DTB-K Bank – FY'2024

28th March, 2025

Below is a summary of DTB-K Bank's FY'2024 performance:

Balance Sheet Items	FY'2023	FY'2024	y/y change
Government Securities	120.1	126.2	5.0%
Net Loans and Advances	308.5	285.3	(7.5%)
Total Assets	**635.0**	**573.9**	**(9.6%)**
Customer Deposits	486.1	447.2	(8.0%)
Deposits/ Branch	3.2	2.8	(10.9%)
Total Liabilities	548.7	481.5	(12.2%)
Shareholders' Funds	**74.9**	**81.8**	**9.2%**

Balance Sheet Ratios	FY'2023	FY'2024	% y/y change
Loan to Deposit Ratio	63.5%	63.8%	0.3%
Government Securities to Deposit ratio	24.7%	28.2%	3.5%
Return on average equity	10.8%	11.3%	0.4%
Return on average assets	1.3%	1.5%	0.1%

Income Statement	FY'2023f	FY'2024f	y/y change
Net Interest Income	27.6	28.4	3.0%
Net non-Interest Income	12.2	13.0	7.3%
Total Operating income	**39.7**	**41.4**	**4.3%**
Loan Loss provision	10.3	8.7	(15.6%)
Other Operating expenses	12.0	11.6	(3.2%)
Total Operating expenses	**30.9**	**30.2**	**(2.3%)**
Profit before tax	**9.0**	**11.2**	**24.2%**
Profit after tax	**7.8**	**8.8**	**13.1%**
Core EPS	**24.6**	**31.5**	**28.2%**
Dividends per Share	**6.0**	**7.0**	**16.7%**
Dividend Payout	**24.4%**	**25.6%**	**1.3%**
Dividend Yield	**10.9%**	**9.2%**	**0.1%**

Income Statement Ratios	FY'2023	FY'2024f	y/y % points change
Yield from interest-earning assets	10.6%	11.5%	0.9%
Cost of funding	5.3%	6.3%	1.0%
Net Interest Spread	5.2%	5.2%	(0.0%)
Net Interest Income as % of operating income	69.4%	68.5%	(0.9%)
Non-Funded Income as a % of operating income	30.6%	31.5%	0.9%

Cost to Income Ratio (CIR)	77.7%	72.8%	(4.9%)
CIR without provisions	51.7%	51.8%	0.0%
Cost to Assets	5.3%	5.0%	(0.3%)
Net Interest Margin	5.5%	5.5%	0.0%

Capital Adequacy Ratios	FY'2023	FY'2024f	% points change
Core Capital/Total Liabilities	19.7%	17.5%	(2.2%)
Minimum Statutory ratio	8.0%	8.0%	
Excess	11.7%	9.5%	(2.2%)
Core Capital/Total Risk Weighted Assets	18.6%	16.3%	(2.3%)
Minimum Statutory ratio	10.5%	10.5%	
Excess	8.1%	5.8%	(2.3%)
Total Capital/Total Risk Weighted Assets	19.2%	18.0%	(1.2%)
Minimum Statutory ratio	14.5%	14.5%	
Excess	4.7%	3.5%	(1.2%)
Liquidity Ratio	60.5%	52.5%	(8.0%)
Minimum Statutory ratio	20.0%	20.0%	
Excess	**40.5%**	**32.5%**	**(8.0%)**

Income Statement

- Core earnings per share grew by 28.2% to Kshs 31.5, from Kshs 24.6 in FY’2023, driven by the 4.3% increase in total operating income to Kshs 41.4 bn, from Kshs 39.6 bn in FY’2023, coupled with the 2.3% decrease in total operating expenses to Kshs 30.2 bn from Kshs 30.9 bn in FY’2023,
- The 4.3% increase in total operating income was mainly driven by a 7.3% growth in Non- Interest Income (NFI) to Kshs 13.0 bn, from Kshs 12.2 bn in FY’2023, coupled with the 3.0% increase in Net- Interest Income (NII) to Kshs 28.4 bn from Kshs 27.6 bn in FY’2023,
- Interest income grew by 12.0% to Kshs 59.7 bn from Kshs 53.3 bn in FY’2023, mainly driven by a 13.8% growth in interest income from government securities to Kshs 25.7 bn, from Kshs 24.1 bn in FY’2023, coupled with a 12.0% increase in interest income from loans and advances to Kshs 32.5 bn, from Kshs 28.5 bn in FY’2023. As such, the Yield on Interest-Earning Assets (YIEA) increased by 0.9% points to 11.5% from 10.6% recorded in FY’2023, attributable to the faster 12.0% growth in trailing interest income to Kshs 59.7 bn, from Kshs 53.3 bn in FY’2023, compared to a slower 2.8% Increase in average interest earning assets to Kshs 518.0 bn, from Kshs 503.7 bn in FY’2023,
- Interest expenses rose by 21.6% to Kshs 31.3 bn from Kshs 25.7 bn in FY’2023, mainly driven by a 21.2% increase in interest expense on customer deposits to Kshs 25.3 bn from Kshs 20.9 bn in FY’2023, coupled with a 73.1% increase in interest expense from placements to Kshs 4.0 bn, from Kshs 2.3 bn recorded in FY’2023. Consequently, Cost of funds (COF) increased by 2.3% points to 7.6% from 5.3% recorded in FY’2023, owing to a 21.6% increase in Trailing interest expense to Kshs 31.3 bn from Kshs 25.7 bn recorded in FY’2023, coupled with the 14.8% decrease in average interest-bearing liabilities to Kshs 409.8 bn from Kshs 481.1 bn in FY’2023.

