Cytonn INVESTMENTS

Diamond Trust Bank Kenya– FY'2022

31st March, 2023

Below is a summary of Diamond Trust Bank Kenya's FY'2022 performance:

Balance Sheet Items (Kshs bn)	FY'2021	FY'2022	y/y change
Government Securities	124.3	131.5	5.8%
Net Loans and Advances	220.4	253.7	15.1%
Total Assets	**456.8**	**527.0**	**15.4%**
Customer Deposits	331.5	387.6	16.9%
Deposits per Branch	2.6	3.0	16.0%
Total Liabilities	382.3	449.3	17.5%
Shareholders' Funds	**67.3**	**69.0**	**2.5%**

Balance Sheet Ratios	FY'2021	FY'2022	y/y change
Loan to Deposit Ratio	66.5%	65.5%	(1.0%)
Return on average equity	6.8%	10.0%	3.2%
Return on average assets	1.0%	1.4%	0.4%

Income Statement (Kshs bn)	FY'2021	FY'2022	y/y change
Net Interest Income	20.0	22.9	14.5%
Non-Interest Income	6.3	9.1	43.5%
Total Operating income	**26.3**	**31.9**	**21.4%**
Loan Loss provision	7.6	7.1	(5.5%)
Total Operating expenses	**19.9**	**22.1**	**11.1%**
Profit before tax	**6.6**	**9.5**	**43.8%**
Profit after tax	**4.4**	**6.8**	**53.9%**
Earnings per share (Kshs)	**15.8**	**24.3**	**53.9%**

Income Statement Ratios	FY'2021	FY'2022	Y/Y Change
Yield from interest-earning assets	8.7%	9.2%	0.5%
Cost of funding	3.9%	4.3%	0.4%
Net Interest Spread	4.8%	5.0%	0.2%
Net Interest Income as % of Total Income	76.0%	71.7%	(4.3%)
Non-Funded Income as a % of Total Income	24.0%	28.3%	4.3%
Cost to Income	75.6%	69.1%	(6.5%)
Cost to Income Ratio without provisions	46.9%	46.8%	(0.1%)
Cost to Assets	4.5%	4.5%	-
Net Interest Margin	5.1%	5.3%	0.2%

Capital Adequacy Ratios	FY'2021	FY'2022	% points change
Core Capital/Total deposit Liabilities	22.0%	21.1%	(0.9%)
Minimum Statutory ratio	8.0%	8.0%	-
Excess	**14.0%**	**13.1%**	**(0.9%)**
Core Capital/Total Risk Weighted Assets	19.9%	19.8%	(0.1%)
Minimum Statutory ratio	10.5%	10.5%	-
Excess	**9.4%**	**9.3%**	**(0.1%)**
Total Capital/Total Risk Weighted Assets	21.2%	20.7%	(0.5%)

Minimum Statutory ratio	14.5%	14.5%	-
Excess	**6.7%**	**6.2%**	**(0.5%)**
Liquidity Ratio	61.6%	58.2%	(3.4%)
Minimum Statutory ratio	20.0%	20.0%	-
Excess	**41.6%**	**38.2%**	**(3.4%)**
Adjusted Core Capital/Total Deposit Liabilities	**22.1%**	**21.1%**	**(1.0%)**
Adjusted Core Capital/Total Risk Weighted Assets	**20.0%**	**19.8%**	**(0.2%)**
Adjusted Total Capital/Total Risk Weighted Assets	**21.3%**	**20.7%**	**(0.6%)**

