

DYER & BLAIR INVESTMENT BANK

EARNINGS UPDATE

Founder Member of the Nairobi Securities Exchange

29th March 2021



DYER & BLAIR
INVESTMENT BANK

WE KNOW. YOU KNOW.

DTB GROUP: FY21 EARNINGS UPDATE

Dear All,

DTB Group released its FY21 results reporting a 25.1% y-o-y improvement in profit after tax to KES 4.4 BN on account of a 10.6% y-o-y growth in net interest income to KES 20.0 BN and a 3.0% y-o-y increase in non-funded income to KES 6.3 BN. EPS for the period stood at KES 13.98 compared to KES 11.61 in FY20. The board has recommended a **first and final dividend of KES 3.00 per share** (FY20: Nil), placing the dividend yield at 5.4% as per current prices.

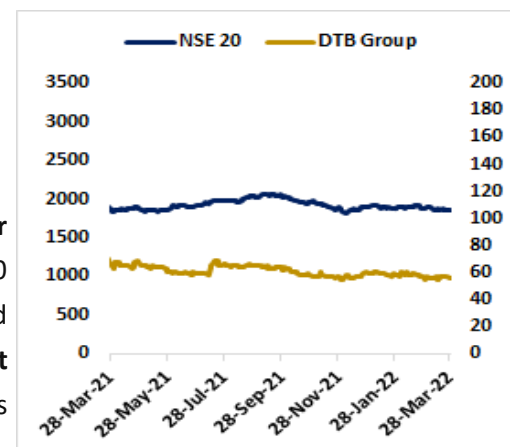
Below please find key highlights:

Net interest income improved by 10.6% y-o-y to KES 20.0 BN following a 9.1% y-o-y rise in interest income to KES 33.9 BN which outweighed the 6.9% y-o-y increase in interest expense to KES 13.9 BN. The yield on interest earning assets grew by 11 bps y-o-y to 8.4% while the cost of funds rose marginally by 6 bps y-o-y to 3.8% placing the net interest margin at 4.6% (FY20: 4.5%).

Interest income from loans and advances remained fairly flat at KES 18.6 BN (+0.2% y-o-y) as the group's loan book grew by 5.7% y-o-y to KES 220.4 BN; the yield on loans fell by 44 bps y-o-y to 8.7%. Interest income from the group's portfolio of government & investment securities went up by 21.9% y-o-y to KES 15.1 BN supported by a 13.9% y-o-y rise in government & investment securities to KES 169.0 BN as the yield on government securities increased by 70 bps to 9.5%.

Interest expenses from customer deposits rose by 10.5% y-o-y to KES 12.4 BN mirroring the 11.2% y-o-y growth in customer deposits to KES 331.5 BN. The cost of customer deposits rose by a slight 6 bps y-o-y to 3.9%.

DTB GROUP 52 WEEK PRICE PERFORMANCE



Source: NSE, DBIB Research

PRICE RETURN	ABSOLUTE RETURN	EXCESS RETURN
3 months (%)	(7.1)	(4.9)
6 months (%)	(12.5)	(2.5)
12 months (%)	(14.2)	(14.0)

KEY METRICS

Current Price (KES)	55.75
52 week Low (KES)	54.75
52 week High (KES)	70.00
YTD Return (%)	(6.3)
Issued Shares (MN)	279.6
Market Cap (USD MN)	135.8
Trailing EPS (KES)	13.98
NAV (KES)	240.68
Trailing P/E (x)	4.0
Trailing P/B (x)	0.2
Div Yld (%)	5.4

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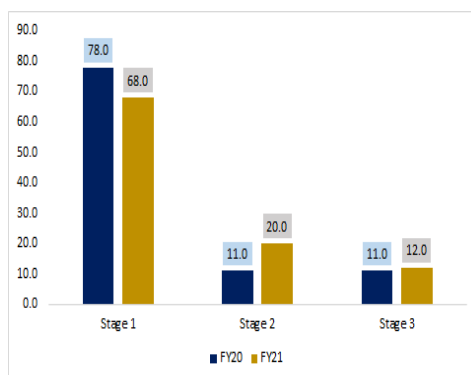
Non-funded income grew by 3.0% y-o-y to KES 6.3 BN owing to a 26.2% y-o-y increase in other fees and commissions income to KES 2.3 BN and a 5.3% y-o-y increase in net income from forex dealings to KES 2.4 BN. Fees and commissions on loans contracted by 8.9% y-o-y to KES 1.3 BN while other operating income dropped by 55.4% y-o-y to KES 234.7 MN. Consequently, funded income reliance rose by 131 bps to KES 76.0%.

Operating expenses (less loan loss provisions) remained relatively flat at KES 12.3 BN (-0.1% y-o-y) as staff costs inched higher by 2.5% y-o-y to KES 4.8 BN while other operating expenses rose by 7.6% y-o-y to KES 5.0 BN. Cost to income ratio fell by 414 bps y-o-y to 46.9% with the group expecting it to stabilize at 40.0% in the medium-term on account of an expected improvement in total income.

