

DYER & BLAIR INVESTMENT BANK

EARNINGS UPDATE

Founder Member of the Nairobi Securities Exchange

26TH AUGUST 2020



DYER & BLAIR
INVESTMENT BANK

WE KNOW. YOU KNOW.

DTB GROUP: 1H20 EARNINGS UPDATE

Dear All,

DTB Group announced its 1H20 results reporting a 36.5% y-o-y decline in profit after tax (PAT) to KES 2.6 BN, primarily on account of a 249.2% y-o-y upsurge in bad debt charge to KES 1.9 BN. Earnings per share (EPS) for the period closed at KES 8.59 compared to KES 13.89 in 1H19. Trailing EPS stands at KES 20.60. Annualized ROE declined 527 bps to 7.2% whilst annualized ROA declined 83 bps to 1.2%.

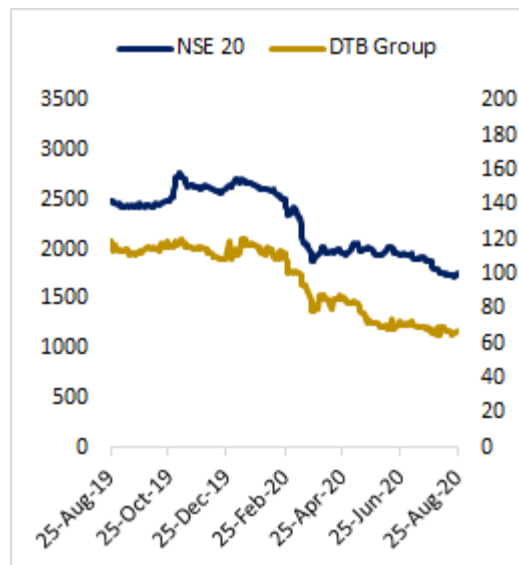
Key highlights:

Net interest income rose 1.2% y-o-y to KES 9.3 BN courtesy of a 9.0% y-o-y decline in interest expense to KES 6.5 BN. Interest income saw a 3.3% y-o-y decline to KES 15.8 BN. Annualized yield on interest earning assets dropped 94 bps y-o-y to 9.2% whereas annualized cost of funds dropped 53 bps y-o-y to 4.2%. As a result, the group's annualized net interest margin (NIM) dropped 41 bps to 5.0%.

Interest income from loans and advances declined 3.3% y-o-y to KES 9.6 BN, partly on account of loan restructures i.e. interest moratoriums. This placed the annualized yield on loans for the period at 9.8%, 60 bps down y-o-y. Interest income from government securities declined 1.6% y-o-y to KES 6.2 BN placing the annualized yield on government securities at 9.8%, 134 bps down y-o-y. Interest expense from customer deposits declined 8.4% y-o-y to KES 5.6 BN placing the annualized cost of deposits at 3.9%, 55 bps down y-o-y.

Non-funded income (NFI) rose 5.9% y-o-y to KES 3.2 BN, attributable to a 28.7% y-o-y increase in foreign exchange trading income to KES 1.3 BN and a 3.4% y-o-y decline in fees and commission income to KES 1.6 BN. Fees and commissions on loans saw a 24.2% y-o-y increase to KES 741.9 MN. On the other hand, other fees and commissions declined 19.0% y-o-y to KES 853.6 MN, as a result of the waivers on loan restructuring fees and zero-rated mobile money transfers. Funded income reliance declined by 85 bps y-o-y to 74.7%.

DTB GROUP 52 WEEK PRICE PERFORMANCE



(Source: NSE, DBIB Research)

PRICE	ABSOLUTE	EXCESS
RETURN	RETURN	RETURN
3 month (%)	(6.6)	6.7
6 month (%)	(40.0)	(11.0)
12 month (%)	(43.4)	(13.7)

KEY METRICS

Current Price (KES)	67.25
52 week high (KES)	120.3
52 week low (KES)	64.75
YTD Return (%)	(38.3)
Issued Shares (MN)	279.6
Market Cap (USD MN)	173.9

