



Earnings Note

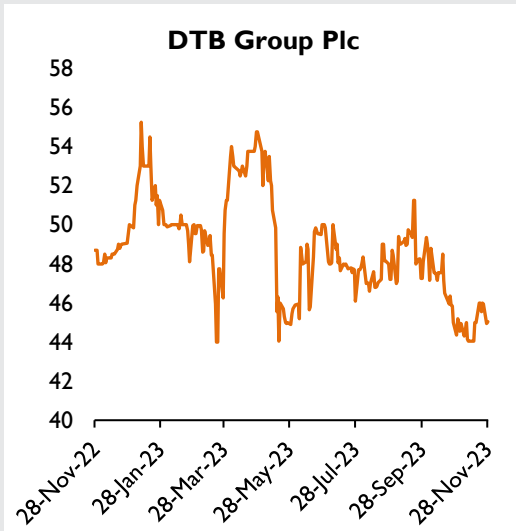


Ticker Information

Bloomberg Ticker	DTKL:KN
NSE Code:	DTK
Issued Shares (Bn)	0.28
52-week high price:	55.25
52-week low price:	44.00

As of 28th November 2023

Price chart – Last 12 Months



Source: NSE, AIB-AXYS Research

Historical Share Price Performance

	Past	1m	3m	6m	12m
% Change		0.11%	-6.15%	0.33%	-7.49%

Source: NSE, AIB-AXYS Research,

Analysts

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November 29th, 2023

Diamond Trust Bank Group Q3'23 Earnings Note

Recommendation:
BUY

Current Price:
KES 45.05

Target Price:
KES 57.15

Summary

- Diamond Trust Bank Group posted a modest 5.00% y/y climb in profit after tax (PAT) to KES 6.61Bn over the nine months to September 2023.** The trailing EPS momentum however eased 262bps to KES 22.56 over the same period. The rise in PAT was supported by a faster surge in non-funded income (33.92% y/y) compared to funded income (19.57% y/y). The trailing returns on equity (ROE) climbed 197bps y/y to 10.02% while the trailing returns on assets (ROA) climbed 11bps y/y to 1.29%. The group's net interest margin (NIM) widened marginally to 5.20% even as the profitability margin edged down 403bps y/y to 22.57%.
- Customer deposits grew 27.26% y/y to KES 457.74Bn – faster than the 18.66% y/y loan book growth to KES 289.14Bn** leading to a 458bps y/y decrease in the loan deposit ratio to 63.17% from 67.74% recorded in Q3'22. On a q/q basis allocation to government securities edged down by 2.30% to KES 206.72Bn while there was a contrary 53.40% q/q rise in income from government securities to KES 17.62Bn suggesting restructuring of bond portfolio to eliminate lower-yielding securities. The lender's operating expenses (excluding provisions) increased by 36.89% y/y to KES 14.66Bn from KES 10.71Bn. We attribute this to rising capital expenditure requirements to fund the ongoing branch expansion drive.

