The Diamond Trust Bank HY 24 Earnings Highlights

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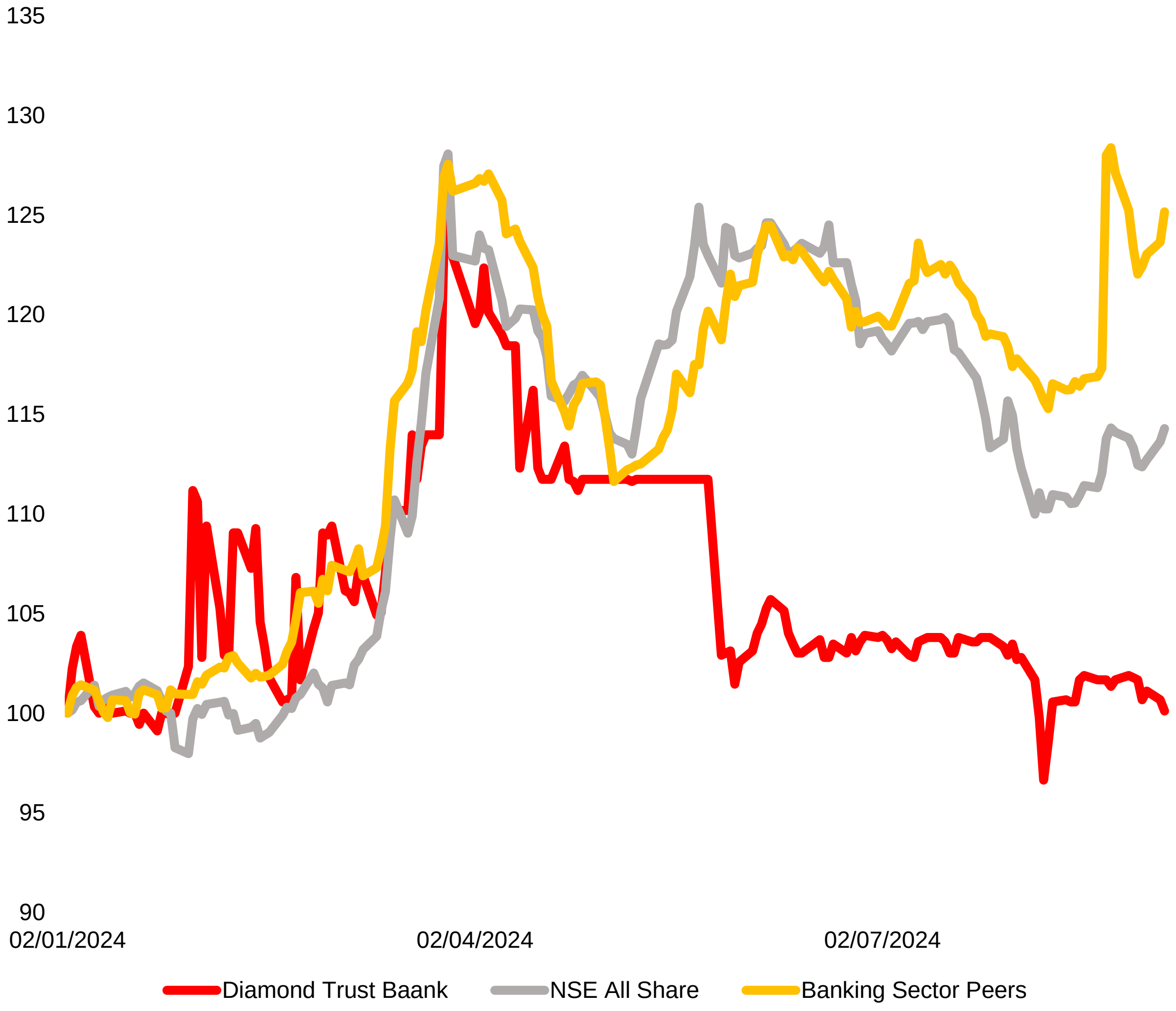
Summary

