

# DYER & BLAIR INVESTMENT BANK

## EARNINGS UPDATE

Founder Member of the Nairobi Securities Exchange

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DYER & BLAIR  
INVESTMENT BANK

WE KNOW. YOU KNOW.

### DIAMOND TRUST BANK GROUP: 1H18 EARNINGS UPDATE

Dear All,

**DIAMOND TRUST BANK (DTB) announced its 1H18 results recording a 10.0% y-o-y growth in PAT to KES 3.8 BN.** Attributable income rose 9.4% y-o-y to KES 3.5 BN. EPS for the period stood at KES 12.51. Its trailing EPS stands at KES 24.24, up 4.3% y-o-y. Its annualized ROA and ROE declined 13 bps and 45 bps y-o-y to 1.9% and 12.7% respectively.

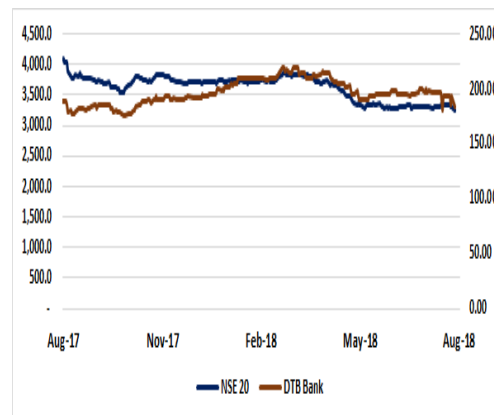
Below please find key highlights:

**Net interest income rose 4.6% y-o-y to KES 9.9 BN.** This followed a 3.9% y-o-y rise in interest income to KES 17.5 BN and a 3.0% y-o-y rise in interest expense to KES 7.6 BN. Annualized yield on interest earning assets declined 82 bps y-o-y to 10.3% whereas annualized cost of funds declined 29 bps y-o-y to 4.8%. As a result, annualized Net Interest Margin (NIMs) dropped 53 bps y-o-y rise to 5.6%.

**Interest income from loans and advances** declined 0.9% y-o-y to KES 11.1 BN placing the annualized yield on average loans at 11.3%, down 70 bps y-o-y. Interest income from government securities rose 13.6% y-o-y to KES 6.3 BN placing the annualized yield on average government securities at 10.8%, down 130 bps y-o-y. Interest expense on customer deposits rose 1.9% y-o-y to KES 6.8 BN placing the annualized cost of average deposits at 5.0%, down 60 bps y-o-y.

**Non interest income rose 8.0% y-o-y to KES 2.7 BN** following a 0.3% y-o-y in forex income to KES 795.9 MN and a 7.2% y-o-y rise in fees and commissions to KES 1.7 BN comprising an 11.7% y-o-y rise in fees on loans to KES 707.9 MN and a 4.3% y-o-y rise in other fees and commissions to KES 1.0 BN. Funded income reliance declined 55 bps y-o-y to 78.4%.

### DTB BANK: 52 WEEK PRICE PERFORMANCE



(Source: NSE, DBIB Research)

PRICE RETURN	ABSOLUTE RETURN	EXCESS RETURN
3 months(%)	(5.2)	(2.2)
6 months(%)	(12.4)	0.7
12 months(%)	(2.7)	17.6

### KEY METRICS

Current Price (KES)	184.00
52 week Range (KES)	175.00-219.00
YTD Return (%)	(4.2)
Issued Shares (MN)	279.6
Market Cap (USD MN)	510.1

Recommendation	HOLD
Trailing EPS (KES)	24.24
NAV (KES)	178.87
P/E (x)	7.6
P/B (x)	1.0
Div Yld (%)	-

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**Operating expenses (less loan loss provisions) rose 6.1% y-o-y to KES 5.6 BN.** This was mainly due to a 10.7% y-o-y rise in other operating expenses to KES 2.4 BN and a 3.8% y-o-y rise in staff costs to KES 2.1 BN. Cost to income ratio rose 31 bps y-o-y to 44.2%.

**Total assets grew 9.4% y-o-y to KES 376.1 BN (+2.3% q-o-q).** This followed a 3.5% y-o-y rise in customer loans and advances to KES 198.2 BN and a 22.5% y-o-y rise in investment securities to KES 129.2 BN.

