

Below is a summary of Diamond Trust Bank H1'2023 performance:

Balance Sheet Items	H1'2022	H1'2023	y/y change
Government Securities	130.6	136.1	4.2%
Net Loans and Advances	233.6	281.2	20.4%
Total Assets	485.0	579.2	19.4%
Customer Deposits	346.5	418.0	20.6%
Deposit Per Branch	2.7	3.2	19.7%
Total Liabilities	408.4	496.6	21.6%
Shareholders Funds	68.9	72.4	5.2%

Balance Sheet Ratios	H1'2022	H1'2023	y/y change
Loan to Deposit Ratio	67.4%	67.3%	(0.2%)
Government Securities to Deposit ratio	37.7%	32.6%	(5.1%)
Return on average equity	7.8%	10.2%	2.4%
Return on average assets	1.1%	1.4%	0.3%

Income Statement	H1'2022	H1'2023	y/y change
Net Interest Income	11.1	13.1	17.8%
Non-Interest Income	3.9	5.5	42.2%
Total Operating income	15.0	18.7	24.1%
Loan Loss provision	2.4	3.3	34.0%
Total Operating expenses	9.4	12.7	35.6%
Profit before tax	5.6	6.0	7.3%
Profit after tax	3.9	4.4	10.5%
Core EPS	14.1	15.6	10.5%

Income Statement Ratios	H1'2022	H1'2023	% point change
Yield from interest-earning assets	8.8%	9.9%	1.1%
Cost of funding	2.1%	2.7%	0.6%
Net Interest Spread	6.8%	7.2%	0.4%
Net Interest Income as % of operating income	74.0%	70.3%	(3.7%)
Non-Funded Income as a % of operating income	26.0%	29.7%	3.7%
Cost to Income	62.3%	68.1%	5.8%
CIR without provisions	46.2%	50.6%	4.4%
Cost to Assets	4.6%	4.8%	0.2%
Net Interest Margin	5.2%	5.3%	0.1%

Capital Adequacy Ratios	H1'2022	H1'2023	% points change
Core Capital/Total deposit Liabilities	21.7%	21.6%	(0.1%)
Minimum Statutory ratio	8.0%	8.0%	
Excess	13.7%	13.6%	(0.1%)
Core Capital/Total Risk Weighted Assets	20.0%	18.5%	(1.5%)
Minimum Statutory ratio	10.5%	10.5%	
Excess	9.5%	8.0%	(1.5%)
Total Capital/Total Risk Weighted Assets	21.2%	19.3%	(1.9%)
Minimum Statutory ratio	14.5%	14.5%	
Excess	6.7%	4.8%	(1.9%)
Liquidity Ratio	58.9%	52.2%	(6.7%)
Minimum Statutory ratio	20.0%	20.0%	
Excess	38.9%	32.2%	(6.7%)

Income Statement

- Core earnings per share grew by 10.5% to Kshs 15.6, from Kshs 14.1 in H1'2022, driven by the 24.1% growth in total operating income to Kshs 18.7 bn, from Kshs 15.0 bn in H1'2022.
- The 24.0% growth in total operating income was mainly driven by a 42.2% growth in Non Interest Income to Kshs 5.5 bn from Kshs 3.9 bn in H1'2022, coupled with a 17.8% growth in Net Interest Income (NII) to Kshs 13.1 bn, from Kshs 11.1 bn in H1'2022,
- Interest income grew by 32.4% to Kshs 24.9 bn from Kshs 18.8 bn in H1'2022, mainly driven by a 33.6% growth in interest income from loans and advances to Kshs 13.2 bn from Kshs 9.9 bn in H1'2022, coupled with a 30.1% growth in interest income from government securities to Kshs 11.5 bn, from Kshs 8.8 bn in H1'2022.
- Interest expenses rose by 53.7% to Kshs 11.8 bn from Kshs 7.7 bn in H1'2022, driven by 38.3% increase in interest expense on customer deposits to Kshs 9.4 bn from Kshs 6.8 bn in H1'2022, coupled with a 262.3% increase in interest expense on deposits from banking institutions to Kshs 1.2 bn from Kshs 0.3 bn in H1'2022 as well as a 123.6% increase in other interest expenses to Kshs 1.2 bn in H1'2023 from Kshs 0.5 bn recorded in H1'2022. Consequently, Cost of funds (COF) increased by 0.6% points to 2.7% from 2.1% recorded in H1'2022, owing to a faster 44.9% increase in Trailing interest expense to Kshs 21.3 bn from Kshs 14.7 bn recorded in H1'2022, compared to a slower 23.2% increase in average interest bearing liabilities to Kshs 440.7 bn from Kshs 357.6 bn in H1'2022. Trailing interest expense refers to the performance of the interest expense for the past 12 consecutive months. Net Interest Margin (NIM) increased by 0.1% points to 5.3% from 5.2% in H1'2022, attributable to an 16.7% increase in trailing net interest income to Kshs 24.9 bn from Kshs 21.3 bn recorded in H1'2022, which outpaced the 14.5% increase in average interest earning assets,
- Non-Funded Income (NFI) increased by 42.2% to Kshs 5.5 bn from Kshs 3.9 bn in H1'2022, mainly driven by a 58.8% increase in fees and commissions on loans and advances to Kshs 1.0 bn, from Kshs 0.6 bn in H1'2022, coupled with a 43.9% in foreign exchange trading income to Kshs 2.8 bn from Kshs 1.9 bn. Total fees and commissions increased by 36.7% to Kshs 2.4 bn, from Kshs 1.8 bn in H1'2022. The revenue mix shifted to 70:30 from 74:26 for the Funded to Non-funded income owing to the faster growth in Non Funded income of 42.2%, compared to 17.8% increase in Funded income ,
- Total operating expenses increased by 35.6% to Kshs 12.7 bn from Kshs 9.4 bn in H1'2022, driven by a 41.0% increase in staff costs to Kshs 4.1 bn from Kshs 2.9 bn in H1'2022, coupled with a 34.0% increase in loan loss provisions to Kshs 3.3 bn from Kshs 2.4 bn recorded in H1'2022,
- Cost to Income Ratio (CIR) increased by 5.8% points, to 68.1% from 62.3% in H1'2022, owing to the 35.6% increase in total operating expenses, compared to the lower 24.1% increase in total operating income. Notably, CIR without LLP increased by 4.5% points to 50.6%, from 46.2% in H1'2023, and,
- Profit before tax increased by 7.3% to Kshs 6.0 bn from Kshs 5.6 bn in H1'2022, with effective tax rate decreasing to 27.6% from 29.7%, leading to an 10.5% increase in profit after tax to Kshs 4.4 bn in H1'2023, from Kshs 3.9 bn in H1'2022.

