

Below is a summary of I&M Group Q1'2023 performance:

Balance Sheet Items (Kshs bn)	Q1'2022	Q1'2023	y/y change
Government Securities	83.9	72.7	(13.3%)
Net Loans and Advances	218.4	257.7	18.0%
<b>Total Assets</b>	<b>430.8</b>	<b>472.6</b>	<b>9.7%</b>
Customer Deposits	309.4	324.7	4.9%
Deposits per Branch	3.5	3.9	12.5%
<b>Total Liabilities</b>	<b>355.6</b>	<b>388.2</b>	<b>9.2%</b>
<b>Shareholders' Funds</b>	<b>70.5</b>	<b>79.0</b>	<b>12.0%</b>

Balance Sheet Ratios	Q1'2022	Q1'2023	y/y change
Loan to Deposit Ratio	70.6%	79.4%	8.8%
Return on average equity	13.1%	14.4%	1.3%
Return on average assets	2.2%	2.6%	0.4%

Income Statement (Kshs bn)	Q1'2022	Q1'2023	y/y change
Net Interest Income	5.2	6.1	17.0%
Net non-Interest Income	2.2	3.5	58.8%
<b>Total Operating income</b>	<b>7.4</b>	<b>9.6</b>	<b>29.4%</b>
Loan Loss provision	(0.5)	(1.6)	241.5%
<b>Total Operating expenses</b>	<b>(3.9)</b>	<b>(6.0)</b>	<b>56.7%</b>
Profit before tax	3.67	3.75	2.1%
<b>Profit after tax</b>	<b>2.71</b>	<b>2.66</b>	<b>(2.0%)</b>
<b>Core EPS</b>	<b>1.6</b>	<b>1.6</b>	<b>(2.0%)</b>

Income Statement Ratios	Q1'2022	Q1'2023	Y/Y Change
Yield from interest-earning assets	10.1%	10.3%	0.2%
Cost of funding	4.0%	4.2%	0.2%
Net Interest Margin	6.4%	6.3%	(0.1%)
Net Interest Income as % of operating income	70.3%	63.6%	(6.7%)
Non-Funded Income as a % of operating income	29.7%	36.4%	6.7%
Cost to Income Ratio	52.0%	63.0%	11.0%
CIR without LLP	45.5%	45.8%	0.3%
Cost to Assets	0.8%	0.9%	0.1%

Capital Adequacy Ratios	Q1'2022	Q1'2023	% points change
Core Capital/Total Liabilities	20.0%	22.0%	2.0%
Minimum Statutory ratio	8.0%	8.0%	
<b>Excess</b>	<b>12.0%</b>	<b>14.0%</b>	<b>2.0%</b>
Core Capital/Total Risk Weighted Assets	15.8%	15.6%	(0.2%)
Minimum Statutory ratio	10.5%	10.5%	
<b>Excess</b>	<b>5.3%</b>	<b>5.1%</b>	<b>(0.2%)</b>
Total Capital/Total Risk Weighted Assets	20.6%	19.9%	(0.7%)
Minimum Statutory ratio	14.5%	14.5%	
<b>Excess</b>	<b>6.1%</b>	<b>5.4%</b>	<b>(0.7%)</b>
Liquidity Ratio	52.8%	46.2%	(6.6%)
Minimum Statutory ratio	20.0%	20.0%	
<b>Excess</b>	<b>32.8%</b>	<b>26.2%</b>	<b>(6.6%)</b>
<b>Adjusted Core Capital/Total Liabilities</b>	<b>21.0%</b>	<b>22.6%</b>	<b>1.6%</b>
<b>Adjusted Core Capital/Total RWA</b>	<b>16.6%</b>	<b>16.3%</b>	<b>(0.3%)</b>

<b>Adjusted Total Capital/Total RWA</b>	<b>21.5%</b>	<b>20.5%</b>	<b>(1.0%)</b>
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### Income Statement

