

I&M GROUP FY'2022 EARNINGS UPDATE

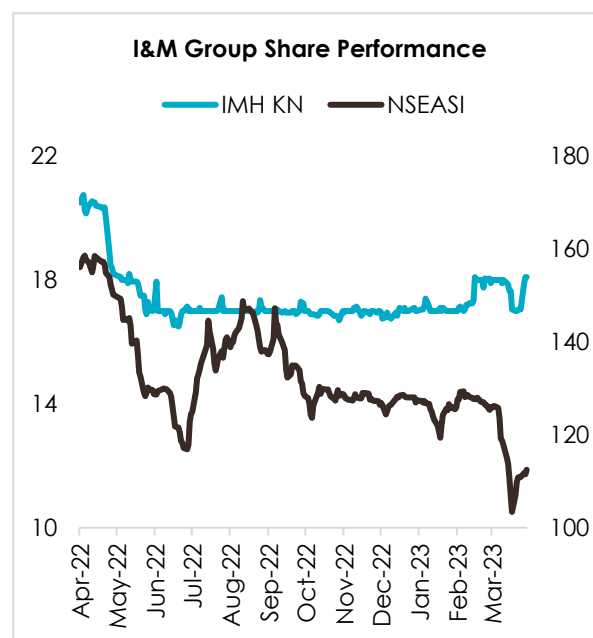
I&M Group released its financial results posting a **37.7%** surge in profit after tax driven by a 45.7% growth in non-interest income and a 12.9% rise in interest income. The **Return on Equity** and Return on Assets improved to **15.3%** and 2.6%, respectively. **Earnings per share** increased to **KES 6.7\7** from KES 4.92 recorded in the previous financial year. The Board of directors recommended payment of a **KES 2.25** first and final dividend (KES 1.50 in FY2021), which translates to **12.4%** dividend yield.

FY2022 Performance – % y/y performance

- Earnings:** Operating income grew by 20.4% to KES 35.7Bn mainly driven by 45.7% growth in non-interest income, to KES 12.7Bn. This was largely attributable to foreign exchange trading income that grew by 191% to KES 5Bn as the bank leveraged on wider spreads. Interest income rose by 12.9% to KES 37.4Bn boosted by a 15.5% increase in interest earned from government securities to KES 10.5Bn and 10.5% rise in interest earned from loans and advances to KES 26.3Bn.
- Loan book:** The bank's loans and advances to customers grew by 13.3% to KES 238.6Bn faster than the 5.3% growth in customer deposits. This led to a 540bps increase in the loan to deposit ratio to 76.4% from 71% recorded in FY2021.
- Customer deposits** grew by 5.3% to KES 312.3Bn supported by deposit mobilization. On the other hand, this prompted a 13.1% climb in interest expense on customer deposits to KES 11.6Bn.
- Government securities** declined by 9.9% to KES 113.1Bn as the lender shifted towards lending. Revenue from government securities grew by 15.5% to KES 10.5Bn while the average yield on government securities improved by 80bps to 8.8%.
- Efficiency:** Cost to income ratio excluding provisions dropped to 45.1% from 45.8%. Cost to income ratio including provisions remained relatively unchanged at 59.8%. Operating costs grew by 18.8% to KES 16.1Bn while loan loss provisions rose by 24.9% to KES 5.2Bn.
- Asset Quality:** The group recorded an NPL ratio of 9.5%, lower than the industry average of 13.7% – reflective of improved asset quality. The Cost of risk rose slightly to 2.2% from 2% recorded the previous year.

Share Data	I&M Group
Ticker	IMH KN
RECOMMENDATION	BUY
Current Price (KES)	18.10
Target Price (KES)	23.40
Dividend Yield	12.4%
Upside(Exc. Div. Yield)	29.3%
52WK High (KES)	22.00
52WK Low (KES)	16.50
Market Cap (KES Bn)	29.93
Free Float	21.8%
P/B	0.4x
P/E	2.7x
Current Price = as of 29th March 2023	

Source: Bloomberg, NSE, NCBA IB Research



Source: NSE, NCBA IB Research

Financial Summary

I&M Group Holdings	Key Metrics Y/Y
Loans and Advances	Up 13.3% to KES 238.6Bn
Customer Deposits	Up 5.3% to KES 312.3Bn
Government Securities	Down 9.9% to KES 113.1Bn
Net Interest Income	Up 9.9% to KES 22.9Bn
Non-Interest Income	Up 45.7% to KES 12.7Bn
Forex trading income	Up 191% to KES 5Bn
Loan Loss Provisions	Up 24.9% to 5.2Bn
PBT	Up 20.8% to KES 14.3Bn
PAT	Up 37.7% to KES 11.2Bn
EPS	Up 37.7% to KES 6.77
DPS	Up 50% to KES 2.25

