

Below is a summary of I&M Group Q1'2024 performance:

Balance Sheet Items	Q1'2023	Q1'2024	y/y change
Government Securities	72.7	73.3	0.8%
Net Loans and Advances	257.7	291.5	13.1%
Total Assets	473.5	533.0	12.5%
Customer Deposits	324.7	383.9	18.2%
Total Liabilities	389.1	439.3	12.9%
Shareholders' Funds	79.0	87.2	10.5%

Balance Sheet Ratios	Q1'2023	Q1'2024	% points change
Loan to Deposit Ratio	79.4%	75.9%	(3.4%)
Government Securities to Deposit Ratio	22.4%	19.1%	(3.3%)
Return on average equity	14.4%	15.0%	0.7%
Return on average assets	2.6%	2.6%	0.0%

Income Statement	Q1'2023	Q1'2024	y/y change
Net Interest Income	6.1	8.4	37.7%
Net non-Interest Income	3.5	3.2	(9.4%)
Total Operating income	9.6	11.5	20.6%
Loan Loss provision	(1.6)	(1.5)	(6.4%)
Total Operating expenses	(6.0)	(6.6)	10.0%
Profit before tax	3.7	5.1	36.2%
Profit after tax	2.7	3.6	35.4%
Core EPS	1.6	2.2	35.4%

Income Statement Ratios	Q1'2023	Q1'2024	% points change
Yield from interest-earning assets	10.9%	14.5%	3.6%
Cost of funding	4.2%	6.3%	2.1%
Net Interest Margin	6.7%	8.0%	1.4%
Net Interest Income as % of operating income	63.6%	72.6%	9.0%
Non-Funded Income as a % of operating income	36.4%	27.4%	(9.0%)
Cost to Income Ratio	63.0%	57.5%	(5.5%)
CIR without LLP	45.8%	44.2%	(1.7%)
Cost to Assets	0.9%	1.0%	0.1%

Capital Adequacy Ratios	Q1'2023	Q1'2024	% points change
Core Capital/Total Liabilities	22.0%	20.5%	(1.5%)
Minimum Statutory ratio	8.0%	8.0%	
Excess	14.0%	12.5%	(1.5%)
Core Capital/Total Risk Weighted Assets	15.6%	15.0%	(0.6%)
Minimum Statutory ratio	10.5%	10.5%	
Excess	5.1%	4.5%	(0.6%)
Total Capital/Total Risk Weighted Assets	19.9%	18.3%	(1.7%)
Minimum Statutory ratio	14.5%	14.5%	
Excess	5.4%	3.8%	(1.7%)
Liquidity Ratio	46.2%	44.2%	(2.0%)
Minimum Statutory ratio	20.0%	20.0%	
Excess	26.2%	24.2%	(2.0%)

Income Statement

- Core earnings per share increased by 35.4% to Kshs 2.2 from Kshs 1.6 in Q1'2023, mainly driven by 20.6% growth in total operating income to Kshs 11.5 bn in Q1'2024 from Kshs 9.6 bn in Q1'2023. The performance was however weighed down by the 10.0% increase in total operating expenses to Kshs 6.6 bn, from Kshs 6.0 bn in Q1'2023.
- The 20.6% growth in total operating income was mainly driven by an 37.7% growth in Net Interest Income to Kshs 8.4 bn, from Kshs 6.1 bn in Q1'2023, but was weighed down by a 9.4% decline in Non funded Income (NFI) to Kshs 3.1 bn, from Kshs 3.5 bn in Q1'2023,
- Interest income increased by 53.1% to Kshs 15.6 bn from Kshs 10.2 bn in Q1'2023, mainly driven by a 234.5% growth in interest income from deposits and placements to Kshs 0.9 bn from Kshs 0.3 bn in Q1'2023, coupled with a 57.6% growth in interest from loans and advances to kshs 11.4 bn, from kshs 7.2 bn in Q1'2023. Consequently, the Yield on Interest-Earning Assets (YIEA) increased to 14.5% from 10.9% in Q1'2023, attributable to the 43.5% growth in trailing interest income, which outpaced the 7.5% growth in Average Interest Earning Assets (AIEA) to Kshs 384.8 bn, from Kshs 358.0 bn in Q1'2023. Trailing Interest Income refers to the performance of the interest income for the past 12 consecutive months,
- Interest expense increased by 76.0% to Kshs 7.2 bn in Q1'2024 from Kshs 4.1 bn in Q1'2023, largely due to a 132.7% increase in interest expense on deposits and placements in other financial institutions to Kshs 1.0 bn from Kshs 0.4 bn in Q1'2023, coupled with a 72.7% increase in interest expenses on customer deposits to Kshs 5.7 bn from Kshs 3.3 bn in Q1'2023. Consequently, Cost of funds (COF) increased by 1.4% points to 6.3% from 4.2% recorded in Q1'2023, owing to the 65.2% increase in trailing interest expense which outpaced the 9.8% growth in average interest-bearing liabilities to kshs 394.9 bn, from kshs 359.8 bn in Q1'2023. On the other hand, Net Interest Margin (NIM) increased marginally to 8.0% from 6.7% in Q1'2023, attributable to the 29.8% growth in trailing Net Interest Income (NII) which outpaced the 7.5% growth in average interest-earning assets,
- Non-Funded Income decreased by 9.4% to Kshs 3.2 bn in Q1'2024, from Kshs 3.5 bn in Q1'2023, mainly driven by a 47.7% decline in other income to Kshs 0.2 bn, from Kshs 0.5 bn in Q1'2023, coupled with 34.4% decrease in foreign exchange trading income to Kshs 0.9 bn in Q1'2024 from Kshs 1.4 bn in Q1'2024. Notably, other fees increased by 37.5% to Kshs 1.4 bn from Kshs 1.0 bn in Q1'2023. As a result, the revenue mix for funded to non-funded income shifted to 73:27 in Q1'2024 from 64:36 in Q1'2023, owing to the 37.7% increase in NII which outpaced the 9.4% decline in NFI,
- Total operating expenses increased by 10.0% to Kshs 6.6 bn from Kshs 6.0 bn in Q1'2023, driven by a 24.2% increase in staff costs to Kshs 2.0 bn from Kshs 1.6 bn recorded in Q1'2023, coupled with a 11.7% increase in other operating expenses to Kshs 3.1 bn from Kshs 2.8 bn in Q1'2023. The performance was however supported by a 6.4% decrease in Loan Loss Provisions to Kshs 1.5 bn from Kshs 1.6 bn in Q1'2023. The decrease in provisioning is partly attributable to reducing credit risk as a result improved economic environment as evidenced by the average Q1'2024 Purchasing Managers Index (PMI) of 50.3, up from an average of 49.3 in Q1'2023,
- Cost to Income Ratio (CIR) decreased to 57.5% from 63.0% in Q1'2023, owing to the 20.6% increase in total operating income, which outpaced the 10.0% increase in total operating expenses. Notably, CIR without LLP decreased by 1.7% points to 44.2% from 45.8% recorded in Q1'2023, and,
- Profit before tax increased by 36.2% to Kshs 5.1 bn from Kshs 3.7 bn in Q1'2023, with effective tax rate increasing to 29.7% in Q1'2024 from 29.1% in Q1'2023. As such, profit after tax increased by 35.4% to Kshs 3.6 bn in Q1'2024, from Kshs 2.7 bn in Q1'2023.