Normalized Share Price Movement of DTB Group vs the Market and Banking Sector Peers in H1 24



Source: Bloomberg

Last Price – 3rd September 2024 in KES	44.80
Valuation Estimate in KES	**50.76**
Upside	13.30%
Recommendation	**Hold**
52-Week High	56.00
52-Week Low	43.05
52-Week Price Return	12.44%
Year-to-Date Price Return	**21.24%**
Price to Earnings Ratio (P/E)	1.90
Price to Book Ratio (P/B)	0.18

Source: Bloomberg and Faida Analysis

We endorse a **Hold** recommendation on Diamond Trust Bank with a fair value of KES 50.76 representing a potential **13.30% upside** on the 3rd September 2024 closing price of KES 44.80.

We believe that in the long term, the Group's performance will be bolstered by its expansion initiatives, digital transformation, and revenue growth from the continued application of risk-based lending. While costs may rise in the short term, the long-term gains are expected to far exceed these initial expenses.

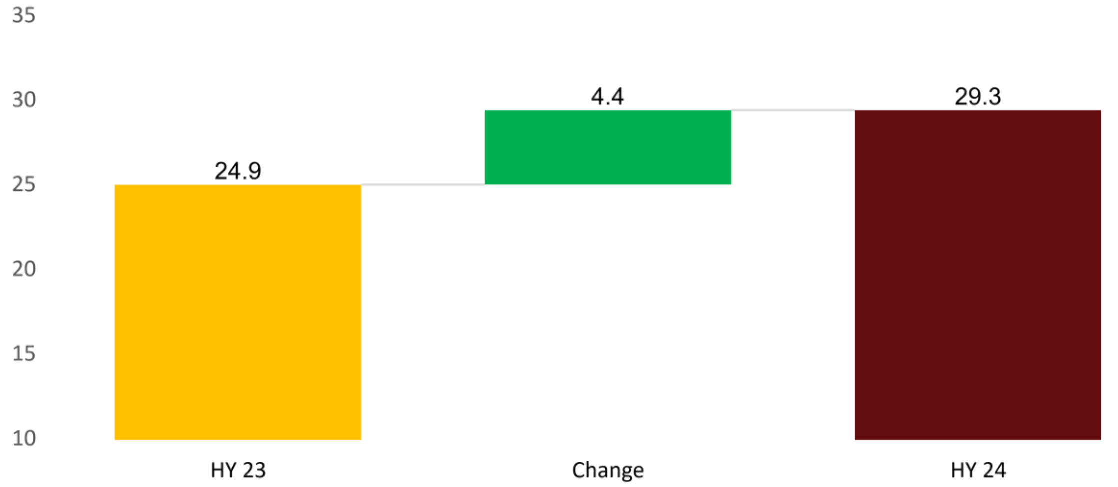
Revenue Growth

DTB observed a **17.9% growth in Interest Income to KES 29.3 billion** up from KES 24.9 billion in HY 23.

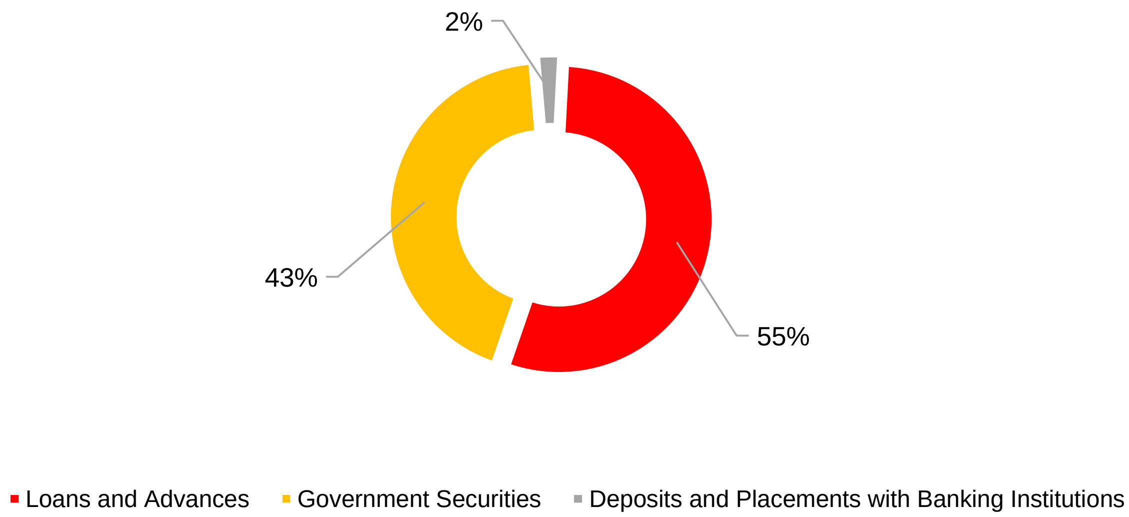
This growth was propelled by an increase in **Interest Income from Loans and Advances which grew by 21.4%** from KES 13.2 billion in HY 23 to KES 12.7 billion. This is attributable to the upward repricing of loans.

