

# KINGDOM SECURITIES

## Diamond Trust Bank (K) Earnings Update – Q1-2022

### Return to Normal Growth

Diamond Trust Bank (DTBK) posted a 13.2% uptick in profits before tax (PBT) to KES 3.39Bn in Q1-22 compared to KES 2.99Bn of Q1-21. Resulting from a 10.7% and 14.1% growth in interest income and non-funded income, the company's profits after tax (PAT) moved 16.3% y/y up to KES 2.39Bn.

Its earnings per share (EPS) gained 11.8% y/y up from 6.96 to 7.79 in Q1-22. Our valuation places the quoted counter at KES 56.50 per share, a 15.3% uptick on the counter and therefore retain our BUY recommendation.

- Net interest income (NNI) went up 11.6% largely rallied by interest income from government securities that resulted from the growing government securities book. Q-Q NNI performance improved at a low pace held down by expensive deposits in the quarter.
- Interest income from loans and advances was 1.5% up from KES 4.77Bn to KES 4.84Bn in Q1-22 supported. This however remained strained in comparison to a 9.2% growth in the lender's loan book which we fathom to be delays in revenue realization. Yields on loans and advances dropped 50.0bps y/y from 9.2% to close Q1-22 at 8.7% while remaining flat on Q-Q basis at 8.7%.
- Income from government securities jumped 23.0% y/y to close Q1-22 at KES 4.34Bn buoyed by a 9.1% growth government securities book. Better returns were witnessed in government securities on the rising interest rates locally. This pushed yields on securities 90.0bps up from 9.4% to 10.3%. Q-Q government securities performance was 6.4% up despite 1.1% drop in investment in government securities.
- Non-funded income improved 14.1% from KES 1.56Bn to KES 1.78Bn supported by other fees and commissions and forex income. Forex income soared 10.1% up to KES 0.77Bn taking advantage of the weakening shilling.
- Interest expense rose 9.5% from KES 3.38Bn to KES 3.70Bn eroded by a 13.5% cost on customer deposits from KES 2.94Bn to KES 3.34Bn financing a 13.7% growth in customer deposits. This was also partly affected by the counter's borrowings that stood at KES 16.08Bn.
- Operating expenses were 10.9% up from KES 3.52Bn to KES 3.89Bn pushed up by staff costs while benefitting from drops in loan loss provisions. Staff costs were 17.0% up to KES 1.43Bn largely on salary increments on collective bargaining agreement (CBA) that happened late last year.
- Operating expenses less loan provisions went up by 16.8% from KES 2.8Bn to KES 3.3Bn fueled by reduction in loan loss provision. Loan loss provisions were 14.9% down y/y at KES 0.58Bn.

### Balance Sheet

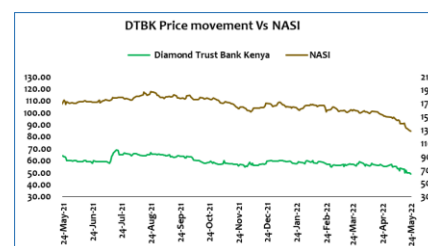
- The lender added 12.9% to its total assets from KES 417.34Bn to KES 471.34Bn emanating from the enlarging loan book and government securities.
- The loan book expanded 9.2% from KES 205.81Bn to KES 224.80Bn as the government assets shot up 9.1% from KES 153.11Bn to KES 167.06Bn giving a total contribution of 61.0% to the asset growth.
- Customer deposits rose 13.7% up from KES 301.76Bn to KES 343.14Bn to support the above growing loan book.
- The bank's borrowings dropped 26.2% to KES 16.08Bn as the lender opted for cheaper deposits from customers. This saw Q-Q borrowings performance drop faster at a 20.3% slide.

Recommendation:	BUY
Bloomberg Ticker:	DTBK
Share Stats	

Implied Value	56.50
Current Price	49.00
Upside/Downside	15.4%
3-Month Av	55.54
6 Month Av	56.97
52 Week Av	53.24
52 Week High - Low	69.00-49.60
Issued shares Mn	279.60
Market Cap (KES Mn)	13,868.27
Market Cap (USD Mn)	119.45
P/E	1.83
BVPS	273.98
PB	0.18

### Return Performance

Periods	DTBK	NASI
3-Months %Δ	-14.8%	-18.5%
6-Months %Δ	-17.6%	-24.8%
Y-T-D %Δ	-17.6%	-23.2%
Y-Y %Δ	-23.4%	-25.5%



