

# DYER & BLAIR INVESTMENT BANK

## EARNINGS UPDATE

Founder Member of the Nairobi Securities Exchange

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DYER & BLAIR  
INVESTMENT BANK

WE KNOW. YOU KNOW.

### DTB GROUP: 1Q20 EARNINGS UPDATE

Dear All,

DTB Group announced its 1Q20 results reporting a 3.7% y-o-y increase in profit after tax (PAT) to KES 2.0 BN. Earnings per share (EPS) for the period closed at KES 6.83 compared to KES 6.55 in 1Q19.

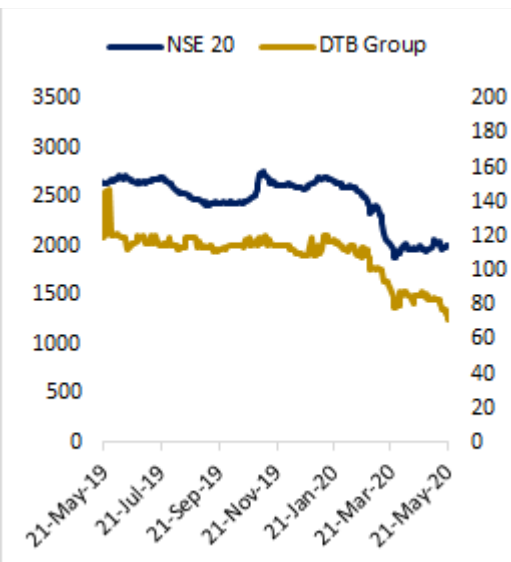
#### Key highlights:

**Net interest income rose 2.9% y-o-y to KES 4.7 BN** following a 9.0% y-o-y decline in interest expense to KES 3.3 BN. Interest income saw a 2.4% y-o-y decline to KES 8.0 BN. Annualized yield on interest earning assets dropped 61 bps y-o-y to 9.4% whereas annualized cost of funds dropped 58 bps y-o-y to 4.2%. As a result, the bank's annualized net interest margin (NIM) remained flat at 5.2% (-0.3 bps down y-o-y).

**Interest income from loans and advances declined 1.8% y-o-y to KES 4.8 BN** as the pre-cap repeal loan book pricing remains referenced to the CBR rate which has since dropped 200 bps in a bid to boost private sector credit growth. This placed the annualized yield on loans for the period at 9.9%, 37 bps down y-o-y. Interest income from government securities declined 1.2% y-o-y to KES 3.1 BN placing the annualized yield on government securities at 9.8%, 47 bps down y-o-y. Interest expense from customer deposits declined 7.8% y-o-y to KES 2.8 BN placing the annualized cost of deposits at 4.1%, 35 bps down y-o-y.

**Non-funded income (NFI) rose 3.4% y-o-y to KES 1.6 BN**, ascribable to a 9.6% y-o-y increase in fees and commission income to KES 0.9 BN. Net income from forex dealings declined 13.1% y-o-y to KES 0.6 BN. Fees and commissions on loans saw a 39.3% y-o-y increase to KES 0.4 BN whilst other fees and commissions declined 5.4% y-o-y to KES 0.5 BN. As a result, funded income reliance declined by 9 bps y-o-y to 74.6%. We expect higher funded income reliance levels to be predominant across the sector in FY20, particularly for banks that lack sizeable trading desks, due to the various waivers on mobile money transfer and penalty fees, subdued cross-selling, as well as encumbered recoveries.

#### DTB GROUP 52 WEEK PRICE PERFORMANCE



(Source: NSE, DBIB Research)

| PRICE        | ABSOLUTE | EXCESS |
|--------------|----------|--------|
| RETURN       | RETURN   | RETURN |
| 3 month (%)  | (36.7)   | (16.2) |
| 6 month (%)  | (37.3)   | (13.7) |
| 12 month (%) | (50.9)   | (26.8) |

