

Below is a summary of I&M Holdings' H1'2022 performance;

Balance Sheet Items	H1'2021	H1'2022	y/y change
Government Securities	103.5	121.4	17.2%
Net Loans and Advances	204.5	231.1	13.0%
Total Assets	382.6	439.7	14.9%
Customer Deposits	276.8	313.2	13.2%
Total Liabilities	312.5	368.2	17.8%
Shareholders' Funds	65.9	66.5	1.0%

Balance Sheet Ratios	H1'2021	H1'2022	% y/y change
Loan to Deposit Ratio	73.9%	73.8%	(0.1%)
Return on average equity	14.5%	13.3%	(1.3%)
Return on average assets	2.5%	2.1%	(0.4%)

Income Statement	H1'2021	H1'2022	y/y change
Net Interest Income	8.9	10.5	18.7%
Net non-Interest Income	3.9	5.1	28.2%
Total Operating income	12.8	15.6	21.6%
Loan Loss provision	1.1	1.3	24.4%
Total Operating expenses	7.2	8.6	19.3%
Profit before tax	5.9	7.2	22.5%
Profit after tax	4.2	4.9	15.9%
Core EPS	2.6	3.0	15.9%

Income Statement Ratios	H1'2021	H1'2022	y/y change
Yield from interest-earning assets	9.5%	10.2%	0.7%
Cost of funding	4.1%	4.0%	(0.1%)
Net Interest Margin	5.7%	6.4%	0.7%
Net Interest Income as % of operating income	69.2%	67.5%	(1.7%)
Non-Funded Income as a % of operating income	30.8%	32.5%	1.7%
Cost to Income Ratio with LLP	56.3%	55.2%	(1.1%)
Cost to Income Ratio without LLP	48.1%	46.8%	(1.3%)
Cost to Assets	1.6%	1.7%	0.1%

Capital Adequacy Ratios	H1'2021	H1'2022	% Points Change
Core Capital/Total Liabilities	20.7%	19.9%	(0.8%)
Minimum Statutory ratio	8.0%	8.0%	0.0%
Excess	12.7%	11.9%	(0.8%)
Core Capital/Total Risk Weighted Assets	15.9%	15.0%	(0.9%)
Minimum Statutory ratio	10.5%	10.5%	0.0%
Excess	5.4%	4.5%	(0.9%)
Total Capital/Total Risk Weighted Assets	20.7%	19.8%	(0.9%)
Minimum Statutory ratio	14.5%	14.5%	0.0%
Excess	6.2%	5.3%	(0.9%)
Liquidity Ratio	48.3%	48.8%	0.5%
Minimum Statutory ratio	20.0%	20.0%	0.0%
Excess	28.3%	28.8%	0.5%
Adjusted Core Capital/Total Liabilities	20.8%	20.0%	(0.8%)
Adjusted Core Capital/Total RWA	15.9%	15.1%	(0.9%)
Adjusted Total Capital/Total RWA	20.8%	19.8%	(0.9%)

