

KINGDOM SECURITIES

A 25.1% GROWTH IN PROFITS AFTER TAX ON GROWTHS IN INTEREST INCOME

I&M Holdings reported an 8.1% Y/Y profits before tax (PBT) from Kes. 7.07Bn in Q3-2020 to Kes. 7.765Bn in Q3-2021. Profits after tax (PAT) spiked 25.1% to Kes. 5.74Bn on joint venture from that of Kes. 4.59Bn witnessed the same time last year attributed to exceptional profits on Joint. The counter's interest income increased by 15.7% from Kes. 19.34Bn to Kes. 22.85Bn.

Earnings per share dropped 37.6% Y/Y from 5.27 to 3.29 on bonus share of ratio 1:1 issued on 31st March 2021, which saw the counter's issued shares double to 1,652.62mn shares by 21st May 2021.

Income Statement

- The Net interest income soared 34.5% Y/Y and 57.8% Q/Q from Kes. 10.4Bn in Q3-2020 and Kes. 8.87Bn to close Q3-2021 at Kes. 13.99Bn. This resulted from growths on interest income both Y/Y and Q/Q at 2.5% and 8.4% respectively.
- Interest income from loans and advances moved from Kes. 15.80Bn in Q3-2021 to Kes. 16.19Bn resulting from the lender's growing loan book which edged up 11.8% Y/Y from Kes. 185.69Bn in Q3-2020 to Kes. 207.61Bn in Q3-2021. The faster rise on interest income on Q/Q basis followed the resumption on loan payments on economic recovery and job reinstatements witnessed by the bank's falling Non-performing loans (NPLs) from 11.2% to 10.3% Y/Y.
- Interest income from government securities surged 76.2% Y/Y from Kes. 3.68Bn to Kes. 6.89Bn in Q3-2021, a 14.0% Q/Q growth of Kes. 2.35Bn compared to that of Kes. 2.06Bn earned in Q2-2021. This came from the counter's growing government securities book which enlarged by 57.6% Y/Y from Kes. 64.92Bn to Kes. 102.29Bn.
- Availability of cheap deposits saw total interest expense decline 5.2% Y/Y from Kes. 9.34Bn to Kes. 8.86Bn as customer deposits jumped 28.1% Y/Y and 16.55 Q/Q to close Q3-2021 at Kes. 288.68Bn from that of Kes. 252.83Bn held the same time last year. This was despite a 73.3% Y/Y spike of Kes. 8.60Bn on the lenders' borrowings to Kes. 20.32Bn. Q/Q interest expense experienced a turn around to a growth of 4.6% from Kes. 2.95Bn to Kes. 3.09Bn on a 9.1% Q/Q increase on the counter's borrowings.
- Non-funded income (NFI) fell 3.5% Y/Y from Kes. 6.41Bn to Kes. 6.18Bn on falling commissions from loans and advances and forex income. Commissions from loans and advances dropped 3.8% Y/Y from Kes. 1.43Bn to Kes. 1.37Bn in Q3-2021 as that of forex trading decreased 13.7% Y/Y from Kes. 1.37Bn to Kes. 1.18Bn despite the weakening shilling. Q/Q NFI performance improved 5.8% from Kes. 3.94Bn to Kes. 6.18Bn on spikes in other fees and commissions which outweighed losses on commissions from forex income and loans and advances.
- Operating expenses surged 28.7% Y/Y and 45.9% Q/Q from Kes. 9.74Bn in Q3-2021 and Kes. 7.21Bn of Q2-2021 to close Q3-2021 at Kes. 12.53Bn. This resulted from provisions which attracted a 31.4% growth from Kes. 2.15Bn in Q3-2021 to Kes. 2.83Bn in Q3-2021 to cushion the growing loan book. Q/Q provisions ballooned 503.1% from Kes. 0.29Bn provided in Q2-2021 to Kes. 1.77Bn in Q3-2021 largely due to low provisions witnessed in Q2-2021.
- Staff costs remained up 2.9% Q/Q but remained high Y/Y at a growth of 22.9% to Kes. 4.31Bn in Q3-2021 from that of Kes. 3.51Bn on the collective bargaining agreement (CBA) pay rise of 3.0% and 4.0% for 2020 and 2021 which was effected in September 2021.

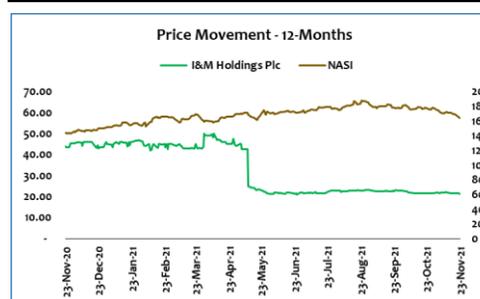
Balance Sheet

I&M HOLDINGS PLC

Earnings Update – Q3-2021

Bloomberg Ticker	I&M KN
Share Statistics	
Current Price (kes)	20.90
Six Month Average	22.80
12 Month Average	32.08
52 Week High - Low	50.00 - 20.90
Issued shares (Mn)	1,653.62
Market Cap (Kes Mn)	34,560.69
Market Cap (USD Mn)	319.33
EPS	3.29
P/E	6.35
BVPS	3.47
PB	6.02

Period	I&M	NASI
3 Months	-8.7%	-11.3%
6 Months	-1.40%	-3.1%
YTD	-53.2%	8.4%
12 Months	-53.8%	13.5%



