

Below is a summary of I&M Group Q3'2023 performance:

Balance Sheet Items (Kshs bn)	Q3'2022	Q3'2023	y/y change
Government Securities	73.9	84.6	14.6%
Net Loans and Advances	231.2	287.3	24.3%
Total Assets	428.7	544.1	26.9%
Customer Deposits	308.0	402.4	30.6%
Total Liabilities	355.2	458.8	29.2%
Shareholders' Funds	68.4	79.1	15.6%

Balance Sheet Ratios	Q3'2022	Q3'2023	% y/y change
Loan to Deposit Ratio	75.1%	71.4%	(3.7%)
Government Securities to Deposit Ratio	24.0%	21.0%	(2.9%)
Return on average equity	25.9%	21.0%	(4.8%)
Return on average assets	13.9%	15.9%	2.0%

Income Statement (Kshs bn)	Q3'2022	Q3'2023	y/y change
Net Interest Income	16.2	19.1	18.4%
Net non-Interest Income	8.8	10.7	21.2%
Total Operating income	25.0	29.9	19.4%
Loan Loss provision	(3.6)	(4.6)	28.3%
Total Operating expenses	(14.9)	(19.2)	28.6%
Profit before tax	10.43	11.37	9.0%
Profit after tax	7.18	8.20	14.3%
Core EPS (Kshs)	4.3	5.0	14.3%

Income Statement Ratios	Q3'2022	Q3'2023	y/y change
Yield from interest-earning assets	10.5%	10.7%	0.2%
Cost of funding	4.2%	4.7%	0.5%
Net Interest Margin	6.6%	6.2%	(0.4%)
Net Interest Income as % of operating income	64.6%	64.1%	(0.5%)
Non-Funded Income as a % of operating income	35.4%	35.9%	0.5%
Cost to Income Ratio	59.7%	64.3%	4.6%
CIR without LLP	45.3%	48.8%	3.5%
Cost to Assets	2.6%	2.7%	0.04%

Capital Adequacy Ratios	Q3'2022	Q3'2023	% points change
Core Capital/Total Liabilities	20.7%	16.5%	(4.2%)
Minimum Statutory ratio	8.0%	8.0%	0.0%
Excess	12.7%	8.5%	(4.2%)
Core Capital/Total Risk Weighted Assets	15.3%	13.0%	(2.3%)
Minimum Statutory ratio	10.5%	10.5%	0.0%
Excess	4.8%	2.5%	(2.3%)
Total Capital/Total Risk Weighted Assets	20.1%	17.7%	(2.4%)
Minimum Statutory ratio	14.5%	14.5%	0.0%
Excess	5.6%	3.2%	(2.4%)
Liquidity Ratio	46.6%	48.2%	1.6%
Minimum Statutory ratio	20.0%	20.0%	0.0%
Excess	26.6%	28.2%	1.6%