**Customer deposits rose 9.9% y-o-y to KES 281.7 BN (+3.6% q-o-q)** whereas borrowed funds declined 1.2% y-o-y to KES 16.9 BN. Loan to deposits ratio declined 433 bps y-o-y to 70.4% whereas loans to deposits and borrowed funds ratio rose 53 bps y-o-y to 66.4%.

**Gross non-performing loans (NPLs) rose 65.6% y-o-y to KES 15.3 BN** whereas interest in suspense rose 18.0% y-o-y to KES 2.4 BN. As a result, total NPLs rose 78.7% y-o-y to KES 12.9 BN. Loan loss provisions rose 40.4% y-o-y to KES 8.5 BN. We attribute these changes to the implementation of IFRS 9. NPL ratio (Gross NPL/ Gross Loan) declined 19 bps y-o-y to 7.2%. NPL coverage ratio rose 243 bps y-o-y to 65.4%.

**Capital adequacy ratios:** DTB Kenya's core capital to Total Risk Weighted Assets (TRWA) gained 140 bps y-o-y to 17.4% (down 10 bps q-o-q) whereas its Total capital to TRWA rose 70 bps y-o-y to 18.7% (down 40 bps q-o-q). Both ratios remain above the statutory minimum of 10.5% and 14.5% respectively. Relatively high capital ratios are a testament to the group's superior asset quality and provisioning levels over the years. Liquidity ratio declined 20 bps y-o-y to 51.1% above the statutory minimum of 20.0%.

**Going forward:** On a trailing basis, DTB is trading at a P/E of 7.6x relative to an industry median of 7.9x, a P/B of 1.0x relative to an industry median of 1.0x. Its ROA stands at 1.9%, relative to an industry median of 2.3% whereas its ROE stands at 12.7%, relative to an industry median of 16.1%. We maintain our **HOLD** recommendation.

## PROFIT AND LOSS SUMMARY (KES MN)

Year End: December	1H18	1H17	y-y% ch	2Q18	1Q18	2Q17	y-y% ch	q-q% ch
Interest income	17,503	16,851	3.9	8,919	8,585	8,667	2.9	3.9
Interest expense	7,575	7,357	3.0	3,857	3,718	3,788	1.8	3.7
Net interest income	9,928	9,494	4.6	5,062	4,866	4,878	3.8	4.0
Other operating income	207	121	70.4	113	94	81	39.8	20.3
Fees and commission income	1,740	1,624	7.2	865	875	816	6.1	(1.1)
Net income from forex dealings	796	794	0.3	430	366	365	17.9	17.6
Total non-interest income	2,743	2,539	8.0	1,408	1,335	1,261	11.7	5.5
Total income	12,671	12,033	5.3	6,470	6,201	6,140	5.4	4.3
Less operating expenses	(5,600)	(5,280)	6.1	(2,808)	(2,792)	(2,632)	6.7	0.6
Operating profit	7,072	6,753	4.7	3,663	3,409	3,508	4.4	7.4
Bad debt charge	(1,677)	(1,716)	(2.2)	(981)	(697)	(1,081)	(9.3)	40.8
Exceptional items	7	8	(22.3)	2	5	3	(40.7)	(62.4)
Profit before tax	5,401	5,046	7.0	2,684	2,717	2,430	10.4	(1.2)
Less tax	(1,646)	(1,633)	0.8	(731)	(915)	(768)	(4.9)	(20.2)
Profit after tax	3,755	3,412	10.0	1,953	1,802	1,662	17.5	8.4
Attributable Income	3,498	3,197	9.4	1,817	1,681	1,621	12.1	8.1
EPS (KES)	12.51	12.00	4.3	6.50	6.01	5.49	18.4	8.2

(Source: Company, DBIB Research)

