

Valuation Summary

- We recommend a HOLD for the DTB Bank stock with a target price of Kshs 214.0 representing an upside of 7.1%, from the current price of Kshs 202.0, as at Friday, 26th May 2016, inclusive of a dividend yield of 1.2%
- DTB Bank is currently trading at a P/B of 8.5x and a P/E of 1.5x, versus an industry average of 1.6x and 7.5x, respectively

Key highlights during the quarter

- Launched of digital 'DTB 24/7' branch concept that aims at providing a round- the- clock banking services to the customers
- DTB bank plans to launch Huduma Card, which will support payments for all services within Huduma Centres and consequently to be used as a government payment platform for all rendered services such as payment of tender supplies

Income Statement

- Core earnings per share grew by 9.5% y/y to Kshs 6.09 from Kshs 5.56 in Q1'2015 driven by a 27.9% growth in operating revenue that was outpaced by a 47.4% growth in operating expenses
- Operating revenue grew 27.9% to Kshs 5.8 bn from Kshs 4.5 bn in Q1'2015 driven by a 39.3% increase in net interest income to Kshs 4.6 bn from Kshs 3.3 bn in Q1'2015. Interest income growth of 45.9% to 8.2 bn from 5.6 bn was outpaced by interest expenses growth of 55.3% to Kshs 3.6 bn from Kshs 2.3 bn in Q1'2015. The growth in interest income was driven by an 24.1% growth in the company loan book while interest expense growth was supported by a 26.1% growth in customer's deposits
- Non- funded income declined marginally by 2.8% to Kshs 1.2 bn from Kshs 1.2 bn in Q'1 2015 on the back of a decline in foreign exchange gains to Kshs 389.7mn from Kshs 504.2mn in Q1'2015 leading to a revenue mix of 79:21 funded: non-funded income
- Operating expenses grew by 47.4% to 3.3 bn from Kshs 2.2 bn in Q1'2015 driven by: i) a 283% increase in loan loss provision to Kshs 0.89 bn from Kshs.0.23 bn in Q'1 2015 ii) a 19% growth in staff costs to Kshs 960.0 mn from Kshs 806.5 mn in Q1'2015 and (iii) a 20.1% increase in other expenses to Kshs 0.98 bn from Kshs 0.81 bn in Q1'2015. The faster growth in operating expenses to operating revenue led to an increase in cost to income ratio to 57.1% from 49.5% in Q1'2015
- Q1'2016 PAT growth came in lower than our expectations (7.3% growth to Kshs 1.6 bn from Kshs 1.5 bn compared to our projection of a 17.4% growth)

Balance sheet

- The balance sheet recorded a strong growth with total liabilities increasing by 32.8% to Kshs 246.6 bn from Kshs 185.8 bn in Q1'2015 compared to our projections of a 25.7% growth while shareholders' funds increased by 16.8% to Kshs 35.2 bn
- Customers deposits grew by 26.1% to Kshs 206.0 bn from Kshs 163.3 bn in Q1'2015 while the company's loan book increased by 24.1% to Kshs 179.8 bn from Kshs 144.9 bn in Q'1 2015. The banks LDR declined slightly to 87.2% from 88.7 in Q1'2015 higher than the industry average of 82.5%
- The Bank's gross non-performing loans increased during the period to Kshs 7.2 bn from Kshs 2.1 bn in Q1'2015 leading to an increase in NPL to Loan ratio of 4.0% from 1.4% in Q1'2015
- The yield on interest earning assets increased to 3.3% from 2.9% in Q1'2016 while the cost of funds increased to 1.5% from 1.3%
- DTB Bank is currently sufficiently capitalized with a core capital to risk weighted assets ratio at 17.7%, 3.0% above the statutory requirement

Moving forward, the bank growth will leverage on:

- Sustainable growth of subsidiaries in Tanzania, Uganda and Burundi that contribute approximately 26% of the banks revenue in full year 2015
- DTB's widening footprint in the region, characterized, by the growing number of branches, which stood at 55 in Kenya, 37 in Uganda, 25 in Tanzania and 4 in Burundi

- iii. Embracing technology with the launch of 24-hour digital branch concept operating will also offer conventional face-to-face interactions between DTB staff and customers

Below is a summary of the key line items in the balance sheet and income statement

Figures in Kshs billions unless otherwise stated

Balance Sheet Items	FY'2015	Q1'2015	Q1'2016	y/y change	Q1'2016e	Projected %y/y change	Variance in Growth Actual vs. Expected
Government Securities	47.07	36.46	62.02	70.1%	41.53	13.9%	56.2%
Net Loans and Advances	177.54	144.87	179.77	24.1%	179.96	24.2%	-0.1%
Total Assets	271.61	219.19	285.89	30.4%	275.49	25.7%	4.7%
Customer Deposits	194.05	163.26	205.97	26.2%	199.87	22.4%	3.7%
Total Liabilities	233.30	185.77	246.64	32.8%	235.43	26.7%	6.0%
Shareholders' Funds	34.13	30.11	35.16	16.8%	35.90	19.2%	-2.4%

Balance Sheet Ratios	FY'2015	Q1'2015	Q1'2016
Loan to Deposit Ratio	91.49%	88.74%	87.28%
Return on average equity	20.92%	22.35%	17.81%
Return on average assets	2.73%	2.99%	2.30%

Income Statement	FY'2015	Q1'2015	Q1'2016	y/y change	Q1'2016e	Projected %y/y change	Variance in Growth Actual vs. Expected
Net Interest Income	15.19	3.29	4.58	39.3%	4.82	46.7%	-7.4%
Net non-Interest Income	4.73	1.21	1.18	(2.8%)	5.21	328.7%	-331.6%
Total Operating income	19.92	4.50	5.76	0.36	10.03	122.8%	-86.4%
Loan Loss provision	2.18	0.23	0.89	283.4%	1.61	595.9%	-312.5%
Total Operating expenses	10.35	2.23	3.29	47.4%	7.51	237.0%	-189.5%
Profit before tax	9.57	2.27	2.47	8.9%	2.52	10.8%	-1.8%
Profit after tax	6.60	1.50	1.61	7.3%	1.76	17.4%	-10.2%

Income Statement Ratios	FY'2015	Q1'2015	Q1'2016	y/y change
Yield from interest-earning assets	11.0%	2.9%	3.3%	0.34%
Net Interest Income as % of operating income	76.3%	73.0%	79.5%	6.49%
Non-Funded Income as a % of operating income	23.7%	27.0%	20.5%	(6.49%)
Cost to Income Ratio	52.0%	49.5%	57.1%	7.55%
CIR without provisions	41.0%	44.4%	41.7%	(2.71%)

Capital Adequacy Ratios	Q1'2015	Q1'2016
Core Capital/Total Liabilities	21.90%	18.70%
Minimum Statutory ratio	8.00%	8.00%
Excess	13.90%	10.70%
Core Capital/Total Risk Weighted Assets	15.90%	14.90%
Minimum Statutory ratio	10.50%	10.50%
Excess	5.40%	4.40%
Total Capital/Total Risk Weighted Assets	19.20%	17.70%
Minimum Statutory ratio	14.50%	14.50%
Excess	4.70%	3.20%
Liquidity Ratio	37.60%	41.90%
Minimum Statutory ratio	20.00%	20.00%
Excess	17.60%	21.90%