

DTB | DIAMOND
TRUST
BANK

**Diamond Trust
Bank FY'24
Earnings Note**



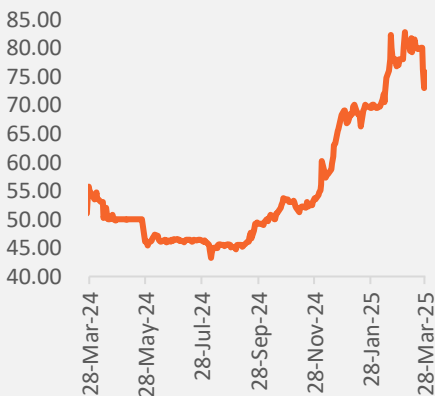
Diamond Trust Bank FY'24 Earnings Note

April 2nd, 2025

Ticker Information

NSE Code:	DTK
Issued Shares (Bn):	0.28
52-week high:	KES 83.25
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	-2.9%	11.0%	53.8%	37.7%

Source: NSE, AIB-AXYS Research

Recommendation

HOLD

Current Price

KES 75.75

Target Price

KES 85.68

Summary

- **Diamond Trust Bank registered a notable 13.1% y/y increase in net earnings in FY'24 to KES 8.82Bn.** This expansion in revenue was underpinned by a 7.0% y/y increase in Non-funded Income. Conversely, net interest income registered a modest 3.0% y/y increase to KES 28.39Bn, as higher funding costs- driven by the elevated interest rate environment- and a declining return on interest-earning assets saw the net interest margin contract 90bps to 4.4%. The trailing return on equity increased by 40bps to 10.8% while the trailing return on assets settled at 1.3%.

Key Highlights

- **Pressurized Net Interest Income:** Net interest Income expanded by a marginal 3.0% y/y to KES 28.39Bn, augmented by a 13.8% y/y rise in interest from loans and a 6.4% y/y growth in interest from government securities. We believe that the minimal growth witnessed in interest from government securities was due to the lender adopting a conservative approach in its investment of government securities, which limited its ability to capitalize on the attractive returns offered. Additionally, the elevated interest rate environment saw deposit mobilization costs rise 21.1 y/y to KES 25.29Bn, further weighing down net interest performance. In the end, yields on interest earnings assets declined by 160bps, overshadowing an 80bps decline in the costs of funds, leading to an ultimate 90bps decline in the net interest margin to 4.4%.
- **Recovering asset quality:** Gross Non-Performing Loan (NPLs) declined 13.2% y/y to KES 37.85Bn. This recovery resulted in a notable 80bps decline in the gross NPL ratio to 12.6%, indicating a reduction in credit risks for the bank, as management continued to employ prudent lending strategies. In line with improving loan book quality, management opted to reduce credit impairment provisions by 15.6% to KES 8.71Bn. We believe this decision is justified, as declining interest rates are expected to lower credit costs, minimizing default risks in the medium term.

Balance Sheet Dynamics

Customer deposits declined 8.0% y/y to KES 447.22Bn, while the loan book contracted 7.5%y/y to KES 285.30Bn. We believe that the decline in loan book growth was driven by the elevated interest rate environment that subdued credit demand, whilst shifting investor preferences saw customers shift deposits to alternative investments seeking higher returns. The lender continued to reduce its exposure to government securities, which registered a 14.1% y/y decline to KES 173.34 Bn- a move we believe was aimed at mitigating credit risks associated with government debt. While this shift led to lower realizable returns from reinvestment income, the lender's portfolio reallocation resulted in a net fair value gain of KES 4.75Bn, reversing the KES 2.92Bn loss recorded in FY'23.

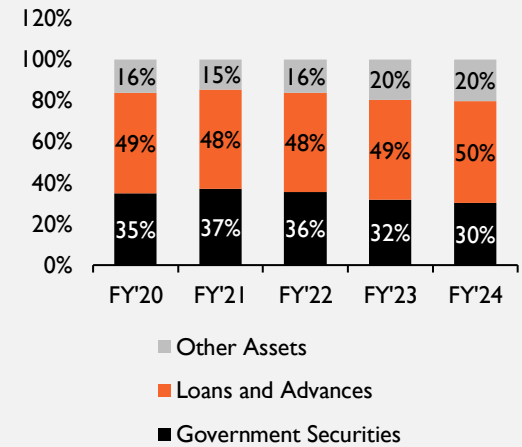
Outlook

We expect the lender's earnings momentum to be sustained by an uptick in interest income from loans and advances, with the bank expected to leverage its improving asset quality to support lending growth. The declining interest rate environment is also expected to ease lending rates, further stimulating credit expansion. Additionally, the lender's strategic expansion efforts are anticipated to enhance core banking performance as it gains access to a larger market base. However, this expansion strategy is likely to weigh on retained earnings in the short term due to rising operating expenses, with the cost-to-income ratio (excluding loan loss provisions) rising by 10bps to 51.8% in FY'24. The lender's high capital base is also expected to continue dampening return on equity (ROE) prospects, with the firm currently recording the lowest ROE in the banking sector. Furthermore, declining interest rates are expected to place additional pressure on net interest margins, potentially constraining interest income growth moving forward.

