

DYER & BLAIR INVESTMENT BANK

EARNINGS UPDATE

Founder Member of the Nairobi Securities Exchange

26TH AUGUST 2021



DYER & BLAIR
INVESTMENT BANK

WE KNOW. YOU KNOW.

DTB GROUP: 1H21 EARNINGS UPDATE

Dear All,

DTB Group released its 1H21 results reporting a **20.1% advancement in Profit after tax (PAT) to KES 3.2 BN**. This was primarily on account of a 5.6% y-o-y increase in total income to KES 13.1 BN and a 2.5% y-o-y drop in operating expenses to KES 6.0 BN. Earnings per share (EPS) for the period closed at KES 10.48, 22.0% higher y-o-y, while trailing EPS stands at KES 13.51. Annualized ROE improved by 97 bps to 8.1% whilst annualized ROA improved by 13 bps to 1.4%.

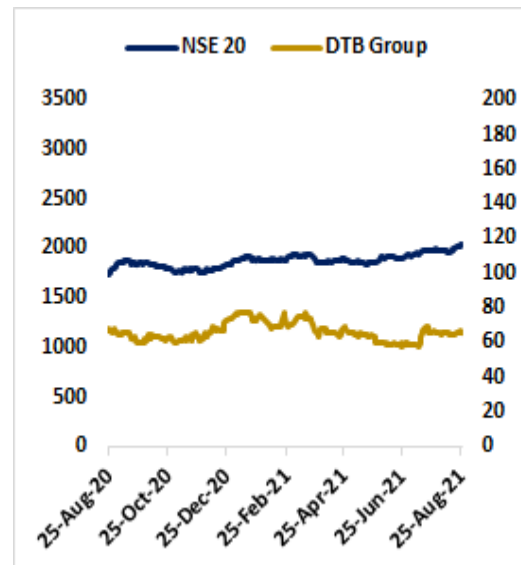
Key highlights:

Net interest income rose 5.7% y-o-y to KES 9.8 BN backed by a 5.7% y-o-y increase in interest income to KES 16.7 BN but curtailed by a 5.7% y-o-y increase in interest expense to KES 6.9 BN. Annualized yield on interest earning assets dropped 34 bps y-o-y to 8.8% whereas annualized cost of funds dropped 22 bps y-o-y to 3.9%. As such, the group's annualized net interest margin (NIM) dropped 12 bps to 4.9%.

Interest income from loans and advances declined 1.6% y-o-y to KES 9.4 BN placing annualized average yield on loans for the period at 9.3%, 48 bps down y-o-y. Interest income from investment securities grew 16.8% y-o-y to KES 7.2 BN placing the annualized average yield on investment securities at 9.9%, 15 bps up y-o-y. Interest expense from customer deposits rose 9.3% y-o-y to KES 6.1 BN placing the annualized average cost of deposits at 4.1%, 14 bps up y-o-y.

Non-funded income (NFI) rose 5.5% y-o-y to KES 3.3 BN, attributable to a 0.9% y-o-y increase in fees and commission income to KES 1.6 BN but held back by a 4.8% y-o-y decline in fees from foreign exchange dealings to KES 1.2 BN. Fees and commissions on loans saw a 13.2% y-o-y decrease to KES 643.8 MN whereas other fees and commissions grew 13.1% y-o-y to KES 965.7 MN. Funded income reliance remained fairly flat y-o-y to 74.7% (+3bps).

