



### DTB GROUP: 3Q20 EARNINGS UPDATE

Dear All,

Diamond Trust Bank (DTB) announced its 3Q20 results, recording a 27.8% y-o-y decline in Profit after Tax (PAT) to KES 4.3 BN following an increase in bad debt charge by 232.1% y-o-y to KES 2.9 BN resulting from the prevailing higher credit risk environment in the wake of the COVID-19 pandemic. EPS for the period stands at KES 14.40. The group's trailing EPS stands at KES 18.56. Annualized ROE declined 381 bps y-o-y to 7.8% while annualized ROA dropped 60 bps y-o-y to 1.4%.

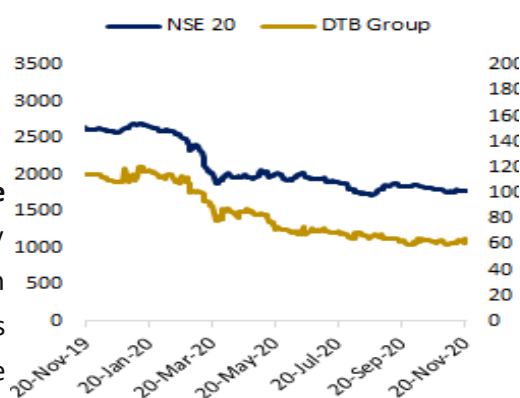
Below please find key highlights:

**Net interest income rose 0.9% y-o-y to KES 13.9 BN** due to an 8.9% y-o-y drop in interest expense to KES 9.8 BN whereas interest income declined 3.4% y-o-y to KES 23.7 BN. As a result, net interest margin declined by 29 bps y-o-y to close at 4.9% courtesy of a 80 bps y-o-y decline in its annualized yield on interest earning assets to 9.0%. The group's annualized cost of funds also dropped by 51 bps y-o-y decline to 4.1%.

**Interest income from loans and advances declined 3.3% y-o-y to KES 14.3 BN** placing the annualized yield on average loans at 9.6%, down 53 bps y-o-y. Interest income from government securities declined 1.1% y-o-y to KES 9.2 BN, placing the annualized yield on average government securities at 9.4%, down 32 bps y-o-y. Interest expense from customer deposits also declined 8.3% y-o-y to KES 8.4 BN placing the annualized cost of average deposits at 3.9%, down 40 bps y-o-y.

**Non-funded income rose 15.3% y-o-y to KES 5.0 BN which saw a 251 bps y-o-y decline in funded income reliance to 73.4%.** This was largely attributable to a 37.2% y-o-y rise in net income from forex dealings to KES 1.9 BN and a 54.2% y-o-y increase in other operating income to KES 671.5 MN. Fees and commission income declined 3.7% y-o-y to KES 2.4 BN owing to a 16.8% y-o-y decline in other fees and commissions to KES 1.3 BN. Fees and commissions on loans edged up by 17.7% y-o-y to KES 1.1 BN.

#### DTB GROUP 52 WEEK PRICE PERFORMANCE



Source: NSE, DBIB Research

PRICE RETURN	ABSOLUTE RETURN	EXCESS RETURN
3 months (%)	(4.2)	(7.8)
6 months (%)	(14.5)	(3.2)
12 months (%)	(44.5)	(12.6)

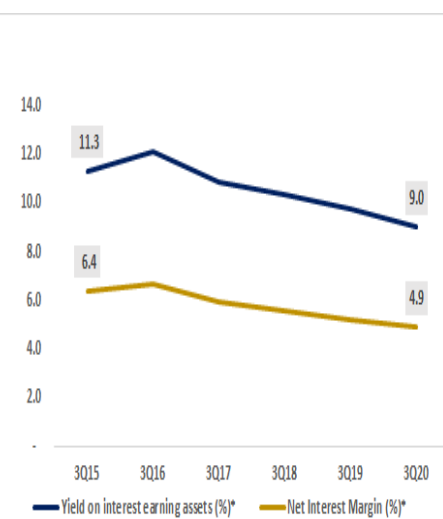
#### KEY METRICS

Current Price (KES)	63.25
52 week Low (KES)	59.50
52 week High (KES)	120.30
YTD Return (%)	(42.0)
Issued Shares (MN)	279.6
Market Cap (USD MN)	161.2

