I&M Group HY 24 Earnings Highlights

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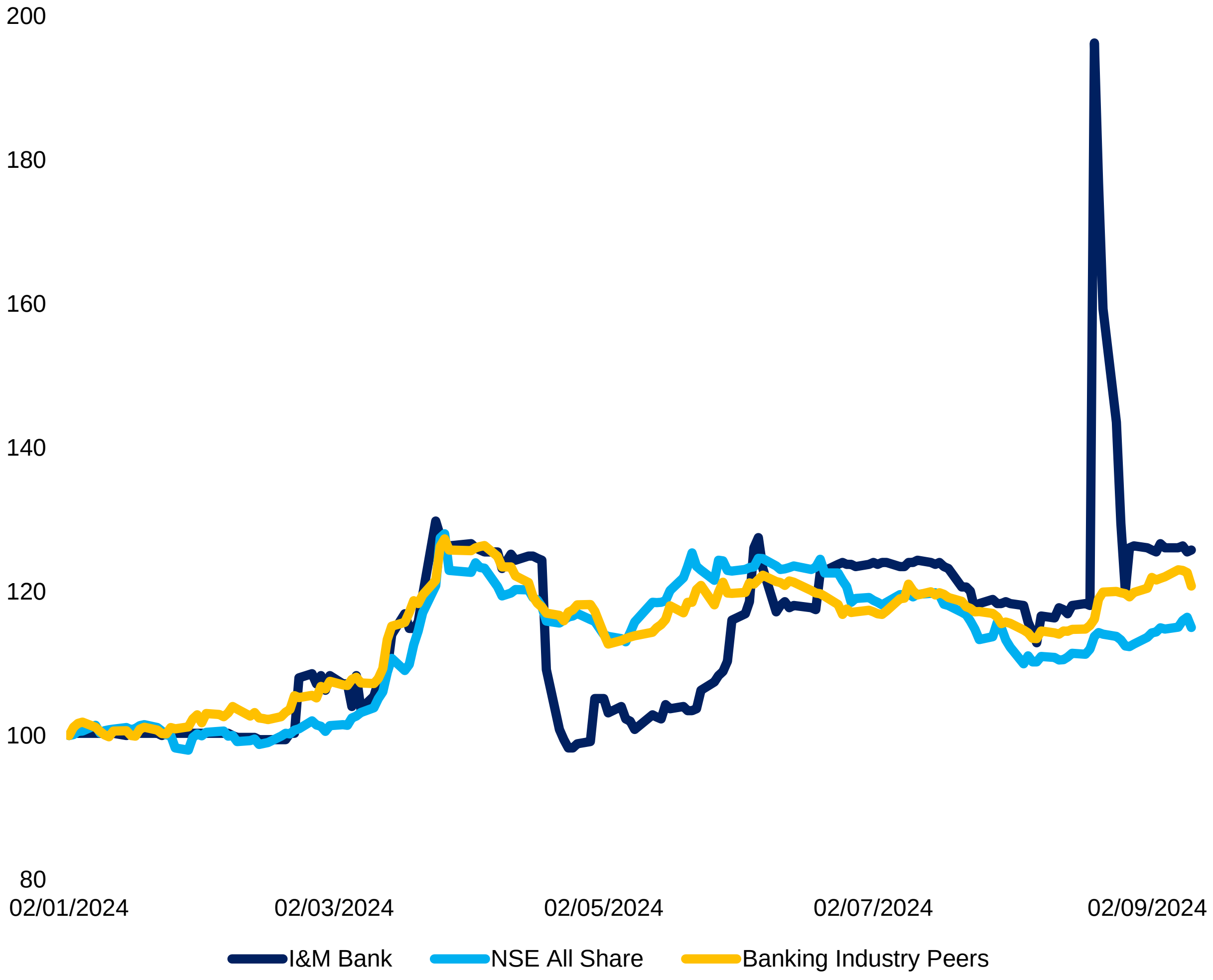
Summary

Normalized Share Movement of I&M Group vs the Market and Other Banking Peers in H1 24



Source: Bloomberg

Note: In H1 24, I&M outperformed the Market and a basket of other Banking Peers in Normalized Price Movement

Last Price – 12th September 2024 in KES	21.95
Valuation Estimate in KES	**32.41**
Upside	**47.7%**
Recommendation	**Buy**
52-Week High	35.00
52-Week Low	16.50
52-Week Price Return	41.73%
Year-to-Date Price Return	**46.20%**
Price to Earnings Ratio (P/E)	2.90
Price to Book Ratio (P/B)	0.42

Source: Bloomberg and Faida Analysis

We recommend a **BUY** recommendation on I&M Group with a fair value of KES 32.41 representing a potential **47.7% upside** on the 12th September 2024 closing price of KES 21.95.

We believe that Group performance will be driven by the group's iMara 3.0 strategy which we anticipate will push growth by expanding customer deposits and the loan book through diverse products offerings. Subsidiary growth is also expected to bolster top line growth and overall performance.