Interest Income from **Government Securities also recorded double-digit growth of 10.7%** from KES 11.5 billion to KES 12.7 billion in HY 24, despite a drop in holdings of government securities. This is reflective of higher yields on Government Securities.

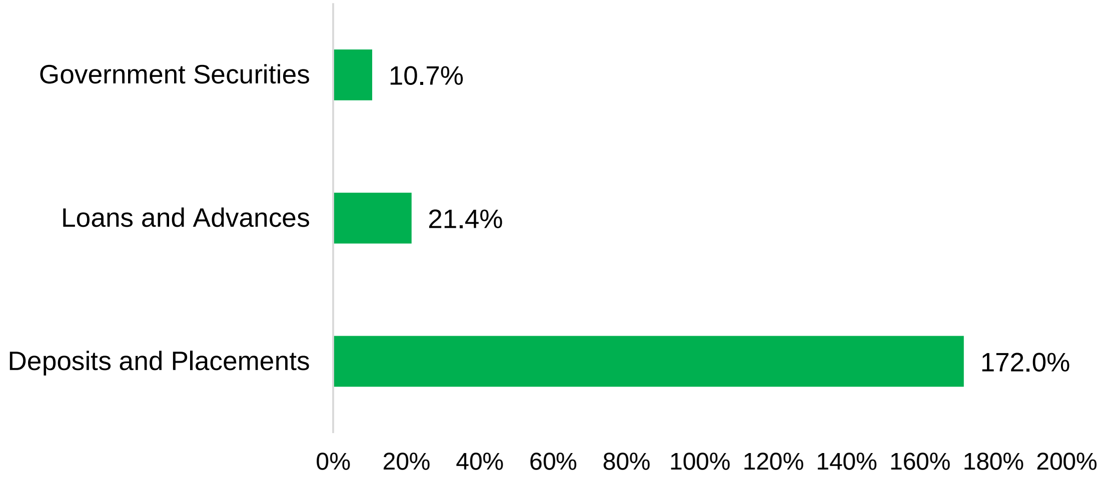
Development in Interest Income (KES Billions)



