



Earnings Note



Ticker Information

Bloomberg Ticker	I&M :KN
NSE Code:	I&M
Issued Shares (Bn)	1.65
52-week high price:	KES 21.50
52-week low price:	KES 15.80

As of 28th November 2023

Price chart – Last 12 Months

I&M Group Plc



Source: NSE, AIB-AXYS Research

Historical Share Price Performance

	Past	1m	3m	6m	12m
% Change		1.16%	-2.78%	5.42%	2.94%

Source: NSE, AIB-AXYS Research,

Analysts

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November 30th, 2023

I&M Group Q3'23 Earnings Note

Recommendation:
BUY

Current Price:
KES 17.50

Target Price:
KES 20.85

Summary

- I&M Holdings recorded a remarkable 14.29% y/y rise in after-tax profits (PAT) to KES 8.20Bn over the nine months to September 2023.** The trailing earnings per share (EPS) momentum similarly accelerated 767bps to KES 7.35 over the quarter. Profitability growth momentum was however dampened by a faster growth in pre-provision operating expenses (28.73% y/y), relative to the rise in operating incomes (19.37% y/y). The trailing return on Equity (ROE) nevertheless improved 90bps q/q to 16.50% while the trailing return on assets (ROA) rose 10bps q/q to 2.50%.
- Aggressive deposit mobilization efforts meets by a rising rate landscape.** Group customer deposits surged 30.6% y/y owing to aggressive deposit mobilization in the period. Organic growth across regional markets helped lift total deposits to KES 402.41Bn. Growth in net loans and advances similarly advanced 26.9% y/y to clock KES 308.70Bn – driven by organic demand growth and upward rate repricing under the risk-based credit pricing regime. A faster surge in overall cost of funds (52bps y/y) relative to the yields on interest earning assets (YIEA) (-1bps y/y), led to a compression of net-interest margins to 6.15%. The upswing in cost of funds was driven by intense sector-wide competition for sticky deposits – leading the lender to accede to dearer deposits.

Key Highlights

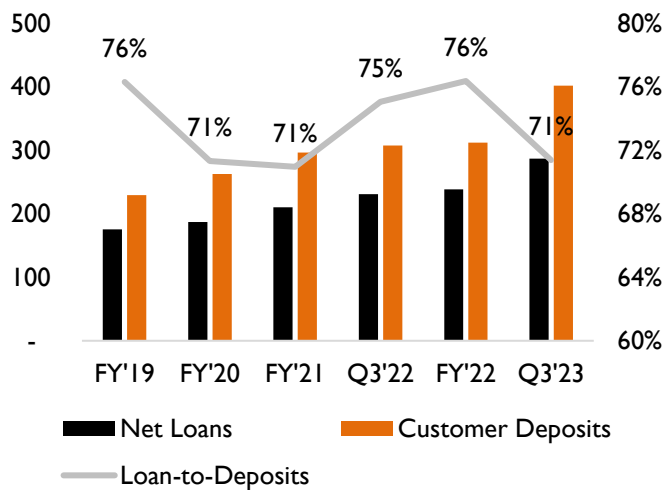
- Deepening Uptake, Funding Costs Uptick:** I&M Group strengthened its customer value proposition via its innovative suite of products ranging from unsecured personal loans, to MSME working capital financing and waivers on bank-to-mobile transaction fees – resulting in increased market penetration. While the deepening uptake accelerated deposit growth, there was a notable upswing in cost of funds – pointing to the tightening monetary environment. However, since sight deposits constituted the bulk of the deposit growth, it resulted in a softer rise in the weighted average cost of deposits (30bps y/y) relative to the 60bps y/y jump in weighted average loan rates.
- Compelling Reinvestment Imperatives:** I&M Group was mired in a funding conundrum, as its expansion strategy met with a rising interest rate environment and elevated inflationary regime. This raised the need to pace up reinvestment returns to avoid a shrinking of overall margins. Yet, yields on interest earning assets shrunk 1bp y/y to 10.90% - largely compressed by a decline in average yields on financial assets. Counterintuitively, annualized yields on financial assets decreased 104bps y/y to 9.58% at a time when general market yields were on an uptrend. On the other hand, annualized rated on loans and advances paced up 60bps to 11.29% - supported largely by upscaled digital lending. However, we noted the 32.60% y/y decline in fair value losses on financial asset holdings to KES 4.00Bn – signaling a low duration risk portfolio.
- Asset quality pressures at play:** I&M Group's stock total non-performing loans (NPLs) soared 65.34% y/y on account of increased downgrades in the period, coupled with exchange rate depreciation adjustments on USD-denominated facilities in Kenya. This faster surge in NPLs relative to the growth in net loans and advances led to a 277bps y/y rise in the NPL ratio to 11.15%. This however remains 385bps below the latest industry average of 15.00%. We expect asset quality pressures to remain elevated over coming quarters on account of rising economic uncertainty.