NNI +34.5% y/y

Provisions + 31.4% Y/Y

Opex. + 28.7% Y/Y

PBT + 8.1% Y/Y

PAT + 25.1% Y/Y

Loans + 11.8% Y/Y

Deposits + 14.2% Y/Y

Shareholder's Funds + 12.5% Y/Y

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- The company's total assets moved 15.6% up Y/Y from Kes. 345.13Bn to Kes. 399.07Bn on growths on loans and advances plus investment in securities. The loan book increased 11.8% Y/Y from Kes. 185.69Bn to Kes. 207.61Bn as securities investment jumped 57.6% up Y/Y from Kes. 64.94Bn to Kes. 102.89Bn.
- Customer deposits garnered 14.2% Y/Y and 4.3% Q/Q from 252.83Bn in Q3-2020 and Kes. 276.68Bn in Q2-2021 to close Q3-2021 at Kes. 288.68Bn to assist in the above asset growth.
- To support the growing asset book, the bank's borrowings moved 73.3% Y/Y and 9.1% Q/Q from Kes. 11.72Bn and Kes. 18.63Bn to Kes. 20.32Bn respectively.
- Shareholders' funds grew 12.5% Y/Y from Kes. 60.46Bn to Kes. 68.01Bn on the rising retained earnings which saw a 23.2% Y/Y uptick from Kes. 34.47Bn to Kes. 42.46Bn.

Key Ratios

- NPLs edged down from that of 11.2% in Q3-2020 to close Q3-2021 at 10.3% still below that of the industry of 13.6% as of October 2021 on improved payments and the growing loan book.
- Return on average assets (ROaA) improved marginally from 1.9% on Q3-2021 to 1.9% as of Q3-2021 while remaining low Q/Q from 2.2% to 1.9%.
- Return on average equity (ROaE) moved from 9.3% to 10.1% Y/Y on the rising retained earnings.
- Cost to income ratio edged 42.0bps up from 57.9% to 62.1% on the rising operating expenses, especially on loan loss provisions. CTI less provisions remained up at 48.1% in Q3-2021 in comparison to that of 45.1% same time last year.

P&L (KES Mn)	Q3 - 2020	Q2 - 2021	Q3 - 2021	Q/QΔ%	Y/YΔ%
NII	10,401	8,866	13,988	12.5%	34.5%
NFI	6,409	3,944	6,184	5.8%	-3.5%
Total Income	16,809	12,809	20,173	10.4%	20.0%
loans and Advances	15,798	10,375	16,187	8.4%	2.5%
Government Securities	3,681	4,134	6,487	14.0%	76.2%
Deposits and placements	8,226	4,781	7,499	11.9%	-8.8%
Loan Loss Provisions	2,150	1,053	2,825	503.1%	31.4%
Interest Income	19,739	14,635	22,845	9.4%	15.7%
Interest Expense	9,338	5,770	8,857	4.6%	-5.2%
Operating Expense	9,736	7,208	12,527	45.9%	28.7%
Opex Excl Provisions	7,587	6,155	9,702	5.8%	27.9%
PBT	7,073	5,602	7,645	-32.5%	8.1%
PAT	4,588	4,250	5,738	-37.0%	25.1%
EPS	5.27	2.44	3.29	34.7%	-37.6%

Balance Sheet (KES Mn)	Q3 - 2020	Q2 - 2021	Q3 - 2022	Q/QΔ%	Y/YΔ%
Investments	64,922	89,936	102,289	13.7%	57.6%
Loans and Advances	185,694	204,458	207,605	1.5%	11.8%
Total Asset	345,135	382,571	399,069	4.3%	15.6%
Customer Deposit	345,135	276,755	288,685	4.3%	-16.4%
Shareholders' Fund	60,465	65,870	68,006	3.2%	12.5%

Ratios	Q3 - 2020	Q2 - 2021	Q3 - 2021
NII % of Total Income	61.9%	69.2%	69.3%
NFI % of Total Income	38.1%	30.8%	30.7%
CTI	57.9%	56.3%	62.1%
CTI excl Provisions	45.1%	48.1%	48.1%
Cost of Funds	4.8%	3.9%	3.9%
Net Interest Margin	5.1%	6.0%	5.6%
ROaA	1.8%	2.2%	1.9%
ROaE	9.3%	11.5%	10.1%
Gross NPL to Net Loans	11.3%	11.5%	11.7%
AD Ratio	53.8%	73.9%	71.9%
Investment to Assets	18.8%	23.5%	25.6%
Loans to Assets	53.8%	53.4%	52.0%

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- **Buy** – A buy rating reflects 1) An analyst has a bullish conviction on a stock 2) A 30% or greater expected return.
- **Accumulate** – An accumulate rating reflects 1) An analyst has a lesser bullish conviction on a stock 2) Expected return falls between 10% and 30%.
- **Hold** – A hold rating reflects 1) An analyst has a neutral conviction (lack of bullish or bearish conviction) on a stock 2) Expected return falls within the range of 5% to 10%.
- **Speculative Buy** – A speculative buy rating reflects 1) An analyst has a bullish conviction accompanied by a substantially higher than normal risk 2) Expected return falls above 10%.
- **Sell** – A sell rating reflects 1) An analyst has a bearish conviction on a stock 2) Expected return falls below 5%.

*Expected Return (ER) represents the sum total of both capital appreciation and the dividend yield.

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