

Below is a summary of I&M Holdings' FY'2021 performance;

Balance Sheet Items	FY'2021 (Kshs bns)	FY' 2020 (Kshs bns)	y/y change
Government Securities	101.7	125.5	23.4%
Net Loans and Advances	187.4	210.6	12.4%
Total Assets	358.1	415.2	15.9%
Customer Deposits	262.7	296.7	13.0%
Total Liabilities	290.0	341.1	17.6%
Shareholders' Funds	64.2	69.6	8.4%

Balance Sheet Ratios	FY'2021	FY'2021	% points change
Loan to Deposit Ratio	71.3%	71.0%	(0.4%)
Return on average equity	13.2%	12.2%	(1.1%)
Return on average assets	2.4%	2.1%	(0.3%)

Income Statement	FY'2021 (Kshs bns)	FY'2021 (Kshs bns)	y/y change
Net Interest Income	15.6	20.9	33.8%
Net non-Interest Income	8.6	8.7	1.1%
Total Operating income	24.2	29.6	22.2%
Loan Loss provision	(2.5)	(4.2)	69.8%
Total Operating expenses	(12.6)	(17.7)	40.8%
Profit before tax	11.0	12.4	13.3%
Profit after tax	8.4	8.6	2.5%
Core EPS	10.2	5.5	(45.8%)

Income Statement Ratios	FY'2021	FY'2021	% point change
Yield from interest-earning assets	9.6%	10.0%	0.4%
Cost of funding	4.6%	3.9%	(0.7%)
Net Interest Margin	5.4%	6.3%	0.9%
Net Interest Income as % of operating income	64.4%	70.5%	6.1%
Non-Funded Income as a % of operating income	35.6%	29.5%	(6.1%)
Cost to Income Ratio	52.0%	59.9%	7.9%
CIR without LLP	41.8%	45.8%	3.9%
Cost to Assets	2.8%	3.3%	0.5%

Capital Adequacy Ratios	FY'2021	FY' 2020
Core Capital/Total Liabilities	22.5%	20.9%
Minimum Statutory ratio	8.0%	8.0%
Excess	14.5%	12.9%
Core Capital/Total Risk Weighted Assets	18.6%	16.6%
Minimum Statutory ratio	10.5%	10.5%
Excess	8.1%	6.1%
Total Capital/Total Risk Weighted Assets	22.0%	21.5%
Minimum Statutory ratio	14.5%	14.5%
Excess	7.5%	7.0%
Liquidity Ratio	50.5%	52.3%
Minimum Statutory ratio	20.0%	20.0%
Excess	30.5%	32.3%
Adjusted Core Capital/Total Liabilities	22.6%	21.0%
Adjusted Core Capital/Total RWA	18.7%	16.6%
Adjusted Total Capital/Total RWA	22.0%	21.5%

Key Highlights FY'2021

- In 2021, I&M Holdings PLC announced that it had completed the 90.0% acquisition of Orient Bank Limited Uganda (OBL) share capital, after receiving all the required regulatory approvals. Additionally, the bank [announced](#) the rebranding of the acquired bank from Orient Bank Limited Uganda (OBL) to I&M Bank (Uganda) Limited following the launch of the bank's operations in Uganda. The rebrand came six months after announcement of the acquisition on 30th April 2021. I&M Holdings took over 14 branches from Orient Bank Limited Uganda (OBL), taking its total branches to 89, from 75 branches as at the end of 2020. For more information, see our [Cytonn Weekly #45/2021](#), and,
- I&M Holdings [received](#) a Tier 2 subordinated loan of USD 50.0 mn (Kshs 5.4 bn) long-term loan from the International Finance Corporation (IFC) and The Dutch Entrepreneurial Development Bank (FMO) to boost its capital and enhance its lending capacity of SMEs. The loan will have a maturity of up to 7 years with a grace period of 5 years, conforming with the Central Bank of Kenya's Tier 2 capital requirements.