Outlook - We anticipate the lender's growth to be bolstered by innovative customer value propositions – particularly unsecured personal loans and waivers on bank-to-mobile transaction fees. This coupled with organic growth of its fast-growing subsidiaries, will propel balance sheet expansion over coming quarters. We also expect the group's deepening penetration and strategic global partnerships to unlock new growth frontiers in trade finance for the lender. From our vantage point, we see greater headroom to pump up average loan rates on loans and advances with low sensitivity impact to volumes and asset quality. In our view, the ongoing mobilization of inexpensive deposits will support a widening of net interest margins given the prevailing reinvestment returns. However, we remain concerned about looming asset quality pressures as well as thinning capital buffers at group level..

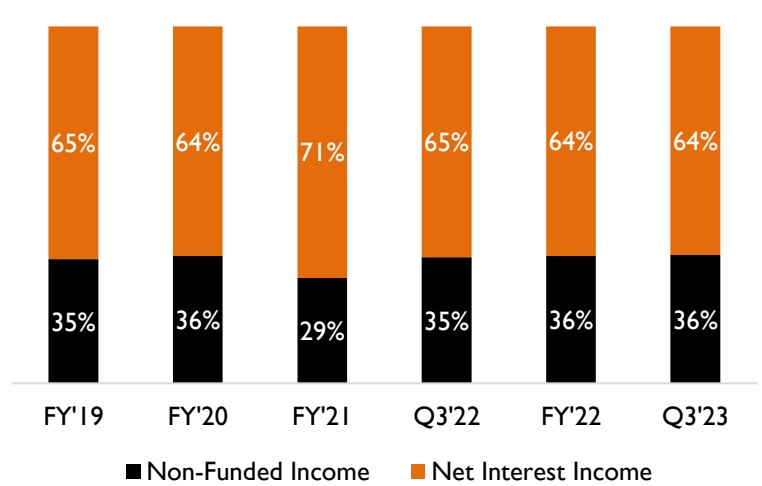
Valuation – The counter is currently trading at a P/E ratio of 2.38x and a P/B ratio of 0.37x. The counter closed yesterday's trading at KES 17.50 – representing an 2.94% y/y gain. We maintain our 12-month **BUY** recommendation on the counter with a target price of KES 20.85 representing an upside of 19.14% from yesterday's closing price.

I&M Group Q3'23 Earnings Charts

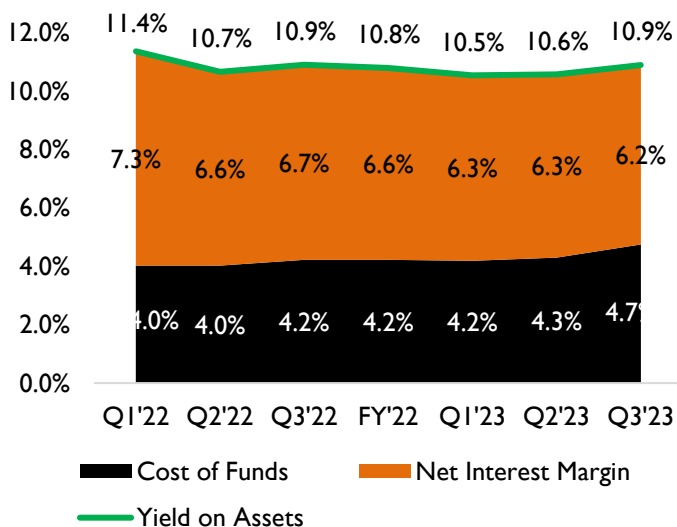
Graph 2: Faster growth in loans, driving income growth



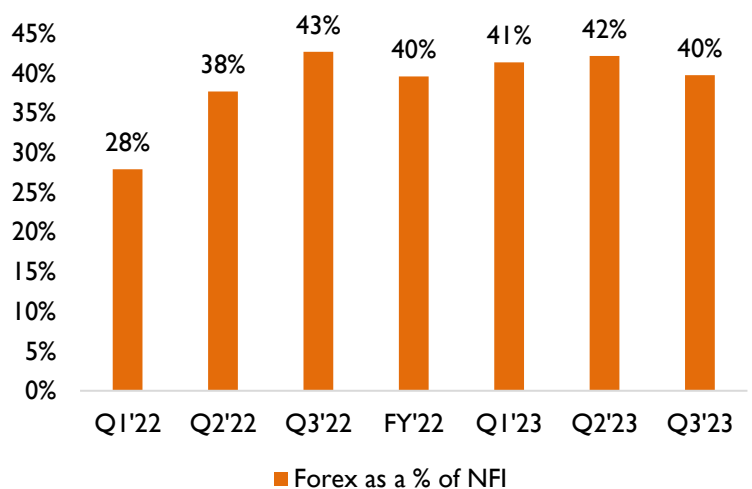
Graph 3: Revenue Mix Tilted in Favor of Non-Interest Income



