

## 1Q2022 Result Highlights

I&M Group Plc posted positive growth in profitability (+44.1% y/y to KES 2.8 billion) for 1Q2022. This was mainly attributed to i) +20.7% growth in net interest income due to improved income from loans and advances and government securities ii) +20.3% y/y growth in non-funded income from fees and commission as well as forex income. On the balance sheet, customer deposits grew by 17.6% y/y while the loan book grew by 13.1%. We expect the group to continue on its growth momentum amidst key risk factors on the back of a well diversified portfolio supported by its digitization strategy. Growth in both interest and non interest income supported by lower provisions is expected to boost the bottom line (higher return on equity for shareholders)

## Key Investment Considerations

- a) **Balance Sheet Growth:** We expect strong balance sheet growth with 10.5%, 15.0% and 14.5% y/y growth in assets, net loans and deposits respectively for FY2022. This will largely be driven by strong liquidity (53% as at 1Q2022) and robust capital base (21% total capital adequacy ratio).
- b) **Digitization Strategy:** As part of its 3-year strategy, the group continues to prioritize investment in its digital transformation and this will be a key growth driver going forward – through increased product offering. In the medium term (post investment phase), we expect the bank to benefit from i) operational efficiencies ii) declining cost of funds due to mobilization of cheaper deposits.
- c) **Regional Subsidiaries:** As at 1Q2022, regional subsidiaries' PBT contribution increased to 27% from 17% y/y driven by recovery in performance of Mauritius, the integration of Orient Bank Ltd into I&M Bank Uganda and continued growth in Rwanda and Tanzania subsidiaries. We expect this growth trajectory to be maintained going forward on the back of i) digitization ii) growth in the MSME portfolio iii) strong liquidity (Rwanda-55.8%, Uganda – 51.8%, Mauritius – 41.5%, Tanzania- 30.1%).
- d) **Non-Funded Income Growth:** As at 1Q2022, non-funded income contribution to total income stood at 29.7%. Revenue diversification from non-banking subsidiaries is expected to boost earnings going forward. The bank's client base gives it leverage for cross selling value propositions by rolling out transactional products.

## Risks

- e) **Macro-economic environment:** Potential deterioration in the macro-economic environment remains a key risk to the group's operations. Additionally, the counter's performance is subject to ongoing market volatility.

### Key data

RECOMMENDATION	BUY
Target Price (KES)	25.20
Market price (KES)- 9/6/22	16.90
Upside	49.1%
No. of shares (mn)	1,653
Market Cap (KESmn)	27.95
Free float	25.7%
Dividend yield	8.8%
Trailing P/B	0.52x
Forward P/B	0.41x

Major Shareholders	% of shares
Minard Holdings Limited	21.4
Tecoma Limited	18.4
Ziyungi Limited	17.8

YTD Change	(19.9%)
Min 52 weeks KES (09/6/22)	16.65
Max 52 weeks KES (07/9/21)	23.40

## FINANCIALS

Key Metrics	FY2019	FY2020	FY2021	FY2022F	FY2023F	FY2024F	FY2025F
EPS	13.02	5.09	5.22	6.16	7.00	8.24	9.24
DPS	-	-	-	1.54	1.75	2.06	2.31
BVPS	63.60	35.44	38.11	42.52	44.91	53.59	60.41
P/B	0.27	0.48	0.46	0.41	0.39	0.33	0.29
P/E	1.30	3.32	3.36	2.84	2.50	2.12	1.89
Div Yield	-	-	-	8.8%	10.0%	11.8%	13.2%
ROaE	21.1%	15.0%	13.5%	14.4%	15.3%	15.7%	16.2%
RoaA	3.9%	2.6%	2.4%	2.5%	2.6%	2.7%	3.0%
C/I Ratio (excl. provisions)	39.0%	41.0%	44.9%	46.5%	45.6%	43.8%	43.2%

