### Valuation Summary

- We recommend a BUY for the DTB Bank stock with a target price of Kshs. 255.0, representing an upside of 21.5% from the current price of Kshs 212.0, as at 10th March 2016, inclusive of a dividend yield of 1.2%
- DTB is currently trading at a P/B of 1.5x and a P/E of 8.7x, versus an industry average of 1.7x and 7.8x, respectively

### Key Highlights during the Year – 2015

- DTB and KCB were picked by the KDIC with the endorsement of the CBK, as agents to disburse funds to depositors of Imperial Bank Limited, which was placed under receivership. This move did not impact on the bank's deposit growth as the volumes expected were low and the turnout for claims was equally low
- DTB bank plans to launch Huduma Card, which will support payments for all services within Huduma centers and consequently to be used as a government payment platform for all rendered services such as payment of tender supplies
- The bank received USD 55 mn from PROPARCO and KfW geared towards SME lending. The partnership and support from PROPARCO and KfW strengthens the bank's SME focus and will go a long way in addressing the funding needs of both the bank and the SMEs
- DTB signed up Kenol Kobil on K-Card, in a bid to improve the service platform for the oil marketer, supporting growth in non-funded income
- The bank opened a branch in Machakos in 2015, to take total number of branches in Kenya to 54.

### Income Statement:

- Earnings per share grew by 11.5% y/y to Kshs 24.4 from Kshs 21.9 in 2014 driven by a 20.1% growth in total operating income despite a 28.3% rise in operating expenses. FY'2015 PAT grew by 15.7% to Kshs. 6.6 bn, from Kshs. 5.7 bn in FY'2014, higher than our estimates of 12.1% growth.
- Net interest income rose by 18.8% y/y to Kshs 15.2 bn, from Kshs 12.8 bn in 2014, against our projections of a 27.7% growth. Interest income recorded a growth of 24.1% to Kshs 25.8 bn in 2015 from Kshs 20.8 bn in 2014 supported by a 29.0% growth in loans and advances
- Interest expenses however outpaced income growth, growing by 32.6% to Kshs 10.6 bn in 2015 from Kshs 8.0 bn in 2014, driven by a customer deposit growth of 20.6% y/y to Kshs 194.1 bn in 2015, from Kshs. 161.0 bn in 2014, leading to a loan to deposit ratio of 91.5% from 85.5% in 2014
- Non-funded income recorded a strong growth of 24.5% to Kshs 4.7 bn in 2015 from Kshs 3.8 bn in 2014, supported by forex income and increased use of alternative channels like online banking and merchant cards, to drive growth, against our projection of a 19.9% increase
- Total operating income grew by 20.1% to Kshs 19.9 bn in 2015 from Kshs 16.6 bn in 2014, lower than our projection of a 25.9% increase
- Yield on interest earning assets declined to 11.0% in 2015 from 11.2% in 2014, while cost of funds increased to 7.5% in 2015 from 6.3% in 2014, highlighting the impact of high cost deposits from the high rate environment in 2015. This led to net interest margin declining marginally to 6.5% from 6.9% in 2014
- Total operating expenses grew by 28.3% to Kshs 10.3 bn in 2015 compared to Kshs 8.1 bn in 2014. This increase was driven by a 150.1% jump in loan loss provision to Kshs 2.2 bn in 2015 from Kshs 0.9 bn in 2014, compared to our projections of a 62.6% increase in loan loss provisions driven by increased defaults from the high rate environment. Consequently, NPL to total loans ratio increased to 2.7% in 2015 from

1.3% in 2014 compared to our projection of 1.5%, while cost to income ratio rose to 52.0% in 2015 compared to 48.6% in 2014, as a result of the increase in total operating expenses.

- Profit before tax grew by 12.3% to Kshs 9.6 bn in 2015 from Kshs 8.5 bn in 2014, compared to our projections of Kshs 9.1 bn. FY'2015 PAT grew by 15.7% to Kshs. 6.6 bn, from Kshs. 5.7 bn in FY'2014, higher than our estimates of 12.1% growth.
- The directors recommended a dividend per of Kshs 2.5, a payout of 10.2%, compared to Kshs 2.4 per share paid out in 2014. This results to a dividend yield of 1.2%. Further, the directors recommend a bonus issue of 1 share for every 10 held, with books closure on 25th May 2015.

