

Below is a summary of I&M Holdings' Q1'2022 performance;

Balance Sheet Items	Q1'2021	Q1'2022	y/y change
Government Securities	102.4	124.0	21.0%
Net Loans and Advances	193.2	218.4	13.1%
Total Assets	364.4	430.8	18.2%
Customer Deposits	263.1	309.4	17.6%
Total Liabilities	294.9	355.6	20.6%
Shareholders' Funds	65.6	70.5	7.6%

Balance Sheet Ratios	Q1'2021	Q1'2022	% y/y change
Loan to Deposit Ratio	73.4%	70.6%	(2.8%)
Return on average equity	13.3%	13.5%	0.2%
Return on average assets	2.4%	2.2%	(0.2%)

Income Statement	Q1'2021	Q1'2022	y/y change
Net Interest Income	4.3	5.2	20.7%
Net non-Interest Income	1.8	2.2	20.3%
Total Operating income	6.1	7.4	20.6%
Loan Loss provision	(0.8)	(0.5)	(36.7%)
Total Operating expenses	(3.6)	(3.9)	8.1%
Profit before tax	2.7	3.7	38.0%
Profit after tax	1.9	2.7	43.6%
Core EPS	1.1	1.6	43.6%

Income Statement Ratios	Q1'2021	Q1'2022	y/y change
Yield from interest-earning assets	9.4%	10.1%	0.7%
Cost of funding	4.4%	4.0%	(0.4%)
Net Interest Margin	5.4%	6.4%	1.0%
Net Interest Income as % of operating income	70.3%	70.3%	-
Non-Funded Income as a % of operating income	29.7%	29.7%	-
Cost to Income Ratio with LLP	58.0%	52.0%	(6.0%)
Cost to Income Ratio without LLP	45.7%	45.5%	(0.2%)
Cost to Assets	0.8%	0.8%	-

Capital Adequacy Ratios	Q1'2021	Q1'2022
Core Capital/Total Liabilities	22.3%	20.0%
Minimum Statutory ratio	8.0%	8.0%
Excess	14.3%	12.0%
Core Capital/Total Risk Weighted Assets	18.1%	15.8%
Minimum Statutory ratio	10.5%	10.5%
Excess	7.6%	5.3%
Total Capital/Total Risk Weighted Assets	21.6%	20.6%
Minimum Statutory ratio	14.5%	14.5%
Excess	7.1%	6.1%
Liquidity Ratio	47.1%	52.8%
Minimum Statutory ratio	20.0%	20.0%
Excess	27.1%	32.8%
Adjusted Core Capital/Total Liabilities	22.3%	20.0%
Adjusted Core Capital/Total RWA	18.1%	15.9%