Income Statement

- Core earnings per share increased by 53.9% to Kshs 24.3 in FY'2022, from Kshs 15.8 in FY'2021, higher than our projections of 51.3% increase to Kshs 23.9 per share. The performance was driven by a 21.4% increase in total operating income to Kshs 31.9 bn in FY'2022, from Kshs 26.3 bn in FY'2021. However, the growth was weighed down by the 11.1% increase in the total operating expenses to Kshs 22.1 bn in FY'2022, from Kshs 19.9 bn in FY'2021,
- Total operating income rose by 21.4% to Kshs 31.9 bn in FY'2022, from Kshs 26.3 bn in FY'2021 mainly driven by a 14.5% increase in Net Interest Income (NII) to Kshs 22.9 bn, from Kshs 20.0 bn in FY'2021 coupled with a 43.5% growth in Non-Funded Income (NFI) to Kshs 9.1 bn, from Kshs 6.3 bn in FY'2021,
- Interest income rose by 18.2% to Kshs 40.1 bn in FY'2022, from Kshs 33.9 bn in FY'2021 driven by a 13.4% increase in interest income from loans and advances to Kshs 21.1 bn, from Kshs 18.6 bn in FY'2021, coupled with a 23.9% increase in interest income from government securities to Kshs 18.7 bn, from Kshs 15.1 bn in FY'2021. The Yield on Interest-Earning Assets increased by 0.5% points to 9.2%, from 8.7% in FY'2021 due to the faster 18.2% growth in the trailing interest income, which outpaced the 10.7% 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 23.5% to Kshs 17.2 bn in FY'2022, from Kshs 13.9 bn in FY'2021, largely due to an 18.0% growth in interest expense on customer deposits to Kshs 14.6 bn, from Kshs 12.4 bn in FY'2021 coupled with 180.9% increase in interest expenses on deposits and placements from banking institutions to Kshs 1.1 bn, from Kshs 0.4 bn in FY'2021. Additionally, Other interest expenses increased by 31.2% to Kshs 1.5 bn, from Kshs 1.1 bn in FY'2021. Consequently, Cost of funds (COF) increased by 0.4% points to 4.3%, from 3.9% recorded in FY'2021, owing to the 23.5% increase in trailing interest expense, which outpaced the 8.9% increase in average interest bearing liabilities. Net Interest Margin (NIM) increased by 0.2% to 5.3% from 5.1% recorded in FY'2021, attributable to the faster 14.5% growth in trailing Net interest income average which outpaced the 10.7% growth in Average interest earning assets,
- Non-Funded Income increased by 43.5% to Kshs 9.1 bn in FY'2022, from Kshs 6.3 bn in FY'2021, mainly driven by a 75.8% rise in foreign exchange trading income to Kshs 4.3 bn, from Kshs 2.4 bn in FY'2021, partly attributable to the bank's increased trading margins. Additionally, fees and commissions from loans and advances increased by 28.9% to Kshs 1.7 bn, from Kshs 1.3 bn in FY'2021, following a 15.1% increase in Net loans and advances to Kshs 253.7 bn, from Kshs 220.4 bn in FY'2021. Other fees and commissions also increased by 14.7% to Kshs 2.6 bn from Kshs 2.2 bn in FY'2021. DTB-K's total fees and commissions increased by 19.9% to Kshs 4.3 bn in FY'2022, from Kshs 3.6 bn in FY'2021. As a result, the revenue mix shifted to 72:28 funded to non-funded income, from 76:24 funded to non-funded income in FY'2022, owing to the 43.5% increase in NFI which outpaced the 14.5% growth in NII,
- Total operating expenses increased by 11.1% to Kshs 22.1 bn in FY'2022, from Kshs 19.9 bn in FY'2021, largely driven by a 26.9% increase in staff costs to Kshs 6.1 bn, from Kshs 4.8 bn in FY'2021 coupled with

a 17.5% increase in other operating expenses to Kshs 8.8 bn, from Kshs 7.5 bn in FY'2021. However, Loan Loss Provisions (LLP) declined by 5.5% to Kshs 7.1 bn from Kshs 7.6 bn in FY'2021, an indication of reduced credit risk in the sectors that the bank lends to,

- The Cost to Income Ratio (CIR) declined to 69.1% in FY'2022, from 75.6% in FY'2021 owing to the 21.4% increase in the total operating income which outpaced the 11.1% increase in the total operating expenses. Without LLP, the Cost to Income ratio marginally improved to 46.8%, from 46.9% in FY'2021, an indication of improving efficiency levels, and,
- Profit before tax and exceptional items rose by 43.8% to Kshs 9.5 bn, from Kshs 6.6 bn in FY'2021. Similarly, the bank recorded a 53.9% increase in profit after tax to Kshs 6.8 bn in FY'2022, from Kshs 4.4 bn in FY'2021, with the effective tax rate declining to 28.7% in FY'2022, from 33.4% in FY'2021,
- DTB-K's directors recommended a first and final dividend per share of Kshs 5.0 in FY'2022, representing a dividend yield of 10.8%. The dividends recommended represents a 66.7% increase from dividend per share of Kshs 3.0 paid in FY'2021. Additionally, the dividend payout ratio increased to 20.6% in FY'2022, from 19.0% in FY'2021.