Contribution to Interest Income



Growth Rates



Source: Company Financials

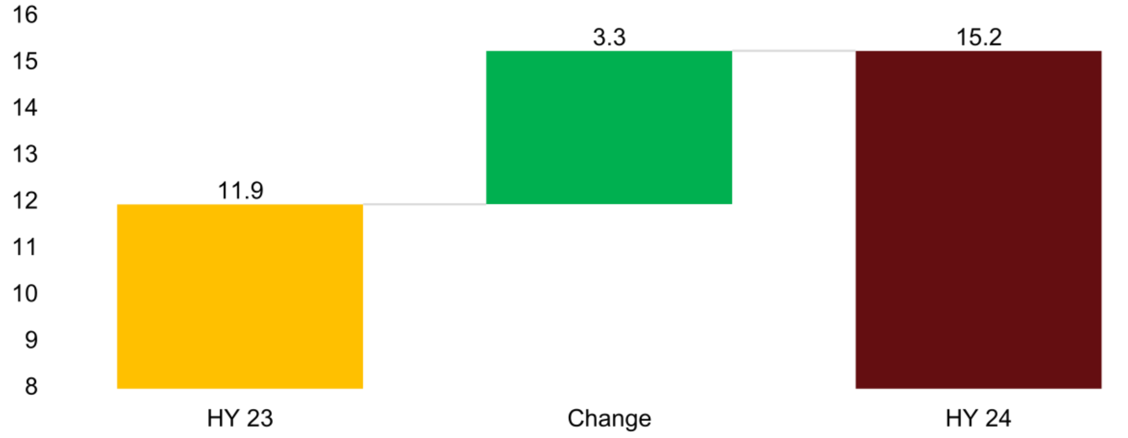
Climbing Interest Expenses

DTB recorded a **28.6% rise in total Interest Expenses** from KES 11.8 billion in HY 23 to KES 15.2 billion in the first operating half of 2024.

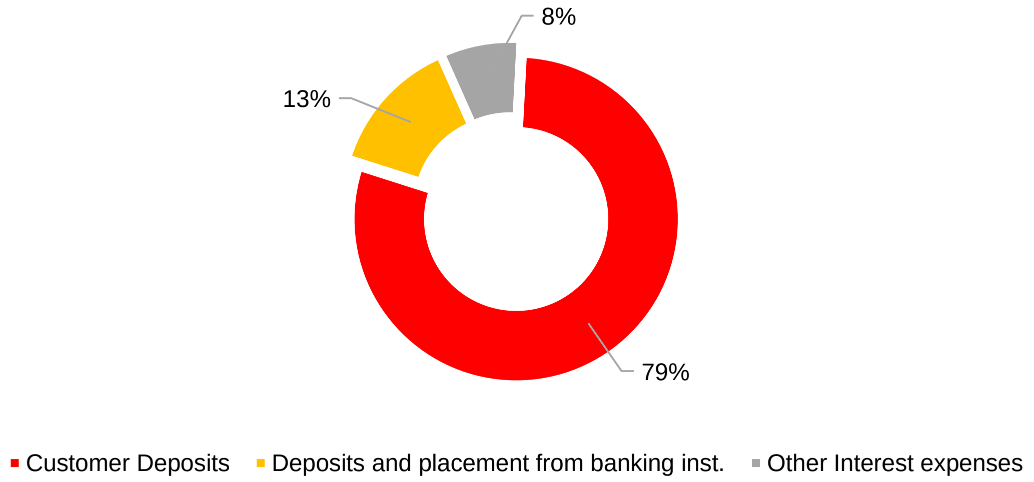
This was driven by a **27.5% development in Interest Expenses on Customer Deposits to KES 12.0 billion**, up from KES 9.4 billion in HY 23**.** This rise in Interest Expenses on Customer Deposits in line with **the growth in Customer Deposits, which grew by 3.3%** from KES 418.0 billion to KES 431.9 billion as well as the increased cost of funds.

In addition, Interest expenses on **Deposits and Placements from banking institutions experienced a 76.2% rise** from KES 1.2 billion in HY 23 to KES 2.0 billion in HY 24.