DTB GROUP 52 WEEK PRICE PERFORMANCE



(Source: NSE, DBIB Research)

PRICE	ABSOLUTE	EXCESS
RETURN	RETURN	RETURN
3 month (%)	3.2	(5.8)
6 month (%)	(7.1)	(15.3)
12 month (%)	(3.0)	(19.6)

KEY METRICS

Current Price (KES)	65.25
52 week high (KES)	77.50
52 week low (KES)	58.00
YTD Return (%)	(13.0)
Issued Shares (MN)	279.6
Market Cap (USD MN)	166.3

Target price (KES)	Under review
Trailing EPS (KES)	13.51
NAV (KES)	233.76
Trailing P/E (x)	4.8
Trailing P/B (x)	0.3
Div Yld (%)	-

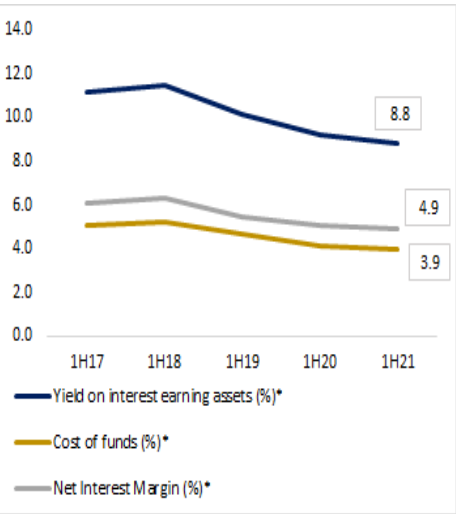
Research Analyst

Diana Omondi

domondi@dyerandblair.com

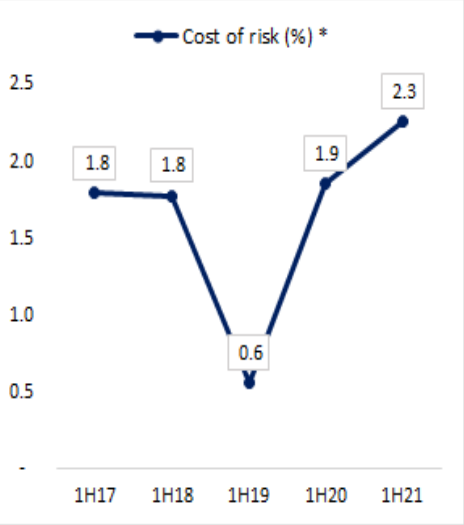
+254 709 930 128

DTB : NET INTEREST MARGIN (%)



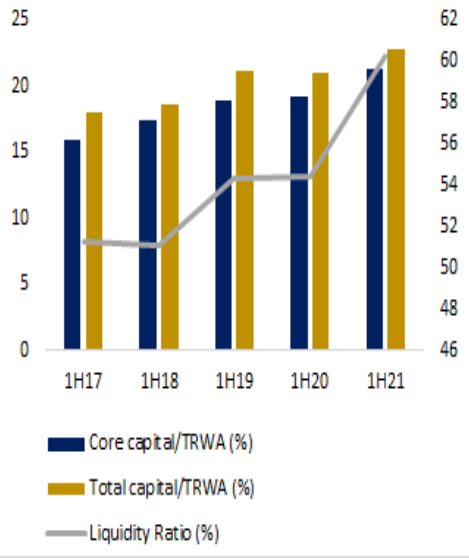
Source: (Company Filings, DBIB Research)

DTB : COST OF RISK (%)



Source: (Company Filings, DBIB Research)

DTB : CAPITAL AND LIQUIDITY POSITION (%)



Source: (Company Filings, DBIB Research)

Operating expenses (less loan loss provisions) dropped 2.5% y-o-y to KES 6.0 BN owing to a 32.8% y-o-y decrease in depreciation and amortization charges to KES 782.0 MN. Staff costs rose 2.1% y-o-y to KES 2.4 BN while other operating expenses rose 7.6% y-o-y to KES 2.5 BN. As a result, cost to income ratio shed 377 bps y-o-y to 45.3%. Consequently, pre-provision operating profit rose by 13.4% y-o-y to KES 7.2 BN.

