

## I&M Holdings – 1H18 Earnings Update

### “Non-Interest Income Boosts Bottom line”

**I&M Holdings’ 1H18 net earnings rose 11.7% y/y to KES 3.6B, driven mainly by a 34.4% y/y surge in non-interest income to KES 3.7B.**

#### Headwinds

- Interest expense grew 13.2% y/y to KES 4.8B in line with a 30.6% y/y growth in customer deposits to KES 210.9B with the bank still facing challenges in mobilizing cheap deposits;
- Operating expenses rose 8.4% y/y to KES 4.3B driven by a 6.6% y/y rise in staff costs to KES 2.0B and a 10.2% y/y rise in other expenses to KES 1.5B;
- The current tight liquidity position saw Gross NPLs surge 118.1% y/y to KES 22.4B with the NPL ratio at 13.3% above the industry average of 12.0%;
- Loan loss provision expense burgeoned 46.2% y/y to KES 1.4B eating into the bottom-line. Coverage ratio declined 8.2bps y/y to 25.0%;
- Though interest income from government securities surged 94.1% y/y to KES 2.6B, the 28.3% y/y decline in investment in government securities to KES 36.1B may lower the respective income going forward.

#### Tailwinds

- Net loans and advances grew 12.6% y/y to KES 162.8B. In effect interest income rose 5.1% y/y to KES 11.7B;
- A rise in loans and advances also saw fees and commissions income jump 39.5% y/y to KES 2.0B. This coupled with, a 25.4% y/y jump in foreign exchange income to KES 1.2B and a 39.2% y/y rise in other income to KES 479.6M saw non interest income surge 34.4% y/y to KES 3.7B. With a focus on mergers and acquisitions as part of its growth strategy, the Group acquired Youjays Insurance Brokers Limited (YIB) in April 2018 aiming at scaling up the bank’s Bancassurance business portfolio. This is expected to boost non-interest income further.
- Despite the increase in operating expenses, cost to income ratio remained subdued at 40.4% an applaud on the banks efforts in keeping this ratio below 50.0%;

#### Into the future:

Deviating from the industry norm, the bank shrunk its investment in government securities, opting to grow its loan book. This could have been informed by market anticipation of a repeal of the rate cap, which appears not forthcoming. Though amendment to the Banking Act has not been finalised, we could see the bank opt for the riskless interest income going forward. Seeing that the proposed amendment to the rate cap suggest the removal of the floor to interest earning deposits, the bank's interest expenses may decrease going forward.

We remain worrisome of the group’s rising NPLs, which may deteriorate its loan book quality. Given the bank’s aggressive lending, its NPL ratio may remain high, though resumed interest in government securities could tame the NPLs. We applaud efforts by the bank to diversify its revenue streams as seen in the surge in non-interest income as its mitigates pressure on the bottom-line. We encourage exposure in the counter given its growth trajectory on the back of rising non-interest income revenues as opposed to a slash in loan loss provision expense.

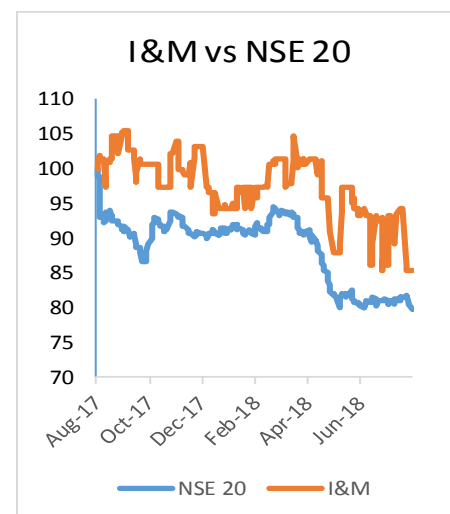
The counter is currently trading at KES 105.00 with P/B and P/E multiples of 1.2x and 7.1x respectively.

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

#### Share Statistics

Current Price (KES)	105.00
Issued shares (M)	413.4
Market cap (USD M)	439.6
Year end	Dec
Foreign ownership (%)	13.3
Free float (%)	25.0
Av daily trading vol (USDk)	48.0

