

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: 1H22 EARNINGS UPDATE

Dear All,

DTB Group released its 1H22 results reporting a **25.6% advancement in after-tax profits to KES 4.0 BN** attributable to a 13.3% y-o-y increase in net interest income to KES 11.1 BN and a 17.8% y-o-y growth in non-funded income to KES 3.9 BN. The EPS for the period stood at KES 12.82, 22.3% higher y-o-y.

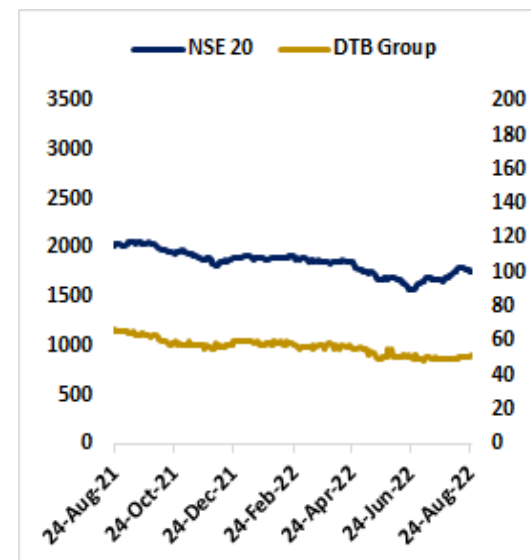
Key highlights:

Net interest income rose by 13.3% y-o-y to KES 11.1 BN as a result of a 12.5% y-o-y increase in total interest income to KES 18.8 BN, but curtailed by an 11.4% y-o-y rise in total interest expense to KES 7.7 BN. The annualized yield on interest earning assets rose marginally by 5 bps y-o-y to 8.9% while the annualized cost of funds fell slightly by 8 bps y-o-y to 3.9%. As such, the group's annualized net interest margin (NIM) edged up slightly by 14 bps to 5.0%.

Interest income from loans and advances jumped by 4.7% y-o-y to KES 9.9 BN supported by a 14.3% y-o-y growth in net customer loans and advances to KES 233.6 BN but held back by a 28 bps decline in the annualized yield on loans for the period to 9.0%. Interest income from investment securities rose by 22.4% y-o-y to KES 8.8 BN, buoyed by the group's increased allocation to investments securities by 10.1% y-o-y to KES 174.7 BN along with a 69 bps growth in the annualized yield on investment securities to 10.6%.

Interest expense from customer deposits went up by 11.9% y-o-y to KES 6.8 BN, bolstered by a 10.4% y-o-y expansion in the group's customer deposits to KES 346.5 BN. The annualized cost of deposits remained relatively unchanged at 4.1% (+3 bps y-o-y).

DTB GROUP 52 WEEK PRICE PERFORMANCE



(Source: NSE, DBIB Research)

PRICE	ABSOLUTE	EXCESS
RETURN	RETURN	RETURN
3 month (%)	2.5	(2.3)
6 month (%)	(11.3)	(3.2)
12 month (%)	(21.5)	(8.0)

KEY METRICS

Current Price (KES)	51.25
52 week high (KES)	66.75
52 week low (KES)	48.40
YTD Return (%)	(13.9)
Issued Shares (MN)	279.6
Market Cap (USD MN)	119.6

Trailing EPS (KES)	16.32
NAV (KES)	246.38
Trailing P/E (x)	3.1
Trailing P/B (x)	0.2

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Non-funded income went up by 17.8% y-o-y to KES 3.9 BN, attributable to a 13.1% y-o-y growth in other fees and commission income to KES 965.7 MN and a 56.8% y-o-y rise in net income from forex dealings to KES 1.9 BN. Fees and commissions on loans dwindled by 13.2% y-o-y to KES 643.8 MN while other operating income dropped by 51.4% y-o-y to KES 240.2 MN. The contribution of non-funded income to total operating income rose by 73 bps y-o-y to 26.0%.

