KINGDOM SECURITIES

Diamond Trust Bank Kenya Ltd
Earnings Update – FY-2021

Diamond Trust Bank Kenya Limited - A Tale of a Weak Q4-2021

DTB Bank Kenya posted KES 6.63Bn FY-2021 profits before tax (PBT), a 41.9% y-y jump from KES 4.67Bn in FY-20. Profits after tax (PAT) increased by 20.4% y-y to KES 3.91Bn from KES 3.25Bn. The Group performance was supported by a 10.6% increase in net interest income (NII). On quarterly basis, the bank had a woeful performance in Q4-21 with PBT declining by 131.6% q-q with Q4-21 posting a loss of KES 0.81Bn compared to a profit of KES 2.56Bn in Q3-21 driven by a 496.3% in loan loss provisions. Earning per share edged up 20.4% y-y to 13.98 from 11.61.

The board of directors recommended a per share dividend of KES 3.00 for a payout of 21.5% having not paid in FY-20.

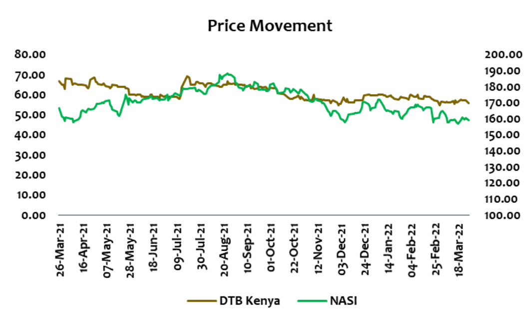
We retain a BUY recommendation with a valuation of KES 84.36, a 51.3% upside to KES 55.75. The lender has a PE and PB of 3.99x and 0.21x against comparable lenders median PE and PB of 5.5x and 0.92x respectively. Dividend yield of 5.4% bring total return of 56.7%.

Income Statement

- Net interest margins grew by 10.6% y-y to KES 19.99Bn from KES 18.08Bn driven by a 9.1% y-y growth in interest income. Interest expenses increased by 6.9%. Quarter growth saw a 7.2% growth with interest income increasing by 0.1%. NII contribution to total income marginally improved to 76.0% from 74.7% in FY-21.
- Interest income increased by 9.1% y-y to KES 33.90Bn from KES 31.09Bn. The growth was supported by 21.9% increase in returns from investments in government securities whose book grew by 13.9% y-y. Yield from government securities improved to 9.5% from 8.8% in FY-20. Interest from loans and advances marginally improved by 0.2% despite loan book growing by 5.7%. The growth was dwarfed by lower yield on loans and advances of 8.7% compared to 9.1% FY-20.
- Interest expense were up 6.9% y-y to KES 13.91Bn from KES 13.01Bn. This was due to a 10.5% increase on interest on customer deposits with the liability line growing by 11.2%. Cost on deposits remained stable at 3.9%.
- Non-funded income (NFI) was up 3.0% y-y to KES 6.31Bn from KES 6.12Bn built on a 10.8% y-y jump on net fees and commission income. A high growth of 43.0% was seen on q-q driven by the KES 14.78Bn addition in net loan book in Q4-21. Foreign exchange trading income was 5.3%y-y better. NFI contribution to total income declined to 24.0% in FY-21 compared to 25.3% in FY-21.
- Overall expense increased marginally by 1.1% y-y. Loan loss provision was up 3.2% to KES 7.56Bn from KES 7.32Bn. The last quarter saw a 493.3% q-q in provisions which was attributed to most of the NPLs crystalizing in Q4-21 compared to Q3-21. Cost to income (CTI) ration eased to 75.6% from 81.3% in FY-20.
- Expense excluding provisions marginally ease by 0.1% to KES 12.33Bn from KES 12.34Bn buoyed by 2.5% increase in staff cost. CTI excluding provision improved to 46.9% from 51.0% in FY-20.

Recommendation	BUY
Bloomberg Ticker:	DTKL KN
	Share Stats
Valuation	84.36
Current Price (KES)	55.75
Upside/Downside	51.3%
3-Month Avg	58.05
6-Month Avg	58.16
12 Month Avg	60.83
52 Week High - Low	69.00 - 54.75
Issued shares (Mn)	279.60
Free Float	55.0%
Market Cap (KES Mn)	15,587.82
Market Cap (USD Mn)	135.84
EPS	13.98
P/E	3.99
BVPS	266.64
PB	0.21
DPS	3.00
Dividend Yield	5.4%
Dividend Payout	21.5%
Total Return	56.7%

Return Performance		
Period	DTB Kenya	NASI
3-Months	-7.1%	-6.0%
6-Months	-12.2%	-10.3%
Y-T-D	-6.3%	-4.8%
Y-Y	-16.2%	-4.5%



Willis Nalwenge
Lead Analyst
+254 711 049 183
wnalwenge@co-opbank.co.ke

Balance Sheet

- Total assets expanded by 7.5% y-y to KES 456.84Bn from KES 425.05Bn with the growth catapulted by 366.4% q-q in Q4-21. The annual growth was due to a 13.9% y-y increase in investment in securities to KES 168.98Bn from KES 148.38Bn as its contribution to total assets bettered to 37.0% up from 34.9% an indication on lender being risk averse.
- Laon book expanded by 5.7% to KES 220.43Bn from KES 208.59Bn with KES 14.87Bn coming in Q4-21. Net loans as a proportion of assets thinned to 48.2% from 49.1% in FY-20.
- Customer deposits were up 11.2% to KES 331.45Bn from KES 298.17Bn. Deposit mobilization was mainly channeled to government securities. The faster growth compared to net loan pushed advances to deposit ratio down to 66.5% from 70.0%.
- Borrowed funds had a flat growth of 1.9% to KES 20.17Bn from KES 19.80Bn. debt to equity ratio declined to 27.1% from 29.0%.
- Shareholders' funds improved by 9.1% y-y to KES 74.56Bn from 68.31Bn supported by growth in retained earnings.

