Cytonn INVESTMENTS

Diamond TrustBank of Kenya– FY'2023

28th March, 2024

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

Balance Sheet	FY'2022 (Kshs bn)	FY'2023 (Kshs bn)	y/y change
Government Securities	133.2	120.1	(9.8%)
Net Loans and Advances	253.7	308.5	21.6%
Total Assets	527.0	635.0	20.5%
Customer Deposits	387.6	486.1	25.4%
Total Liabilities	449.3	548.7	22.1%
Shareholders Funds	69.0	74.9	8.6%

Key Ratios	FY'2022	FY'2023	% points change
Loan to Deposit Ratio	65.5%	63.5%	(2.0%)
Government Securities to Deposits Ratio	34.4%	24.7%	(9.7%)
Return on average equity	10.0%	10.8%	0.9%
Return on average assets	1.4%	1.3%	(0.0%)
Dividend payout Ratio	20.6%	21.5%	0.9%
Dividend Yield	10.8%	10.9%	0.1%

Income Statement	FY'2022 (Kshs bn)	FY'2023 (Kshs bn)	y/y change
Net interest Income	22.9	27.6	20.5%
Net non-interest income	9.1	12.2	34.3%
Total Operating income	**31.9**	**39.7**	**24.4%**
Loan loss provision	7.1	10.3	44.5%
Total Operating expenses	**22.1**	**30.9**	**39.8%**
Profit before tax	**9.5**	**9.0**	**(5.5%)**
Profit after tax	**6.8**	**7.8**	**14.7%**
Core EPS	**24.3**	**27.9**	**14.7%**

Income Statement Ratios	FY'2022	FY'2023	% points change
Yield from interest-earning assets	9.2%	10.6%	1.3%
Cost of funding	4.3%	5.3%	1.1%
Net Interest Margin	5.3%	5.5%	0.2%
Net Interest Income as % of operating income	71.7%	69.4%	(2.3%)
Non-Funded Income as a % of operating income	28.3%	30.6%	2.3%
Cost to Income Ratio	69.1%	77.7%	8.6%
Cost to Income without LLP	46.8%	51.7%	4.9%
Cost to Assets	4.5%	5.3%	0.8%

Capital Adequacy Ratios	FY'2022	FY'2023	% points change
Core Capital/Total Liabilities	21.1%	17.3%	(3.8%)
Minimum Statutory ratio	8.0%	8.0%	
Excess	13.1%	9.3%	(3.8%)
Core Capital/Total Risk Weighted Assets	19.8%	16.3%	(3.5%)
Minimum Statutory ratio	10.5%	10.5%	
Excess	9.3%	5.8%	(3.5%)
Total Capital/Total Risk Weighted Assets	20.7%	17.0%	(3.7%)
Minimum Statutory ratio	14.5%	14.5%	
Excess	6.2%	2.5%	(3.7%)
Liquidity Ratio	58.2%	48.6%	(9.6%)
Minimum Statutory ratio	20.0%	20.0%	
Excess	**38.2%**	**28.6%**	**(9.6%)**

