

Below is a summary of I&M Group H1'2024 performance:

Balance Sheet Items	H1'2023	H1'2024	y/y change
Government Securities	110.6	90.1	(18.6%)
Net Loans and Advances	269.7	284.2	5.3%
Total Assets	503.5	564.4	12.1%
Customer Deposits	356.8	419.4	17.5%
Total Liabilities	419.4	471.6	12.5%
Shareholders' Funds	78.2	86.4	10.5%

Balance Sheet Ratios	H1'2023	H1'2024	% points change
Loan to Deposit Ratio	75.6%	67.8%	(7.8%)
Government Securities to Deposit Ratio	31.0%	21.5%	(9.5%)
Return on average equity	15.0%	16.3%	1.3%
Return on average assets	2.5%	2.7%	0.2%

Income Statement	H1'2023	H1'2024	y/y change
Net Interest Income	12.2	16.5	35.2%
Net non-Interest Income	6.9	6.2	(10.9%)
Total Operating income	19.1	22.7	18.5%
Loan Loss provision	(3.2)	(3.5)	8.2%
Total Operating expenses	(12.5)	(14.3)	13.9%
Profit before tax	7.0	8.7	24.0%
Profit after tax	5.0	6.1	21.1%
Core EPS	3.0	3.7	21.1%

Income Statement Ratios	H1'2023	H1'2024	% points change
Yield from interest-earning assets	10.4%	14.3%	3.9%
Cost of funding	4.3%	6.3%	2.0%
Net Interest Margin	6.2%	7.8%	1.6%
Net Interest Income as % of operating income	63.9%	72.8%	9.0%
Non-Funded Income as a % of operating income	36.1%	27.2%	(9.0%)
Cost to Income Ratio	65.6%	63.0%	(2.6%)
CIR without LLP	48.8%	47.7%	(1.1%)
Cost to Assets	1.9%	1.9%	0.1%

Capital Adequacy Ratios	H1'2023	H1'2024	% points change
Core Capital/Total Liabilities	18.8%	17.7%	(1.1%)
Minimum Statutory ratio	8.0%	8.0%	0.0%
Excess	10.8%	9.7%	(1.1%)
Core Capital/Total Risk Weighted Assets	14.0%	14.8%	0.8%
Minimum Statutory ratio	10.5%	10.5%	0.0%
Excess	3.5%	4.3%	0.8%
Total Capital/Total Risk Weighted Assets	18.8%	18.1%	(0.7%)
Minimum Statutory ratio	14.5%	14.5%	0.0%
Excess	4.3%	3.6%	(0.7%)
Liquidity Ratio	46.7%	50.8%	4.1%
Minimum Statutory ratio	20.0%	20.0%	0.0%
Excess	26.7%	30.8%	4.1%

Income Statement

- Core earnings per share increased by 21.1% to Kshs 3.7 from Kshs 3.0 in H1'2023, mainly driven by 18.5% growth in total operating income to Kshs 22.7 bn in H1'2024 from Kshs 19.1 bn in H1'2023. The performance was however weighed down by the 13.9% increase in total operating expenses to Kshs 14.3 bn, from Kshs 12.5 bn in H1'2023.
- The 18.5% growth in total operating income was mainly driven by an 35.2% growth in Net Interest Income to Kshs 16.5 bn, from Kshs 12.2 bn in H1'2023, but was weighed down by a 10.9% decline in Non funded Income (NFI) to Kshs 6.2 bn, from Kshs 6.9 bn in H1'2023,
- Interest income increased by 46.1% to Kshs 31.1 bn from Kshs 21.3 bn in H1'2023, mainly driven by a 163.6% growth in interest income from deposits and placements to Kshs 1.6 bn from Kshs 0.6 bn in H1'2023, coupled with a 48.4% growth in interest from loans and advances to Kshs 22.6 bn, from Kshs 15.2 bn in H1'2023. Consequently, the Yield on Interest-Earning Assets (YIEA) increased to 14.3% from 10.4% in H1'2023, attributable to the 46.3% growth in trailing interest income, which outpaced the 6.5% growth in Average Interest Earning Assets (AIEA) to Kshs 422.9 bn, from Kshs 397.1 bn in H1'2023. Trailing Interest Income refers to the performance of the interest income for the past 12 consecutive months,
- Interest expense increased by 60.8% to Kshs 14.6 bn in H1'2024 from Kshs 9.1 bn in H1'2023, largely due to a 66.7% increase in interest expense on deposits and placements in other financial institutions to Kshs 1.7 bn from Kshs 1.0 bn in H1'2023, coupled with a 65.2% increase in interest expenses on customer deposits to Kshs 12.0 bn from Kshs 7.3 bn in H1'2023. Consequently, Cost of funds (COF) increased by 2.0% points to 6.3% from 4.2% recorded in H1'2023, owing to the 65.1% increase in trailing interest expense which outpaced the 13.1% growth in average interest-bearing liabilities to Kshs 432.2 bn, from Kshs 382.2 bn in H1'2023. On the other hand, Net Interest Margin (NIM) increased to 7.8% from 6.2% in H1'2023, attributable to the 33.7% growth in trailing Net Interest Income (NII) which outpaced the 6.5% growth in average interest-earning assets,
- Non-Funded Income decreased by 10.9% to Kshs 6.2 bn in H1'2024, from Kshs 6.9 bn in H1'2023, mainly driven by a 37.7% decrease in forex trading income to Kshs 1.8 bn, from Kshs 2.9 bn in H1'2023, coupled with 22.5% decrease in other income to Kshs 0.6 bn in H1'2024 from Kshs 0.8 bn in H1'2024. Notably, other fees increased by 23.1% to Kshs 2.5 bn from Kshs 2.1 bn in H1'2023. As a result, the revenue mix for funded to non-funded income shifted to 73:27 in H1'2024 from 64:36 in H1'2023, owing to the 35.2% increase in NII which outpaced the 10.9% decline in NFI,
- Total operating expenses increased by 13.9% to Kshs 14.3 bn from Kshs 12.5 bn in H1'2023, driven by a 19.9% increase in staff costs to Kshs 4.2 bn from Kshs 3.5 bn recorded in H1'2023, coupled with a 13.4% increase in other operating expenses to Kshs 6.6 bn from Kshs 5.9 bn in H1'2023 and an 8.2% increase in Loan Loss Provisions to Kshs 3.5 bn from Kshs 3.2 bn in H1'2023. The increase in provisioning is despite the reducing credit risk as a result of improved economic environment as evidenced by the average H1'2024 Purchasing Managers Index (PMI) of 50.0, up from an average of 48.7 in H1'2023,
- Cost to Income Ratio (CIR) decreased to 63.0% from 65.6% in H1'2023, owing to the 18.5% increase in total operating income, which outpaced the 13.9% increase in total operating expenses. Notably, CIR without LLP decreased by 1.1% points to 47.7% from 48.8% recorded in H1'2023, and,
- Profit before tax increased by 24.0% to Kshs 8.7 bn from Kshs 7.0 bn in H1'2023, with effective tax rate increasing to 30.2% in H1'2024 from 29.5% in H1'2023. As such, profit after tax increased by 21.1% to Kshs 6.1 bn in H1'2024, from Kshs 5.0 bn in H1'2023.

