

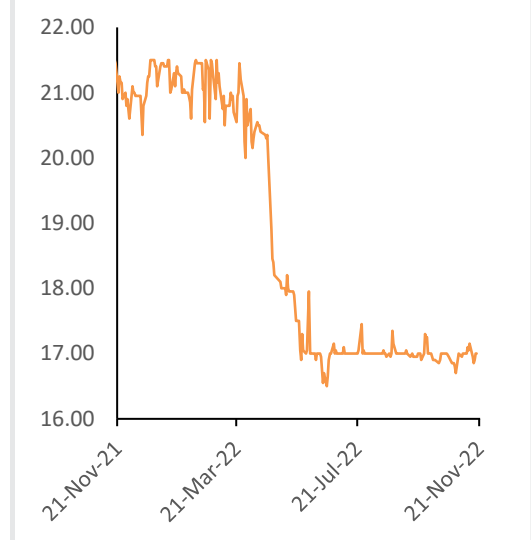


## Company details

<b>Bloomberg Ticker</b>	IMH: KN
<b>NSE Code:</b>	I&M
<b>Issued Shares (Bn)</b>	1.65
<b>Market Cap (KES Bn)</b>	27.23
<b>52-week high:</b>	21.50
<b>52-week Low</b>	16.50

As at 21<sup>st</sup> November 2022

### Price chart – Last 12 Months



AIB-AXYS Research, NSE

### Historical Price Performance

	1m	3m	6m	12m
<b>Absolute</b>	<b>-2.65%</b>	<b>-2.65%</b>	<b>-5.71%</b>	<b>-23.08%</b>

AIB-AXYS Research, NSE

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## I&M Group Earnings Note

<b>Recomm: BUY</b>	<b>Current Price: KES 16.50</b>	<b>Target Price: KES 24.20</b>
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### Summary

- ♦ **I&M Bank released their 3Q22 earnings results where PAT and EPS were above our expectations** by edging up 25.00% y/y and 25.23% respectively to KES 6.18Bn and KES 4.12 driven by a 15.56% increase in net interest income and a 43.00% growth in non-interest income. Trailing ROaE improved 22bps to 13.91% while NIMs remained adequate at 6.46%.
- ♦ **Loan book grew 11.38% y/y to KES 231.24Bn faster than the 6.71% growth in customer deposits y/y to KES 308.05Bn, taking the Loan to Deposit ratio 315bps higher to 75.07%.** Allocation to government securities fell 3.38% to KES 98.83Bn in Q3'22 largely driven by fair value loss through FVCOI as a percentage of government securities rising to 6.01% from 0.49% in Q3'21.

### Key Highlight

- **Non-Funded Income grows faster than Net interest Income:** Non-Funded Income grew 43.00% y/y to 8.84Bn against a 15.56% y/y increase in net interest income to 16.16Bn mainly driven by a 25.98% y/y increase income from fees and commissions on loans and advances. The impact of the ongoing forex market dollar shortage has presented arbitrage opportunities for the lenders as seen in the 219.57% y/y growth in forex trading income, the highest jump we have seen so far for all reported lenders. Net Interest Income also grew 15.56% to KES 16.16Bn attributable to increase in revenue from lending (+14.48% y/y) and from government papers (+21.29% y/y). Yield on assets increased 101bps y/y to 10.91% driven by higher interest earnings growth compared to growth in interest earning assets. Higher cost of deposit mobilization was reflected in the Cost of funds growing 26bps to 4.23% y/y. Subsequently, the NII:NFI revenue mix shifted to from in Q3'21.
- **Digital transactions boosts efficiency:** The Cost to income less provisioning improved 285bps in Q3'22 to 45.25% from 48.10% in Q3'21 mainly driven by digital transactions. CTI improvement was also driven by a faster-operating income growth (+23.97% y/y) compared to an 10.22% y/y increase in staff costs to 4.76Bn. Contrary to industry trend, Loan loss provisions grew 27.54% y/y to KES 3.60Bn indicating a perception of increased lending risk.
- **Asset quality still a concern:** Gross NPLs increased 4.22% y/y to KES 23.68Bn lower than loan book growth leading to the NPL ratio declining 65bps to 9.51% below the latest industry average of 14.20%. NPL coverage further improved to 75.41% from 70.59% in Q3'21. We expect a better operating environment in H2'22 and the possible approval of risk-based models to improve the bank's asset quality in the coming quarters.

