

DTB Kenya Ltd – 3Q17 Earnings Update

Diamond Trust Bank Kenya, posted a 1.1% y/y (+3.3% q/q) gain in net earnings to KES 1.7B in 3Q17. Net interest income dipped 2.6% y/y (+2.2% q/q) to KES 4.9B, while total operating income remained largely unchanged y/y at KES 6.3B. Gross NPLs surged 113.8% y/y to KES 16.6B for the 9-month period ending September 2017.

Interest income inched up 0.8% y/y (+2.0% q/q) to KES 8.8B, despite a stellar 8.1% y/y (+2.5% q/q) growth in net loans and advances to KES 196.3B. In our view, stagnant growth in top-line in spite of an expanding loan book is attributed to the effects of the lending rate cap which came in to effect late last year. The rate cap has forced lenders to reprice loans at a preset ceiling over the benchmark lending rate, thereby restricting freedom of pricing and suppressing top-line growth. The current ceiling sits at 4.0% over the benchmark CBK rate of 10.0%. On the other hand, interest expense climbed 5.5% y/y to KES 3.8B (+1.7% q/q) in 3Q17, driven by a 16.5% y/y (+3.4% q/q) growth in customer deposits to KES 265.0B. Nonetheless, the group's cost of funds declined 90 bps y/y to 5.1% due to lower borrowings (-22.6% y/y).

Total non-funded income climbed 12.1% y/y (+6.8% q/q) to KES 1.3B, boosted by an 11.3% y/y (-3.4% q/q) growth in gross fees and commission income, which in turn helped offset a 5.7% y/y decline in foreign exchange income. Other non-funded income surged 88.3% y/y (+138.4% q/q) to KES 192.4M in the quarter ending September 2017. Non-funded income accounted for 21.3% of total income, up from 19.0% in 3Q16.

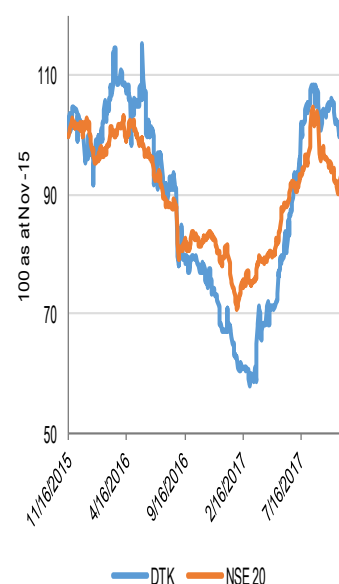
Non-performing assets surged 113.8% y/y (+79.7% q/q) to KES 16.6B as at 3Q17, with a large portion of the increase recorded in the third quarter. Consequently, the group's NPL ratio climbed to 8.2%, up 400 bps y/y. While the increase in non-performing assets will take a bite out of DTB's reputation of recording historically low NPLs; in our view, the surge in NPLs over the quarter is attributable to a select group of large problem accounts and we see little risk of a systemic deterioration of the lender's loan book at this time.

Looking ahead: DTB's focus on carving out a niche in the overcrowded Kenyan banking sector has rewarded the group with a strong and lucrative base of loyal clientele. The bank's steadily growing regional presence and increased focus on cheaper alternative banking channels are key selling points. As pressure on the industry mounts we anticipate DTB to leverage on these strengths to stay ahead of the pack. For shareholders, the potential for capital gains, outweighs the group's relatively low dividend yield (1.4%). This is highlighted by the group's 61.0% YTD gain in share price, making DTB one of the best performing stocks this year. DTB currently trades at an attractive 1.1 times book value and 7.4 times earnings.

