Diamond Trust Bank Kenya– Q1'2023

2nd June, 2023

Below is a summary of Diamond Trust Bank Kenya's Q1'2023 performance:

Balance Sheet Items (Kshs bn)	Q1'2022	Q1'2023	y/y change
Government Securities	127.7	131.6	3.1%
Net Loans and Advances	224.8	270.4	20.3%
Total Assets	**471.3**	**553.3**	**17.4%**
Customer Deposits	343.1	404.6	17.9%
Deposits per Branch	2.7	3.1	17.0%
Total Liabilities	**394.7**	**470.8**	**19.3%**
Shareholders' Funds	**69.1**	**72.9**	**5.6%**

Balance Sheet Ratios	Q1'2022	Q1'2023	y/y change
Loan to Deposit Ratio	65.5%	66.8%	1.3%
Return on average equity	7.1%	9.9%	2.8%
Return on average assets	1.1%	1.4%	0.3%

Income Statement (Kshs bn)	Q1'2022	Q1'2023	y/y change
Net Interest Income	5.5	6.7	20.7%
Non-Interest Income	1.8	2.8	59.1%
Total Operating income	**7.3**	**9.5**	**30.0%**
Loan Loss provision	0.6	1.4	134.7%
Total Operating expenses	**3.9**	**5.9**	**50.4%**
Profit before tax	**3.4**	**3.6**	**8.0%**
Profit after tax	**2.4**	**2.6**	**11.3%**
Core Earnings per share (Kshs)	**8.5**	**9.5**	**11.3%**

Income Statement Ratios	Q1'2022	Q1'2023	Y/Y Change
Yield from interest-earning assets	9.0%	9.7%	0.7%
Cost of funding	1.0%	1.3%	0.3%
Net Interest Spread	8.0%	8.3%	0.3%
Net Interest Income as % of Total Income	75.8%	70.4%	(5.4%)
Non-Funded Income as a % of Total Income	24.2%	29.6%	5.4%
Cost to Income	53.3%	61.7%	8.4%
Cost to Income Ratio without provisions	45.3%	47.3%	2.0%
Cost to Assets	4.6%	4.7%	0.1%
Net Interest Margin	5.3%	5.4%	0.1%

Capital Adequacy Ratios	Q1'2022	Q1'2023	% points change
Core Capital/Total deposit Liabilities	21.7%	21.1%	(0.6%)
Minimum Statutory ratio	8.0%	8.0%	
Excess	13.7%	13.1%	(0.6%)
Core Capital/Total Risk Weighted Assets	20.5%	19.3%	(1.2%)
Minimum Statutory ratio	10.5%	10.5%	
Excess	10.0%	8.8%	(1.2%)
Total Capital/Total Risk Weighted Assets	21.8%	20.2%	(1.6%)

Minimum Statutory ratio	14.5%	14.5%	
Excess	7.3%	5.7%	(1.6%)
Liquidity Ratio	58.3%	56.2%	(2.1%)
Minimum Statutory ratio	20.0%	20.0%	
Excess	**38.3%**	**36.2%**	**(2.1%)**
Adjusted Core Capital/Total Deposit Liabilities	21.8%	21.1%	(0.7%)
Adjusted Core Capital/Total Risk Weighted Assets	20.6%	19.3%	(1.3%)
Adjusted Total Capital/Total Risk Weighted Assets	21.8%	20.2%	(1.6%)