Income Statement

- Core earnings per share (EPS) increased by 14.7% to Kshs 27.9, from Kshs 24.3 in FY'2022, driven by the 24.4% growth in total operating income to Kshs 39.7 bn, from Kshs 31.9 bn in FY'2022. The performance was, however, weighed down by the 39.8% increase in total operating expenses to Kshs 30.9 bn from Kshs 22.1 bn in FY'2022,
- The 24.4% growth in total operating income was mainly driven by a 34.3% growth of Non-Funded Income (NFI) to Kshs 12.2 bn from Kshs 9.1 bn in FY'2022, coupled with the 20.5% increase of Net Interest income to Kshs 27.6 bn in FY'2023, from Kshs 22.9 bn in FY'2022,
- Interest income grew by 33.1% to Kshs 53.3 bn from Kshs 40.1 bn in FY'2022, mainly driven by the 35.4% growth in interest income from loans and advances which increased to Kshs 28.5 bn from Kshs 21.1 bn in FY'2022, coupled with a 108.5% increase in interest income from deposits and placements to Kshs 0.6 bn, from Kshs 0.3 bn in FY'2022. However, the Yield on Interest-Earning Assets (YIEA) increased to 10.6% from 9.2% recorded in FY'2022, mainly attributable to the 33.1% increase in trailing interest income to Kshs 53.3 bn, from Kshs 40.1 bn in FY'2022, which outpaced the 16.3% increase in average interest-earning assets to Kshs 503.7 bn, from Kshs 433.2 bn in FY'2022,
- Interest expenses increased by 49.8% to Kshs 25.7 bn from Kshs 17.2 bn in FY'2022, mainly driven by a 42.7% increase in interest expense on customer deposits to Kshs 20.9 bn from Kshs 14.6 bn in FY'2022, coupled with a 70.8% increase in interest expense from other interest expenses to Kshs 2.5 bn in FY'2023 from Kshs 1.5 bn recorded in FY'2022. Consequently, Cost of funds (COF) increased by 1.1% points to 5.3% from 4.3% recorded in FY'2022, owing to the 49.8% increase in Trailing interest expense to Kshs 25.7 bn from Kshs 17.2 bn recorded in FY'2022, which outpaced the 12.1% increase in average interest-bearing liabilities to Kshs 436.1 bn from Kshs 389.0 bn in FY'2022. Trailing interest expense refers to the performance of the interest expense for the past 12 consecutive months. Net Interest Margin (NIM) increased by 0.2% points to 5.5% from 5.3% in FY'2022, attributable to a 20.5% increase in trailing net interest income to Kshs 27.6 bn from Kshs 22.9 bn recorded in FY'2022 relative to the 16.3% growth in average interest-earning assets,
- Non-Funded Income (NFI) increased by 34.3% to Kshs 12.2 bn from Kshs 9.1 bn in FY'2022, mainly driven by a 19.4% increase in fees and commissions to Kshs 2.0 bn from Kshs 1.7 bn in FY'2022, coupled with a 33.1% increase in other fees to Kshs 3.4 bn from Kshs 2.6 bn in FY'2022. The growth in NFI was also supported by a 29.8% increase in foreign exchange income to 5.6 bn from 4.3 bn in FY'2022 indicating an increase in the bank's foreign exchange margins. Total fees and commissions increased by 27.7% to Kshs 5.5 bn, from Kshs 4.3 bn in FY'2022. The revenue mix shifted to 69:31 from 72:28 for the funded to Non-funded income owing to the 34.3% growth in Non-Funded income compared to the 20.5% increase in funded income,
- Total operating expenses increased by 39.8% to Kshs 30.9 bn from Kshs 22.1 bn in FY'2022, driven by a 44.5% increase in loan loss provisions to Kshs 10.3 bn from Kshs 7.1 bn recorded in FY'2022 reflecting the bank's stringent management of the credit portfolio, coupled with a 36.4% increase in other operating expenses to Kshs 12.0 bn from Kshs 8.8 bn in FY'2022. The increase in provisioning by the bank follows the rising credit risk as a result deteriorated economic environment as evidenced by the 2023 Purchasing Managers Index (PMI) averaging 48.1, down from an average of 49.2 in 2022,
- Cost to Income Ratio (CIR) increased to 77.7% from 69.1% in FY'2022, owing to the 39.8% increase in total operating expenses, compared to the 24.4% increase in total operating income. Notably, CIR without LLP increased by 4.9% points to 51.7%, from 46.8% recorded in FY'2022, and,
- Profit before tax decreased by 5.5% to Kshs 9.0 bn from Kshs 9.5 bn in FY'2022, with the effective tax rate decreasing to 24.3% in FY'2023 from 28.7% in FY'2022. As such, profit after tax increased by 14.7% to Kshs 7.8 bn in FY'2023, from Kshs 6.8 bn in FY'2022.

