expenses	(10,097.3)	(12,606.4)	(17,748.5)	(21,337.9)	(27,205.0)	▲ 27.5%
Profit before tax	13,698.1	11,631.0	11,864.0	14,330.2	15,476.7	▲ 8.0%
Profit after tax	10,768.6	8,412.6	8,623.9	11,583.7	13,345.2	▲ 15.2%
Core EPS Annualized	6.23	4.88	4.92	6.77	7.63	▲ 12.7%
DPS	2.55	2.25	1.50	2.25	2.55	▲ 13.3%

Balance Sheet (KES Mn)	FY'19	FY'20	FY'21	FY'22	FY'23	% y/y change
Government Securities	53,924.3	89,841.9	109,167.0	96,709.5	114,637.2	▲ 18.5%
Loans and Advances	175,329.4	187,391.3	210,619.7	238,590.1	311,330.8	▲ 30.5%
Total Assets	315,290.7	358,099.8	415,180.7	436,599.6	579,719.4	▲ 32.8%
Customer Deposits	229,736.5	262,681.4	296,746.5	312,335.9	416,674.4	▲ 33.4%
Total Liabilities	254,428.5	290,036.7	341,132.6	354,950.1	484,019.2	▲ 36.4%
Shareholder's Funds	57,738.6	64,189.3	69,593.0	76,517.5	88,173.1	▲ 15.2%

Ratio Analysis	FY'19	FY'20	FY'21	FY'22	FY'23	% y/y change
Spreads Analysis						
Yield on Assets	10.3%	9.8%	10.5%	10.8%	12.0%	▲ 1.2%
Cost of Funds	4.8%	4.6%	3.9%	4.2%	5.4%	▲ 1.2%
Net Interest Margin	5.5%	5.2%	6.5%	6.6%	6.6%	▲ 0.0%
ROaE	19.5%	13.2%	12.2%	15.3%	15.3%	-
ROaA	3.4%	2.4%	2.1%	2.6%	2.5%	▼ (0.1%)
Profit Margin	45.3%	34.7%	29.1%	32.5%	31.3%	▼ (1.2%)

Operating Efficiency	FY'19	FY'20	FY'21	FY'22	FY'23	% y/y change
Cost to Income Less LLP	39.8%	41.8%	45.8%	45.1%	47.6%	▲ 2.5%
Cost to Assets less LLP	3.0%	2.8%	3.3%	3.7%	3.5%	▼ (0.2%)
Loan to Deposit	76.3%	71.3%	71.0%	76.4%	74.7%	▼ (1.7%)

Asset Quality	FY'19	FY'20	FY'21	FY'22	FY'23	% y/y change
NPL	11.6%	11.9%	9.6%	9.9%	10.8%	▲ 0.9%
NPL Coverage	59.1%	66.8%	71.4%	71.9%	55.8%	▼ (16.2%)
Cost of Risk	0.4%	1.3%	2.0%	2.2%	2.2%	▲ 1.4%

Capital Adequacy	FY'19	FY'20	FY'21	FY'22	FY'23	% y/y change
Core Capital/TRWA	17.3%	18.6%	16.6%	16.3%	14.5%	▼ (1.8%)
Total Capital /TRWA	21.2%	22.0%	21.5%	20.5%	18.9%	▼ (1.6%)
Liquidity	46.3%	50.5%	52.3%	46.1%	44.7%	▼ (1.4%)



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