#### Price Trend



Source: Bloomberg

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	FY16	1H17	FY17	1H18	% chg y/y
	KES '000	KES '000	KES '000	KES '000	
<b>Income Statement</b>					
Interest Income	24,451,398	11,090,527	24,423,762	11,654,349	5.1
Interest Expense	8,929,722	4,229,236	8,869,275	4,788,586	13.2
<b>Net Interest Income</b>	<b>15,521,676</b>	<b>6,861,291</b>	<b>15,554,487</b>	<b>6,865,763</b>	<b>0.1</b>
Foreign Exchange Income	1,797,461	990,875	1,828,903	1,242,898	25.4
Gross Fees and Commission	2,734,967	1,432,338	3,324,275	1,997,606	39.5
Other Income	440,708	344,528	609,648	479,551	39.2
<b>Non Interest Income</b>	<b>4,973,136</b>	<b>2,767,241</b>	<b>5,762,826</b>	<b>3,720,055</b>	<b>34.4</b>
Total Operating Income	20,494,812	9,628,532	21,317,313	10,585,818	9.9
Total Operating Expenses	7,378,613	3,944,237	7,844,534	4,275,404	8.4
<b>Loan Loss Provision Expense</b>	<b>2,956,979</b>	<b>965,564</b>	<b>4,133,170</b>	<b>1,411,851</b>	<b>46.2</b>
<b>Operating Profit</b>	<b>13,116,199</b>	<b>5,684,295</b>	<b>13,472,779</b>	<b>6,310,414</b>	<b>11.0</b>
<b>Profit Before Tax and Exceptional Items</b>	<b>10,159,220</b>	<b>4,718,731</b>	<b>9,339,609</b>	<b>4,898,563</b>	<b>3.8</b>
Exceptional Items	443,968	245,462	554,965	499,477	103.5
Current Tax	2,843,026	1,534,107	2,630,325	1,529,929	-0.3
<b>Profit After Tax and Exceptional Items</b>	<b>7,760,162</b>	<b>3,430,086</b>	<b>7,264,249</b>	<b>3,868,111</b>	<b>12.8</b>
Non Controlling Interests	476,537	179,817	497,993	238,271	32.5
<b>Profit After Tax Exceptional Items &amp; Non Controlling Interest</b>	<b>7,283,652</b>	<b>3,250,269</b>	<b>6,766,256</b>	<b>3,629,840</b>	<b>11.7</b>
<b>EPS (KES)</b>	<b>18.77</b>	<b>7.86</b>	<b>17.57</b>	<b>8.78</b>	<b>11.7</b>
<b>DPS (KES)</b>	<b>3.50</b>		<b>3.50</b>		
<b>Balance Sheet</b>					
Total Shareholders' Equity	37,029,748	41,929,844	44,319,853	45,084,940	7.5
Deposits due to Banks & Financial Institutions	7,795,856	5,900,602	5,996,295	7,421,898	25.8
<b>Customer Deposits</b>	<b>146,514,406</b>	<b>161,526,916</b>	<b>169,282,314</b>	<b>210,897,814</b>	<b>30.6</b>
Total Liabilities	171,035,976	184,856,136	193,095,258	235,255,657	27.3
<b>Total Equity and Liabilities</b>	<b>208,065,724</b>	<b>229,223,755</b>	<b>240,110,741</b>	<b>283,070,163</b>	<b>23.5</b>
Cash and CBK Balances	11,083,876	10,270,907	11,879,815	12,881,724	25.4
Balances due from Banks & Financial Institutions	6,948,707	6,657,470	6,379,973	39,779,704	497.5
<b>Government and Other Securities</b>	<b>45,834,460</b>	<b>50,371,550</b>	<b>50,846,267</b>	<b>36,131,287</b>	<b>-28.3</b>
<b>Net Loans and Advances</b>	<b>134,675,332</b>	<b>144,546,775</b>	<b>153,018,152</b>	<b>162,823,320</b>	<b>12.6</b>
Fixed Assets	3,906,899	4,905,986	5,335,853	5,948,982	21.3
Total Assets	210,542,393	229,223,755	240,110,741	283,070,163	23.5
<b>Key Ratios</b>					
Gross NPL (KES M)	9,427,978	10,251,660	19,484,638	22,356,930	118.1
Interest In Suspense (KES M)	2,325,840	2,911,899	2,511,301	4,118,385	41.4
Total NPL (KES M)	7,102,138	7,339,761	16,973,337	18,238,545	148.5
Loan Loss Provision (KES M)	3,063,213	3,400,875	5,280,228	5,581,516	64.1
Net NPL	4,038,925	3,938,886	11,693,109	12,657,029	221.3
NPL Ratio	6.8%	6.9%	12.3%	13.3%	
Cost of Risk	2.2%	1.3%	2.7%	1.7%	
Coverage Ratio	32.5%	33.2%	27.1%	25.0%	
Loan to Deposits	91.9%	89.5%	90.4%	77.2%	
Yield on Interest Earning Assets	13.0%	11.0%	11.6%	9.8%	
Cost of Funds	5.8%	5.1%	5.1%	4.4%	
NIM	7.3%	6.0%	6.6%	5.4%	
Non Funded/Total Income	24.3%	28.7%	27.0%	35.1%	
Cost to Income Ratio	36.0%	41.0%	36.8%	40.4%	
ROE	21.0%	16.4%	16.4%	17.2%	
ROA	3.7%	3.0%	3.0%	2.7%	
Core Capital/TRWA	18.4%	21.2%	18.7%	16.5%	
Total Capital/TRWA	21.5%	23.1%	21.0%	18.2%	
Liquidity Ratio	37.2%	39.3%	35.7%	45.5%	
<b>P/E (x)</b>			<b>7.1</b>		
<b>P/B (x)</b>			<b>1.2</b>		
<b>Dividend Yield (%)</b>			<b>2.8</b>		

Source: Company Filings, ApexAfrica Research

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