

DYER & BLAIR INVESTMENT BANK

EARNINGS UPDATE

Founder Member of the Nairobi Securities Exchange

26th March 2021



DYER & BLAIR
INVESTMENT BANK

WE KNOW. YOU KNOW.

DTB GROUP: FY20 EARNINGS UPDATE

Dear All,

DTB Group released its FY20 results reporting a 51.5% y-o-y decline in PAT to KES 3.5 BN owing to an upsurge in loan loss provisions by 453.6% y-o-y to KES 7.3 BN. The EPS for the period stands at KES 11.61. ROE for the period declined 610 bps y-o-y to 5.2% while ROA for the period dropped 105 bps y-o-y to 0.8%. No dividend was recommended for the period.

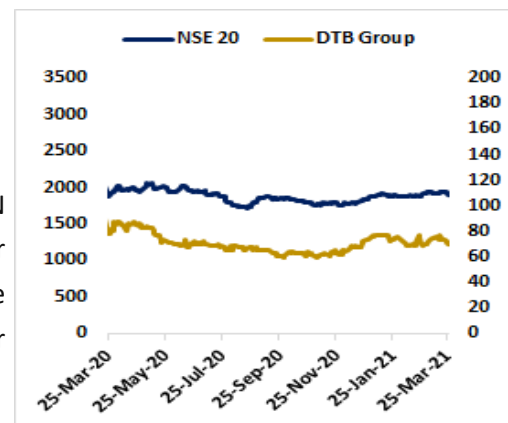
Below please find key highlights:

Net interest income fell by 3.4% y-o-y to KES 18.1 BN on account of a 5.4% y-o-y drop in interest income to KES 31.1 BN. Income from loans declined by 7.0% y-o-y to KES 18.5 BN while income from government securities edged down by 1.0% y-o-y to KES 12.4 BN. Nonetheless, interest expense decreased by 8.0% y-o-y to KES 13.0 BN owing to a 7.6% y-o-y decline in expenses from customer deposits to KES 11.2 BN.

Consequently, net interest margin (NIM) was placed at 4.5% (5-year record low), representing an 65 bps y-o-y drop, courtesy of a 142 bps y-o-y decrease in its yield on interest earning assets to 8.2%. The yield on loans fell by 108 bps y-o-y to 9.1% while the yield on government securities declined by 120 bps y-o-y to 8.8%. Cost of funds decreased by 76 bps y-o-y to 3.7%. The cost of deposits stood at 3.9%, 43 bps lower y-o-y.

Non-funded income grew 6.1% y-o-y to KES 6.1 BN leading to a 173 bps y-o-y drop in funded income reliance to 74.7% (5-year record low). This was mainly due to a 27.1% y-o-y increase in net income from forex dealings to KES 2.3 BN and a 34.2% y-o-y increase in other operating income to KES 525.9 MN. Fees and commissions income dropped 7.8% y-o-y to KES 3.3 BN following a 16.8% y-o-y decline in other fees and commissions to KES 1.8 BN due to a slow down in business activity, new lending and the waiver on of charges on mobile transactions. Fees and commissions on loans grew by 7.1% y-o-y to KES 1.4 BN.

DTB GROUP 52 WEEK PRICE PERFORMANCE



Source: NSE, DBIB Research

PRICE RETURN	ABSOLUTE RETURN	EXCESS RETURN
3 months (%)	(3.4)	(7.1)
6 months (%)	16.2	12.1
12 months (%)	(10.8)	(12.6)

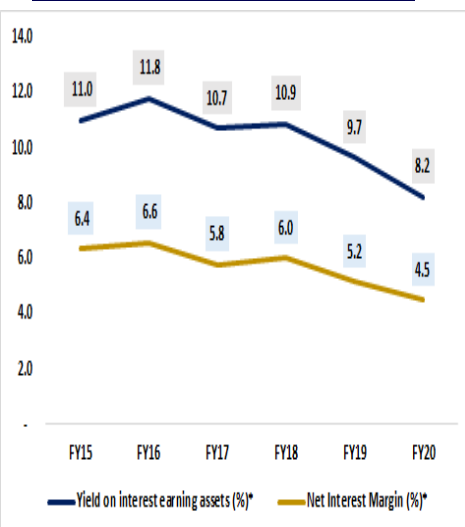
KEY METRICS

Target Price (KES)	97.78
Current Price (KES)	70.00
52 week Low (KES)	59.50
52 week High (KES)	88.00
YTD Return (%)	(6.7)
Issued Shares (MN)	279.6
Market Cap (USD MN)	178.3