**Valuation and Outlook -** At the Current Market Price, the stock is trading at 4.13x P/E above the industry median of 3.80x and a P/TB multiple of 0.42x below the industry median. An improvement in efficiency is an indication of the payoff in investments in digital transaction channels. Improvements from the regional subsidiaries and income from non-banking activities are expected to boost FY'22 earnings growth. Current dollar shortage reported, and further depreciation of the local currency is likely to continue pushing the forex trading revenue upwards. However, Deteriorating local & global macroeconomic conditions will lead to continuous pressure on the company's loan book. Furthermore, the lack of an interim dividend is likely to provide minimal upside potential. Nevertheless, we maintain a **BUY** recommendation with a revised price target of KES 24.20.

## Financial Statement Summary

### I. Statement of Profit and Loss

Income Statement	FY18	FY19	FY20	Q3'21	FY21	Q3'22	y/y % Change
Net Interest Income	15,594.18	15,509.84	15,599.60	13,988.16	20,876.89	16,164.70	15.56%
Net non-Interest Income	7,597.34	8,285.54	8,637.75	6,184.47	8,735.62	8,844.02	43.00%
Total Operating income	23,191.52	23,795.38	24,237.35	20,172.63	29,612.51	25,008.72	23.97%
Provision for Impairment	(3,807.35)	(636.46)	(2,472.84)	(2,825.04)	(4,199.60)	(3,603.11)	27.54%
Total Operating expenses	(12,289.05)	(10,097.31)	(12,606.38)	(12,527.47)	(17,748.50)	(14,920.01)	19.10%
Profit before tax	11,497.78	14,603.11	10,952.00	8,095.45	12,412.91	10,433.74	28.88%
Profit after tax	8,503.36	10,768.61	8,412.56	5,737.99	8,623.94	7,176.10	25.06%
Adjusted Core EPS	10.28	6.51	4.88	3.29	4.92	4.12	25.00%

### 2. Statement of Financial Position

Balance Sheet	FY18	FY19	FY20	Q3'21	FY21	Q3'22	y/y % Change
Government Securities	52,156.60	53,924.27	89,841.88	102,288.69	109,166.98	98,832.74	-3.38%
Loans and Advances	166,736.73	175,329.43	187,391.27	207,605.44	210,619.66	231,240.40	11.38%
Total Assets	288,522.05	315,290.67	358,099.79	399,069.26	415,180.68	428,675.99	7.42%
Customer Deposits	213,139.37	229,736.51	262,681.40	288,684.89	296,746.51	308,045.41	6.71%
Total Liabilities	237,647.60	254,428.50	290,036.65	326,857.73	341,132.60	355,181.31	8.67%
Shareholder's Funds	47,869.03	57,738.61	64,189.34	68,006.37	69,593.03	68,442.31	0.64%

### 3. Key Metrics

	Q1'21	Q2'21	Q3'21	FY'21	Q1'22	Q2'22	Q3'22
<b>Growth Metrics (y/y)</b>							
Loan book Growth	-7.22%	10.78%	11.80%	12.40%	28.72%	13.02%	11.38%
Customer Deposits Growth	9.31%	9.61%	14.18%	12.97%	17.59%	13.16%	6.71%
PAT Growth	13.49%	33.22%	25.06%	2.51%	43.61%	15.91%	25.06%
<b>Spreads Analysis</b>							
Yield on Assets	10.48%	9.73%	9.90%	10.49%	11.37%	10.66%	10.91%
Cost of Funds	4.37%	3.90%	3.97%	3.94%	4.03%	4.02%	4.23%
Net Interest Margin	6.03%	6.16%	6.01%	6.30%	6.35%	6.33%	6.46%
ROaE	13.29%	12.29%	13.69%	12.16%	13.08%	12.93%	13.91%
ROaA	2.37%	2.16%	2.35%	2.10%	2.24%	2.08%	2.29%
Profit Margin	30.74%	33.18%	28.44%	29.12%	36.62%	31.62%	28.69%
<b>Operating Efficiency</b>							
Cost of Income Less LLP	45.67%	48.05%	48.10%	45.75%	45.53%	46.78%	45.25%
Cost of Assets	0.77%	1.61%	2.43%	3.26%	0.78%	1.66%	2.64%
Loan to Deposit	64.48%	73.88%	71.91%	70.98%	70.58%	73.78%	75.07%
<b>Asset Quality</b>							
NPL	13.39%	10.46%	10.16%	9.49%	10.04%	9.34%	9.51%
NPL Coverage	61.09%	65.42%	70.59%	71.42%	72.07%	77.55%	75.41%



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