Balance Sheet

- The balance sheet recorded an expansion as total assets grew by 20.5% to Kshs 635.0 bn in FY'2023 from Kshs 527.0 bn in FY'2022, driven by a 21.6% expansion of the loan book to Kshs 308.5 bn from Kshs 253.7 bn in FY'2022, coupled with an 86.7% increase in placements to Kshs 36.3 bn, from Kshs 19.5 bn in FY'2022, and was weighed down by the 9.9% decrease in government securities to Kshs 120.0 bn, from Kshs 133.2 bn in FY'2022,
- Total liabilities rose by 22.1% to Kshs 548.7 bn from Kshs 499.3 bn in FY'2022, driven by a 25.4% growth in customer deposits to Kshs 486.1 bn, from Kshs 387.6 bn in FY'2022, liabilities were, however, supported by a 53.8% decrease in placements to Kshs 12.3 bn, from Kshs 26.7 bn in FY'2022,
- The faster 25.4% growth in customer deposits as compared to the 21.6% growth in loans & advances led to a decrease in the loan to deposits ratio to 63.5%, from 65.5% in FY'2022,
- The bank's Asset Quality declined, with Gross NPL ratio increasing to 13.4% in FY'2023 from 12.0% in FY'2022, attributable to 35.4% increase in Gross non-performing loans to Kshs 43.6 bn, from Kshs 32.2 bn in FY'2022, compared to the 21.6% increase in gross loans to Kshs 326.5 bn, from Kshs 28.6 bn recorded in FY'2022,
- General Provisions (LLP) increased by 28.1% to Kshs 17.6 bn in FY'2023 from Kshs 13.7 bn in FY'2022. The NPL coverage decreased to 41.4% in FY'2023, from 46.3% in FY'2022, attributable to the 35.4% increase in Gross Non-Performing loans (GNPLs) which outpaced the 28.1% increase in general provisions and the 57.5% decrease in interest in suspense to Kshs 0.5 bn from Kshs 1.2 bn in FY'2022. Shareholders' funds increased by 8.6% to Kshs 74.9 bn in FY'2023, from Kshs 69.0 bn in FY'2022, supported by a 1.2% increase in retained earnings to Kshs 4.72 bn, from Kshs 4.66 bn in FY'2022,
- DTB-k remains capitalized with a core capital to risk-weighted assets ratio of 16.3%, 5.8% points above the statutory requirement of 10.5%. In addition, the total capital to risk-weighted assets ratio came in at 17.0%, exceeding the statutory requirement of 14.5% by 2.5% points, and,
- The bank currently has a Return on Average Assets (ROaA) of 1.3%, and a Return on Average Equity (ROaE) of 10.8%.

Key Take-Outs:

1. **Sustained earnings growth -** Core earnings per share (EPS) increased by 14.7% to Kshs 27.9, from Kshs 24.3 in FY'2022, driven by the 24.4% growth in total operating income to Kshs 39.7 bn, from Kshs 31.9 bn in FY'2022. The performance was, however, weighed down by the 39.8% increase in total operating expenses to Kshs 30.9 bn from Kshs 22.1 bn in FY'2022,
2. **Asset Growth –** the bank's total assets grew by 20.7% to Kshs 635.0 bn in FY'2023 from Kshs 527.0 bn in FY'2022, driven by a 21.6% expansion of the loan book to Kshs 308.5 bn from Kshs 253.7 bn in FY'2022,
3. **Declined asset quality –** The bank's Gross NPL ratio increased to 13.4% in FY'2023 from 12.0% in FY'2022, attributable to 35.4% increase in Gross non-performing loans to Kshs 43.6 bn, from Kshs 32.2 bn in FY'2022, compared to the 21.6% increase in gross loans to Kshs 326.5 bn, from Kshs 268.6 bn recorded in FY'2022,
4. **Improved Lending –** The bank's loan book increased by 21.6% to Kshs 308.5 bn from Kshs 253.7 bn in FY'2022, compared to the 9.8% decline in government securities to Kshs 120.1 bn, from Kshs 133.2 bn in FY'2022, emphasizing the bank's approach to boosting lending via digital transformation, and,
5. **Increased dividends –** Dividends per share increased by 20.0% to Kshs 6.00 in FY'2023, from Kshs 5.00 in FY'2022 translating to a dividend yield of 10.9% and a dividend payout ratio of 21.5% in 2023 compared to a dividend yield of 10.8% and a dividend payout ratio of 23.1% in 2022.

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 just 1.5% to Kshs. 9.2 bn from Kshs. 9.1 bn in FY'2022. 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,

- **Expanded customer base -** The lender's customer deposits recorded an impressive growth of 25.4% to 486.1 bn from Kshs. 387.6 bn in FY'2022, this impressive growth can be attributable to their aggressive marketing and client-centered products such as the DTB Weza and Beba Leo which are expected to continue this trend.

Valuation Summary

- We are of the view that DTB Bank of Kenya is a "buy" with a target price of Kshs 67.8 representing an upside of 23.3%, from the current price of 55.0 as of 28th March 2024, inclusive of a dividend yield of 10.9%.
- DTB Bank of Kenya is currently trading at a P/TBV of 0.3x and a P/E of 2.2x vs an industry average of 0.8x and 4.0x respectively.