



## Earnings Note



## Company details

<b>Bloomberg Ticker</b>	IMH:KN
<b>NSE Code:</b>	IMH
<b>Issued Shares (Bn)</b>	1.65
<b>52-week high:</b>	21.00
<b>52-week Low</b>	15.85

As at 24<sup>th</sup> August 2023

### Price Chart – Last 12 Months



AIB-AXYS Research, NSE

### Historical Price Performance

	1m	3m	6m	12m
<b>Absolute</b>	<b>-4.23%</b>	<b>8.38%</b>	<b>0.55%</b>	<b>6.47%</b>

AIB-AXYS Research, NSE

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## I&M Group HY'23 Earnings Note

**Recomm: BUY**

**Current Price: KES 18.10**

**Target Price: KES 21.12**

### Summary

- I&M Bank released their HY'23 earnings results posting a 1.96% y/y and 2.12% y/y growth in PAT and EPS respectively to KES 4.77Bn and KES 2.89 per share respectively.** The lenders bottom line growth was driven by a 16.10% y/y growth in net interest income and a 36.73% y/y climb in non-interest income but weighed down by a 45.90% y/y increase in operating expenses. Trailing ROaE and ROaA improved to 15.60% and 2.39%. NIMs remained adequate at 6.32% while the profit margin declined 530bps y/y to 26.31%.
- Loan book grew 16.74% y/y to KES 269.74Bn faster than customer deposits which grew by 13.92% to KES 356.76Bn** leading to a 183bps increase in loan to deposit ratio to 75.61% from 73.78% in HY'22. On a q/q basis, we observed customer deposits grew 5.21% faster than loan book which we attribute to enhanced efficiency in customer deposit mobilization. We observed a growth of the balance sheet by 14.52% y/y to KES 503.50Bn which we attribute to 49.51% y/y increase in deposits due from banking institutions. Allocation to government securities increased marginally by 4.02% y/y to KES 110.65Bn driven by the hunt for higher yields from government securities.

### Key Highlights

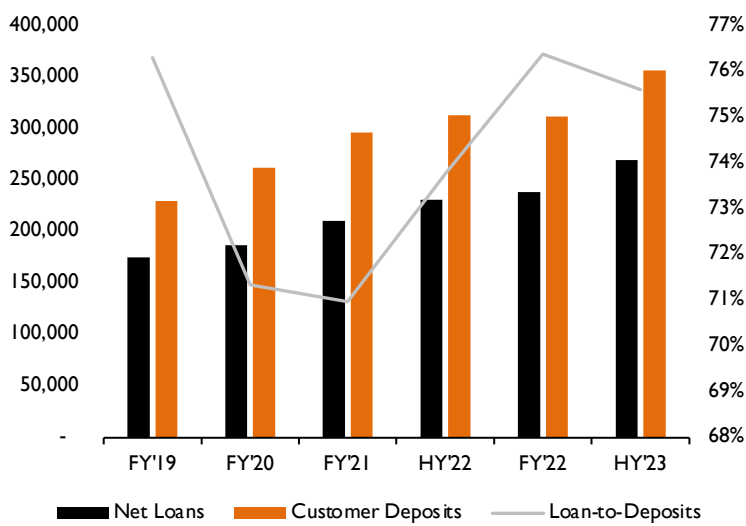
- Non-Funded Income Outpaced Net Interest Income:** Non-funded income climbed 36.73% y/y to KES 6.92Bn compared to the slower growth in net interest income by 16.10% y/y to KES 12.21Bn. The growth in non-funded income was mainly driven by an uptick in forex trading income by 52.91% y/y resulting from the arbitrage opportunities from the ongoing dollar market challenges. The growth in net interest income was driven by a 22.10% y/y increase in interest income from loans and advances with the continued implementation of risk-based lending but weighed down by a faster increase in interest expense by 31.21% y/y. Consequently, the NII:NFI revenue mix shifted to 64:36 in favor of non-funded income from 68:32 in HY'22. On a trailing basis, yield on assets marginally decreased by 8bps y/y to 10.58%. Cost of funds increased 27bps y/y to 4.30% owing the rising interest environment. Subsequently, Net Interest Margin (NIM) remained flat at 6.32%.
- Efficiency Indicator Worsens :** The Cost to Income ratio less impairment increased 205bps y/y to 48.83% from 46.78% in HY'22. CTI worsening was attributable to operating expenses increasing 45.90% y/y to KES 12.54Bn faster than the growth in operating income by 22.79% y/y to KES 19.13Bn. The cost of assets less impairment increased by 20bps y/y to 1.86%. In line with the industry trend, loan loss provisioning climbed by 144.52% y/y to KES 3.20Bn pointing to increased lending risk outlook despite the implementation of risk-based lending.
- Asset Quality Concerns Persist:** Gross NPLs sharply increased by 57.53% y/y and 25.11% q/q to KES 36.67Bn while the NPL ratio increased 339bps y/y to 12.73%, lower than the latest industry average of 14.50%. NPL coverage deteriorated by 27.72% y/y to 49.82% from 77.55% in HY'22 despite the increase in provisioning. Net NPL's recorded a sharp uptick by 252.02% y/y to KES 18.40Bn. Cost of risk marginally increased by 62bps y/y to 1.19% driven by higher provisioning. We expect asset quality to remain challenged by the tough operating and macro environment which weighs down on borrowers' ability to payback.

