



DTB Kenya Ltd: FY'21 Earnings Note

DTB group FY'21 EPS edged up 20.35% to **KES 13.98** higher than our expectations of KES12.96. PAT rose 20.35% y/y to **KES 3.91Bn** driven by a 8.67% y/y increase in Total operating income to **KES 26.30Bn** supported by interest income from Government securities. Customer deposits grew 11.16% (better than our +7.00% y/y growth forecast) to KES 331.45Bn while the loan book grew slower at 5.67% to **KES 220.43Bn** (lower than our expectation of a +7.76% y/y growth), highlighting the bank's lending apathy.

- **Net Interest Income grows faster than Non funded Income:** Net interest income increase of 10.58% was better than our expectations having grown to **KES 19.99Bn** mainly driven by income from government papers. Non-funded income came in at **KES 6.31Bn** (+3.03% y/y growth) leading the revenue mix to shift to 76:24 for NII:NFI from 75:25 in FY'20. Marginal declines were recorded in the Yield on assets to 8.63% and cost of funds to 3.89%. Therefore, the Net interest margin (NIM) remained flat at 5.28%, highlighting margin pressure from lower asset yields.
- **Slower Operating expenses growth improves efficiency:** The CTI ratio improved to 46.86% mainly on the back of enhanced digital transactions (88.00% of transactions are outside the branch with Kenya at 93.00%). We can also attribute the reduction to a slower growth in Total Operating Expenses (+1.09% y/y to **KES 19.88Bn**) compared to a 8.67% growth in Total Operating Income. Against the industry trend, the Loan loss provision increased 3.19% y/y to **KES 7.56Bn** (+146.62% q/q) indicating a perception of increased lending risk and exposure to slower recovering pandemic affected sectors. Additionally, the bank is planning to open 20 new physical branches in 2022 and another 20 by 2024, despite an expected **KES 3.50Bn** investment in the digital platforms in the next two years.
- **Asset quality concerns persists:** Gross NPLs increased by 32.00% y/y to **KES 30.07Bn**. NPL ratio increased by 249 bps to 12.86% from 10.37% in FY'20 below the current industry average of 13.10%, driven by slow recovery in some sectors. Consequently, the NPL Coverage worsened to 41.67% from 44.61% in FY'20. Improving economic conditions have created a better operating environment with approval of the risk based models set to improve asset quality.
- **Valuation:** Dividend payment of KES 3.00, was in line with our expectation, providing a dividend yield of 5.38%. The counter is currently trading below market valuation (PE at 9.80x) with a PE of 4.15x and P/TB of 0.24x. However, we remain underweight on the counter given the minimal upside potential and the perennial low ROE of 6.83%, lower than most industry peers..

29th March 2022

Current price: KES 55.75

Target price: KES 66.12

Upside: 13.99%

52 Week High: KES 69.00

52 Week Low: KES 54.75

YTD Performance: -6.23%

LTM Performance: -14.23%

EPS (FY'21): 13.98

DPS (FY'21): 3.00

DTB-K 1 Year Share price Movement



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Outlook

The bank's results were driven by increased Interest income from government securities supported by a decline in operating expenses. We observed the improvement in efficiency which is positive and we expect the CTI ratio to continue declining due to the use of digital channels and internal cost rationalization. We noted with concern lending apathy that has slowed loan book growth which we suspect has been contributed by an increase in Non-Performing Loans. We believe the recovering economy will provide an improvement in the lending environment supposed by the imminent approval of the risk based models.

Table I : Financial Statement Summary

Income Statement	FY18	FY19	FY20	Q1'21	H1'21	Q3'21	FY'21
Net Interest Income	20.02	18.71	18.08	4.96	9.82	14.73	19.99
Net non-Interest Income	5.43	5.77	6.12	1.56	3.32	4.79	6.31
Total Operating income	25.46	24.48	24.20	6.52	13.15	19.52	26.30
Provision for Impairment	(2.98)	(1.32)	(7.32)	(0.68)	(2.31)	(3.06)	(7.56)
Total Operating expenses	(14.49)	(13.22)	(19.67)	(3.52)	(8.27)	(12.11)	(19.88)
Profit before tax	11.00	11.26	4.67	2.99	4.88	7.41	6.63
Profit after tax	6.69	6.79	3.25	1.95	2.93	4.81	3.91
Core EPS	25.83	26.00	11.61	6.97	10.48	17.28	13.98
DPS	2.60	2.70	-	-	-	-	3.00

Balance Sheet	FY18	FY19	FY20	Q1'21	H1'21	Q3'21	FY'21
Government Securities	117.33	132.46	148.38	138.35	138.82	126.38	168.98
Loans and Advances	193.07	199.09	208.59	205.81	204.33	205.55	220.43
Total Assets	377.72	386.23	425.05	417.34	429.58	434.39	456.84
Customer Deposits	282.86	280.19	298.17	301.76	313.80	323.74	331.45
Total Liabilities	318.78	321.71	356.74	346.86	357.45	359.89	382.29
Shareholder's Funds	53.66	58.85	61.97	63.98	65.36	67.48	67.29

Income Statement Ratios	FY20	FY'21	y/y change
Yield from assets	8.67%	8.63%	(0.05%)
Cost of funding	3.93%	3.89%	(0.04%)
Net Interest Margin (NIM)	5.04%	5.09%	0.04%
Cost to Income Ratio	51.00%	46.86%	(4.14%)
Non- Performing Loans (NPL)	10.37%	12.86%	2.49%
Loan to Deposit Ratio	69.96%	66.50%	(3.46%)
Return on average equity	5.84%	6.83%	0.99%
Liquidity Ratio	61.60%	56.00%	(5.60%)
Core Capital/TRWA	22.10%	23.40%	1.30%
Total Capital/TRWA	21.30%	22.70%	1.40%

Source: Company Filings, AIB-AXYS



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