

## I&M Holdings– 1H17 Earnings Update

**I&M Holdings posted a 17.9% y/y slump in 1H17 net earnings to KES 3.4B on the back of a lower interest income and higher operating expenses. In line with market expectations, the group did not declare an interim dividend.**

### Lower net interest income pressures top line

The group's net interest income spiraled down 4.4% y/y to KES 6.9B. The drop was attributable to a 5.6% y/y decline in I&M bank's net interest income to KES 5.9B. I&M bank's total interest income dipped 7.9% y/y to KES 9.7B on the back of a 12.9% y/y decrease in interest income from loans and advances to KES 7.2B. I&M bank's total interest expenses also declined 11.2% y/y to KES 3.8B as a result of a 12.6% y/y drop in interest expenses incurred from customer deposits to KES 3.3B. The decline in interest income, was offset by stellar growth in non-funded income. Net fees and commission, jumped +16.7% y/y to KES 1.4B while other operating income was up 8.2% y/y to KES 1.3B. The increase in the group's net fees and commission income was primarily attributable to a 17.7% y/y rise in I&M bank's gross fees and commission income to KES 1.2B.

### Higher opex, credit impairment charges dent bottom line

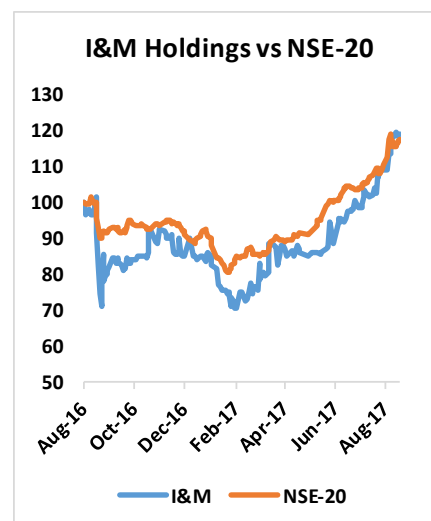
I&M Holdings' operating expenses climbed 18.3% y/y to KES 3.9B while net impairment losses on loans and advances spiked 34.2% y/y to KES 965.6M. I&M bank's loan loss provision expense surged 46.7% y/y to KES 956.9M on the back of a 50.3% y/y surge in gross NPLs to KES 8.9B. The group's loan book grew 9.1% y/y to KES 144.5B, while funds held in investment securities increased at a slower pace of 3.6% y/y to KES 50.4B. Deposit growth outpaced loan book growth at 10.3% y/y to KES 161.5B. The group's profit for the period fell 17.9% y/y to KES 3.4B impacted by lower interest income and higher credit expenses. On the bank level, net earnings tumbled 21.1% y/y to KES 2.8B.

**Looking ahead:** The stock currently trades at 7.8x trailing FY16 earnings, 1.3x trailing FY16 book value and with an ROE of 15.5%. However, the trailing dividend yield (2.8%) lags the sector average. I&M bank's acquisition of Giro Commercial Bank in March this year has effectively pushed up I&M bank's network to 43 branches countrywide. The acquisition of Giro is anticipated to bolster I&M bank's customer base and create wider access for product offerings, thereby boosting top line. Going forward, we expect further NIM compression in the wake of the rate cap, however, growth in non-funded income remains encouraging and is expected to mitigate pressure on the bottom line. Additionally, the group's steadily expanding regional operations, will help reduce I&M's reliance on Kenya's increasingly saturated banking sector.

Bloomberg Ticker : IM. KN  
Reuters Ticker : IM.NR

Share Statistics	
Current Price (KES)	125.00
Issued shares (M)	413.4
Market cap (USDm)	500.9
Year end	Dec
Foreign ownership (%)	13.3
Free float (%)	28.8
Av daily trading vol (USDk)	25.9

### Price Trend



Source: Bloomberg

### Research Analyst

**Shaniza Kassam**

skassam@apexafrica.com

020-7602534

[www.apexafrica.com](http://www.apexafrica.com)

