

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: 3Q21 EARNINGS UPDATE

Dear All,

Diamond Trust Bank Group (DTB Group) announced its 3Q21 results recording a 20.1% y-o-y growth in profit after tax (PAT) to KES 5.2 BN following an increase in net interest income by 5.9% y-o-y to KES 14.7 BN and a 4.5% y-o-y drop in operating expenses to KES 9.0 BN. The EPS for the period stands at KES 17.28 vis-à-vis KES 14.40 in 3Q20. Annualized ROE and ROA improved by 88 bps and 12 bps y-o-y to 8.6% and 1.5%, respectively.

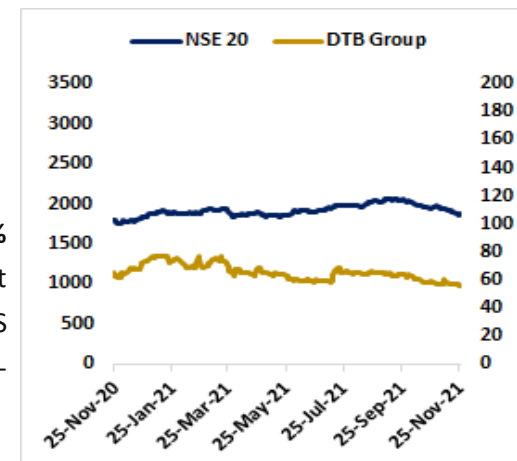
Below please find key highlights:

Net interest income grew by 5.9% y-o-y to KES 14.7 BN backed by a 6.0% y-o-y rise in interest income to KES 25.1 BN but held back by a 6.2% y-o-y increase in interest expense to KES 10.4 BN. Annualized yield on interest earning assets dropped by 14 bps y-o-y to 8.9% while the annualized cost of funds shed 17 bps to 3.9%. As a result, net interest margin remained fairly flat at 4.9% (+3 bps).

Interest income from loans and advances contracted by 2.8% y-o-y to KES 13.9 BN placing the annualized yield on average loans at 9.0%, down 58 bps y-o-y. **Interest income from government securities rose 19.1% y-o-y to KES 11.0 BN**, placing the annualized yield on average government securities at 10.1%, up 65 bps y-o-y. **Interest expense from customer deposits grew by 10.0% y-o-y to KES 9.2 BN** placing the annualized cost of average deposits at 4.0%, up 11 bps y-o-y.

Non-funded income declined by 4.9% y-o-y to KES 4.8 BN on account of a 6.4% y-o-y drop in net income from forex dealings to KES 1.8 BN and a 19.2% y-o-y decrease in other operating income to KES 542.4 MN. Fees and commission income remained relatively flat at KES 2.4 BN (+0.3%) owing to a 13.5% y-o-y growth in other fees and commissions to KES 1.5 BN and a 14.9% y-o-y decline in fees and commissions on loans to KES 960.4 MN.

DTB GROUP 52 WEEK PRICE PERFORMANCE



Source: NSE, DBIB Research

PRICE RETURN	ABSOLUTE RETURN	EXCESS RETURN
3 months (%)	(14.1)	(5.9)
6 months (%)	(10.4)	(10.8)
12 months (%)	(11.4)	(16.0)

KEY METRICS

Current Price (KES)	56.25
52 week Low (KES)	55.75
52 week High (KES)	77.50
YTD Return (%)	(25.0)
Issued Shares (MN)	279.6
Market Cap (USD MN)	139.9

Trailing EPS (KES)	14.50
NAV (KES)	266.44
Trailing P/E (x)	3.9
Trailing P/B (x)	0.2

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Operating expenses (less loan provisions) decreased by 4.5% y-o-y to KES 9.0 BN mainly due to a 42.4% y-o-y drop in depreciation and amortization charges to KES 1.2 BN. Contrastingly, staff costs rose by 2.2% y-o-y to KES 3.6 BN while other operating expenses rose by 9.0% y-o-y to KES 3.8 BN. Loan loss provision expense rose by 6.0% y-o-y to KES 3.1 BN subsequently leading to an 11 bps y-o-y increase in cost of risk to 2.0%. Cost to income ratio shed 365 bps y-o-y to 46.3% in light of the drop in operating expenses.

Total assets increased by 10.3% y-o-y to KES 434.4 BN (+1.1% q-o-q) mainly on account of a **rise in government securities by 17.3% y-o-y to KES 157.3 BN** (-0.8% q-o-q). **Customer loans and advances remained fairly flat y-o-y at KES 205.6 BN** (+0.6% q-o-q).

