

DIAMOND TRUST BANK KENYA Q1'2023 EARNINGS UPDATE

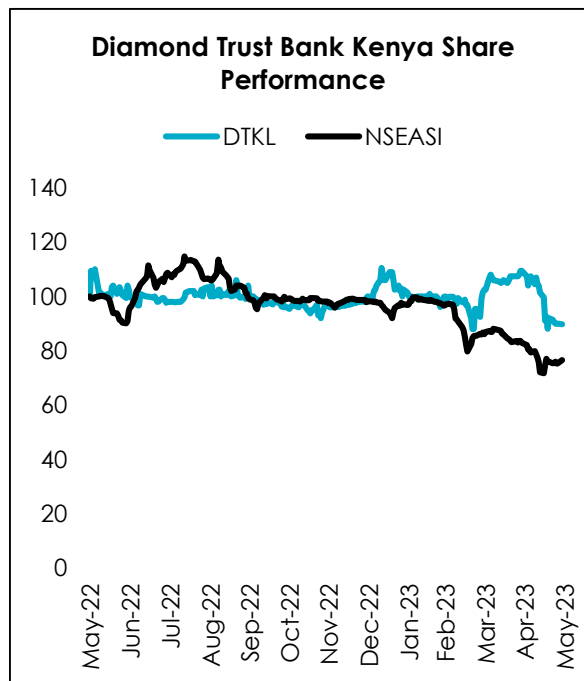
Diamond Trust Bank released its Q1 2023 financial results posting an **11.0%** surge in profit after tax largely attributable to 59.1% y/y increase in non-funded income to KES 2.81Bn driven by 90.1% y/y increase in FX income to KES 1.47Bn and a 20.7% increase in net interest income to KES 6.68Bn. The **Return on Equity** increased to **3.0%**. **Earnings per share** rose to **KES 8.65** from KES 7.79 in the previous financial year.

Q12023 Performance – % y/y performance

- Earnings:** Operating income grew by 30.0% to KES 9.49Bn driven by 59.1% growth in non-interest income, to KES 2.81Bn. This was largely attributable to foreign exchange trading income that grew by 90.1% to KES 1.47Bn as the bank leveraged on wider spreads. Interest income grew by 32.1% to KES 12.19Bn driven by 32.9% increase in interest from loans and advances to KES 6.43Bn.
- Loan book:** The bank's loans and advances to customers grew by 20.3% to KES 270.36Bn faster than the 17.9% growth in deposits to KES 404.63Bn. This led to a 130bps increase in the loan to deposit ratio to 66.8% from 65.5% recorded in FY2022.
- Customer deposits:** grew by 17.9% to KES 404.6Bn supported by the lender's growing branch and digital footprint and expanded value propositions. The seven branches opened in 2022 raised the bank's total distribution network to 134 as of December. The lender's development of partnerships and distinctive ecosystems in key sectors such as SMEs, Health, Education, agro among other sectors saw its retail deposits tick upwards to 23% in FY22.
- Government securities** recorded 3.1% growth to KES 131.63Bn attributable to a favorable interest rate environment. Yields on treasury bills and bonds across various tenors sustained upward pressure in the Q1'2023. The yields on the 91, 182, and 364-day papers are currently at 10.832%, 11.113% and 11.457%, respectively.
- Efficiency:** Cost to income ratio including provisions surged to 61.7% from 53.3% recorded in 2022. Cost to income ratio excluding provisions saw a rise to 47.3% from 45.3%. Moreover, operating costs grew by 35.6% to KES 4.48Bn
- Asset Quality:** Gross NPLs grew by 17.1% to KES 35.1Bn while loan loss provisions shot up substantially by 134.7% to KES 1.36Bn from KES 0.582Bn in the previous year. This was largely attributable to NPL's in the trade and retail sector, which is the lender's prevalent sector with a 21.4% distribution of the lender's loan and advances.