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

Share Statistics	
Current Price (KES)	191.00
Issued shares (M)	279.6
Market cap (USD M)	513.5
Year end	Dec
Free float (%)	59.1

Price Trend



Source: Bloomberg

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	1Q16	2Q16	3Q16	4Q16	FY16	1Q17	2Q17	3Q17	% chg y/y	% chg q/q
	KES '000	KES '000	KES '000	KES '000	KES '000	KES '000	KES '000	KES '000	3Q17 vs 3Q16	3Q17 vs 2Q17
Income Statement										
Interest Income	8,191,568	8,538,233	8,769,271	8,313,804	33,812,876	8,184,490	8,666,785	8,840,354	0.8%	2.0%
Interest Expense	3,614,112	3,547,626	3,651,027	3,614,834	14,427,599	3,569,153	3,788,296	3,853,090	5.5%	1.7%
Net Interest Income	4,577,456	4,990,607	5,118,244	4,698,970	19,385,277	4,615,337	4,878,489	4,987,264	-2.6%	2.2%
Foreign Exchange Income	389,714	505,969	387,891	462,160	1,745,734	429,065	364,775	365,860	-5.7%	0.3%
Gross Fees and Commission	751,930	761,243	708,410	869,483	3,091,066	808,218	815,629	788,112	11.3%	-3.4%
Other Income	38,868	61,780	104,958	26,331	231,937	40,625	80,715	192,412	83.3%	138.4%
Non Interest Income	1,180,512	1,328,992	1,201,259	1,357,974	5,068,737	1,277,908	1,261,119	1,346,384	12.1%	6.8%
Total Operating Income	5,757,968	6,319,599	6,319,503	6,056,944	24,454,014	5,893,245	6,139,608	6,333,648	0.2%	3.2%
Loan Loss Provision Expense	886,405	1,304,269	1,410,485	668,378	4,269,537	634,970	1,080,789	1,178,085	-16.5%	9.0%
Total Operating Expenses	2,400,609	2,229,507	2,358,387.00	6,476,303	13,464,806	2,648,114	2,631,863	2,678,338	13.6%	1.8%
Profit Before Tax & Exceptional Items	2,470,954	2,785,823	2,550,631.00	3,181,800	10,989,208	2,610,161	2,426,956	2,477,225	-2.9%	2.1%
Share of Associate Profit After Tax	2,700	458	1,558.00	1,772	6,488	5,410	3,020	2,852	83.1%	-5.6%
Profit Before Tax	2,473,654	2,785,823	2,552,189.00	3,183,572	10,995,696	2,615,571	2,429,976	2,480,077	-2.8%	2.1%
Tax	-865,182	2,503,248	855,123.00	1,745,017	4,238,206	865,169	767,903	763,900	-10.7%	-0.5%
Profit After Tax and Exceptional Items	1,608,472	282,575	1,697,066.00	2,409,205	7,728,140	1,750,402	1,662,073	1,716,177	1.1%	3.3%
Non-controlling interest	134,961	2,220,673	159,741.00	150,049	554,201	174,340	41,105	177,967	11.4%	333.0%
Profit for the period after tax and non controlling interests	1,473,511	1,903,947	1,537,325.00	2,259,156	7,173,939	1,576,062	1,620,968	1,538,210	0.1%	-5.1%
EPS (KES)	5.53	7.15	5.77	8.49	26.94	5.92	6.08	5.42	-6.1%	-10.9%
DPS (KES)					2.60					
Balance Sheet										
Total Shareholders' Equity	35,162,362	36,345,246	37,805,650	41,029,313	41,029,313	42,566,013	43,518,935	46,744,126	23.6%	7.4%
Non-controlling interest	4,084,569	4,559,177	4,750,768	4,847,237	4,847,237	4,942,204	5,026,285	5,160,877	8.6%	2.7%
Deposits due to Banks & Financial Institutions	11,834,014	15,724,836	16,358,928	17,575,802	17,575,802	9,335,761	17,337,204	16,572,065	1.3%	-4.4%
