

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

Balance Sheet Items	FY'2022	FY'2023	y/y change
Government Securities	68.1	78.1	14.7%
Net Loans and Advances	238.6	311.3	30.5%
Total Assets	437.3	579.7	32.6%
Customer Deposits	312.3	416.7	33.4%
Total Liabilities	355.7	484.0	36.1%
Shareholders' Funds	76.5	88.2	15.2%

Balance Sheet Ratios	FY'2022	FY'2023	% points change
Loan to Deposit Ratio	76.4%	74.7%	(1.7%)
Government Securities to Deposit Ratio	21.8%	18.7%	(3.1%)
Return on average equity	14.4%	15.0%	0.7%
Return on average assets	2.6%	2.6%	(0.0%)
Dividend Yield	12.5%	11.6%	(0.9%)
Dividend Payout Ratio	32.1%	31.6%	(0.5%)

Income Statement	FY'2022	FY'2023	y/y change
Net Interest Income	22.9	28.6	24.8%
Net non-Interest Income	12.7	14.1	10.4%
Total Operating income	35.7	42.7	19.7%
Loan Loss provision	(5.2)	(6.9)	31.0%
Total Operating expenses	(21.3)	(27.2)	27.5%
Profit before tax	15.0	16.7	11.3%
Profit after tax	11.6	13.3	15.2%
Core EPS	7.0	8.1	15.2%

Income Statement Ratios	FY'2022	FY'2023	% points change
Yield from interest-earning assets	11.0%	13.0%	2.0%
Cost of funding	4.2%	5.4%	1.2%
Net Interest Margin	6.7%	7.4%	0.6%
Net Interest Income as % of operating income	64.3%	67.1%	2.8%
Non-Funded Income as a % of operating income	35.7%	32.9%	(2.8%)
Cost to Income Ratio	59.8%	63.7%	3.9%
CIR without LLP	45.1%	47.6%	2.5%
Cost to Assets	3.7%	3.5%	(0.2%)

Capital Adequacy Ratios	FY'2022	FY'2023	% points change
Core Capital/Total Liabilities	22.6%	19.2%	(3.4%)
Minimum Statutory ratio	8.0%	8.0%	0.0%
Excess	14.6%	11.2%	(3.4%)
Core Capital/Total Risk Weighted Assets	16.3%	14.5%	(1.8%)
Minimum Statutory ratio	10.5%	10.5%	0.0%
Excess	5.8%	4.0%	(1.8%)
Total Capital/Total Risk Weighted Assets	20.5%	18.9%	(1.6%)
Minimum Statutory ratio	14.5%	14.5%	0.0%
Excess	6.0%	4.4%	(1.6%)
Liquidity Ratio	46.1%	44.7%	(1.4%)
Minimum Statutory ratio	20.0%	20.0%	0.0%
Excess	26.1%	24.7%	(1.4%)

