



i&M Bank Kenya Q1'25 Earnings Note

I&M Group Q1'25 Earnings Note

May 30th, 2025

Ticker Information

NSE Code:	IMH
Issued Shares (Bn):	1.65
52-week high:	KES 39.00
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	11.7%	-5.4%	13.1%	79.9%

Source: NSE, AIB-AXYS Research

Recommendation

BUY

Current Price

KES 34.00

Target Price

KES 39.01

Summary

- **I&M Group posted a solid 17.3% y/y growth in net earnings to KES 4.22Bn in Q1'25, supported by a 12.3% y/y increase in operating revenue.** The standout performance came from non-funded income, which rose 13.7% y/y, driven by higher fees and commissions. Net interest margin expanded by 60 bps to 7.6%, reflecting improved reinvestment yields. Additionally, trailing return on equity rose by 100 bps y/y to 17.1%, while return on assets improved by 20 bps y/y to 2.9%.

Key Highlights

- **Robust Core Banking Performance:** Net interest income rose by 11.8% y/y to KES 9.37Bn, driven by a notable 36.0% y/y increase in interest income from government securities, reflecting the group's effective return optimization and strategic portfolio positioning, which enabled it to capitalize on attractive yields despite an easing monetary policy environment. Non-funded income also maintained strong momentum, growing by 13.7% y/y to KES 3.59Bn. This was primarily fueled by increased fees and commissions from loans, advances, and other banking services—highlighting higher transaction volumes, likely a result of the Group's ongoing expansion strategy. The average yield on interest-earning assets rose by 120 bps to 14.4%, outpacing a 50 bps increase in the cost of funds to 6.8%. As a result, the net interest margin expanded by 60 bps y/y to 7.6%.
- **Asset Quality Under Pressure:** Gross Non-Performing Loans (NPLs) rose by 220 bps y/y to KES 34.34Bn, leading to a marginal 10bps increase in the gross NPL ratio to 11.1%. This uptick reflects elevated credit costs that continue to strain borrowers' repayment capacity, leading to elevated credit default risk. In response, management strengthened NPL coverage by 530bps to 63.6%, reinforcing the Group's ability to absorb potential credit losses. Additionally, credit impairment provisions were increased by 4.0% y/y to KES 1.59Bn to further mitigate rising credit risk.

Balance Sheet Dynamics

Customer deposits grew by 6.0% y/y to KES 407.04Bn, while the loan book registered a modest 0.7% y/y increase to KES 293.66Bn. This growth is attributed to the Group's strategic expansion initiatives, which helped broaden its customer base, supporting both credit demand and deposit mobilization. In response to elevated credit default risks in the lending market, the lender also increased its allocation to government securities, capitalizing on their relatively attractive, low-risk returns. Additionally, through effective portfolio reorganization amid a more accommodative monetary policy environment, the Group realized mark-to-market gains, recording fair value income of KES 0.43Bn.

Improving Efficiency

The lender continued to demonstrate improved operational efficiency, with the cost-to-income ratio (excluding loan-loss provisions) declining by 30bps y/y to 43.9%. This improvement was driven by strong top-line performance, as operating income rose by 12.3% y/y to KES 12.96Bn, outpacing the 9.8% y/y growth in pre-provision operating expenses. Meanwhile, the cost-to-assets ratio remained stable at 1.0%, reflecting disciplined cost management.

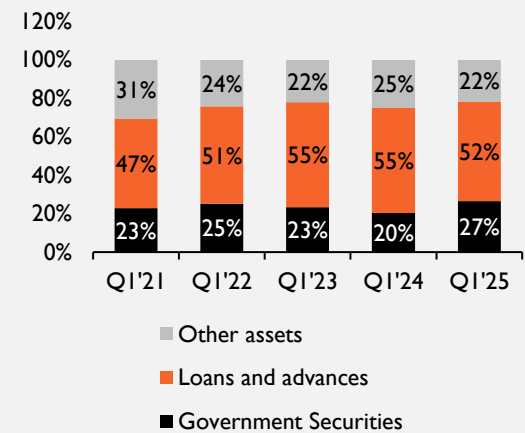
Outlook

We maintain our view that the lender's growth trajectory will continue to be supported by its ongoing brand expansion under the Imara 3.0 strategy. This initiative is also expected to bolster revenue growth across its regional subsidiaries, which now contribute 26% to the Group's profit before tax. Additionally, the continued expansion of the customer base is likely to sustain growth of the loan book, further supporting net revenue generation. However, we believe the upside to earnings remains constrained, as the prevailing decline in interest rates is expected to compress yields on interest-earning assets, placing pressure on interest income.

Recommendation

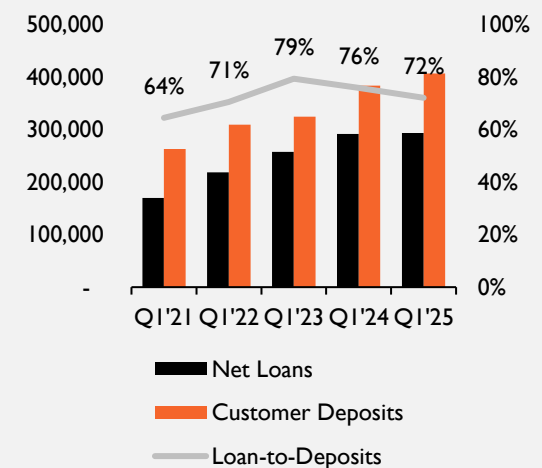
- **We maintain our BUY recommendation on I&M Group underpinned by the strengthening return on equity and the continued execution of strategic initiatives.** At current market price, the stock is trading at P/E ratio of 3.7x and a P/B ratio of 0.6x. Our one-year target price for I&M Group currently stands at KES 39.01 - representing a c. 14.7% upside potential from current levels.