Recommendation	HOLD
Trailing EPS (KES)	18.56
NAV (KES)	224.57
Trailing P/E (x)	3.4
Trailing P/B (x)	0.3
Div Yld (%)	-

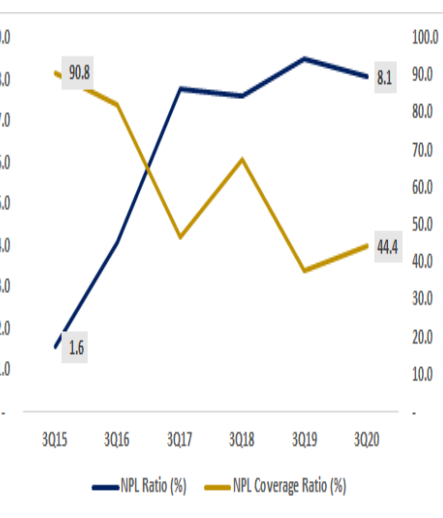
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## YIELD RATIO & NET INTEREST MARGIN



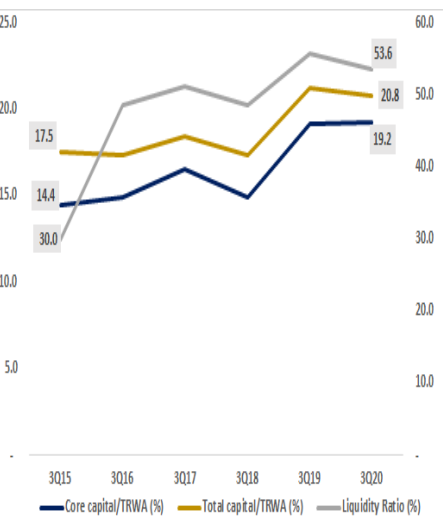
Source: Company, DBIB Research

## NPL RATIO & NPL COVERAGE RATIO



Source: Company, DBIB Research

## CORE, TOTAL & LIQUIDITY RATIOS



Source: Company, DBIB Research

**Operating expenses (less loan provisions) rose 10.0% y-o-y to KES 9.5 BN.** This was driven by a 5.9% y-o-y increase in staff costs to KES 3.6 BN and a 5.9% y-o-y increase in other operating expenses to KES 3.5 BN. Loan loss provision expense rose by 232.1% y-o-y to KES 2.9 BN leading to a subsequent 127 bps y-o-y increase in cost of risk to 1.9%. Cost to income ratio rose 255 bps y-o-y to 50.0%.

**Total assets grew by 3.0% y-o-y to KES 394.0 BN.** Loans and advances rose 7.1% y-o-y to KES 205.6 BN (+2.1% q-o-q). Investment securities recorded a similar trajectory, 5.1% up y-o-y to KES 134.1 BN (+1.2% q-o-q).

**Customer deposits edged up 1.8% y-o-y to KES 288.2 BN, a 2.8% growth on a q-o-q basis.** Loans to deposits ratio rose 353 bps y-o-y to 71.4% whereas loans to deposits and borrowed funds ratio rose 173 bps y-o-y to 66.7%.

**Gross NPLs remained relatively flat with a 0.7% y-o-y growth to KES 18.0 BN.** Total NPLs contracted 2.6% y-o-y to KES 14.7 BN. The NPL ratio deteriorated by 46 bps y-o-y to 8.1%. The group's NPL coverage ratio rose by 622 bps y-o-y to 44.4%.