Income Statement

- Core earnings per share increased by 11.3% to Kshs 9.5 in Q1'2023, from Kshs 8.5 in Q1'2022, mainly driven by a 30.0% increase in the total operating income to Kshs 9.5 bn in Q1'2023, from Kshs 7.3 bn in Q1'2022. The growth was however weighed down by 50.4% increase in total operating expenses to Kshs 5.9 bn in Q1'2023, from Kshs 3.9 bn in Q1'2022,
- Total operating income rose by 30.0% to Kshs 9.5 bn in Q1'2023, from Kshs 8.5 bn in Q1'2022 mainly attributable to a 20.7% increase in Net Interest Income (NII) to Kshs 6.7 bn, from Kshs 5.5 bn in Q1'2022 coupled with a 59.1% growth in Non-Funded Income (NFI) to Kshs 2.8 bn, from Kshs 1.8 bn in Q1'2022,
- Interest income rose by 32.1% to Kshs 12.2 bn in Q1'2023, from Kshs 9.2 bn in Q1'2022 driven by a 32.9% increase in interest income from loans and advances to Kshs 6.4 bn, from Kshs 4.8 bn in Q1'2022, coupled with a 29.8% increase in interest income from government securities to Kshs 5.6 bn, from Kshs 4.3 bn in Q1'2022. The Yield on Interest-Earning Assets increased by 0.7% points to 9.7%, from 9.0% in Q1'2022 due to the faster 23.6% growth in the trailing interest income, which outpaced the 15.8% growth in average interest-earning assets. Trailing Interest Income refers to the performance of the interest income for the past 12 consecutive months,
- Interest expense increased by 49.2% to Kshs 5.5 bn in Q1'2023, from Kshs 3.7 bn in Q1'2022, largely due to 34.6% growth in interest expense on customer deposits to Kshs 4.5 bn, from Kshs 3.3 bn in Q1'2022 coupled with 397.6% increase in interest expenses on deposits and placements from banking institutions to Kshs 0.4 bn, from Kshs 0.1 bn in Q1'2022. Additionally, Other interest expenses increased by 123.2% to Kshs 0.6 bn, from Kshs 0.3 bn in Q1'2022. Consequently, Cost of Funds (COF) increased by 0.3% points to 1.3%, from 1.0% recorded in Q1'2023, owing to the 33.5% increase in trailing interest expense, which outpaced the 16.4% increase in average interest bearing liabilities. On the other hand, Net Interest Margin (NIM) increased by 0.1% to 5.4%, from 5.3% recorded in Q1'2021, attributable to the faster 16.8% growth in trailing Net interest income average which outpaced the 15.8% growth in Average interest earning assets,
- Non-Funded Income increased by 59.1% to Kshs 2.8 bn in Q1'2023, from Kshs 1.8 bn in Q1'2022, mainly driven by a 90.1% rise in foreign exchange trading income to Kshs 1.5 bn, from Kshs 0.8 bn in Q1'2022, partly attributable to the bank's increased forex trading margins. Additionally, fees and commissions from loans and advances increased by 26.6% to Kshs 0.4 bn, from Kshs 0.3 bn in Q1'2022, following a 20.3% increase in Net loans and advances to Kshs 270.4 bn, from Kshs 224.8 bn in Q1'2022. Other fees and commissions also increased by 26.5% to Kshs 0.7 bn from Kshs 0.6 bn in Q1'2022. As such, DTB-K's total fees and commissions increased by 26.5% to Kshs 1.1 bn in Q1'2023, from Kshs 0.9 bn in Q1'2022. Consequently, the revenue mix shifted to 70:30 funded to non-funded income, from 76:24 funded to non-funded income in Q1'2022, owing to the 59.1% increase in NFI which outpaced the 20.7% growth in NII,
- Total operating expenses increased by 50.4% to Kshs 5.9 bn in Q1'2023, from Kshs 3.9 bn in Q1'2022, largely driven by a 40.1% increase in staff costs to Kshs 2.0 bn, from Kshs 1.4 bn in Q1'2022, coupled with

a 134.7% increase in Loan Loss Provisions (LLP) to Kshs 1.4 bn, from Kshs 0.6 bn in Q1’2022, an indication of the Bank’ risk aversion and increased credit risk on the back of the deteriorating business environment as a result of increased inflationary pressures. Additionally, the other operating expenses increased by 32.1% to Kshs 2.5 bn, from Kshs 1.9 bn in Q1’2022,

- The Cost to Income Ratio (CIR) increased to by 8.4% points to 61.7% in Q1’2023, from 53.3% in Q1’2022 owing to the 50.4% increase in the total operating expenses which outpaced the 30.0% increase in the total operating income. Without LLP, the Cost to Income ratio increased to 47.3%, from 45.3% in Q1’2022, an indication of deteriorating efficiency levels, and,
- Profit before tax and exceptional items rose by 8.0% to Kshs 3.6 bn, from Kshs 3.4 bn in Q1’2022. Similarly, the bank recorded a 11.3% increase in profit after tax to Kshs 2.6 bn in Q1’2023, from Kshs 2.4 bn in Q1’2022, with the effective tax rate declining to 27.4% in Q1’2023, from 29.6% in Q1’2022.