Recommendation	BUY
Trailing EPS (KES)	11.61
NAV (KES)	221.64
Trailing P/E (x)	6.0
Trailing P/B (x)	0.3
Div Yld (%)	-

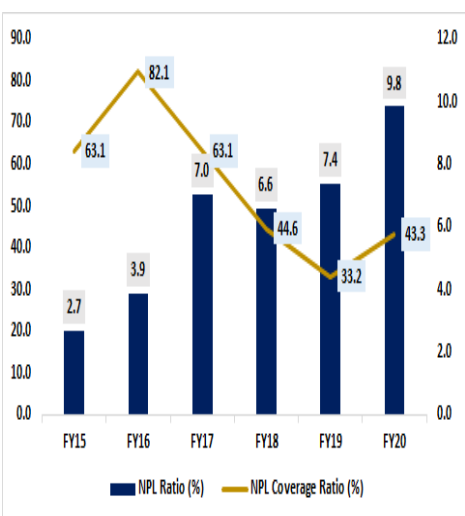
Research Analyst
Diana Omondi
domondi@dyerandblair.com
+254 709 930 128

YIELD RATIO & NET INTEREST MARGIN



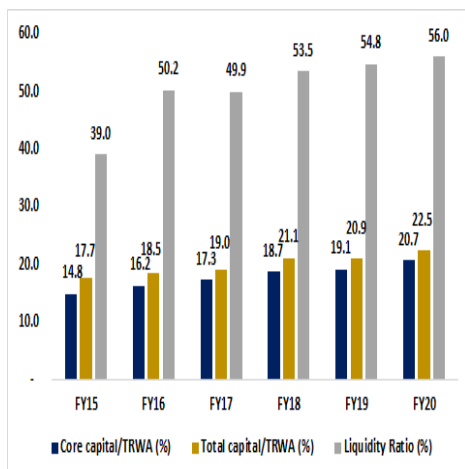
Source: Company, DBIB Research

NPL RATIO & NPL COVERAGE RATIO



Source: Company, DBIB Research

CORE, TOTAL & LIQUIDITY RATIOS



Source: Company, DBIB Research

Operating expenses (less loan loss provisions) rose by 3.7% y-o-y to KES 12.3 BN. This was driven by a 5.1% y-o-y increase in other operating expenses to KES 4.6 BN and a 1.1% y-o-y increase in staff costs to KES 4.7 BN. Loan loss provision expense soared by 453.6% y-o-y to KES 7.3 BN leading to a subsequent 285 bps y-o-y deterioration in cost of risk to 3.5%, 191 bps above our forecast. Cost to income ratio rose 239 bps y-o-y to 51.0%.

Total assets grew by 10.1% y-o-y to KES 425.1 BN. Loans and advances increased by 4.8% y-o-y to KES 208.6 BN (+1.5% q-o-q). Investment securities recorded a similar trajectory, 12.0% up y-o-y to KES 148.4 BN (+10.7% q-o-q).

Customer deposits increased by 6.4% y-o-y to KES 298.2 BN, a 3.5% growth on a q-o-q basis. Loans to deposits ratio fell 110 bps y-o-y to 70.0% whereas loans to deposits and borrowed funds ratio also fell 269 bps y-o-y to 65.6%.

Gross NPLs saw an upswing of 43.1% y-o-y to KES 22.8 BN (+26.2 q-o-q) owing to the heightened credit risk caused by the COVID-19 pandemic. Consequently, total NPLs rose by 63.6% y-o-y to KES 22.3 BN (+51.7% q-o-q). The NPL ratio surpassed our forecast of 8.1% as it increased by 244 bps y-o-y to 9.8% (5-year record high). The group's NPL coverage ratio rose by 1,012 bps y-o-y to 43.3%, given the additional loan loss provisions made in FY20.

