INVESTMENT BANKING EARNINGS UPDATE

I&M GROUP Q1'2023 EARNINGS UPDATE

I&M Group released its Q1 2023 financial results posting a **0.8%** drop in profit after tax attributable to 56.7% rise in total operating expenses to KES 6.03Bn and a 241.5% surge in Loan loss provisions (LLP) to KES 1.64 Bn. The **Return on Equity** remained constant at 3.4% and return in assets increased to 0.6%. **Earnings per share** declined to **KES 1.54** from KES 1.55 recorded in the previous financial year.

Share Data	I&M Group
Ticker	IMH KN
Recommendation	BUY
Current Price (KES)	15.85
Target Price (KES)	23.40
Upside	47.6%
Dividend Yield	14.2%
52WK High (KES)	21.50
52WK Low (KES)	15.80
Market Cap (KES Bn)	26.21
Free Float	25.69%
P/B	0.3x
P/E	10.3x
Current Price = as of 26th May 2023	

Source: Bloomberg, NSE, NCBA IB Research

Q12023 Performance – % y/y performance

- **Earnings:** Operating income grew by 29.4% to KES 9.57Bn driven by 58.8% growth in non-interest income, to KES 3.48Bn. This was largely attributable to foreign exchange trading income that grew by 135.4% to KES 1.44Bn as the bank leveraged on wider spreads. Interest income grew by 18.3% to KES 10.17Bn driven by 21.3% increase in interest from loans and advances to KES 7.24Bn.

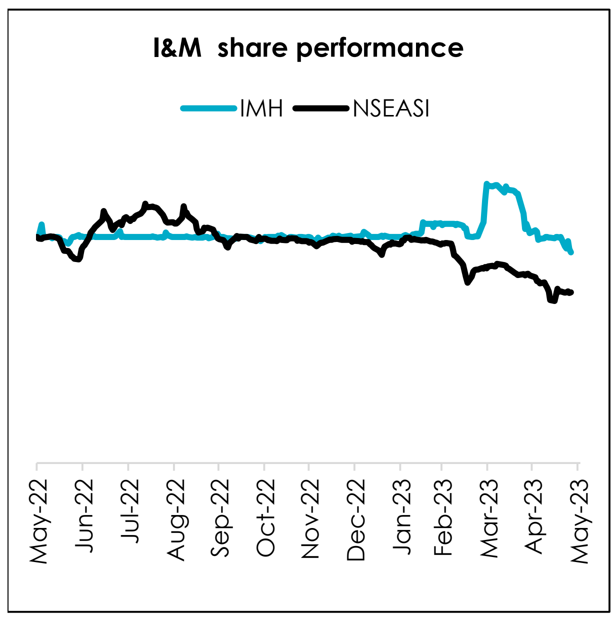
- **Loan book**: The bank's loans and advances to customers grew by 18% to KES 257.7Bn faster than the 4.9% growth in customer deposits. The loan portfolio continued to show strong growth on the back of ecosystem partnerships via the lender's Kamilisha product.

- **Customer deposits** grew by 4.9% to KES 324.6Bn driven by Group initiatives to drive low-cost deposits. The increase was driven by increase in customer engagements in a bid to grow Current Account and Savings Account (CASA).

- **Government securities** saw a decline by 13.3% to KES 72 Bn in an aim to reduce the exposure and manage the risks arising from government's tight liquidity position.

- **Efficiency:** Cost to income ratio including provisions surged to 63% from 52% recorded in 2022. Cost to income ratio excluding provisions saw a marginal rise to 45.8% from 45.5%. Moreover, operating costs grew by 56.7% to KES 6.03Bn while loan loss provisions shot up substantially by 241.5% to KES 1.64Bn from KES 0.480Bn in the previous year.

- **Asset Quality:** The group's NPL ratio rose to 10.2% from 9.8% reflective of worsening asset quality. Gross NPLs increased by 24.0% to KES 29.31Bn while the cost of risk increased to 0.6% from 0.2% as a result of increase in credit losses driven by the macroeconomic environment. This was largely attributable to NPL's in the manufacturing sector, which is the lender's prevalent sector with a 27% distribution of the lender's loan and advances.



Source: NSE, NCBA IB Research

Financial Summary

I&M Group	Key Metrics Y/Y
Loans and Advances	Up 18.0% to KES 257.1Bn
Customer Deposits	Up 4.9% to KES 324.67Bn
Government Securities	Down 13.3% to KES 72.74Bn
Net Interest Income	**Up 17.0% to KES 6.09Bn**
Non-Funded Income	**Up 58.8% to KES 3.49Bn**
Forex trading income	Up 135.4% to KES 1.44Bn
Loan Loss Provisions	Up 241.5% to KES 1.64Bn
PBT	Down 0.2% to KES 3.54Bn
PAT	**Down 0.8% to KES 2.54Bn**
EPS	Down 0.6% to KES 1.54

I&M Group	Key Ratios Y/Y
Loan Deposit ratio	Up to 79.4% from 70.6%
Net Interest Margin	**Up to 1.3% from 1.2%**
Cost to Income	Up to 45.8% from 45.5%
NPL Ratio	**Up to 10.2% from 9.8%**
Cost of Risk	up to 0.5% from 0.3%
ROE	**Up to 6.7% from 6.3%**
Current Market Price	KES 15.85
P/E	10.3x
P/B	0.3x
Target price	**KES 23.4**

Source: Company financials, NCBA IB Research

2023 Outlook

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

1. **Subsidiaries performance and contribution:** The Group's subsidiaries contributed 13% of overall profit after tax in FY'2022. Notably, the bank will continue to drive transformation in its subsidiaries, which will support growth in the bottom-line. The non-banking subsidiaries – I&M Burbidge, I&M Capital, and I&M Bancassurance Intermediaries Ltd all ended the year 2022 on a high note, significantly increasing their revenues and profitability.

2. **Digital transformation:** Under Imara 2.0 strategy, the Group's focus has been on investing in digital platforms to diversify revenue streams and scaling business opportunities. The bank's program on zero-rating bank to Mpesa transactions is aimed to increase transactions on its digital platforms will allow the lender to increase revenues on the digital front.

3. **Loan Book Growth:** The bank has sustained an average double-digit loan book growth. Net Loans and advances had strong growth momentum on the back of growth in both our corporate and retail business segments. The bank remains focused on building inroads into MSME and retail banking by offering innovative solutions that support the lender's loan book growth.

Investment recommendation:

The lender's Focus on providing Corporate Customers with value-add services, maintaining advantage in trade finance, increased leverage in Agriculture, Oil&Gas opportunities position the institution well to unleash its offensive growth strategy.

The stock presents an opportunity for long-term investors to earn **capital gains** and an attractive dividend yield.

About NCBA Investment Bank

NCBA Investment Bank is a subsidiary of NCBA Group. The services offered by the brokerage department include equities trading for listed securities, fixed income trading for both corporate and government bonds, Over the Counter (OTC) equity transactions as well as execution of equities transactions across the East African countries. Additionally, NCBA Investment Bank backs these activities with solid advice from the research team to enable investors meet their return objectives. NCBA Investment Bank deploys simple and convenient client driven technologies, robust risk management, highly competent and experienced staff and has the backing of robust research capabilities to differentiate itself from other players in the market.

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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%

Disclaimer

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