

I&M Holdings – FY17 Earnings Update

“Decent Earnings, Jagged NPLs”

I&M Holdings marked a 6.4% y/y decline in net earnings to KES 7.3B, largely in line with its peers in the banking sector who have seen their top line dampen owing to the looming rate cap. Net interest income remained rather flat at KES 15.6B (+0.2% y/y) while gross NPLs burgeoned 106.7% y/y to KES 19.5B. The group kept its total FY17 dividend unchanged at KES 3.50, which will be paid on May 24th 2018. Books closure is slated for April 30th 2018.

Net interest income remained largely unchanged at KES 15.6B (+0.2% y/y) owing to a 0.1% y/y marginal dip in total interest income to KES 24.4B. The subdued growth in interest income was evidently due to the rate cap but was however slightly aided by an increase in interest income from government securities (+6.0% y/y to KES 5.4B) on the back of a solid 10.9% y/y increase in the total stock held in government securities. Interest expense on the other hand dropped 0.7% y/y to KES 8.9B even though customer deposits shot up 15.5% y/y to KES 169.3B. This could be attributed to lower interest bearing deposits, which dragged down cost of funds to 5.1% (-72.7bps y/y). The group’s net interest margin shrunk 60bps y/y to 6.6% .

Total non interest income rose to 5.8B (+15.9% y/y). The growth was driven by robust increase in gross fees and commissions to KES 3.3B (+21.5% y/y) and a marginal rise in foreign exchange income to KES 1.8B (+1.7% y/y). Total non-funded income contributed to 27.0% of I&M’s total income , a decent rise of 276.8bps y/y to support its low interest income for the year.

Total operating expenses galloped 6.3% to KES 7.8B; a culprit to the dent in the group’s bottom line. The expenses were highlighted by a 4.4% y/y climb in staff costs to KES 3.8B coupled with a 21.4% y/y jump in rental charges to KES 693.5M. Consequently, the group’s cost-to-income ratio leaped to 36.8% (+79.7bps y/y) but ranks among the most efficient lenders given its peers have a CIR of above 40.0%.

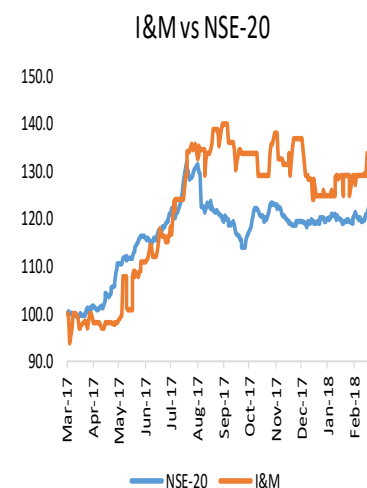
Loan loss provision expense trotted 39.8% y/y to KES 4.1B in line with a surge in gross NPLs to KES 19.5B (+106.7% y/y). This had a massive ballooning effect on its NPL ratio, which inflated to 12.3% (+546.4 bps y/y), above the industry average of 10.6%. This may have been caused by delayed government payments to contractors and suppliers. The group’s coverage ratio of 27.1% is at the lower spectrum of the banking sector and remains a key threat for the bank to effectively manage its financial obligations.

Looking ahead: I&M Holdings wholly owned subsidiary, I&M bank’s, acquisition of Giro Commercial Bank in March 2017 has effectively pushed up I&M bank’s network to 43 branches countrywide and grown its customer base. Moreover, wider access for product offerings is anticipated to boost its top line. Furthermore, in late 2017, I&M Bank and Ger-

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

Share Statistics	
Current Price (KES)	125.00
Issued shares (M)	413.4
Market cap (USD M)	512.6
Year end	Dec
Foreign ownership (%)	13.3
Free float (%)	25.0
Av daily trading vol (USDk)	48.0

Price Trend



Source: Bloomberg

Research Analyst

Shaniza Kassam

skassam@apexafrica.com

020-7602533

www.apexafrica.com

man development finance institution DEG set up a new unit to provide specialist banking and advisory services to German businesses looking for trade in the region. We expect the latter grow its foreign currency denominated deposits which will in turn allow headroom for loan book growth. The rise in non-funded income remains encouraging and is expected to mitigate pressure on the bottom line in light of the rate cap. Additionally, the group's steadily expanding regional operations, will help reduce I&M's reliance on Kenya's increasingly saturated banking sector. However, we remain worrisome of the group's rising NPLs, which may deteriorate its loan book quality going forward. The counter trades at 7.1x P/E, 1.2x P/B. Its dividend yield of 2.8% lags the sector average.