Income Statement (KES Mn)	FY2019	FY2020	FY2021	FY2022F	FY2023F	FY2024F	FY2025F
Interest income	27,164	27,849	33,081	37,492	41,429	45,168	48,605
Interest expense	(11,654)	(12,249)	(12,205)	(13,651)	(14,744)	(15,863)	(16,269)
<b>Net Interest income</b>	<b>15,510</b>	<b>15,600</b>	<b>20,877</b>	<b>23,840</b>	<b>26,685</b>	<b>29,305</b>	<b>32,336</b>
Net fee income	3,680	3,843	4,410	4,906	5,436	6,059	6,242
Other operating income	4,292	4,467	3,859	4,417	4,894	5,384	5,475
Total non-funded income	7,972	8,310	8,270	9,323	10,329	11,443	11,717
<b>Total operating income</b>	<b>23,481</b>	<b>23,910</b>	<b>29,146</b>	<b>33,163</b>	<b>37,014</b>	<b>40,748</b>	<b>44,053</b>
Credit impairment losses	(636)	(2,473)	(4,200)	(3,873)	(4,291)	(4,146)	(3,942)
Staff costs	(4,728)	(4,555)	(6,002)	(7,296)	(8,143)	(8,557)	(9,251)
<b>Total operating expenses</b>	<b>(9,783)</b>	<b>(12,279)</b>	<b>(17,282)</b>	<b>(19,311)</b>	<b>(21,187)</b>	<b>(22,009)</b>	<b>(22,956)</b>
<b>Profit before tax</b>	<b>14,603</b>	<b>10,952</b>	<b>12,413</b>	<b>14,546</b>	<b>16,534</b>	<b>19,460</b>	<b>21,832</b>
Income tax expense	(3,834)	(2,539)	(3,789)	(4,364)	(4,960)	(5,838)	(6,550)
<b>Profit for the Year</b>	<b>10,769</b>	<b>8,413</b>	<b>8,624</b>	<b>10,182</b>	<b>11,574</b>	<b>13,622</b>	<b>15,283</b>

Balance Sheet (KES Mn)	FY2019	FY2020	FY2021	FY2022F	FY2023F	FY2024F	FY2025F
<b>Assets</b>							
Cash & balances with CBK	15,386	19,403	27,547	18,226	19,400	20,968	16,962
Loans and advances	175,329	187,391	210,620	242,724	268,921	299,769	310,451
Investment Securities	26,853	54,347	80,378	91,735	82,815	91,115	92,659
Property and equipment	10,152	12,122	12,884	12,691	12,507	12,304	12,040
<b>Total Assets</b>	<b>315,291</b>	<b>358,100</b>	<b>415,181</b>	<b>457,949</b>	<b>486,140</b>	<b>536,644</b>	<b>546,991</b>
<b>Liabilities</b>							
Customer deposits	229,737	262,681	296,747	339,759	376,430	414,159	421,179
Other borrowed funds	6,211	10,318	9,517	8,505	5,644	5,963	6,292
Other liabilities	4,789	5,402	5,601	7,135	7,905	8,697	-
<b>Total Liabilities</b>	<b>254,429</b>	<b>290,037</b>	<b>341,133</b>	<b>380,720</b>	<b>404,644</b>	<b>440,518</b>	<b>439,403</b>
<b>Shareholders Equity</b>	<b>60,862</b>	<b>68,063</b>	<b>74,048</b>	<b>77,230</b>	<b>81,496</b>	<b>96,126</b>	<b>107,588</b>
<b>Total Equity and Liabilities</b>	<b>315,291</b>	<b>358,100</b>	<b>415,181</b>	<b>457,949</b>	<b>486,140</b>	<b>536,644</b>	<b>546,991</b>

