

DTB | DIAMOND
TRUST
BANK

**Diamond Trust
Bank FY'23
Earnings Note**





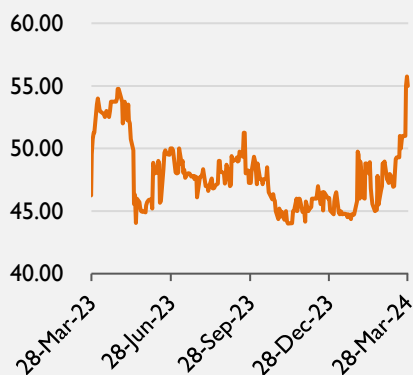
Diamond Trust Bank FY'23 Earnings Note

April 2nd, 2024

Ticker Information

NSE Code:	DTK
Issued Shares (Mn):	279.6
52-week high:	KES 56.00
52-week low:	KES 43.05

Chart 1: Price Trend (Last 12 Months)



Source: NSE, AIB-AXYS Research

Historical Share Performance

Last	1M	3M	6M	12M
Change	12.7%	19.4%	16.4%	11.0%

Source: NSE, AIB-AXYS Research

Analysts

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Recommendation

HOLD

Current Price

KES 55.00

Target Price

KES 58.25

Summary

- **Diamond Trust Bank** clocked within in-house expectations to record a modest 14.7% y/y growth in net earnings to **KES 7.79Bn** throughout 2023. Performance was shaped by a sharper growth in pre-provision operating expenses compared to operating incomes. Net interest margin widened marginally to 5.2% driven by higher reinvestment yields on interest-earning assets.
- **The Board of Directors** recommend a **first and final dividend of KES 6.00 per share**. This distribution fell above our expected total dividend range – translating to a dividend payout ratio of 21.5%. The dividend will be payable on 28th June 2024 to shareholders on register as of 24th May 2024.

Key Highlights

- **Strong Core Banking Performance:** Net Interest Income surged by 20.5% y/y to KES 27.57Bn fueled by organic demand growth while non-funded income expanded faster by 34.4% y/y to KES 12.15Bn driven by rebounded foreign exchange trading income. These drove a 24.4% y/y growth in operating income to KES 39.73Bn. The average Yield on Interest Earning Assets paced up 134bps y/y to 10.6% owing to higher reinvestment returns on loans and advances and investment securities. However, this increase was watered down by a 109bps y/y upsurge in cost of funds to 5.4% attributed to the prevailing rising interest rate landscape. Consequently, net interest margin widened marginally by 20bps y/y to 5.2%.
- **Asset Quality Deterioration:** Gross Non-Performing Loans (NPLs) significantly increased by 35.4% y/y to KES 43.64 Bn - outpacing the growth of the loan book - driving a 136bps y/y increase in the NPL ratio to 13.4%. NPL coverage declined by 485bps y/y to 41.4%. In response to the mounting credit risks, the management team amplified credit impairment provisions by 44.5% y/y, adopting a cautious stance amid an uncertain operating environment.

Balance Sheet Dynamics

Customer deposits grew 25.4% y/y to KES 486.09Bn supporting the 21.6% y/y loan book expansion to KES 308.45Bn. This led to a 200bps y/y decline in the loan deposit ratio to 63.5%. Management strategically increased its holdings of government securities by 7.4% y/y to KES 201.71Bn – capitalizing on the rising yield environment throughout 2023. However, the bank's fair value losses on government securities widened by 5.4% y/y to KES 2.93Bn, reflecting the impact of market volatility on the fixed-income portfolio.

Eroding Operating Efficiency

The Cost-to-Income ratio (excluding loan-loss provisions) deteriorated as reflected by the 495bps y/y increase to 51.7%. This deterioration was primarily driven by the bank's pre-provision operating expenses, which grew at a stronger double-digit rate of 37.5% y/y, outpacing the 24.4% y/y growth in operating income. The surge in expenses can be attributed to the lender's strategic investments in core digital infrastructure upgrades and the rising staff costs associated with the bank's branch expansion initiatives. The cost to assets ratio (excluding loan-loss provisions) increased 40bps y/y to 3.24%, indicating higher spending weighed on the bank's operational efficiency during the year.

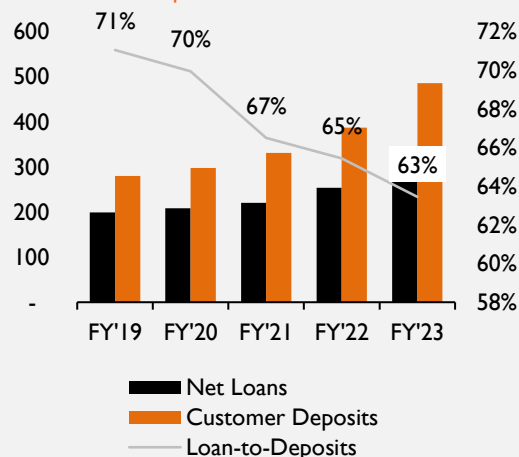
Outlook

We maintain a positive growth outlook for the lender driven by enhanced performance from subsidiaries amid ongoing digital transformation initiatives, as well as its expanding branch network. We expect the implementation of risk-based loan pricing to support interest income growth. However, we expect a sharper increase in operating expenses due to new branch openings in the near term - yet we remain positive for long-term revenue growth as a result.