Operating expenses (less loan loss provisions) inched higher by 16.5% y-o-y to KES 6.9 BN owing to a 19.1% y-o-y increase in staff costs to KES 2.9 BN and a 20.3% y-o-y increase in other operating expenses to KES 3.0 BN. Cost-to-income ratio rose to 46.1% (1H21: 45.3%).

The group's loan loss provision expense saw a 5.2% y-o-y upswing to KES 2.4 BN, pivoting the cost of risk to 2.1% from 2.3% in 1H21. On the same note, **gross non-performing loans (NPLs) inched higher by 43.0% y-o-y to KES 31.8 BN (+6.0% q-o-q)** whereas interest in suspense rose to KES 1.7 BN from KES 565.0 MN (+21.9% q-o-q) placing total NPLs at KES 30.0 BN, 38.8% up y-o-y. The NPL ratio moved up by 217 bps y-o-y to 12.0%. Cumulative loan loss provisions rose by 41.5% y-o-y to KES 12.3 BN (+9.7% q-o-q), thus pivoting the NPL coverage ratio to 41.0%, 78 bps higher y-o-y.

Customer loans and advances advanced by 14.3% y-o-y to KES 233.6 BN (+3.9% q-o-q) while investment securities increased by 10.1% y-o-y to KES 174.7 BN (+3.3% q-o-q). On the funding side, **customer deposits edged up by 10.4% y-o-y to KES 346.5 BN (+1.0% q-o-q)** while borrowed funds saw a 11.7% y-o-y increase to KES 23.4 BN (+45.5% q-o-q). The group's loans to deposits ratio increased by 231 bps y-o-y to 67.4% as its loans to deposits and borrowed funds ratio rose by 212 bps to 63.2%.

DTB Bank's core capital ratio (Core capital/TRWA) saw a 130 bps downturn to 20.0% while the total capital ratio (Total capital/TRWA) dropped by 160 bps to 21.2%. Both ratios remain above the statutory minimum of 10.5% and 14.5% respectively. Liquidity ratio declined by 140 bps y-o-y to 58.9% above the statutory minimum of 20.0%.

On a trailing basis, DTB is trading at a P/E ratio of 3.1x, against an industry median of 3.6x, and a P/B of 0.2x against an industry median of 0.7x. Its ROE stands at 6.6% while its ROA stands at 0.9%.

PROFIT AND LOSS SUMMARY (KES MN)

Year End: December	1H22	1H21	y-y% ch	2q22	1q22	2q21	y-y% ch	q-q% ch
Interest income	18,795	16,703	12.5	9,564	9,232	8,366	14.3	3.6
Interest expense	7,665	6,882	11.4	3,970	3,696	3,507	13.2	7.4
Net interest income	11,130	9,821	13.3	5,594	5,536	4,859	15.1	1.0
Other operating income	240	494	(51.4)	104	137	341	(69.6)	(24.0)
Fees and commission income	1,760	1,609	9.4	891	870	904	(1.5)	2.4
Net income from forex dealings	1,915	1,221	56.8	1,142	773	520	119.7	47.7
Total non-interest income	3,915	3,324	17.8	2,136	1,779	1,764	21.1	20.1
Total income	15,045	13,145	14.5	7,730	7,315	6,624	16.7	5.7
Less operating expenses	6,939	5,956	16.5	3,627	3,312	3,121	16.2	9.5
Operating profit	8,106	7,190	12.8	4,103	4,004	3,502	17.1	2.5
Bad debt charge	2,431.8	2,311	5.2	1,850	582	1,627	13.7	217.8
Exceptional items	(55)	37	(250.0)	(21)	(34)	49	(143.8)	(37.9)
Profit before tax	5,619	4,879	15.2	2,232	3,387	1,887	18.3	(34.1)
Less tax	1,663	1,728	(3.8)	664	999	790	(16.0)	(33.5)
Profit after tax	3,956	3,150	25.6	1,568	2,388	1,097	42.9	(34.3)