Income Statement

- Core earnings per share increased by 43.6% to Kshs 1.6 in Q1'2022, from Kshs 1.1 recorded in Q1'2021. This was mainly attributable to the 20.6% increase in the total operating income to Kshs 7.4 bn in Q1'2022 from Kshs 6.1 bn in Q1'2021. The performance was however weighed down by a 8.1% increase in total operating expenses to Kshs 3.9 bn, from Kshs 3.6 bn in Q1'2021,
- Total operating income increased by 20.6% to Kshs 7.4 bn from Kshs 6.1 bn in Q1'2021 as a result of a 20.7% increase in the Net Interest Income (NII) to Kshs 5.2 bn in Q1'2022 from Kshs 4.3 bn in Q1'2021, as well as an increase in the Non-Funded Income (NFI) which came in at Kshs 2.2 bn in the review period, a 20.3% increase from the Kshs 1.8 bn that was recorded in Q1'2021,
- Interest income increased by 20.6% to Kshs 8.6 bn from Kshs 7.1 bn in Q1'2021, driven by an 23.8% growth in the interest income from government securities, that came in at Kshs 2.6 bn in Q1'2022, from Kshs 2.1 bn in Q1'2021. This is also in addition to the 19.0% increase in the interest income from loans and advances to Kshs 6.0 bn, from Kshs 5.0 bn realized in Q1'2021. Notably, the Yield on Interest-Earning Assets increased to 10.1% from 9.4% in Q1'2021, attributable to a 21.2% increase in the trailing interest income, as compared to the 13.1% 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 20.6% to Kshs 3.4 bn from Kshs 2.8 bn in Q1'2021, attributable to an 18.3% increase in the interest expense on deposits to Kshs 2.8 bn, from Kshs 2.4 bn realized in Q1'2021, as well as a 28.2% growth in the interest expense on placements to Kshs 0.3 bn from Kshs 0.2 bn in Q1'2021. The cost of funds declined by 0.4% points to 4.0% from 4.4% recorded in Q1'2022, following a 14.7% increase in average interest bearing liabilities, which outpaced the 5.7% increase in trailing interest expense. The Net Interest Margin (NIM) increased by 1.0% points to 6.4%, from 5.4% in Q1'2021, driven by the 32.6% increase in the trailing net interest income (NII) which outpaced the 13.1% growth in average interest earning assets,
- Non-Funded Income (NFI) grew by 20.3% to Kshs 2.2 bn from the Kshs 1.8 bn that was recorded in Q1'2021, driven by a 75.8% growth in Foreign Exchange Trading income to Kshs 0.6 bn from Kshs 0.3 bn in Q1'2021, coupled with a 33.6% increase in other fees and commissions from loans and advances to Kshs 0.9 bn from Kshs 0.6 bn in Q1'2021. Fees and commission on loans and advances income increased by 20.3% to Kshs 0.5 bn from Kshs 0.4 bn in Q1'2021. Total fees and commissions increased by 28.4% to Kshs 1.4 bn from Kshs 1.1 bn in Q1'2021. The growth in Non-Funded Income was however weighed down by a 47.0% decline in other income to Kshs 0.2 bn from Kshs 0.4 bn in Q1'2021,
- Total operating expenses rose by 8.1% to Kshs 3.9 bn from Kshs 3.6 bn in Q1'2021, largely driven by a 24.8% increase in other operating expenses to Kshs 2.0 bn, from Kshs 1.6 bn in Q1'2021, coupled with a 13.8% increase in staff costs to Kshs 1.3 bn, from Kshs 1.2 bn in Q1'2021. On the other hand, Loan Loss Provisions (LLPs) declined by 36.7% to Kshs 0.5 bn, from Kshs 0.8 bn in Q1'2021, attributable to the reduced credit risk on the back of business activity,
- Cost to Income Ratio (CIR) improved to 52.0%, from 58.0% in Q1'2021 attributable to the faster 20.6% increase in total operating income as compared to the 8.1% increase in the total operating expenses to Kshs 0.5 bn from Kshs 0.8 bn in Q1'2021. Also, without LLP, cost to income ratio improved to 45.5% from 45.7% in Q1'2021, an indication of increased efficiency,
- Profit before tax increased by 38.0% to Kshs 3.7 bn, up from Kshs 2.7 bn in Q1'2021. Profit after tax increased by 43.6% to Kshs 2.7 bn, up from Kshs 1.9 bn in Q1'2021, with the effective tax rate increasing to 30.0%, from 29.1% in Q1'2021.

Balance Sheet

- The balance sheet recorded an expansion as total assets grew by 18.2% to Kshs 430.8 bn, from Kshs 364.4 bn in Q1'2021, attributable to a 13.1% loan book expansion to Kshs 218.4 bn, from Kshs 193.2 bn in Q1'2021, coupled with a 21.0% increase in government and other securities to Kshs 124.0 bn, from Kshs 102.4 bn in Q1'2021,
- Total liabilities rose by 20.6% to Kshs 355.6 bn from Kshs 294.9 bn in Q1'2021, driven by a 17.6% rise in customer deposits to Kshs 309.4 bn from Kshs 263.1 bn in Q1'2021, coupled with a 73.1% increase in placements liabilities

to Kshs 17.7 bn from Kshs 10.2 bn in Q1'2021. Deposits per branch increased by 21.7% to Kshs 3.6 bn from Kshs 3.0 bn in Q1'2021, with the number of branches reduced to 86 branches from 89 branches in Q1'2021,