Balance Sheet

- The balance sheet recorded an expansion as total assets increased by 12.5% to Kshs 533.0 bn, from Kshs 473.5 bn in Q1'2023, mainly attributable to the 13.1% growth in net loans and advances to Kshs 291.5 bn in Q1'2024

from Kshs 257.7 bn in Q1'2023, coupled with the 0.8% growth in government securities to Kshs 73.3 bn, from Kshs 72.7 bn recorded in Q1'2023

- Total liabilities increased by 12.9% to Kshs 439.3 bn, from Kshs 389.1 bn in Q1'2023, largely attributable to a 18.2% growth in customer deposits to Kshs 383.9 bn in Q1'2024, from Kshs 324.7 bn in Q1'2023 and a 32.0% growth in other liabilities to Kshs 22.0 bn from Kshs 16.6 bn recorded in Q1'2023.
- The higher growth in customer deposits of 18.2% compared to the 13.1% growth in net loans and advances, led to a decline in the loan to deposit ratio to 75.9%, from 79.4% in Q1'2023,
- Gross Non-Performing Loans (NPLs) increased by 15.0% to Kshs 33.7 bn in Q1'2024 from Kshs 29.3 bn in Q1'2023, while Gross Loans increased by 12.3% to Kshs 311.1 bn from Kshs 277.0 bn in Q1'2023. Consequently, the asset quality deteriorated with the NPL ratio rising marginally to 10.8% in Q1'2024 from 10.6% in Q1'2023,
- General Provisions (LLP) increased by 6.3% to Kshs 15.5 bn in Q1'2024 from Kshs 14.5 bn in Q1'2023. The NPL coverage decreased to 58.3% in Q1'2024, from 65.8% in Q1'2023, owing to the 15.0% growth in Gross Non-Performing Loans (NPLs), against the 11.6% decrease in interest suspense to Kshs 4.2 bn, from Kshs 4.7 bn in Q1'2023 and the slower 6.3% growth in general provisions,
- Shareholders' funds increased by 10.5% to Kshs 87.2 bn in Q1'2024, from Kshs 79.0 bn in Q1'2023, supported by a 35.4% increase in retained earnings to Kshs 3.6 bn, from Kshs 2.7 bn in Q1'2023,
- I&M Group remained capitalized with a core capital to risk-weighted assets ratio of 15.0%, 4.5% points above the statutory requirement of 10.5%. In addition, the total capital to risk-weighted assets ratio came in at 18.3%, exceeding the statutory requirement of 14.5% by 3.8% 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 increased by 35.4% to Kshs 2.2 from Kshs 1.6 in Q1'2023, mainly driven by 20.6% growth in total operating income to Kshs 11.5 bn in Q1'2024 from Kshs 9.6 bn in Q1'2023. The performance was however weighed down by the 10.0% increase in total operating expenses to Kshs 6.6 bn, from Kshs 6.0 bn in Q1'2023.
2. **Improved Lending** – The Group's loan book recorded an expansion of 13.1% to shs 291.5 bn in Q1'2024 from Kshs 257.7 bn in Q1'2023,

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 "buy" with a target price of Kshs 23.8 representing an upside of 28.1%, from the current price of Kshs 18.6 as of 24th May 2024, inclusive of a dividend yield of 13.7%.
- 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 3.7x respectively.