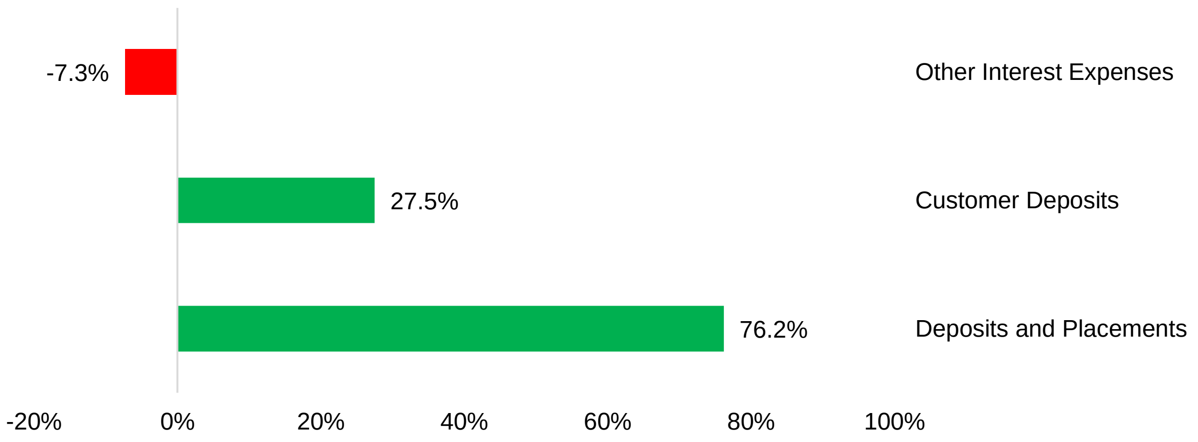
Development in Interest Expenses (KES Billions)



Contribution to Interest Income



Growth Rates



Source: Company Financials

Net Interest Income, Non-Interest Income & Profit

The lender's **Net Interest Income (NII) rose by 8.3% to KES 14.2 billion** up from KES 13.1 billion in HY 23. While **Non-Interest Income recorded double digit growth, expanding by 15.1%** from KES 6.4 billion in HY 23 to KES 5.5 billion in the comparative half.

This growth was on the back of a **27.8% growth in other Fees and Commissions** from KES 1.4 billion to KES 1.8 billion in HY 24.

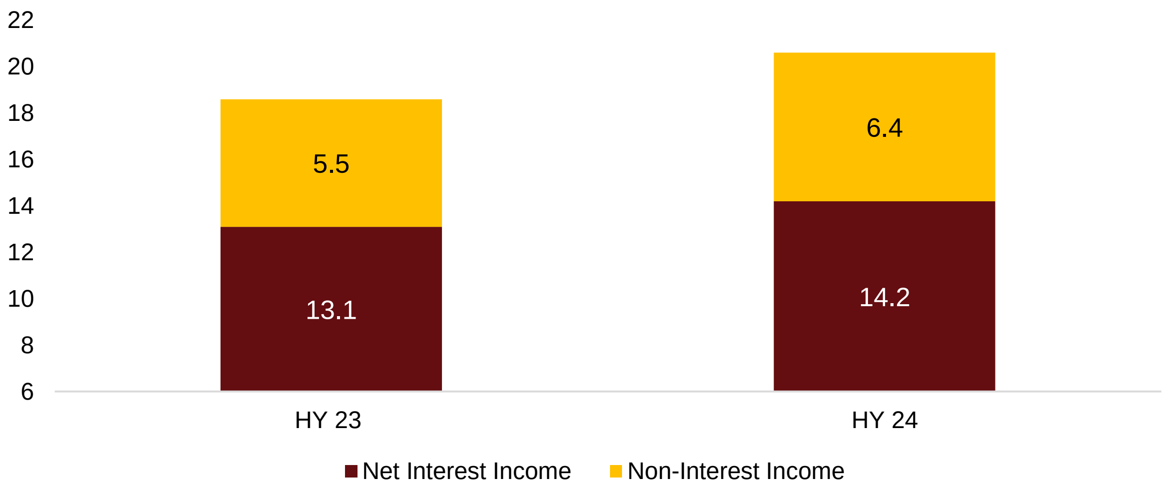
However, **Forex Trading Income, slowed to KES 2.6 billion** from KES 2.8 billion in HY 23. This represents a 5.3% decline.