Income Statement

- Core earnings per share increased by 15.9% to Kshs 3.0 in H1'2022, from Kshs 2.6 recorded in H1'2021 higher than our expectations of a 13.0% to Kshs 2.9 bn. The performance was mainly attributable to the 21.6% increase in the total operating income to Kshs 15.6 bn in H1'2022 from Kshs 12.8 bn in H1'2021. The performance was however weighed down by a 19.3% increase in total operating expenses to Kshs 8.6 bn, from Kshs 7.2 bn in H1'2021,
- Total operating income increased by 21.6% to Kshs 15.6 bn from Kshs 12.8 bn in H1'2021 owing to an 18.7% increase in the Net Interest Income (NII) to Kshs 10.5 bn in H1'2022 from Kshs 8.9 bn in H1'2021, coupled with a 28.2% increase in the Non-Funded Income (NFI) to Kshs 5.1 bn in H1'2022, from Kshs 3.9 bn that was recorded in H1'2021,
- Interest income grew by 19.3% to Kshs 17.5 bn from Kshs 14.6 bn in H1'2021, driven by a 16.1% increase in interest income from loans and advances to Kshs 12.0 bn, from Kshs 10.4 bn recorded in H1'2021. Additionally, interest income from government securities increased by 26.2% to Kshs 5.2 bn in H1'2022, from Kshs 4.1 bn in H1'2021. Consequently, the Yield on Interest-Earning Assets increased to 10.2% from 9.5% in H1'2021, attributable to a faster 22.2% increase in trailing interest income, as compared to the 13.8% increase in average interest earning assets. Trailing Interest Income refers to the performance of the interest income for the past 12 consecutive months,
- Interest expense increased by 20.2% to Kshs 6.9 bn from Kshs 5.8 bn in H1'2021, attributable to a 16.9% increase in interest expense on deposits to Kshs 5.6 bn, from Kshs 4.8 bn recorded in H1'2021, coupled with a 33.6% growth in interest expense on placements from other institutions to Kshs 0.7 bn from Kshs 0.5 bn in H1'2021. The cost of funds declined by 0.1% points to 4.0% from 4.1% recorded in H1'2022, following a 15.4% increase in average interest bearing liabilities, which outpaced the 13.1% increase in trailing interest expense. The Net Interest Margin (NIM) increased by 0.7% points to 6.4%, from 5.7% in H1'2021, driven by the 28.4% increase in the trailing net Interest Income (NII) which outpaced the 13.8% growth in average interest earning assets,
- Non-Funded Income (NFI) grew by 28.2% to Kshs 5.1 bn from the Kshs 3.9 bn that was recorded in H1'2021, driven by a 147.7% growth in Foreign Exchange Trading income to Kshs 1.9 bn from Kshs 0.8 bn in H1'2021, mainly due to the continued depreciation of the Kenyan shilling. Additionally, other fees and commissions increased by 44.3% to Kshs 1.9 bn from Kshs 1.3 bn in H1'2021. Fees and commission on loans also increased by 9.9% to Kshs 1.0 bn from Kshs 0.9 bn in H1'2021 taking the total fees and commissions to Kshs 2.9 bn, a 30.1% increase from Kshs 2.2 bn recorded in H1'2021,
- Total operating expenses rose by 19.3% to Kshs 8.6 bn from Kshs 7.2 bn in H1'2021, largely driven by a 10.8% increase in staff costs to Kshs 3.0 bn, from Kshs 2.7 bn in H1'2021, coupled with a 24.4% increase in other operating expenses to Kshs 4.3 bn, from Kshs 3.4 bn in H1'2021. Additionally, Loan Loss Provisions (LLPs) increased by 24.4% to Kshs 1.3 bn, from Kshs 1.1 bn in H1'2021, attributable to the relatively high non performing loans,
- Cost to Income Ratio (CIR) improved to 55.2%, from 56.3% in H1'2022 attributable to the faster 21.6% increase in total operating income which outpaced the 19.3% increase in the total operating expenses to Kshs 8.6 bn from Kshs 7.2 bn in H1'2021. Also, without LLP, cost to income ratio improved to 46.8% from 48.1% in H1'2021, an indication of improved efficiency,
- Profit before tax increased by 22.5% to Kshs 7.2 bn, up from Kshs 5.9 bn in H1'2021. Profit after tax increased by 15.9% to Kshs 4.9 bn, up from Kshs 4.2 bn in H1'2021, with the effective tax rate increasing to 30.0%, from 29.1% in H1'2021.

Balance Sheet

- The balance sheet recorded an expansion as total assets grew by 14.9% to Kshs 439.7 bn, from Kshs 382.6 bn in H1'2021, attributable to a 13.0% growth in the loan book to Kshs 231.1 bn, from Kshs 204.5 bn in H1'2021, coupled with a 17.2% increase in government and other securities to Kshs 121.4 bn, from Kshs 103.5 bn in H1'2021,