Key Ratios

- The lender retained its cost of funds at 3.9% with net interest margins flat at 4.8%. This was affected by a deteriorating yield on advances at 8.7% from 9.1% in FY-21.
- Ratio of NPLs worsened to 13.1% matching the industry rate. This was higher compared to 10.7% in Fy-20. The rate worsened due to 32.0% increase on gross non-performing loans mainly affected by large individual loans especially in the manufacturing and real estate sectors.
- Rapid provisioning in Q4-21 saw cost of risk stagnate at 3.5% on increase on loan loss provisions.
- Return on average asset and return on average equities improved to 0.9% and 5.5% from 0.8% and 4.9% in FY-20 respectively. The weak performance effect was due to negative PAT contribution in Q4-21.

Outlook

- The management remain confidence of containing the NPL as the quality of the restructured book in the hospitality sector has improved with majority making payments.
- The lender has refocused its energy in the retail space with a plan of opening 20 new branches in 2022 with another 20 lined up by 2024 with plan of having 100 branch networks in Kenya and 200 in the East Africa region.
- The Group has intended to inject KES 3.5Bn between 2022 – 2023 in technology to grow its digital lending footprints having already invested KES 2.4Bn between 2018 and 2021. They already have two products on the pipeline with digital e-credit intended to target its internal clients before being rolled to the market.
- We project the bank will continue to trend carefully on loan book growth with focus directed at government securities and growing regional market.

Income Statement (KES Mn)	FY 2020	FY 2021	ΔY-Y	Q3 2021	Q4-2021	ΔQ-Q
Interest Income	31,090	33,904	9.1%	8,423	8,779	4.2%
Interest Expense	13,010	13,912	6.9%	3,514	3,516	0.1%
NII	18,079	19,993	10.6%	4,909	5,263	7.2%
NFI	6,122	6,308	3.0%	1,465	1,518	3.6%
Total Income	24,202	26,301	8.7%	6,374	6,781	6.4%
Loan Loss Provisions	7,324	7,558	3.2%	754	4,493	496.3%
Expenses	19,669	19,884	1.1%	3,843	7,775	102.3%
Expense excl Provisions	12,344	12,326	-0.1%	3,089	3,281	6.2%
PBT	4,668	6,626	41.9%	2,555	(808)	-131.6%
PAT	3,248	3,908	20.4%	1,900	(922)	-148.6%
EPS	11.61	13.98	20.4%	6.80	(3.30)	-148.5%

Balance Sheet (KES Mn)	FY 2020	FY 2021	ΔY-Y	Q3 2021	Q4-2021	ΔQ-Q
Investment Securities	148,378	168,976	13.9%	(1,329)	11,711	-981.0%
Loans and Advances	208,593	220,425	5.7%	1,227	14,873	1112.5%
Total Assets	425,054	456,843	7.5%	4,814	22,451	366.4%
Customer Deposit	298,167	331,452	11.2%	9,933	7,714	-22.3%
Borrowing	19,798	20,171	1.9%	(681)	(87)	-87.3%
Shareholders' Equity	68,314	74,553	9.1%	2,366	55	-97.7%

Non-Performing Loans	FY 2020	FY 2021	ΔY-Y	Q3 2021	Q4-2021	ΔQ-Q
Gross NPLs	22,770	30,056	32.0%	3,506	4,334	23.6%
Total NPLS	22,254	28,855	29.7%	3,144	4,059	29.1%

Key Ratios	FY 2020	FY 2021
NII Contribution	74.7%	76.0%
NFI Contribution	25.3%	24.0%
CTI	81.3%	75.6%
CTI ex Provisions	51.0%	46.9%
Cost of Funds	3.9%	3.9%
NIM	4.7%	4.8%
ROaA	0.8%	0.9%
ROaE	4.9%	5.5%
Gross NPLS to Net Loans	10.7%	13.1%
Cost of Risk	3.6%	3.5%
Advance to Deposit	70.0%	66.5%
Investment to Assets	34.9%	37.0%
Loans to Assets	49.1%	48.2%
Debt to Equity	29.0%	27.1%
Dividend Payout	0.0%	21.5%

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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 of both capital appreciation and the dividend yield.

Kingdom Securities Ltd – A subsidiary of Co-operative Bank Limited.

Co-operative Bank House- 5th Floor, P.O Box 48231 - 00100 Nairobi, Kenya

Office: 0711049540/0711049956

Email: kingdomresearch@co-opbank.co.ke

Research Department		Equities Trading	
Willis Nalwenge, CFA	wnalwenge@co-opbank.co.ke	**Andrew Karanja**	amkaranja@co-opbank.co.ke
Shadrack Manyinsa	smanyinsa@co-obank.co.ke	**Justus Ogalo**	jogalo@co-opbank.co.ke