Share Data	Diamond Trust Bank
Ticker	DTKL KN
RECOMMENDATION	BUY
Current Price (KES)	44.90
Target Price (KES)	62.53
Dividend Yield	11.14%
Upside	39.3%
52WK High (KES)	57.00
52WK Low (KES)	43.75
Market Cap (KES Bn)	12.55
Free Float	55.94%
P/B	0.1x
P/E	5.2x
<i>Current Price = as of 29th May 2023</i>	

Source: Bloomberg, NSE, NCBA IB Research



Source: NSE, NCBA IB Research

Financial Summary

DTBK LTD	Key Metrics Y/Y	DTBK LTD	Key Ratios Y/Y
Loans and Advances	Up 20.3% to KES 270.4Bn	Loan Deposit ratio	Up to 66.8% from 65.5%
Customer Deposits	Up 17.9% to KES 404.63Bn	Net Interest Margin	Constant at 1.2%
Government Securities	Up 3.1% to KES 131.63Bn	Cost to Income	Up to 47.3% from 45.3%
Net Interest Income	Up 20.7% to KES 6.68Bn	NPL Ratio	Down to 11.5% from 11.8%
Non-Funded Income	Up 59.1% to KES 2.81Bn	Cost of Risk	up to 0.5% from 0.3%
Forex trading income	Up 90.1% to KES 1.47Bn	ROE	Up to 3.0% from 2.7%
Loan Loss Provisions	Up 134.7% to KES 1.37Bn	Current Market Price	KES 44.9
PBT	Up 7.6% to KES 3.65Bn	P/E	5.2x
PAT	Up 11.0% to KES 2.42Bn	P/B	0.1x
EPS	Up 11.0% to KES 8.65	Target price	KES 62.53

Source: Company financials, NCBA IB Research

2023 Outlook

We expect Diamond trust bank to record steady growth boosted by:

- Branch expansion drive:** The lender is set to open 24 more branches in Kenya before the end of 2023 signaling a sizeable expansion in its branch network as part of the bank's plan to deepen its market presence.
- Strong performance of regional subsidiaries:** The banking subsidiaries in Tanzania, Uganda and Burundi contributed 30.5% of total assets and profitability in FY22'. Following its drive to enhance its regional footprint, subsidiaries will continue to anchor the Group's performance.
- Digital transformation:** The group has scaled up its investment in digital technology and knowhow to KES 3.5Bn across 2022-2024 to diversify revenue streams and scaling business opportunities. The bank's newly launched 'Astra' and 'infiniti pay' programs which support the Small and medium enterprises will increase the trade flows, as SMEs are critical drivers of the economy.

Investment recommendation:

Going forward the bank will continue to leverage on technology to scale up mass retail and corporate business. The lender will pursue its business growth strategy of expanding customer base and adopting an ecosystem approach of servicing customers who operate, across East Africa's key economic sectors. In developing value propositions, the lender will leverage both traditional channels as well as digital platforms.

The stock presents an opportunity for long-term investors to earn **capital gains** and an attractive dividend yield.

We expect Diamond trust bank to deliver long-term profitability based on its focus on regional expansion and strong customer base.

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NCBA Investment Bank is a subsidiary of NCBA Group. The services offered by the brokerage department include equities trading for listed securities, fixed income trading for both corporate and government bonds, Over the Counter (OTC) equity transactions as well as execution of equities transactions across the East African countries. Additionally, NCBA Investment Bank backs these activities with solid advice from the research team to enable investors meet their return objectives. NCBA Investment Bank deploys simple and convenient client driven technologies, robust risk management, highly competent and experienced staff and has the backing of robust research capabilities to differentiate itself from other players in the market.

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Rating Definitions

BUY – Total expected 12-month return (incl. dividends) greater than 20%

ACCUMULATE - Total expected 12-month return (incl. dividends) between 10% - 20%

HOLD – Total expected 12-month return (incl. dividends) between 0% -10%

SELL – Total expected 12-month return (incl. dividends) less than 0%

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