- Total liabilities rose by 17.8% to Kshs 368.2 bn from Kshs 312.5 bn in H1'2021, driven by a 13.2% rise in customer deposits to Kshs 313.2 bn from Kshs 276.8 bn in H1'2021. Deposits per branch declined by 13.2% to Kshs 3.6 bn from Kshs 4.2 bn in H1'2021, with the number of branches increasing to 86 branches from 66 branches in H1'2021,
- The slower 13.0% growth in loans as compared to the 13.2% growth in deposits led to a marginal decline in the loan to deposits ratio to 73.8% from 73.9% in H1'2021,
- Gross non-performing loans increased by 1.5% to Kshs 23.3 bn in H1'2022, from Kshs 22.9 bn in H1'2021. However, the NPL ratio declined to 9.5% in H1'2022 from 10.4% in H1'2021, attributable to the faster 12.6% increase in gross Loans. The NPL coverage also declined to 59.2% in H1'2022 from 67.2% in H1'2021, as general Loan Loss Provisions increased by 17.0% to Kshs 18.0 bn from Kshs 15.4 bn in H1'2021.
- Shareholders' funds increased by 1.0% to Kshs 66.5 bn in H1'2022 from Kshs 65.9 bn in H1'2021, supported by a 15.9% increase in retained earnings to Kshs 4.9 bn from Kshs 4.2 bn in H1'2021,
- I&M Holdings Plc remains sufficiently capitalized with a core capital to risk-weighted assets ratio of 15.0%, 4.5% points above the statutory requirement. In addition, the total capital to risk-weighted assets ratio came in at 19.8%, exceeding the statutory requirement by 5.3% points. Adjusting for IFRS 9, the core capital to risk-weighted assets stood at 15.1%, while total capital to risk-weighted assets came in at 19.8%, and,
- The bank currently has a Return on Average Assets (ROaA) of 2.1%, and a Return on Average Equity (ROaE) of 13.3%.

Key Take-Outs:

1. The bank's asset quality improved, with the NPL ratio declining to 9.4% in H1'2022 from 10.4% in H1'2021, attributable to the faster 12.6% increase in gross Loans. The NPL coverage declined to 59.2% in H1'2022 from 67.2% in H1'2021, as general Loan Loss Provisions increased by 18.3% to Kshs 13.8 bn from Kshs 11.6 bn in H1'2021, an indication of increased provisioning of the existing NPLs,
2. Non-Funded Income (NFI) grew by 28.2% to Kshs 5.1 bn from the Kshs 4.0 bn that was recorded in H1'2021, driven by a 147.7% growth in Foreign Exchange Trading income to Kshs 1.9 bn from Kshs 0.8 bn in H1'2021, coupled with a 44.3% increase in other fees and commissions from loans and advances to Kshs 1.9 bn from Kshs 1.3 bn in H1'2021. Fees and commission on loans and advances income increased by 9.9% to Kshs 1.0 bn from Kshs 0.9 bn in H1'2021. Total fees and commissions increased by 30.1% to Kshs 2.9 bn from Kshs 2.2 bn in H1'2021. The growth in Non-Funded Income was however weighed down by a 71.1% decline in other income to Kshs 0.3 bn from Kshs 1.0 bn in H1'2021, and,
3. There was an improvement in efficiency levels as the Cost to Income Ratio (CIR) improved to 55.2%, from 56.3% in H1'2022 attributable to the faster 21.6% increase in total operating income as compared to the 19.3% increase in the total operating expenses. Also, without LLP, cost to income ratio improved to 46.8% from 48.1% in H1'2021, an indication of reduced efficiency.

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

- I. **Enhancing Digitization** – The bank has improved its investment in infrastructure aiming to boost digital transformation strategy, standardize operations, and support systems and processes in various subsidiaries within the region. Digitization improvement has optimized risk management and ensured efficiency and has seen 85.0% of the Group's transactions undertaken through digital channels. Henceforth, we expect the group's digitization program to support the it's income in the long run, despite the initial high costs. The group will also leverage on its synergies to support regional operations and enhance customer experience, and,
- II. **Regional diversification** – The Group's regional diversification has continued to bear fruit, with the Profits Before Tax contribution of the subsidiaries increasing to 27.0%, from 17.0% in H1'2021, driven by recoveries in Uganda and Mauritius and continued growth in Rwanda and Tanzania. We expect the bank to leverage on the region's economic growth and increased cooperation to grow it's bottomline.

Valuation Summary

- We are of the view that I&M Holdings Plc is a “**Buy**” with a target price of Kshs 24.3, representing an upside of 43.6%, from the current price of Kshs 17.0 as of 19th August 2022, inclusive of a dividend yield of 11.8%,
- I&M Holdings Plc is currently trading at a P/TBV of 0.4x and a P/E of 3.4x vs an industry average of 0.6x and 4.8x, respectively.