Balance Sheet

- The balance sheet recorded an expansion as total assets increased by 12.1% to Kshs 564.4 bn, from Kshs 503.5 bn in H1'2023, mainly attributable to the 5.3% growth in net loans and advances to Kshs 291.5 bn in H1'2024

from Kshs 257.7 bn in H1'2023, but weighed down by the 18.6% decrease in government securities to Kshs 90.1 bn, from Kshs 110.6 bn recorded in H1'2023

- Total liabilities increased by 12.5% to Kshs 471.6 bn, from Kshs 419.4 bn in H1'2023, largely attributable to a 17.5% growth in customer deposits to Kshs 419.4 bn in H1'2024, from Kshs 356.8 bn in H1'2023,
- The higher growth in customer deposits of 17.2% compared to the 5.3% growth in net loans and advances, led to a decline in the loan to deposit ratio to 67.8%, from 75.6% in H1'2023,
- Gross Non-Performing Loans (NPLs) decreased by 5.0% to Kshs 34.8 bn in H1'2024 from Kshs 36.7 bn in H1'2023, while Gross Loans increased by 5.7% to Kshs 304.3 bn from Kshs 288.0 bn in H1'2023. Consequently, the asset quality improved with the NPL ratio declining to 11.4% in H1'2024 from 12.7% in H1'2023,
- General Provisions (LLP) increased by 10.8% to Kshs 15.9 bn in H1'2024 from Kshs 14.3 bn in H1'2023. The NPL coverage increased to 57.9% in H1'2024, from 49.8% in H1'2023, owing to the 5.0% decline in Gross Non-Performing Loans (NPLs), against the 8.9% increase in interest suspense to Kshs 4.3 bn, from Kshs 4.0 bn in H1'2023,
- Shareholders' funds increased by 10.5% to Kshs 86.4 bn in H1'2024, from Kshs 78.2 bn in H1'2023, supported by a 17.4% increase in retained earnings to Kshs 60.1 bn, from Kshs 51.2 bn in H1'2023,
- I&M Group remained capitalized with a core capital to risk-weighted assets ratio of 14.8%, 4.3% points above the statutory requirement of 10.5%. In addition, the total capital to risk-weighted assets ratio came in at 18.1%, exceeding the statutory requirement of 14.5% by 3.6% points, and,
- The bank currently has a Return on Average Assets (ROaA) of 2.7%, and a Return on Average Equity (ROaE) of 16.3%.

Key Take-Outs:

1. **Strong earnings growth** - Core earnings per share increased by 17.3% to Kshs 3.4 from Kshs 2.9 in H1'2023, mainly driven by 18.5% growth in total operating income to Kshs 22.7 bn in H1'2024 from Kshs 19.1 bn in H1'2023. The performance was however weighed down by the 13.9% increase in total operating expenses to Kshs 14.3 bn, from Kshs 12.5 bn in H1'2023.
2. **Increased Provisioning** – The group's provisioning increased by 8.2% to Kshs 3.5 bn from Kshs 3.2 bn in H1'2023. The increase in provisioning is despite the reducing credit risk as a result of improved economic environment as evidenced by the average H1'2024 Purchasing Managers Index (PMI) of 50.0, up from an average of 48.7 in H1'2023,

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

- **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 "Sell" with a target price of Kshs 26.5 representing an downside of 4.7%, from the current price of Kshs 27.8 as of 23rd August 2024, inclusive of a dividend yield of 9.2%.
- I&M Group is currently trading at a P/TBV of 0.8x and a P/E of 2.2x vs an industry average of 0.8x and 3.6x respectively.