Interest Income	1H16	FY16	1H17	% chg y/y
	KES '000	KES '000	KES '000	
Net interest income	7,178,782	15,521,676	6,861,291	-4.4%
Net fee and commission	1,174,418	2,552,150	1,370,010	16.7%
Other operating income	1,233,454	2,238,169	1,334,903	8.2%
<b>Operating income</b>	<b>9,586,654</b>	<b>20,311,995</b>	<b>9,566,204</b>	<b>-0.2%</b>
Operating expenses	3,281,678	7,195,796	3,881,909	18.3%
Net impairment losses on loans and advances	719,743	2,956,979	965,564	34.2%
	<b>5,585,233</b>	<b>10,159,220</b>	<b>4,718,731</b>	
Share of Profit of Joint Venture	240,061	443,968	245,462	2.2%
<b>Profit before income tax</b>	<b>5,825,294</b>	<b>10,603,188</b>	<b>4,964,193</b>	<b>-14.8%</b>
Income tax expense	1,648,487	2,843,026	1,534,107	-6.9%
<b>Profit for the year/period</b>	<b>4,176,807</b>	<b>7,760,162</b>	<b>3,430,086</b>	<b>-17.9%</b>
<b>Earnings per share (KES)</b>	<b>9.45</b>	<b>17.62</b>	<b>7.86</b>	<b>-16.8%</b>
<b>Dividend per share (KES)</b>	<b>-</b>	<b>3.50</b>	<b>-</b>	
<b>Balance Sheet</b>				
<b>Assets</b>				
Cash and balances with central banks	9,839,216	11,083,876	10,270,907	4.4%
Placements with financial institutions	8,144,979	6,948,707	6,657,470	-18.3%
Loans and advances to customers	132,463,686	134,675,332	144,546,775	9.1%
Investment securities	48,605,745	45,834,460	50,371,550	3.6%
Property and equipment	2,915,365	3,906,899	4,905,986	68.3%
<b>Total assets</b>	<b>210,337,904</b>	<b>210,542,393</b>	<b>229,223,755</b>	<b>9.0%</b>
Deposits from banks	9,649,335	7,795,856	5,900,602	-38.8%
Deposits from customers	146,416,925	146,514,406	161,526,916	10.3%
Other liabilities	3,475,307	3,272,187	4,754,611	36.8%
Long term borrowings	9,537,646	8,759,516	7,860,588	-17.6%
<b>Total liabilities</b>	<b>173,806,612</b>	<b>171,035,976</b>	<b>184,856,136</b>	<b>6.4%</b>
<b>Total shareholders equity</b>	<b>36,531,292</b>	<b>39,506,417</b>	<b>44,367,619</b>	<b>21.5%</b>
<b>Liabilities and shareholders equity</b>	<b>210,337,904</b>	<b>210,542,393</b>	<b>229,223,755</b>	<b>9.0%</b>
<b>Cashflow Statement</b>				
<b>Net cash generated from operating activities</b>	<b>9,618,390</b>	<b>10,610,555</b>	<b>6,005,106</b>	<b>-37.6%</b>
Net cash used in investing activities	222,694	1,808,329	363,078	63.0%
Net cash used in financing activities	1,556,540	1,311,531	1,767,765	13.6%
<b>Net increase in cash and cash equivalents</b>	<b>7,839,156</b>	<b>7,490,695</b>	<b>3,874,263</b>	<b>-50.6%</b>
<b>Cash and cash equivalents at beginning of period</b>	<b>4,378,074</b>	<b>4,378,074</b>	<b>11,868,769</b>	<b>171.1%</b>
<b>Cash and cash equivalents at end of the period</b>	<b>12,217,230</b>	<b>11,868,769</b>	<b>15,743,032</b>	<b>28.9%</b>
<b>Ratios</b>				
Net Margin	43.6%	38.2%	35.9%	
ROA	4.0%	3.7%	3.0%	
ROE	22.9%	19.6%	15.5%	
P/E		<b>7.8</b>		
P/B		<b>1.3</b>		
<b>Dividend Yield</b>		<b>2.8%</b>		

Source: Company Filings, ApexAfrica Research

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ApexAfrica Capital Ltd  
**A** The Riverfront, 1<sup>st</sup> Floor, Prof. David Wasawo Drive, Off Riverside Drive | P.O. Box 43676-00100 | Nairobi | Kenya |  
**T**: +254-20-2226440 | **F**ax: +254-20-2319092 | **C**ell: +254-723-420204|  
**W** : [www.apexafrica.com](http://www.apexafrica.com)  
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