The bank's loan loss provision expense saw a 23.9% y-o-y upswing to KES 2.3 BN placing the annualized cost of risk at 2.3%, 41 bps up y-o-y. On the same note, **gross non-performing loans (NPLs) rose 26.6% y-o-y to KES 22.2 BN (-3.2% q-o-q)** whereas interest in suspense dropped 79.9% y-o-y to KES 565.0 MN (+1.1% q-o-q) placing total NPLs at KES 21.7 BN, 46.9% up y-o-y. As such, the NPL ratio rose 180 bps y-o-y to 9.8%. Cumulative loan loss provisions rose 41.0% y-o-y to KES 8.7 BN (-13.9% q-o-q), thus pivoting the NPL coverage ratio to 40.2%, 168 bps down y-o-y.

Total assets rose 10.6% y-o-y to KES 429.6 BN (+2.9 q-o-q). Customer loans and advances saw a 1.4% y-o-y increase to KES 204.3 BN (-0.7% q-o-q). The group's investments in government securities rose 19.0% y-o-y to KES 117.7 BN (+3.4% q-o-q).

On the funding side, customer deposits grew by 11.9% y-o-y to KES 313.8 BN (+4.0% q-o-q) thus placing loans to deposits ratio at 65.1%, 674 bps down y-o-y. Borrowed funds rose 22.8% y-o-y to 20.9 BN (-3.9% q-o-q). As such, the group's loans to deposits and borrowed funds ratio dropped 669 bps y-o-y to 61.0%. Deposits due to other banks dropped 4.5% y-o-y to KES 15.0 BN (+2.2% q-o-q).

The bank's core capital ratio (Core capital/TRWA) gained 200 bps to 21.3% whereas the total capital ratio (Total capital/TRWA) increased by 180 bps to 22.8%. Both ratios remain well above the statutory minimum of 10.5% and 14.5% respectively. Liquidity ratio saw a 590 bps y-o-y upswing to 60.3%, well above the statutory minimum of 20.0%.

On a trailing basis, DTB is trading at a P/E ratio of 4.8x, against an industry median of 6.5x, and a P/B of 0.3x against an industry median of 0.8x. ROE stands at 5.8% against an industry median of 11.7% whereas ROA stands at 0.9% against an industry median of 1.9%.

*Annualized

PROFIT AND LOSS SUMMARY (KES MN)

Year End: December	1H21	1H20	y-y% ch	2q21	1q21	2q20	y-y% ch	q-q% ch
Interest income	16,703	15,808	5.7	8,366	8,337	7,853	6.5	0.4
Interest expense	6,882	6,513	5.7	3,507	3,375	3,232	8.5	3.9
Net interest income	9,821	9,295	5.7	4,859	4,962	4,621	5.2	(2.1)
Other operating income	494	273	80.9	341	153	129	165.0	122.6
Fees and commission income	1,609	1,596	0.9	904	705	708	27.7	28.2
Net income from forex dealings	1,221	1,283	(4.8)	520	701	725	(28.3)	(25.9)
Total non-interest income	3,324	3,152	5.5	1,764	1,560	1,561	13.0	13.1
Total income	13,145	12,447	5.6	6,624	6,522	6,182	7.1	1.6
Less operating expenses	5,956	6,108	(2.5)	3,121	2,834	3,200	(2.5)	10.1
Operating profit	7,190	6,338	13.4	3,502	3,687	2,982	17.5	(5.0)
Bad debt charge	2,311.1	1,866	23.9	1,627	684	1,457	11.6	137.8
Exceptional items	0	10	(99.6)	12	-12	5	142.7	(200.3)
Profit before tax	4,879	4,483	8.8	1,887	2,991	1,529	23.4	(36.9)
Less tax	1,728	1,860	(7.1)	790	938	949	(16.7)	(15.8)
Profit after tax	3,150	2,623	20.1	1,097	2,053	580	89.1	(46.6)
Attributable Income	2,931	2,402	22.0	983	1,948	491	100.4	(49.5)

(Source: Company, DBIB Research)

BALANCE SHEET SUMMARY (KES MN)

