

Earnings Note

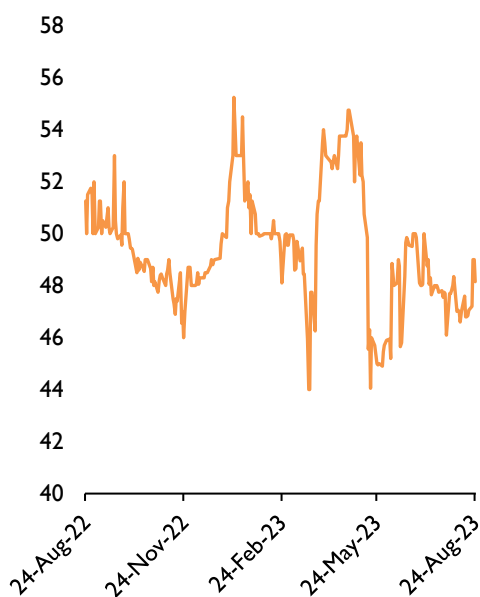


Company details

Bloomberg Ticker	DTB:KN
NSE Code:	DTK
Issued Shares (Bn)	0.28
52-week high:	55.25
52-week Low	44.00

As at 24th August 2023

Price chart – Last 12 Months



AIB-AXYS Research, NSE

Historical Price Performance

	1m	3m	6m	12m
Absolute	0.73%	7.00%	0.10%	-6.05%

AIB-AXYS Research, NSE

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August 24th 2023

DTB-K HY'23 Earnings Note

Recomm: BUY

Current Price: KES 48.15

Target Price: KES 57.15

Summary

- Diamond Trust Bank Group released their HY'23 earnings results posting an 11.64% climb in EPS and PAT** to KES 14.31/share and KES 4.00Bn respectively driven by a 17.75% increase in net interest income and a 41.74% growth in non-interest income. We noted a sustained growth in the Trailing ROaE to 10.18% and ROaA improving to 1.35% respectively in HY'23. The ROaE improvement is a positive value driver for investors as below double digit ROaE has been the biggest concern for majority of DTB-K investors. Notably, the FV losses booked from government securities narrowed to KES 270.83Mn (0.13% of gov securities) from KES 1.24Bn in HY'22 (0.71% of gov securities) .
- Loan book grew 20.35% y/y to KES 281.17Bn marginally slower than the 20.63% y/y growth in the customer deposits to KES 417.99Bn** leading to a 16bps decline in the loan deposit ratio to 67.27%. Allocation to government securities edged up 21.13% y/y to 211.58Bn in driven by hunt for higher yields. The lender's Opex less provisioning increased by 36.10% year over year to KES 9.44Bn from KES 6.94Bn, which we suspect was driven by CAPEX requirements to fund branch development projects that started in July 2022 to boost DTB's presence in East Africa to over 150 branches by the end of the year.

Key Highlights

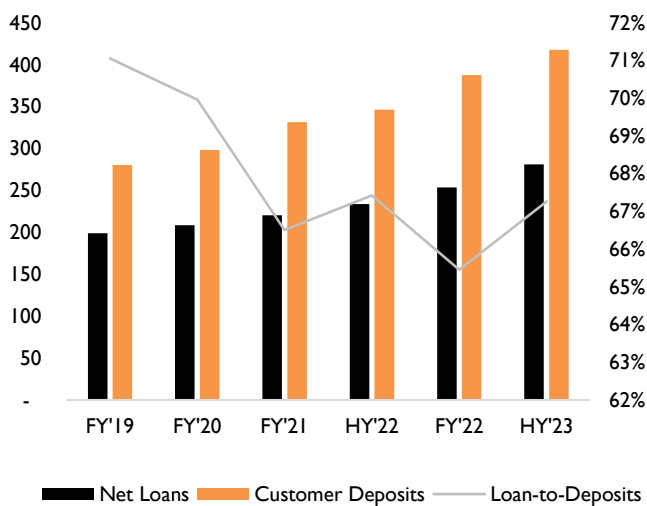
- Net Interest income lags Non-funded Income:** Net Interest Income grew 17.75% y/y to KES 13.11Bn slower than a 41.74% y/y increase in Non-Funded income to KES 5.55Bn mainly driven by a 48.61% y/y jump in income from loan fees and commissions. Furthermore, the impact of the prevailing dollar shortage and Kenya shilling depreciation challenges were seen in the Forex trading income growth of 43.86% to KES 2.75Bn from KES 1.91Bn in HY'22, as the bid/ask spreads have widened to between 4-6.00% of the CBK indicative rate. On a trailing basis, Yield on assets grew 124ps y/y to 10.65% as income from loans and government papers grew faster than interest earning assets in the year. Cost of funds edged up 71bps to 4.83% y/y from 4.09% in HY'22 highlighting the higher cost of deposit mobilization.
- Physical Expansion Affecting Efficiency:** The Cost to Income ratio less impairment increased 450bps on a year-on-year basis to 50.62% from 46.12% in HY'22 mainly attributed to the branch expansion and core system infrastructure upgrades. In line with the current industry trend, the loan loss provision increased by 33.99% highlighting a negative outlook on the lending environment. Despite the introduction of risk-based models, we have observed banks increase loan impairment provisioning. As such the cost of risk has also increased 24bps to 2.32%. We will keep an eye on the impact of physical expansion on the CTI ratio.
- Asset Quality Improvement Noted:** Gross NPLs edged up 15.03% y/y to KES 36.55Bn lower than loan book growth (20.35% y/y), leading to the NPL ratio declining 57bps y/y to 12.25% slightly lower than the latest industry average of 14.50%. Meanwhile, the NPL Coverage improved 216bps y/y to 46.40% from 44.24% in HY'22 driven by provisioning growing faster than Gross NPL. Cost of Risk edged up 61bps y/y at 2.32%. We expect the asset quality to continue under pressure given the challenged operating environment.

