

Diamond Trust Bank– 1H17 Earnings Update

Diamond Trust Bank Kenya announced a 5.3% y/y (+2.8% q/q) decline in net earnings to KES 3.2B in 1H17 earnings. Net interest income dipped 0.8% y/y (+5.7% q/q) to KES 9.5B while non-interest income marginally rose by 1.2% y/y (-1.3% q/q) to KES 2.5B. The lender did not declare an interim dividend.

Interest expenses grow faster than interest income

Total interest income slightly went up 0.7% y/y to KES 16.9B but increased 5.9% q/q. Interest from loans and advances declined 9.5% y/y to KES 11.2B even though the lender's loan book grew 7.2 % y/y (+1.6% q/q) to KES 191.5B. Interest income from government securities surged 33.1% y/y to KES 5.5B as the total stock of government securities shot up 34.1% y/y to KES 105.4B.

Total interest expenses rose 2.7% y/y (+6.1% q/q) to KES 7.4B. Interest expenses incurred from customers deposits climbed 2.8% y/y on the back of a 18.6% y/y (+2.0% q/q) spike in customer deposits. The growth in deposits has been partly driven by the appointment of DTB Bank as a receiver manager for Imperial Bank in 4Q15. We anticipate the trend to increase going forward since the acquisition of Habib Bank will augment its customer base and in turn bolster its top line.

Low Net Interest Margin (NIM) suppresses interest income

The bank's cost of funds dropped 40bps y/y to 2.7% while yield on interest earning assets sunk 150bps y/y to 11.2%, shrinking net interest margin to 5.0% (-40bps y/y). Consequently, net interest income dipped 0.8% y/y to KES 9.5B. Going forward, the bank will have to shift its deposit mix to rid itself off expensive deposits.

Slow growth in non funded income

Non interest income marginally increased 1.2% y/y (-1.3% q/q) to KES 2.5B mainly attributable to a 7.3% y/y rise in gross fees and commission to KES 1.6B. On the contrary, foreign exchange income declined 11.4% y/y to KES 793.8M as the first half of the year has seen a relative stability in the Kenyan Shilling leading to a reduction in currency trading. Non funded income contributed to 21.1% of total income, an increase of only 30bps y/y.

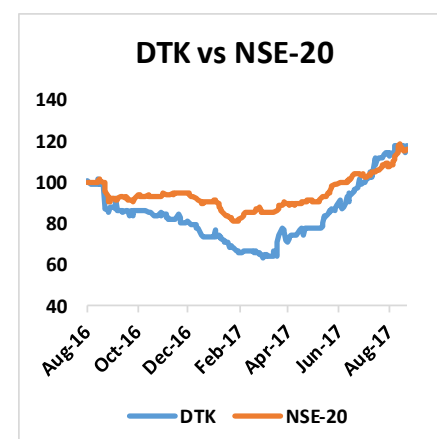
Loan loss provisions slashed despite a spike in NPLs

Gross NPLs spiked 24.7% y/y (+9.3% q/q) to KES 9.2B. However, loan loss provision expense plunged 21.7% y/y to KES 1.7B which led to a decline of 70bps in its cost of risk to 1.8%. Despite a 60bps y/y rise in the bank's NPL ratio to 4.7%, it marks the lowest ratio in its space. DTB's coverage ratio of 65.2% (+ 11.3% y/y) marks the highest in the banking

Bloomberg Ticker : DTKL.KN
Reuters Ticker: DTKL.NR

Share Statistics	
Current Price (KES)	190.00
Issued shares (M)	279.6
Market cap (USD M)	515.0
Year end	Dec
Foreign ownership (%)	49.7
Free float (%)	57.0
Avg daily trading vol (USD k)	78.4

Price Trend



Source: Bloomberg

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sector.

Looking ahead

The counter trades at 7.3x trailing FY16 earnings and a 1.2x trailing FY16 book value, with a dividend yield of 1.4%. DTB presents the best asset quality among its peers with a low NPL ratio of 4.7% and high coverage ratio of 65.2%. We anticipate a rise in customer deposits from Habib Bank but the lender will need to increase its non-interest bearing deposits over interest bearing deposits in a bid to reduce its interest expenses. Furthermore, the bank will need to put in more effort to grow its non-funded income to support its low interest income.