Chart 2: Asset Composition



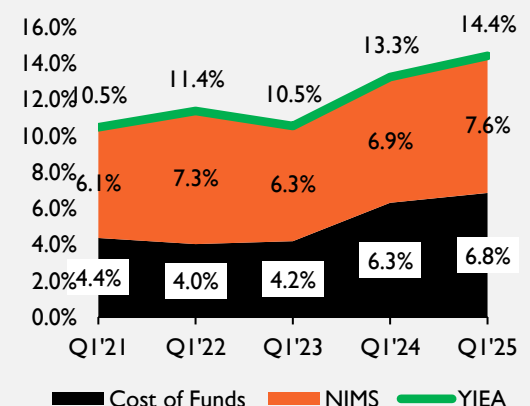
Source: Company filings, AIB-AXYS Research.

Chart 3: Faster Deposit Mobilization



Source: Company filings, AIB-AXYS Research.

Chart 4: Widening Net Interest Margin



Source: Company filings, AIB-AXYS Research.

Income Statement (KES Mn)	Q1'21	Q1'22	Q1'23	Q1'24	Q1'25	% y/y change
Net Interest Income	4,313.2	5,205.2	6,091.5	8,387.3	9,375.3	▲ 11.8%
Net Non-Interest Income	1,825.4	2,195.3	3,485.1	3,158.9	3,591.5	▲ 13.7%
Total Operating Income	6,138.6	7,400.5	9,576.6	11,546.2	12,966.8	▲ 12.3%
Provision for Impairment	(758.9)	(480.7)	(1,641.9)	(1,537.0)	(1,598.7)	▲ 4.0%
Total Operating Expenses	(3,562.6)	(3,850.2)	(6,032.1)	(6,638.2)	(7,288.0)	▲ 9.8%
Profit before tax	2,575.9	3,550.3	3,544.5	4,908.0	5,678.8	▲ 15.7%
Profit after tax	1,886.9	2,709.8	2,656.6	3,598.2	4,218.9	▲ 17.3%
Core EPS Annualized	4.33	6.19	6.14	8.04	9.50	▲ 18.1%

Balance Sheet (KES Mn)	Q1'21	Q1'22	Q1'23	Q1'24	Q1'25	% y/y change
Government Securities	83,073.0	108,562.1	110,694.0	108,353.8	151,205.6	▲ 39.5%
Loans and Advances	169,679.9	218,406.3	257,715.0	291,481.8	293,661.6	▲ 0.7%
Total Assets	364,442.2	430,830.8	472,605.7	532,962.6	568,413.7	▲ 6.7%
Customer Deposits	263,132.9	309,423.7	324,673.5	383,876.6	407,041.7	▲ 6.0%
Total Liabilities	294,916.3	355,587.0	388,150.3	439,305.3	461,455.8	▲ 5.0%
Shareholder's Funds	65,556.2	70,511.5	78,952.2	87,245.8	99,870.0	▲ 14.5%

Ratio Analysis	Q1'21	Q1'22	Q1'23	Q1'24	Q1'25	% y/y change
Spreads Analysis						
Yield on Assets	10.5%	11.4%	10.5%	13.3%	14.4%	▲ 1.2%
Cost of Funds	4.4%	4.0%	4.2%	6.3%	6.8%	▲ 0.5%
Net Interest Margin	6.1%	7.3%	6.3%	6.9%	7.6%	▲ 0.6%
ROaE	13.3%	13.1%	15.0%	16.1%	17.1%	▲ 1.0%
ROaA	2.4%	2.2%	2.5%	2.7%	2.9%	▲ 0.2%
Profit Margin	30.7%	36.6%	27.7%	31.2%	32.5%	▲ 1.4%

Operating Efficiency						
Cost to Income Less LLP	45.7%	45.5%	45.8%	44.2%	43.9%	▼ (0.3%)
Cost to Assets less LLP	0.8%	0.8%	0.9%	1.0%	1.0%	▲ 0.0%
Loan to Deposit	64.5%	70.6%	79.4%	75.9%	72.1%	▼ (3.8%)

Asset Quality						
NPL	13.7%	10.2%	10.8%	11.0%	11.1%	▲ 0.1%
NPL Coverage	61.1%	72.1%	65.8%	58.3%	63.6%	▲ 5.3%
Cost of Risk	0.4%	0.2%	0.6%	0.5%	0.5%	▲ 0.0%

Capital Adequacy						
Core Capital/TRWA	18.1%	15.8%	15.6%	15.0%	16.3%	▲ 1.3%
Total Capital /TRWA	21.6%	20.6%	19.9%	18.3%	18.8%	▲ 0.6%
Liquidity	47.1%	52.8%	46.2%	44.2%	50.4%	▲ 6.2%

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