Recommendation	BUY
Target price (KES)	Under review
Trailing EPS (KES)	20.60
NAV (KES)	218.28
P/E (x)	3.3
P/B (x)	0.3
Div Yld (%)	-

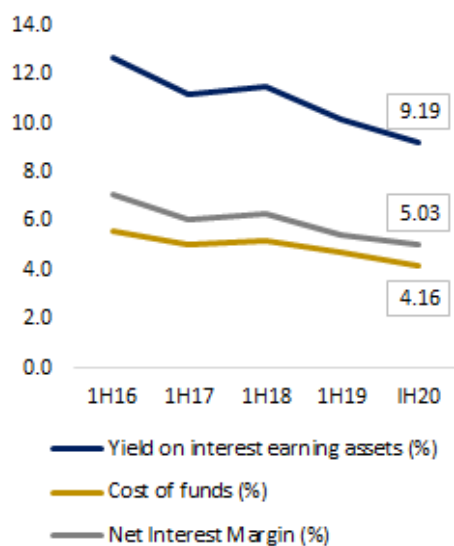
Research Analyst

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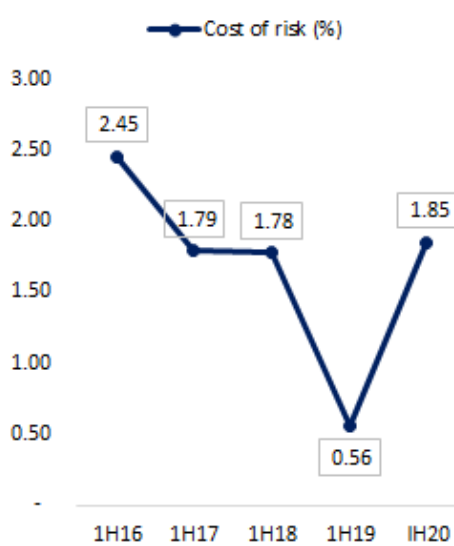
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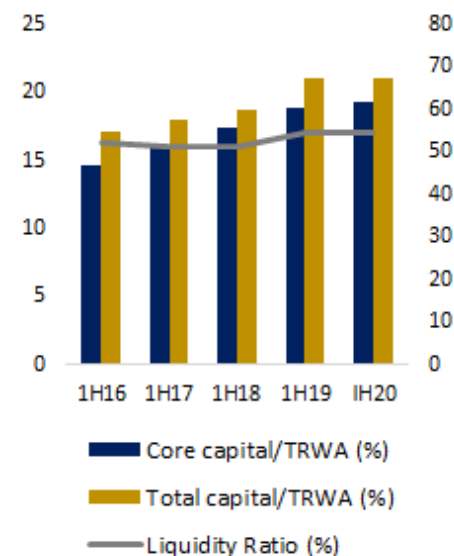
DTB : NET INTEREST MARGIN (%)



DTB : COST OF RISK (%)



DTB : CAPITAL AND LIQUIDITY POSITION (%)



Source: (Company Filings, DBIB Research)

Operating expenses (less loan provisions) rose 7.3 y-o-y to KES 6.1 BN courtesy of a 6.8% y-o-y increase in staff costs to KES 2.4 BN and a 7.6% y-o-y increase in the other operating expenses to KES 3.7 BN. As a result, cost to income ratio rose 229 bps y-o-y to 49.1%. Pre-provision operating profit declined by 2.1% y-o-y to KES 6.3 BN.

The bank's loan loss provision expense saw a 249.2% y-o-y upswing to KES 1.9 BN placing the annualized cost of risk at 1.9%, 129 bps up y-o-y. As the group continues to prudently provide for the restructured loans, we foresee a further increase in the cost of risk in 3Q20. DTB Kenya has already restructured loans amounting to KES 64.0 BN, representing c. 32.0% of the group's loan book.

Total assets rose 3.3% y-o-y to KES 388.3 BN (+0.9 q-o-q). Customer loans and advances saw a 5.6% y-o-y increase to KES 201.5 BN (+0.1% q-o-q). The group's investments in government securities rose 9.8% y-o-y to KES 132.5 BN (+3.4% q-o-q). Central bank balances saw a 26.7% y-o-y decline to KES 24.5 BN (-14.7% q-o-q), plausibly as a result of Central Bank's relaxation of the reserve ratio.

