DTB-K Bank– Q3'2024
29th November, 2024

Below is a summary of DTB-K Bank's Q3'2024 performance:

Balance Sheet Items	Q3'2023	Q3'2024	y/y change
Government Securities	129.4	129.6	0.1%
Net Loans and Advances	289.1	275.0	(4.9%)
Total Assets	**598.0**	**590.6**	**(1.2%)**
Customer Deposits	457.7	441.9	(3.5%)
Deposits per branch	3.5	3.3	(7.1%)
Total Liabilities	515.5	506.6	(1.7%)
Shareholders' Funds	**71.8**	**74.2**	**3.3%**

Balance Sheet Ratios	Q3'2023	Q3'2024	% point change
Loan to Deposit Ratio	63.2%	62.2%	(0.9%)
Government Securities to Deposit ratio	28.3%	29.3%	1.1%
Return on average equity	10.0%	11.8%	1.8%
Return on average assets	1.3%	1.5%	0.2%

Income Statement	Q3'2023 (Kshs bn)	Q3'2024 (Kshs bn)	y/y change
Net Interest Income	20.1	21.3	6.1%
Net non-Interest Income	9.2	9.7	5.7%
Total Operating income	**29.3**	**31.0**	**5.9%**
Loan Loss provision	6.0	5.3	(12.3%)
Other Operating expenses	8.4	8.9	5.4%
Total Operating expenses	**20.7**	**21.1**	**1.9%**
Profit before tax	**8.7**	**9.8**	**12.3%**
Profit after tax	**6.6**	**7.4**	**12.6%**
Core EPS	**23.6**	**26.6**	**12.6%**

Income Statement Ratios	Q3'2023	Q3'2024	y/y change
Yield from interest-earning assets	10.0%	10.9%	0.9%
Cost of funding	5.1%	6.1%	1.0%
Net Interest Spread	4.9%	4.8%	(0.1%)
Net Interest Income as % of operating income	68.6%	68.7%	0.1%
Non-Funded Income as a % of operating income	31.4%	31.3%	(0.1%)
Cost to Income Ratio (CIR)	70.6%	67.9%	(2.7%)
CIR without provisions	50.1%	50.9%	0.9%
Cost to Assets	5.1%	5.3%	0.2%
Net Interest Margin	5.3%	5.3%	0.0%

Capital Adequacy Ratios	Q3'2023	Q3'2024	% 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 12.6% to Kshs 26.6, from Kshs 23.6 in Q3’2023, driven by the 5.9% increase in total operating income to Kshs 31.0 bn, from Kshs 29.3 bn in Q3’2023 which outpaced the 1.9% increase in total operating expenses to Kshs 21.1 bn from Kshs 20.7 bn in Q3’2023,
- The 5.9% increase in total operating income was mainly driven by a 6.1% growth in Net Interest Income (NII) to Kshs 21.3 bn, from Kshs 20.3 bn in Q3’2023, coupled with the 5.7% increase in Non Funded Income (NFI) to Kshs 9.7 bn from Kshs 9.2 bn in Q3’2023,
- Interest income grew by 15.6% to Kshs 44.6 bn from Kshs 38.6 bn in Q3’2023, mainly driven by a 16.9% growth in interest income from loans and advances to Kshs 24.0 bn from Kshs 20.5 bn in Q3’2023, coupled with a 10.1% increase in interest income from government securities to Kshs 19.4 bn, from Kshs 17.6 bn in Q3’2023. As such, the Yield on Interest-Earning Assets (YIEA) increased to 10.9% from 10.0% recorded in Q3’2023, mainly attributable to the faster 19.5% increase in trailing interest income to Kshs 59.3 bn, from Kshs 49.6 bn in Q3’2023, compared to a 9.4% increase in average interest earning assets to Kshs 544.3 bn, from Kshs 497.7 bn in Q3’2023,
- Interest expenses rose by 25.9% to Kshs 23.2 bn from Kshs 18.5 bn in Q3’2023, mainly driven by a significant 82.4% increase in interest expense on deposits and placements from other institutions to Kshs 3.1 bn from Kshs 1.7 bn in Q3’2023, coupled with a 24.0% increase in interest expense from customer deposits to Kshs 18.5 bn, from Kshs 14.9 bn recorded in Q3’2023. Consequently, Cost of funds (COF) increased by 1.1% points to 6.5% from 5.4% recorded in Q3’2023, owing to a 30.1% increase in Trailing interest expense to Kshs 30.5 bn from Kshs 23.5 bn recorded in Q3’2023, compared to an 7.3% increase in average interest bearing liabilities to Kshs 467.0 bn from Kshs 435.5 bn in Q3’2023. Trailing interest expense refers to the performance of the interest expense for the past 12 consecutive months. Net Interest Margin (NIM) remained unchanged from 5.3% in Q3’2023, attributable to a 10.0% increase in trailing net interest income to Kshs 28.8 bn from Kshs 26.2 bn recorded in Q3’2023, compared to the 9.4% growth in average interest earning assets to Kshs 544.3 bn, from Kshs 497.7 bn in Q3’2023,
- Non-Funded Income (NFI) increased by 5.7% to Kshs 9.7 bn from Kshs 9.2 bn in Q3’2023, mainly driven by a 23.0% increase in other fees to Kshs 2.8 bn from Kshs 2.3 bn in Q3’2023, coupled with a 7.8% increase in income from fees and commissions on loans to Kshs 1.6 bn from Kshs 1.5 bn in Q3’2023. Foreign exchange trading income, however, decreased by 18.0% to Kshs 3.7 bn from Kshs 4.5 bn in Q3’2023, indicating reduced foreign exchange trading margins. The revenue mix remained unchanged from 69:31 for the funded to Non-funded income owing to the faster 6.1% growth in Funded Income which slightly outpaced the 5.7% increase in the Non Funded Income,
- Total operating expenses increased by 1.9% to Kshs 21.1 bn from Kshs 20.7 bn in Q3’2023, driven by an 10.9% increase in staff costs to Kshs 6.9 bn from Kshs 6.3 bn recorded in Q3’2023, coupled with a 5.4% increase in other operating expenses to Kshs 8.9 bn, from Kshs 8.4 bn recorded in Q3’2023. However, the Group’s loan loss provisions decreased by 12.3% to Kshs 5.3 bn, from Kshs 6.0 bn recorded in Q3’2023. The decrease in provisioning is despite the increased credit risk as a result of a deteriorated economic environment as evidenced by the average Q3’2024 Purchasing Managers Index (PMI) of 47.8, down from an average of 48.0 in Q3’2023,
- Cost to Income Ratio (CIR) decreased by 2.7% points to 67.9% from 70.6% in Q3’2023, owing to the faster 5.9% increase in total operating income, which outpaced the 1.9% increase in total operating expenses. Notably, CIR without LLP increased by 0.9% points to 50.9% from 50.1% recorded in Q3’2023, and,
- Profit before tax increased by 12.3% to Kshs 9.8 bn, from Kshs 8.7 bn recorded in Q3’2023, with effective tax rate decreasing to 24.1% in Q3’2024 from 24.3% in Q3’2023, leading to an 12.6% increase in profit after tax Kshs 7.4 bn, from Kshs 6.6 bn recorded in Q3’2023.