Balance Sheet

- The balance sheet recorded an expansion as total assets grew by 19.4% to Kshs 579.2 bn, from Kshs 485.0 bn in H1'2022, driven by a 20.4% loan book expansion to Kshs 281.2 bn, from Kshs 233.6 bn in H1'2022, coupled with a 4.2% increase investment in government securities to Kshs 136.1 bn from Kshs 130.6 bn in H1'2022,
- Total liabilities rose by 21.6% to Kshs 496.6 bn from Kshs 408.4 bn in H1'2022, driven by a 20.6% growth in customer deposits to Kshs 418.0 bn, from Kshs 346.5 bn in H1'2022, coupled with a 43.6% increase in placements by banking institutions to 42.6 bn from Kshs 27.8 bn recorded in H1'2022.
- The relatively faster 20.6% growth in deposits as compared to the 20.4% growth in loans led to a decrease in the loan to deposits ratio by 0.1% points to 67.3%, from 67.4% in H1'2022,

- The bank's Asset Quality improved, with Gross NPL ratio decreasing to 12.3% in H1'2023 from 12.8% in H1'2022, attributable to 15.0% increase in Gross non-performing loans to Kshs 36.5 bn, from Kshs 31.8 bn in H1'2022, compared to the higher 20.4% increase in gross loans to Kshs 298.1 bn, from Kshs 247.7 bn recorded in H1'2022,
- General Provisions (LLP) increased by 26.7% to Kshs 15.6 bn in H1'2023 from Kshs 12.3 bn in H1'2022. The NPL coverage increased to 46.4% in H1'2023, from 44.2% in H1'2022, attributable to the 15.0% increase in gross non-performing loans which outpaced the 22.1% decrease in interest in suspense to Kshs 1.3 bn from 1.7 bn in H1'2022 coupled with the 26.7% increase in General Provisions.
- Shareholders' funds increased by 5.2% to Kshs 72.4 bn in H1'2023, from Kshs 68.9 bn in H1'2022, supported by a 8.0% increase in retained earnings to Kshs 62.9 bn, from Kshs 58.2 bn in H1'2022,
- DTB-K remains capitalized with a core capital to risk-weighted assets ratio of 18.5%, 8.0% points above the statutory requirement of 10.5%. In addition, the total capital to risk-weighted assets ratio came in at 19.3%, exceeding the statutory requirement of 14.5% by 4.8% points, and,
- The bank currently has a Return on Average Assets (ROaA) of 1.4%, and a Return on Average Equity (ROaE) of 10.2%.

Key Take-Outs:

1. **Earnings growth** - Core earnings per share (EPS) grew by 10.5% to Kshs 15.6, from Kshs 14.1 in H1'2022, driven by the 24.1% growth in total operating income to Kshs 18.7 bn, from Kshs 15.0 bn in H1'2022.
2. **Asset quality Improvement**- The bank's asset quality improved as evidenced by the NPL ratio decreasing to 12.3% in H1'2023 from 12.8% in H1'2022, attributable to 15.0% increase in Gross non-performing loans to Kshs 36.5 bn, from Kshs 31.8 bn in H1'2022, compared to the higher 20.4% increase in gross loans to Kshs 298.1 bn, from Kshs 247.7 bn recorded in H1'2022

Valuation Summary

- We are of the view that DTB-K is a "buy" with a target price of Kshs 63.1 representing an upside of 41.4%, from the current price of 48.2 as of 25th August 2023, inclusive of a dividend yield of 10.4%.
- DTB-K is currently trading at a P/TBV of 0.2x and a P/E of 2.0x vs an industry average of 0.8x and 3.5x respectively.