Habib Bank will present DTB with an opportunity to enter into the Islamic Banking space. This area has seen increased interest from banks including KCB Bank and Barclays Bank and is poised to be a key growth area for those pursuing it.

Overall, we remain optimistic about DTB Bank's growth prospects going forward.

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	FY15	1Q16	2Q16	3Q16	4Q16	FY16	1Q17	2Q17	% chg y/y	% chg q/q
	KES '000	KES '000	KES '000	KES '000	KES '000	KES '000	KES '000	KES '000	1H17 vs 1H16	2Q17 vs 1Q17
Income Statement										
Interest Income	25,825,179	8,191,568	8,538,233	8,769,271	8,313,804	33,812,876	8,184,490	8,666,785	0.7%	5.9%
Interest Expense	10,634,972	3,614,112	3,547,626	3,651,027	3,614,834	14,427,599	3,569,153	3,788,296	2.7%	6.1%
Net Interest Income	15,190,207	4,577,456	4,990,607	5,118,244	4,698,970	19,385,277	4,615,337	4,878,489	-0.8%	5.7%
Foreign Exchange Income	1,763,096	389,714	505,969	387,891	462,160	1,745,734	429,065	364,775	-11.4%	-15.0%
Gross Fees and Commission	2,773,883	751,930	761,243	708,410	869,483	3,091,066	808,218	815,629	7.3%	0.9%
Other Income	188,847	38,868	61,780	104,958	26,331	231,937	40,625	80,715	20.6%	98.7%
Non Interest Income	4,725,826	1,180,512	1,328,992	1,201,259	1,357,974	5,068,737	1,277,908	1,261,119	1.2%	-1.3%
Total Operating Income	19,916,033	5,757,968	6,319,599	6,319,503	6,056,944	24,454,014	5,893,245	6,139,608	-0.4%	4.2%
Loan Loss Provision Expense	2,178,175	886,405	1,304,269	1,410,485	668,378	4,269,537	634,970	1,080,789	-21.7%	70.2%
Total Operating Expenses	8,171,223	2,400,609	2,229,507	2,358,387	6,476,303	13,464,806	2,648,114	2,631,863	14.0%	-0.6%
Profit Before Tax & Exceptional Items	9,566,635	2,470,954	2,785,823	2,550,631.00	3,181,800	10,989,208	2,610,161	2,426,956	-4.2%	-7.0%
Share of Associate Profit After Tax	-1,443	2,700	458	1,558.00	1,772	6,488	5,410	3,020	166.9%	-44.2%
Profit Before Tax	9,565,192	2,473,654	2,785,823	2,552,189.00	3,183,572	10,995,696	2,615,571	2,429,976	-4.1%	-7.1%
Tax	2,965,386	-865,182	2,503,248	865,123.00	1,745,017	4,238,206	865,169	-2,498,241	-199.7%	-388.8%
Profit After Tax and Exceptional Items	6,599,806	1,608,472	282,575	1,697,066.00	2,409,205	7,728,140	1,750,402	1,662,073	-5.8%	-5.0%
Non-controlling interest	687,724	134,961	2,220,673	159,741.00	150,049	554,201	174,340	41,105	-11.9%	-76.4%
Profit for the period after tax and non controlling interests	5,912,082	1,473,511	1,903,947	1,537,325.00	2,259,156	7,173,939	1,576,062	1,620,968	-5.3%	2.8%
EPS (KES)	22.20	5.53	7.15	5.77	8.49	26.94	5.92	6.08	-5.4%	2.7%
DPS (KES)	2.50					2.60				
No. of shares	266,321,115	266,321,115	266,321,115	266,321,115	266,321,115	266,321,115	266,321,115	279,602,220		
Balance Sheet										
Total Shareholders' Equity	34,134,437	35,162,362	36,345,246	37,805,650	41,029,313	41,029,313	42,566,013	43,518,935	19.7%	2.2%
Non-controlling interest	4,170,951	4,084,569	4,559,177	4,750,768	4,847,237	4,847,237	4,942,204	5,026,285	10.2%	1.7%