Recommendation

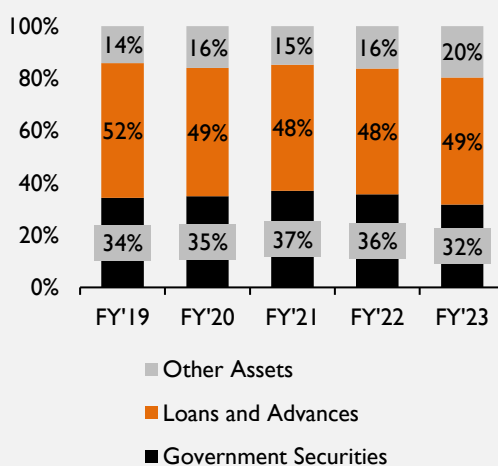
- **We maintain our *HOLD* recommendation on Diamond Trust Bank on account of lackluster return on equity momentum and shrinking capital buffers.** At the current market price, the stock is trading at P/E ratio of 2.2x and a P/B ratio of 0.2x. Our one-year target price for Diamond Trust Bank currently stands at KES 58.25 - representing a c.6.0% upside potential from current levels.

Chart 2: Faster Deposit Mobilization



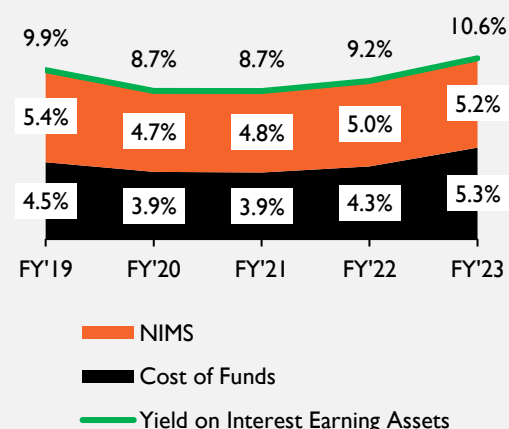
Source: Company filings, AIB-AXYS Research.

Chart 3: Asset Composition Mix



Source: Company filings, AIB-AXYS Research.

Chart 4: Widening Net Interest Margin



Source: Company filings, AIB-AXYS Research.

Income Statement (KES Bn)	FY'19	FY'20	FY'21	FY'22	FY'23	% y/y change
Net Interest Income	18.71	18.08	19.99	22.89	27.57	▲ 20.5%
Non-Interest Income	5.77	6.12	6.31	9.05	12.15	▲ 34.3%
Total Operating income	24.48	24.20	26.30	31.94	39.73	▲ 24.4%
Provision for Impairment	(1.32)	(7.32)	(7.56)	(7.14)	(10.32)	▲ 44.5%
Total Operating expenses	(13.22)	(19.67)	(19.88)	(22.08)	(30.87)	▲ 39.8%
Profit before tax	11.26	4.67	6.63	9.52	9.00	▼ (5.5%)
Profit after tax	7.27	3.53	4.41	6.79	7.79	▲ 14.7%
Core EPS Annualized	24.27	11.61	13.98	21.68	24.60	▲ 13.5%
DPS	2.70	-	3.00	5.00	6.00	▲ 20.0%

Balance Sheet (KES Bn)	FY'19	FY'20	FY'21	FY'22	FY'23	% y/y change
Government Securities	132.46	148.38	168.98	187.82	201.71	▲ 7.4%
Loans and Advances	199.09	208.59	220.43	253.67	308.45	▲ 21.6%
Total Assets	386.23	425.05	456.84	526.98	635.04	▲ 20.5%
Customer Deposits	280.19	298.17	331.45	387.56	486.09	▲ 25.4%
Total Liabilities	321.71	356.74	382.29	449.32	548.69	▲ 22.1%
Shareholder's Funds	58.85	61.97	67.29	68.96	74.89	▲ 8.6%

Ratio Analysis	FY'19	FY'20	FY'21	FY'22	FY'23	% y/y change
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Spreads Analysis

Yield on Assets	9.9%	8.7%	8.7%	9.2%	10.6%	▲ 1.3%
Cost of Funds	4.5%	3.9%	3.9%	4.3%	5.3%	▲ 1.1%
Net Interest Margin	5.4%	4.7%	4.8%	5.0%	5.2%	▲ 0.2%
ROaE	12.9%	5.8%	6.8%	10.0%	10.8%	▲ 0.9%
ROaA	1.9%	0.9%	1.0%	1.4%	1.3%	▼ (0.0%)
Profit Margin	29.7%	14.6%	16.8%	21.3%	19.6%	▼ (1.7%)

Operating Efficiency

Cost to Income Less LLP	48.6%	51.0%	46.9%	46.8%	51.7%	▲ 4.9%
Cost to Assets Less LLP	3.1%	2.9%	2.7%	2.8%	3.2%	▲ 0.4%
Loan to Deposit	71.1%	70.0%	66.5%	65.5%	63.5%	▼ (2.0%)

Asset Quality

Gross NPL Ratio	7.8%	10.4%	12.9%	12.0%	13.4%	▲ 1.3%
NPL Coverage	42.9%	44.6%	41.8%	46.3%	41.4%	▼ (4.8%)
Cost of Risk	1.3%	7.0%	6.9%	5.6%	6.7%	▲ 1.1%

Capital Adequacy

Core Capital/TRWA	19.1%	20.7%	19.9%	20.0%	16.3%	▼ (3.7%)
Total Capital /TRWA	20.9%	22.5%	21.2%	21.2%	17.0%	▼ (4.2%)
Liquidity	54.8%	56.0%	61.6%	58.3%	48.6%	▼ (9.7%)



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