On the funding side, customer deposits declined by 1.0% y-o-y to KES 280.4 BN (+2.8% q-o-q) thus pivoting the loans to deposits ratio to 71.9%, 446 bps up y-o-y. Borrowed funds rose 29.2% y-o-y to 17.1 BN (+13.2 q-o-q), plausibly on account of the c. KES 5.0 BN IFC financing facility. As such, the group's loans to deposits and borrowed funds ratio rose 334 bps y-o-y to 67.7%. Deposits due to other banks rose 80.3% y-o-y to KES 15.7 BN (-32.8% q-o-q), exhibiting the banking sector's liquidity position.

Gross non-performing loans (NPLs) rose 16.0% y-o-y to KES 17.5 BN (+5.6% q-o-q) whereas interest in suspense rose 24.3% y-o-y to KES 2.8 BN (+10.7% q-o-q). As such, total NPLs stood at KES 14.7 BN, 14.6% up y-o-y, pivoting the NPL ratio to 8.0%, 67 bps up y-o-y. Loan loss provisions rose 15.5% y-o-y to KES 6.2 BN (+37.0% q-o-q), thus pivoting the NPL coverage ratio to 41.9%, 33 bps up y-o-y.

The bank's core capital ratio (Core capital/TRWA) edged up 40 bps to 19.3% whereas the total capital ratio (Total capital/TRWA) declined by 10 bps to 21.0%. Both ratios remain well above the statutory minimum of 10.5% and 14.5% respectively. Liquidity ratio rose 10 bps y-o-y to 54.4%, well above the statutory minimum of 20.0%.

On a trailing basis, DTB Group is trading at a P/E multiple of 3.3x and a P/B multiple of 0.3x, below the respective sector medians of 5.3x and 0.6x. Its ROE stands at 9.4%, against a sector median of 14.1% whereas its ROA stands at 1.5%, against a sector median of 2.0%. The dividend yield stands at 4.0%. Keeping in view that the counter is trading 69.2% lower than its current book value, we maintain a **BUY** recommendation.

PROFIT AND LOSS SUMMARY (KES MN)

Year End: December	1H20	1H19	y-y% ch	2q20	1q20	2q19	y-y% ch	q-q% ch
Interest income	15,808	16,344	(3.3)	7,853	7,954	8,195	(4.2)	(1.3)
Interest expense	6,513	7,156	(9.0)	3,232	3,281	3,551	(9.0)	(1.5)
Net interest income	9,295	9,188	1.2	4,621	4,674	4,645	(0.5)	(1.1)
Other operating income	273	329	(17.0)	129	144	242	(47.0)	(11.0)
Fees and commission income	1,596	1,651	(3.4)	708	888	841	(15.9)	(20.3)
Net income from forex dealings	1,283	997	28.7	725	559	354	104.7	29.7
Total non-interest income	3,152	2,977	5.9	1,561	1,591	1,438	8.6	(1.9)
Total income	12,447	12,165	2.3	6,182	6,265	6,083	1.6	(1.3)
Less operating expenses	6,108	5,691	7.3	3,200	2,908	2,808	13.9	10.0
Operating profit	6,338	6,473	(2.1)	2,982	3,356	3,274	(8.9)	(11.2)
Bad debt charge	1,865.6	534	249.2	1,457	408	266	448.4	257.1
Exceptional items	10	12	(16.9)	5	5	4	26.0	(10.1)
Profit before tax	4,483	5,951	(24.7)	1,529	2,954	3,012	(49.2)	(48.2)
Less tax	1,860	1,819	2.3	949	911	849	11.7	4.1
Profit after tax	2,623	4,132	(36.5)	580	2,042	2,163	(73.2)	(71.6)
Attributable Income	2,402	3,884	(38.2)	491	1,911	2,052	(76.1)	(74.3)

(Source: Company, DBIB Research)

BALANCE SHEET SUMMARY (KES MN)