## BALANCE SHEET SUMMARY (KES MN)

Year End: December	1H18	1Q18	1H17	y-y% ch	q-q% ch
Total shareholder's equity	50,012	49,676	43,519	14.9	0.7
Minority interest	4,978	5,171	5,026	(1.0)	(3.7)
Total Equity	54,990	54,848	48,545	13.3	0.3
Deposits due to other banks	18,729	19,066	17,337	8.0	(1.8)
Customer deposits	281,746	271,852	256,338	9.9	3.6
Borrowed funds	16,936	18,305	17,144	(1.2)	(7.5)
Other liabilities	3,676	3,614	4,346	(15.4)	1.7
Total equity and liabilities	376,078	367,685	343,710	9.4	2.3
Central bank balances & Cash	22,156	24,843	26,919	(17.7)	(10.8)
Deposits due from banks	11,225	13,772	5,311	111.4	(18.5)
Investment Securities	129,172	119,388	105,409	22.5	8.2
Held for dealing securities	-	-	-	-	-
Customer loans and advances	198,234	194,113	191,469	3.5	2.1
Other assets	7,268	7,537	6,430	13.0	(3.6)
Intangible assets	1,156	1,193	1,423	(18.7)	(3.1)
Fixed assets	6,867	6,839	6,750	1.7	0.4
Total assets	376,078	367,685	343,710	9.4	2.3

(Source: Company, DBIB Research)

## INVESTMENT RETURN

	1H18	1Q18	1H17	y-y bps ch	q-q bps ch
ROA (%)*	1.9	1.8	2.0	(13)	3
ROIC (%)*	2.0	1.9	2.1	(14)	3
ROE (%)*	12.7	12.3	13.2	(45)	46

(Source: Company, DBIB Research)

\*Annualized

## CAPITAL ADEQUACY, LIQUIDITY & ASSET QUALITY

	1H18	1Q18	1H17	y-y bps ch	q-q bps ch
Core capital/TRWA (%)	17.4	17.5	16.0	140	(10)
Min. Statutory Ratio (%)	10.5	10.5	10.5	-	-
Total capital/TRWA (%)	18.7	19.1	18.0	70	(40)
Min. Statutory Ratio (%)	14.5	14.5	14.5	-	-
Liquidity Ratio (%)	51.1	51.5	51.3	(20)	(40)
Min. Statutory Ratio (%)	20.0	20.0	20.0	-	-
Leverage Ratio (%)	13.3	13.5	12.7	64	(21)
Equity-to-Loans Ratio (%)	27.7	28.3	25.4	239	(52)
NPL Ratio (%)	7.2	7.3	4.6	256	(19)
NPL Coverage Ratio (%)	65.4	63.0	83.2	(1,781)	243
Long Term Debt to Total Liabilities and Equity (%)	4.5	5.0	5.0	(48)	(47)
NTA/share (KES)	174.7	173.4	158.1	1,667	133
Book value/share (KES)	178.9	177.7	163.4	1,546	120

(Source: Company, DBIB Research)

\*\*Total Loan Portfolio net of Interbank Lending

## OPERATING PERFORMANCE

	1H18	1Q18	1H17	y-y bps ch	q-q bps ch
Yield on interest earning assets (%)*	10.3	10.5	11.2	(82)	(15)
Cost of funds (%)*	(4.8)	4.8	5.1	(983)	(958)
Net Interest Margin (%)*	15.1	5.7	6.1	902	943
Loan-to-Deposits ratio (%)	70.4	71.4	74.7	(433)	(104)
Loan-to-Dep.& Borrowed Funds ratio (%)	66.4	66.9	65.8	53	(53)
Funded Income Generating Potential (%)	90.0	89.0	87.9	212	103
Funded Income Reliance (%)	78.4	78.5	78.9	(55)	(12)
Cost to income ratio (%)	44.2	45.0	43.9	31	(83)
Pre-tax margin (%)	42.6	43.8	41.9	69	(119)
PAT margin (%)	29.6	29.1	28.4	128	58

\*Annualized

(Source: Company, DBIB Research)

## APPENDIX

### COMPANY INVESTMENT RATINGS

**Buy:** Share price may generate more than 15.0% upside over the next 12 months

**Overweight:** Share price may generate between 5.0% and 15.0% upside over the next 12 months

**Hold:** Share price may fall within the range of <+5.0/ -10.0% over the next 12 months

**Take Profit:** Target price has been attained. Look to accumulate at lower levels. Company fundamentals however remain strong

**Underweight:** Share price may generate between 10.0% and 15.0% downside over the next 12 months

**Sell:** Share price may generate more than 15.0% downside over the next 12 months, significant business and/or financial risks present, industry concerns

**Not Rated:** Counter is not within regular research coverage

### SECTOR INVESTMENT RATINGS

**Overweight:** Industry performance better than that of the whole market

**Equal weight:** Industry performance about the same as that of the whole market

**Underweight:** Industry performance worse than that of the whole market

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