Source: Company financials, NCBA IB Research

I&M Group Holdings	Key Ratios Y/Y
Loan Deposit ratio	Up to 76.4% from 71.0%
Net Interest Margin	Up to 5.3% from 5.0%
ROE	Up to 15.3% from 11.1%
Cost to Income	Down to 45.1% from 45.8%
Cost of Risk	Up to 2.2% from 2.0%
NPL Ratio	Up to 9.5% from 9.2%
Current Market Price	KES 18.10
P/E	2.7x
P/B	0.4x
Dividend payout	33.2%
Dividend Yield	12.4%

2023 Outlook

We expect I&M Group to record steady growth boosted by:

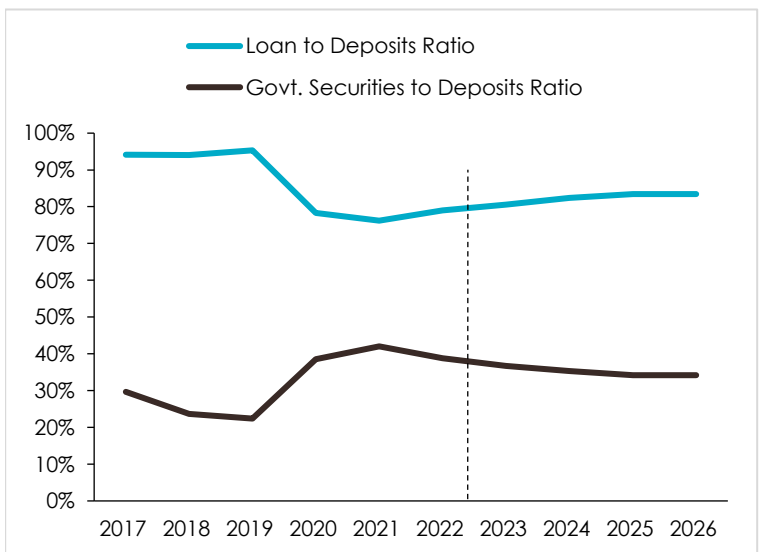
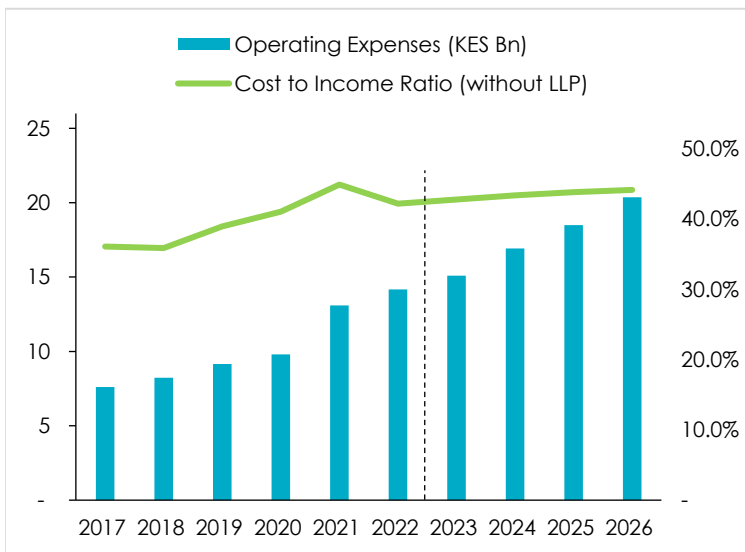
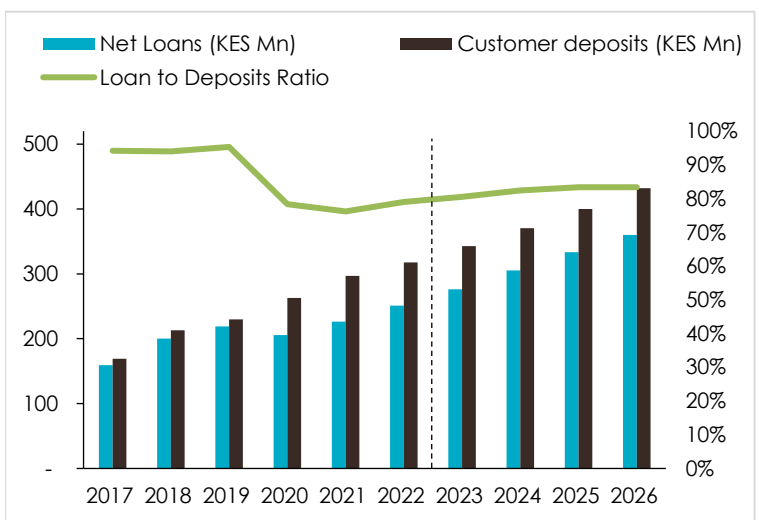
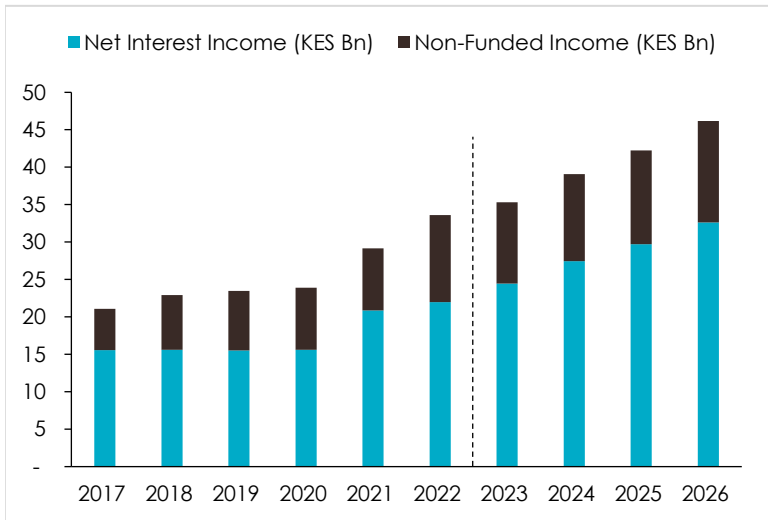
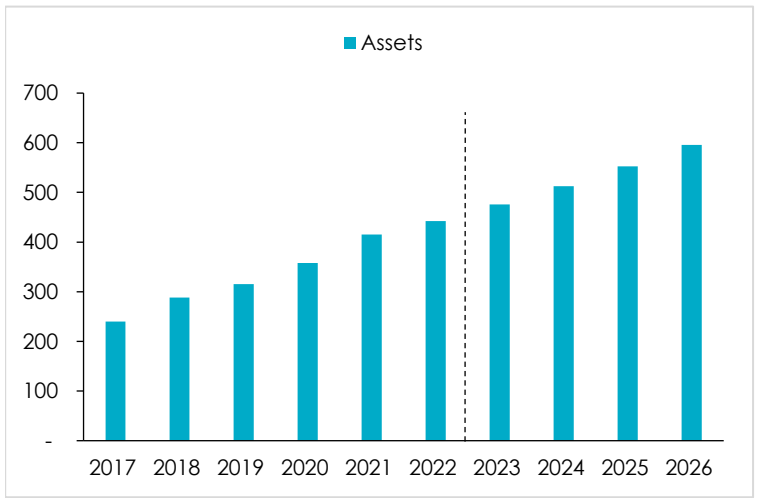
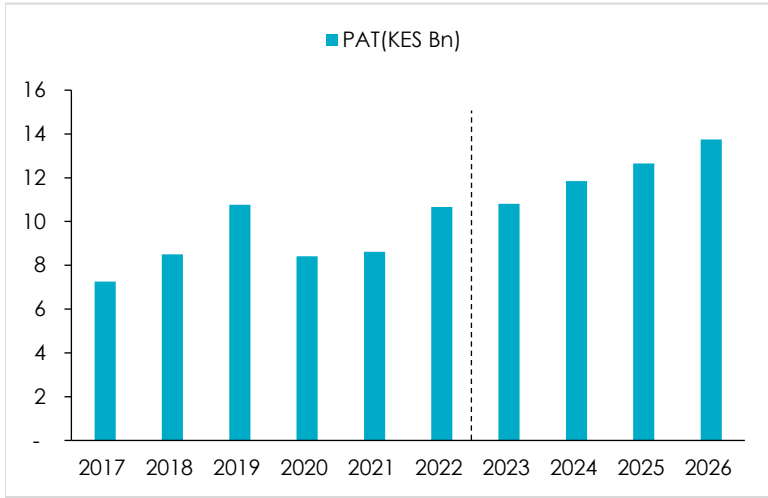
- 1. Subsidiaries performance and contribution:** The Group's subsidiaries recorded improved performance. Its focus on profitability of its subsidiaries will continue to boost growth in the top-line.
- 2. Customer base:** The move by I&M group to waiver fees and commissions on digital transactions speaks to the Group's efforts towards boosting its customer base and deposit mobilization.
- 3. Asset quality:** The Group has a commendable NPL ratio of 9.5% with a cost of risk of 2.2%. Implementation of its risk-based pricing model will boost the Group's risk management strategy.

Investment recommendation:

We maintain our **BUY** recommendation based on a target price of **KES 23.40** implying a 29.3% upside, from the current price of **KES 18.10** as of 29th March 2023.

We believe the stock to be currently undervalued, which presents an opportunity for long-term investors to earn capital gains and an attractive dividend yield.

I&M will continue to deliver long-term profitability based on regional subsidiaries growth, improving cost efficiency and a strong asset quality.

Financial highlights – I&M Group


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Rating Definitions

BUY – Total expected 12-month return (incl. dividends) greater than 20%
ACCUMULATE - Total expected 12-month return (incl. dividends) between 10% - 20%
HOLD – Total expected 12-month return (incl. dividends) between 0% -10%
SELL – Total expected 12-month return (incl. dividends) less than 0%

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