

Below is a summary of I&M Group FY'2022 performance:

Balance Sheet Items (Kshs bn)	FY'2021	FY'2022	y/y change
Net Loans and Advances	210.6	238.6	13.3%
Government Securities	87.7	68.1	(22.3%)
Total Assets	415.2	436.6	5.2%
Customer Deposits	296.7	312.3	5.3%
Deposits per Branch	3.3	3.8	12.9%
Total Liabilities	341.1	355.0	4.1%
Shareholders' Funds	69.6	76.5	9.9%

Balance Sheet Ratios	FY'2021	FY'2022	y/y change
Loan to Deposit Ratio	71.0%	76.4%	5.4%
Government Securities to Deposit Ratio	29.6%	21.8%	(7.8%)
Return on average equity	12.2%	15.3%	3.1%
Return on average assets	2.1%	2.6%	0.5%

Income Statement (Kshs bn)	FY'2021	FY'2022	y/y change
Net Interest Income	20.9	22.9	9.9%
Net non-Interest Income	8.7	12.7	45.7%
Total Operating income	29.6	35.7	20.4%
Loan Loss provision	(4.2)	(5.2)	24.9%
Total Operating expenses	(17.7)	(21.3)	20.2%
Profit before tax	12.4	15.0	20.8%
Profit after tax	8.6	11.6	34.3%
Core EPS	5.2	7.0	34.3%
Dividend Per Share	1.5	2.25	9.9%
Dividend payout ratio	28.8%	32.1%	3.4%

Income Statement Ratios	FY'2021	FY'2022	Y/Y Change
Yield from interest-earning assets	10.0%	10.3%	0.3%
Cost of funding	3.9%	4.2%	0.3%
Cost of risk	14.2%	14.7%	0.5%
Net Interest Margin	6.3%	6.3%	--
Net Interest Income as % of operating income	70.5%	64.3%	(6.2%)
Non-Funded Income as a % of operating income	29.5%	35.7%	6.2%
Cost to Income Ratio	59.9%	59.8%	(0.1%)
CIR without LLP	45.8%	45.1%	(0.6%)
Cost to Assets	3.3%	3.7%	0.4%

Capital Adequacy Ratios	FY'2021	FY'2022	% points change
Core Capital/Total Liabilities	20.9%	22.6%	1.7%
Minimum Statutory ratio	8.0%	8.0%	
Excess	12.9%	14.6%	1.7%
Core Capital/Total Risk Weighted Assets	16.6%	16.3%	(0.3%)
Minimum Statutory ratio	10.5%	10.5%	
Excess	6.1%	5.8%	(0.3%)
Total Capital/Total Risk Weighted Assets	21.5%	20.5%	(0.9%)
Minimum Statutory ratio	14.5%	14.5%	
Excess	7.0%	6.0%	(0.9%)
Liquidity Ratio	52.3%	46.1%	(6.1%)

Minimum Statutory ratio	20.0%	20.0%	
Excess	32.3%	26.1%	(6.1%)
Adjusted core capital/ total deposit liabilities	21.0%	22.6%	1.7%
Adjusted core capital/ total risk weighted assets	16.6%	16.3%	(0.3%)
Adjusted total capital/ total risk weighted assets	21.5%	20.5%	(1.0%)