Core capital ratio (Core capital/TRWA) rose 160 bps y-o-y to 20.7% whereas Total capital/TRWA ratio rose 160 bps y-o-y to 22.5%. Both ratios remain above the statutory minimum of 10.5% and 14.5% respectively. Liquidity ratio increased by 120 bps y-o-y to 56.0% (above the statutory minimum of 20.0%).

Going forward: DTB is currently trading at a P/E multiple of 6.0x against an industry median of 6.4x and a P/B multiple of 0.3x against an industry median of 0.7x. ROE stands at 5.2% below the industry median of 10.4% while ROA stands at 0.8% below the industry median of 1.6%. Contrary to our forecasted PAT of KES 5.8 BN, actual PAT stood at KES 3.5 BN, on account of a 1.1% y-o-y drop in total income to KES 24.2 BN (against our forecast of KES 25.7 BN) and a 48.7% y-o-y rise in operating expenses (Incl. loan loss provisions) to KES 19.7 BN (against our forecast of KES 16.5 BN). However, we recognize long-term value from the group's strong capital and liquidity buffers. We opine that this will steer it to pursue growth opportunities (given the low recapitalization risk) regardless of the prevailing uncertainties on the macroeconomic and political outlook. We also believe that the continuing expansion of digital channels well positions DTB to acquire higher business volumes, specifically relating to transaction banking services and attracting sustainable deposits. Thus, we maintain our **BUY** 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	FY20	FY19	y-y% ch	4q20	3q20	4q19	y-o-y% ch	q-q% ch
Interest income	31,090	32,851	(5.4)	7,391	7,891	8,328	(11.2)	(6.3)
Interest expense	(13,010)	(14,140)	(8.0)	(3,222)	(3,275)	(24,880)	(8.4)	596.1
Net interest income	18,079	18,711	(3.4)	4,169	4,616	4,927	(15.4)	(9.7)
Other operating income	526	392	34.2	(146)	399	(44)	234.1	(136.5)
Fees and commission income	3,271	3,548	(7.8)	839	836	1,023	(18.0)	0.4
Net income from forex dealings	2,326	1,830	27.1	394	648	423	(6.9)	(39.3)
Total non-interest income	6,122	5,770	6.1	1,088	1,883	1,403	(22.5)	(42.2)
Total income	24,202	24,481	(1.1)	5,257	6,499	6,330	(17.0)	(19.1)
Less operating expenses	(12,344)	(11,902)	3.7	(2,875)	(3,361)	(20,511)	6.3	549.0
Operating profit	11,858	12,579	(5.7)	2,365	3,155	3,022	(21.7)	(25.1)
Bad debt charge	(7,324)	(1,323)	453.6	(4,434)	(1,025)	(2,193)	365.7	896.9
Exceptional items (Incl. assoc. profits)	135	7	1,966.1	135	(10)	7	-	(1,433.9)
Profit before tax	4,668	11,263	(58.6)	(1,935)	2,120	2,575	(175.1)	(191.3)
Less tax	(1,140)	(3,994)	(71.5)	(3,417)	(417)	(6,691)	(48.9)	719.5
Profit after tax	3,529	7,269	(51.5)	(797)	1,703	1,278	(162.4)	(146.8)
Attributable Income	3,248	6,786	(52.1)	(778)	1,624	1,165	(166.8)	(147.9)
EPS (KES)	11.61	24.27	(52.2)	(2.79)	5.81	4.17	(166.9)	(148.0)

(Source: Company, DBIB Research)

BALANCE SHEET SUMMARY (KES MN)

