

Below is a summary of I&M Group Q3'2024 performance:

Balance Sheet Items	Q3'2023	Q3'2024	y/y change
Government Securities	84.6	96.2	13.6%
Net Loans and Advances	287.3	281.3	(2.1%)
Total Assets	544.1	567.7	4.3%
Customer Deposits	402.4	413.8	2.8%
Deposits/branch	4.8	4.9	0.4%
Total Liabilities	458.8	473.6	3.2%
Shareholders' Funds	79.1	87.6	10.8%

Balance Sheet Ratios	Q3'2023	Q3'2024	% points change
Loan to Deposit Ratio	71.4%	68.0%	(3.4%)
Government Securities to Deposit Ratio	21.0%	23.2%	2.2%
Return on average equity	15.9%	14.9%	(1.0%)
Return on average assets	2.6%	2.4%	(0.2%)

Income Statement	Q3'2023	Q3'2024	y/y change
Net Interest Income	19.1	26.3	37.4%
Net non-Interest Income	10.7	9.5	(11.5%)
Total Operating income	29.9	35.8	19.8%
Loan Loss provision	(4.6)	(5.5)	18.9%
Total Operating expenses	(19.2)	(22.4)	16.5%
Profit before tax	11.4	14.1	24.1%
Profit after tax	8.2	9.9	21.3%
Core EPS	5.0	6.0	21.3%
Dividend Payout ratio	26.2%	21.6%	(4.6%)
Annualized Dividend Yield	30.5%	17.4%	(13.1%)

Income Statement Ratios	Q3'2023	Q3'2024	% 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	Q3'2023	Q3'2024	% points change
Core Capital/Total Liabilities	16.5%	17.4%	0.9%
Minimum Statutory ratio	8.0%	8.0%	0.0%
Excess	8.5%	9.4%	0.9%
Core Capital/Total Risk Weighted Assets	13.0%	14.6%	1.6%
Minimum Statutory ratio	10.5%	10.5%	0.0%
Excess	2.5%	4.1%	1.6%
Total Capital/Total Risk Weighted Assets	17.7%	18.0%	0.3%
Minimum Statutory ratio	14.5%	14.5%	0.0%
Excess	3.2%	3.5%	0.3%
Liquidity Ratio	48.2%	51.5%	3.3%
Minimum Statutory ratio	20.0%	20.0%	0.0%
Excess	28.2%	31.5%	3.3%

Income Statement

- Core earnings per share increased by 21.3% to Kshs 6.0 from Kshs 5.0 in Q3'2023, mainly driven by 19.8% growth in total operating income to Kshs 35.8 bn in Q3'2024 from Kshs 29.9 bn in Q3'2023, which outpaced operating expense growth of 16.5% to Kshs 22.4 bn from Kshs 19.2 bn in Q3'2023.
- The 19.8% growth in total operating income was mainly driven by an 37.4% growth in Net Interest Income to Kshs 26.3 bn, from Kshs 19.1 bn in Q3'2023, but was weighed down by an 11.5% decline in Non funded Income (NFI) to Kshs 9.5 bn, from Kshs 10.7 bn in Q3'2023,
- Interest income increased by 43.5% to Kshs 49.0 bn from Kshs 34.2 bn in Q3'2023, mainly driven by a 43.7% growth in interest income from loans and advances to Kshs 34.9 bn from Kshs 24.3 bn in Q3'2023, coupled with a significant 101.1% growth in interest from deposits and placements to Kshs 2.4 bn, from kshs 1.2 bn in Q3'2023. Consequently, the Yield on Interest-Earning Assets (YIEA) increased to 12.1% from 11.2% in Q3'2023, attributable to the 16.7% growth in trailing interest income, which outpaced the 7.7% growth in Average Interest Earning Assets (AIEA) to Kshs 431.2 bn, from Kshs 400.5 bn in Q3'2023. Trailing Interest Income refers to the performance of the interest income for the past 12 consecutive months,
- Interest expense increased by 51.2% to Kshs 22.7 bn in Q3'2024 from Kshs 11.2 bn in Q3'2023, largely due to a 59.6% increase in interest expense on deposits and placements in other financial institutions to Kshs 2.6 bn from Kshs 1.6 bn in Q3'2023, coupled with a 54.6% increase in interest expenses on customer deposits to Kshs 18.8 bn from Kshs 12.1 bn in Q3'2023. Consequently, Cost of funds (COF) increased by 0.2% points to 4.9% from 4.7% recorded in Q3'2023, owing to the 17.5% increase in trailing interest expense which outpaced the 12.9% growth in average interest-bearing liabilities to kshs 447.3 bn, from kshs 396.3 bn in Q3'2023. On the other hand, Net Interest Margin (NIM) increased to 7.0% from 6.5% in Q3'2023, attributable to the 16.1% growth in trailing Net Interest Income (NII) which outpaced the 7.7% growth in average interest-earning assets,
- Non-Funded Income decreased by 11.5% to Kshs 9.5 bn in Q3'2024, from Kshs 10.7 bn in Q3'2023, mainly driven by a 34.5% decrease in forex trading income to Kshs 2.8 bn, from Kshs 4.3 bn in Q3'2023, coupled with 37.6% decrease in other income to Kshs 0.9 bn in Q3'2024 from Kshs 1.4 bn in Q3'2024. Notably, other fees increased by 29.4% to Kshs 3.9 bn from Kshs 3.0 bn in Q3'2023. As a result, the revenue mix for funded to non-funded income shifted to 73:27 in Q3'2024 from 64:36 in Q3'2023, owing to the 37.4% increase in NII which outpaced the 11.5% decline in NFI,
- Total operating expenses increased by 16.5% to Kshs 22.4 bn from Kshs 19.2 bn in Q3'2023, driven by a 18.9% increase in loan loss provisions to Kshs 5.5 bn from Kshs 4.6 bn recorded in Q3'2023, coupled with a 14.9% increase in staff costs to Kshs 6.4 bn from Kshs 5.6 bn in Q3'2023 and a 16.3% increase in other operating expenses to Kshs 10.4 bn from Kshs 9.0 bn in Q3'2023. The increase in provisioning is attributable to the increased credit risk as a result of a deteriorated economic environment as evidenced by the average Q3'2024 Purchasing Managers Index (PMI) of 47.8, down from an average of 48.0 in Q3'2023,
- Cost to Income Ratio (CIR) decreased to 62.5% from 64.3% in Q3'2023, owing to the 19.8% increase in total operating income, which outpaced the 16.5% increase in total operating expenses. Notably, CIR without LLP decreased by 1.7% points to 47.1% from 48.8% recorded in Q3'2023, and,
- Profit before tax increased by 24.1% to Kshs 14.1 bn from Kshs 11.4 bn in Q3'2023, with effective tax rate increasing to 29.4% in Q3'2024 from 27.9% in Q3'2023. As such, profit after tax increased by 21.3% to Kshs 9.9 bn in Q3'2024, from Kshs 8.2 bn in Q3'2023.