- Core earnings per share declined by 2.0% to Kshs 2.66 from Kshs 2.71 in Q1’2022, mainly weighed down by 56.7% increase in total operating expenses to Kshs 6.0 bn in Q1’2023 from Kshs 3.9 bn in Q1’2022, which outpaced the 29.4% increase in the total operating income to Kshs 9.6 bn in Q1’2023, from Kshs 7.4 bn in Q1’2022,
- The increase in the total operating expenses was driven by an 18.8% increase in staff costs to Kshs 1.6 bn from Kshs 1.3 bn in Q1’2022, coupled with a 37.8% increase in other expenses to Kshs 2.8 bn from Kshs 2.0 bn in Q1’2022. Additionally, loan loss provision increased significantly to Kshs 1.6 bn, from Kshs 0.5 bn in Q1’2022, an indication of increased provisioning on the back increased credit risk in the Group’s portfolio,
- The increase in operating income was attributable to a 17.0% increase in Net-Interest Income (NII) to Kshs 6.1 bn in Q1’2023, from Kshs 5.2 bn recorded in Q1’2022, coupled with a 58.8% increase in Non-Funded Income (NFI) to Kshs 3.5 bn from Kshs 2.2 bn recorded in Q1’2023,
- Interest income rose by 18.3% to Kshs 10.2 bn in Q1’2023, from Kshs 8.6 bn in Q1’2022, driven by a 21.3% increase in interest income from loans and advances to Kshs 7.2 bn from Kshs 6.0 bn in Q1’2022, coupled with a 3.9% increase in interest income from government securities to Kshs 2.7 bn from Kshs 2.6 bn in Q1’2022. The Yield on Average Interest-Earning Assets increased by 0.2% points to 10.3% from 10.1% in Q1’2022 due to a higher growth in the trailing interest income by 12.6%, which outpaced the 10.4% 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 20.2% to Kshs 4.1 bn in Q1’2023 from Kshs 3.4 bn in Q1’2022, largely due to a 18.8% increase in interest expense on customer deposits to Kshs 3.3 bn from Kshs 2.8 bn in Q1’2022, coupled with 40.5% increase in interest expenses on placements to Kshs 0.4 bn from Kshs 0.3 bn in Q1’2022. Consequently, Cost of funds (COF) increased by 0.2% points to 4.2% from 4.0% recorded in Q1’2022, owing to the 18.1% increase in trailing interest expense which outpaced the 13.3% growth in average interest-bearing liabilities. On the other hand, Net Interest Margin (NIM) decreased to 6.3% from 6.4% in Q1’2022, attributable to the 9.5% growth trailing Net Interest Income (NII) relative to the 10.4% growth in average interest-earning assets,
- Non-Funded Income increased by 58.8% to Kshs 3.5 bn in Q1’2023 from Kshs 2.2 bn in Q1’2022, mainly driven by a 16.1% increase in fees and commission on loan and advances to Kshs 0.6 bn in Q1’2023 from Kshs 0.5 bn in Q1’2023, coupled with a 135.4% increase in foreign exchange income to Kshs 1.4 bn in Q1’2023 from Kshs 0.6 bn in Q1’2022. Other fees and commissions also increased by 16.9% to Kshs 1.0 bn from Kshs 0.9 bn in Q1’2022. As such, I&M Group total fees and commissions increased by 16.6% to Kshs 1.6 bn in Q1’2023 from Kshs 1.4 bn in Q1’2022. As a result, the revenue mix for funded to non-funded income shifted to 64:36 in Q1’2023 from 70:30 in Q1’2022, owing to the 58.8% increase in NFI which outpaced the 17.0% growth in NII,
- The Cost to Income Ratio (CIR) increased to 63.0% in Q1’2023, from 52.0% in Q1’2022 owing to the 56.7% increase in the total operating expense which was higher than the 29.4% increase in total operating income. Similarly, Cost to Income ratio without LLP increased to 45.8% from 45.5% in Q1’2022, an indication of deteriorating efficiency levels, and,
- Profit before tax rose by 2.1% to Kshs 3.75 bn in Q1’2023 from Kshs 3.67 bn in Q1’2022, with the effective tax rate increasing to 29.1% in Q1’2023 from 26.2% seen in Q1’2022. As such, the bank recorded a 2.0% decline in profit after tax to Kshs 2.66 bn in Q1’2023 from Kshs 2.71 bn in Q1’2022.