**Core capital ratio (Core capital/TRWA) rose 10 bps y-o-y to 19.2% whereas Total capital/TRWA ratio dropped 40 bps y-o-y to 20.8%.** Both ratios remain above the statutory minimum of 10.5% and 14.5% respectively. Liquidity ratio edged down 200 bps y-o-y to 53.6% (above the statutory minimum of 20.0%).

	DTB Bank Reported	Adjusted ratios	Gap (bps)
Core capital ratio (%)	19.2	19.6	40
Total capital ratio (%)	20.8	21.2	40

Source: Company,

Adjusted ratios include the expected credit loss provisions added back to capital in line with the CBK guidance note issued in April 2018 on implementation of IFRS 9.

**On a trailing basis,** DTB is trading at a P/E multiple of 3.4x and a P/B multiple of 0.3x, against sector median multiples of 4.6x and 0.6x respectively. Its ROE stands at 8.3% below a sector median of 12.0% while its ROA stands at 1.3% also below a sector median of 1.7%.

**Going forward:** Evidently, DTB's performance has been impacted by the uncertainties caused by the COVID-19 pandemic as well as the continuous exit of foreign investors from the NSE market. The group's relatively low dividend payout leaves investors fairly unmotivated to hold positions of the counter. However, the group has historically maintained a strong capital base enabling it to comfortably pursue capital intensive inorganic opportunities owing to its low recapitalization risk. In addition, the counter's loan book is deemed as healthy given its adequate collateral with consistent and above average provisions against its NPL book. Thus, we maintain our **HOLD** recommendation as we expect DTB's share price to adjust once macro-economic uncertainties ease and businesses recover in the long term.

## PROFIT AND LOSS SUMMARY (KES MN)

Year End: December	3Q20	3Q19	y-y% ch	3q20	2q20	1q20	3q19	y-y% ch	q-q% ch
Interest income	23,699	24,523	(3.4)	7,891	7,853	7,954	8,179	(3.5)	0.5
Interest expense	9,788	10,740	(8.9)	3,275	3,232	3,281	3,583	(8.6)	1.3
Net interest income	13,910	13,784	0.9	4,616	4,621	4,674	4,596	0.4	(0.1)
Other operating income	672	436	54.2	399	129	144	107	273.3	209.9
Fees and commission income	2,431	2,525	(3.7)	836	708	888	873	(4.3)	18.1
Net income from forex dealings	1,932	1,407	37.2	648	725	559	411	58.0	(10.5)
Total non-interest income	5,035	4,368	15.3	1,883	1,561	1,591	1,391	35.4	20.6
Total income	18,945	18,151	4.4	6,499	6,182	6,265	5,987	8.6	5.1
Less operating expenses	9,469	8,609	10.0	3,361	3,200	2,908	2,918	15.2	5.0
Operating profit	9,493	9,558	(0.7)	3,155	2,982	3,356	3,084	2.3	5.8
Bad debt charge	2,890	870	232.1	1,025	1,457	408	336	204.9	(29.7)
Exceptional items	-	-	-	-	5	5	-	-	-
Profit before tax	6,603	8,688	(24.0)	2,120	1,529	2,954	2,736	(22.5)	38.7
Less tax	2,277	2,697	(15.6)	417	949	911	878	(52.5)	(56.1)
Profit after tax	4,326	5,991	(27.8)	1,703	580	2,042	1,858	(8.4)	193.6
Attributable Income	4,025	5,621	(28.4)	1,624	491	1,911	1,737	(6.5)	230.8
EPS (KES)	14.4	20.1	(28.4)	5.8	1.8	6.8	6.2	(6.4)	231.0

(Source: Company, DBIB Research)