Key Highlights

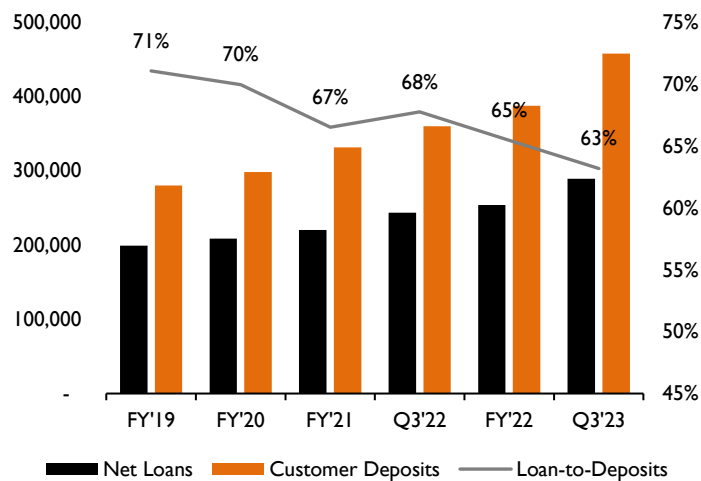
- Net Interest Income lags Non-Funded Income:** Net Interest Income grew 19.57% y/y to KES 20.10Bn slower than the 33.92% y/y increase in Non-Funded Income to KES 9.19Bn – driven largely by higher deposit mobilization costs. Incomes from forex trading paced 39.11% y/y to KES 4.54Bn – on account of rebounded trade finance activity over the period. Despite the impressive 32.98% y/y surge in interest income on the back of upward loan repricing, the outsized 51.48% y/y growth in interest expenses trimmed overall net interest incomes. As such, the NII:NFI revenue mix shifted to 69:31 from 71:29 in favor of non-funded income. On a trailing basis, yield on interest earning assets grew 76bps y/y to 10.33% whereas the trailing cost of funds edged up faster (104bps y/y) to 5.12% from 4.09% in Q3'22 leading to a compression of overall net interest margin (NIM) by 28bps y/y to 5.20%.
- Soaring Brick-and-Mortar Expenses:** DTB Group's cost-to-income ratio (excluding loan-loss provisions) accelerated 481bps y/y to 50.07% from 45.26% in Q3'22 – mainly attributable to big-budget digital infrastructure upgrades coupled with rising staff costs amid expanding coverage. Operating expenses surged 40.48% y/y faster than the 23.73% growth in operating income. In line with the current industry trend, loan loss provisioning jumped 50.11% y/y to KES 6.01Bn – highlighting the wary loan performance expectations by management, amid ongoing roll-out of the risk-based credit pricing methodology.
- Asset Quality Improvements Noted :** Total non-performing loans (NPLs) edged up 19.57% y/y to KES 37.80Bn - faster than the 18.66% y/y loan book expansion – leading to a marginal rise in the NPL ratio by 10bps y/y to 12.43%, compared to the latest industry average of 15.00%. Meanwhile the NPL coverage improved by 117bps y/y to 50.16% from 48.99% in Q3'22. Cost of risk increased significantly by 251bps y/y to 4.15%. We expect asset quality to remain under pressure given the challenging operating environment.

Outlook - We anticipate above average performance for FY'23, buoyed by enhanced performance from its subsidiaries and the ongoing digital transformation – along with the ongoing network expansion in alignment with its growth strategy. We expect the upward rate repricing under the risk-based loan pricing model to drive interest income growth and fuel organic loan book expansion. Despite the potential short-term increase in operating expenses due to the continued opening of new physical branches, we anticipate this move to result in long-term revenue growth. However, the lender may face asset quality pressures on account of challenging local and global macroeconomic conditions.

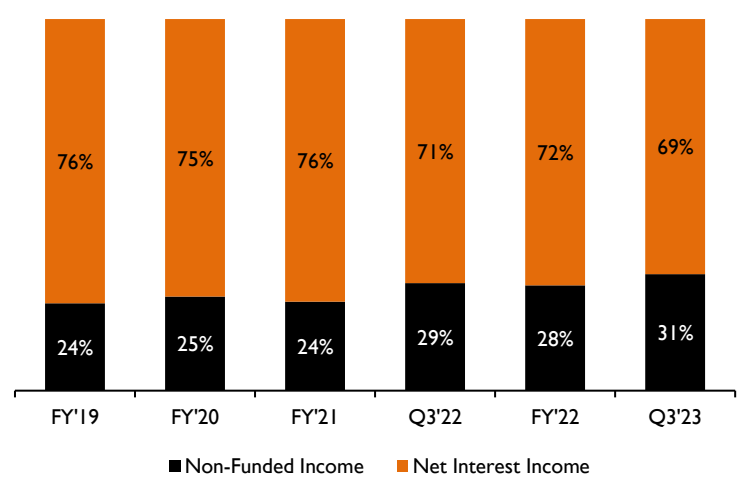
Valuation – DTB-K is currently trading at a P/B multiple of 0.18x and a P/E of 1.40x. The counter closed yesterday's trading at KES 45.05 - representing a YTD loss of 9.90%. We expect the modest growth trajectory to sustain over the remaining quarter. As such, we maintain our 12-month BUY recommendation on the counter supported by a correction of the heavy market discounting relative to book value.