Ratio Analysis	FY2019	FY2020	FY2021	FY2022F	FY2023F	FY2024F	FY2025F
<b>Growth y/y %</b>							
Assets	9.3%	13.6%	15.9%	10.3%	6.2%	10.4%	1.9%
Net Loans	5.2%	6.9%	12.4%	15.2%	10.8%	11.5%	3.6%
Deposits	7.8%	14.3%	13.0%	14.5%	10.8%	10.0%	1.7%
Operating Expenses	-18.7%	25.5%	40.8%	11.7%	9.7%	3.9%	4.3%
Net Profit	26.6%	-21.9%	2.5%	18.1%	13.7%	17.7%	12.2%
<b>Margins</b>							
Yield on interest earning assets	10.4%	10.6%	11.0%	11.1%	11.2%	11.3%	11.4%
Cost of funds	4.7%	4.3%	3.6%	3.7%	3.6%	3.6%	3.6%
Net Interest Margin (NIMs)	5.7%	6.3%	7.4%	7.4%	7.6%	7.7%	7.8%
<b>Balance Sheet</b>							
Gross Loans/Deposits	81.1%	76.3%	75.7%	76.0%	76.0%	77.0%	78.0%
Net Loans/Deposits	76.3%	71.3%	71.0%	71.4%	71.4%	72.4%	73.7%
<b>P&amp;L</b>							

Interest income/operating income	66.1%	65.2%	71.6%	71.9%	72.1%	71.9%	73.4%
Non interest income/operating income	33.9%	34.8%	28.4%	28.1%	27.9%	28.1%	26.6%
Staff costs/operating expenses	48.3%	37.1%	34.7%	37.8%	38.4%	38.9%	40.3%
C/l ratio (provisions excluded)	39.0%	41.0%	44.9%	46.5%	45.6%	43.8%	43.2%
C/l ratio (provisions included)	41.7%	51.4%	59.3%	58.2%	57.2%	54.0%	52.1%
<b>Asset Quality</b>	<b>FY2019</b>	<b>FY2020</b>	<b>FY2021</b>	<b>FY2022F</b>	<b>FY2023F</b>	<b>FY2024F</b>	<b>FY2025F</b>
Cost of risk	0.4%	1.3%	2.0%	1.6%	1.6%	1.4%	1.3%
NPLs/Gross Loans	12.5%	12.2%	12.0%	11.8%	11.5%	11.0%	11.0%

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**Glossary of Terms**

**Net Interest Margin (NIM)** - Net interest margin is a measure of the difference between interest paid and interest received, adjusted for the total amount of interest-generating assets held by the bank. It is calculated as: Net Interest Income/Average Interest Earning Assets

**Basis points (bps)** – one hundredth of a percentage i.e. 1.0%=100bps or 1bps=0.01%

**Target price** – Analyst estimate of the fair value or intrinsic value of the company

**Cost of Funds**-This is the effective average interest rate paid on interest earning liabilities. It is calculated as Total Interest Expense/Average Interest Earning Liabilities

**Loan Yield**- This is the effective average interest rate received on average loans and advances. It is calculated as Interest on Loans and Advances/Average Loans and Advances

**Cost of Risk** – This ratio measures the amount of risk involved in lending. It is calculated as: Net Impairment Provisions/Average Gross Loans in the period

**Non-performing loans**-These are loans that have been classified as impaired. The CBK classifies loans into five categories i.e. Normal, Watch, Substandard, Doubtful and Loss depending on performance of the loan. The last three i.e. sub-standard, doubtful and loss are referred to as non-performing loans. Under IFRS, these classified as stage 3 loans.

**Non-performing loans (NPL) Ratio** - This is the proportion of NPLs in the loan book. It is calculated as Gross NPLs/Gross Loans

**Non-funded/Non-Interest Income**– This represents the income that is not classified as interest income.

**Non-Funded/Non-Interest Income Ratio.** This represents the proportion of total operating income that is not classified as interest income. It is calculated as Non-Interest Income/Total Operating Income

**Composite market share (Market share Index)** - This is a weighted composite index comprising of assets, deposits, capital size, number of deposit and loan accounts. The composite market share is used by CBK to classify banks into three groups:

- Tier 1(Large Size Bank); Composite market share of 5.0% and above
- Tier 2(Medium Size Bank); Composite market share of between 1.0% and 5.0%
- Tier 3(Small size Bank); Composite market share of less than 1.0%

**Recommendation**

BUY – Minimal risks to catalysts

SELL- Risks outweigh the catalysts

NEUTRAL – This is where the positives and negatives in a company almost balance out. You can accumulate for the long term.



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