## BALANCE SHEET SUMMARY (KES MN)

Year End: December	3Q20	1H20	3Q19	y-y% ch	q-q% ch
Total shareholder's equity	62,789	61,031	58,910	6.6	2.9
Minority interest	6,292	6,095	5,788	8.7	3.2
Total Equity	69,081	67,126	64,698	6.8	2.9
Deposits due to other banks	9,181	15,680	14,266	(35.6)	(41.4)
Customer deposits	288,158	280,370	283,091	1.8	2.8
Borrowed funds	20,206	17,057	12,567	60.8	18.5
Other liabilities	7,331	8,020	7,873	(6.9)	(8.6)
Total equity and liabilities	393,958	388,254	382,496	3.0	1.5
Central bank balances	22,397	24,451	27,941	(19.8)	(8.4)
Deposits due from banks	11,691	10,130	14,294	(18.2)	15.4
Investment Securities	134,082	132,527	127,542	5.1	1.2
Held for dealing securities	-	-	-	-	-
Customer loans and advances	205,605	201,455	192,007	7.1	2.1
Other assets	13,368	12,429	13,186	1.4	7.6
Intangible assets	685	1,225	1,238	(44.7)	(44.1)
Fixed assets	6,131	6,038	6,288	(2.5)	1.5
Total assets	393,958	388,254	382,496	3.0	1.5

(Source: Company, DBIB Research)

## INVESTMENT RETURN

	3Q20	1H20	3Q19	y-y bps ch	q-q bps ch
ROA (%)*	1.4	1.2	2.0	(60)	13
ROIC (%)*	1.4	1.3	2.1	(66)	10
ROE (%)*	7.8	7.2	11.6	(381)	61

(Source: Company, DBIB Research)

\*Annualized

## CAPITAL ADEQUACY, LIQUIDITY & ASSET QUALITY

	3Q20	1H20	3Q19	y-y bps ch	q-q bps ch
Core capital/TRWA (%)	19.2	19.3	19.1	10	(10)
Min. Statutory Ratio (%)	10.5	10.5	10.5	-	-
Total capital/TRWA (%)	20.8	21.0	21.2	(40)	(20)
Min. Statutory Ratio (%)	14.5	14.5	14.5	-	-
Liquidity Ratio (%)	53.6	54.7	55.6	(200)	(110)
Min. Statutory Ratio (%)	20.0	20.0	20.0	-	-
Leverage Ratio (%)	15.9	15.9	15.4	54	9
Equity-to-Loans Ratio (%)	33.6	33.2	33.7	(10)	36
NPL Ratio (%) **	8.1	7.6	8.5	(46)	44
NPL Coverage Ratio (%) **	44.4	32.0	38.1	622	1,233
IFRS 9 NPL Coverage Ratio (%)**	54.7	42.4	48.0	677	1,236
Long Term Debt to Total Liabilities and Equity (%)	5.1	3.9	3.3	184	122
NTA/share (KES)	202.6	212.8	188.2	1,444	(1,013)
Book value/share (KES)	224.6	218.2	210.7	1,388	632

(Source: Company, DBIB Research)

\*\*Total Loan Portfolio net of Interbank Lending

## OPERATING PERFORMANCE

	3Q20	1H20	3Q19	y-y bps ch	q-q bps ch
Yield on interest earning assets (%)*	9.0	9.2	9.8	(80)	(19)
Cost of funds (%)*	4.1	4.2	4.6	(51)	(5)
Net Interest Margin (%)*	4.9	5.0	5.2	(29)	(14)
Loan-to-Deposits ratio (%)	71.4	71.9	67.8	353	(50)
Loan-to-Dep.&Borrowed Funds ratio (%)	66.7	67.7	64.9	173	(106)
Funded Income Generating Potential (%)	89.2	88.6	87.3	191	56
Funded Income Reliance (%)	73.4	74.7	75.9	(251)	(125)
Cost to income ratio (%)	50.0	49.1	47.4	255	91
Cost of risk (%) *	1.9	1.9	0.6	127	2
Pre-tax margin (%)	34.9	36.0	47.9	(1,301)	(116)
PAT margin (%)	22.8	21.1	33.0	(1,017)	176

(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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