

DIAMOND TRUST BANK

“Spectacular Earnings”

Diamond Trust Bank (DTB Bank) has announced fantastic FY16 earnings marking a 21.3% y/y surge in EPS to KES 26.94 (+9.3% q/q). Both net interest income (+27.6% y/y, -8.2% q/q) and non interest income (+7.3% y/y, +13.0% q/q) were key contributors to the solid bottom line growth, and not even a 96.0% y/y (-52.6% q/q) surge in provisions to KES 4.3B could mess up the trajectory. The BOD has recommended a dividend of KES 2.60 per share, a 4.0% y/y rise from the previous year. The bank has also announced the intended acquisition of Habib Bank’s entire Kenya business by issuance of 13.3m shares at KES 137.39, a 33.4% premium over yesterday’s closing price.

Loan book up; Higher Net Interest Margin (NIM) drives net interest income up

NIM expanded 20bps y/y to 6.6% as yields on interest earning assets accelerated faster (+80bps y/y) than the rise in cost of funds (+50bps y/y). Coupled with a 4.9% y/y growth in customer loans to KES 186.3B, this resulted in a record 27.6% y/y rise in net interest income to KES 19.4B.

Customer deposits surge, borrowed funds dip

Owing to its appointment as a receiver manager for Imperial Bank alongside KCB Bank, customer deposits surged 22.7% y/y to KES 238.1B. However, we note that 4Q16 marked a much slower growth, with deposits increasing by a paltry 4.7% q/q. This could imply a change in the deposit mix following the introduction of the rate cap as the bank may have sought to rid itself off expensive deposits. We also note that the bank paid off a substantial chunk of its borrowed funds which declined 15.6% y/y (-5.4% q/q) to KES 22.1B in an effort to keep a lean balance sheet in the face of slowed lending.

Gross NPLs mark a dramatic increase, asset quality remains sound

We note a 53.1% y/y surge in gross NPLs to KES 7.5B. As a result, the bank increased its loan loss provisions by 96.0% y/y to KES 4.3B, resulting in a whopping 110bps y/y rise in the cost of risk to 2.3%. While we draw comfort in 1) DTB Bank’s lower than sector NPL ratio at 3.9% (+120bps y/y) and 2) Prudent and adequate provisioning marked by its 82.1% coverage ratio-the highest in the banking sector, we remain worried that the bank will see further asset quality deterioration in FY17, resulting in an even higher cost of risk.

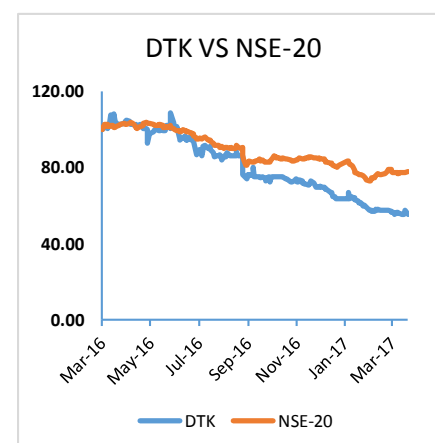
Should we expect the same growth momentum in 1Q17? The acquisition of Habib Bank may be the deciding factor.

In 4Q16, NIM weakened 60bps q/q following the introduction of the rate cap, while loan book grew at a much slower rate of 2.6% q/q. Assuming that NIM remains stable in 1Q16 given that no changes in lending/deposit rates have been witnessed so far, net interest income growth will be driven by a rise in customer loans. The probability of strong growth in loans and advances remains low as private sector lending is constrained. CBK announced that DTB Bank has expressed the intention to acquire Habib Bank, one of the Tier III banks with a 0.34% market share. This could be a strategy to ride on the lucrative Islamic Banking and may support growth for the bank going forward. We love DTB Bank for its efficiency (lowest CTI amongst Tier I banks at 37.6%) and best asset quality marked by a 3.9% NPL ratio vs industry’s >10.0%. Trading below book value at 0.8x with a 21.4% ROE, we believe the current price presents a good entry point for investors with an average risk appetite.