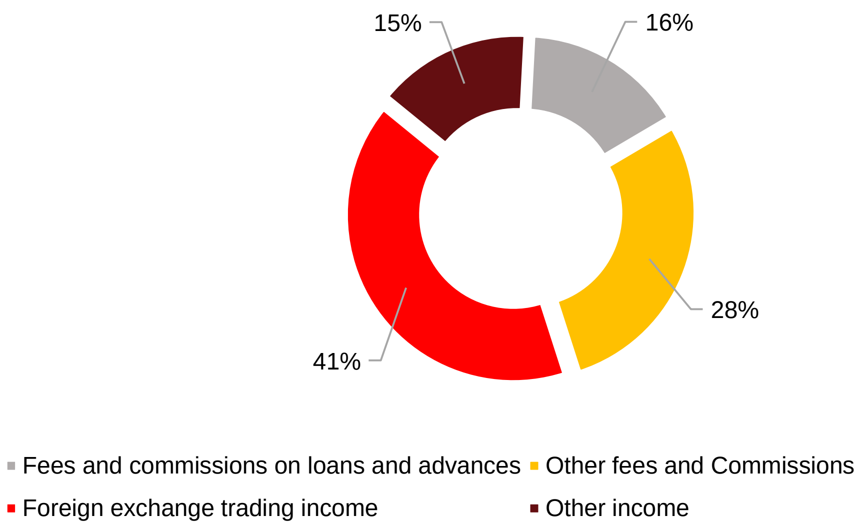
Consequently, the **Group's Total Operating Income (Net Interest Income plus Non-Funded Income) climbed by 10.3%** in comparative halves to KES 20.6 billion from KES 18.7 billion.

The strong growth in Non-Funded Income caused the **Non-Funded Income Margin (the contribution of Non-Funded Income to Operating Income) to climb from 29.7% in HY 23 to 31.0%**.

The Group's Profits After Tax grew by 11.5%, up from KES 4.4 billion in HY 23 to KES 4.9 billion.

The **Group's Earnings Per Share rose to KES 15.54**, up from 14.31 in HY 23, coinciding with increased profits.





Source: Company Financials

Note: Other Income is inclusive of Dividend income.