DTB Group Q3'23 Earnings Charts

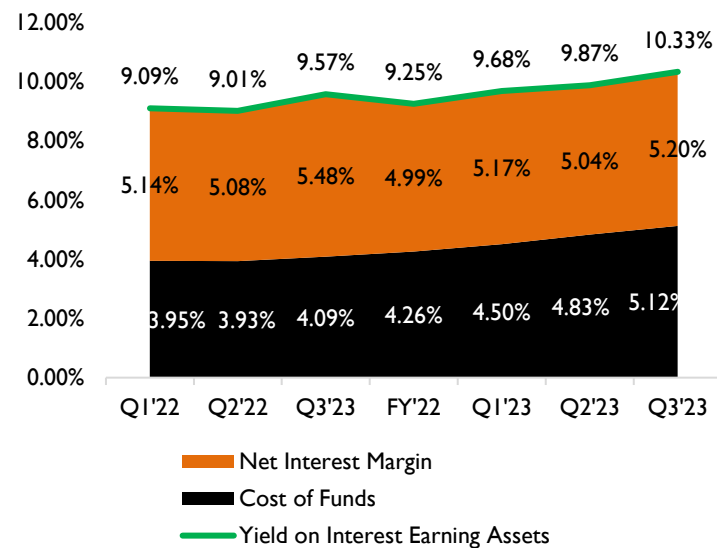
Graph 2: Faster deposit growth, driving balance sheet expansion



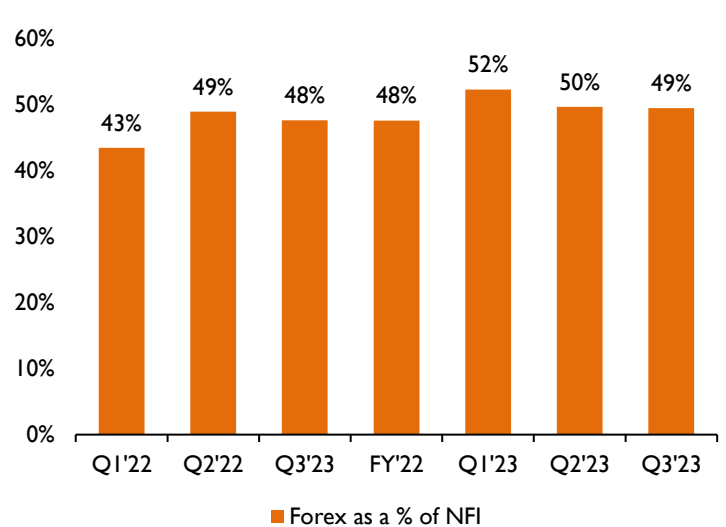
Graph 3: Revenue Mix Tilted in Favor of Non-Interest Income



Graph 4: Widening Net Interest Margins (JAWS)



