



**I&M Holdings
Q3'24 Earnings
Note**





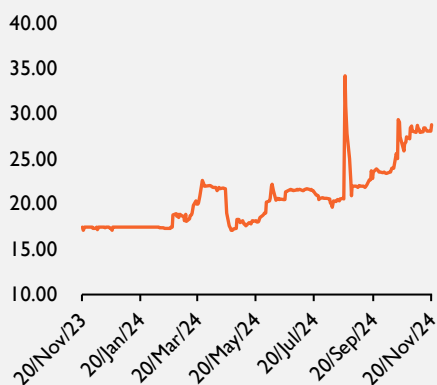
I&M Group Q3'24 Earnings Note

November 21st, 2024

Ticker Information

NSE Code:	IMH
Issued Shares (Bn):	1.65
52-week high:	KES 35.00
52-week low:	KES 15.80

Chart 1: Price Trend (Last 12 Months)



Source: NSE, AIB-AXYS Research

Historical Share Performance

Last	1M	3M	6M	12M
Change	4.9%	39.8%	58.7%	64.6%

Source: NSE, AIB-AXYS Research

Analyst

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Recommendation

BUY

Current Price

KES 28.80

Target Price

KES 31.35

Summary

- **I&M Group posted an impressive 21.3% y/y growth in net earnings, reaching KES 9.95Bn for the first nine months of 2024.** The robust performance was driven by a 19.8% y/y jump in revenue, underpinned by a significant 37.4% y/y increase in net interest income. Net interest margin expanded by 90bps y/y to 7.0%, reflecting higher yields on interest-earning assets. The trailing return on equity increased 30bps y/y to 16.8% while the trailing return on assets remained flat at 2.5%.
- **The Board of Directors recommend an interim dividend of KES 1.30 per share.** The dividend is payable on 14th January 2025 to shareholders on register as of 16th December 2024.

Key Highlights

- **Robust Growth in Net Interest Income:** Net Interest Income surged 37.4% y/y to KES 26.28Bn propelled by a robust 43.7% y/y increase in interest income from loans and an 18.1% y/y increase in interest from government securities. Conversely, non-funded revenue declined 11.5% y/y to KES 9.48Bn primarily due to a decline in forex trading income. Operating income grew 19.8% y/y to KES 35.76Bn. The average yield on interest earning assets increased 270bps y/y to 13.6% reflecting higher reinvestment returns. This outpaced the 190bps y/y increase in the cost of funds to 6.6%, driven by the prevailing high interest rate environment. As a result, net interest margin widened 90bps y/y to 7.0%.
- **Asset Quality Resilience:** Gross Non-Performing Loans (NPLs) decreased by 130bps y/y to KES 35.66Bn –resulting in a marginal 1bps y/y reduction in the gross NPL ratio to 11.9%. NPL Coverage improved significantly, rising by 9.5% y/y to 61.3%, underscoring the lender's enhanced capacity to cushion against potential credit losses. Amid heightened credit risk, management adopted a cautious approach, increasing credit impairment provisions by 18.9% y/y to KES 5.5Bn.

Balance Sheet Dynamics

Customer deposits recorded a modest growth of 2.8% y/y to KES 413.81Bn. However, the loan book contracted by 2.1% y/y to KES 281.34Bn as management adopted a conservative lending approach. In a strategic move to capitalize on favorable yields, the lender increased its allocation to government securities by 30.6% y/y. The lender proactively managed its investment portfolio in response to market fluctuations, yielding fair value gains of KES 0.32Bn on government securities.

Improving Efficiency

The lender demonstrated improved operational efficiency as evidenced by a 170bps y/y decline in the Cost-to-Income ratio (excluding loan-loss provisions) to 47.1%. This improvement was largely underpinned by robust top-line growth with operating income rising 19.8% y/y to KES 35.76Bn, outpacing the 15.7% y/y growth in pre-provision operating expenses. Notably, cost-to-assets ratio increased marginally by 30bps to 3.0% reflecting a slight rise in operational costs relative to the asset base.

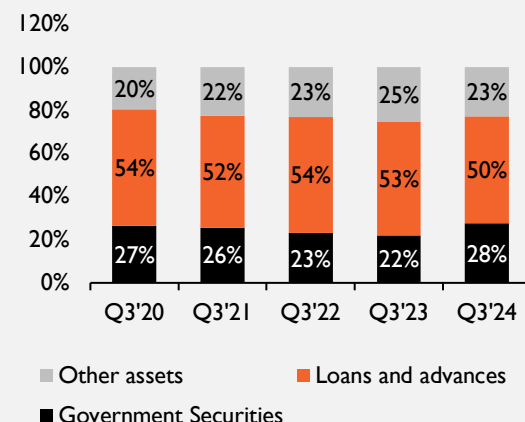
Outlook

We anticipate strong growth for the lender, driven by its comprehensive Imara 3.0 strategy, which focuses on innovative product offerings, expanding subsidiaries, advancing digital transformation, and forming strategic partnerships. We expect the rollout of unsecured personal loans and the removal of bank-to-mobile transaction fees to bolster customer acquisition and retention, supporting loan book growth and increasing fee-based income. We foresee the lender's rapidly growing subsidiaries making substantial contributions to the group's overall performance, effectively diversifying revenue streams and reducing risk exposure.

