

Below is a summary of I&M Group H1'2023 performance:

| Balance Sheet Items | H1'2022 | H1'2023 | y/y change |
|----------------------------|--------------|--------------|--------------|
| Government Securities | 82.1 | 75.9 | (7.6%) |
| Net Loans and Advances | 231.1 | 269.7 | 16.7% |
| Total Assets | 439.7 | 503.5 | 14.5% |
| Customer Deposits | 313.2 | 356.8 | 13.9% |
| Deposits per branch | 3.5 | 4.3 | 22.1% |
| Total Liabilities | 368.2 | 419.4 | 13.9% |
| Shareholders' Funds | 66.5 | 78.2 | 17.5% |

| Balance Sheet Ratios | H1'2022 | H1'2023 | % y/y change |
|--|---------|---------|--------------|
| Loan to Deposit Ratio | 73.8% | 75.6% | 1.8% |
| Government Securities to Deposit ratio | 26.2% | 21.3% | (4.9%) |
| Return on average equity | 13.3% | 15.0% | 1.8% |
| Return on average assets | 2.1% | 2.5% | 0.4% |

| Income Statement | H1'2022 | H1'2023 | y/y change |
|-------------------------------|--------------|---------------|--------------|
| Net Interest Income | 10.5 | 12.2 | 16.1% |
| Net non-Interest Income | 5.1 | 6.9 | 36.7% |
| Total Operating income | 15.6 | 19.1 | 22.8% |
| Loan Loss provision | (1.3) | (3.2) | 144.5% |
| Total Operating expenses | (8.6) | (12.5) | 45.9% |
| Profit before tax | 7.19 | 7.04 | (2.1%) |
| Profit after tax | 4.93 | 5.03 | 2.2% |
| Core EPS | 2.98 | 3.04 | 2.2% |

| Income Statement Ratios | H1'2022 | H1'2023 | y/y change |
|--|---------|---------|------------|
| Yield from interest-earning assets | 10.2% | 10.4% | 0.2% |
| Cost of funding | 4.1% | 4.3% | 0.2% |
| Net Interest Margin | 6.4% | 6.2% | (0.2%) |
| Net Interest Income as % of operating income | 67.5% | 63.9% | (3.6%) |
| Non-Funded Income as a % of operating income | 32.5% | 36.1% | 3.6% |
| Cost to Income Ratio | 55.2% | 65.6% | 10.4% |
| CIR without LLP | 46.8% | 48.8% | 2.0% |
| Cost to Assets | 1.7% | 1.9% | 0.2% |

| Capital Adequacy Ratios | H1'2022 | H1'2023 | % points change |
|--|--------------|--------------|-----------------|
| Core Capital/Total Liabilities | 19.9% | 18.8% | (1.1%) |
| Minimum Statutory ratio | 8.0% | 8.0% | 0.0% |
| Excess | 11.9% | 10.8% | (1.1%) |
| Core Capital/Total Risk Weighted Assets | 15.0% | 14.0% | (1.1%) |
| Minimum Statutory ratio | 10.5% | 10.5% | 0.0% |
| Excess | 4.5% | 3.5% | (1.1%) |
| Total Capital/Total Risk Weighted Assets | 19.8% | 18.8% | (1.0%) |
| Minimum Statutory ratio | 14.5% | 14.5% | 0.0% |
| Excess | 5.3% | 4.3% | (1.0%) |
| Liquidity Ratio | 48.8% | 46.7% | (2.1%) |
| Minimum Statutory ratio | 20.0% | 20.0% | 0.0% |
| Excess | 28.8% | 26.7% | (2.1%) |