Loan loss provisions edged up by 3.2% y-o-y to KES 7.6 BN pivoting the cost of risk to 3.4%, 8 bps lower y-o-y.

Net customer loans and advances expanded by 5.7% y-o-y to KES 220.4 BN (+7.2% q-o-q). Investment securities maintained a similar trajectory as it grew by 13.9% y-o-y to KES 169.0 BN (+7.1% q-o-q).

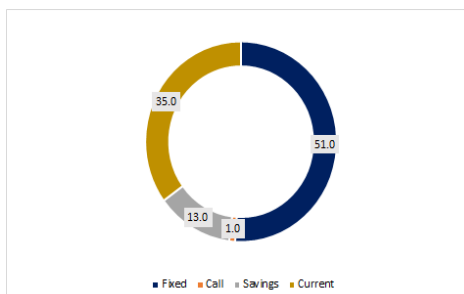
Loan book classification (%)



Source: Company, DBIB Research

Customer deposits rose by 11.2% y-o-y to KES 331.5 BN (+2.4% q-o-q) while borrowed funds increased marginally by 1.9% y-o-y to KES 20.2 BN (-0.4% q-o-q). Loans to deposits ratio fell by 346 bps y-o-y to 66.5% while loans to deposits and borrowed funds ratio dropped by 291 bps y-o-y to 62.7%.

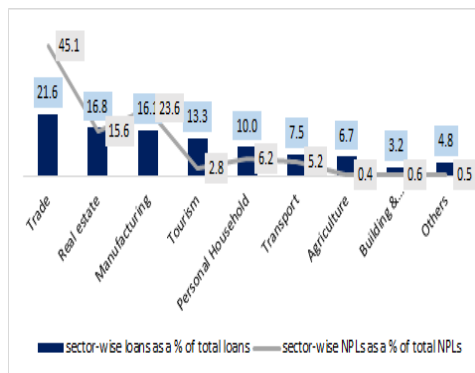
Deposits by type (%)



Source: Company, DBIB Research

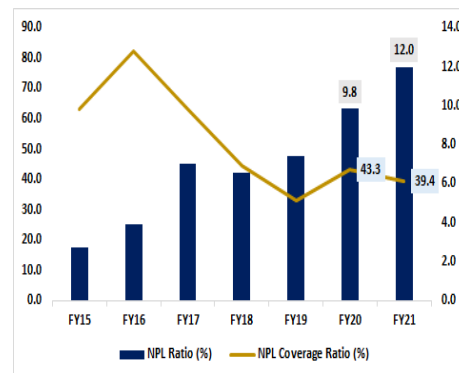
Gross NPLs saw an upswing of 32.0% y-o-y to KES 30.1 BN (+16.8% q-o-q) while interest in suspense soared by 132.8% y-o-y to KES 1.2 BN (+29.6% q-o-q). As such, total NPLs rose by 29.7% y-o-y to KES 28.9 BN (+16.4% q-o-q). According to the group, its NPL ratio stood at 12.7% against an industry NPL ratio of 13.1%. Its NPL coverage ratio slipped by 397 bps y-o-y to 39.4%.

Loan distribution & NPLs per sector (%)



Source: Company, DBIB Research

NPL ratio & NPL coverage ratio (%)



Source: Company, DBIB Research

DTB Bank's core capital ratio (Core capital/TRWA) dropped by 80 bps y-o-y to 19.9% while Total capital/TRWA ratio shrank by 130 bps y-o-y to 21.2%. Both ratios remain above the statutory minimum of 10.5% and 14.5% respectively. Liquidity ratio advanced by 560 bps y-o-y to 61.6% (above the statutory minimum of 20.0%).

DTB is currently trading at a P/E multiple of 4.0x against an industry median of 4.6x; a P/B multiple of 0.2x against an industry median of 0.8x. Its ROE stands at 5.8% while its ROA stands at 0.9%.

PROFIT AND LOSS SUMMARY (KES MN)

