

DTB Bank – FY17 Earnings Update

DTB Bank registered a 10.1% y/y (-10.5% q/q) plunge in net earnings to KES 6.4B. The lender witnessed a dramatic surge in gross NPLs (+97.2% y/y to KES 14.8B). On the bright side, net interest income edged up 1.5% y/y to KES 19.7B despite the tough macroeconomic and political environment in 2017. The lender announced a first and final dividend of KES 2.60 (unchanged y/y) to be paid on June 25th 2018. Books closure is May 25th 2018.

Total interest income increased 2.4% y/y (+1.1% q/q) as the lender’s loan book grew a solid 5.2% y/y (-0.1% q/q) to KES 196.0B. The rise in total interest income was also supported by a 22.4% y/y spike in interest income received from government securities in line with a 23.3% y/y rise in the total stock of government securities held by the lender to KES 114.4B. On the other hand, total interest expenses climbed 3.6% y/y to KES 14.9B as total customer deposits grew 11.8% y/y (+0.5% q/q) to KES 266.2B. However, total interest expenses dropped 2.9% q/q to KES 14.9B conveying the lender’s conservativeness in attracting expensive deposits from the previous quarter. Even as interest expenses outpaced the growth in interest income, net interest income still closed in the green at KES 19.7B (+1.5% y/y, +4.1% q/q). The lender’s net interest margin contracted 70bps to 5.5% owing to the interest rate cap.

Total non-interest income booked gains of 4.1% y/y (+3.2% q/q) to KES 5.3B. This was boosted by a 5.3% y/y jump in gross fees and commission to KES 3.3B. On the contrary, FX income slid 8.5% y/y to KES 1.6B on account of a twin effect of reduced merchant and economic activity. The shilling was also relatively stable in the region, which contracted margins on FX trading. Total non funded income contributed to 21.1% of total income (+40bps y/y).

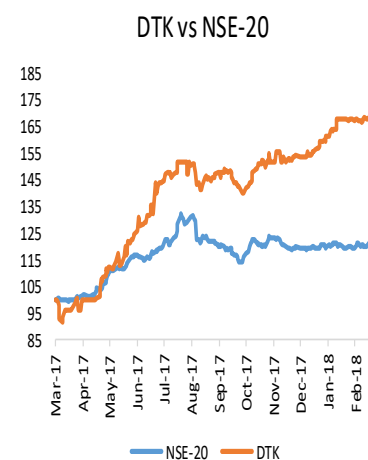
Total operating expenses closed in the red at KES 10.6B (+14.8% y/y) on the back of an 18.5% y/y increase in staff costs to KES 3.9B and a 10.4% y/y rise in other operating expenses to KES 4.3B. The latter was due to heavy investments in technology in order to digitize its operations and increase the volume of transactions conducted on its digital platform. According to management, these costs will potentially be covered by the entrance of new revenue streams from various products and services. Despite the increase in operating expenses, DTB bank still remains one of the most cost-efficient bank in the banking sector with its cost-to-income ratio comfortably sitting at 42.3% (+370bps y/y).

Loan loss provision expense marginally rose 0.7% y/y even though **non performing loans grew significantly by 97.2% y/y (-10.5% q/q) to KES 14.8B.** We may see an increase in loan loss provisions to cater for these bad loans going forward and with IFRS 9 coming into play, provisions are anticipated to soar further, which will put pressure on the bank’s net income. The NPLs were as a result of bad debts of some large corporates in its books bringing DTB’s NPL ratio to 7.3% (+340bps y/y). On a positive note, its NPL ratio is still well below the industry average of 10.6%. The lender’s coverage ratio shrunk 10.5% to 55.5% but is still on high side in comparison to its peers.

