

KINGDOM SECURITIES

DTB Group Posts a 20.1% Uptick on Profits After tax

Diamond Trust bank Group reported Kes. 7.41Bn profit before tax (PBT) in Q3-2021, a 12.5% growth from that of Kes. 6.59Bn declared in Q3-2020 supported by growths on government securities income. Its profits after tax (PAT) jumped 20.1% Y/Y from Kes. 4.33Bn to Kes. 5.20Bn in Q3-2021.

The group's earnings per share gained 64.6% from 14.40 to 17.28 in Q3-2021. The lender's board do not recommend an interim dividend for Q3-2021. We recommend a buy on the counter with a revised valuation of Kes. 69.40, an upside of 23.4%.

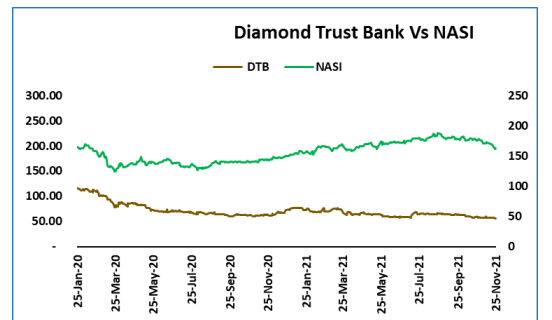
Income Statement

- The Group's net interest income (NII) moved 5.9% Y/Y up from Kes. 13.19Bn to Kes. 14.73Bn on 6.0% growth in total interest income from Kes. 23.70Bn in Q3-2021 to Kes. 25.13Bn in Q3-2021. This was majorly attributed to a 19.1% growth on interest income from government securities as income from loans and advances fell 2.8% Y/Y from Kes. 14.34Bn in Q3-2020 to Kes. 13.94Bn in Q3-2021 on a static loan book which stabilized at Kes. 205.55Bn. Q/Q income from loans and advances was 2.8% down despite a slight growth of 0.6% on the counter's loan book which is yet to reflect on payments.
- Government securities income moved from Kes. 9.24Bn in Q3-2021 to Kes. 11.00Bn in Q3-2021 on the lender's growing government securities book at 17.3% Y/Y from Kes. 134.08Bn in Q3-2020 to Kes. 157.27Bn in Q3-2021. On Q/Q basis, income from government securities growth stood at 2.9% on a 0.2% Q/Q drop in government securities investment.
- Expensive deposits saw the counter's interest expense rise 6.2% Y/Y and 0.3% Q/Q from Kes. 9.79Bn and 6.88Bn in Q2-2021 to close Q3-2021 at Kes. 10.40Bn and a 0.3% Y/Y growth on borrowed funds. The interest expense however, remained low Q/Q by 0.3% on payments as borrowed funds dropped by 3.3% to Kes. 20.56Bn in Q3-2021 from Kes. 20.94Bn in Q2-2021.
- Non-funded income fell 4.9% Y/Y and 17.0% Q/Q from Kes. 5.03Bn and Kes. 3.32Bn to Kes. 4.79Bn respectively. Unlike the competitors who harvested on digital commissions, the lender's fees and commissions from loans and advances shrunk 14.9% Y/Y from Kes. 1.13Bn in Q3-2021 to Kes. 0.96Bn in Q3-2021.
- Income from forex trading shed 6.4% to Kes. 1.22Bn on strong competition in the first half the year. In Q3, forex income rose 13.0% from Kes. 0.52Bn to Kes. 0.59Bn on the weakening Kenya shilling.
- Total operating expenses remained contained at 2.0% Y/Y lower on falls in amortization charges which slimmed 75.0% Y/Y from Kes. 0.92Bn to Kes. 0.23Bn.
- Loan loss provisions edged up 6.0% Y/Y from Kes. 2.89Bn to Kes. 3.06Bn to cushion the growing total non-performing loans (NPLs) which spiked 69.0% Y/Y from Kes. 14.67Bn to Kes. 24.80Bn in Q3-2021.
- Operating expenses excluding provisions remained contained at 4.5% lower from Kes. 9.47Bn to Kes. 9.05Bn.
- Staff costs enlarged at 2.2% Y/Y and 2.1% Q/Q from Kes. 3.57Bn and Kes. 2.31Bn to Kes. 3.65Bn on normal wage increments.

DIAMOND TRUST BANK GROUP

Earnings Update – Q3 2021

Bloomberg Ticker	DTKL KN
Recommendation	BUY
Share Statistics	
Valuation	69.40
Current Price (kes)	56.25
Upside/Downside	23.38%
Six Month Average	62.26
12 Month Average	65.39
52 Week High - Low	77.50 - 55.75
Issued shares (Mn)	279.60
Market Cap (Kes Mn)	15,727.62
Market Cap (USD Mn)	139.94
EPS	17.28
P/E	3.26
BVPS	330.33
PB	5.87



Price movements (Upside/Downside)		
Period	DTBK	NASI
3 Months	-13.5%	-11.8%
6 Months	-11.1%	-6.1%
YTD	-26.7%	6.7%
12 Months	11.4%	12.7%