Recommendation

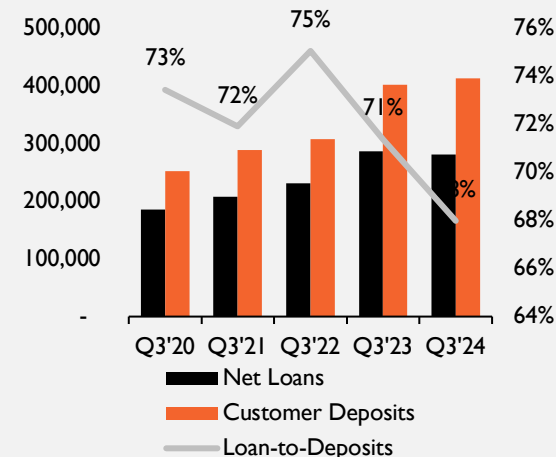
- **We maintain our BUY recommendation on I&M Group underpinned by the strengthening return on equity and the continued execution of strategic initiative.** At current market price, the stock is trading at P/E ratio of 3.4x and a P/B ratio of 0.5x. Our one-year target price for I&M Group currently stands at KES 31.35 - representing a c. 8.9% upside potential from current levels.

Chart 2: Asset Composition



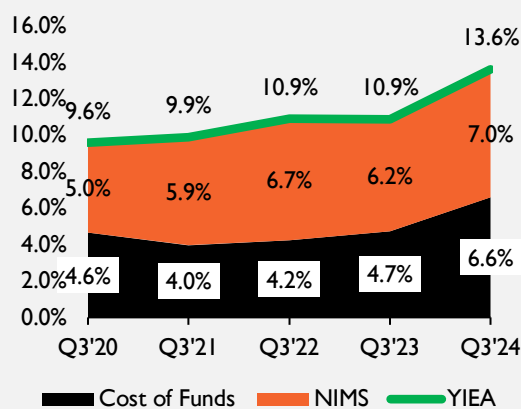
Source: Company filings, AIB-AXYS Research.

Chart 3: Faster Deposit Mobilization



Source: Company filings, AIB-AXYS Research.

Chart 4: Widening Net Interest Margin



Source: Company filings, AIB-AXYS Research.

Income Statement (KES Mn)	Q3'20	Q3'21	Q3'22	Q3'23	Q3'24	% y/y change
Net Interest Income	10,400.7	13,988.2	16,164.7	19,133.2	26,280.1	▲ 37.4%
Net non-Interest Income	6,408.5	6,184.5	8,844.0	10,719.7	9,484.8	▼ (11.5%)
Total Operating income	16,809.2	20,172.6	25,008.7	29,852.9	35,764.9	▲ 19.8%
Provision for Impairment	(2,149.7)	(2,825.0)	(3,603.1)	(4,623.9)	(5,499.7)	▲ 18.9%
Total Operating expenses	(9,736.3)	(12,527.5)	(14,920.0)	(19,192.2)	(22,362.0)	▲ 16.5%
Profit before tax	7,072.9	7,645.2	10,088.7	10,660.7	13,402.8	▲ 25.7%
Profit after tax	4,588.3	5,738.0	7,176.1	8,201.5	9,946.4	▲ 21.3%
Core EPS Annualized	3.29	4.39	5.49	6.26	7.39	▲ 18.1%

Balance Sheet (KES Mn)	Q3'20	Q3'21	Q3'22	Q3'23	Q3'24	% y/y change
Government Securities	91,382.0	102,288.7	98,832.7	119,998.6	156,691.9	▲ 30.6%
Loans and Advances	185,693.8	207,605.4	231,240.4	287,333.7	281,342.1	▼ (2.1%)
Total Assets	344,670.8	399,069.3	428,676.0	544,100.6	567,719.3	▲ 4.3%
Customer Deposits	252,828.7	288,684.9	308,045.4	402,410.7	413,806.1	▲ 2.8%
Total Liabilities	280,829.8	326,857.7	355,181.3	458,837.9	473,608.6	▲ 3.2%
Shareholder's Funds	60,464.9	68,006.4	68,442.3	79,098.0	87,616.2	▲ 10.8%

Ratio Analysis	Q3'20	Q3'21	Q3'22	Q3'23	Q3'24	% y/y change
Spreads Analysis						
Yield on Assets	9.6%	9.9%	10.9%	10.9%	13.6%	▲ 2.7%
Cost of Funds	4.6%	4.0%	4.2%	4.7%	6.6%	▲ 1.9%
Net Interest Margin	5.0%	5.9%	6.7%	6.2%	7.0%	▲ 0.9%
ROaE	14.5%	13.7%	13.9%	16.5%	16.8%	▲ 0.3%
ROaA	2.5%	2.3%	2.3%	2.5%	2.5%	▲ 0.0%
Profit Margin	27.3%	28.4%	28.7%	27.5%	27.8%	▲ 0.3%
Operating Efficiency						
Cost to Income Less LLP	45.1%	48.1%	45.3%	48.8%	47.1%	▼ (1.7%)
Cost to Assets less LLP	2.2%	2.4%	2.6%	2.7%	3.0%	▲ 0.3%
Loan to Deposit	73.4%	71.9%	75.1%	71.4%	68.0%	▼ (3.4%)
Asset Quality						
NPL	11.5%	10.3%	9.7%	12.0%	11.9%	▼ (0.0%)
NPL Coverage	66.8%	70.6%	75.4%	51.8%	61.3%	▲ 9.5%
Cost of Risk	1.2%	1.4%	1.6%	1.6%	2.0%	▲ 0.3%
Capital Adequacy						
Core Capital/TRWA	16.5%	32.8%	15.3%	13.0%	14.6%	▲ 1.6%
Total Capital /TRWA	21.3%	32.8%	20.1%	17.7%	18.0%	▲ 0.3%
Liquidity	47.2%	49.4%	46.6%	48.2%	51.5%	▲ 3.3%



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