	FY16	FY17	chg y/y
	KES '000	KES '000	
Income Statement			
Interest Income	24,451,398	24,423,762	-0.1%
Interest Expense	8,929,722	8,869,275	-0.7%
Net Interest Income	15,521,676	15,554,487	0.2%
Foreign Exchange Income	1,797,461	1,828,903	1.7%
Gross Fees and Commission	2,734,967	3,324,275	21.5%
Other Income	440,708	609,648	38.3%
Non Interest Income	4,973,136	5,762,826	15.9%
Total Operating Income	20,494,812	21,317,313	4.0%
Total Operating Expenses	7,378,613	7,844,534	6.3%
Loan Loss Provision Expense	2,956,979	4,133,170	39.8%
Operating Profit	13,116,199	13,472,779	2.7%
Profit Before Tax and Exceptional Items	10,159,220	9,339,609	-8.1%
Exceptional Items	443,968	554,965	25.0%
Current Tax	2,843,026	2,630,325	-7.5%
Profit After Tax	7,760,162	7,264,249	-6.4%
EPS (KES)	18.77	17.57	-6.4%
DPS (KES)	3.50	3.50	0.0%
Balance Sheet			
Total Shareholders' Equity	37,029,748	44,319,853	19.7%
Deposits due to Banks & Financial Institutions	7,795,856	5,996,295	-23.1%
Customer Deposits	146,514,406	169,282,314	15.5%
Total Liabilities	171,035,976	193,095,258	12.9%
Total Equity and Liabilities	208,065,724	237,415,111	14.1%
Cash and CBK Balances	11,083,876	11,879,815	7.2%
Balances due from Banks & Financial Institutions	6,948,707	6,379,973	-8.2%
Government and Other Securities	45,834,460	50,846,267	10.9%
Net Loans and Advances	134,675,332	153,018,152	13.6%
Fixed Assets	3,906,899	5,335,853	36.6%
Total Assets	210,542,393	240,110,741	14.0%
Key Ratios			
Gross NPL (KES M)	9,427,978	19,484,638	106.7%
Interest In Suspense (KES M)	2,325,840	2,511,301	8.0%
Total NPL (KES M)	7,102,138	16,973,337	139.0%
Loan Loss Provision (KES M)	3,063,213	5,280,228	72.4%
Net NPL	4,038,925	11,693,109	189.5%
			Chg in bps
NPL Ratio	6.8%	12.3%	546.4
Cost of Risk	2.2%	2.7%	50.5
Coverage Ratio	32.5%	27.1%	-539.1
Loan to Deposits	91.9%	90.4%	-152.7
Yield on Interest Earning Assets	13.0%	11.6%	-142.7
Cost of Funds	5.8%	5.1%	-72.7
NIM	7.3%	6.6%	-70.0
Non Funded/Total Income	24.3%	27.0%	276.8
Cost to Income Ratio	36.0%	36.8%	79.7
ROE	21.0%	16.4%	-456.6
ROA	3.7%	3.0%	-66.0
Core Capital/TRWA	18.4%	18.7%	
Total Capital/TRWA	21.5%	21.0%	
Liquidity Ratio	37.2%	35.7%	
P/E (x)		7.1	
P/B (x)		1.2	
Dividend Yield (%)		2.8	

Disclaimer

ApexAfrica and its parent company AXYS Group seek to do business with companies covered in their research reports. Consequently, a conflict of interest may arise that could affect the objectivity of this report. This document should only be considered a single factor used by investors in making their investment decisions. The reader should independently evaluate the investment risks and is solely responsible for their investment decisions. The opinions and information portrayed in this report may change without prior notice to investors.

This publication may not be distributed to the public media or quoted or used by the public media without prior and express written consent of ApexAfrica or AXYS Group.

This document does not constitute an offer, or the solicitation of an offer, for the sale or purchase of any security. Whilst every care has been taken in preparing this document, no representation, warranty or undertaking (express or implied) is given and no responsibility or liability is accepted by Apex Africa or any of its employees as to the accuracy of the information contained and opinions expressed in this report.

ApexAfrica Capital Ltd
A The Riverfront, 1st Floor, Prof. David Wasawo Drive, Off Riverside Drive | P.O. Box 43676-00100 | Nairobi | Kenya |
T: +254-20-2226440 | **Fax**: +254-20-2319092 | **Cell**: +254-723-420204|
W : www.apexafrica.com
Part of AXYS Group
W : www.axys-group.com