

KINGDOM SECURITIES

DTB Bank Kenya posted KES 3.65Bn in Q1-23 profits before tax, PBT, a 11.6% y-y increase from KES 3.38Bn in Q1-22. The bank group posted an 11.0% y-y growth in profits after tax, PAT, to KES 2.42Bn from KES 2.17Bn. The bottom line was supported by a 59.1% growth in non-funded income (NFI).

The Group's regional contribution continues to improve with regional subsidiary loan book and deposits growing to contribute 30.2% and 37.1% to the Groups compared to 23.9% and 32.1% respectively driven by branch expansion. The bank expects to open 24 new branches.

The shares are currently trading below average with a price potentially reverting back to the one year-average of KES 49.50 for a potential 11.3% return. It retains a strong PE 2.0 against industry PE of 3.32x. PB stands at 0.2x.

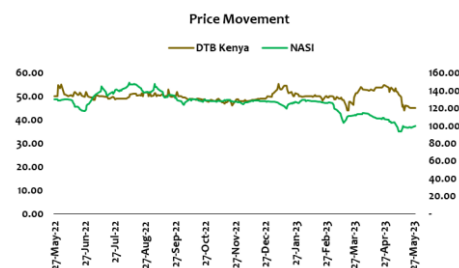
- Net interest income (NII) was up 20.7% y-y to KES 6.68Bn from KES 5.54Bn driven by 32.1% y-y rise in interest income. This was driven by a 32.1% increase in interest income while interest expenses were up 49.2%. Subsidiary contribution to NII increased to 38.3% from 36.4% seen in Q1-22. NII contribution to total income declined to 70.4% from 75.8% over the period.
- Interest income increased by 32.1% y-y to KES 12.19Bn from KES 9.23Bn supported by a 32.9% rise in income from loans and advances due to a 20.3% growth in loan book while yields on loans and advances improved to 9.8% from 8.7%. Income from government securities increased by 29.8% y-y on expanding investment in securities book by 18.1% y-y while return on the asset line was up 11.7% from 10.3%.
- Interest expense shot up by 49.2% y-y due to 34.6% y-y rise in expense on customer deposit as the liability increased by 17.9% y-y as cost of deposit increased to 4.5% from 4.0%. A 60.0% growth in borrowing saw other expenses shoot up by 123.2%. The surge in interest expenses left the cost of funds up to 4.9% from 3.9%.
- Non-Funded Income increased by 59.1% y-y to KES 2.81Bn from KES 1.77Bn pushing NII contribution to total income to 29.6% from 24.2%. The income line growth was supported by a 90.1% y-y jump on foreign exchange trading income while growth loans and advances book pushed fees and commission from loans and advances up by 26.6%.
- Branch expansion program and loan book growth saw operating expenses increase by 50.4% y-y to KES 5.86Bn from KES 3.89Bn. This was pushed by a 134.7% rise in loan loss provisions (LLP) and 40.2% in staff cost and 32.0% rise in other expenses. Cost to income (CTI) ratio increased to 61.7% from 53.3% in Q1-22.
- Expenditure excluding loan loss provisions was up 35.6% y-y to KES 4.49Bn from KES 3.31Bn. This is explained by investments the Group made in technology, people capacity and branch expansion after opening 7 branches in Kenya and Tanzania with an expectation of an additional 24 branches in 2023. Excluding LLP, CTI was up to 47.3% from 45.3%.

DTB Group Earnings Update Q1-2023

Bloomberg Ticker:	DTKL KN
Share Stats	
Current Price (KES)	44.90
3-Month Avg	50.06
6-Month Avg	50.14
Y-T-D Avg	50.45
12 Month Avg	49.95
52 Week High - Low	55.25 - 44.00
Issued shares (Mn)	279.60
Free Float	55.0%
Market Cap (KES Mn)	12,554.14
Market Cap (USD Mn)	90.70
EPS (LTM)	22.54
P/E	2.0
BVPS	287.74
PB	0.2

Price Movement		
Period	DTB Kenya	NASI
29-May-23	44.90	99.33
3-Months	50.06	116.73
6-Months	50.14	116.28
Y-T-D	50.45	125.74
Y-Y	49.95	148.81
52-Wk Max	55.25	93.04
52-Wk Min	44.00	109.97

Price Return		
Period	DTB Kenya	NASI
29-May-23	44.90	99.33
3-Months	-10.2%	-21.2%
6-Months	-7.8%	-21.9%
Y-T-D	-9.9%	-22.0%
Y-Y	-10.2%	-23.5%



Balance Sheet

- Total assets increased by 17.4% with regional subsidiaries' contribution rising to 33.4% from 29.4% in Q1-22.
- Investment in securities increased by 18.1% y-y to KES 197.33Bn from KES 167.06Bn with its ratio to total assets maintaining at 35.7%.
- Net loan books grew to KES 270.37Bn, a 20.3% y-y from KES 224.80Bn. Asset line saw regional subsidiaries holding rise to 30.2% for the Group from 26.7%. The line proportion to total assets improved to 48.9% from 47.7%.
- Deposit growth stood at 17.9% y-y to KES 553.30Bn from KES 471.34Bn. The regional participation stood at 37.1% from 32.1%. The growing balance sheet saw loan to deposit (AD) ratio improve to 66.8% from 65.5%.
- To finance growth plan and lending to MSME, the lender saw its borrowing increase by 60.0% to KES 25.73Bn from KES 16.08Bn with financing from international partners. This pushed debt to equity ratio up to 32.0% from 21.0%.
- Shareholders' funds were up 5.0% y-y to KES 80.45Bn from KES 76.61Bn due to a 7.6% y-y in retained earnings.