**Balance Sheet:**

- The balance sheet recorded a strong growth with total assets growing by 28.4% to Kshs 177.5 bn compared to our estimate of Kshs 181.9 bn. Loan book grew by 29.0% to Kshs 177.5 bn, outpacing deposit growth driven by increased deployment of cash to SMEs which was boasted by loans to DTB targeted for onward SME lending from PROPARCO and KfW.
- This resulted to a rise in loan to deposit ratio of 91.5%, from 85.5% in 2014 versus our projection of 98.0%. Yield on interest earning assets declined marginally to 11.0% in 2015, from 11.2% in 2014
- Total liabilities increased by 30.1% to Kshs 233.3 bn in 2015 from Kshs 179.3 bn in 2014 driven by customer deposits growth of 20.6% y/y to Kshs 194.1 bn compared to our growth projection of a 15.3% growth. Borrowings grew to Kshs 26.1 bn from Kshs 12.3 bn in 2014, after receiving USD 55 mn from PROPARCO and KfW geared towards SME lending
- Shareholders' funds increased by 17.9% y/y to Kshs 34.1 bn in 2015 from Kshs 29.0 bn in 2014
- Return on equity declined to 19.4% from 22.8% in 2014, while return on assets came in lower at 2.5% from 3.0% in 2014

**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 | FY'14A | FY'15A | y/y change | FY'15E | Projected y/y change | Variance in growth vs projection |
|---|---|---|---|---|---|---|
| Net Loans | 137.7 | 177.5 | 29.0% | 181.9 | 32.1% | (3.2%) |
| Total Assets | 211.5 | 271.6 | 28.4% | 255.5 | 20.8% | 7.6% |
| **Deposits** | **161.0** | **194.1** | **20.6%** | **185.6** | **15.3%** | **5.2%** |
| Borrowings | 12.3 | 26.1 | 112.8% | 19.7 | 60.2% | 52.5% |
| Total liabilities | 179.3 | 233.3 | 30.1% | 218.7 | 22.0% | 8.1% |
| **Shareholders' Funds** | **29.0** | **34.1** | **17.9%** | **33.2** | **14.6%** | **3.2%** |

| **Income Statement** | **FY'14A** | **FY'15A** | **y/y change** | **FY'15E** | **Projected y/y change** | **Variance in growth vs projection** |
|---|---|---|---|---|---|---|
| Net interest Income | 12.8 | 15.2 | 18.8% | 16.3 | 27.7% | (8.9%) |
| Net non-interest income | 3.8 | 4.7 | 24.5% | 4.6 | 19.9% | 4.6% |
| **Total Operating income** | **16.6** | **19.9** | **20.1%** | **20.9** | **25.9%** | **(5.8%)** |

| | | | | | | |
|---|---|---|---|---|---|---|
| Loan loss provision | (0.9) | (2.2) | 150.1% | (1.4) | 62.6% | 87.4% |
| Total Operating expenses | (8.1) | (10.3) | 28.3% | (11.8) | 45.7% | (17.4%) |
| **Profit before tax** | **8.5** | **9.6** | **12.3%** | **9.1** | **7.2%** | **5.1%** |
| **Profit after tax** | **5.7** | **6.6** | **15.7%** | **6.4** | **12.1%** | **3.7%** |
| EPS | 21.9 | 24.4 | 11.5% | 23.5 | 7.3% | 4.2% |
| DPS | 2.4 | 2.5 | 4.2% | 2.4 | (2.1%) | 6.2% |

| Ratios | FY'14 | FY'15A | FY'15E |
|---|---|---|---|
| Loan to Deposit ratio | 85.5% | 91.5% | 98.0% |
| Return on average equity | 22.8% | 19.4% | 20.6% |
| Return on average assets | 3.0% | 2.5% | 2.7% |
| Cost of funding | 6.3% | 7.5% | 4.8% |
| Net Interest Margin | 6.9% | 6.5% | 7.2% |
| NPL to total loans | 1.3% | 2.7% | 1.5% |
| Cost to Income | 48.6% | 52.0% | 56.3% |

| Capital Adequacy Ratios | FY'14 | FY'15A |
|---|---|---|
| Core Capital/Total Liabilities | 21.8% | 20.1% |
| Minimum Statutory ratio | 8.0% | 8.0% |
| **Excess** | **13.8%** | **12.1%** |
| | | |
| Core Capital/Total Risk Weighted Assets | 16.8% | 14.8% |
| Minimum Statutory ratio | 10.5% | 10.5% |
| **Excess** | **6.3%** | **4.3%** |
| | | |
| Total Capital/Total Risk Weighted Assets | 18.9% | 17.7% |
| Minimum Statutory ratio | 14.5% | 14.5% |
| **Excess** | **4.4%** | **3.2%** |
| | | |
| Liquidity Ratio | 35.6% | 39.0% |
| Minimum Statutory ratio | 20.0% | 20.0% |
| **Excess** | **15.6%** | **19.0%** |