Year End: December	FY21	FY20	y-y% ch	4q21	3q21	4q20	y-o-y% ch	q-q% ch
Interest income	33,904	31,090	9.1	8,779	8,423	7,391	18.8	4.2
Interest expense	(13,912)	(13,010)	6.9	(24,307)	3,514	(22,798)	6.6	(791.7)
Net interest income	19,993	18,079	10.6	5,263	4,909	4,169	26.2	7.2
Other operating income	235	526	(55.4)	(308)	49	(146)	111.3	(732.7)
Fees and commission income	3,625	3,271	10.8	1,186	829	839	41.3	43.0
Net income from forex dealings	2,449	2,326	5.3	640	587	394	62.5	9.0
Total non-interest income	6,308	6,122	3.0	1,518	1,465	1,088	39.6	3.6
Total income	26,301	24,202	8.7	6,781	6,374	5,257	29.0	6.4
Less operating expenses	(12,326)	(12,344)	(0.1)	(21,370)	3,089	(21,814)	(2.0)	(791.8)
Operating profit	13,975	11,858	17.9	3,500	3,285	2,365	48.0	6.6
Bad debt charge	(7,558)	(7,324)	3.2	(10,623)	754	(10,215)	4.0	(1,509.7)
Exceptional items	209	135	54.9	209	-	135	-	-
Profit before tax	6,626	4,668	41.9	(808)	2,555	(1,935)	(58.3)	(131.6)
Less tax	(2,212)	(1,140)	94.1	(4,450)	510	(3,417)	30.2	(973.2)
Profit after tax	4,413	3,529	25.1	(782)	2,045	(797)	(1.9)	(138.2)
Attributable Income	3,908	3,248	20.4	(922)	1,900	(778)	18.6	(148.6)
EPS (KES)	13.98	11.61	20.4	(3.30)	6.80	(2.79)	18.3	(148.5)

(Source: Company, DBIB Research)

BALANCE SHEET SUMMARY (KES MN)

Year End: December	FY21	3Q21	FY20	y-y% ch	q-q% ch
Total shareholder's equity	67,294	67,482	61,971	8.6	(0.3)
Minority interest	7,259	7,015	6,344	14.4	3.5
Total Equity	74,553	74,498	68,314	9.1	0.1
Deposits due to other banks	14,795	7,602	29,969	(50.6)	94.6
Customer deposits	331,452	323,737	298,167	11.2	2.4
Borrowed funds	20,171	20,258	19,798	1.9	(0.4)
Other liabilities	15,872	8,298	8,806	80.2	91.3
Total equity and liabilities	456,843	434,392	425,054	7.5	5.2
Central bank balances	27,696	32,593	25,983	6.6	(15.0)
Deposits due from banks	16,136	15,668	19,946	(19.1)	3.0
Investment Securities	168,976	157,774	148,378	13.9	7.1
Held for dealing securities	-	-	-	-	-
Customer loans and advances	220,425	205,553	208,593	5.7	7.2
Other assets	15,925	15,622	14,822	7.4	1.9
Intangible assets	849	828	895	(5.1)	2.6
Fixed assets	6,835	6,355	6,437	6.2	7.6
Total assets	456,843	434,392	425,054	7.5	5.2

(Source: Company, DBIB Research)

INVESTMENT RETURN

	FY21	3Q21	FY20	y-y bps ch	q-q bps ch
ROA (%)	1.0	1.5	0.8	14	(52)
ROIC (%)	1.0	1.5	0.9	12	(50)
ROE (%)	5.9	8.6	5.2	75	(273)

(Source: Company, DBIB Research)

CAPITAL ADEQUACY, LIQUIDITY & ASSET QUALITY

	FY21	3Q21	FY20	y-y bps ch	q-q bps ch
Core capital/TRWA (%)	19.9	20.7	20.7	(80)	(80)
Min. Statutory Ratio (%)	10.5	10.5	10.5	-	-
Total capital/TRWA (%)	21.2	22.1	22.5	(130)	(90)
Min. Statutory Ratio (%)	14.5	14.5	14.5	-	-
Liquidity Ratio (%)	61.6	60.1	56.0	560	150
Min. Statutory Ratio (%)	20.0	20.0	20.0	-	-
Leverage Ratio (%)	14.7	15.5	14.6	15	(80)
Equity-to-Loans Ratio (%)	33.8	36.2	32.7	107	(242)
NPL Ratio (%)	12.0	11.1	9.8	216	88
NPL Coverage Ratio (%)	39.4	37.8	43.3	(397)	155
LT Debt to Total Liabilities and Equity (%)	4.4	4.7	44.6	(4,019)	(25)
NTA/share (KES)	183.7	218.6	4.7	17,906	(3,490)
Book value/share (KES)	240.7	241.4	168.6	7,205	(67)

(Source: Company, DBIB Research)

OPERATING PERFORMANCE

	FY21	3Q21	FY20	y-y bps ch	q-q bps ch
Yield on interest earning assets (%)	8.4	8.8	8.2	11	(48)
Cost of funds (%)	3.8	3.9	3.7	6	(15)
Net Interest Margin (%)	4.6	4.9	4.5	5	(33)
Loan-to-Deposits ratio (%)	66.5	63.5	70.0	(346)	301
Loan-to-Dep. & Borrowed Funds ratio (%)	62.7	59.8	65.6	(291)	293
Funded Income Generating Potential (%)	88.8	87.2	88.7	9	152
Funded Income Reliance (%)	76.0	75.5	74.7	131	55
Cost to income ratio (%)	46.9	46.3	51.0	(414)	53
Pre-tax margin (%)	25.2	2.0	19.3	590	2,320
PAT margin (%)	16.8	38.1	14.6	220	(2,130)

(Source: Company, DBIB Research)

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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