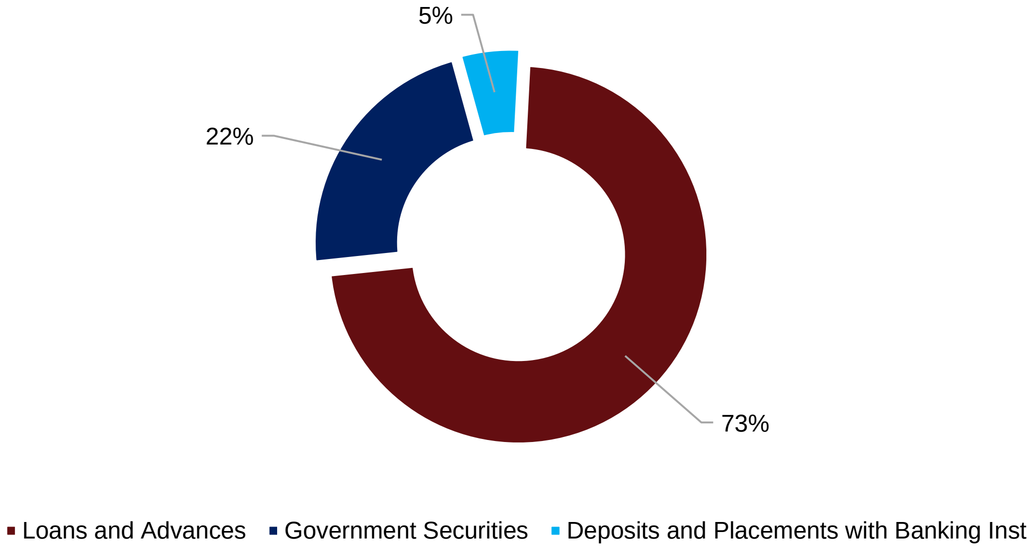
Development in Interest Income

I&M group saw **Interest Income expand by 46.1% to KES 31.1 billion,** up from KES 21.3 billion in HY 23.

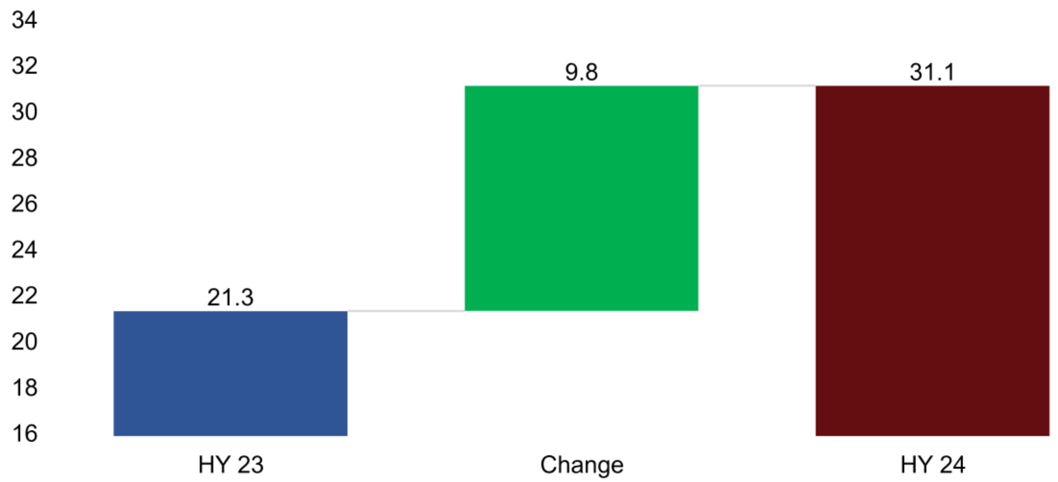
This growth was driven by increased Interest income on **Loans and Advances which surged by 48.4% to KES 22.6 billion**, climbing from KES 15.2 billion in HY 23.

Interest Income on **Government Securities also recorded a double-digit growth of 26.9%** from KES 5.5 billion to KES 7.0 billion in HY 24. Additionally, Interest Income from **Deposits and Placements witnessed a 163.6% jump** from KES 604.6 million in HY 23 to KES 1.6 billion.