Income Statement

- Core earnings per share increased by 2.2% to Kshs 3.04 from Kshs 2.98 in H1'2022, mainly driven by 22.8% increase in total operating income to Kshs 19.1 bn in H1'2023 from Kshs 15.6 bn in H1'2022. The performance was however weighed down by the 45.9% increase in total operating expenses to kshs 12.5 bn, from kshs 8.6 bn in H1'2022.
- The 34.2% growth in total operating income was mainly driven by a 16.1% growth in Net Interest Income to Kshs 12.2 bn, from Kshs 10.5 bn in H1'2022, coupled with a 36.7% growth in Non funded Income (NFI) to Kshs 6.9 bn, from Kshs 5.1 bn in H1'2022,
- Interest income grew by 22.1% to Kshs 21.3 bn from Kshs 17.5 bn in H1'2022, mainly driven by a 26.2% growth in interest income from loans and advances to Kshs 15.2 bn from Kshs 12.0 bn in H1'2022, coupled with a significant 261.2% growth in interest from deposits and placements in other banking institutions to kshs 0.6 bn, from kshs 0.2 bn in H1'2022. Consequently, the Yield on Interest-Earning Assets (YIEA) increased to 10.4% from 10.2% in H1'2022, attributable to the 21.1% growth in trailing interest income, which outpaced the 13.1% growth in Average Interest Earning Assets (AIEA) to Kshs 397.1 bn, from Kshs 351.0 bn in H1'2022. Trailing Interest Income refers to the performance of the interest income for the past 12 consecutive months,
- Interest expense increased by 31.2% to Kshs 9.1 bn in H1'2023 from Kshs 6.9 bn in H1'2022, largely due to a 30.3% increase in interest expense on customer deposits to Kshs 7.3 bn from Kshs 5.6 bn in H1'2022, coupled with 40.3% increase in interest expenses on placements to Kshs 1.0 bn from Kshs 0.7 bn in H1'2022. Consequently, Cost of funds (COF) increased by 0.3% points to 4.3% from 4.1% recorded in H1'2022, owing to the 24.0% increase in trailing interest expense which outpaced the 16.2% growth in average interest-bearing liabilities to kshs 382.2 b, from kshs 328.8 bn in H1'2022. On the other hand, Net Interest Margin (NIM) decreased to 6.2% from 6.4% in H1'2022, attributable to the 9.3% growth trailing Net Interest Income (NII) slower than the 13.1% growth in average interest-earning assets,
- Non-Funded Income increased by 36.7% to Kshs 6.9 bn in H1'2023, from Kshs 5.1 bn in H1'2022, mainly driven by a 52.9% increase in foreign exchange income to kshs 2.9 bn, from kshs 1.9 bn in H1'2022, coupled with 14.6% increase in fees and commission on loan and advances to Kshs 1.1 bn in H1'2023 from Kshs 1.0 bn in H1'2023. Other fees and commissions also increased by 10.6% to Kshs 2.1 bn from Kshs 1.9 bn in H1'2022. As such, I&M Group total fees and commissions increased by 12.0% to Kshs 3.2 bn in H1'2023 from Kshs 2.9 bn in H1'2022. As a result, the revenue mix for funded to non-funded income shifted to 64:36 in H1'2023 from 68:32 in H1'2022, owing to the 36.7% increase in NFI which outpaced the 16.1% growth in NII,
- Total operating expenses increased by 45.9% to Kshs 12.5 bn from Kshs 8.6 bn in H1'2022, driven by 144.5% increase in loan loss provisions to Kshs 3.2 bn from Kshs 1.3 bn recorded in H1'2022, coupled with a 15.7% increase in staff costs to Kshs 3.5 bn from Kshs 3.0 bn in H1'2022. The increase in provisioning is partly attributable to rising credit risk as a result deteriorated economic environment as evidenced by the average Purchasing Managers Index (PMI) of 48.7 in H1'2023, down from an average of 49.3 in H1'2022,
- Cost to Income Ratio (CIR) increased to 65.6% from 55.2% in H1'2022, owing to the 45.9% increase in total operating expense, which outpaced the 22.8% increase in total operating income. Notably, CIR without LLP increased by 2.1% points to 48.8% from 46.8% recorded in H1'2022, and,
- Profit before tax decreased by 2.1% to Kshs 7.0 bn from Kshs 7.2 bn in H1'2022, with effective tax rate declining to 28.5% in H1'2023 from 31.5% in H1'2022. As such, profit after tax increased by 2.2% to Kshs 5.0 bn in H1'2023, from Kshs 4.9 bn in H1'2022.

Balance Sheet

- The balance sheet recorded an expansion as total assets increased by 14.5% to Kshs 503.5 bn, from Kshs 439.7 bn in H1'2022, , mainly attributable to the 16.7% growth in net loans and advances to Kshs 269.7 bn in H1'2023 from Kshs 231.1 bn in H1'2022. The expansion was weighed down by 8.9% decline in government securities to Kshs 110.6 bn, from Kshs 121.4 bn recorded in H1'2022

