

DYER & BLAIR INVESTMENT BANK

EARNINGS UPDATE

Founder Member of the Nairobi Securities Exchange

20th March 2020



DYER & BLAIR
INVESTMENT BANK

WE KNOW. YOU KNOW.

DTB GROUP: FY19 EARNINGS UPDATE

Dear All,

Diamond Trust Bank (DTB) announced its FY19 results, recording a 2.6% y-o-y increase in Profit after Tax (PAT) to KES 7.3 BN. The group's ROE declined by 8 bps y-o-y to 11.3% whereas ROA edged up by 11 bps y-o-y to 1.9%. EPS for the period stood at KES 24.30, 1.5% up from FY18. The BOD recommended a first and final dividend of KES 2.70 per share (+3.8% y-o-y) to be paid on 24 July 2020 to shareholders on register by COB 25 June 2020.

Below please find key highlights:

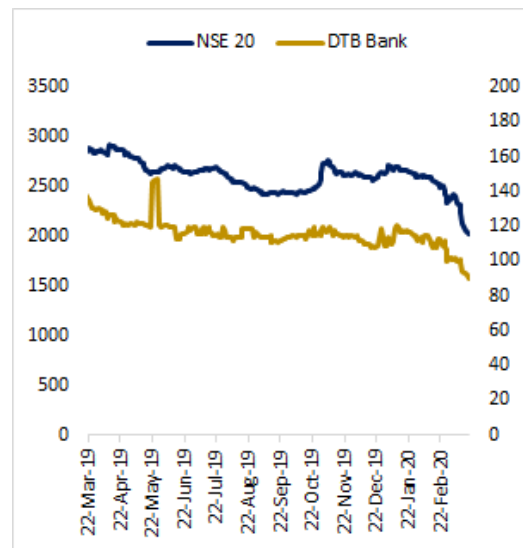
Net interest income plunged 6.5% y-o-y to KES 18.7 BN owing to a 6.9% y-o-y decline in interest income to KES 32.9 BN. Income from loans and government securities dipped by 9.1% and 3.9% y-o-y to KES 20.0 BN and KES 12.5 BN respectively. On the other hand, interest expense declined by 7.3% y-o-y to KES 14.1 BN courtesy of a 9.9% y-o-y decline in expenses from customer deposits to KES 12.1 BN.

As a result, net interest margin (NIM) came in at 5.2% (5-year record low), representing an 86 bps y-o-y decline, attributable to a 120 bps y-o-y decline in its yield on interest earning assets to 9.7% (5-year record low). The yield on loans and government securities declined by 111 bps and 122 bps to 10.2% and 10.0% respectively. Cost of funds declined by 34 bps y-o-y to 4.5% (5-year record low though still high vis-à-vis its peers). The cost of deposits was placed at 4.3%, down 59 bps y-o-y.

Non-funded income rose 6.2% y-o-y to KES 5.8 BN which saw a 222 bps y-o-y decline in funded income reliance to 76.4% (5-year record low). This was driven by a 16.5% y-o-y rise in forex income to KES 1.8 BN, a 4.3% y-o-y increase in fees and commissions on loans to KES 1.3 BN and a 2.4% y-o-y increase in other fees and commissions to KES 2.2 BN.

Cumulatively, total income declined by 3.8% y-o-y to KES 24.5 BN.

DTB GROUP 52 WEEK PRICE PERFORMANCE



(Source: NSE, DBIB Research)

PRICE	ABSOLUTE	EXCESS
RETURN	RETURN	RETURN
3 months (%)	(16.9)	4.8
6 months (%)	(19.6)	(2.6)
12 months (%)	(33.6)	(3.7)

KEY METRICS

Current Price (KES)	90.00
52 week high (KES)	147.4
52 week low (KES)	90.00
YTD Return (%)	(17.4)
Issued Shares (Mn)	279.6
Market Cap (USD Mn)	239.4