Deposits due to Banks & Financial Institutions	8,406,398	11,834,014	15,724,836	16,368,928	17,575,802	17,575,802	9,335,761	17,337,204	10.3%	85.7%
Borrowed funds	26,141,690	23,644,990	24,791,852	23,333,447	22,062,229	22,062,229	20,276,785	17,143,582	-30.8%	-15.5%
Customer Deposits	194,051,857	205,969,037	216,114,485	227,422,321	238,103,640	238,103,640	251,431,358	256,338,364	18.6%	2.0%
Total Liabilities	233,303,209	246,638,617	261,011,543	271,212,363	282,167,952	282,167,952	287,841,198	295,165,044	13.1%	2.5%
Total Equity and Liabilities	271,608,597	285,885,548	301,915,966	313,768,781	328,044,502	328,044,502	335,349,415	338,683,979	12.2%	1.0%
Cash and CBK Balances	26,350,152	24,227,649	25,946,967	19,884,227	27,480,328	27,480,328	29,433,369	26,918,524	3.7%	-8.5%
Balances due from Banks & Financial Institutions	10,017,481	9,068,646	7,076,838	7,718,299	7,611,137	7,611,137	5,387,794	5,310,901	-25.0%	-1.4%
Government and Other Securities	47,066,915	62,015,867	78,603,059	92,154,133	92,777,986	92,777,986	98,256,319	105,408,678	34.1%	7.3%
Net Loans and Advances	177,544,871	179,769,225	178,526,591	181,552,891	186,303,191	186,303,191	188,413,320	191,469,262	7.2%	1.6%
Fixed Assets	5,618,767	5,136,741	5,019,686	5,492,022	6,738,194	6,738,194	6,607,943	6,750,128	34.5%	2.2%
Total Assets	271,608,597	285,885,548	301,915,966	313,768,781	328,044,502	328,044,502	335,349,415	343,710,264	13.8%	2.5%
Key Ratios										
Gross NPL (KES M)	4,914,257	7,202,441	7,402,105	7,757,805	7,523,969	7,523,969	8,442,081	9,228,694	24.7%	9.3%
Interest In Suspense (KES M)	639,360	810,235	1,084,338	1,381,664	1,471,145	1,471,145	1,830,264	1,995,393	84.0%	9.0%
Total NPL (KES M)	4,274,897	6,392,206	6,317,767	6,376,141	6,052,824	6,052,824	6,611,817	7,233,301	14.5%	9.4%
Loan Loss Provision (KES M)	2,820,579	3,546,780	3,988,172	5,244,536	4,968,968	4,968,968	5,472,638	6,019,066	50.9%	10.0%
Net NPL	1,454,318	2,845,426	2,329,595	1,131,605	1,083,856	1,083,856	1,139,179	1,214,235	-47.9%	6.6%
NPL Ratio	2.7%	3.9%	4.1%	4.2%	3.9%	3.9%	4.4%	4.7%		
Coverage Ratio	57.4%	49.2%	53.9%	67.6%	66.0%	66.0%	64.8%	65.2%		
Cost of Risk	1.2%	2.0%	2.9%	3.1%	1.4%	2.3%	1.3%	2.3%		
Loan to Deposits	91.5%	87.3%	82.6%	79.8%	78.2%	78.2%	74.9%	74.7%		
Yield on Interest Earning Assets	11.0%	13.1%	12.9%	12.5%	11.6%	11.8%	11.2%	11.5%		
Cost of Funds	4.7%	6.0%	5.5%	5.5%	5.2%	5.2%	5.1%	5.2%		
NIM	6.4%	7.1%	7.4%	7.0%	6.4%	6.6%	6.1%	6.3%		
Non Funded/Total Income	23.7%	20.5%	21.0%	19.0%	22.4%	20.7%	21.7%	20.5%		
Cost to Income Ratio	41.0%	41.7%	35.3%	37.3%	106.9%	55.1%	44.9%	42.9%		
ROE	17.3%	18.3%	3.1%	18.0%	23.5%	18.8%	16.4%	15.3%		
ROA	2.4%	2.3%	0.4%	0.5%	0.7%	2.4%	0.5%	0.5%		
Core Capital/TRWA	14.8%	14.9%	14.7%	14.9%	16.2%	16.2%	15.9%	16.0%		
Total Capital/TRWA	4.3%	4.4%	4.2%	4.4%	18.5%	18.5%	18.1%	18.0%		
Liquidity Ratio	39.0%	41.9%	47.8%	48.5%	50.2%	50.2%	52.0%	51.3%		
P/E (x)						7.3				
P/B (x)						1.2				
Dividend Yield						1.4%				

Source: Company Filings, ApexAfrica Research

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