Bloomberg Ticker :	DTKL.KN
Reuters Ticker:	DTK.NAI

Share Statistics	
Current Price (KES)	218.00
Issued shares (M)	279,602
Market cap (USD M)	604.0
Year end	Dec
Foreign ownership (%)	49.7
Free float (%)	59.1
Av daily trading vol (USDk)	355.8

Price Trend



Source: Bloomberg

Research Analyst

Shaniza Kassam

skassam@apexafrica.com

020-7602533

www.apexafrica.com

Looking ahead: DTB has successfully carved a niche in the banking space by offering specialized services to customers. The lender is also focusing on expanding to satellite towns and recently opened a new branch in Eldoret. The bank is set to open a few more branches and state-of-the-art digital lobbies in the year. The expansion plan is in line with

DTB's long-term strategy to dominate the market and increase its footprint in Kenya. The stock is currently trading at 9.5x P/E, 1.3x P/B. For shareholders, the potential capital gains, outweigh the group's relatively low dividend yield (1.2%).

	FY16	1Q17	2Q17	3Q17	4Q17	FY17	chg y/y	chg q/q
	KES '000	KES '000	KES '000	KES '000	KES '000	KES '000		
Income Statement								
Interest Income	33,812,876	8,184,490	8,666,785	8,840,354	8,937,161	34,628,790	2.4%	1.1%
Interest Expense	14,427,599	3,569,153	3,788,296	3,853,090	3,743,173	14,953,712	3.6%	-2.9%
Net Interest Income	19,385,277	4,615,337	4,878,489	4,987,264	5,193,988	19,675,078	1.5%	4.1%
Foreign Exchange Income	1,745,734	429,065	364,775	365,860	437,270	1,596,970	-8.5%	19.5%
Gross Fees and Commission	3,091,066	808,218	815,629	788,112	844,455	3,256,414	5.3%	7.1%
Other Income	231,937	40,625	80,715	192,412	108,273	422,025	82.0%	-43.7%
Non Interest Income	5,068,737	1,277,908	1,261,119	1,346,384	1,389,998	5,275,409	4.1%	3.2%
Total Operating Income	24,454,014	5,893,245	6,139,608	6,333,648	6,583,986	24,950,487	2.0%	4.0%
Total Operating Expenses	9,195,269	2,648,114	2,631,863	2,678,338	2,601,550	10,559,865	14.8%	-2.9%
Loan Loss Provision Expense	4,269,537	634,970	1,080,789	1,178,085	1,406,933	4,300,777	0.7%	19.4%
Operating Profit	15,258,745	3,245,131	3,507,745	3,655,310	3,982,436	14,390,622	-5.7%	8.9%
Share of associate profit after tax	6,488	5,410	3,020	2,852	-2,892	8,390	29.3%	-201.4%
Profit Before Tax	10,995,696	2,615,571	2,438,406	2,482,929	2,561,329	10,098,235	-8.2%	3.2%
Current Tax	3,267,556	865,169	767,903	763,900	776,223	3,173,195	-2.9%	1.6%
Profit After Tax	7,728,140	1,750,402	1,670,503	1,719,029	1,785,106	6,925,040	-10.4%	3.8%
Non controlling interests	554,201	174,340	41,105	177,967	81,817	475,229	-14.2%	-54.0%
Profit for the period	7,173,939	1,576,062	1,629,398	1,541,062	1,703,289	6,449,811	-10.1%	10.5%
EPS (KES)	25.66	5.92	5.54	5.51	6.09	23.07	-10.1%	10.5%
DPS (KES)	2.60					2.60	0.0%	
Balance Sheet								
Total Shareholders' Equity	45,876,549	47,508,217	48,545,220	51,905,003	48,369,795	48,369,795	5.4%	-6.8%
Deposits due to Banks & Financial Institutions	17,575,802	9,335,761	17,337,204	16,572,065	20,503,993	20,503,993	16.7%	23.7%
Customer Deposits	238,103,640	251,431,358	256,338,364	265,047,790	266,246,854	266,246,854	11.8%	0.5%
Total Liabilities	282,167,952	287,841,198	295,165,044	305,299,089	309,683,645	309,683,645	9.8%	1.4%
Total Equity and Liabilities	328,044,501	335,349,415	343,710,264	357,204,092	358,053,440	358,053,440	9.1%	0.2%