NNI + 5.9% Y/Y

Provisions + 6.0% Y/Y

Opex. - 2.0% Y/Y

PBT + 12.5% Y/Y

PAT + 20.1% Y/Y

Govt. Securities + 17.3% Y/Y

Loans – 0.0% Y/Y

Deposits + 12.3% y/y

Shareholder's Funds + 7.8%

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Balance Sheet

- The Bank's total assets grew 10.3% Y/Y on the growing government securities investment which moved from Kes. 134.08Bn to Kes. 157.27Bn as loans and advances remained flat at Kes. 205.55Bn. Quarterly government securities growth dipped 0.2% as loans and advances assumed a growth of 0.6% from Kes. 204.33Bn to Kes. 205.55Bn.
- Investors funds gathered 7.8% Y/Y and 3.3% Q/Q to close Q3-2021 at Kes 74.50Bn from that of Kes. Kes. 69.09Bn in Q1-2020 and Kes. 72.13Bn in Q3-2021 benefitting from the expanding retained earnings which grew 7.8% Y/Y and 3.3% Q/Q to Kes. 74.50Bn.

Key Ratios

- The group's cost to income ratio shed 320bps from 65.2% to 62.0% on reduced operating expenses from Kes. 12.36Bn to Kes. 12.11Bn in Q3-2021.
- Cost of funds improved 30bps from 3.1% in Q3-2021 to 2.8% in Q3-2021 on reducing borrowings.
- Return on average assets (ROaA) improved from 1.2% to 1.3% both on Y/Y and quarterly basis on the minimal growth on PAT. Return on average equity (ROaE) improved gradually from 8.0% in Q3-2020 to 8.7% in Q2-2021 and 9.3% in Q3-2021.
- Gross NPL to Net Loans edged higher from 8.3% in Q3-2020 and 10.2% in Q2-2021 to 11.7% by closure of Q3-2021 but still below the industry average of 13.9%.

P&L (KES Mn)	Q3 - 2020	Q2 - 2021	Q3 - 2021	Q/QΔ%	Y/YΔ%
Interest Income	23,699	16,703	25,125	-49.6%	6.0%
Interest Expense	9,788	6,882	10,396	-48.9%	6.2%
NII	13,910	9,821	14,730	-50.0%	5.9%
NFI	5,035	3,324	4,790	-55.9%	-4.9%
Total Income	18,945	13,145	19,519	-51.5%	3.0%
Deposits and placements	8,398	6,078	9,240	-48.0%	10.0%
Loan Loss Provisions	2,890	2,311	3,065	-67.4%	6.0%
Operating Expense	12,360	8,267	12,109	-53.5%	-2.0%
Opex Excl Provisions	9,469	5,956	9,045	-48.1%	-4.5%
PBT	6,586	4,879	7,410	-48.1%	12.5%
PAT	4,326	3,150	5,195	-35.1%	20.1%
EPS	14.40	10.48	17.28	64.9%	20.0%

Balance Sheet (KES Mn)	Q3 - 2020	Q2 - 2021	Q3 - 2021	Q/QΔ%	Y/YΔ%
Investments	134,082	157,585	157,265	-0.2%	17.3%
Loans and Advances	205,605	204,326	205,553	0.6%	0.0%
Total Asset	393,958	429,578	434,392	1.1%	10.3%
Customer Deposit	288,158	313,804	323,737	3.2%	12.3%
Shareholders' Fund	69,081	72,132	74,498	3.3%	7.8%

Ratios	Q3 - 2020	Q2 - 2021	Q3 - 2021
NII % of Total Income	73.4%	74.7%	75.5%
NFI % of Total Income	26.6%	25.3%	24.5%
CTI	65.2%	62.9%	62.0%
CTI excl Provisions	50.0%	45.3%	46.3%
Cost of Funds	3.1%	1.9%	2.8%
Net Interest Margin	4.1%	4.1%	4.2%
ROaA	1.2%	1.2%	1.3%
ROaE	1.4%	1.2%	1.3%
Gross NPL to Net Loans	8.0%	8.7%	9.3%
AD Ratio	71.4%	65.1%	63.5%
Investment to Assets	34.0%	36.7%	36.2%
Loans to Assets	52.2%	47.6%	47.3%

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Recommendation Guide:

Analysts' stock ratings are defined as follows:

- **Buy** – A buy rating reflects 1) An analyst has a bullish conviction on a stock 2) A 30% or greater expected return.
- **Accumulate** – An accumulate rating reflects 1) An analyst has a lesser bullish conviction on a stock 2) Expected return falls between 10% and 30%.
- **Hold** – A hold rating reflects 1) An analyst has a neutral conviction (lack of bullish or bearish conviction) on a stock 2) Expected return falls within the range of 5% to 10%.
- **Speculative Buy** – A speculative buy rating reflects 1) An analyst has a bullish conviction accompanied by a substantially higher than normal risk 2) Expected return falls above 10%.
- **Sell** – A sell rating reflects 1) An analyst has a bearish conviction on a stock 2) Expected return falls below 5%.

*Expected Return (ER) represents the sum total of both capital appreciation and the dividend yield.

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