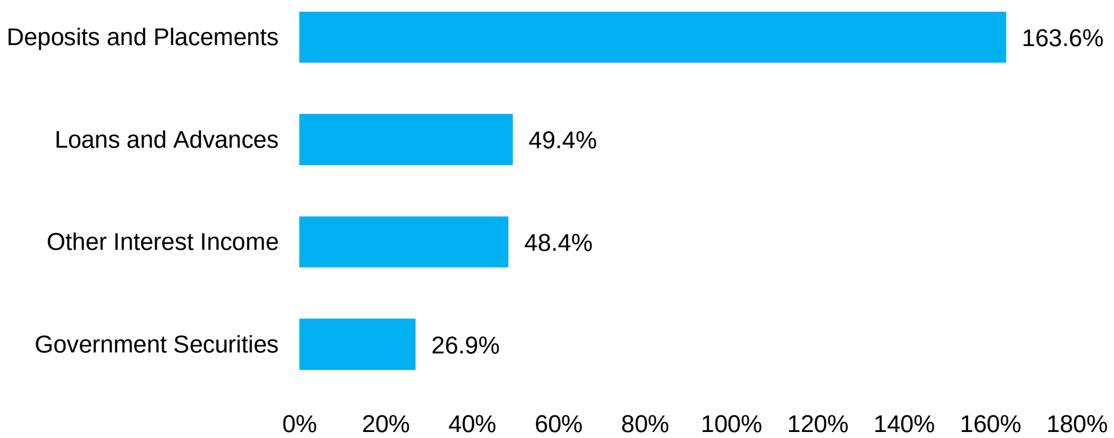
Contribution to Interest Income



Development in Interest Income (KES Billions)



Growth Rates



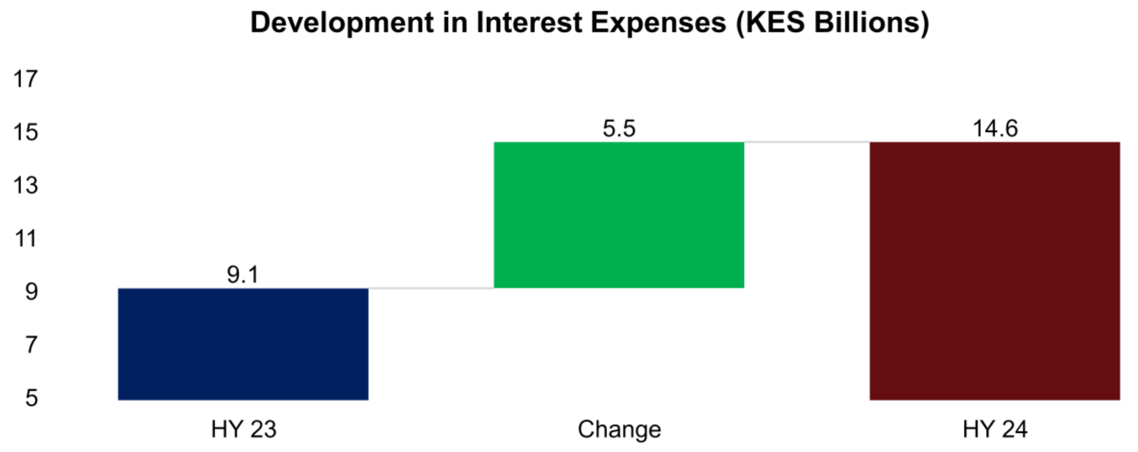
Source: Company Financials (Check government)

