

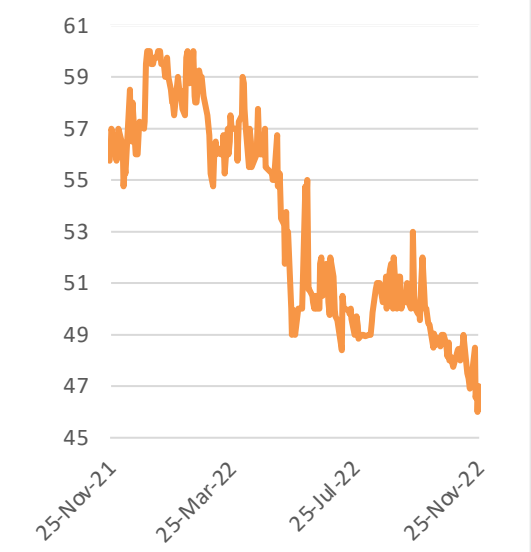


Company details

Bloomberg Ticker	DTK:KN
NSE Code:	DTK
Issued Shares (Bn)	0.28
Market Cap (Bn)	13.02
52-week high:	60.00
52-week Low	46.00

As at 25th November 2022

Price chart – Last 12 Months



AIB-AXYS Research, NSE

Historical Price Performance

	1m	3m	6m	12m
Absolute	-2.39%	-8.29%	-5.91%	-16.44%

AIB-AXYS Research, NSE

Analysts

- Solomon Kariuki
ks@aib-axysafrica.com
- Faith Sang
fsang@aib-axysafrica.com

November 25, 2022

DTB Group PLC Earnings Note

Recomm: BUY	Current Price: KES 47.00	Target Price: KES 64.03.
--------------------	---------------------------------	---------------------------------

Summary

- ♦ **Diamond Trust Bank Group released their Q3'22 earnings results posting a 19.04% & 19.05% climb in EPS & PAT respectively** to KES 20.57/share and KES 5.75Bn respectively driven by a 14.10% increase in net interest income and a 43.48% growth in non-interest income. Trailing ROaE & ROaA improved to 8.05% & 1.18% respectively in 3Q22. NIMs remained adequate at 5.59% while the profit margin edged up 31bps y/y to 26.58% in 3Q22. Factoring in the growth from previous quarters, we foresee the lender closing the year with a PAT of between KES 5.00 - 7.00 Bn
- ♦ **Loan book grew 18.54% y/y to KES 243.67Bn faster than the 11.10% y/y growth in the customer deposits to KES 359.68Bn** leading to a 669bps growth in the loan deposit ratio to 67.74%. Allocation to government securities grew 42.36% y/y 179.92Bn in 3Q22. Fair Value change is a percentage of government securities was -5.90% in Q3'22 vs 1.30% recorded in Q3'21.

Key Highlights

- **Non-Funded Income grows faster than Net interest Income:** Non-Funded Income grew 43.48% y/y to 6.87Bn against a 14.10% y/y increase in net interest income to 16.81Bn mainly driven by increased income from fees and commissions on loans and advances. The ongoing dollar shortfall on the forex market has created market inefficiencies for the lenders, as seen by the significant growth of forex trading income of 80.07% year over year to 3.26Bn.. Yield on assets fell 219bps y/y to 7.35% as income from government papers grew slower than interest earning assets in the quarter. Cost of funds increased 42bps to 4.43% y/y attributable to the expansion projects currently being undertaken by the bank. Subsequently, profitability margin increased 31bps y/y to 26.58% and the Net Interest Margin (NIM) grew 341bps y/y to 5.59%
- **Staff costs weighs down on efficiency:** The Cost to Income ratio less impairment fell 239bps on a year-on-year basis to 45.24% mainly attributed to significant increase in staff costs (20.03% y/y) to 4.38Bn. In line with industry trend, Loan loss provisions fell 9.18% y/y to KES 8.33 Bn indicating reduced lending risk.
- **Asset quality still a concern:** Gross NPLs grew 28.15% y/y to KES 32.96Bn, leading to the NPL ratio grew 701bps y/y to 12.73% below the latest industry average of 13.80%. NPL coverage improved 12.94% to 45.22% from 40.04% in 3Q21.

Valuation - The counter is currently trading at a P/E multiple of 3.29x which is below the industry median of 3.60x and a P/TB multiple of 0.17x. The growth in non-funded income and the rising interest income from government securities brought on by the current market uptick in bond yield all attributed to the bank's performance. However, we note with concern the sharp rise in staff costs and Gross NPLs, both of which continue to weigh down on the bottom line. However, we anticipate that the increased usage of digital channels along with the ongoing expansion initiatives would significantly boost the bank's 4Q22 performance. The lack of an interim dividend, deteriorating local and global macroeconomic conditions, and currency devaluation, however, are expected to limit upside potential. Nevertheless, we maintain a **BUY** recommendation with a revised price target of KES 64.03

