



# I&M Holdings FY20 Earnings Note

**I&M Holdings' FY20 net earnings plummeted 21.7% y/y to KES 8.1B, fueled by a 288.5% swell in loan loss provisions and a 7.1% y/y rise in operating expenses. We recommend a BUY on I&M Holdings with a target price of KES 57.20 offering a potential upside of 30.0% on the current price of KES 44.00. To the delight of shareholders, the group announced a Bonus share issue of 1:1 with book closure slated for 10<sup>th</sup> May 2021 and declared a KES 2.25 dividend per share with book closure slated for 15<sup>th</sup> April 2021 and payment date on 20<sup>th</sup> May 2021.**

## Lower NIM on lower yield on interest earning assets

In line with our estimates of a single digit growth in the loan book, loan and advances grew 6.9% y/y to KES 187.4B which saw interest income increase 2.5% y/y. Lower yields on interesting earning assets (-220bps y/ to 9.6%) saw NIM decline to 5.0% despite a drop in cost of funds to 4.7%.

## Credit impairments in line with industry trend

In line with an expectation of a rise in provisions, credit impairments ballooned 288.5% y/y to KES 2.5B due to effects of the prevailing pandemic that saw a slowdown in most sectors of the economy. Unlike its peers, the bank saw its gross Npl ratio slightly increase 40bps y/y to 12.6%. Cost of risk expanded 90bps y/y to 1.3%.

## Operating expenses up but Cost to Income ratio still within target

The group's operating expenses rose 7.1% y/y to KES 10.1B on the back of a 15.3% y/y rise in other operating expenses. However, the cost to income ratio remained modest at 41.8%.

## Outlook

The Group's performance was in line with expectation of a drop in earnings. We expect to see continued growth in the loan book and liability book in anticipation of economic recovery in FY21 though this may be delayed by the prevailing third wave of infections that has seen the lockdown of 5 counties and the closure of business in some sectors of the economy such as tourism. In addition, this may see reduced consumer demand on lower household incomes.

We recommend a BUY on the counter given its low trading multiples. The counter is trading at p/e and p/b multiples of 4.5x and 0.6x respectively. The announcement of a bonus issue and dividend payment has already seen a rally with price hitting past KES 50.00 on positive investor sentiments.

DATE: 31<sup>st</sup> March 2021

Target Price: KES 57.20

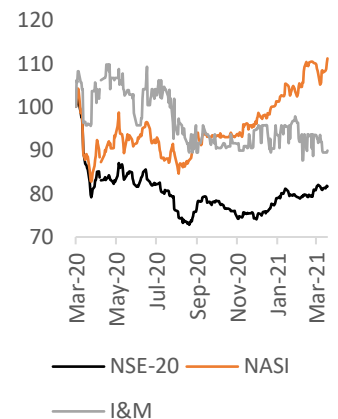
Current Price: KES 44.00

Upside: 30.0%

52 Week Low: KES 42.00

52 Week High: KES 126.00

### I&M vs Indices



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## Financial Statements

	FY19	FY20	chg y/y
Income Statement	KES M	KES M	
Interest Income	27,164	27,849	2.5%
Interest Expense	11,654	12,249	5.1%
Net Interest Income	15,510	15,600	0.6%
Non Interest Income	8,286	8,638	4.3%
Total Operating Income	23,795	24,237	1.9%
Total Operating Expenses	9,461	10,134	7.1%
Loan Loss Provision Expense	636	2,473	288.5%
Operating Profit	14,335	14,104	-1.6%
Profit Before Tax	14,603	10,952	-25.0%
Current Tax	3,834	2,539	-33.8%
Profit for the period	10,309	8,074	-21.7%
EPS (KES)	12.47	9.77	-21.7%
DPS (KES)	2.55	2.25	-11.8%

Balance Sheet			
Total Shareholders' Equity	57,739	64,189	11.2%
Customer Deposits	229,737	262,681	14.3%
Total Liabilities	254,429	290,037	14.0%
Government and Other Securities	53,924	101,711	88.6%
Net Loans and Advances	175,329	187,391	6.9%
Total Assets	315,291	385,100	22.1%

Key Ratios			
Gross NPL (KES M)	21,310	23,595	10.7%
NPL Ratio	12.2%	12.6%	
Cost of Risk	0.4%	1.3%	
Loan to Deposits	76.3%	71.3%	
Yield on Interest Earning Assets	11.8%	9.6%	
Cost of Funds	5.1%	4.7%	
NIM	6.8%	5.0%	
Non Funded/Total Income	34.8%	35.6%	
Cost to Income Ratio	39.8%	41.8%	
ROE	17.9%	12.6%	
ROA	3.3%	2.1%	
P/E (x)		4.5	
P/B (x)		0.6	
Dividend Yield		5.1%	

Source: AIB-AXYS Research, company filings

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