Graph 4: Narrowing Net Interest Margins (JAWS)



Graph 5: Relatively Steady Contribution of Forex Income to Non-funded income



Source: Company Filings, AIB-AXYS Research

Summary of Financial Statements

I. Statement of Profit and Loss

Consolidated Results (KES Mn)	FY'19	FY'20	FY'21	Q3'22	FY'22	Q3'23	% y/y change
Net Interest Income	15,509.84	15,599.60	20,876.89	16,164.70	22,944.52	19,133.19	18.36%
Non-Interest Income	8,285.54	8,637.75	8,735.62	8,844.02	12,723.55	10,719.73	21.21%
Total Operating income	23,795.38	24,237.35	29,612.51	25,008.72	35,668.07	29,852.92	19.37%
Loan-Loss Provisions	(636.46)	(2,472.84)	(4,199.60)	(3,603.11)	(5,245.02)	(4,623.88)	28.33%
Total Operating expenses	(10,097.31)	(12,606.38)	(17,748.50)	(14,920.01)	(21,337.89)	(19,192.20)	28.63%
Profit before tax	14,603.11	10,952.00	12,412.91	10,433.74	14,992.33	11,374.51	9.02%
Profit after tax	10,768.61	8,412.56	8,623.94	7,176.10	11,583.70	8,201.53	14.29%
Annualized EPS	12.47	9.77	4.92	5.74	6.77	7.35	28.01%

2. Statement of Financial Position

Group Balance Sheet (KES Mn)	FY'19	FY'20	FY'21	Q3'22	FY'22	Q3'23	% y/y change
Financial Assets	53,924.27	89,841.88	109,166.98	98,832.74	96,709.47	119,998.63	21.42%
Loans and Advances	175,329.43	187,391.27	210,619.66	231,240.40	238,590.14	287,333.68	24.26%
Total Assets	315,290.67	358,099.79	415,180.68	428,675.99	436,599.65	544,100.61	26.93%
Customer Deposits	229,736.51	262,681.40	296,746.51	308,045.41	312,335.93	402,410.66	30.63%
Total Liabilities	254,428.50	290,036.65	341,132.60	355,181.31	354,950.06	458,837.90	29.18%
Shareholder's Funds	57,738.61	64,189.34	69,593.03	68,442.31	76,517.50	79,098.02	15.57%

3. Key Metrics

	Q1'22	Q2'22	Q3'22	FY'22	Q1'23	Q2'23	Q3'23
Growth Metricses (y/y)							
Loan book Growth	28.72%	13.02%	11.38%	13.28%	18.00%	16.74%	24.26%
Customer Deposits Growth	17.59%	13.16%	6.71%	5.25%	4.93%	13.92%	30.63%
Net Profit (PAT) Growth	43.61%	15.91%	25.06%	34.32%	-1.96%	2.19%	14.29%
Spreads Analysis							
Yield on Interest-Earning Assets	11.37%	10.66%	10.91%	10.79%	10.54%	10.58%	10.90%
Cost of Funds	4.03%	4.02%	4.23%	4.22%	4.19%	4.30%	4.75%
Net Interest Margin (NIM)	7.35%	6.64%	6.68%	6.57%	6.35%	6.28%	6.15%
Trailing Return on Equity (ROaE)	13.08%	12.93%	13.91%	15.32%	14.95%	15.60%	16.47%
Trailing Return on Assets (ROaA)	2.24%	2.08%	2.29%	2.63%	2.47%	2.39%	2.50%
Profit Margin	28.83%	26.44%	27.55%	31.38%	29.52%	28.77%	29.99%
Operating Efficiency							
Cost to Income (Less loan provisions)	45.53%	46.78%	45.25%	45.12%	45.84%	48.83%	48.80%
Cost to Assets Ratio	3.28%	3.34%	3.54%	3.69%	3.62%	3.60%	3.56%
Loan to Deposit Ratio	70.58%	73.78%	75.07%	76.39%	79.38%	75.61%	71.40%
Asset Quality							
Non-Performing Loan (NPL) Ratio	8.99%	8.22%	8.38%	8.68%	9.54%	12.13%	11.15%
NPL Coverage	72.07%	77.55%	75.41%	71.93%	65.76%	49.82%	51.85%
Cost of Risk	1.80%	1.93%	2.15%	2.20%	2.49%	2.65%	2.18%
Capital Adequacy							
Core Capital/RWA	15.81%	28.79%	15.28%	16.29%	15.63%	13.96%	12.98%
Total Capital /RWA	20.56%	28.79%	20.05%	20.52%	19.92%	18.78%	17.69%
Liquidity	52.75%	48.81%	46.60%	46.13%	46.18%	46.72%	48.24%



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