Bloomberg Ticker :	DTKL KN
Reuters Ticker:	DTKL.NR

Share Statistics	
Current Price (KES)	103.00
Issued shares (M)	266.3
Market cap (USD)	266.3
Year end	Dec
Foreign ownership (%)	50.4
Free float (%)	70.6
Av daily trading vol (USD)	57.705

Price Trend



Source: Bloomberg

Research Analyst

Joy D'Souza
Head of Research
jdsouza@apexafrica.com
+254 723 420204

Income Statement (KES m)	FY15	1Q16	2Q16	1H16	3Q16	9M16	4Q16	FY16	y/y%	ch q/q%	ch
Interest income	25,825	8,192	8,538	16,730	8,769	25,499	8,314	33,813	30.9%		-5.2%
Interest expense	(10,635)	(3,614)	(3,548)	(7,162)	(3,651)	(10,813)	(3,615)	(14,428)	35.7%		-1.0%
Net interest income	15,190	4,577	4,991	9,568	5,118	14,686	4,699	19,385	27.6%		-8.2%
Other operating income	189	39	62	101	105	206	26	232	22.8%		-74.9%
Fees and commission income	2,774	752	761	1,513	708	2,222	869	3,091	11.4%		22.7%
Net income from forex dealings	1,763	390	506	896	388	1,284	462	1,746	-1.0%		19.1%
Total non-interest income	4,726	1,181	1,329	2,510	1,201	3,711	1,358	5,069	7.3%		13.0%
Total income	19,916	5,758	6,320	12,078	6,320	18,397	6,057	24,454	22.8%		-4.2%
Less operating expenses	(8,171)	(2,401)	(2,230)	(4,630)	(2,358)	(6,989)	(2,207)	(9,195)	12.5%		-6.4%
Operating profit before bad debt charge	11,745	3,357	4,090	7,447	3,961	11,409	3,850	15,259	29.9%		-2.8%
Bad debt charge	(2,178)	(886)	(1,304)	(2,191)	(1,410)	(3,601)	(668)	(4,270)	96.0%		-52.6%
Share of profit of associate	(1)	3	0	3	2	5	2	6			13.7%
Profit before tax	9,565	2,474	2,786	5,260	2,552	7,812	3,184	10,996	15.0%		24.7%
Less tax	(2,965)	(865)	(773)	(1,638)	(855)	(2,493)	(774)	(3,268)	10.2%		-9.4%
Profit after tax & exceptional items	6,600	1,608	2,013	3,622	1,697	5,319	2,409	7,728	17.1%		42.0%
Non controlling interests	688						554	554			-19.4%
Attributable income	5,912	1,608	2,013	3,622	1,697	5,319	1,855	7,174	21.3%		9.3%
EPS (KES)	22.20	6.04	7.56	13.60	6.37	19.97	6.97	26.94	21.3%		9.3%
DPS (KES)	2.50							2.60			4.0%
No of shares	266	266	266	266	266	266	266	266	0.0%		0.0%