Outlook – We maintain a positive outlook for H2'23, driven by improved performance from its subsidiaries as well as its ongoing digital transformation and continued branch expansion in line with its expansion strategy, to drive growth for the lender. We expect the implementation of its risk-based loan pricing model to be positive on interest income and growth in the loan book. However, the lender's continued network expansion through opening of new physical branches will likely increase operating expenses in the short-term but should translate to increased revenues in the long-term. However, Deteriorating local & global macroeconomic conditions will lead to continuous pressure on the company's loan book.

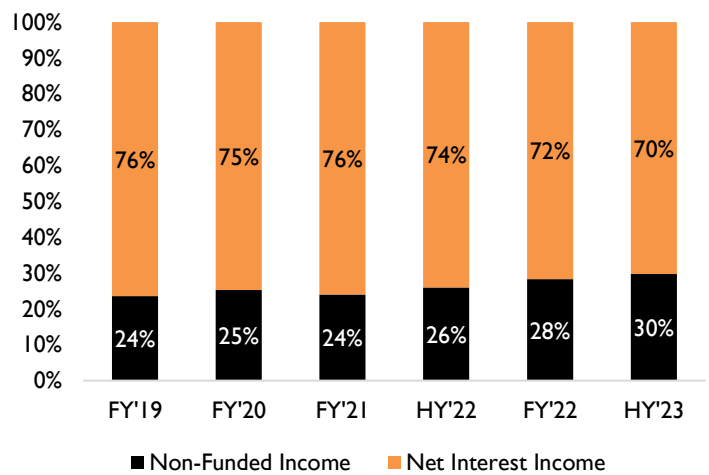
Valuation- DTB-K is currently trading at a P/B multiple of 0.27x and a P/E of 1.68x. The counter closed today's trading at KES 48.15, which is 1.73% lower than yesterday. We expect the impressive results coupled with the ROaE maintaining at double digits to excite investors and is likely lead to a share price rally in the coming days. As such, we maintain our **BUY** recommendation on the counter given the upside potential.

DTBK Group HY'23 Earnings Charts

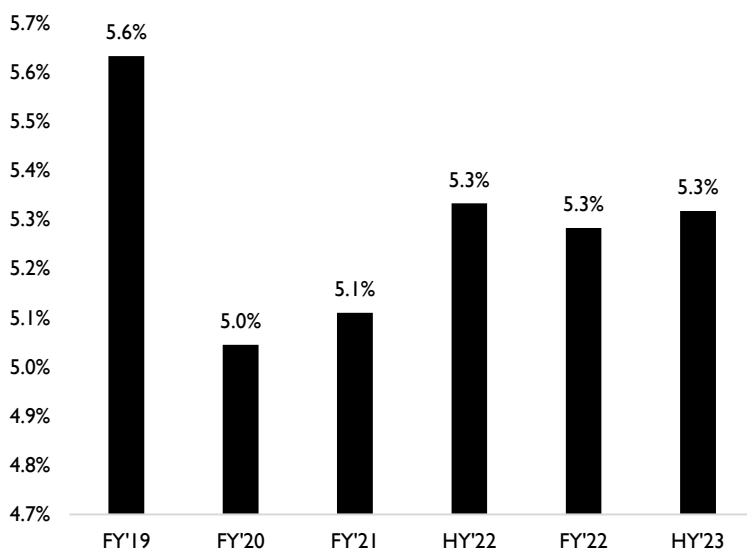
Graph 1: Customer Deposits continue to drive Balance sheet growth