Financial Statement Summary

I. Statement of Profit and Loss

	FY18	FY19	FY20	Q3'21	FY21	Q3'22	Y/Y Change (%)
Net Interest Income	20,021.51	18,710.97	18,079.49	14,729.56	19,992.57	16,806.66	14.10%
Net non-Interest Income	5,434.64	5,770.30	6,122.42	4,789.68	6,307.93	6,872.15	43.48%
Total Operating income	25,456.15	24,481.27	24,201.91	19,519.24	26,300.51	23,678.80	21.31%
Provision for Impairment	(2,982.26)	(1,323.01)	(7,324.44)	(3,064.65)	(7,558.12)	(4,000.79)	30.55%
Total Operating expenses	(14,485.36)	(13,224.88)	(19,668.56)	(12,109.30)	(19,883.83)	(14,712.28)	21.50%
Profit before tax	11,000.27	11,262.91	4,668.27	7,409.93	6,625.66	8,935.33	20.21%
Profit after tax	6,686.61	6,785.60	3,247.53	4,807.61	3,908.41	5,751.37	19.05%
Core EPS	25.83	26.00	11.61	17.28	13.98	20.57	19.04%

2. Statement of Financial Position

	FY18	FY19	FY20	Q3'21	FY21	Q3'22	Y/Y Change (%)
Government Securities	117,330.33	132,461.99	148,377.94	126,378.89	168,975.87	179,918.53	42.36%
Loans and Advances	193,074.36	199,089.37	208,592.89	205,552.63	220,425.34	243,665.64	18.54%
Total Assets	377,719.31	386,230.19	425,054.03	434,392.09	456,842.72	507,490.64	16.83%
Customer Deposits	282,860.00	280,186.95	298,166.60	323,737.31	331,451.67	359,684.03	11.10%
Total Liabilities	318,780.07	321,714.84	356,739.90	359,894.58	382,289.73	429,490.85	19.34%
Shareholder's Funds	53,657.05	58,850.84	61,970.59	67,482.29	67,294.14	70,103.54	3.88%

3. Key Metrics

	Q1'21	Q2'21	Q3'21	FY'21	Q1'22	Q2'22	Q3'22
Growth Metrics							
Loan book Growth	2.25%	1.43%	-0.03%	5.67%	9.23%	14.34%	18.54%
Customer Deposits Growth	10.61%	11.93%	12.35%	11.16%	13.71%	10.42%	11.10%
PAT Growth	0.52%	20.12%	19.56%	25.08%	16.33%	25.59%	21.68%
Spreads Analysis							
Yield on Assets	2.40%	4.64%	7.19%	8.67%	2.41%	4.71%	7.35%
Cost of Funds	-4.04%	-4.04%	-4.07%	-3.89%	-3.95%	-3.93%	-4.09%
Net Interest Margin	5.28%	5.16%	5.41%	5.11%	5.37%	5.33%	5.59%
ROaE	5.66%	6.42%	6.72%	6.83%	7.14%	7.78%	8.05%
ROaA	0.88%	0.99%	1.06%	1.00%	1.07%	1.14%	1.18%
Profit Margin	31.48%	23.96%	26.50%	16.78%	32.65%	26.30%	26.58%
Operating Efficiency							
Cost of Income Less LLP	43.46%	45.31%	46.34%	46.86%	45.27%	46.12%	45.24%
Cost of Assets	4.95%	4.88%	4.69%	4.51%	4.56%	4.59%	4.77%
Loan to Deposit	68.20%	65.11%	63.49%	66.50%	65.51%	67.42%	67.74%
Asset Quality							
NPL	10.60%	10.39%	11.90%	12.86%	12.62%	12.82%	12.73%
NPL Coverage	46.53%	41.77%	40.04%	41.77%	42.21%	44.24%	45.22%
Cost of Risk	10.49%	17.58%	15.70%	28.74%	7.96%	16.16%	16.90%
Capital Adequacy							
Core Capital/TRWA	20.80%	21.30%	20.70%	19.90%	20.50%	20.00%	20.00%
Total Capital /TRWA	22.40%	22.80%	22.10%	21.20%	21.80%	21.20%	21.10%
Liquidity	58.70%	60.30%	60.10%	61.60%	58.30%	58.90%	60.50%



Research Desk

Solomon Kariuki
Research Analyst

Faith Sang
Research Analyst

Equities Dealing

Nina Goswami

Bernard Kung'u

Benard Gichuru

Brian Tanui

Samuel Githinji

Sheema Shah

Samuel Wachira

Research Desk

Crispus Otieno

Titus Marenye

Email: research@aibaxysafrica.com

Email: trading@aib-axysafrica.com

Disclaimer

AIB-AXYS Africa and its parent company AXYS Group seek to do business with companies covered in their research reports. Consequently, a conflict of interest may arise that could affect the objectivity of this report. This document should only be considered a single factor used by investors in making their investment decisions. The reader should independently evaluate the investment risks and is solely responsible for their investment decisions. The opinions and information portrayed in this report may change without prior notice to investors.

This publication may not be distributed to the public media or quoted or used by the public media without prior and express written consent of AIB-AXYS Africa or AXYS Group.

This document does not constitute an offer, or the solicitation of an offer, for the sale or purchase of any security. Whilst every care has been taken in preparing this document, no representation, warranty or undertaking (express or implied) is given and no responsibility or liability is accepted by AIB-AXYS Africa or any of its employees as to the accuracy of the information contained and opinions expressed in this report.