Balance sheet (KES m)	FY15	1Q16	2Q16	1H16	3Q16	9M16	4Q16	FY16	y/y%	ch q/q%	ch
Total shareholder's equity	34,134	35,162	36,345	36,345	37,806	37,806	41,029	41,029	20.2%		8.5%
Minority interest	4,171	4,085	4,559	4,559	4,751	4,751	4,847	4,847	16.2%		2.0%
Deposits from other banks	8,406	11,834	15,725	15,725	16,359	16,359	17,576	17,576	109.1%		7.4%
Customer deposits	194,052	205,969	216,114	216,114	227,422	227,422	238,104	238,104	22.7%		4.7%
Borrowed funds	26,142	23,645	24,792	24,792	23,333	23,333	22,062	22,062	-15.6%		-5.4%
Other liabilities	4,703	5,191	8,939	8,939	4,098	4,098	4,426	4,426	-5.9%		8.0%
Total equity and liabilities	271,609	285,886	301,916	301,916	313,769	313,769	328,045	328,045	20.8%		4.5%
Cash	4,325	4,596	4,449	4,449	4,235	4,235	5,904	5,904	36.5%		39.4%
Central bank balances	22,025	19,632	21,498	21,498	15,650	15,650	21,577	21,577	-2.0%		37.9%
Other bank balances	10,017	9,069	7,077	7,077	7,718	7,718	7,611	7,611	-24.0%		-1.4%
Investment securities	47,067	62,016	78,603	78,603	92,154	92,154	92,778	92,778	97.1%		0.7%
Customer loans and advances	177,545	179,769	178,527	178,527	181,553	181,553	186,303	186,303	4.9%		2.6%
Other assets	5,010	5,667	6,743	6,743	6,967	6,967	7,134	7,134	42.4%		2.4%
Fixed assets	5,619	5,137	5,020	5,020	5,492	5,492	6,738	6,738	19.9%		22.7%
Total assets	271,609	285,886	301,916	301,916	313,769	313,769	328,045	328,045	20.8%		4.5%

	FY15	1Q16	2Q16	1H16	3Q16	9M16	4Q16	FY16	y/y%	ch q/q%	ch
Net Loan/deposits	91.5%	87.3%	82.6%	82.6%	79.8%	79.8%	78.2%	78.2%	-13.2%		-1.6%
Gross NPLs	4,914	7,202	7,402	7,402	7,758	7,758	7,524	7,524	53.1%		-3.0%
Interest in suspense	639	810	1,084	1,084	1,382	1,382	1,471	1,471	130.1%		6.5%
Total NPLs	4,275	6,392	6,318	6,318	6,376	6,376	6,053	6,053	41.6%		-5.1%
Loan loss provision	2,821	3,547	3,988	3,988	5,245	5,245	4,969	4,969	76.2%		-5.3%
Yield on interest earning assets (%)	11.0%	13.1%	12.9%	12.7%	12.5%	12.1%	11.6%	11.8%	0.8%		-0.9%
Cost of funds (%)	4.7%	6.0%	5.5%	5.6%	5.5%	5.4%	5.2%	5.2%	0.5%		-0.3%
NIM	6.4%	7.1%	7.4%	7.1%	7.0%	6.7%	6.4%	6.6%	0.2%		-0.6%
NPL ratio	2.7%	3.9%	4.1%	4.1%	4.2%	4.2%	3.9%	3.9%	1.2%		-0.2%
Coverage ratio	66.0%	55.5%	63.1%	63.1%	82.3%	82.3%	82.1%	82.1%	16.1%		-0.2%
Non funded/Total income	23.7%	20.5%	21.0%	20.8%	19.0%	20.2%	22.4%	20.7%	-3.0%		3.4%
Cost to income ratio	41.0%	41.7%	35.3%	38.3%	37.3%	38.0%	36.4%	37.6%	-3.4%		-0.9%
ROaE (%)	19.7%	21.1%	25.6%	23.0%	20.9%	21.9%	21.4%	20.7%	1.0%		0.5%
ROA (%)	2.2%	2.3%	2.7%	2.4%	2.2%	2.3%	2.3%	2.2%	0.0%		0.1%
Core capital/TRWA	14.8%	14.9%	14.9%	14.7%	14.9%	14.9%	16.2%	16.2%	1.4%		1.3%
Total capital/TRWA	17.7%	17.7%	17.7%	17.1%	17.3%	17.3%	18.5%	18.5%	0.8%		1.2%
P/E (x)								3.8			
P/B (x)								0.8			
Dividend yield (%)								2.5			

Source: Company, ApexAfrica estimates

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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
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