Income Statement

- Core earnings per share increased by 0.7% on an adjusted basis following the share bonus of 1:1 issued in May 2021, to Kshs 4.92 from Kshs 4.88 in FY'2021. The increase was attributable to the 22.2% increase in total operating income to Kshs 29.6 bn from Kshs 24.2 bn. However, the total operating expenses increased by 40.8% to Kshs 17.7 bn from Kshs 12.6 bn in FY'2021 thus weighing down on the earnings. The growth in the total operating expenses was mainly driven by a 69.8% growth in Loan Loss Provisions (LLP) to Kshs 4.2 bn from Kshs 2.5 in FY'2021,
- Total operating income increased by 22.2% to Kshs 29.6 bn, from Kshs 24.2 bn in FY'2020 driven by a 33.8% increase in Net Interest Income (NII) to Kshs 20.9 bn, from Kshs 15.6 bn in FY'2020, coupled with a 1.1% increase in Non-Funded Income (NFI) to Kshs 8.7 bn, from Kshs 8.6 bn in FY'2020,
- Interest income rose by 18.8% to Kshs 33.1 bn, from Kshs 27.8 bn in FY'2020. This was driven by a 62.0% growth in interest income from government securities to Kshs 9.1 bn, from Kshs 5.6 bn in FY'2020 and an 8.6% increase in interest income from loans and advances to Kshs 23.8 bn from Kshs 21.9 bn in FY'2020. However, the growth in interest income was weighed down by a 36.5% decline in placements income to Kshs 231.5 mn, from Kshs 364.4 mn in FY'2020. The Yield on Interest-Earning Assets increased to 10.0% from 9.6% in FY'2020, largely attributable to the 18.8% growth in trailing Interest Income which grew faster than the 13.6% growth in average interest earning assets. Trailing Interest Income refers to the performance of the interest income for the past 12 consecutive months,
- Interest expense declined marginally by 0.4% to Kshs 12.20 bn, from Kshs 12.25 bn in FY'2020, following a 2.8% decline in Interest expense on deposits to Kshs 10.3 bn, from Kshs 10.6 bn in FY'2020. The decline was however weighed down by an 11.7% growth in the interest expense on placements to Kshs 961.5 mn, from Kshs 860.9 mn in FY'2021 coupled with an 18.1% increase in other interest expenses to Kshs 986.8 mn, from Kshs 835.4 mn in FY'2020. Cost of funds declined by 0.7% points to 3.9% from 4.6% recorded in FY'2020, following a 16.3% increase in average interest bearing liabilities, coupled with the 0.4% decline in trailing interest expense, an indication that the bank was able to mobilize cheaper deposits. Trailing interest expense refers to the performance of the interest expense for the past 12 consecutive months. Net Interest Margin (NIM) on the other hand, increased by 0.9% points to 6.3%, from 5.4% in FY'2020, driven by the 33.8% increase in Net Interest Income (NII) which outpaced the 13.6% increase in average interest-earning assets,
- Non-Funded Income (NFI) grew by 1.1% to Kshs 8.7 bn, from Kshs 8.6 bn in FY'2020, driven by a 31.0% growth in income from other fees to Kshs 2.9 bn, from Kshs 2.2 bn in FY'2020, coupled with a 0.6% increase in fees and commissions from loans and advances to Kshs 1.94 bn from Kshs 1.93 bn in FY'2020. The growth in Non-Funded Income was however weighed down by a 17.7% decline in other income to Kshs 2.1 bn, from Kshs 2.6 bn in FY'2020 coupled with an 8.0% decline in Foreign Exchange Trading income to Kshs 1.7 bn, from Kshs 1.9 bn. Notably, income from Total Fees and Commissions increased by 16.9% to Kshs 4.9 bn, from Kshs 4.2 bn recorded

in FY'2020 following the lifting of the waiver on charges between mobile money wallets and bank accounts at the beginning of the year. The revenue mix shifted to 71:29 funded to non-funded income, from 64:36, owing to the 33.8% increase in NII, which outpaced to the 1.1% increase in NFI,

- Total operating expenses rose by 40.8% to Kshs 17.7 bn from Kshs 12.6 bn in FY'2020, largely driven by a 69.8% increase in Loan Loss Provisions (LLP) to Kshs 4.2 bn, from Kshs 2.5 bn in FY'2020, as the bank took a proactive stance in provisioning for the existing Non-performing loans (NPLs). Staff costs as well, increased by 32.1% to Kshs 5.9 bn in FY'2021, from Kshs 4.5 bn in FY'2020,
- Cost to Income Ratio (CIR) deteriorated to 59.9%, from 52.0% in FY'2020 attributable to the 69.8% increase in Loan Loss Provisions to Kshs 4.2 bn from Kshs 2.5 bn in FY'2020. Without LLP, cost to income ratio deteriorated as well to 45.8% from 41.8% in FY'2020, an indication of reduced efficiency,
- Profit before tax increased by 13.3% to Kshs 12.4 bn, down from Kshs 11.0 bn in FY'2020. Profit after tax increased by 2.5% to Kshs 8.6 bn, down from Kshs 8.4 bn in FY'2020, with the effective tax rate declining to 31.3%, from 34.6% in FY'2020, and,
- The Board of Directors recommended a final Dividend per Share (DPS) of Kshs 1.5, translating to a total dividend payout of Kshs 2.5 bn. At the current price of Kshs 20.5, this translates to a dividend yield of 7.3%.