Income Statement

- Core earnings per share increased by 14.3% to Kshs 5.0 from Kshs 4.3 in Q3'2022, mainly driven by 19.4% growth in total operating income to Kshs 29.9 bn in Q3'2023 from Kshs 25.0 bn in Q3'2022. The performance was however weighed down by the 28.6% increase in total operating expenses to Kshs 19.2 bn, from Kshs 14.9 bn in Q3'2022.
- The 19.4% growth in total operating income was mainly driven by an 18.4% growth in Net Interest Income to Kshs 19.1 bn, from Kshs 16.2 bn in Q3'2022, coupled with a 21.2% growth in Non funded Income (NFI) to Kshs 10.7 bn, from Kshs 8.8 bn in Q3'2022,
- Interest income increased by 27.5% to Kshs 34.2 bn from Kshs 26.8 bn in Q3'2022, mainly driven by a 31.3% growth in interest income from loans and advances to Kshs 24.3 bn from Kshs 18.5 bn in Q3'2022, coupled with a significant 221.4% growth in interest from deposits and placements in other banking institutions to kshs 1.2 bn, from kshs 0.4 bn in Q3'2022. Consequently, the Yield on Interest-Earning Assets (YIEA) increased to 10.7% from 10.5% in Q3'2022, attributable to the 20.8% growth in trailing interest income, which outpaced the 18.9% growth in Average Interest Earning Assets (AIEA) to Kshs 418.2 bn, from Kshs 351.8 bn in Q3'2022. Trailing Interest Income refers to the performance of the interest income for the past 12 consecutive months,
- Interest expense increased by 41.5% to Kshs 15.0 bn in Q3'2023 from Kshs 10.6 bn in Q3'2022, largely due to a 42.4% increase in interest expense on customer deposits to Kshs 12.1 bn from Kshs 8.5 bn in Q3'2022, coupled with a 44.4% increase in interest expenses on placements to Kshs 1.6 bn from Kshs 1.1 bn in Q3'2022. Consequently, Cost of funds (COF) increased by 0.5% points to 4.7% from 4.2% recorded in Q3'2022, owing to the 34.6% increase in trailing interest expense which outpaced the 19.8% growth in average interest-bearing liabilities to kshs 396.3 bn, from kshs 330.7 bn in Q3'2022. On the other hand, Net Interest Margin (NIM) decreased marginally to 6.2% from 6.6% in Q3'2022, attributable to the 18.9% growth in average interest-earning assets which outpaced the 12.4% growth in trailing Net Interest Income (NII),
- Non-Funded Income increased by 21.2% to Kshs 10.7 bn in Q3'2023, from Kshs 8.8 bn in Q3'2022, mainly driven by a 12.9% increase in foreign exchange income to kshs 4.3 bn, from kshs 3.8 bn in Q3'2022, coupled with 26.5% increase in fees and commission on loan and advances to Kshs 2.0 bn in Q3'2023 from Kshs 1.6 bn in Q3'2023. Notably, other fees and commissions also increased by 11.2% to Kshs 3.0 bn from Kshs 2.7 bn in Q3'2022. As a result, the revenue mix for funded to non-funded income shifted to 64:36 in Q3'2023 from 65:35 in Q3'2022, owing to the 21.2% increase in NFI which outpaced the 18.4% growth in NII,
- Total operating expenses increased by 28.3% to Kshs 19.2 bn from Kshs 14.9 bn in Q3'2022, driven by a 28.3% increase in loan loss provisions to Kshs 4.6 bn from Kshs 3.6 bn recorded in Q3'2022, coupled with a 17.7% increase in staff costs to Kshs 5.6 bn from Kshs 4.8 bn in Q3'2022. 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 48.0 in Q3'2023, which was below 50 points, despite the slight improvement from an average of 47.4 in Q3'2022,
- Cost to Income Ratio (CIR) increased to 64.3% from 59.7% in Q3'2022, owing to the 28.6% increase in total operating expense, which outpaced the 19.4% increase in total operating income. Notably, CIR without LLP increased by 3.5% points to 48.8% from 45.3% recorded in Q3'2022, and,
- Profit before tax increased by 9.0% to Kshs 11.4 bn from Kshs 10.4 bn in Q3'2022, with effective tax rate declining to 27.9% in Q3'2023 from 31.2% in Q3'2022. As such, profit after tax increased by 14.3% to Kshs 8.2 bn in Q3'2023, from Kshs 7.2 bn in Q3'2022.