Recommendation	BUY
Target price (KES)	131.05
Trailing EPS (KES)	24.27
NAV (KES)	210.48
P/E (x)	3.7
P/B (x)	0.4
Div. Yld (%)	3.0

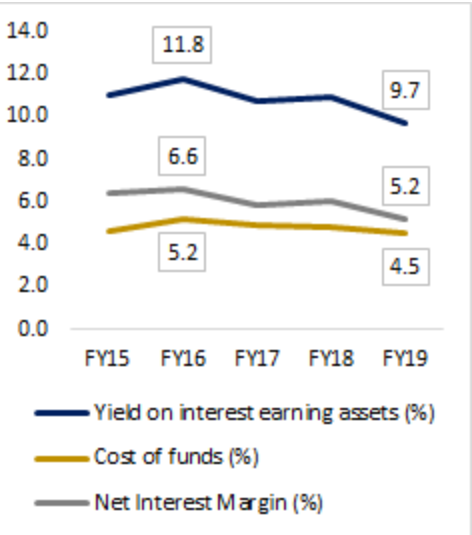
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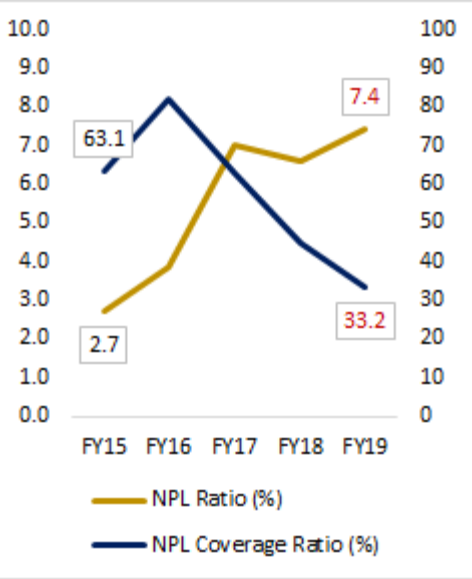
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YIELD RATIO & NET INTEREST MARGIN



Source: Company, DBIB Research

NPL RATIO & NPL COVERAGE RATIO



Source: Company, DBIB Research

Operating expenses (less loan provisions) went up by 3.5% y-o-y to KES 11.9 BN.

This was driven by a 11.4% y-o-y rise in staff costs to KES 4.7 BN. Other operating expenses declined 12.9% y-o-y to KES 4.4 BN. Loan loss provision expense contracted 55.6% y-o-y to KES 1.3 BN. Cost to income ratio rose 343 bps y-o-y to 48.6% (5-year record high).

Total assets advanced by 2.3% y-o-y to KES 386.2 BN (+1.0 q-o-q). Loans and advances increased by 3.1% y-o-y to KES 199.1 BN (+3.7% q-o-q). Investment securities advanced by 12.9% y-o-y to KES 132.5 BN (+3.9% q-o-q).

Customer deposits shed by 0.9% y-o-y to KES 280.2 BN (-1.0 q-o-q). Loans to deposits ratio edged up by 280 bps y-o-y to 71.1% whereas loans to deposits and borrowed funds ratio rose by 340 bps y-o-y to 68.3%.

Gross NPLs saw an upswing of 16.9% y-o-y to KES 15.9 BN (-11.1 q-o-q). In turn, total NPLs rose by 12.0% y-o-y to KES 13.6 BN (-9.6% q-o-q). The NPL ratio increased by 82 bps y-o-y to 7.4% (5-year record high). The group's NPL coverage ratio declined 1,143 bps y-o-y to 33.2% (5-year low). NPL coverage according to IFRS 9 stands at 42.9%, representing a 770 bps y-o-y decline.

The bank's core capital ratio (Core capital/TRWA) edged up by 40 bps y-o-y to 19.1% whereas Total capital/TRWA ratio shed 20 bps y-o-y to 20.9%. Both ratios remain well above the statutory minimum of 10.5% and 14.5% respectively. Liquidity ratio rose 130 bps y-o-y to 54.8%, above the statutory minimum of 20.0%.