**Outlook** – We expect growth of the lender to be driven by improved performance from its core banking and non-banking subsidiaries in bancassurance and wealth management. We anticipate that the lenders continued investments in digital channels to expand its digital footprint, drive revenue growth and enhance the lenders efficiency. We anticipate that the continued implementation of its risk-based loan pricing model will continue to drive loan book growth and interest income. Furthermore, we anticipate continuing expansion in its client base and digital footprint after waiving its bank-to-mobile fees. However, the deteriorating asset quality remains a concern.

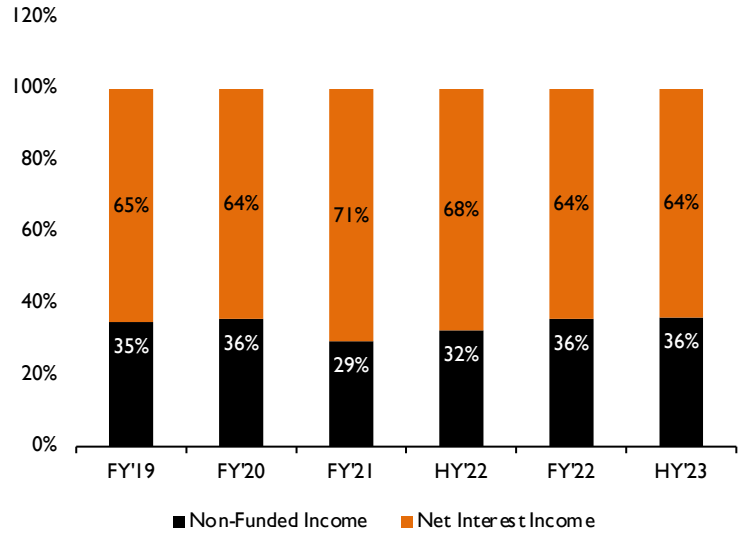
**Valuation** - The counter is currently trading at a P/B multiple of 0.38x and a P/E ratio of 3.19x. The counter closed yesterday's trading at KES 18.10, a YTD gain of 6.47%. We do not expect a share price rally in the near term given the lack of an interim dividend. However, we maintain a **BUY** recommendation on the counter given its upside potential of 16.69% from our target price of KES 21.12.

## I&M Group HY'23 Earnings Charts

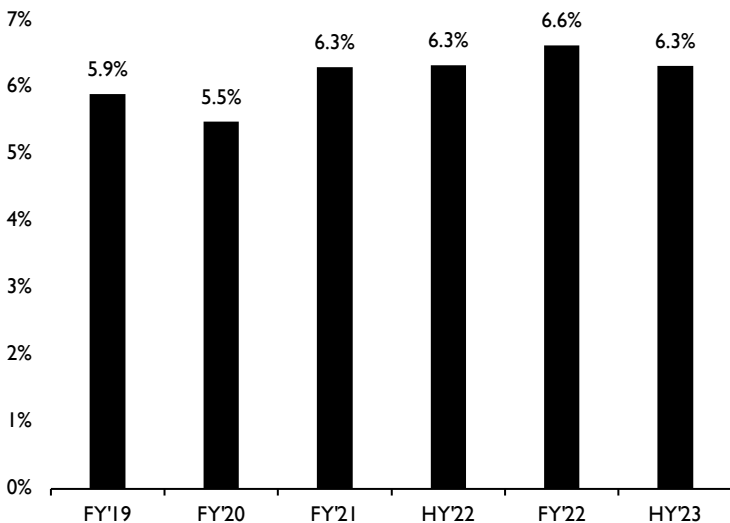
Graph 1: Deposits growth continues to outpace loan growth



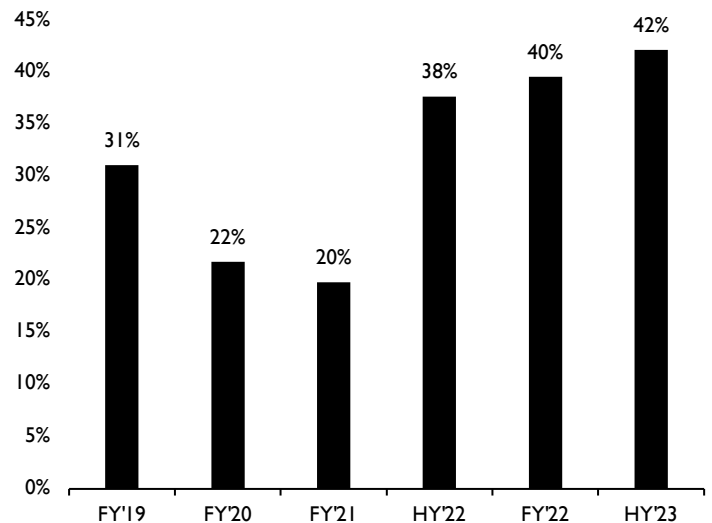
Graph 2: Net Interest Income growth outpaced Net Non-Interest Income