Year End: December	1H21	1q21	1H20	y-y% ch	q-q% ch
Total shareholder's equity	65,361	63,980	61,031	7.1	2.2
Minority interest	6,771	6,502	6,095	11.1	4.1
Total Equity	72,132	70,482	67,126	7.5	2.3
Deposits due to other banks	14,978	14,652	15,680	(4.5)	2.2
Customer deposits	313,804	301,759	280,370	11.9	4.0
Borrowed funds	20,939	21,787	17,057	22.8	(3.9)
Other liabilities	7,726	8,662	8,020	(3.7)	(10.8)
Total equity and liabilities	429,578	417,342	388,254	10.6	2.9
Central bank balances	29,357	22,671	24,451	20.1	29.5
Deposits due from banks	14,687	13,597	10,130	45.0	8.0
Investment Securities	158,594	153,106	132,527	19.7	3.6
Held for dealing securities	-	0	-	-	-
Customer loans and advances	204,326	205,806	201,455	1.4	(0.7)
Other assets	15,427	14,822	12,429	24.1	4.1
Intangible assets	811	842	1,225	(33.8)	(3.7)
Fixed assets	6,376	6,499	6,038	5.6	(1.9)
Total assets	429,578	417,342	388,254	10.6	2.9

(Source: Company, DBIB Research)

INVESTMENT RETURN

	1H21	1Q21	1H20	y-y bps ch	q-q bps ch
ROA (%)*	1.4	1.9	1.2	13	(50)
ROIC (%)*	1.4	2.0	1.3	12	(54)
ROE (%)*	8.1	11.1	7.2	97	(293)

(Source: Company, DBIB Research)

*Annualized

CAPITAL ADEQUACY, LIQUIDITY & ASSET QUALITY

	1H21	1Q21	1H20	y-y bps ch	q-q bps ch
Core capital/TRWA (%)	21.3	20.8	19.3	200	50
Min. Statutory Ratio (%)	10.5	10.5	10.5	-	-
Total capital/TRWA (%)	22.8	22.4	21.0	180	40
Min. Statutory Ratio (%)	14.5	14.5	14.5	-	-
Liquidity Ratio (%)	60.3	58.7	54.4	590	160
Min. Statutory Ratio (%)	20.0	20.0	20.0	-	-
Leverage Ratio (%)	15.2	15.3	15.7	(50)	(12)
Equity-to-Loans Ratio (%)	35.3	34.2	33.3	198	106
NPL Ratio (%) **	9.8	10.0	8.0	180	(22)
NPL Coverage Ratio (%) **	40.2	45.2	41.9	(168)	(495)
IFRS 9 NPL Coverage Ratio (%)**	41.8	46.5	51.2	(945)	(476)
Long Term Debt to Total Liabilities and Equity (%)	4.9	5.2	4.4	48	(35)
NTA/share (KES)	211.0	225.8	196.7	(15)	(1,486)
Book value/share (KES)	233.8	228.8	218.3	5	494

(Source: Company, DBIB Research)

**Total Loan Portfolio net of Interbank Lending

OPERATING PERFORMANCE

	1H21	1Q21	1H20	y-y bps ch	q-q bps ch
Yield on interest earning assets (%)*	8.8	9.0	9.2	(34)	(11)
Cost of funds (%)*	3.9	4.0	4.2	(22)	(6)
Net Interest Margin (%)*	4.9	5.0	5.0	(12)	(5)
Loan-to-Deposits ratio (%)	65.1	68.2	71.9	(674)	(309)
Loan-to-Dep.&Borrowed Funds ratio (%)	61.0	63.6	67.7	(669)	(257)
Funded Income Generating Potential (%)	87.9	89.3	88.6	(73)	(136)
Funded Income Reliance (%)	74.7	76.1	74.7	3	(137)
Cost to income ratio (%)	45.3	43.5	49.1	(377)	185
Cost of risk (%) *	2.3	1.3	1.9	41	93
Pre-tax margin (%)	37.1	45.9	36.0	110	(876)
PAT margin (%)	24.0	31.5	21.1	289	(752)

(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

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.