Going forward: On a trailing basis, DTB is trading at a P/E of 3.7x and a P/B of 0.4x, against sector median multiples of 5.5x and 0.8x respectively. Its ROE stands at 11.3% below sector median of 15.8% while its ROA stands at 1.9% also below sector median of 2.4%. The key theme for growth for DTB is a change in strategy from its gravely conservative nature, which has been atypical of the Tier 1 banks' strategies. We are optimistic that the new strategy dubbed 'Strategy 2030 and beyond' which will be implemented in the first cycle of the year, will feature both organic and inorganic growth-initiating narratives. Given the bank's strong capital and liquidity position, the bank has enough elbow-room to adopt some aggression and pursue growth (low recapitalization risk). However, the macro environment remains a key impediment for growth not only in the banking sector but also across key industries i.e. trade, tourism, hospitality, agriculture etc. That said, we maintain our **BUY** recommendation as we expect DTB's share price to correct to its pre-rate cap position from a multiples standpoint.

PROFIT AND LOSS SUMMARY (KES MN)

Year End: December	FY19	FY18	y-y% ch	4q19	3q19	4q18	y-y % ch	q-q % ch
Interest income	32,851	35,269	(6.9)	8,328	8,179	8,817	(5.5)	1.8
Interest expense	(14,140)	(15,247)	(7.3)	(3,401)	(3,583)	(3,698)	(8.0)	(5.1)
Net interest income	18,711	20,022	(6.5)	4,927	4,596	5,119	(3.7)	7.2
Other operating income	392	422	(7.2)	(44)	107	74	(158.9)	(140.8)
Fees and commission income	3,548	3,442	3.1	1,023	873	851	20.2	17.2
Net income from forex dealings	1,830	1,571	16.5	423	411	378	11.9	3.0
Total non-interest income	5,770	5,435	6.2	1,403	1,391	1,303	7.6	0.9
Total income	24,481	25,456	(3.8)	6,330	5,987	6,423	(1.4)	5.7
Less operating expenses	(11,902)	(11,503)	3.5	(3,293)	(2,918)	(3,061)	7.6	12.8
Operating profit	12,579	13,953	(9.8)	3,038	3,069	3,362	(9.6)	(1.0)
Bad debt charge	(1,323)	(2,982)	(55.6)	(453)	(336)	(588)	(23.0)	34.7
Exceptional items	7	29	(77.9)	(9)	4	18	-	(349.8)
Profit before tax	11,263	11,000	2.4	2,575	2,736	2,792	(7.7)	(5.9)
Less tax	(3,994)	(3,918)	1.9	(1,298)	(878)	(1,351)	(4.0)	47.8
Profit after tax	7,269	7,082	2.6	1,278	1,858	1,441	(11.3)	(31.2)
Attributable Income	6,786	6,687	1.5	1,165	1,737	1,442	(19.2)	(33.0)
EPS (KES)	24.27	23.91	1.5	4.17	6.21	5.15	(19.0)	(32.8)

(Source: Company, DBIB Research)

BALANCE SHEET SUMMARY (KES MN)

Year End: December	FY19	3Q19	FY18	y-y % ch	q-q % ch
Total shareholder's equity	58,851	58,910	53,657	9.7	(0.1)
Minority interest	5,665	5,788	5,282	7.2	(2.1)
Total Equity	64,515	64,698	58,939	9.5	(0.3)
Deposits due to other banks	22,454	14,266	17,143	31.0	57.4
Customer deposits	280,187	283,091	282,860	(0.9)	(1.0)
Borrowed funds	11,357	12,567	14,694	(22.7)	(9.6)
Other liabilities	7,717	7,873	4,083	89.0	(2.0)
Total equity and liabilities	386,230	382,496	377,719	2.3	1.0
Central bank balances	27,219	27,948	37,717	(27.8)	(2.6)
Deposits due from banks	8,321	14,294	14,162	(41.2)	(41.8)
Investment Securities	132,462	127,542	117,330	12.9	3.9
Held for dealing securities	-	-	-	-	-
Customer loans and advances	199,089	192,007	193,074	3.1	3.7
Other assets	11,514	13,006	7,794	47.7	(11.5)
Intangible assets	1,595	1,411	1,230	29.7	13.0
Fixed assets	6,030	6,288	6,411	(5.9)	(4.1)
Total assets	386,230	382,496	377,719	2.3	1.0