Balance Sheet

- The balance sheet recorded an expansion as total assets increased by 26.9% to Kshs 544.1 bn, from Kshs 428.7 bn in Q3'2022, mainly attributable to the 24.3% growth in net loans and advances to Kshs 287.3 bn in Q3'2023

from Kshs 232.2 bn in Q3’2022, coupled with the 14.6% growth in government securities to Kshs 84.6 bn, from Kshs 73.9 bn recorded in Q3’2022

- Total liabilities increased by 29.2% to Kshs 458.8 bn, from Kshs 355.2 bn in Q3’2022, largely attributable to a 30.6% growth in customer deposits to Kshs 402.4 bn in Q3’2023, from Kshs 308.0 bn in Q3’2022 and a 78.0% growth in placements to Kshs 28.6 bn from Kshs 16.1 bn recorded in Q3’2022.
- The higher growth in customer deposits of 30.6% compared to the 24.3% growth in net loans and advances, led to a decline in the loan to deposit ratio to 71.4%, from 75.1% in Q3’2022,
- Gross Non-Performing Loans (NPLs) increased by 52.5% to Kshs 36.1 bn in Q3’2023 from Kshs 23.7 bn in Q3’2022, while Gross Loans increased by 22.9% to Kshs 306.1 bn from Kshs 249.1 bn in Q3’2022. Consequently, the asset quality deteriorated with the NPL ratio rising to 11.8% in Q3’2023 from 9.5% in Q3’2022,
- General Provisions (LLP) increased by 8.1% to Kshs 14.6 bn in Q3’2023 from Kshs 13.6 bn in Q3’2022. The NPL coverage decreased to 51.8% in Q3’2023, from 75.4% in Q3’2022, owing to the 52.5% growth in Gross Non-Performing Loans (NPLs), against the 5.2% decrease in interest suspense to Kshs 4.1 bn, from Kshs 4.3 bn in Q3’2022
- Shareholders’ funds increased by 15.6% to Kshs 79.1 bn in Q3’2023, from Kshs 68.4 bn in Q3’2022, supported by a 13.9% increase in retained earnings to Kshs 53.8 bn, from Kshs 47.2 bn in Q3’2022,
- I&M Group remained capitalized with a core capital to risk-weighted assets ratio of 13.0%, 2.5% points above the statutory requirement of 10.5%. In addition, the total capital to risk-weighted assets ratio came in at 17.7%, exceeding the statutory requirement of 14.5% by 3.2% points, and,
- The bank currently has a Return on Average Assets (ROaA) of 2.6%, and a Return on Average Equity (ROaE) of 15.9%.

Key Take-Outs:

1. **Strong earnings growth** - Core earnings per share (EPS) increased by 14.3% to Kshs 5.0 from Kshs 4.3 in Q3’2022, mainly driven by 19.4% growth in total operating income to Kshs 29.9 bn in Q3’2023 from Kshs 25.0 bn in Q3’2022. The performance was however weighed down by the 28.6% increase in total operating expenses to Kshs 19.2 bn, from Kshs 14.9 bn in Q3’2022.
2. **Increased Provisioning** – The group’s provisioning increased by 8.1% to Kshs 14.6 bn in Q3’2023, from Kshs 13.6 bn in Q3’2022 aimed at mitigating increased credit risk on the back of the deteriorated business environment. This is evidenced by the 52.5% growth in Gross Non-Performing Loans (NPLs) to Kshs 36.1 bn in Q3’2023, from Kshs 23.7 bn recorded in Q3’2022,
3. **Revenue Diversification** – The Group’s Non-Funded income increased by 21.2% to Kshs 10.7 bn in Q3’2023, from Kshs 8.8 bn in Q3’2022, which resulted to a shift in the revenue mix for funded to non-funded income shifted to 64:36 in Q3’2023 from 65:35 in Q3’2022. The increase was mainly attributable to the 21.2% increase in non funded income which outpaced the 18.4% growth in net interest income.

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.
- **Mordernization of Financial Services** - The bank has continued to advance its digital transformation and mordernization of its financial services with plans in place to roll out an end-to-end Trade Finance platform and a Bancassurance system.

Valuation Summary

- We are of the view that I&M Group is a “buy” with a target price of Kshs 24.4 representing an upside of 39.6%, from the current price of Kshs 17.5 as of 24th November 2023, inclusive of a dividend yield of 12.9%.
- 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 0.8x and 3.5x respectively.