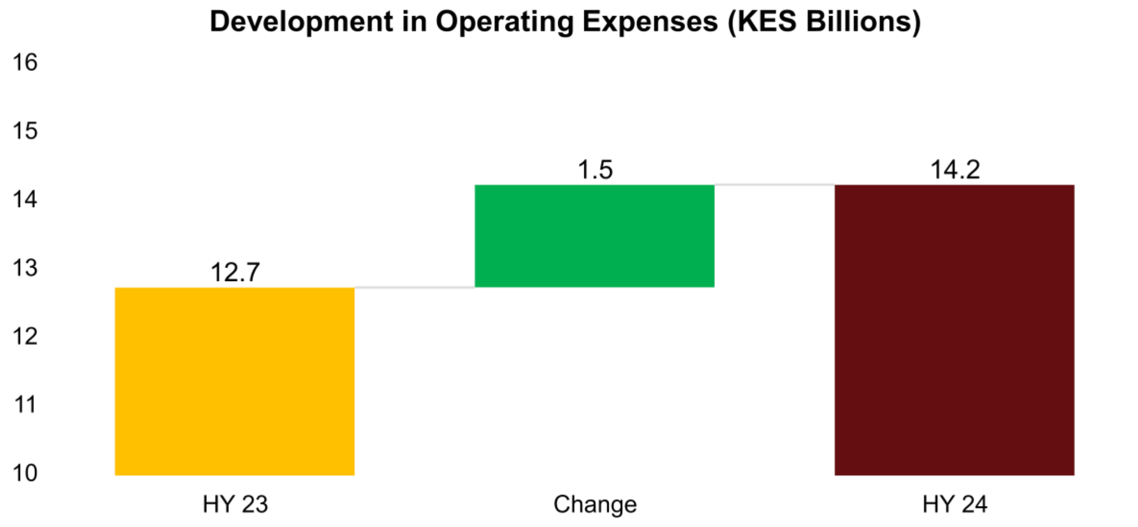
Operating Costs and Provisions

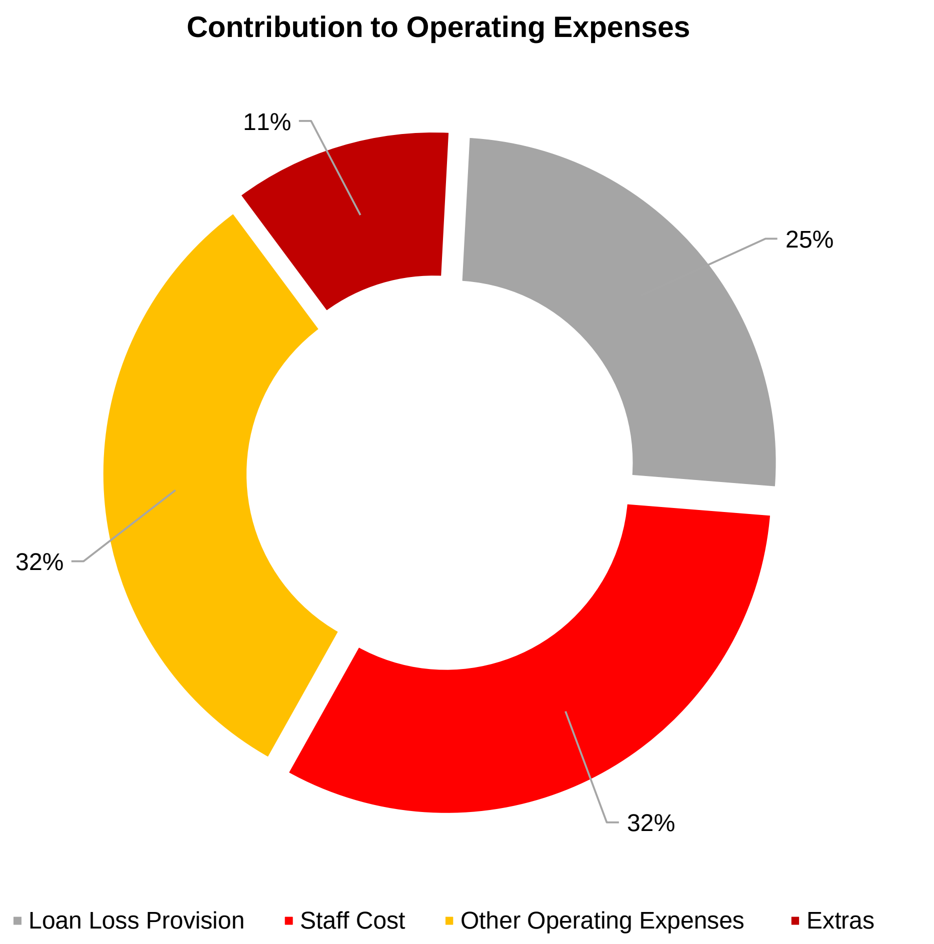
The lender saw **its Operating Expenses (including Provisions) increase by 12.1%** in the just concluded half, climbing from KES 12.7 billion in HY 23 to KES 14.2 billion.

This is attributable to **a rise in staff costs (which is the largest contributor to Operating Expenses) of 11.5%** from KES 4.1 billion in the first half of 2023 to KES 4.5 billion in HY 24.

Loan Loss Provisions climbed by 11.1% to KES 3.6 billion, up from KES 3.3 billion in HY 23, in a prudent move to account for worsening asset quality. Additionally, **other operating expenses also experienced a 13.0% rise** from KES 4.0 billion to KES 4.5 billion in HY 24.

Resultantly, the lender's **Cost to Income Ratio (excluding Provisions) increased from 50.6% in HY 23 to 51.6% in HY 24.**





Source: Company Financials

Note: Extras in the above Chart represents Directors Emoluments, Rental Charges, and Depreciation and Amortization Charges

Balance Sheet Breakdown

The lender's Total Asset Base broadened slightly by 1.1% to reach KES 585.4 billion in HY 24 from KES 579.2 billion in HY 23.

However, the **Overall Loan Book Portfolio slimmed by 4.7% to end the half at KES 267.9 billion**, compared to KES 281.2 billion in HY 23.