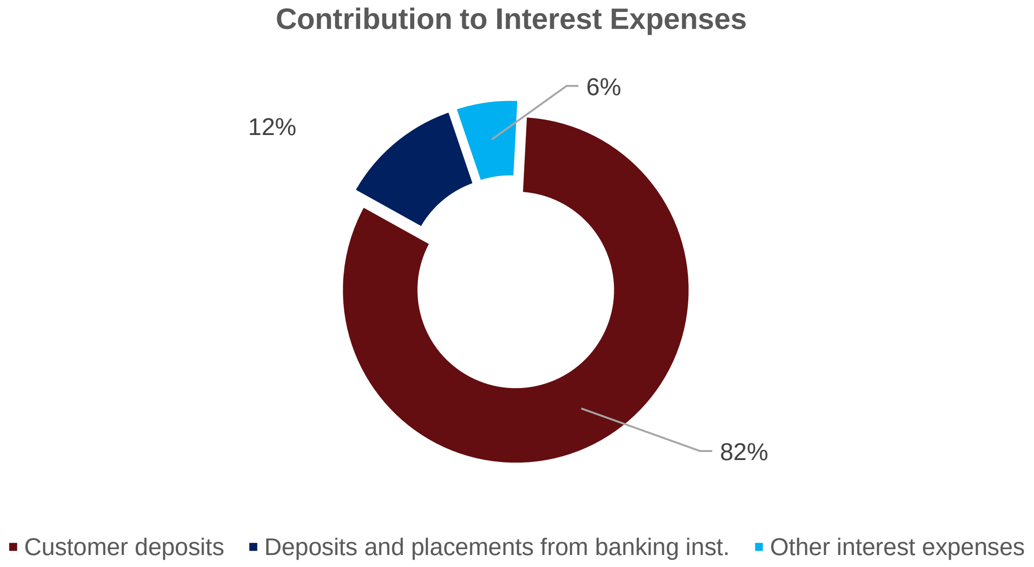
Growing Interest Expenses

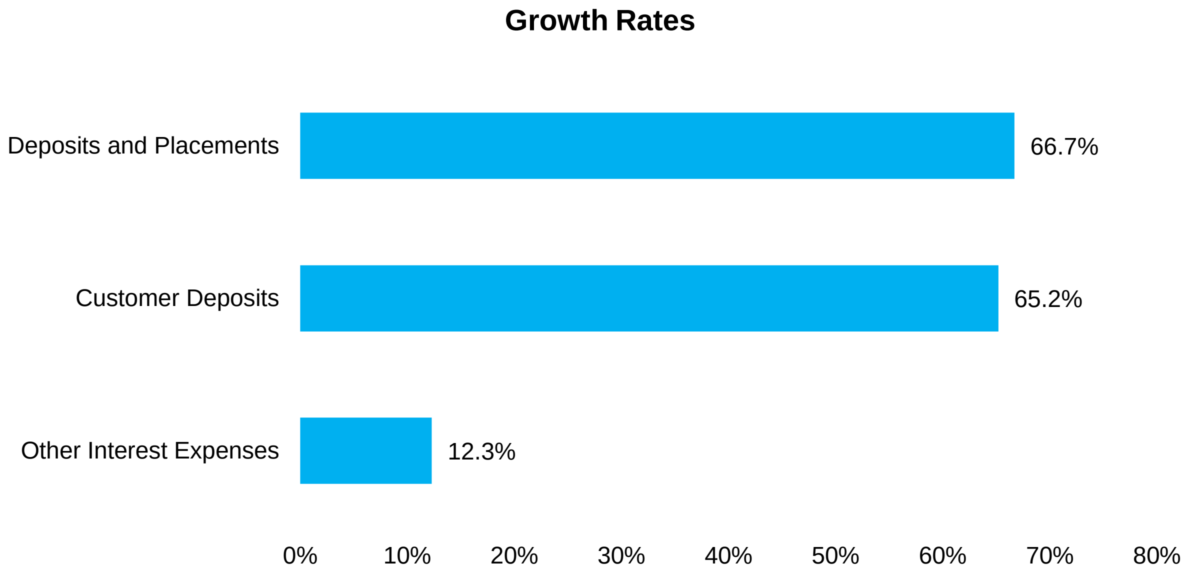
In line with the trend witnessed by most commercial banks in Kenya, Interest Expenses **shot up by 60.8%** from KES 9.1 billion in HY 23 to KES 14.6 billion in the just-concluded half.

This was propelled by a **65.2% expansion in Interest Expenses on Customer Deposits** in the first half of 2024, to KES 12.0 billion, compared to KES 7.3 billion in HY 23. This is attributed to the rising Cost of Funds as well as increased deposit-taking.

Moreover, **Interest on Deposits and Placements climbed by 66.7% to KES 1.7 billion** from KES 1.0 billion in HY 23.







Source: Company Financials

Change in Operating Income

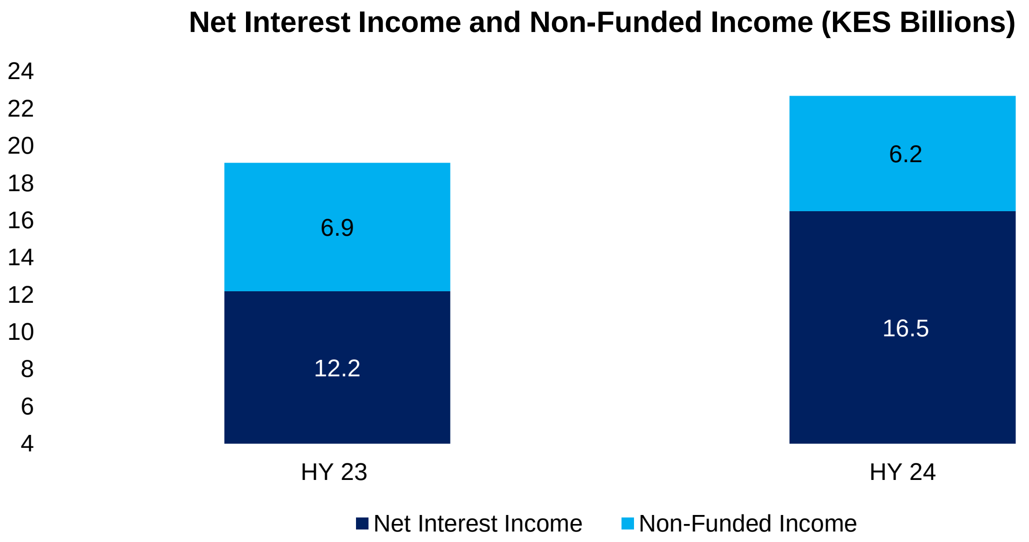
As a result, **Net Interest Income (NII) grew by 35.2% to KES 16.5 billion** in the first operating half of 2024 compared to KES 12.2 billion posted in the same period in 2023.

