

Valuation Summary:

- We recommend an **Accumulate** on I&M Holdings, with a target price of Kshs 114.5 per share, representing a potential total return of 14.5%, an upside of 11.1% and a dividend yield of 3.4%, from the current price of Kshs 103.0 per share
- I&M currently trades at a P/B of 1.4x and a P/E of 7.4x, versus an industry average of 1.6x and 8.4x, respectively

Key Highlights During the Year 2015:

- On 17th September 2015, I&M Bank signed a deal to acquire 100% of Giro Bank for an undisclosed amount. The move will see it take over all its Kshs 19.0 bn worth of assets, as well as Kshs 13.5 bn of deposits, in order to increase their footprint through acquisition
- I&M Holdings announced plans to acquire 65.0% of the issued share capital of Burbidge Capital for an undisclosed price. This move by I&M Holdings was set to diversify their revenue from the core banking business to non – funded income, which currently stands at 27.0% vs. an industry average of 31.8%.
- On 19th March, I&M Bank Ltd and MobiKash partnered to launch I&M Karibu brand, a deal that saw the bank offer agency banking services through MobiKash agent outlets to widen its coverage market

Earnings Update:**Income Statement:**

- FY'2015 Core EPS grew at the highest rates among listed banks, an impressive 26.3% y/y to Kshs 17.1 per share from Kshs 13.6 in FY'2014, benefitting from their lack of exposure in Southern Sudan and their loan loss provisions declining as opposed to most other banks, due to a strict credit rating and loan disbursement policy
- Operating revenue increased 20.9% y/y to Kshs 17.2 bn from Kshs 14.2 bn in 2014, marginally outpacing operating expenses growth, which rose by 19.5% y/y to Kshs 7.4 bn from Kshs 6.2 bn in FY'2014, leading to a decline in the cost to income ratio to 37.2% from 37.4% in 2014
- Growth in operating income was driven by a 21.6% y/y increase in net interest income to Kshs 12.6 bn from Kshs 10.4 bn in FY'2014, and non-funded income that rose 19.3% to Kshs 4.6 bn from Kshs 3.8 bn in FY'2014. This resulted into a revenue mix to stand at 73%:27% funded to non-funded income, respectively
- Interest income recorded a growth of 24.3% y/y to Kshs 21.9 bn from Kshs 17.6 bn, while interest expense accelerated by 28.3% y/y to Kshs 9.2 bn from Kshs 7.2 bn in FY'2014. The high increase in interest expense was as a result of the high interest rate environment that prevailed towards the end of 2015, meaning the bank suffered higher interest payments on its deposits

- The yield from the bank's interest earning assets stood at 12.5%, while the cost of funds came in at 6.1% with a net interest margin of 7.2%, from 6.6% in 2014
- Total operating expenses rose by 19.5% y/y to Kshs 7.4 bn, from Kshs 6.2 bn in 2014, on account of a 13.3% y/y rise in staff costs to Kshs 3.3 bn from Kshs 2.9 bn in FY'2014.

Balance Sheet:

- FY'2015 Balance Sheet growth remained robust: I&M Bank reported 16.4% y/y increase in customer deposits to Kshs 133.0 bn. Deposit growth outpaced loan growth, with loans rising 13.6% y/y to Kshs 127.8 bn from Kshs 112.5 bn in FY'2014. This resulted in a decline in the Loan to Deposit ratio to 96.1% from 98.5%
- Non-performing loans rose 165.1% to Kshs 5.0 bn, from Kshs 1.9 bn. Given the increase in loans by 13.6% y/y, the ratio of NPLs to total loans ratio rose to 3.9% from 1.7% in FY'2014
- The management recommends a dividend per share of Kshs 3.5, a payout of 20.4% compared to 21.4% in 2014 resulting into a dividend yield of 3.4%
- The holdings subsequently had an ROaE of 23.9% and a ROaA of 3.9%
- The bank remains well capitalized, with total capital to risk weighted assets ratio at 24.6% in 2015 from 15.8% in 2014, 13.6% above the statutory requirement of 11.0%

Represented below is an analysis of the Balance Sheet and Income Statement (FY'2015)

Figure 1: Balance Sheet Analysis

Figures in Kshs billions unless otherwise stated

Balance Sheet Items	FY'14	FY'15	y/y Change
Net Loans and Advances	22.4%	13.6%	(8.8%)
Total Assets	25.0%	8.6%	(16.4%)
Customer Deposits	17.6%	16.4%	(1.2%)
Total Liabilities	26.2%	6.5%	(19.7%)
Shareholder's Funds	18.9%	20.7%	1.8%

Balance Sheet Ratios	FY'14	FY'15
LDR	98.5%	96.1%
ROaE	22.9%	23.9%
ROaA	3.6%	3.9%

Figure 2: Income Statement Analysis
Figures in Kshs billions unless otherwise stated

Income Statement Ratios	FY'14	FY'15	y/y Change
Net Interest Income	17.1%	21.6%	4.5%
Net Non-Interest Income	11.9%	19.3%	7.4%
Loan loss Provision	81.7%	14.5%	(67.2%)
Total Operating Expenses	20.3%	19.5%	(0.8%)
Profits before Tax	13.4%	23.5%	10.1%
Core EPS	15.4%	26.3%	10.9%

Income Statement Ratios	FY'14	FY'15	y/y Change
Yield from Interest earning assets	11.1%	12.5%	1.4%
Cost of funding	4.9%	6.1%	1.2%
Net Interest Margin	7.2%	6.6%	0.6%
Net Interest % of total Income	73.0%	73.4%	0.4%
Non Funded % of total Income	27.0%	26.6%	(0.4%)
Cost to Income	37.4%	37.2%	(0.2%)
Cost to Assets	3.0%	3.3%	0.3%

Capital Adequacy Ratios	FY'14	FY'15
Core cap/ Total Liabilities	21.9%	19.9%
Min	11.0%	11.0%
Excess	10.9%	8.9%
Core cap/Total Risk Weighted Assets	15.8%	24.6%
Min	11.0%	11.0%
Excess	4.8%	13.6%
Liquidity	30.5%	33.5%
Min	20.0%	20.0%
Excess	10.5%	13.5%