Balance Sheet

- The balance sheet recorded an expansion as total assets grew by 17.4% to Kshs 553.3 bn in Q1’2023, from Kshs 471.3 bn in Q1’2022, mainly attributable to the 20.3% growth in net loans and advances to Kshs 270.4 bn in Q1’2023, from Kshs 224.8 bn in Q1’2022, coupled with the 3.1% increase government securities to Kshs 131.6 bn, from Kshs 127.7 bn recorded in Q1’2022,
- Total liabilities grew by 19.3% to Kshs 470.8 bn, from Kshs 394.7 bn in Q1’2022, largely attributable to a 17.9% rise in customer deposits to Kshs 404.6 bn in Q1’2023, from Kshs 343.1 bn in Q1’2022, and a 27.6% growth in placements to Kshs 30.3 bn, from Kshs 23.8 bn recorded in Q1’2022. Deposits per branch increased by 17.0% to Kshs 3.1 bn, from Kshs 2.7 bn in Q1’2022, with the number of branches increasing to 130 in Q1’2023, from 129 in Q1’2022,
- The faster 20.3% growth in net loans and advances compared to the 17.9% growth in customer deposits, led to an increase in the loan to deposit ratio to 66.8%, from 65.5% in Q1’2022,
- Gross Non-Performing Loans (NPLs) increased by 17.1% to Kshs 35.1 bn in Q1’2023, from Kshs 30.0 bn in Q1’2022, while Gross loans increased by 20.6% to Kshs 286.5 bn, from Kshs 237.5 bn in Q1’2022. Consequently, the asset quality improved with the NPL ratio declining to 12.3% in Q1’2023, from 12.6% in Q1’2022. On the other hand, the NPL coverage increased to 45.9% in Q1’2023, from 42.2% in Q1’2022, due to the faster 31.5% increase in General Loan Loss Provisions to Kshs 14.8 bn, from Kshs 11.2 bn in Q1’2022, which outpaced the 17.1% increase in Gross Non-Performing Loans (NPLs), an indication of increased provisioning,
- Shareholders’ funds increased by 5.6% to Kshs 72.9 bn in Q1’2023, from Kshs 69.1 bn in Q1’2022, mainly driven by a 7.6% increase in the retained earnings to Kshs 61.1 bn, from Kshs 56.8 bn in Q1’2022,
- DTB-K remains sufficiently capitalized with a core capital to risk-weighted assets ratio of 19.3%, 8.8% points above the statutory requirement of 10.5%. The total capital to risk-weighted assets ratio came in at 20.2%, exceeding the statutory requirement of 14.5% by 5.7% points. Adjusting for IFRS 9, the core capital to risk-weighted assets stood at 19.3%, while total capital to risk-weighted assets came in at 20.2%, and,
- The bank currently has a Return on Average Assets (ROaA) of 1.4%, and a Return on Average Equity (ROaE) of 9.9%.

Key Take-Outs:

1. **Earnings Growth** - Core earnings per share increased by 11.3% to Kshs 9.5 in Q1’2023, from Kshs 8.5 in Q1’2022. The performance was driven by a 30.0% increase in total operating income to Kshs 9.5 bn in Q1’2023, from Kshs 7.3 bn in Q1’2022. However, the growth was weighed down by the 50.4% increase in the total operating expenses to Kshs 5.9 bn in Q1’2023, from Kshs 3.9 bn in Q1’2022,

2. **Improved Asset Quality** – The group's asset quality improved, with the NPL ratio declining to 12.3% in Q1'2023, from 12.6% in Q1'2022, owing to the faster 20.6% growth in gross loans, which outpaced the 17.2% increase in gross non-performing loans to Kshs 35.1 bn, from Kshs 30.0 bn in Q1'2022. The improvement in asset quality is attributable to proactive credit management strategies leading to increased loan repayment,
3. **Improved Lending** – The Bank increased its lending in Q1'2023 with Loans and advances recording a 20.3% growth to Kshs 270.4 bn in Q1'2023, from Kshs 224.8 bn in Q1'2022, highlighting the Bank's improved lending despite the tough operating business environment. Consequently, the loan to deposit ratio increased by 1.3% points to 66.8%, from 65.5% in Q1'2022, and,
4. **Deterioration of efficiency levels** – The Bank's efficiency level deteriorated with cost to income ratio without LLP increasing by 8.4% to 61.7%, from 53.3% in Q1'2022. Similarly, Without LLP, the Cost to Income ratio increased to 47.3%, from 45.3% in Q1'2022,

Going forward, we expect the bank's growth to be driven by:

I. **Opening New Branches**: The bank's continued opening of new branches across the country will see it increase its footprint and access to many customers within the country. As part of its customer acquisition sales strategy, the bank is expected to improve its network by opening 35-40 new branches within Kenya by end of 2023. In the long term, the expansion strategy is expected to increase its market, thus increasing its profitability, and,

II. **Digitization**: The bank, through its agile digital platform has been able to have majority of the transactions done through mobile platforms. Digital banking has enhanced remote account opening, launched employee loan scheme and improved mobile banking. Additionally, the bank targets to launch retail mobile lending solution and mobile app for SMEs in 2023. The bank has already invested Kshs 2.4 bn between 2018 to 2021 on digital transformation and is expected to further spend Kshs 3.5 bn between 2022-2024 on the same. As of September 2022, 86.0% of all the Group's transactions were done outside branches with 79.0% on mobile banking platforms. The continued leverage on technology is expected to improve customer experience by expediting service delivery.

Commented [SG1]: Find out as of Dec 2022, use investor briefing for FY'222

Valuation Summary

- We are of the view that DTB-K is an "BUY" with a target price of Kshs 54.7, representing an upside of 19.2%, from the current price of Kshs 45.9 as of 2nd June 2023,
- DTB-K is currently trading at a P/TBV of 0.2x and a P/E of 1.9x vs an industry average of 0.8x and 3.3x, respectively.

Commented [SG2]: Please recheck this, increase this percentage to more than 20%, so that you can recommend a buy