Graph 3: Net Interest Margins Remained Flat



Graph 4: Forex Income as a % of Non-Funded Income grew slightly



Source: NSE, CBK, Company Filings, AIB-AXYS Analyst Estimates

## Financial Statement Summary

### I. Statement of Profit and Loss

Income Statement	FY'19	FY'20	FY'21	HY'22	FY'22	HY'23	% y/y change
Net Interest Income	15,509.84	15,599.60	20,876.89	10,521.35	22,944.52	12,214.83	16.10%
Net non-Interest Income	8,285.54	8,637.75	8,735.62	5,057.84	12,723.55	6,915.62	36.73%
<b>Total Operating income</b>	<b>23,795.38</b>	<b>24,237.35</b>	<b>29,612.51</b>	<b>15,579.19</b>	<b>35,668.07</b>	<b>19,130.45</b>	<b>22.79%</b>
Provision for Impairment	(636.46)	(2,472.84)	(4,199.60)	(1,309.28)	(5,245.02)	(3,201.48)	144.52%
Total Operating expenses	(10,097.31)	(12,606.38)	(17,748.50)	(8,596.98)	(21,337.89)	(12,542.93)	45.90%
Profit before tax	14,603.11	10,952.00	12,412.91	7,187.89	14,992.33	7,038.04	-2.08%
<b>Profit after tax</b>	<b>10,309.04</b>	<b>8,073.86</b>	<b>8,130.74</b>	<b>4,681.25</b>	<b>11,193.49</b>	<b>4,772.93</b>	<b>1.96%</b>
Core EPS	6.23	4.88	4.92	5.66	6.77	5.77	1.96%

### 2. Statement of Financial Position

	FY'19	FY'20	FY'21	HY'22	FY'22	HY'23	% y/y change
Government Securities	53,924.27	89,841.88	109,166.98	106,367.31	96,709.47	110,645.61	4.02%
Loans and Advances	175,329.43	187,391.27	210,619.66	231,069.56	238,590.14	269,742.74	16.74%
<b>Total Assets</b>	<b>315,290.67</b>	<b>358,099.79</b>	<b>415,180.68</b>	<b>439,665.18</b>	<b>436,599.65</b>	<b>503,497.85</b>	<b>14.52%</b>
Customer Deposits	229,736.51	262,681.40	296,746.51	313,178.86	312,335.93	356,758.00	13.92%
Total Liabilities	254,428.50	290,036.65	341,132.60	368,214.65	354,950.06	419,388.24	13.90%
<b>Shareholder's Funds</b>	<b>57,738.61</b>	<b>64,189.34</b>	<b>69,593.03</b>	<b>66,523.52</b>	<b>76,517.50</b>	<b>78,178.14</b>	<b>17.52%</b>

### 3. Key Metrics

	FY'19	FY'20	FY'21	HY'22	FY'22	HY'23
<b>Growth Metrics (y/y)</b>						
Loan book Growth	5.15%	6.88%	12.40%	13.02%	13.28%	16.74%
Customer Deposits Growth	7.79%	14.34%	12.97%	13.16%	5.25%	13.92%
PAT Growth	26.64%	-21.88%	2.51%	15.91%	34.32%	2.19%
<b>Spreads Analysis</b>						
Yield on Assets	10.34%	9.80%	10.49%	10.66%	10.79%	10.58%
Cost of Funds	4.84%	4.60%	3.94%	4.02%	4.22%	4.30%
Net Interest Margin	5.90%	5.49%	6.30%	6.33%	6.63%	6.32%
ROaE	19.52%	13.24%	12.16%	12.93%	15.32%	15.60%
ROaA	3.41%	2.40%	2.10%	2.08%	2.63%	2.39%
Profit Margin	45.26%	34.71%	29.12%	31.62%	32.48%	26.31%
<b>Operating Efficiency</b>						
Cost of Income Less LLP	39.76%	41.81%	45.75%	46.78%	45.12%	48.83%
Cost of Assets less LLP	3.00%	2.83%	3.26%	1.66%	3.69%	1.86%
Loan to Deposit	76.32%	71.34%	70.98%	73.78%	76.39%	75.61%
<b>Asset Quality</b>						
NPL	11.34%	11.61%	9.49%	9.34%	9.73%	12.73%
NPL Coverage	59.06%	66.78%	71.42%	77.55%	71.93%	49.82%
Cost of Risk	0.36%	1.32%	1.99%	0.57%	2.20%	1.19%
<b>Capital Adequacy</b>						
Core Capital/TRWA	17.34%	18.64%	16.57%	28.79%	16.29%	13.96%
Total Capital /TRWA	21.22%	21.97%	21.46%	28.79%	20.52%	18.78%
Liquidity	46.31%	50.51%	52.26%	48.81%	46.13%	46.72%

Source: Company Filings, AIB-AXYS Estimates





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