- Total liabilities grew by 13.9% to Kshs 419.4 bn, from Kshs 368.2 bn in H1'2022, largely attributable to a 13.9% growth in customer deposits to Kshs 356.8 bn in H1'2023, from Kshs 313.2 bn in H1'2022 and a 67.9% growth in placements to Kshs 35.3 bn from Kshs 21.0 bn recorded in H1'2022. Deposits per branch increased by 22.1% to Kshs 4.3 bn, from Kshs 3.5 bn in H1'2022, with the number of branches dropping to 83 in H1'2023 from 89 in H1'2022,
- The higher growth in net loans and advances of 16.7% compared to the 13.9% growth in deposits, led to a rise in the loan to deposit ratio to 75.6%, from 73.8% in H1'2022,
- Gross Non-Performing Loans (NPLs) increased by 57.5% to Kshs 36.6 bn in H1'2023 from Kshs 23.3 bn in H1'2022, while Gross Loans increased by 15.6% to Kshs 288.0 bn from Kshs 249.1 bn in H1'2022. Consequently, the asset quality deteriorated with the NPL ratio rising to 12.7% in H1'2023 from 9.3% in H1'2022,
- General Provisions (LLP) increased by 3.9% to Kshs 14.3 bn in H1'2023 from Kshs 13.8 bn in H1'2022. The NPL coverage decreased to 49.8% in H1'2023, from 77.5% in H1'2022, owing to the 57.5% growth in Gross Non-Performing Loans (NPLs) to Kshs 36.7 bn in H1'2023, from Kshs 23.3 bn recorded in H1'2022, compared to the 7.5% decrease in interest suspense to Kshs 4.0 bn, from Kshs 4.3 bn in H1'2022
- Shareholders' funds increased by 17.5% to Kshs 78.2 bn in H1'2023, from Kshs 66.5 bn in H1'2022, supported by a 13.3% increase in retained earnings to Kshs 51.2bn, from Kshs 45.1 bn in H1'2022,
- I&M Group remained capitalized with a core capital to risk-weighted assets ratio of 14.0%, 3.5% points above the statutory requirement of 10.5%. In addition, the total capital to risk-weighted assets ratio came in at 18.8%, exceeding the statutory requirement of 14.5% by 4.3% points, and,
- The bank currently has a Return on Average Assets (ROaA) of 2.5%, and a Return on Average Equity (ROaE) of 15.0%.

Key Take-Outs:

- **Strong earnings growth** - Core earnings per share (EPS) grew by 2.2% to Kshs 3.04, from Kshs 2.98 in H1'2022, driven by 22.8% increase in total operating income to Kshs 19.1 bn in H1'2023 from Kshs 15.6 bn in H1'2022. The performance was however weighed down by the 45.9% increase in total operating expenses to kshs 12.5 bn, from kshs 8.6 bn in H1'2022.
1. **Increased Provisioning** – The group's provisioning increased by 3.9% to Kshs 14.3 bn in H1'2023, from Kshs 13.8 bn in H1'2022 aimed at mitigating increased credit risk on the back of the deteriorated business environment. This is evidenced by the the 57.5% growth in Gross Non-Performing Loans (NPLs) to Kshs 36.7 bn in H1'2023, from Kshs 23.3 bn recorded in H1'2022,
 2. **Revenue Diversification** – The Group's Non-Funded income increased by 36.7% to Kshs 6.9 bn in H1'2023, from Kshs 5.1 bn in H1'2022, which resulted to a shift in revenue mix to 64:36 in H1'2023 from 68:32 in H1'2022. The increase was mainly attributable to a faster 36.7% increase in non-funded income to Kshs 6.9 bn, from Kshs 5.1 bn in H1'2022, compared to the 16.1% increase in Funded income to kshs 12.2 bn, from kshs 10.5 bn in H1'2022.

Going forward, the factors that would drive the bank's growth would be:

- **Digital diversification:** The bank launched digital unsecured personal loans in Kenya in 2021 and as of December 2022, the bank had disbursed a cumulative total of Kshs 2.1 bn from Kshs 0.1 bn as of December 2021. Additionally, earlier this year, I&M Bank announced a waiver of transaction charges from its digital banking platform becoming the first lender in Kenya to officially offer Zero fees for Bank to Mpesa and Airtel Money transactions in an effort to enhance on its digital banking solutions. As such, we expect the Group's focus on investing in digital platforms to diversify revenue and increase on its business opportunities.

Valuation Summary

- We are of the view that I&M Group is a "buy" with a target price of Kshs 24.2 representing an upside of 45.3%, from the current price of Kshs 18.2 as of 25th August 2023, inclusive of a dividend yield of 12.4%.
- I&M Group is currently trading at a P/TBV of 0.4x and a P/E of 2.6x vs an industry average of 0.8x and 3.5x respectively.