#### KEY METRICS

|                     |         |
|---------------------|---------|
| Current Price (KES) | 71.50   |
| 52 week high (KES)  | 147.4   |
| 52 week low (KES)   | 71.50   |
| YTD Return (%)      | (34.40) |
| Issued Shares (MN)  | 279.6   |
| Market Cap (USD MN) | 187.0   |

|                    |              |
|--------------------|--------------|
| Recommendation     | HOLD         |
| Target price (KES) | Under review |
| Trailing EPS (KES) | 26.26        |
| NAV (KES)          | 218.24       |
| P/E (x)            | 2.7          |
| P/B (x)            | 0.3          |
| Div Yld (%)        | -            |

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**Operating expenses (less loan provisions) rose 0.9% y-o-y to KES 2.9 BN** courtesy of a 10.4% y-o-y increase in staff costs to KES 1.2 BN. Other operating expenses declined by 7.2% y-o-y to KES 1.2 BN. On account of this, pre-provision operating profit rose 4.9% y-o-y to KES 3.4 BN. The bank's cost to income ratio declined 98 bps y-o-y to 46.4%.

**The bank's loan loss provision expense** saw a 52.0% y-o-y upswing to KES 408.1 MN placing the annualized cost of risk at 0.8%, up 24 bps y-o-y. An increase in the cost of risk in 2Q20 is inevitable across the sector given the need to provide for the restructured loans that will instantaneously move from stage 1 to stage 2 loans as dictated by IFRS 9. As of mid-May 2020, DTB Kenya had restructured circa 20.2% of its loan book.

**Total assets rose 4.0% y-o-y to KES 385.0 BN** (-0.3 q-o-q). Customer loans and advances saw a 6.7% y-o-y increase to KES 201.3 BN (+1.1% q-o-q). The group's investments in government securities rose 1.9% y-o-y to KES 128.2 BN (-3.2% q-o-q). We foresee subdued growth of the loan book in 2Q20 due to the bank's general low appetite for risk and the overall reduced demand for credit, save for key names looking to sustain their working capital position.

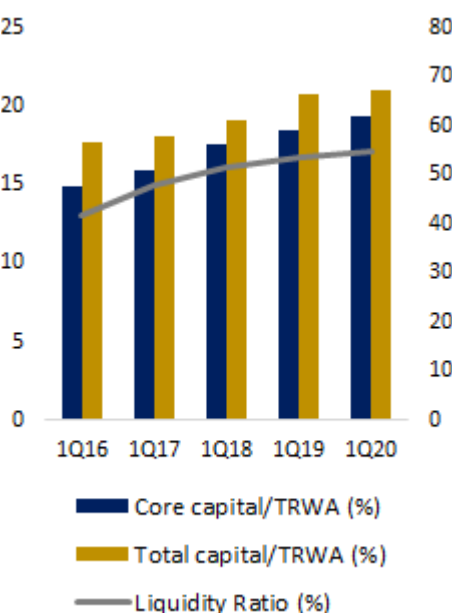
**On the funding side, customer deposits** declined 0.9% y-o-y to KES 272.8 BN (-2.6% q-o-q). Deposits due to other banks rose 82.6% y-o-y to KES 23.3 BN (+4.0% q-o-q) whilst borrowed funds rose 20.3% y-o-y to 15.1 BN (+32.6 q-o-q). Loans to deposits ratio rose 529 bps y-o-y to 73.8%. In parallel, loans to deposits and borrowed funds ratio rose 441 bps y-o-y to 69.9%.

**Gross non-performing loans (NPLs) rose 15.7% y-o-y to KES 16.6 BN** whereas interest in expense rose 26.3% y-o-y to KES 2.5 BN. As such, total NPLs stood at KES 14.1 BN, 14.0% up y-o-y. The NPL ratio edged up 55 bps y-o-y to 7.6%. Loan loss provisions declined 14.5% y-o-y to KES 4.5 BN (-0.2% q-o-q). The NPL coverage ratio declined 1,067 bps y-o-y to 32.0%. DTB has a slightly more exposure to tourism (c. 10.0%) than its peers. This and its exposure to other key sectors that will be affected indirectly by the tough business environment created by COVID-19, will require more provisioning.

**DTB Kenya's core capital ratio (Core capital/TRWA) and total capital ratio (Total capital/TRWA) edged up 80 bps and 30 bps y-o-y to 19.3% and 21.0% respectively.** Both ratios remain well above the statutory minimum of 10.5% and 14.5% respectively. Liquidity ratio rose 130 bps y-o-y to 54.7%, above the statutory minimum of 20.0%.

