

Diamond Trust Bank – 1H18 Earnings Update

“Non-interest Income Boosts Bottom-line”

Diamond Trust Bank’s 1H18 net earnings rose 10.0% y/y to KES 3.8B. The bottom-line was fueled by a 8.0% y/y rise in non-interest income to KES 2.7B and shielded by a 2.2% y/y marginal decline in loan loss provision expense to KES 1.7B.

Growth drivers

- Non interest income grew 8.0% y/y to KES 2.7B driven by a 70.4% y/y jump in other income to KES 206.7M and a 7.2% y/y growth in gross fees and commission income to KES 1.7B.
- Interest income was up 3.9% y/y to KES 17.5B driven by a 13.6% y/y growth in interest income from government securities (+22.5% y/y to KES 129.2B) to KES 6.3B. This was however pulled down by a 0.9% y/y decline in interest from loans and advances (+3.5% y/y to KES 198.2B) to KES 11.1B due to the prevailing rate cap.
- Loan loss provision expense marginally shrank 2.2% y/y to KES 1.7B shielding the bottom-line. However, gross NPLs sprang 65.6% y/y to KES 15.3B, this may lower the bank’s asset quality going forward. Coverage ratio stood at 55.3% with the NPL ratio at 7.4% below an industry average of 12.0%.

Challenges

- Deposits grew 9.9% y/y to KES 281.7B causing a 3.0% y/y rise in interest expenses to KES 7.6B. Given Tier 1’s average cost of funds is 3.5%, DTK’s cost at 5.0% ranks above average; suggesting it’s struggling to mobilize cheap deposits. In addition, the bank may be offering above market rates to maintain its retail client base.
- Operating expenses burgeoned 6.1% y/y to KES 5.6B driven by a 10.7% y/y rise in other operating expenses to KES 2.4B. However, the bank’s cost to income ratio of 44.2% remains below 50.0% which is commendable.

Into the future:

We applaud the bank’s efforts to grow its deposits despite tight liquidity conditions but remain cautious of its costs of funds at 5.0% (Tier 1 average of 3.5%). Despite the leap in its gross NPLs, improved macroeconomic conditions and aggressive debt collection strategies by the bank may lower the NPLs towards the end of FY18. However, this may still be hindered by continued headwinds facing some of their corporate clients.

We expect that with the bank’s long run strategy of improving footprint in Kenya, we may see its operating expenses rise further. This may however be offset by digitization of transactions taming expenses and boosting non funded income.

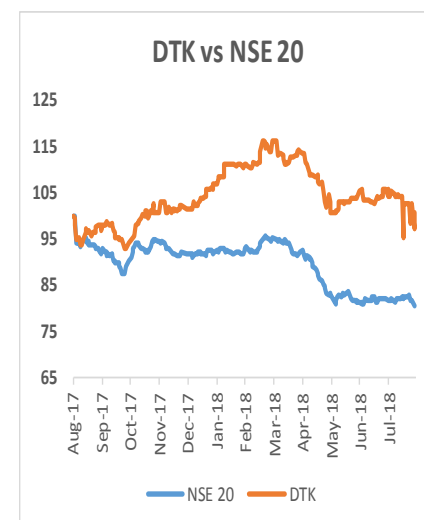
We encourage exposure in the counter based on expected stellar performance in FY18 and growth fuelled by non interest income as opposed to a slash in loan loss provision expense. The counter is currently trading at P/E and P/B multiples of 9.5x and 1.2x respectively against Tier 1 average of 9.0x and 1.5x respectively.

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

Share Statistics

Current Price (KES)	190.00
Issued shares (M)	279.6
Market cap (USD M)	530.2
Year end	Dec
Foreign ownership (%)	49.7
Free float (%)	59.1
Av daily trading vol (USDk)	355.8