Trailing interest expense refers to the performance of the interest expense for the past 12 consecutive months. Net Interest Margin (NIM) increased marginally by 0.1% points to remain unchanged at 5.5% from FY’2023, attributable to a faster 3.0% increase in trailing net interest income to Kshs 28.4 bn from Kshs 27.6 bn recorded in FY’2023, which outpaced the 2.8% growth in average interest earning assets,

- Non-Funded Income (NFI) increased by 7.3% to Kshs 13.0 bn from Kshs 12.2 bn in FY’2023, mainly driven by a 15.8% increase in total fees and commissions to Kshs 6.3 bn, from Kshs 5.5 bn in FY’2023. Foreign exchange income decreased by 15.0% to Kshs 4.7 bn from Kshs 5.6 bn in FY’2023, highlighting the bank’s decreased foreign exchange margins. The revenue mix remained at 69:31 for the funded to Non-funded income owing to the faster 7.3% growth in Non- Funded Income compared to a 3.0% increase in the Funded Income,
- Total operating expense decreased by 2.3% to Kshs 30.2 bn in FY’2024, from Kshs 30.9 bn in FY’2023, mainly attributable to 3.2% decrease in other operating expenses to Kshs 11.6 bn, from Kshs 12.0 bn in FY’2023, the decline was weighed down by 15.0% increase in staff cost to 9.8 bn from 8.5 bn in FY 2023. Notably, loan loss provisions expense declined by 15.6% to Kshs 8.7 bn, from 10.3 bn in FY’2023. The decrease in provisioning comes amid improved business environment and reduced credit risk as evidenced by the average FY’2024 Purchasing Managers Index (PMI) of 49.6, up from an average of 48.1 in FY’2023,
- Cost to Income Ratio (CIR) decreased by 4.9% points to 72.8% from 77.7% in FY’2023, owing to the 2.3% decrease in total operating expenses, coupled with the 4.3% increase in total operating income. Notably, CIR without LLP increased by 0.04% points to 51.8%, from 51.7% recorded in FY’2023,
- Profit before tax increased by 24.2% to Kshs 11.2 bn, from Kshs 9.0 bn recorded in FY’2023, with effective tax rate increasing to 21.2% in FY’2024, from 13.4% in FY’2023, leading to a 13.1% increase in profit after tax to Kshs 8.8 bn in FY’2024, from Kshs 7.8 bn in FY’2023.
- The Board of Directors recommended a first and final dividend of Kshs 7.0 per share in FY’2024, from a total dividend of Kshs 6.0 in FY’2023. The payout ratio and dividend yield came in at 25.6% and 9.2% respectively in FY’2024 from 24.4% and 10.9% respectively in FY’2023

Balance Sheet

- The balance sheet recorded a contraction as total assets declined by 9.6% to Kshs 573.9 bn, from Kshs 635.0 bn in FY’2023, mainly driven by a 7.5% decrease in Net loans and advances Kshs 285.3 bn, from 308.5 bn in FY’2023 the decline was however weighed down by a 5.0% increase in government securities holdings to Kshs 126.2 bn, from Kshs 120.1 bn in FY’2023. Additionally, investment in government securities increased by 5.0% to Kshs 126.2 bn from Kshs 120.1 bn in FY’ 2023.
- Total liabilities declined by 12.2% to Kshs 481.5 bn from Kshs 548.7 bn in FY’2023, mainly driven by a 8.0% decrease in customer deposits to Kshs 447.2 bn, from Kshs 486.1 bn in FY’2023, coupled with the 84.7% decline in borrowings to Kshs 3.7 bn, from Kshs 24.0 bn in FY’2023. With 157 branches, compared to 152 branches in FY’2023, deposits per branch decreased by 10.9% to Kshs 2.8 bn, from Kshs 3.2 bn in FY’2023.
- The 10.9% decline growth in customer deposits, which outpaced the 7.5% decline in net loans led to an increase in the loan to deposits ratio to 63.8%, from 63.5% in FY’2023,
- The bank’s Asset Quality improved, with Gross NPL ratio decreasing to 12.6% in FY’2024, from 13.4% in FY’2023, attributable to a 13.3% decrease in Gross non-performing loans to Kshs 37.9 bn, from Kshs 43.6 bn in FY’2023, which outpaced the 7.9% decline in gross loans to Kshs 300.7 bn, from Kshs 326.5 bn recorded in FY’2023,
- General Provisions (LLP) decreased by 15.1% to Kshs 14.9 bn in FY’2024 from Kshs 17.6 bn in FY’2023. The NPL coverage decreased to 39.9% in FY’2024, from 41.4% in FY’2023, attributable to the 15.1% decrease in