Income Statement

- Core earnings per share increased by 15.2% to Kshs 8.1 from Kshs 7.0 in FY'2022, mainly driven by 19.7% growth in total operating income to Kshs 42.7 bn in FY'2023 from Kshs 35.7 bn in FY'2022. The performance was however weighed down by the 27.5% increase in total operating expenses to Kshs 27.2 bn, from Kshs 21.3 bn in FY'2022.
- The 19.7% growth in total operating income was mainly driven by a 24.8% growth in Net Interest Income to Kshs 28.6 bn, from Kshs 22.9 bn in FY'2022, coupled with a 10.4% growth in Non funded Income (NFI) to Kshs 14.1 bn, from Kshs 12.7 bn in FY'2022,
- Interest income increased by 35.1% to Kshs 50.5 bn from Kshs 37.4 bn in FY'2022, mainly driven by a 38.9% growth in interest income from loans and advances to Kshs 36.5 bn from Kshs 26.3 bn in FY'2022, coupled with a significant 243.9% growth in interest from deposits and placements in other banking institutions to Kshs 2.0 bn, from Kshs 0.6 bn in FY'2022. Consequently, the Yield on Interest-Earning Assets (YIEA) increased to 13.0% from 11.0% in FY'2022, attributable to the 35.1% growth in trailing interest income, which outpaced the 14.3% growth in Average Interest Earning Assets (AIEA) to Kshs 388.4 bn, from Kshs 339.9 bn in FY'2022. Trailing Interest Income refers to the performance of the interest income for the past 12 consecutive months,
- Interest expense increased by 51.5% to Kshs 21.8 bn in FY'2023 from Kshs 14.4 bn in FY'2022, largely due to a 51.9% increase in interest expense on customer deposits to Kshs 17.6 bn from Kshs 11.6 bn in FY'2022, coupled with a 64.5% increase in interest expenses on placements to Kshs 2.4 bn from Kshs 1.4 bn in FY'2022. Consequently, Cost of funds (COF) increased by 1.2% points to 5.4% from 4.2% recorded in FY'2022, owing to the 51.5% increase in trailing interest expense which outpaced the 18.5% growth in average interest-bearing liabilities to Kshs 404.4 bn, from Kshs 341.3 bn in FY'2022. On the other hand, Net Interest Margin (NIM) increased marginally to 7.4% from 6.7% in FY'2022, attributable to the 24.8% growth in trailing Net Interest Income (NII) which outpaced the 14.3% growth in average interest-earning assets,
- Non-Funded Income increased by 10.4% to Kshs 14.1 bn in FY'2023, from Kshs 12.7 bn in FY'2022, mainly driven by a 25.8% increase in income from fees and commissions on loans and advances to Kshs 2.7 bn, from Kshs 2.2 bn in FY'2022, coupled with 11.3% increase in other fees to Kshs 4.1 bn in FY'2023 from Kshs 3.7 bn in FY'2022. Notably, foreign exchange trading income also increased by 8.8% to Kshs 5.5 bn from Kshs 5.0 bn in FY'2022. As a result, the revenue mix for funded to non-funded income shifted to 67:33 in FY'2023 from 64:36 in FY'2022, owing to the 24.8% increase in NII which outpaced the 10.4% growth in NFI,
- Total operating expenses increased by 27.5% to Kshs 27.2 bn from Kshs 21.3 bn in FY'2022, driven by a 31.0% increase in loan loss provisions to Kshs 6.9 bn from Kshs 5.2 bn recorded in FY'2022, coupled with a 15.5% increase in staff costs to Kshs 7.5 bn from Kshs 6.5 bn in FY'2022. The increase in provisioning is partly attributable to rising credit risk as a result of deteriorated economic environment as evidenced by the December 2023 Purchasing Managers Index (PMI) of 48.8, down from an average of 51.6 in December 2022,
- Cost to Income Ratio (CIR) increased to 63.7% from 59.8% in FY'2022, owing to the 27.5% increase in total operating expense, which outpaced the 19.7% increase in total operating income. Notably, CIR without LLP increased by 2.5% points to 47.6% from 45.1% recorded in FY'2022, and,
- Profit before tax increased by 11.3% to Kshs 13.3 bn from Kshs 11.6 bn in FY'2022, with the effective tax rate declining to 28.6% in FY'2023 from 31.0% in FY'2022. As such, profit after tax increased by 15.2% to Kshs 8.1 bn in FY'2023, from Kshs 7.0 bn in FY'2022.