Balance Sheet

- The balance sheet recorded an expansion as total assets increased by 4.3% to Kshs 567.7 bn, from Kshs 544.1 bn in Q3'2023, mainly attributable to the 13.6% growth in government securities to Kshs 96.2 bn in Q3'2024 from Kshs 84.6 bn in Q3'2023, but weighed down by the 2.1% decrease in net loans and advances to Kshs 281.3 bn, from Kshs 287.3 bn recorded in Q3'2023
- Total liabilities increased by 3.2% to Kshs 473.6 bn, from Kshs 458.8 bn in Q3'2023, largely attributable to a 2.8% growth in customer deposits to Kshs 413.8 bn in Q3'2024, from Kshs 402.4 bn in Q3'2023,
- The higher growth in customer deposits of 2.8% compared to the 2.1% decrease in net loans and advances, led to a decline in the loan to deposit ratio to 68.0%, from 71.4% in Q3'2023,
- Gross Non-Performing Loans (NPLs) decreased by 1.3% to Kshs 35.7 bn in Q3'2024 from Kshs 36.1 bn in Q3'2023, while Gross Loans decreased by 0.9% to Kshs 303.2 bn from Kshs 306.1 bn in Q3'2023. Consequently, the asset quality remained constant with the NPL ratio remaining relatively unchanged at 11.8% recorded in Q3'2023,
- General Provisions (LLP) increased by 17.3% to Kshs 17.2 bn in Q3'2024 from Kshs 14.6 bn in Q3'2023. The NPL coverage increased to 61.3% in Q3'2024, from 51.8% in Q3'2023, owing to the 0.9% decline in Gross Non-Performing Loans (NPLs), against the 15.3% increase in interest suspense to Kshs 4.7 bn, from Kshs 4.1 bn in Q3'2023,
- Shareholders' funds increased by 10.8% to Kshs 87.6 bn in Q3'2024, from Kshs 79.1 bn in Q3'2023, supported by a 11.5% increase in retained earnings to Kshs 60.0 bn, from Kshs 53.8 bn in Q3'2023,
- I&M Group remained capitalized with a core capital to risk-weighted assets ratio of 14.6%, 4.1% points above the statutory requirement of 10.5%. In addition, the total capital to risk-weighted assets ratio came in at 18.0%, exceeding the statutory requirement of 14.5% by 3.5% points, and,
- The bank currently has a Return on Average Assets (ROaA) of 2.4%, and a Return on Average Equity (ROaE) of 14.9%.

Key Take-Outs:

1. **Strong earnings growth** - Core earnings per share increased by 21.3% to Kshs 6.0 from Kshs 5.0 in Q3'2023, mainly driven by 19.8% growth in total operating income to Kshs 35.8 bn in Q3'2024 from Kshs 29.9 bn in Q3'2023. The performance was however weighed down by the 16.5% increase in total operating expenses to Kshs 22.4 bn, from Kshs 19.2 bn in Q3'2023.
2. **Increased Provisioning** – The group's provisioning increased by 18.9% to Kshs 5.5 bn from Kshs 4.6 bn recorded in Q3'2023. The increase in provisioning is attributable to the increased credit risk as a result of a deteriorated economic environment as evidenced by the average Q3'2024 Purchasing Managers Index (PMI) of 47.8, down from an average of 48.0 in Q3'2023,
3. **Declaration of dividends** - The directors of I&M Group Holdings have announced an interim dividend of Kshs 1.3 per share translating to a dividend payout ratio of 21.6% and an annualized dividend yield of 17.4%

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 "Accumulate" with a target price of Kshs 31.6 representing an upside of 5.0%, from the current price of Kshs 29.9 as of 22nd November 2024, inclusive of an annualized dividend yield of 17.4%.
- I&M Group is currently trading at a P/TBV of 0.6x and a P/E of 3.7x vs an industry average of 0.9x and 4.2x respectively.