**On a trailing basis,** DTB Group is trading at a P/E multiple of 2.7x and a P/B multiple of 0.3x, below the sector medians of 4.8x and 0.8x respectively. Its ROE stands at 11.0%, below the sector median of 16.7% whereas its ROA stands at 1.9% below the sector median of 2.4%. Currently, its dividend yield stands at 3.8%, below the sector median of 7.4%. We issue a **HOLD** recommendation.

**DTB: CAPITAL AND LIQUIDITY POSITION**



Source: (Company Filings, DBIB Research)

DTB has maintained strong capitalization and liquidity metrics compared to its peers over time. Therefore, it is technically more resilient to capital erosion and recapitalization risks during this unprecedented economic environment.

## PROFIT AND LOSS SUMMARY (KES MN)

| Year End: December             | 1Q20  | 1Q19  | 4q19  | y-y% ch | q-q% ch |
|--------------------------------|-------|-------|-------|---------|---------|
| Interest income                | 7,954 | 8,148 | 8,328 | (2.4)   | (4.5)   |
| Interest expense               | 3,281 | 3,605 | 3,401 | (9.0)   | (3.5)   |
| Net interest income            | 4,674 | 4,543 | 4,927 | 2.9     | (5.1)   |
| Other operating income         | 144   | 86    | (44)  | 67.2    | 431.4   |
| Fees and commission income     | 888   | 810   | 1,023 | 9.6     | (13.2)  |
| Net income from forex dealings | 559   | 643   | 423   | (13.1)  | 32.1    |
| Total non-interest income      | 1,591 | 1,539 | 1,403 | 3.4     | 13.4    |
| Total income                   | 6,265 | 6,082 | 6,330 | 3.0     | (1.0)   |
| Less operating expenses        | 2,908 | 2,883 | 3,293 | 0.9     | (11.7)  |
| Operating profit               | 3,356 | 3,199 | 3,038 | 4.9     | 10.5    |
| Bad debt charge                | 408   | 268   | 453   | 52.0    | (9.9)   |
| Exceptional items              | 5     | 8     | (9)   | (36.4)  | 156.6   |
| Profit before tax              | 2,954 | 2,939 | 2,575 | 0.5     | 14.7    |
| Less tax                       | 911   | 970   | 1,298 | (6.0)   | (29.8)  |
| Profit after tax               | 2,042 | 1,970 | 1,278 | 3.7     | 59.8    |

(Source: Company, DBIB Research)

## BALANCE SHEET SUMMARY (KES MN)

| Year End: December           | 1Q20    | FY19    | 1Q19    | y-y% ch | q-q% ch |
|------------------------------|---------|---------|---------|---------|---------|
| Total shareholder's equity   | 61,021  | 58,851  | 55,448  | 10.1    | 3.7     |
| Minority interest            | 5,869   | 5,665   | 5,336   | 10.0    | 3.6     |
| Total Equity                 | 66,891  | 64,515  | 60,784  | 10.0    | 3.7     |
| Deposits due to other banks  | 23,347  | 22,454  | 12,785  | 82.6    | 4.0     |
| Customer deposits            | 272,805 | 280,187 | 275,331 | (0.9)   | (2.6)   |
| Borrowed funds               | 15,065  | 11,357  | 12,524  | 20.3    | 32.6    |
| Other liabilities            | 6,870   | 7,717   | 8,666   | (20.7)  | (11.0)  |
| Total equity and liabilities | 384,977 | 386,230 | 370,091 | 4.0     | (0.3)   |
| Central bank balances        | 28,649  | 27,219  | 25,237  | 13.5    | 5.3     |
| Deposits due from banks      | 8,633   | 8,321   | 11,054  | (21.9)  | 3.8     |
| Investment Securities        | 128,166 | 132,462 | 125,732 | 1.9     | (3.2)   |
| Held for dealing securities  | -       | -       | -       | -       | -       |
| Customer loans and advances  | 201,269 | 199,089 | 188,562 | 6.7     | 1.1     |
| Other assets                 | 10,825  | 11,514  | 12,015  | (9.9)   | (6.0)   |
| Intangible assets            | 1,531   | 1,595   | 932     | 64.3    | (4.0)   |
| Fixed assets                 | 5,903   | 6,030   | 6,558   | (10.0)  | (2.1)   |
| Total assets                 | 384,977 | 386,230 | 370,091 | 4.0     | (0.3)   |