Price Trend



Source: Bloomberg

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	FY16	1H17	FY17	1H18	% chg y/y
	KES '000	KES '000	KES '000	KES '000	
Income Statement					
Interest Income	33,812,876	16,851,275	34,628,790	17,503,499	3.9
Interest Expense	14,427,599	7,357,449	14,953,712	7,575,006	3.0
Net Interest Income	19,385,277	9,493,826	19,675,078	9,928,493	4.6
Foreign Exchange Income	1,745,734	793,840	1,596,970	795,912	0.3
Gross Fees and Commission	3,091,066	1,623,847	3,256,414	1,740,244	7.2
Other Income	231,937	121,340	422,025	206,711	70.4
Non Interest Income	5,068,737	2,539,027	5,275,409	2,742,867	8.0
Total Operating Income	24,454,014	12,032,853	24,950,487	12,671,360	5.3
Total Operating Expenses	9,195,269	5,279,977	10,559,865	5,599,713	6.1
Loan Loss Provision Expense	4,269,537	1,715,759	4,300,777	1,677,189	-2.2
Operating Profit	15,258,745	6,752,876	14,390,622	7,071,647	4.7
Share of associate profit after tax	6,488	8,430	8,390	6,553	-22.3
Profit Before Tax	10,995,696	5,045,547	10,098,235	5,401,011	7.0
Current Tax	3,267,556	1,633,072	3,173,195	1,645,688	0.8
Profit After Tax	7,728,140	3,412,475	6,925,040	3,755,323	10.0
Non controlling interests	554,201	215,445	475,229	257,689	19.6
Profit for the period	7,173,939	3,197,030	6,449,811	3,497,634	9.4
EPS (KES)	25.66	11.43	23.07	12.51	9.4
DPS (KES)	2.60		2.60		
Balance Sheet					
Total Shareholders' Equity	45,876,549	48,545,220	48,369,795	54,990,268	13.3
Deposits due to Banks & Financial Institutions	17,575,802	17,337,204	20,503,993	18,729,383	8.0
Customer Deposits	238,103,640	256,338,364	266,246,854	281,745,588	9.9
Total Liabilities	282,167,952	295,165,044	309,683,645	321,087,483	8.8
Total Equity and Liabilities	328,044,501	343,710,264	358,053,440	376,077,751	9.4
Cash and CBK Balances	27,480,328	26,918,524	25,008,851	22,156,335	-17.7
Balances due from Banks & Financial Institutions	7,611,137	5,310,901	12,516,371	11,224,603	111.4
Government and Other Securities	92,777,986	105,408,678	114,350,899	129,172,148	22.5
Net Loans and advances	186,303,191	191,469,262	196,048,155	198,233,933	3.5
Fixed Assets	6,738,194	6,750,128	6,716,249	6,867,039	1.7
Total Assets	328,044,501	343,710,264	363,303,400	376,077,751	9.4
Key Ratios					
Gross NPL (KES M)	7,523,969	9,228,694	14,833,944	15,278,642	65.6
Interest In Suspense (KES M)	1,471,145	1,995,393	1,783,544	2,354,179	18.0
Total NPL (KES M)	6,052,824	7,233,301	13,050,400	12,924,463	78.7
Loan Loss Provision (KES M)	4,968,968	6,019,066	8,233,546	8,453,524	40.4
Net NPL	1,083,856	1,214,235	4,816,854	4,470,939	268.2
NPL Ratio	3.9%	4.7%	7.3%	7.4%	
Coverage Ratio	66.0%	65.2%	55.5%	55.3%	
Cost of Risk	2.3%	1.8%	2.2%	1.7%	
Loan to Deposits	78.2%	74.7%	73.6%	70.4%	
Yield on Interest Earning Assets	11.8%	11.2%	10.7%	10.3%	
Cost of Funds	5.6%	5.4%	5.2%	5.0%	
NIM	6.2%	9.9%	5.5%	10.0%	
Non Funded/Total Income	20.7%	21.1%	21.1%	21.6%	
Cost to Income Ratio	37.6%	43.9%	42.3%	44.2%	
ROE	16.8%	14.1%	14.3%	13.7%	
ROA	2.4%	2.0%	1.9%	2.0%	
Core Capital/TRWA	16.2%	16.0%	17.3%	17.4%	
Total Capital/TRWA	18.5%	18.0%	19.0%	18.7%	
Liquidity Ratio	50.2%	51.3%	49.9%	51.1%	
P/E (x)			9.5		
P/B (x)			1.3		
Dividend Yield (%)			1.2		

Source: Company Filings, ApexAfrica Research

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