Recommendation

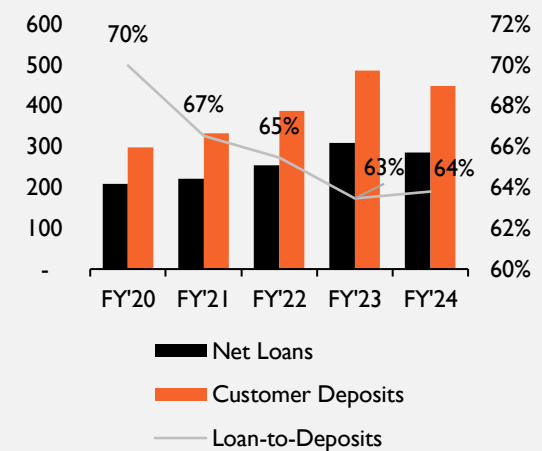
- **We maintain our HOLD recommendation on Diamond Trust Bank on account of its continued lackluster growth in its return on equity.** At the current market price, the stock is trading at a P/E ratio of 2.6x and a P/B ratio of 0.3x. Our one-year target price for Diamond Trust Bank currently stands at KES 85.68 - representing a c.13.1% upside potential from current levels.

Chart 2: Asset Composition



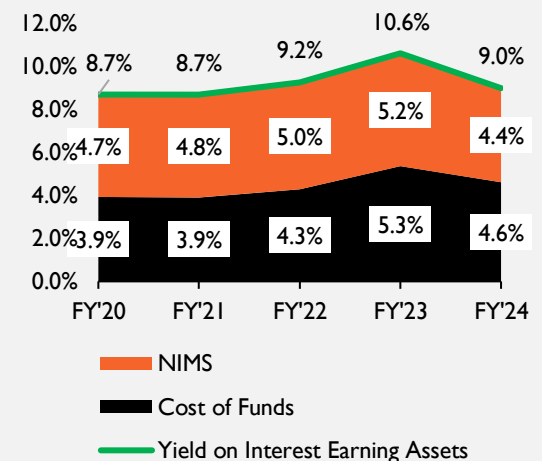
Source: Company filings, AIB-AXYS Research.

Chart 3: Slowdown in Deposit Mobilization



Source: Company filings, AIB-AXYS Research.

Chart 4: Narrowing Net Interest Margin



Source: Company filings, AIB-AXYS Research.

Income Statement (KES Bn)	FY'20	FY'21	FY'22	FY'23	FY'24	% y/y change
Net Interest Income	18.08	19.99	22.89	27.57	28.39	▲ 3.0%
Net non-Interest Income	6.12	6.31	9.05	12.15	13.04	▲ 7.3%
Total Operating income	24.20	26.30	31.94	39.73	41.43	▲ 4.3%
Provision for Impairment	(7.32)	(7.56)	(7.14)	(10.32)	(8.71)	▼ (15.6%)
Total Operating expenses	(19.67)	(19.88)	(22.08)	(30.87)	(30.16)	▼ (2.3%)
Profit before tax	4.67	6.63	9.52	9.00	11.19	▲ 24.2%
Profit after tax	3.53	4.41	6.79	7.79	8.82	▲ 13.1%
Core EPS Annualized	11.61	13.98	21.68	24.60	27.33	▲ 11.1%

Balance Sheet (KES Bn)	FY'20	FY'21	FY'22	FY'23	FY'24	% y/y change
Government Securities	148.38	168.98	187.82	201.71	173.34	▼ (14.1%)
Loans and Advances	208.59	220.43	253.67	308.45	285.30	▼ (7.5%)
Total Assets	425.05	456.84	526.98	635.04	573.89	▼ (9.6%)
Customer Deposits	298.17	331.45	387.56	486.09	447.22	▼ (8.0%)
Total Liabilities	356.74	382.29	449.32	548.69	481.53	▼ (12.2%)
Shareholder's Funds	61.97	67.29	68.96	74.89	81.78	▲ 9.2%

Ratio Analysis	FY'20	FY'21	FY'22	FY'23	FY'24	% y/y change
Spreads Analysis						
Yield on Assets	8.7%	8.7%	9.2%	10.6%	9.0%	▼ (1.6%)
Cost of Funds	3.9%	3.9%	4.3%	5.3%	4.6%	▼ (0.8%)
Net Interest Margin	4.7%	4.8%	5.0%	5.2%	4.4%	▼ (0.9%)
ROaE	5.8%	6.8%	10.0%	10.4%	10.8%	▲ 0.4%
ROaA	0.9%	1.0%	1.4%	1.3%	1.3%	▼ (0.0%)
Profit Margin	14.6%	16.8%	21.3%	19.6%	21.3%	▲ 1.7%

Operating Efficiency	FY'20	FY'21	FY'22	FY'23	FY'24	% y/y change
Cost to Income Less LLP	51.0%	46.9%	46.8%	51.7%	51.8%	▲ 0.1%
Cost to Assets Less LLP	2.9%	2.7%	2.8%	3.2%	3.7%	▲ 0.5%
Loan to Deposit	70.0%	66.5%	65.5%	63.5%	63.8%	▲ 0.3%

Asset Quality	FY'20	FY'21	FY'22	FY'23	FY'24	% y/y change
Gross NPL Ratio	10.4%	12.9%	12.0%	13.4%	12.6%	▼ (0.8%)
NPL Coverage	44.6%	41.8%	46.3%	41.4%	39.9%	▼ (1.6%)
Cost of Risk	3.5%	3.4%	2.8%	3.3%	3.1%	▼ (0.3%)

Capital Adequacy	FY'20	FY'21	FY'22	FY'23	FY'24	% y/y change
Core Capital/TRWA	20.7%	19.9%	20.0%	16.3%	15.7%	▼ (0.6%)
Total Capital /TRWA	22.5%	21.2%	21.2%	17.0%	17.3%	▲ 0.3%
Liquidity	56.0%	61.6%	58.3%	48.6%	49.9%	▲ 1.3%

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