(Source: Company, DBIB Research)

BALANCE SHEET SUMMARY (KES MN)

Year End: December	1H22	1Q22	1H21	y-y% ch	q-q% ch
Total shareholder's equity	68,888	69,097	65,361	5.4	(0.3)
Minority interest	7,718	7,510	6,771	14.0	2.8
Total Equity	76,607	76,607	72,132	6.2	0.0
Deposits due to other banks	27,806	23,765	14,978	85.6	17.0
Customer deposits	346,492	343,144	313,804	10.4	1.0
Borrowed funds	23,396	16,081	20,939	11.7	45.5
Other liabilities	10,740	11,739	7,726	39.0	(8.5)
Total equity and liabilities	485,041	471,336	429,578	12.9	2.9
Central bank balances	35,123	34,995	29,357	19.6	0.4
Deposits due from banks	13,996	15,898	14,687	(4.7)	(12.0)
Investment Securities	174,677	169,030	158,594	10.1	3.3
Customer loans and advances	233,622	224,800	204,326	14.3	3.9
Other assets	19,180	18,424	15,427	24.3	4.1
Intangible assets	955	848	811	17.8	12.6
Fixed assets	7,489	7,342	6,376	17.5	2.0
Total assets	485,041	471,336	429,578	12.9	2.9

(Source: Company, DBIB Research)

INVESTMENT RETURN

	1H22	1Q22	1H21	y-y bps ch	q-q bps ch
ROA (%)*	1.5	1.8	1.4	11	(37)
ROIC (%)*	1.6	2.0	1.4	16	(39)
ROE (%)*	9.4	11.4	8.1	123	(202)

(Source: Company, DBIB Research)

*Annualized

CAPITAL ADEQUACY, LIQUIDITY & ASSET QUALITY

	1H22	1Q22	1H21	y-y bps ch	q-q bps ch
Core capital/TRWA (%)	20.0	20.5	21.3	(130)	(50)
Min. Statutory Ratio (%)	10.5	10.5	10.5	-	-
Total capital/TRWA (%)	21.2	21.8	22.8	(160)	(60)
Min. Statutory Ratio (%)	14.5	14.5	14.5	-	-
Liquidity Ratio (%)	58.9	58.3	60.3	(140)	60
Min. Statutory Ratio (%)	20.0	20.0	20.0	-	-
Leverage Ratio (%)	14.2	14.7	15.2	(101)	(46)
Equity-to-Loans Ratio (%)	32.8	34.1	35.3	(251)	(129)
NPL Ratio (%)	12.0	11.8	9.8	217	20
NPL Coverage Ratio (%)	41.0	39.3	40.2	78	169
LT Debt to Total Liabilities and Equity (%)	4.8	3.4	4.9	(5)	141
NTA/share (KES)	219.6	244.1	211.0	(24)	(2,450)
Book value/share (KES)	246.4	247.1	233.8	(1)	(75)

(Source: Company, DBIB Research)

OPERATING PERFORMANCE

	1H22	1Q22	1H21	y-y bps ch	q-q bps ch
Yield on interest earning assets (%)*	8.9	9.0	8.8	5	(11)
Cost of funds (%)*	3.9	3.9	3.9	(8)	(0)
Net Interest Margin (%)*	5.0	5.2	4.9	14	(11)
Loan-to-Deposits ratio (%)	67.4	65.5	65.1	231	191
Loan-to-Dep. & Borrowed Funds ratio (%)	63.2	62.6	61.0	212	58
Funded Income Generating Potential (%)	87.1	86.9	87.9	(84)	13
Funded Income Reliance (%)	74.0	75.7	74.7	(73)	(170)
Cost to income ratio (%)	46.1	45.3	45.3	81	85
Cost of risk (%) *	2.1	1.0	2.3	(18)	105
Pre-tax margin (%)	37.3	46.3	37.1	24	(895)
PAT margin (%)	26.3	32.6	24.0	233	(635)

(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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