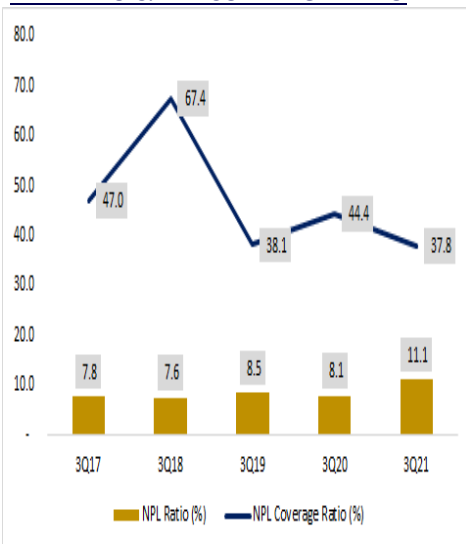
On the funding side, **customer deposits rose by 12.3% y-o-y to KES 323.7 BN** (+3.2% q-o-q) while **borrowed funds rose marginally by 0.3% y-o-y to KES 20.3 BN** (-3.3% q-o-q). Total equity rose by 7.8% y-o-y to KES 74.5 BN (+3.3% q-o-q). Loans to deposits ratio dropped 786 bps y-o-y to 63.5% whereas loans to deposits and borrowed funds ratio dropped 692 bps y-o-y to 59.8%. This was mainly on account of faster growth in customer deposits as compared to the growth in net customer loans and advances.

Gross Non-Performing Loans (NPLs) rose by 42.6% y-o-y to KES 25.7 BN whereas **interest expense dropped by 72.5% y-o-y to KES 926.5 MN**. As such, the total NPLs increased by 69.0% y-o-y to KES 24.8 BN. The NPL ratio deteriorated by 306 bps y-o-y to 11.1% as a result of the faster growth in gross NPLs. Cumulative loan loss provisions rose by 44.0% y-o-y to KES 9.4 BN pivoting the group's NPL coverage ratio at 37.8%, 655 bps up y-o-y.

Core capital ratio (Core capital/TRWA) advanced by 150 bps y-o-y to 20.7% whereas **Total capital/TRWA ratio advanced by 130 bps y-o-y to 22.1%**. Both ratios remain above the statutory minimum of 10.5% and 14.5%, respectively. Liquidity ratio rose by 650 bps y-o-y to 60.1% above the statutory minimum of 20.0%.

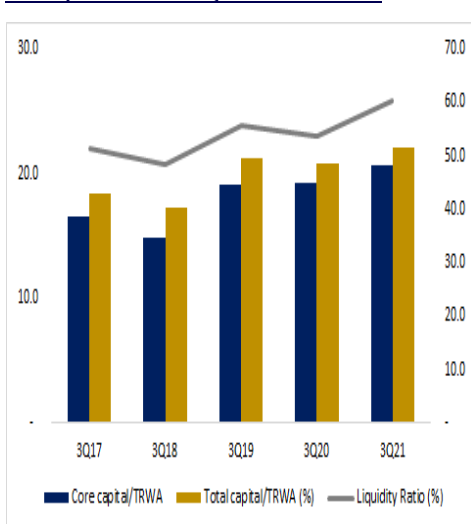
On a trailing basis, DTB is trading at a P/E multiple of 3.9x and a P/B multiple of 0.2x, against sector median multiples of 5.1x and 0.7x respectively. Its ROE stands at 5.4% below a sector median of 13.3% while its ROA stands at 0.9% also below a sector median of 2.2%.

NPL RATIO & NPL COVERAGE RATIO



Source: Company, DBIB Research

CORE, TOTAL & LIQUIDITY RATIOS



Source: Company, DBIB Research

PROFIT AND LOSS SUMMARY (KES MN)

Year End: December	3Q21	3Q20	y-y% ch	3q21	2q21	1q21	3q20	y-y% ch	q-q% ch
Interest income	25,125	23,699	6.0	8,423	8,366	8,337	7,891	6.7	0.7
Interest expense	10,396	9,788	6.2	3,514	3,507	3,375	3,275	7.3	0.2
Net interest income	14,730	13,910	5.9	4,909	4,859	4,962	4,616	6.3	1.0
Other operating income	542	672	(19.2)	49	341	153	399	(87.8)	(85.7)
Fees and commission income	2,439	2,431	0.3	829	904	705	836	(0.8)	(8.3)
Net income from forex dealings	1,809	1,932	(6.4)	587	520	701	648	(9.4)	13.0
Total non-interest income	4,790	5,035	(4.9)	1,465	1,764	1,560	1,883	(22.2)	(17.0)
Total income	19,519	18,945	3.0	6,374	6,624	6,522	6,499	(1.9)	(3.8)
Less operating expenses	9,045	9,469	(4.5)	3,089	3,121	2,834	3,361	(8.1)	(1.0)
Operating profit	10,475	9,493	10.3	3,285	3,502	3,687	3,155	4.1	(6.2)
Bad debt charge	3,065	2,890	6.0	754	1,627	684	1,025	(26.5)	(53.7)
Exceptional items	-	-	-	-	12	(11.6)	(10.1)	-	-
Other gains & losses	23	17	33.1	23	-	-	17	-	-
Profit before tax	7,433	6,603	12.6	2,555	1,887	2,991	2,120	20.5	35.4
Less tax	2,238	2,277	(1.7)	510	790	938	417	22.2	(35.5)
Profit after tax	5,195	4,326	20.1	2,045	1,097	2,053	1,703	20.1	86.4
Attributable Income	4,831	4,025	20.0	1,900	983	1,948	1,624	17.0	93.2
EPS (KES)	17.28	14.4	20.0	6.80	3.51	6.97	5.81	17.0	93.7