(Source: Company, DBIB Research)

INVESTMENT RETURN

	FY19	9M19	FY18	y-y bps ch	q-q bps ch
ROA (%)	1.9	2.1	1.8	11	(21)
ROIC (%)	2.0	2.2	1.9	17	(18)
ROE (%)	11.3	11.6	11.3	(8)	(32)

(Source: Company, DBIB Research)

CAPITAL ADEQUACY, LIQUIDITY & ASSET QUALITY

	FY19	9M19	FY18	y-y bps ch	q-q bps ch
Core capital/TRWA (%)	19.1	19.1	18.7	40	-
Min. Statutory Ratio (%)	10.5	10.5	10.5	-	-
Total capital/TRWA (%)	20.9	21.2	21.1	(20)	(30)
Min. Statutory Ratio (%)	14.5	14.5	14.5	-	-
Liquidity Ratio (%)	54.8	55.6	53.5	130	(80)
Min. Statutory Ratio (%)	20.0	20.0	20.0	-	-
Leverage Ratio (%)	15.2	15.4	14.2	103	(16)
Equity-to-Loans Ratio (%)	32.4	33.7	30.5	188	(129)
NPL Ratio (%)	7.4	8.5	6.6	82	(113)
NPL Coverage Ratio (%)	33.2	38.1	44.6	(1,143)	(493)
Long Term Debt to Total Liabilities and Equity (%)	2.9	3.3	3.9	(95)	(35)
NTA/share (KES)	169.3	205.6	187.5	(1,821)	(3,634)
Book value/share (KES)	210.5	210.7	191.9	1,858	(21)
Payout ratio (%)	11.1	0.0	10.9	25	1,112
Adj. payout ratio (%)	10.4	0.0	10.3	9	1,040

(Source: Company, DBIB Research)

**Total Loan Portfolio net of Interbank Lending

OPERATING PERFORMANCE

	FY19	9M19	FY18	y-y bps ch	q-q bps ch
Yield on interest earning assets (%)	9.7	9.8	10.9	(120)	(13)
Cost of funds (%)	4.5	4.6	4.8	(34)	(12)
Net Interest Margin (%)	5.2	5.2	6.0	(86)	(1)
Loan-to-Deposits ratio (%)	71.1	67.8	68.3	280	323
Loan-to-Dep.& Borrowed Funds ratio (%)	68.3	62.0	64.9	340	634
Funded Income Generating Potential (%)	88.0	87.3	85.9	207	72
Funded Income Reliance (%)	76.4	75.9	78.7	(222)	49
Cost to income ratio (%)	48.6	47.4	45.2	343	118
Pre-tax margin (%)	46.0	47.9	43.2	279	(186)
PAT margin (%)	29.7	33.0	27.8	187	(331)

(Source: Company, DBIB Research)

APPENDIX

COMPANY INVESTMENT RATINGS

Buy: Share price may generate more than 15.0% upside over the next 12 months

Overweight: Share price may generate between 10.0% and 15.0% upside over the next 12 months

Hold: Share price may fall within the range of +/- 10% over the next 12 months

Take Profit: Target price has been attained. Look to accumulate at lower levels. Company fundamentals however remain strong

Underweight: Share price may generate between 10.0% and 15.0% downside over the next 12 months

Sell: Share price may generate more than 15.0% downside over the next 12 months, significant business and/or financial risks present, industry concerns

Not Rated: Counter is not within regular research coverage

SECTOR INVESTMENT RATINGS

Overweight: Industry performance better than that of the whole market

Equal weight: Industry performance about the same as that of the whole market

Underweight: Industry performance worse than that of the whole market

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