Balance Sheet

- The balance sheet recorded a slight contraction as total assets declined by 1.2% to Kshs 590.6 bn, from Kshs

598.0 bn in Q3’2024, driven by a 4.9% decrease in net loans and advances to Kshs 275.0 bn, from 289.1 bn in Q3’2023, coupled with an 11.4% decrease in investment securities to Kshs 53.7 bn, from Kshs 77.7 bn in Q3’2023,

- Total liabilities decreased by 1.7% to Kshs 506.6 bn from Kshs 515.5 bn in Q3’2024, driven by a 3.5% decline in customer deposits to Kshs 441.9 bn, from Kshs 457.7 bn in Q3’2023, coupled with the 27.0% decrease in borrowings to Kshs 16.5 bn, from Kshs 22.5 bn in Q3’2023.
- The 3.5% decline in customer deposits as compared to the 4.9% decrease in loans led to a decrease in the loan to deposits ratio to 62.2%, from 63.2% in Q3’2023,
- The bank’s Asset Quality deteriorated, with Gross NPL ratio increasing to 13.5% in Q3’2024, from 12.6% in Q3’2023, attributable to a 1.1% increase in Gross non-performing loans to Kshs 39.1 bn, from Kshs 38.7 bn in Q3’2023, compared to the 5.7% decline in gross loans to Kshs 290.3 bn, from Kshs 308.0 bn recorded in Q3’2023,
- General Provisions (LLP) decreased by 18.3% to Kshs 14.1 bn in Q3’2024 from Kshs 17.2 bn in Q3’2023. The NPL coverage ratio decreased to 39.1% in Q3’2024, from 48.7% in Q3’2023, attributable to the 18.3% decrease in general provisions, coupled with the 22.9% decrease in interest in suspense to Kshs 1.2 bn, from Kshs 1.6 bn in Q3’2023, which outpaced the 5.7% decrease in gross non performing loans,
- Shareholders’ funds increased by 3.3% to Kshs 74.2 bn in Q3’2024, from Kshs 71.8 bn in Q3’2023, supported by a 1.5% increase in retained earnings to Kshs 65.9 bn, from Kshs 64.9 bn in Q3’2023,
- 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 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 11.8%.

Key Take-Outs:

1. **Increased earnings -** Core earnings per share grew by 12.6% to Kshs 26.6, from Kshs 23.6 in Q3’2023, driven by the 5.9% increase in total operating income to Kshs 31.0 bn, from Kshs 29.3 bn in Q3’2023 which outpaced the 1.9% increase in total operating expenses to Kshs 21.1 bn from Kshs 20.7 bn in Q3’2023

2. **Deteriorated asset quality –** The bank’s Asset Quality deteriorated, with Gross NPL ratio increasing to 13.5% in Q3’2024, from 12.6% in Q3’2023, attributable to a 1.1% increase in Gross non-performing loans to Kshs 39.1 bn, from Kshs 38.7 bn in Q3’2023, compared to the 5.7% decline in gross loans to Kshs 290.3 bn, from Kshs 308.0 bn recorded in Q3’2023

3. **Contracted Balanced sheet** - The balance sheet recorded a slight contraction as total assets declined by 1.2% to Kshs 590.6 bn, from Kshs 598.0 bn in Q3’2024, driven by a 4.9% decrease in net loans and advances to Kshs 275.0 bn, from 289.1 bn in Q3’2023, coupled with an 11.4% decrease in investment securities to Kshs 53.7 bn, from Kshs 77.7 bn in Q3’2023,

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

- **Revenue Diversification**: The lender has a great opportunity to explore the growh of its non-funded income streams, which grew by 5.7% to Kshs 9.7 bn, from Kshs 9.2 bn in Q3’2023. 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 Diamond Trust bank is a “**buy**” with a target price of Kshs 64.8 representing a upside of 21.1%, from the current price of 53.5 as of 29th November 2024, and,
- DTB-K Bank is currently trading at a P/TBV of 0.2x and a P/E of 1.9x vs an industry average of 0.9x and 4.1x respectively.