Graph 5: Stable Forex Trading Income Contribution to Non-funded income



Source: Company Filings, AIB-AXYS Research

Summary of Financial Statements

I. Statement of Profit and Loss

Consolidated Results (KES Mn)	FY'19	FY'20	FY'21	Q3'22	FY'22	Q3'23	% y/y change
Net Interest Income	18,710.97	18,079.49	19,992.57	16,806.66	22,887.10	20,095.98	19.57%
Non-Interest Income	5,770.30	6,122.42	6,307.93	6,859.92	9,052.82	9,186.65	33.92%
Total Operating income	24,481.27	24,201.91	26,300.51	23,666.58	31,939.92	29,282.63	23.73%
Loan-Loss Provisions	(1,323.01)	(7,324.44)	(7,558.12)	(4,000.79)	(7,141.78)	(6,005.55)	50.11%
Total Operating expenses	(13,224.88)	(19,668.56)	(19,883.83)	(14,712.28)	(22,082.04)	(20,668.47)	40.48%
Profit before tax	11,262.91	4,668.27	6,625.66	8,935.33	9,524.93	8,734.30	-2.25%
Profit after tax	7,268.59	3,528.63	4,413.47	6,293.37	6,793.88	6,607.94	5.00%
Annualized EPS	24.27	11.61	13.98	25.71	21.68	32.18	25.17%

2. Statement of Financial Position

Group Balance Sheet (KES Mn)	FY'19	FY'20	FY'21	Q3'22	FY'22	Q3'23	% y/y change
Financial Assets	132,461.99	148,377.94	168,975.87	179,918.53	187,824.22	206,722.78	14.90%
Loans and Advances	199,089.37	208,592.89	220,425.34	243,665.64	253,674.91	289,137.69	18.66%
Total Assets	386,230.19	425,054.03	456,842.72	507,490.64	526,983.27	597,999.13	17.83%
Customer Deposits	280,186.95	298,166.60	331,451.67	359,684.03	387,562.47	457,743.38	27.26%
Total Liabilities	321,714.84	356,739.90	382,289.73	429,490.85	449,321.57	515,514.99	20.03%
Shareholder's Funds	58,850.84	61,970.59	67,294.14	70,103.54	68,962.49	71,798.00	2.42%

3. Key Metrics

	Q1'22	Q2'22	Q3'22	FY'22	Q1'23	Q2'23	Q3'23
Growth Metrics (y/y)							
Loan book Growth	9.23%	14.34%	18.54%	15.08%	20.27%	20.35%	18.66%
Customer Deposits Growth	13.71%	10.42%	11.10%	16.93%	17.92%	20.63%	27.26%
Net Profit (PAT) Growth	11.87%	22.30%	19.63%	55.08%	10.98%	11.64%	4.30%
Spreads Analysis							
Yield on Interest-Earning Assets	9.09%	9.01%	9.57%	9.25%	9.68%	9.87%	10.33%
Cost of Funds	3.95%	3.93%	4.09%	4.26%	4.50%	4.83%	5.12%
Net Interest Margin (NIM)	5.14%	5.08%	5.48%	4.99%	5.17%	5.04%	5.20%
Trailing Return on Equity (ROaE)	7.14%	7.78%	8.05%	9.97%	9.93%	10.18%	10.02%
Trailing Return on Assets (ROaA)	1.07%	1.14%	1.18%	1.38%	1.38%	1.35%	1.29%
Profit Margin	32.65%	26.30%	26.59%	21.27%	27.88%	23.36%	22.57%
Operating Efficiency							
Cost to Income (Less LLP)	45.27%	46.12%	45.26%	46.78%	47.30%	50.62%	50.07%
Cost to Assets Ratio	0.70%	1.43%	2.11%	2.84%	0.81%	1.63%	2.45%
Loan to Deposit Ratio	65.51%	67.42%	67.74%	65.45%	66.82%	67.27%	63.17%
Asset Quality							
Non-Performing Loan (NPL) Ratio	12.71%	12.86%	12.33%	12.84%	12.37%	12.52%	12.43%
NPL Coverage	42.21%	44.24%	48.99%	44.16%	46.30%	46.40%	50.16%
Cost of Risk	0.26%	2.08%	1.64%	2.82%	0.51%	2.32%	4.15%
Capital Adequacy							
Core Capital/RWA	20.50%	20.00%	20.00%	20.00%	19.30%	18.50%	18.60%
Total Capital /RWA	21.80%	21.20%	21.20%	21.20%	20.20%	19.30%	19.20%
Liquidity	58.30%	58.90%	60.50%	58.30%	56.20%	52.20%	50.10%



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