Year End: December	1H20	1q20	1H19	y-y% ch	q-q% ch
Total shareholder's equity	61,031	61,021	56,941	7.2	0.0
Minority interest	6,095	5,869	5,564	9.6	3.9
Total Equity	67,126	66,891	62,505	7.4	0.4
Deposits due to other banks	15,680	23,347	8,697	80.3	(32.8)
Customer deposits	280,370	272,805	283,065	(1.0)	2.8
Borrowed funds	17,057	15,065	13,204	29.2	13.2
Other liabilities	8,020	6,870	8,458	(5.2)	16.7
Total equity and liabilities	388,254	384,977	375,930	3.3	0.9
Central bank balances	24,451	28,649	33,369	(26.7)	(14.7)
Deposits due from banks	10,130	8,633	11,316	(10.5)	17.3
Investment Securities	132,527	128,166	120,725	9.8	3.4
Held for dealing securities	-	-	-	-	-
Customer loans and advances	201,455	201,269	190,778	5.6	0.1
Other assets	12,429	10,825	12,293	1.1	14.8
Intangible assets	1,225	1,531	1,138	7.7	(20.0)
Fixed assets	6,038	5,903	6,312	(4.3)	2.3
Total assets	388,254	384,977	375,930	3.3	0.9

(Source: Company, DBIB Research)

INVESTMENT RETURN

	1H20	1Q20	1H19	y-y bps ch	q-q bps ch
ROA (%)*	1.2	2.0	2.1	(83)	(75)
ROIC (%)*	1.3	2.2	2.2	(85)	(84)
ROE (%)*	7.2	11.4	12.4	(527)	(427)

(Source: Company, DBIB Research)

*Annualized

CAPITAL ADEQUACY, LIQUIDITY & ASSET QUALITY

	1H20	1Q20	1H19	y-y bps ch	q-q bps ch
Core capital/TRWA (%)	19.3	19.3	18.9	40	-
Min. Statutory Ratio (%)	10.5	10.5	10.5	-	-
Total capital/TRWA (%)	21.0	21.0	21.1	(10)	-
Min. Statutory Ratio (%)	14.5	14.5	14.5	-	-
Liquidity Ratio (%)	54.4	54.7	54.3	10	(30)
Min. Statutory Ratio (%)	20.0	20.0	20.0	-	-
Leverage Ratio (%)	15.7	15.9	15.1	57	(13)
Equity-to-Loans Ratio (%)	33.3	33.2	32.8	56	9
NPL Ratio (%) **	8.0	7.6	7.3	67	38
NPL Coverage Ratio (%) **	41.9	32.0	41.6	33	991
IFRS 9 NPL Coverage Ratio (%)**	51.2	42.4	50.3	90	883
Long Term Debt to Total Liabilities and Equity (%)	4.4	3.9	3.5	88	48
NTA/share (KES)	213.9	212.8	199.6	1	113
Book value/share (KES)	218.3	218.2	203.7	0	3

(Source: Company, DBIB Research)

**Total Loan Portfolio net of Interbank Lending

OPERATING PERFORMANCE

	1H20	1Q20	1H19	y-y bps ch	q-q bps ch
Yield on interest earning assets (%)*	9.2	9.4	10.1	(94)	(22)
Cost of funds (%)*	4.2	4.2	4.7	(53)	(6)
Net Interest Margin (%)*	5.0	5.2	5.4	(41)	(17)
Loan-to-Deposits ratio (%)	71.9	73.8	67.4	446	(192)
Loan-to-Dep.&Borrowed Funds ratio (%)	67.7	69.9	64.4	334	(218)
Funded Income Generating Potential (%)	88.6	87.8	85.9	276	82
Funded Income Reliance (%)	74.7	74.6	75.5	(85)	7
Cost to income ratio (%)	49.1	46.4	46.8	229	265
Cost of risk (%) *	1.9	0.8	0.6	129	104
Pre-tax margin (%)	36.0	0.8	48.9	(1,291)	3,521
PAT margin (%)	21.1	47.1	34.0	(1,290)	(2,608)

(Source: Company, DBIB Research)

* Annualized

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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