(Source: Company, DBIB Research)

## INVESTMENT RETURN

|          | 1Q20* | 1Q19* | FY19 | y-y bps ch | q-q bps ch |
|----------|-------|-------|------|------------|------------|
| ROA (%)  | 2.0   | 2.0   | 1.9  | 1          | 10         |
| ROIC (%) | 2.2   | 2.1   | 2.0  | 5          | 11         |
| ROE (%)  | 11.4  | 12.1  | 11.3 | (63)       | 16         |

(Source: Company, DBIB Research)

\*Annualized

## CAPITAL ADEQUACY, LIQUIDITY & ASSET QUALITY

|   | 1Q20  | 1Q19  | FY19  | y-y bps ch | q-q bps ch |
|---|-------|-------|-------|------------|------------|
| Core capital/TRWA (%)                         | 19.3  | 18.5  | 19.1  | 80         | 20         |
| Min. Statutory Ratio (%)                      | 10.5  | 10.5  | 10.5  | -          | -          |
| Total capital/TRWA (%)                        | 21.0  | 20.7  | 20.9  | 30         | 10         |
| Min. Statutory Ratio (%)                      | 14.5  | 14.5  | 14.5  | -          | -          |
| Liquidity Ratio (%)                           | 54.7  | 53.4  | 54.8  | 130        | (10)       |
| Min. Statutory Ratio (%)                      | 20.0  | 20.0  | 20.0  | -          | -          |
| Leverage Ratio (%)                            | 15.9  | 15.0  | 15.2  | 87         | 61         |
| Equity-to-Loans Ratio (%)                     | 33.2  | 32.2  | 32.4  | 100        | 83         |
| NPL Ratio (%)**                               | 7.6   | 7.1   | 7.4   | 55         | 22         |
| NPL Coverage Ratio (%)**                      | 32.0  | 42.7  | 33.2  | (1,067)    | (118)      |
| IFRS 9 NPL Coverage Ratio (%)**               | 42.4  | 50.7  | 42.4  | (831)      | -          |
| L.T. Debt to Total Liabilities and Equity (%) | 3.9   | 3.4   | 2.9   | 53         | 97         |
| NTA/share (KES)                               | 212.8 | 195.0 | 169.3 | 1,779      | 4,347      |
| Book value/share (KES)                        | 218.2 | 198.3 | 210.5 | 1,993      | 776        |

(Source: Company, DBIB Research)

\*\*Total Loan Portfolio net of Interbank Lending

## OPERATING PERFORMANCE

|   | 1Q20 | 1Q19 | FY19 | y-y bps ch | q-q bps ch |
|---|------|------|------|------------|------------|
| Yield on interest earning assets (%)*   | 9.4  | 10.0 | 9.7  | (61)       | (25)       |
| Cost of funds (%)*                      | 4.2  | 4.8  | 4.5  | (58)       | (29)       |
| Net Interest Margin (%)*                | 5.2  | 5.2  | 5.2  | (3)        | 3          |
| Loan-to-Deposits ratio (%)              | 73.8 | 68.5 | 71.1 | 529        | 272        |
| Loan-to-Dep. & Borrowed Funds ratio (%) | 69.9 | 65.5 | 68.3 | 441        | 163        |
| Funded Income Generating Potential (%)  | 87.8 | 87.9 | 88.0 | (10)       | (18)       |
| Funded Income Reliance (%)              | 74.6 | 74.7 | 76.4 | (9)        | (183)      |
| Cost to income ratio (%)                | 46.4 | 47.4 | 48.6 | (98)       | (219)      |
| Cost of risk (%)*                       | 0.8  | 0.6  | 0.7  | 24         | 15         |
| Pre-tax margin (%)                      | 47.1 | 48.3 | 46.0 | (118)      | 114        |
| PAT margin (%)                          | 32.6 | 32.4 | 29.7 | 22         | 291        |

(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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