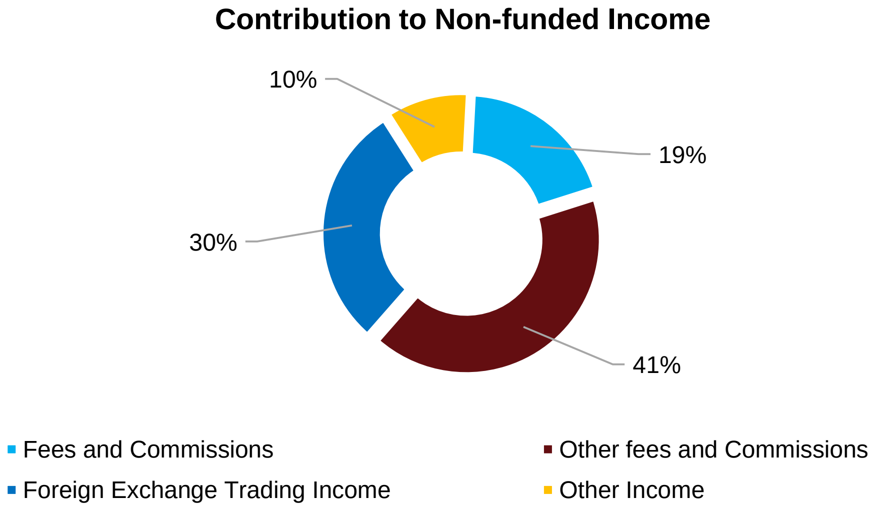
Non-funded income slowed by 10.9% from KES 6.9 billion to KES 6.2 billion in comparative halves.

Forex Trading Income, which contributes marginally under a third of Non-funded income, **fell by 37.7% to KES 1.8 billion** from KES 2.9 billion posted in HY 23.

However, the strong growth in the group's Net Interest Income offset the decline in Non-Funded Income to see **Total Operating Income (Net Interest Income plus Non-Funded Income) increase by 18.5% to KES 22.7 billion** from KES 19.1 billion in HY 23.

The lender's **Non-Funded Income margin** (the contribution of Non-Funded Income to Operating Income) **dropped to 27.2%** in HY 24 from 36.1% in the comparative half.