Income Statement

- Core earnings per share rose by 34.3% to Kshs 7.0 from Kshs 5.2 in FY'2021, higher than our expectations of a 10.1% increase to Kshs 5.7, with the variance stemming from the 20.4% increase in total operating income to Kshs 35.7 bn, which was higher than our projection of a 14.2% increase to Kshs 33.8 bn. The overall performance was mainly driven by a 20.4% increase in total operating income to Kshs 35.7 bn in FY'2022 from Kshs 29.6 bn in FY'2021, which marginally outpaced the 20.2% increase in the total operating expenses to Kshs 21.3 bn in FY'2022, from Kshs 17.7 bn in FY'2021,
- The growth in total operating income was mainly driven by a 9.9% increase in Net Interest Income (NII) to Kshs 22.9 bn from Kshs 20.9 bn in FY'2021 coupled with a 45.7% growth in Non-Funded Income (NFI) to Kshs 12.7 bn from Kshs 8.7 bn in FY'2021,
- Interest income rose by 12.9% to Kshs 37.4 bn in FY'2022, from Kshs 33.1 bn in FY'2021, driven by a 10.5% increase in interest income from loans and advances to Kshs 26.3 bn from Kshs 23.8 bn in FY'2021, coupled with a 15.5% increase in interest income from government securities to Kshs 10.5 bn from Kshs 9.1 bn in FY'2021. The Yield on Average Interest-Earning Assets increased by 0.3% points to 10.3% from 10.0% in FY'2021 due to a higher growth in the trailing interest income by 12.9%, which outpaced the 6.1% growth in average interest earning assets. Trailing Interest Income refers to the performance of the interest income for the past 12 consecutive months,
- Interest expense increased by 18.0% to Kshs 14.4 bn in FY'2022 from Kshs 12.2 bn in FY'2021, largely due to a 13.1% increase in interest expense on customer deposits to Kshs 11.6 bn from Kshs 10.3 bn in FY'2021, coupled with 48.8% increase in interest expenses on placements to Kshs 1.4 bn from Kshs 1.0 bn in FY'2021. Cost of funds (COF) increased by 0.3% points to 4.2% from 3.9% recorded in FY'2021, owing to the 18.0% increase in trailing interest expense which outpaced the 10.2% growth in average interest bearing liabilities. On the other hand, Net Interest Margin (NIM) remained relatively unchanged at 6.3% in FY'2021,
- Non-Funded Income increased by 45.7% to Kshs 12.7 bn in FY'2022 from Kshs 8.7 bn in FY'2021, mainly driven by a 191.0% increase in foreign exchange income to Kshs 5.0 bn in FY'2022 from Kshs 1.7 bn in FY'2021, coupled with a 12.8% increase in fees and commission on loan and advances to Kshs 2.2 bn in FY'2022 from Kshs 1.9 bn in FY'2021. Other fees and commissions also increased by 26.0% to Kshs 3.7 bn from Kshs 2.9 bn in FY'2021. As such, I&M Group total fees and commissions increased by 20.7% to Kshs 5.9 bn in FY'2022 from Kshs 4.9 bn in FY'2021. As a result, the revenue mix for funded to non-funded income shifted to 64:36 in FY'2022 from 71:29 in FY'2021, owing to the 45.7% increase in NFI which outpaced the 9.9% growth in NII,
- Total operating expenses increased by 20.2% to Kshs 21.3 bn in FY'2022 from Kshs 17.7 bn in FY'2021, largely driven by a 9.8% increase in staff costs to Kshs 6.5 bn from Kshs 5.9 bn in FY'2021, coupled with a 25.7% increase in other operating expenses to Kshs 9.6 bn in FY'2022 from Kshs 7.7 bn in FY'2021. Notably, Loan loss provision increased by 24.9% to Kshs 5.2 bn in FY'2022 from Kshs 4.2 bn,
- The Cost to Income Ratio (CIR) improved marginally to 59.8% in FY'2022 from 59.9% in FY'2021 owing to the 20.4% increase in the total operating income, which grew slightly faster than the 20.2% increase in total operating expenses. Similarly, Cost to Income ratio without LLP improved to 45.1% from 45.8 in FY'2021, an indication of improving efficiency levels. The improvement of the Cost to Income ratios is an indication of increasing operation efficiency, and,

- Profit before tax rose by 20.8% to Kshs 15.0 bn in FY'2022 from Kshs 12.4 bn in FY'2021, with the effective tax rate declining to 22.7% in FY'2022 from 30.5% seen in FY'2021. As such, the bank recorded a 34.3% increase in profit after tax to Kshs 11.6 bn in FY'2022 from Kshs 8.6 bn in FY'2021,
- I&M Group board recommended the payment of a first and final dividend for the year of Kshs 2.25 per share which represents a dividend yield of 10.8% as at 1st April 2023, and dividend payout ratio of 32.1%, an improvement from 28.8% in 2021. The dividends recommended represent a 50.0% increase from the dividend of Kshs 1.5 per share paid in 2021.