Balance Sheet

- The balance sheet recorded an expansion as total assets increased by 32.6% to Kshs 579.7 bn, from Kshs 437.3 bn in FY'2022, mainly attributable to the 30.5% growth in net loans and advances to Kshs 311.3 bn in FY'2023

from Kshs 238.6 bn in FY'2022, coupled with the 14.7% growth in government securities to Kshs 78.1 bn, from Kshs 68.1 bn recorded in FY'2022,

- Total liabilities increased by 36.1% to Kshs 484.0 bn, from Kshs 355.7 bn in FY'2022, largely attributable to a 33.4% growth in customer deposits to Kshs 416.7 bn in FY'2023, from Kshs 312.3 bn in FY'2022 and a 45.8% growth in placements to Kshs 26.5 bn from Kshs 18.2 bn recorded in FY'2022,
- The higher growth in customer deposits of 33.4% compared to the 30.5% growth in net loans and advances, led to a decline in the loan to deposit ratio to 74.7%, from 76.4% in FY'2022,
- Gross Non-Performing Loans (NPLs) increased by 41.7% to Kshs 35.4 bn in FY'2023 from Kshs 25.0 bn in FY'2022, while Gross Loans increased by 29.0% to Kshs 331.1 bn from Kshs 256.5 bn in FY'2022. Consequently, the asset quality deteriorated with the NPL ratio rising to 10.7% in FY'2023 from 9.7% in FY'2022,
- General Provisions (LLP) increased by 13.1% to Kshs 15.5 bn in FY'2023 from Kshs 13.7 bn in FY'2022. The NPL coverage decreased to 55.8% in FY'2023, from 71.9% in FY'2022, owing to the 41.7% growth in Gross Non-Performing Loans (NPLs), against the 0.7% decrease in interest suspense to Kshs 4.2 bn, from Kshs 4.3 bn in FY'2022 and the slower 13.1% growth in general provisions,
- Shareholders' funds increased by 15.2% to Kshs 88.2 bn in FY'2023, from Kshs 76.5 bn in FY'2022, supported by a 7.8% increase in retained earnings to Kshs 57.9 bn, from Kshs 53.7 bn in FY'2022,
- I&M Group remained capitalized with a core capital to risk-weighted assets ratio of 14.5%, 4.0% points above the statutory requirement of 10.5%. In addition, the total capital to risk-weighted assets ratio came in at 18.9%, exceeding the statutory requirement of 14.5% by 4.4% points, and,
- The bank currently has a Return on Average Assets (ROaA) of 2.6%, and a Return on Average Equity (ROaE) of 15.0%.

Key Take-Outs:

1. **Strong earnings growth** - Core earnings per share (EPS) increased by 15.2% to Kshs 8.1 from Kshs 7.0 in FY'2022, mainly driven by 19.7% growth in total operating income to Kshs 42.7 bn in FY'2023 from Kshs 35.7 bn in FY'2022. The performance was however weighed down by the 27.5% increase in total operating expenses to Kshs 27.2 bn, from Kshs 21.3 bn in FY'2022, and,
2. **Increased Provisioning** – The group's provisioning increased by 13.1% to Kshs 15.5 bn in FY'2023, from Kshs 13.7 bn in FY'2022 aimed at mitigating increased credit risk on the back of the deteriorated business environment. This is evidenced by the 41.7% growth in Gross Non-Performing Loans (NPLs) to Kshs 35.4 bn in FY'2023, from Kshs 25.0 bn recorded in FY'2022,

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

- **Digital diversification:** Ksh 1.2 tn worth of transactions were conducted digitally in 2023, representing 81.0% of the total transactions, compared to 67.0% recorded in FY'2020. In addition, the bank launched digital unsecured personal loans in Kenya in 2021. As a result, the Group witnessed a 24.4% increase in revenue from new businesses in FY'2023, compared to 5.6% recorded in FY'2021.
- **Scaling New Business** - The bank has devised plans to accelerate growth in priority segments by building relevance in customer segments, i.e retail and Small and Medium Enterprises (SMEs), and developing leadership in commercial and corporate segments.

Valuation Summary

- We are of the view that I&M Group is a “buy” with a target price of Kshs 28.1 representing an upside of 29.6%, from the current price of Kshs 22.1 as of 28th March 2024, inclusive of a dividend yield of 11.6%.
- I&M Group is currently trading at a P/TBV of 0.4x and a P/E of 2.7x vs an industry average of 0.8x and 4.0x respectively.