Source: Company Financials

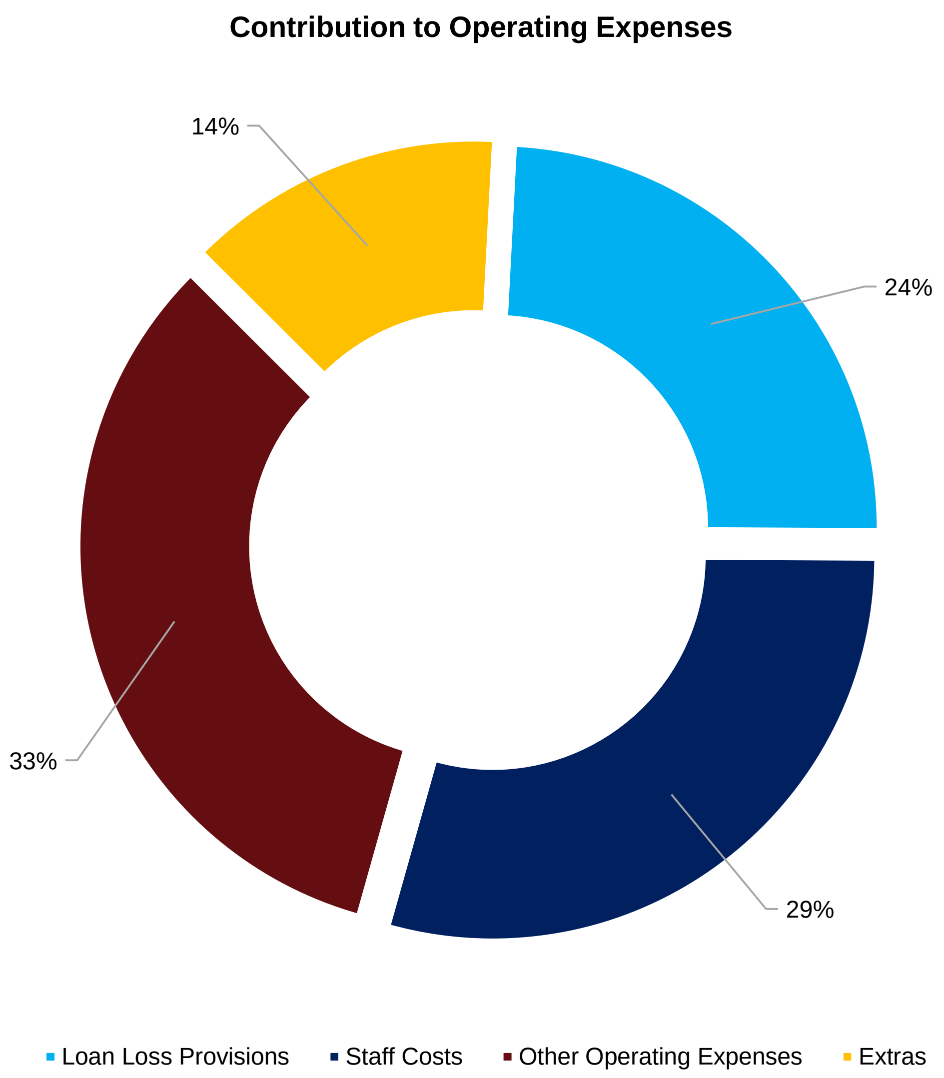
Breakdown of Operating Costs

The Group saw its **Operating Expenses (including Provisions) climb by 13.9%** from KES 12.5 billion in HY 23 to KES 14.3 billion. Although, **excluding provisions**, Operating Expenses grew by 15.8% from KES 9.3 billion to KES 10.8 billion.

Provisioning climbed by 8.2% from KES 3.2 billion in HY 23 to KES 3.5 billion to provide a cushion against further asset decay.

Staff costs rose by 19.9% to KES 3.5 billion from KES 3.2 billion in the comparative half. Similarly, **Other Operating Expenses expanded by 17.7%** from KES 4.0 billion to KES 4.7 billion.

On efficiency, the **Cost to Income Ratio (excluding Provisions) declined slightly to 48.8%** from 47.7% in HY 23.



Source: Company Financials

Note: Extras in the above Chart represents Directors Emoluments, Rental Charges, and Depreciation and Amortization Charges

Group Profitability

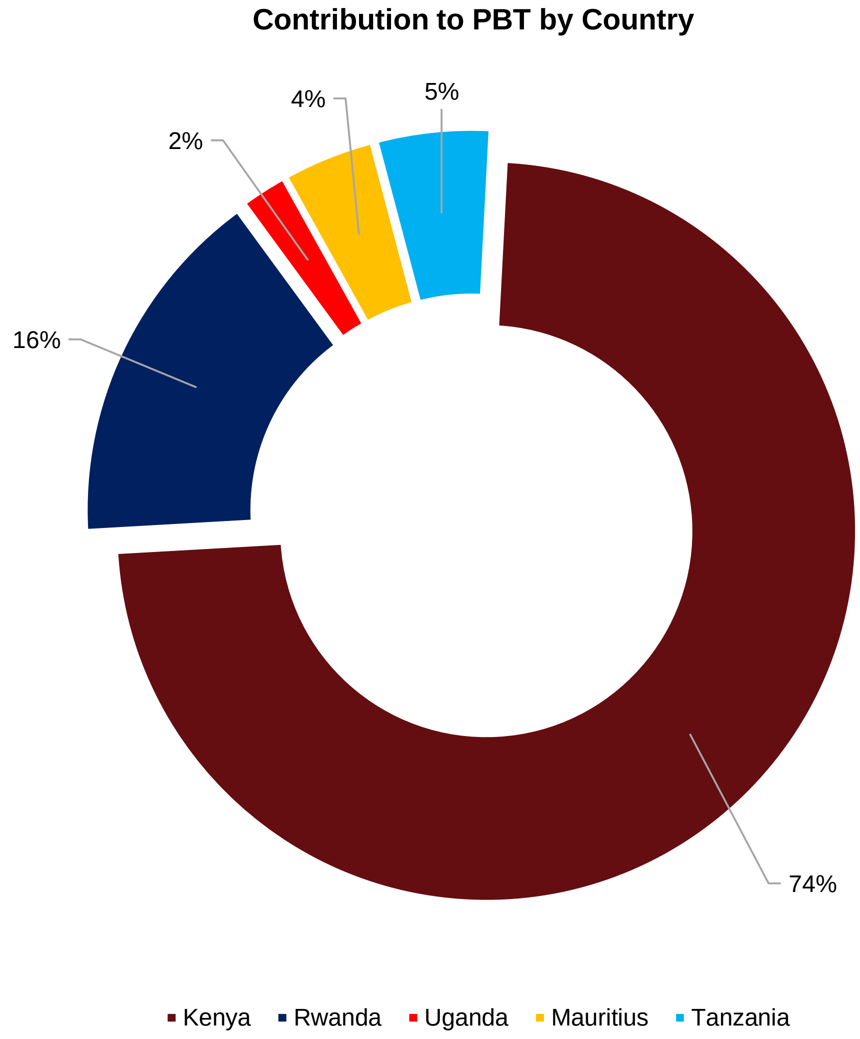
The group recorded a **Profit Before Tax (PAT) figure of KES 8.4 billion**, representing a 27.3% rise from HY 23's KES 6.6 billion figure.