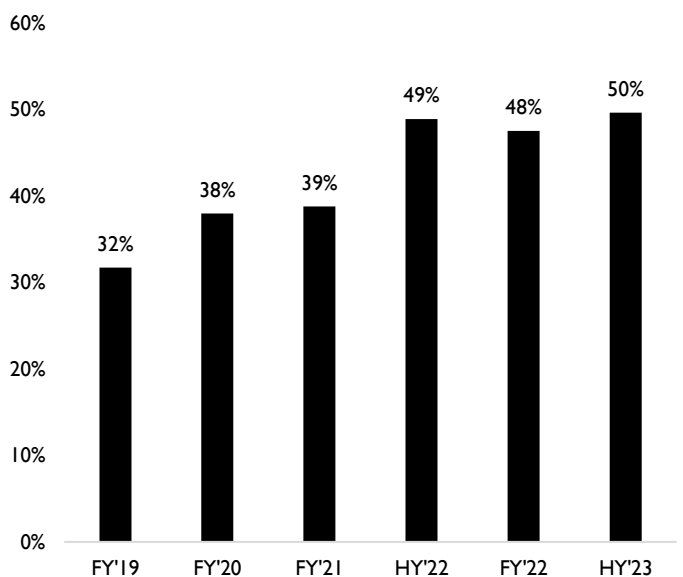
Graph 2: Revenue mix continues to favor Net Interest Income



Graph 3: We observed Net Interest Margins remaining flat



Graph 4: Forex Income as a % of Net Income edged up



Source: Company Filings, AIB-AXYS Analyst Estimates

Financial Statement Summary

I. Statement of Profit and Loss

	FY'19	FY'20	FY'21	HY'22	FY'22	HY'23	% y/y change
Net Interest Income	18.71	18.08	19.99	11.13	22.89	13.11	17.75%
Net non-Interest Income	5.77	6.12	6.31	3.92	9.05	5.55	41.74%
Total Operating income	24.48	24.20	26.30	15.05	31.94	18.66	24.00%
Provision for Impairment	(1.32)	(7.32)	(7.56)	(2.43)	(7.14)	(3.26)	33.99%
Total Operating expenses	(13.22)	(19.67)	(19.88)	(9.37)	(22.08)	(12.70)	35.55%
Profit before tax	11.26	4.67	6.63	5.62	9.52	6.02	7.08%
Profit after tax	6.79	3.25	3.91	3.58	6.06	4.00	11.64%
Core EPS (Adjusted)	24.27	11.61	13.98	25.64	21.68	28.63	11.64%

2. Statement of Financial Position

	FY'19	FY'20	FY'21	HY'22	FY'22	HY'23	% y/y change
Government Securities	132.46	148.38	168.98	174.68	187.82	211.58	21.13%
Loans and Advances	199.09	208.59	220.43	233.62	253.67	281.17	20.35%
Total Assets	386.23	425.05	456.84	485.04	526.98	579.22	19.42%
Customer Deposits	280.19	298.17	331.45	346.49	387.56	417.99	20.63%
Total Liabilities	321.71	356.74	382.29	408.43	449.32	496.59	21.58%
Shareholder's Funds	58.85	61.97	67.29	68.89	68.96	72.44	5.16%

3. Key Metrics

	FY'19	FY'20	FY'21	HY'22	FY'22	HY'23
Growth Metrics (y/y)						
Loan book Growth	3.12%	4.77%	5.67%	14.34%	15.08%	20.35%
Customer Deposits Growth	-0.95%	6.42%	11.16%	10.42%	16.93%	22.00%
PAT Growth	1.48%	-52.14%	20.35%	22.30%	55.08%	11.64%
Spreads Analysis						
Yield on Assets	9.89%	8.67%	8.67%	9.01%	9.25%	5.00%
Cost of Funds	4.50%	3.93%	3.89%	3.93%	4.26%	4.83%
Net Interest Margin	5.63%	5.04%	5.11%	5.33%	5.28%	5.32%
ROaE	12.92%	5.84%	6.83%	7.78%	9.97%	10.18%
ROaA	1.90%	0.87%	1.00%	1.14%	1.38%	1.35%
Profit Margin	29.69%	14.58%	16.78%	26.30%	21.27%	23.36%
Operating Efficiency						
Cost of Income Less LLP	48.62%	51.00%	46.86%	46.12%	46.78%	50.62%
Cost of Assets	3.08%	2.90%	2.70%	1.43%	2.84%	1.63%
Loan to Deposit	71.06%	69.96%	66.50%	67.42%	65.45%	67.27%
Asset Quality						
NPL	7.72%	10.37%	12.86%	12.82%	12.55%	12.25%
NPL Coverage	42.90%	44.61%	41.77%	44.24%	44.16%	46.40%
Cost of Risk	0.66%	3.51%	3.43%	2.08%	2.82%	2.32%
Capital Adequacy						
Core Capital/TRWA	19.10%	20.70%	19.90%	20.00%	20.00%	18.50%
Total Capital /TRWA	20.90%	22.50%	21.20%	21.20%	21.20%	19.30%
Liquidity	54.80%	56.00%	61.60%	58.90%	58.30%	52.20%

Source: Company Filings, AIB-AXYS Estimates



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