Balance Sheet

- The balance sheet recorded an expansion as total assets grew by 15.4% to Kshs 527.0 bn in FY'2022, from Kshs 456.8 bn in FY'2021, mainly attributable to the 15.1% growth in net loans and advances to Kshs 253.7 bn in FY'2022, from Kshs 220.4 bn in FY'2021, coupled with the 5.8% increase government securities to Kshs 131.5 bn, from Kshs 124.3 bn recorded in FY'2021,
- Total liabilities grew by 17.5% to Kshs 449.3 bn, from Kshs 382.3 bn in FY'2021, largely attributable to a 16.9% rise in customer deposits to Kshs 387.6 bn in FY'2022, from Kshs 331.5 bn in FY'2021 and a significant 80.3% growth in placements to Kshs 26.9 bn from Kshs 14.8 bn recorded in FY'2021. Deposits per branch increased by 16.0% to Kshs 3.0 bn, from Kshs 2.6 bn in FY'2021, with the number of branches increasing to 130 in FY'2022 from 129 in FY'2021,
- The faster 16.9% growth in customer deposits compared to the 15.1% growth in net loans and advances, led to a decline in the loan to deposit ratio to 65.5%, from 66.5% in FY'2021,
- Gross Non-Performing Loans (NPLs) increased by 7.2% to Kshs 32.2 bn in FY'2022, from Kshs 30.1 bn in FY'2021, while Gross loans increased by 15.3% to Kshs 168.6 bn, from Kshs 233.0 bn in FY'2021. Consequently, the asset quality improved with the NPL ratio declining to 12.0% in FY'2022, from 12.9% in FY'2021. On the other hand, the NPL coverage increased to 46.3% in FY'2022, from 41.8% in FY'2021, due to the faster 20.8% increase in General Loan Loss Provisions to Kshs 13.7 bn, from Kshs 11.4 bn in FY'2021, which outpaced the 7.2% increase in Gross Non-Performing Loans (NPLs), an indication of increased provisioning,
- Shareholders' funds increased by 2.5% to Kshs 69.0 bn in FY'2022, from Kshs 67.3 bn in FY'2021, mainly driven by a 7.4% increase in the retained earnings to Kshs 58.9 bn, from Kshs 55.9 bn in FY'2021,
- DTB-K remains sufficiently capitalized with a core capital to risk-weighted assets ratio of 19.8%, 9.3% points above the statutory requirement of 10.5%. The total capital to risk-weighted assets ratio came in at 20.7%, exceeding the statutory requirement of 14.5% by 6.2% points. Adjusting for IFRS 9, the core capital to risk-weighted assets stood at 19.8%, while total capital to risk-weighted assets came in at 20.7%, and,
- The bank currently has a Return on Average Assets (ROaA) of 1.4%, and a Return on Average Equity (ROaE) of 10.0%.

Key Take-Outs:

1. **Improved Asset Quality** – The group's asset quality improved, with the NPL ratio improving to 12.0% in FY'2022, from 12.9% in FY'2021, owing to the faster 15.3% growth in gross loans, which outpaced the 7.2% increase in gross non-performing loans to Kshs 32.2 bn, from Kshs 30.1 bn in FY'2021. The improvement in asset quality is attributable to proactive credit management strategies leading to increased loan repayment and the declining credit risk in the Kenya's banking sector, with sector's gross NPLs to gross loans ratio improving to 13.3% in Q4'2022 from 13.7% in Q3'2022.
2. **Earnings Growth** - Core earnings per share increased by 53.9% to Kshs 24.3 in FY'2022, from Kshs 15.8 in FY'2021, higher than our projections of 51.3% increase to Kshs 23.9 per share. The performance was driven by a 21.4% increase in total operating income to Kshs 31.9 bn in FY'2022, from Kshs 26.3 bn in FY'2021. However, the growth was weighed down by the 11.1% increase in the total operating expenses to Kshs 22.1 bn in FY'2022, from Kshs 19.9 bn in FY'2021.

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.

Valuation Summary

- We are of the view that DTB-K is an "ACCUMULATE" with a target price of Kshs 54.7, representing an upside of 14.0%, from the current price of Kshs 48.0 as of 31st March 2023,
- DTB-K is currently trading at a P/TBV of 0.2x and a P/E of 2.6x vs an industry average of 0.9x and 4.3x, respectively.