Furthermore, the group's **Profit After Tax (PAT) figure stood at KES 6.1 billion**, a 21.1% increase from KES 5.0 billion posted in HY 23.

I&M's banking subsidiaries positively contributed to the Group's profitability, providing a combined 26% to the group's PBT figure.

Earnings Per Share increased in line with profitability to KES 3.39 from KES 2.89 in HY 23.

The Group did not declare any dividends.



Source: Company Financials

Balance Sheet Overview

I&M's Total Asset Base grew by 12.1% to reach KES 564.4 billion up from KES 503.5 billion in HY 23.

The **Overall Loan Book Portfolio has grown by 5.3%** in HY 24 to KES 284.2 billion from KES 269.7 billion in HY 23.

The Group's **holdings of Government Securities increased by 29.4% to KES 143.1 billion** from KES 110.6 billion in HY 23.

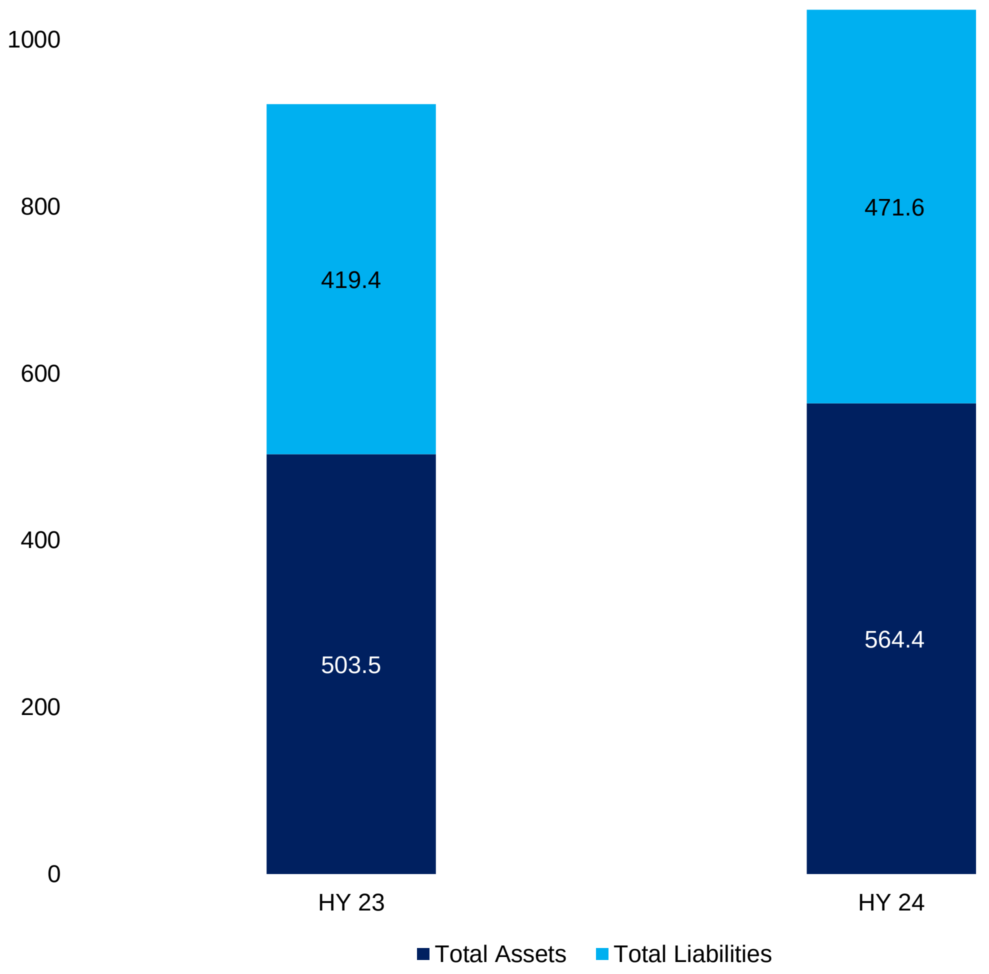
Customer Deposits recorded double-digit growth of 17.5%, from KES 419.4 billion to KES 356.8 billion in the comparative half.

This faster growth in Funding compared to Lending led to **the Loan-Deposit Ratio reducing to 67.8%** from 75.6% in HY 23.

Regarding asset quality, **Gross Non-Performing Loans (NPLs) slowed by 5.0% to KES 34.8 billion**, down from KES 36.7 billion in HY 23.

This brings **the gross NPL ratio to 12.3%**, a decrease from 13.6% recorded in HY 23. This is below the sector average of 16.3%.