Balance Sheet

- The balance sheet recorded an expansion as total assets grew by 15.9% to Kshs 415.2 bn, from Kshs 358.1 bn in FY'2020 attributable to a 12.4% loan book expansion to Kshs 210.6 bn, from Kshs 187.4 bn in FY'2020 partly due to the gradual economic recovery coupled with a 23.4% increase in government securities to Kshs 125.5 bn, from Kshs 101.7 bn in FY'2020,
- Total liabilities rose by 17.6% to Kshs 341.1 bn, from Kshs 290.0 bn in FY'2021, driven by a 13.0% rise in customer deposits to Kshs 296.7 bn, from Kshs 262.7 bn in FY'2020 coupled with a 182.6% increase in placements liabilities to Kshs 19.1 bn, from Kshs 6.8 bn in FY'2020. Deposits per branch declined by 2.6% to Kshs 3.4 bn from Kshs 3.5 bn in FY'2020, with the number of branches increasing to 87 branches from 75 branches in FY'2020, after the group closed 2 branches, one in Kenya and one in Mauritius but added 19 branches in Uganda after completing the 90.0% shareholding acquisition of Orient Bank Limited, in FY'2021,
- The slower 12.4% growth in loans as compared to the 13.0% growth in deposits led to a decline in the loan to deposit ratio to 71.0% from 71.3% in FY'2020,
- Gross non-performing loans declined by 9.1% to Kshs 21.4 bn in FY'2021, from Kshs 23.6 bn in FY'2020. Consequently, the NPL ratio, declined to 9.5% in FY'2021, from 11.6% in FY'2020, attributable to the faster 11.2% increase in gross Loans, coupled with the 9.1% decline in gross Non-Performing loans. The NPL coverage on the other hand improved to 71.4% in FY'2021, from 66.8% in FY'2020, as general Loan Loss Provisions increased by 7.4% to Kshs 11.6 bn from Kshs 10.8 bn in FY'2020,
- Shareholders' funds increased by 8.4% to Kshs 69.6 bn in FY'2021, from Kshs 64.2 bn in FY'2020, supported by a 10.8% increase in retained earnings to Kshs 43.9 bn, from Kshs 39.6 bn in FY'2020,
- I&M Holdings Plc remains sufficiently capitalized with a core capital to risk-weighted assets ratio of 16.6%, 6.1% points above the statutory requirement. In addition, the total capital to risk-weighted assets ratio came in at 21.5%, exceeding the statutory requirement by 7.0% points. Adjusting for IFRS 9, the core capital to risk-weighted assets stood at 16.6%, while total capital to risk-weighted assets came in at 21.5%, and,
- The bank currently has a Return on Average Assets (ROaA) of 2.4%, and a Return on Average Equity (ROaE) of 13.6%.

Key Take-Outs:

1. The bank took a proactive stance in its provisioning levels as Loan Loss Provisions (LLP) increased by 69.8% to Kshs 4.2 bn in FY'2021, from Kshs 2.5 bn in FY'2020, on account of the bank's exposure to the Manufacturing, Trade, Real Estate and Personal/Household sectors which remain adversely impacted by the COVID-19 pandemic and jointly constitute 79.0% of the group's loan portfolio,

2. The bank's asset quality improved, with the NPL ratio declining to 9.5%, from 11.6% in FY'2020. The NPL coverage improved to 71.4% in FY'2021 from 66.8% in FY'2020, as general Loan Loss Provisions increased by 7.4% to Kshs 11.6 bn from Kshs 10.8 bn in FY'2020, despite the gross non-performing loans declining by 9.1%, an indication of modest provisioning of the existing NPLs,
3. Non-Funded Income grew by 1.1% to Kshs 8.7 bn, from Kshs 8.6 bn in FY'2020, driven by a 31.0% growth in income from other fees to Kshs 2.9 bn, from Kshs 2.2 bn in FY'2020, coupled with a 0.6% increase in fees and commissions from loans and advances to Kshs 1.94 bn from Kshs 1.93 bn in FY'2020. The growth in NFI was however weighed down by a 17.7% decline in other income to Kshs 2.1 bn, from Kshs 2.6 bn in FY'2020 coupled with an 8.0% decline in Foreign Exchange Trading income to Kshs 1.7 bn, from Kshs 1.9 bn, and,
4. There was a decline in efficiency levels as the Cost to Income Ratio (CIR) deteriorated to 59.9%, from 52.0% in FY'2021, attributable to the 69.8% increase in Loan Loss Provisions to Kshs 4.2 bn from Kshs 2.5 bn in FY'2020. Without LLP, cost to income ratio deteriorated as well to 45.8% from 41.8% in FY'2020, an indication of reduced efficiency. The increase in cost to income ratio without LLP is partly due to digitization costs as most nonbanking activities are still in the investment phase.

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

- I. **Digitization** – In a bid to enhance efficiency, the group has increased its investments in infrastructure to support the group's digital transformation strategy, standardize operations, systems and processes across its subsidiaries in the region and for better risk management. This has seen 79.0% of the Group's transactions with a value of Kshs 543.0 bn executed in FY'2021. Additionally, a total of Kshs 158.0 mn worth of loans were disbursed through mobile lending over the same period. Going forward, the group is expected to leverage on its synergies to support customers regional business operation and experience. Despite the increasing costs, we expect the digitization strategy to support the groups income in the long run.

Valuation Summary

- We are of the view that I&M Holdings Plc is a "**Buy**" with a target price of Kshs 23.4, representing an upside of 21.3%, from the current price of Kshs 20.5 as of 1st April, 2022, inclusive of a dividend yield of 7.3%,
- I&M Holdings Plc is currently trading at a P/TBV of 0.5x and a P/E of 4.2x vs an industry average of 0.7x and 5.0x, respectively.