Balance Sheet

- The balance sheet recorded an expansion as total assets grew by 5.2% to Kshs 436.6 bn in FY'2022 from Kshs 415.2 bn in FY'2021, mainly attributable to the 13.3% growth in net loans and advances to Kshs 238.6 bn in FY'2022 from Kshs 210.6 bn in FY'2021. On the other hand, holdings of government securities declined by 22.3% to Kshs 68.1 bn in FY'2022 from Kshs 87.7 bn recorded in FY'2021, indicating increased lending as compared to allocation to government securities following the improvement in business environment towards the end of the year,
- Total liabilities grew by 4.1% to Kshs 355.0 bn from Kshs 341.1 bn in FY'2021, largely attributable to a 5.3% growth in customer deposits to Kshs 312.3 bn in FY'2022 from Kshs 296.7 bn in FY'2021 and a 34.6% growth in other liabilities to Kshs 7.7 bn from Kshs 5.7 bn recorded in FY'2021. Deposits per branch increased by 12.9% to Kshs 3.8 bn from Kshs 3.3 bn in FY'2021, with the number of branches dropping to 83 in FY'2022 from 89 in FY'2021,
- The higher growth in net loans and advances of 13.3% compared to the 5.3% growth in deposits, led to a rise in the loan to deposit ratio to 76.4%, from 71.0% in FY'2021,
- Gross Non-Performing Loans (NPLs) increased by 16.4% to Kshs 25.0 bn in FY'2022 from Kshs 21.4 bn in FY'2021, while Gross Loans increased by 13.5% to Kshs 256.5 bn from Kshs 225.9 bn in FY'2021. According to the bank's loan book, manufacturing sector accounts for the largest share at 27.0% in terms of sectoral distribution of loans and advances. As such, following the deteriorated business environment off the back of elevated inflationary pressures, most manufacturers have been recording high cost of production which eat into their earnings thus increasing their credit impairment due to reduced profits. As such, it can be partly attributable to the lender's increase in non-performing loans. Consequently, the asset quality deteriorated with the NPL ratio rising to 9.7% in FY'2022 from 9.5% in FY'2021.
- Provisions increased by 17.6% to Kshs 13.7 bn from Kshs 11.6 bn in FY'2021. As such, the NPL coverage ratio rose to 71.9% in FY'2022 from 71.4% in FY'2021,
- Shareholders' funds increased by 9.9% to Kshs 76.5 bn in FY'2022 from Kshs 69.6 bn in FY'2021, mainly supported by a 22.3% increase in the retained earnings to Kshs 53.7 bn in FY'2022 from Kshs 43.9 bn in FY'2021,
- I&M Group remains sufficiently capitalized with a core capital to risk-weighted assets ratio of 16.3%, 5.8% points above the statutory requirement of 10.5%. The total capital to risk-weighted assets ratio came in at 20.5%, exceeding the statutory requirement of 14.5% by 6.0% points. Adjusting for IFRS 9, the core capital to risk-weighted assets stood at 16.3%, with, total capital to risk-weighted assets coming at 20.5%, and,
- The bank currently has a Return on Average Assets (ROaA) of 2.6%, and a Return on Average Equity (ROaE) of 15.3%.

Key Take-Outs:

1. **Earnings Growth-** Core earnings per share rose by 34.3% to Kshs 7.0 from Kshs 5.2 in FY'2021, higher than our expectations of a 10.1% increase to Kshs 5.2, with the variance stemming from the 20.4% increase in total operating income, higher than our projection of a 14.2% increase. The group's overall performance was mainly driven by the 20.4% increase in total operating income to Kshs 35.7

bn in FY'2022 from Kshs 29.6 bn in FY'2021, which outpaced the 20.2% increase in the total operating expenses to Kshs 21.3 bn in FY'2022 from Kshs 17.7 bn in FY'2021,

2. **Increase in foreign exchange income** – The group recorded a 191.0% increase in foreign exchange income to Kshs 5.0 bn from Kshs 1.7 bn in FY'2021. As such, the total non-funded income grew by 45.7% to Kshs 12.7 bn in FY'2022 from Kshs 8.7 bn in FY'2021 which was higher than the 9.9% increase in net interest income, as such, the revenue mix for funded to non-funded income shifted to 64:36 in FY'2022 from 71:29 in FY'2021, and
3. **Decline in holdings of government securities** – The Group investments in government securities declined by 22.3% to Kshs 68.1 bn in FY'2022 from Kshs 87.7 bn recorded in FY'2021, indicating increased lending as compared to allocation to government securities following the improvement in business environment towards the end of the year.

Going forward, we expect the bank's growth to be driven by:

- I. **Leveraging on Digital Technology:** The bank launched digital unsecured personal loans in Kenya in 2021 and since then, the bank has disbursed a cumulative total of Kshs 2.1 bn as at December 2022 from Kshs 0.1 bn as of December 2021. Additionally, the lender launched a workplace banking and currently has a total of 24 schemes with close to 200,000 customers. As such, the Group's focus on investing in digital platforms to diversify revenue is expected to scale its business opportunities.

Valuation Summary

- We are of the view that I&M Group is an "Buy" with a target price of Kshs 28.9, representing an upside of 49.5%, from the current price of Kshs 20.9 as of 31st March 2023, inclusive of a dividend yield of 10.8%.
- I&M Group is currently trading at a P/TBV of 0.5x and a P/E of 3.6x vs an industry average of 0.8x and 4.3x, respectively.