- The slower 13.1% growth in loans as compared to the 17.6% growth in deposits led to a decline in the loan to deposit ratio to 70.6% from 73.4% in Q1'2021,
- Gross non-performing loans declined by 4.4% to Kshs 23.6 bn in Q1'2022, from Kshs 24.7 bn in Q1'2021. Consequently, the NPL ratio declined to 10.0% in Q1'2022 from 11.9% in Q1'2021, attributable to the 15.4% increase in gross Loans, coupled with the 4.4% decline in gross Non-Performing loans. The NPL coverage on the other hand improved to 72.1% in Q1'2022 from 61.1% in Q1'2021, as general Loan Loss Provisions increased by 16.1% to Kshs 13.0 bn from Kshs 11.2 bn in Q1'2021 coupled with the 4.4% decline in gross NPLs,
- Shareholders' funds increased by 7.6% to Kshs 70.5 bn in Q1'2022 from Kshs 65.6 bn in Q1'2021, supported by a 14.4% increase in retained earnings to Kshs 46.3 bn from Kshs 40.5 bn in Q1'2021,
- I&M Holdings Plc remains sufficiently capitalized with a core capital to risk-weighted assets ratio of 15.8%, 5.3% points above the statutory requirement. In addition, the total capital to risk-weighted assets ratio came in at 20.6%, exceeding the statutory requirement by 6.1% points. Adjusting for IFRS 9, the core capital to risk-weighted assets stood at 15.9%, while total capital to risk-weighted assets came in at 20.6%, and,
- The bank currently has a Return on Average Assets (ROaA) of 2.3%, and a Return on Average Equity (ROaE) of 13.5%.

Key Take-Outs:

1. The bank's asset quality improved, with the NPL ratio declining to 10.0% in Q1'2022 from 11.9% in Q1'2021. The NPL coverage also improved to 72.1% in Q1'2022 from 61.1% in Q1'2021, as general Loan Loss Provisions increased by 16.1% to Kshs 13.0 bn from Kshs 11.2 bn in Q1'2021, an indication of increased provisioning of the existing NPLs,
2. Non-Funded Income (NFI) grew by 20.3% to Kshs 2.2 bn from the Kshs 1.8 bn that was recorded in Q1'2021, driven by a 75.8% growth in Foreign Exchange Trading income to Kshs 0.6 bn from Kshs 0.3 bn in Q1'2021, coupled with a 33.6% increase in other fees and commissions from loans and advances to Kshs 0.9 bn from Kshs 0.6 bn in Q1'2021. Fees and commission on loan and advances income increased by 20.3% to Kshs 0.5 bn from Kshs 0.4 bn in Q1'2021. The growth in Non-Funded Income was however weighed down by a 47.0% decline in other income to Kshs 0.2 bn from Kshs 0.4 bn in Q1'2021, and,
3. There was an improvement in efficiency levels as the Cost to Income Ratio (CIR) improved to 52.0%, from 58.0% in Q1'2022 attributable to the faster 20.6% increase in total operating income as compared to the 8.1% increase in the total operating expenses. Also, without LLP, cost to income ratio improved to 45.5% from 45.7% in Q1'2021, an indication of reduced efficiency.

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 85.0% of the Group's transactions carried out through digital channels. 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, 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 Q1'2021, 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 its bottomline.

Valuation Summary

- We are of the view that I&M Holdings Plc is a “**Buy**” with a target price of Kshs 25.4, representing an upside of 50.7%, from the current price of Kshs 17.1 as of 27th May 2022, inclusive of a dividend yield of 8.8%,
- I&M Holdings Plc is currently trading at a P/TBV of 0.4x and a P/E of 3.5x vs an industry average of 0.7x and 5.1x, respectively.