Cash and CBK Balances	27,480,328	29,433,389	26,918,524	27,535,234	25,008,851	25,008,851	-9.0%	-9.2%
Balances due from Banks & Financial Institutions	7,611,137	5,387,794	5,310,901	9,031,794	12,516,371	12,516,371	64.4%	38.6%
Government and Other Securities	92,777,986	98,256,319	105,408,678	108,953,054	114,350,899	114,350,899	23.3%	5.0%
Net Loans and Advances	186,303,191	188,413,320	191,469,262	196,292,862	196,048,155	196,048,155	5.2%	-0.1%
Fixed Assets	6,738,194	6,607,943	6,750,128	6,690,533	6,716,249	6,716,249	-0.3%	0.4%
Total Assets	328,044,501	335,349,415	343,710,264	357,204,092	363,303,400	363,303,400	10.7%	1.7%
Key Ratios								
Gross NPL (KES M)	7,523,969	8,442,081	9,228,694	16,582,748	14,833,944	14,833,944	97.2%	-10.5%
Interest in Suspense (KES M)	1,471,145	1,830,264	1,995,393	2,492,883	1,783,544	1,783,544	21.2%	-28.5%
Total NPL (KES M)	6,052,824	6,611,817	7,233,301	14,089,865	13,050,400	13,050,400	115.6%	-7.4%
Loan Loss Provision (KES M)	4,968,968	5,472,638	6,019,066	6,615,487	8,233,546	8,233,546	65.7%	24.5%
Net NPL	1,083,856	1,139,179	1,214,235	7,474,378	4,816,854	4,816,854	344.4%	-35.6%
NPL Ratio	3.9%	4.4%	4.7%	8.2%	7.3%	7.3%		
Coverage Ratio	66.0%	64.8%	65.2%	39.9%	55.5%	55.5%		
Cost of Risk	2.3%	1.3%	2.3%	2.4%	2.9%	2.2%		
Loan to Deposits	78.2%	74.9%	74.7%	74.1%	73.6%	73.6%		
Yield on Interest Earning Assets	11.8%	11.2%	11.5%	11.3%	11.1%	10.7%		
Cost of Funds	5.6%	5.5%	5.5%	5.5%	5.2%	5.2%		
NIM	6.2%	5.7%	5.9%	5.8%	5.8%	5.5%		
Non Funded/Total Income	20.7%	21.7%	20.5%	21.3%	21.1%	21.1%		
Cost to Income Ratio	37.6%	44.9%	42.9%	42.3%	39.5%	42.3%		
ROE	16.8%	14.7%	13.8%	13.2%	14.8%	14.3%		
ROA	2.4%	2.1%	1.9%	1.9%	2.0%	1.9%		
Core Capital/TRWA	16.2%	15.9%	16.0%	16.5%	17.3%	17.3%		
Total Capital/TRWA	18.5%	18.1%	18.0%	18.4%	19.0%	19.0%		
Liquidity Ratio	50.2%	52.0%	51.3%	51.2%	49.9%	49.9%		
P/E (x)						9.5		
P/B (x)						1.3		
Dividend Yield (%)						1.2		

Disclaimer

ApexAfrica and its parent company AXYS Group seek to do business with companies covered in their research reports. Consequently, a conflict of interest may arise that could affect the objectivity of this report. This document should only be considered a single factor used by investors in making their investment decisions. The reader should independently evaluate the investment risks and is solely responsible for their investment decisions. The opinions and information portrayed in this report may change without prior notice to investors.

This publication may not be distributed to the public media or quoted or used by the public media without prior and express written consent of ApexAfrica or AXYS Group.

This document does not constitute an offer, or the solicitation of an offer, for the sale or purchase of any security. Whilst every care has been taken in preparing this document, no representation, warranty or undertaking (express or implied) is given and no responsibility or liability is accepted by Apex Africa or any of its employees as to the accuracy of the information contained and opinions expressed in this report.

ApexAfrica Capital Ltd
A The Riverfront, 1st Floor, Prof. David Wasawo Drive, Off Riverside Drive | P.O. Box 43676-00100 | Nairobi | Kenya |
T: +254-20-2226440 | **Fax**: +254-20-2319092 | **Cell**: +254-723-420204|
W : www.apexafrica.com
Part of AXYS Group
W : www.axys-group.com