Total Assets and Total Liabilities (KES Billions)



Source: Company Financials

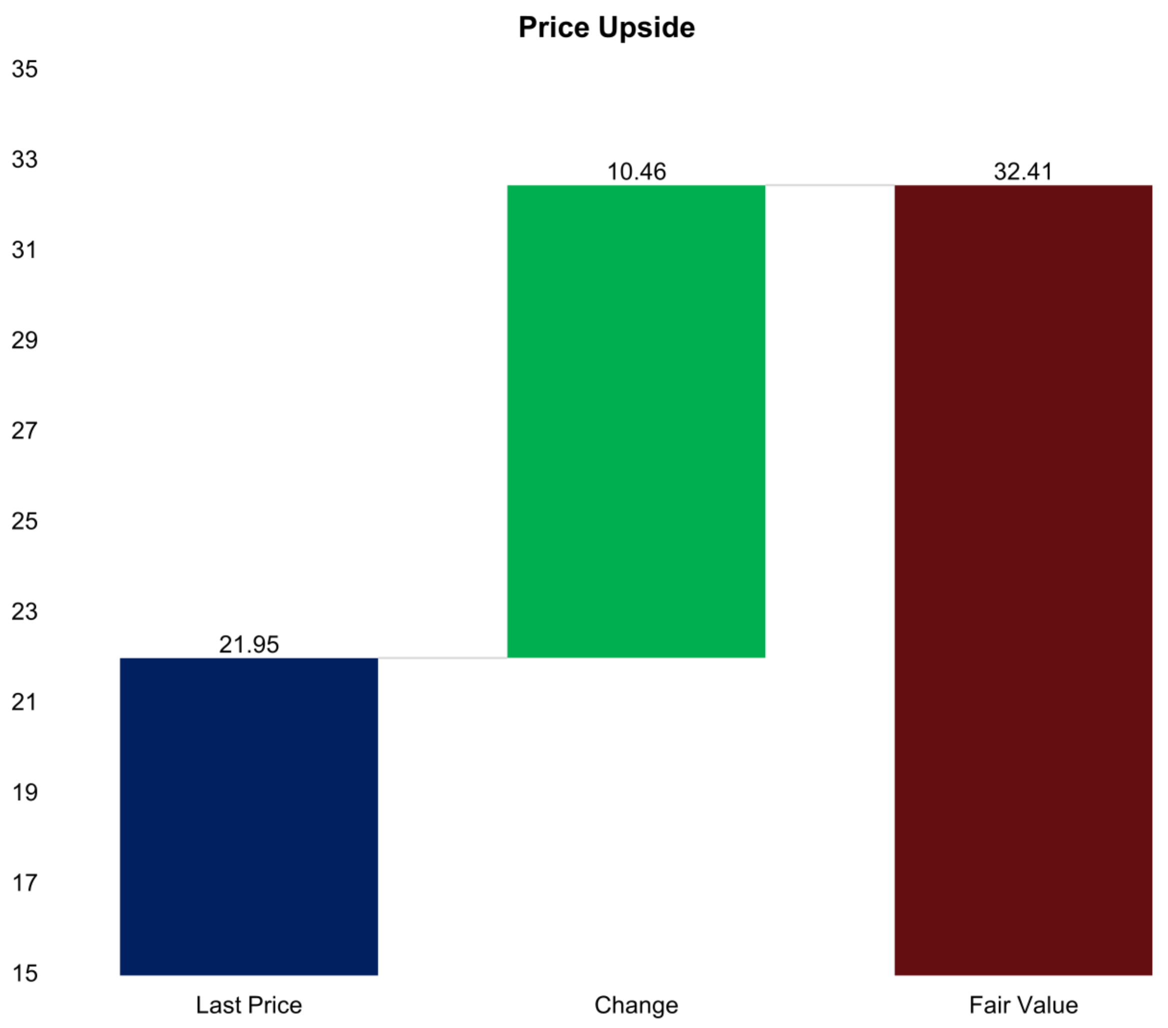
Outlook and Recommendation

We believe I&M group's Operating Income will continue to be driven by Interest Income. With the lender introducing unsecured personal loans to its product offering, we foresee an expansion of its loan book. Additionally, the lender currently does not charge a fee for bank-to-mobile transactions, which we expect to be vital in maintaining customer loyalty as well as attracting new clients.

I&M's subsidiaries have maintained consistent positive performances. We expect this to be the trend going forward as they continue to penetrate their respective markets and grow their customer bases.

The implementation of the group's iMara 3.0 strategy seeks to position the bank as "East Africa's Leading Financial Partner for Growth" by enhancing its ecosystem, improving customer experience and gaining firmer footing in the Retail and SME sectors by diversifying its offerings. We anticipate that this strategy will accelerate the group's growth trajectory.

I&M's 12th September 2024 price stood at KES 21.95, presenting a potential 47.7% upside for patient investors willing to bear the short-term price and market volatility.



Source: Company Financials and Faida Forecasts

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Glossary of Terms

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 the performance of the loan. The last three i.e. sub-standard, doubtful, and loss are referred to as non-performing loans. Under IFRS, these are 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 income that is not classified as interest income.

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