Year End: December	FY20	3Q20	FY19	y-y% ch	q-q% ch
Total shareholder's equity	61,971	62,789	58,851	5.3	(1.3)
Minority interest	6,344	6,292	5,665	12.0	0.8
Total Equity	68,314	69,081	64,515	5.9	(1.1)
Deposits due to other banks	29,969	9,181	22,454	33.5	226.4
Customer deposits	298,167	288,158	280,187	6.4	3.5
Borrowed funds	19,798	20,206	11,357	74.3	(2.0)
Other liabilities	8,806	7,331	7,717	14.1	20.1
Total equity and liabilities	425,054	393,958	386,230	10.1	7.9
Central bank balances	25,983	22,397	27,219	(4.5)	16.0
Deposits due from banks	19,946	11,691	8,321	139.7	70.6
Investment Securities	148,378	134,082	132,462	12.0	10.7
Held for dealing securities	-	-	-	-	-
Customer loans and advances	208,593	205,605	199,089	4.8	1.5
Other assets	14,822	13,368	11,514	28.7	10.9
Intangible assets	895	685	1,595	(43.9)	30.7
Fixed assets	6,437	6,131	6,030	6.7	5.0
Total assets	425,054	393,958	386,230	10.1	7.9

(Source: Company, DBIB Research)

INVESTMENT RETURN

	FY20	3Q20	FY19	y-y bps ch	q-q bps ch
ROA (%)	0.8	1.4	1.9	(105)	(53)
ROIC (%)	0.9	1.4	2.0	(113)	(51)
ROE (%)	5.2	7.8	11.3	(610)	(260)

(Source: Company, DBIB Research)

CAPITAL ADEQUACY, LIQUIDITY & ASSET QUALITY

	FY20	3Q20	FY19	y-y bps ch	q-q bps ch
Core capital/TRWA (%)	20.7	19.2	19.1	160	150.00
Min. Statutory Ratio (%)	10.5	10.5	10.5	-	-
Total capital/TRWA (%)	22.5	20.8	20.9	160	170
Min. Statutory Ratio (%)	14.5	14.5	14.5	-	-
Liquidity Ratio (%)	56	53.6	54.8	120	240
Min. Statutory Ratio (%)	20.0	20.0	20.0	-	-
Leverage Ratio (%)	14.6	15.9	15.2	-66	-136
Equity-to-Loans Ratio (%)	32.7	33.6	32.4	34	-85
NPL Ratio (%)	9.8	8.1	7.4	244	178
NPL Coverage Ratio (%)	43.3	44.4	33.2	1,012	-103
IFRS 9 NPL Coverage Ratio (%)**	44.6	54.7	42.9	171	-1,014
LT Debt to Total Liab. and Equity (%)	4.7	5.1	2.9	172	-47
NTA/share (KES)	168.6	202.6	169.3	-67	-3,401
Book value/share (KES)	221.6	224.6	210.5	1,116	-293

(Source: Company, DBIB Research)

OPERATING PERFORMANCE

	FY20	3Q20	FY19	y-y bps ch	q-q bps ch
Yield on interest earning assets (%)	8.2	9.0	9.7	(142)	(74)
Cost of funds (%)	3.7	4.1	4.5	(76)	(37)
Net Interest Margin (%)	4.5	4.9	5.2	(65)	(37)
Loan-to-Deposits ratio (%)	70.0	71.4	71.1	(110)	(139)
Loan-to-Dep.&Borrowed Funds ratio (%)	65.6	66.7	68.3	(269)	(107)
Funded Income Generating Potential (%)	88.7	89.2	88.0	68	(52)
Funded Income Reliance (%)	74.7	73.4	76.4	(173)	128
Cost to income ratio (%)	51.0	50.0	48.6	239	102
Pre-tax margin (%)	19.3	1.9	46.0	(2672)	1741
PAT margin (%)	14.6	34.9	29.7	(1511)	(2027)

(Source: Company, DBIB Research)

DTB Bank

	Reported	Adjusted ratios	Gap (bps)
Core capital ratio (%)	20.7	21.0	30
Total capital ratio (%)	22.5	22.7	20

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.

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

DISCLAIMER

While every care has been taken in preparing this report and it has been prepared from sources believed to be reliable, no representation, warranty, or undertaking (express or implied) is given and no responsibility is accepted by Dyer and Blair Investment Bank Limited, its related companies, subsidiaries, affiliates, its employees and agents, as to the accuracy and completeness of the information contained herein or in respect of any reliance on or use thereof. This report is solely intended for distribution to clients of Dyer and Blair Investment Bank Limited. Any information may be changed after distribution at any time without any notice.