Key Ratio

- Net interest margin improved to 5.4% from 5.1% on a slower growing asset base compared to NII.
- Return on Average assets (ROaA) was near flat at 1.8% while return on average equity (ROaE) improved to 12.5% from 11.5%.
- Loan loss provisions increased by 134.7% driven by growing loan book and what is seen as a deteriorating book pushed cost of risk up to 2.1% from 1.0% in Q1-22. The LLP were affected by the Kenyan entity which contributed 61.0% on the expense line after growing by 302.1% y-y.
- Gross non-performing loans (NPL) surged by 17.1% to KES 35.11Bn while total NPLs were up 18.3%. This left NPLs at 12.5% from 12.7% and lower to Kenya banking industry levels of 14.0% in February 2023.

Income Statement (KES Mn)	Q1 2022	Q1-2023	ΔY-Y
Interest Income	9,232	12,192	32.1%
Interest Expense	3,696	5,513	49.2%
NII	5,536	6,680	20.7%
NFI	1,767	2,811	59.1%
Total Income	7,303	9,491	30.0%
Loan Loss Provisions	582	1,366	134.7%
Expenses	3,894	5,856	50.4%
Expense excl Provisions	3,312	4,490	35.6%
PBT	3,375	3,646	8.0%
PAT	2,166	2,418	11.6%
EPS	7.79	8.65	11.0%

Willis Nalwenge
Lead Research Analyst

+254 711 049 047

wnalwenge@co-opbank.co.ke

Balance Sheet (KES Mn)	Q1 2022	Q1-2023	ΔY-Y
Investment Securities	167,062	197,328	18.1%
Loans and Advances	224,800	270,369	20.3%
Total Assets	471,336	553,302	17.4%
Customer Deposit	343,144	404,632	17.9%
Borrowing	16,081	25,732	60.0%
Shareholders Equity	76,607	80,453	5.0%

Key Ratios	Q1 2022	Q1-2023	ΔY-Y
NII Contribution	75.8%	70.4%	-5.4%
NFI Contribution	24.2%	29.6%	5.4%
CTI	53.3%	61.7%	8.4%
CTI ex Provisions	45.3%	47.3%	2.0%
Cost of Funds	3.9%	4.9%	1.0%
NIM	5.1%	5.4%	0.3%
ROaA	1.9%	1.8%	-0.1%
ROaE	11.5%	12.2%	0.8%
Gross NPLS to Net Loans	12.7%	12.5%	-0.2%
Cost of Risk	1.0%	2.1%	1.0%
Advance to Deposit	65.5%	66.8%	1.3%
Investment to Assets	35.4%	35.7%	0.2%
Loans to Assets	47.7%	48.9%	1.2%
Debt to Equity	21.0%	32.0%	11.0%

Terms of Use – Disclaimer:

This research report has been prepared by Kingdom Securities Limited and is for information purposes only. This research report should not be construed as an offer or solicitation to sell or buy any investment or product. Any opinions expressed herein reflect the analyst's judgment at the date of publication and neither Kingdom Securities Limited, nor any of its affiliates or employees accepts any responsibility in respect of the information or recommendations contained herein. Unless otherwise stated, the opinions contained in this material are as of the date indicated and are subject to change at any time without prior notice. Past performance is not a guarantee or indication of future results.

The information and opinions contained in this Material have been derived from sources believed to be reliable and in good faith or constitute Kingdom Securities' judgement as at the date of this research, but no warranty is made as to their accuracy and any opinions are subject to change and may be superseded without notice. In no circumstances will Kingdom Securities or its employees be liable to you for any errors or omissions in this report or for any losses you may incur in following any recommendations in the report. Kingdom Securities is a Subsidiary of Co-operative Bank of Kenya.

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: info@kingdomsecurities.co.ke

Research Department

Willis Nalwenge, CFA	+254 711 049 047
Shadrack Manyinsa	+254 711 049 956

Sales Team

Edgar Martim	+254 711 049 534
Alfred Too	+254 711 049 330
Asena Moffat	+254 711 049 663
Ashley Odundo	+254 711 049 195
Gloria Ohito	+254 711 049 993

Client Service and Operations

Joab Kiprono	+254 711 049 528
Purity Malombe	+254 711 049 729