Borrowed funds	23,644,990	24,791,852	23,333,447	22,062,229	22,062,229	20,276,785	17,143,582	18,069,948	-22.6%	5.4%
Customer Deposits	205,969,037	216,114,485	227,422,321	238,103,640	238,103,640	251,431,358	256,338,364	265,047,790	16.5%	3.4%
Total Liabilities	246,638,617	261,011,543	271,212,363	282,167,952	282,167,952	287,841,198	295,165,044	305,299,089	12.6%	3.4%
Total Equity and Liabilities	285,885,548	301,915,966	313,768,781	328,044,502	328,044,502	335,349,415	338,683,979	357,204,092	13.8%	5.5%
Cash and CBK Balances	24,227,649	25,946,967	19,884,227	27,480,328	27,480,328	29,433,389	26,918,524	27,535,234	38.5%	2.3%
Balances due from Banks & Financial Institutions	9,068,646	7,076,838	7,718,299	7,611,137	7,611,137	5,387,794	5,310,901	5,310,901	-31.2%	0.0%
Government and Other Securities	62,015,867	78,603,059	92,154,133	92,777,986	92,777,986	98,256,319	105,408,678	108,953,054	18.2%	3.4%
Net Loans and Advances	179,769,225	178,526,591	181,552,891	186,303,191	186,303,191	188,413,320	191,469,262	196,292,862	8.1%	2.5%
Fixed Assets	5,136,741	5,019,686	5,492,022	6,738,194	6,738,194	6,607,943	6,750,128	6,690,533	21.8%	-0.9%
Total Assets	285,885,548	301,915,966	313,768,781	328,044,502	328,044,502	335,349,415	343,710,264	357,204,092	13.8%	3.9%
Key Ratios										
Gross NPL (KES M)	7,202,441	7,402,105	7,757,805	7,523,969	7,523,969	8,442,081	9,228,694	16,582,748	113.8%	79.7%
Interest In Suspense (KES M)	810,235	1,084,338	1,381,664	1,471,145	1,471,145	1,830,264	1,995,393	2,492,883	80.4%	24.9%
Total NPL (KES M)	6,392,206	6,317,767	6,376,141	6,052,824	6,052,824	6,611,817	7,233,301	14,089,865	121.0%	94.8%
Loan Loss Provision (KES M)	3,546,780	3,988,172	5,244,536	4,968,968	4,968,968	5,472,638	6,019,066	6,615,487	26.1%	9.9%
Net NPL	2,845,426	2,329,595	1,131,605	1,083,856	1,083,856	1,139,179	1,214,235	7,474,378	560.5%	515.6%
NPL Ratio	3.9%	4.1%	4.2%	3.9%	3.9%	4.4%	4.7%	8.2%		
Coverage Ratio	49.2%	53.9%	67.6%	66.0%	66.0%	64.8%	65.2%	39.9%		
Cost of Risk	2.0%	2.9%	3.1%	1.4%	2.3%	1.3%	2.3%	2.4%		
Loan to Deposits	87.3%	82.6%	79.8%	78.2%	78.2%	74.9%	74.7%	74.1%		
Yield on Interest Earning Assets	13.1%	12.9%	12.5%	11.6%	11.8%	11.2%	11.5%	11.4%		
Cost of Funds	6.0%	5.5%	5.5%	5.2%	5.2%	5.1%	5.2%	5.1%		
NIM	7.1%	7.4%	7.0%	6.4%	6.6%	6.1%	6.3%	6.2%		
Non Funded/Total Income	20.5%	21.0%	19.0%	22.4%	20.7%	21.7%	20.5%	21.3%		
Cost to Income Ratio	41.7%	35.3%	37.3%	106.9%	55.1%	44.9%	42.9%	42.3%		
ROE	18.3%	3.1%	18.0%	23.5%	18.8%	16.4%	15.3%	14.7%		
ROA	2.3%	0.4%	2.2%	2.9%	2.4%	2.1%	1.9%	0.5%		
Core Capital/TRWA	14.9%	14.7%	14.9%	16.2%	16.2%	15.9%	16.0%	16.5%		
Total Capital/TRWA	4.4%	4.2%	4.4%	18.5%	18.5%	18.1%	18.0%	18.4%		
Liquidity Ratio	41.9%	47.8%	48.5%	50.2%	50.2%	52.0%	51.3%	51.2%		
P/E (x)								7.4		
P/B (x)								1.1		
Dividend Yield								1.4%		

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