(Source: Company, DBIB Research)

BALANCE SHEET SUMMARY (KES MN)

Year End: December	3Q21	1H21	3Q20	y-y% ch	q-q% ch
Total shareholder's equity	67,482	65,361	62,789	7.5	3.2
Minority interest	7,015	6,771	6,292	11.5	3.6
Total Equity	74,498	72,132	69,081	7.8	3.3
Deposits due to other banks	7,602	14,978	9,181	(17.2)	(49.2)
Customer deposits	323,737	313,804	288,158	12.3	3.2
Borrowed funds	20,258	20,939	20,206	0.3	(3.3)
Other liabilities	8,298	7,726	7,331	13.2	7.4
Total equity and liabilities	434,392	429,578	393,958	10.3	1.1
Central bank balances	32,593	29,357	22,397	45.5	11.0
Deposits due from banks	15,668	14,687	11,691	34.0	6.7
Government Securities	157,265	158,594	134,082	17.3	(0.8)
Held for dealing securities	509	-	-	-	-
Customer loans and advances	205,553	204,326	205,605	(0.0)	0.6
Other assets	15,622	15,427	13,368	16.9	1.3
Intangible assets	828	811	685	20.9	2.1
Fixed assets	6,355	6,376	6,131	3.7	(0.3)
Total assets	434,392	429,578	393,958	10.3	1.1

(Source: Company, DBIB Research)

INVESTMENT RETURN

	3Q21	1H21	3Q20	y-y bps ch	q-q bps ch
ROA (%)*	1.5	1.4	1.4	12	12
ROIC (%)*	1.5	1.4	1.4	12	10
ROE (%)*	8.6	8.1	7.8	88	52

(Source: Company, DBIB Research)

*Annualized

CAPITAL ADEQUACY, LIQUIDITY & ASSET QUALITY

	3Q21	1H21	3Q20	y-y bps ch	q-q bps ch
Core capital/TRWA (%)	20.7	20.8	19.2	150	(10)
Min. Statutory Ratio (%)	10.5	10.5	10.5	-	-
Total capital/TRWA (%)	22.1	22.4	20.8	130	(30)
Min. Statutory Ratio (%)	14.5	14.5	14.5	-	-
Liquidity Ratio (%)	60.1	58.7	53.6	650	140
Min. Statutory Ratio (%)	20.0	20.0	20.0	-	-
Leverage Ratio (%)	15.5	15.3	15.9	(40)	20
Equity-to-Loans Ratio (%)	36.2	34.2	33.6	264	200
NPL Ratio (%) **	11.1	10.0	8.1	306	109
NPL Coverage Ratio (%) **	37.8	45.2	44.4	(655)	(740)
IFRS 9 NPL Coverage Ratio (%)**	40.0	46.5	54.7	(1,471)	(649)
Long Term Debt to Total Liabilities and Equity (%)	4.7	5.2	5.1	(47)	(56)
NTA/share (KES)	218.6	225.8	202.6	1,598	(720)
Book value/share (KES)	241.4	228.8	224.6	1,678	1,252

(Source: Company, DBIB Research)

**Total Loan Portfolio net of Interbank Lending

OPERATING PERFORMANCE

	3Q21	1H21	3Q20	y-y bps ch	q-q bps ch
Yield on interest earning assets (%)*	8.9	8.8	9.0	(14)	0
Cost of funds (%)*	3.9	3.9	4.1	(17)	1
Net Interest Margin (%)*	4.9	4.9	4.9	3	(0)
Loan-to-Deposits ratio (%)	63.5	65.1	71.4	(786)	(162)
Loan-to-Dep.&Borrowed Funds ratio (%)	59.8	61.0	66.7	(692)	(129)
Funded Income Generating Potential (%)	87.1	87.9	89.2	(206)	(77)
Funded Income Reliance (%)	75.5	74.7	73.4	204	75
Cost to income ratio (%)	46.3	45.3	50.0	(365)	103
Cost of risk (%) *	2.0	2.3	1.9	11	(27)
Pre-tax margin (%)	38.1	37.1	34.9	323	97
PAT margin (%)	26.6	24.0	22.8	378	265

(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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