



I & M Holdings: FY'21 Earnings Note

I & M Holdings FY'21 EPS increased 0.82% y/y, on an adjusted basis following the bonus issue in 2021, to **KES 4.92** higher than our expectations. PAT increased 2.51% y/y to **KES 8.62Bn** driven by a 22.18% y/y increase in Total operating income to **KES 19.86Bn** supported by income from government papers. However, the gain in income was weighed down by a 40.79% y/y rise in Operating expenses to **KES 17.75Bn** on the back of increased provisioning. Customer deposits grew 12.97% (lower than our forecast of +20.07% y/y) to **KES 296.75Bn** while the loan book grew 12.40% to **KES 210.62Bn** (lower than our forecast of +22.03% y/y).

- **Net Interest Income grows faster than Non funded Income:** Net interest income growth of 33.83%, was in line with our expectations, having grown to **KES 20.88Bn** mainly driven by income from government papers. Non-funded income also grew 1.13% (lower than our forecast of +25.00% y/y) to **KES 8.74Bn** leading the revenue mix to shift to 71:29 for NII:NFI from 64:36 in FY'20. Yield on assets increased to 10.49% as income from government papers grew faster than interest earning assets. Mobilization of cheaper deposits drove a flat interest expense movement leading the cost of funds reducing to 3.94%. Subsequently, margins remained upbeat as Net interest margin (NIM) increased to 6.79% y/y from 5.49%.
- **Digital costs worsens efficiency:** The CTI ratio worsened to 45.75% mainly on the back of digitization costs as most nonbanking activities are still in the investment phase. The CTI increase was occasioned by a faster growth in Total Operating Expenses (+40.79% y/y to **KES 17.75Bn**) compared to a 22.18% growth in Total Operating Income. Against the industry trend and improved asset quality, loan impairment provisions increased 69.83% y/y to **KES 4.20Bn** (+48.41% q/q).
- **Loan book monitoring boosts asset quality:** Gross NPLs declined 9.10% y/y to **KES 21.45Bn**. NPL ratio improved 212bps to 9.49% from 11.61% in FY'20 below the industry average of 13.10%. Consequently, the NPL Coverage improved to 71.42% from 66.78% in FY'20. Improving economic conditions have created a better operating environment and therefore we expect the bank's asset quality to continue improving in the coming quarters.
- **Valuation:** Dividend payment of **KES 1.50**, was in line with our expectation, providing a dividend yield of 7.50%. We maintain our **BUY** recommendation with a conviction that the counter is currently undervalued with a PE of 3.98x below the market PE of 9.80x and P/TB of 0.57x. Our current target price presents a 22.98% upside and a total return inclusive of dividends at 30.48%.

31st March 2022

Current price: KES 20.00

Target price: KES 24.62

Upside: 22.98%

52 Week High: KES 50.00

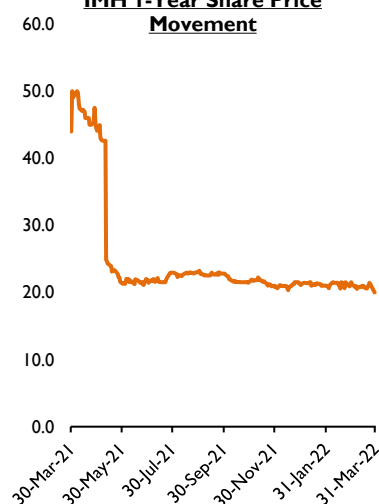
52 Week Low: KES 19.80

YTD Performance: -5.21%

EPS (FY21): 4.92

DPS (FY21): 1.50

IMH 1-Year Share Price Movement



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Outlook

The performance was mainly driven by an increase in Income from loans and government securities. However, we noted an increase in loan loss provisions even as the asset quality improved indicating existing lending risks especially to sectors still lagging the pandemic recovery. Additionally, we observed a worsening in efficiency with the increase in CTI ratio attributable to digitization costs. Improvements from the regional subsidiaries and income from non banking activities are expected to boost future earnings growth.

Table I : Financial Statement Summary

Balance Sheet	FY18	FY19	FY20	Q1'21	H1'21	Q3'21	FY'21
Government Securities	52,156.60	53,924.27	89,841.88	83,073.05	80,566.05	92,268.52	109,166.98
Loans and Advances	166,736.73	175,329.43	187,391.27	169,679.94	173,967.28	177,727.26	210,619.66
Total Assets	288,522.05	315,290.67	358,099.79	364,442.19	305,534.49	319,158.85	415,180.68
Customer Deposits	213,139.37	229,736.51	262,681.40	263,132.91	231,242.30	241,058.98	296,746.51
Total Liabilities	237,647.60	254,428.50	290,036.65	294,916.33	255,045.82	267,623.27	341,132.60
Shareholder's Funds	47,869.03	57,738.61	64,189.34	65,556.16	49,523.04	50,531.04	69,593.03

Income Statement	FY18	FY19	FY20	Q1'21	H1'21	Q3'21	FY'21
Net Interest Income	15,594.18	15,509.84	15,599.60	4,313.18	7,274.38	11,437.39	20,876.89
Net non-Interest Income	7,597.34	8,285.54	8,637.75	1,825.39	3,282.29	5,041.51	8,735.62
Total Operating income	23,191.52	23,795.38	24,237.35	6,138.56	10,556.66	16,478.90	29,612.51
Provision for Impairment	(3,807.35)	(636.46)	(2,472.84)	(758.91)	(1,285.24)	(2,673.15)	(4,199.60)
Total Operating expenses	(12,289.05)	(10,097.31)	(12,606.38)	(3,562.62)	(5,942.28)	(9,886.46)	(17,748.50)
Profit before tax	11,497.78	14,603.11	10,952.00	2,659.73	4,614.39	6,592.43	12,412.91
Profit after tax	8,503.36	10,768.61	8,412.56	1,886.95	3,230.32	4,605.81	8,623.94
Adjusted Core EPS	10.28	6.51	4.88	2.28	1.97	2.81	4.92
DPS	3.9	2.55	2.25	0	0	0	1.50

Key Ratios	FY'2020	FY'2021	y/y change
Yield from interest-earning assets	9.80%	10.49%	0.69%
Cost of funding	4.60%	3.94%	(0.66%)
Net Interest Margin	5.49%	6.79%	1.30%
Cost to Income Ratio	41.81%	45.75%	3.94%
Non-Performing Loans (NPL)	11.61%	9.49%	(2.12%)
Loan to Deposit Ratio	71.34%	70.98%	(0.36%)
Return on average equity	13.24%	12.16%	(1.09%)
Liquidity Ratio	50.51%	52.26%	1.75%
Core Capital/TRWA	18.70%	16.60%	(2.10%)
Total capital/TRWA	22.03%	21.49%	(0.54%)

Source: Company Filings, AIB-AXYS



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