NNI + 11.6% Y/Y

Provisions -14.9% Y/Y

Opex. +10.7% Y/Y

PBT +13.2% Y/Y

PAT +16.3% Y/Y

Govt. Securities +9.1% Y/Y

Loans +9.2% Y/Y

Deposits +13.7% y/y

Shareholder's Funds +8.7%

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### Ratios

- Net interest margin improved to 5.1% from that of 5.0% in Q1-21 and 4.8% in Q4-21 on better returns in relation to the bank's interest expense.
- The Bank's cost of funds remained stable at 3.9% on what seems to be better utilization of customer deposits in supporting the growing assets books.
- Cost of risk fell 30.0bps y/y from 1.3% to 1.0% in Q1-22 on drops in the lender's loan loss provisions amid the growing loan book. This also benefitted from increased loan payments by customers on reopened economy.
- Return on average assets (ROaA) improved from 1.9% to 2.1% on a faster rise in PAT than assets as the return on average equity (ROaE) grew at the same pace from 12.4% to 12.6% y/y.

P&L (KES Mn)	Q1-2021	Q4-2021	Q1-2022	Y-Y %Δ	Q-Q %Δ
Interest Income	8,337	8,779,135	9,232	10.7%	-99.9%
Interest Expense	3,375	3,516,118	3,696	9.5%	-99.9%
<b>NII</b>	<b>4,962</b>	<b>5,263,017</b>	<b>5,536</b>	<b>11.6%</b>	<b>-99.9%</b>
NFI	1,560	1,518	1,779	14.1%	17.2%
<b>Total Income</b>	<b>6,522</b>	<b>5,264,535</b>	<b>7,315</b>	<b>12.2%</b>	<b>-99.9%</b>
Loan Loss Provisions	684	4,493	582	-14.9%	-87.0%
Operating Expense	3,519	7,775	3,894	10.7%	-49.9%
Opex excl Provision	2,834	3,281	3,312	16.8%	0.9%
PBT	2,991	-784	3,387	13.2%	-531.9%
PAT	2,053	-758	2,388	16.3%	-414.9%
EPS	6.97	13.98	6.79	-2.6%	-194.4%

Balance Sheet (KES Mn)	Q1-2021	Q4-2021	Q1-2022	Y-Y %Δ
Investments	153,106	168,976	167,062	9.1%
Loans and Advances	205,806	220,425	224,800	9.2%
Total Asset	417,342	456,843	471,336	12.9%
Customer Deposit	301,759	331,452	343,144	13.7%
Borrowing	21,787	20,171	16,081	-26.2%
Shareholders' Fund	70,482	74,553	76,607	8.7%

Ratios	Q1-2021	FY-2021	Q1-2021
NII % of Total Income	76.1%	76.0%	75.7%
NFI % of Total Income	23.9%	24.0%	24.3%
CTI	54.0%	75.6%	53.2%
CTI exc Provision	43.5%	46.9%	45.3%
Cost of Funds	3.9%	3.9%	3.9%
Net Interest Margins	5.0%	4.8%	5.1%
Yield on Advances	9.2%	8.7%	8.7%
Yield on Govt Securities	9.4%	9.5%	10.3%
ROaA	1.9%	1.0%	2.1%
ROaE	12.4%	6.5%	12.6%
Cost of Risk	1.3%	3.5%	1.0%
AD Ratio	68.2%	66.5%	61.3%
Investment Securities to Assets	36.7%	37.0%	35.4%
Advances to Assets	49.3%	48.2%	47.7%
Debt to Equity	30.9%	27.1%	21.0%

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### Recommendation Guide:

Analysts' stock ratings are defined as follows:

- **Buy** – A buy rating reflects 1) An analyst has a bullish conviction on a stock 2) A 30% or greater expected return.
- **Accumulate** – An accumulate rating reflects 1) An analyst has a lesser bullish conviction on a stock 2) Expected return falls between 10% and 30%.
- **Hold** – A hold rating reflects 1) An analyst has a neutral conviction (lack of bullish or bearish conviction) on a stock 2) Expected return falls within the range of 5% to 10%.
- **Speculative Buy** – A speculative buy rating reflects 1) An analyst has a bullish conviction accompanied by a substantially higher than normal risk 2) Expected return falls above 10%.
- **Sell** – A sell rating reflects 1) An analyst has a bearish conviction on a stock 2) Expected return falls below 5%.

\*Expected Return (ER) represents the sum total of both capital appreciation and the dividend yielding.

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