### Balance Sheet

- The balance sheet recorded an expansion as total assets grew by 9.7% to Kshs 472.6 bn in Q1'2023, from Kshs 430.8 bn in Q1'2022, mainly attributable to the 18.0% growth in net loans and advances to Kshs 257.7 bn in Q1'2023 from Kshs 218.4 bn in Q1'2022. The expansion was weighed down by 13.3% decline in government securities to Kshs 72.7 bn, from Kshs 83.9 bn recorded in Q1'2022,
- Total liabilities grew by 9.2% to Kshs 388.2 bn, from Kshs 355.6 bn in Q1'2022, largely attributable to a 4.9% growth in customer deposits to Kshs 324.7 bn in Q1'2023, from Kshs 309.4 bn in Q1'2022 and a 71.4% growth in placements to Kshs 30.4 bn from Kshs 17.7 bn recorded in Q1'2022. Additionally, other liabilities increased significantly by 85.0% to Ksh 15.7 bn, from Kshs 8.5 bn recorded in Q1'2022. Deposits per branch increased by 12.5% to Kshs 3.9 bn, from Kshs 3.5 bn in Q1'2022, with the number of branches dropping to 83 in Q1'2023 from 89 in Q1'2022,
- The higher growth in net loans and advances of 18.0% compared to the 4.9% growth in deposits, led to a rise in the loan to deposit ratio to 79.4%, from 70.6% in Q1'2022,
- Gross Non-Performing Loans (NPLs) increased by 24.0% to Kshs 29.3 bn in Q1'2023 from Kshs 23.6 bn in Q1'2022, while Gross Loans increased by 17.6% to Kshs 277.0 bn from Kshs 235.4 bn in Q1'2022. Consequently, the asset quality deteriorated with the NPL ratio rising to 10.6% in Q1'2023 from 10.0% in Q1'2022,
- The NPL coverage decreased to 65.8% in Q1'2023, from 72.1% in Q1'2022, owing to the 24.0% growth in Gross Non-Performing Loans (NPLs) to Kshs 29.3 bn in Q1'2023, from Kshs 23.6 bn recorded in Q1'2022, which outpaced the increase in interest suspense to Kshs 4.7 bn, from Kshs 4.0 bn in Q1'2022, coupled with an increase in General Loan Loss Provision to Kshs 14.5 bn, from Kshs 13.0 bn,
- Shareholders' funds increased by 12.0% to Kshs 79.0 bn in Q1'2023 from Kshs 70.5 bn in Q1'2022, mainly supported by a 19.8% increase in the retained earnings to Kshs 55.5 bn in Q1'2023 from Kshs 46.3 bn in Q1'2022,
- I&M Group remains sufficiently capitalized with a core capital to risk-weighted assets ratio of 15.6%, 5.1% points above the statutory requirement of 10.5%. The total capital to risk-weighted assets ratio came in at 19.9%, exceeding the statutory requirement of 14.5% by 5.4% 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 14.4%.

#### **Key Take-Outs:**

1. **Decline in Earnings-** Core earnings per share declined by 2.0% to Kshs 2.66 from Kshs 2.71 in Q1'2022, mainly weighed down by the 56.7% increase in total operating expenses to Kshs 6.0 bn in Q1'2023 from Kshs 3.9 bn in Q1'2022, which outpaced the 29.4% increase in the total operating income to Kshs 9.6 bn in Q1'2023, from Kshs 7.4 bn in Q1'2022,
2. **Increased Provisioning** – The group's provisioning increased by 241.5% to Kshs 1.6 bn from Kshs 0.5 bn recorded in Q1'2022, aimed at mitigating increased credit risk on the back of the deteriorated business environment as a result of the high inflationary pressures. This is evidenced by the 24.0% increase in Gross Non-Performing loans to Kshs 29.3 bn, from Kshs 23.6 bn in Q1'2022, and,
3. **Revenue diversification** – The Group's Non-Funded income increased by 58.8% to Kshs 3.5 bn in Q1'2023 from Kshs 2.2 bn in Q1'2022, which resulted to a shift in revenue mix to 64:36 in Q1'2023 from 70:30 in Q1'2022. The increase was mainly attributable to increase in non-funded income from digital channels due to increased usage of internet banking and mobile banking, coupled with a 135.4% increase in foreign exchange income to Kshs 1.4 bn in Q1'2023 from Kshs 0.6 bn in Q1'2022.

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

- **Leveraging on Digital Technology:** 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, the lender launched a workplace banking and currently had a total of 24 schemes with close to 200,000 customers as of March 2023. As such, we expect the Group's focus on investing in digital platforms to diversify revenue and scale its business opportunities.

**Valuation Summary**

- We are of the view that I&M Group is an "Buy" with a target price of Kshs 23.5, representing an upside of 52.9%, from the current price of Kshs 16.9 as of 2<sup>nd</sup> June 2023, inclusive of a dividend yield of 13.4%,
- I&M Group is currently trading at a P/TBV of 0.4x and a P/E of 2.5x vs an industry average of 0.7x and 3.1x, respectively.