general provisions coupled with the 61.8% decrease in interest in suspense to Kshs 0.2 bn from 0.5 bn in FY 2023 which outpaced the 13.3% decrease in Gross Non-performing Loans to Kshs 37.9 bn, from Kshs 43.6 bn in FY'2023.

- Shareholders' funds increased by 9.2% to Kshs 81.8 bn in FY'2024, from Kshs 74.9 bn in FY'2023, supported by a 9.3% increase in retained earnings to Kshs 5.7 bn, from Kshs 5.2 bn in FY'2023,
- DTB-K Bank remains capitalized with a core capital to risk-weighted assets ratio of 16.2%, 5.8% points above the statutory requirement of 10.5%. In addition, the total capital to risk-weighted assets ratio came in at 18.0%, exceeding the statutory requirement of 14.5% by 3.5% points, and,
- The bank currently has a Return on Average Assets (ROaA) of 1.5%, and a Return on Average Equity (ROaE) of 11.3%.

Key Take-Outs:

1. **Increased earnings -** Core earnings per share (EPS) grew by 28.2% to Kshs 31.5, from Kshs 24.6 in FY'2023, driven by the 4.3% increase in total operating income to Kshs 41.4 bn, from Kshs 39.7 bn in FY'2023, coupled with the 2.3% decrease in total operating expenses to Kshs 30.2 bn from Kshs 30.9 bn in FY'2023,
2. **Improved asset quality –**The bank's Asset Quality improved, with Gross NPL ratio decreasing to 12.6% in FY'2024, from 13.4% in FY'2023, attributable to a 13.3% decrease in Gross non-performing loans to Kshs 37.9 bn, from Kshs 43.6 bn in FY'2023, which outpaced the 8.0% decline in gross loans to Kshs 300.4 bn, from Kshs 326.5 bn recorded in FY'2023,
3. **Contracted Balanced sheet** - The balance sheet recorded a contraction as total assets declined by 9.6% to Kshs 573.9bn, from Kshs 635.0 bn in FY'2024, driven by a 7.2% decrease in net loans and advances to Kshs 285.3 bn, from 308.5 bn in FY'2023,

- **Declaration of dividends -** The Board of Directors recommended a first and final dividend of Kshs 7.0 per share in FY'2024, from a total dividend of Kshs 6.0 in FY'2023. The payout ratio and dividend yield came in at 25.6% and 9.2% respectively in FY'2024 from 24.4% and 10.9% respectively in FY'2023 and,

4. **Reduced lending**- Customer net loans and advances decreased by 7.5% to Kshs 285.3 bn in FY'2024, from Kshs 308.5 bn in FY'2023 attributed to increased credit risk with high NPLs in the industry, with the lender preferring to limit customer lending.

Going forward, the factors that would drive the bank's growth would be:

- **Revenue Diversification**: The lender has a great opportunity to explore the growth of its non-funded income streams, which grew by 7.3% to Kshs 13.0 bn, from Kshs 12.2 bn in FY'2023. They have, over the years, launched a number of products and continue to simultaneously offer differentiated products for diaspora bankers, micro and small enterprises, home and vehicle insurance, bancassurance, and the DTB Weza platform which makes overdrafts much more accessible,

- **Digital Transformation**: The bank has devised digital transformation initiatives, including the development of a digital credit platform to streamline and enhance consumer lending processes. Additionally, the launch of a comprehensive digital banking platform with advanced mobile and online banking capabilities would improve customer convenience, attract tech-savvy clients, and boost customer retention. These efforts, combined with leveraging data analytics to optimize decision making and enhance customer engagement, would position the bank to remain competitive in an increasingly digital financial landscape while unlocking new revenue streams and expanding its market share

Valuation Summary

- We are of the view that DTB-K Bank is a "buy" with a target price of Kshs 84.36 representing an upside of 11.4%, from the current price of Kshs 75.75 as of 28th March 2025, inclusive of a dividend yield of 9.2%
- DTB-K Bank is currently trading at a P/TBV of 0.3x and a P/E of 2.3x vs an industry average of 1.1x and 4.1x respectively.