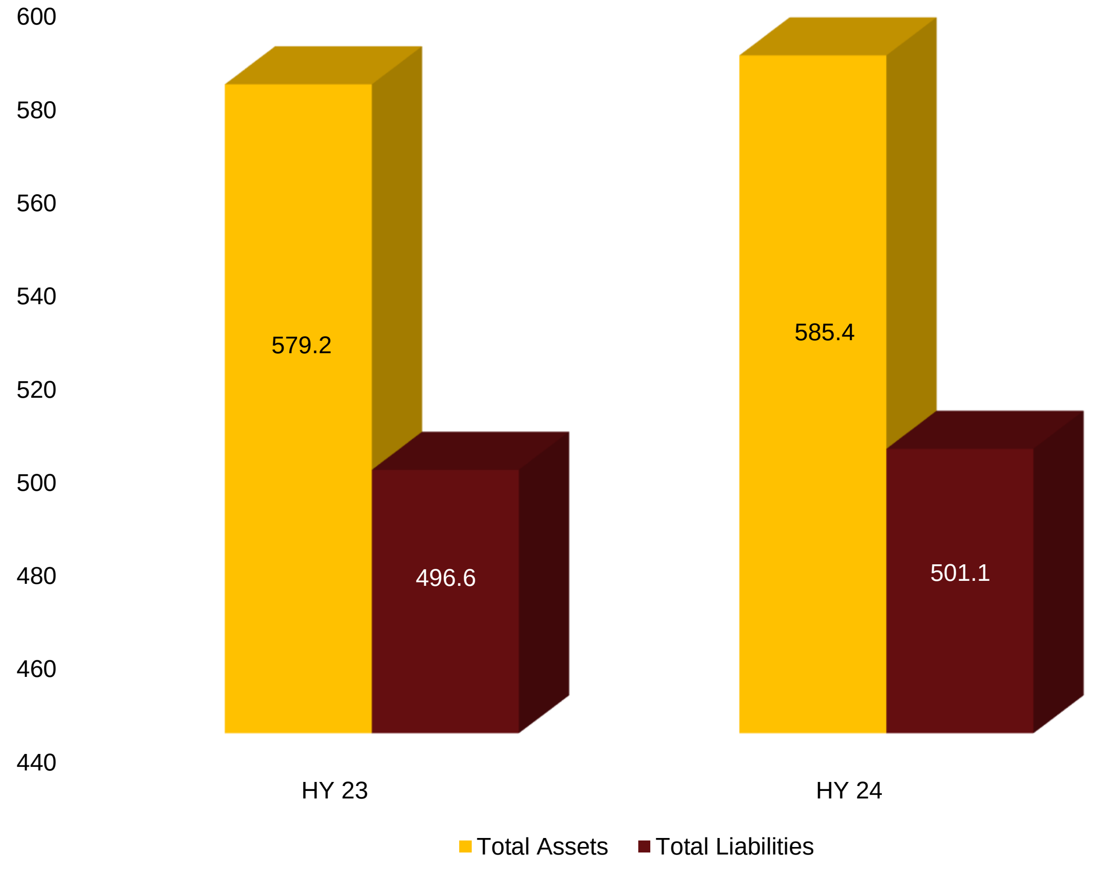
Holdings of Government Securities dropped by 7.9% to KES 125.3 billion from KES 136.1 billion in the comparative half of 2023.

The lender saw **Customer Deposits, grow by 3.3%** from KES 418.0 billion to KES 431.9 billion. The faster growth in funding compared to lending resulted in the **Loan-Deposit Ratio dropping from 67.3% in HY 23 to 62.0%.**

There was an **uptick of 5.6% in the lender's Gross Non-Performing Loans (NPLs)**, **which closed out the period at KES 38.6 billion**, up from KES 36.5 billion in HY 23.

This brings **DTB's Gross NPL Ratio to 13.6%**, which is well below the industry average of 16.3%. However, it is a climb from HY 23's ratio of 12.3%.

Total Assets and Total Liabilities (KES Billions)



Source: Company Financials

Outlook and Recommendation

We anticipate growth in DTB to driven by increased lending activity and a rise in revenues.

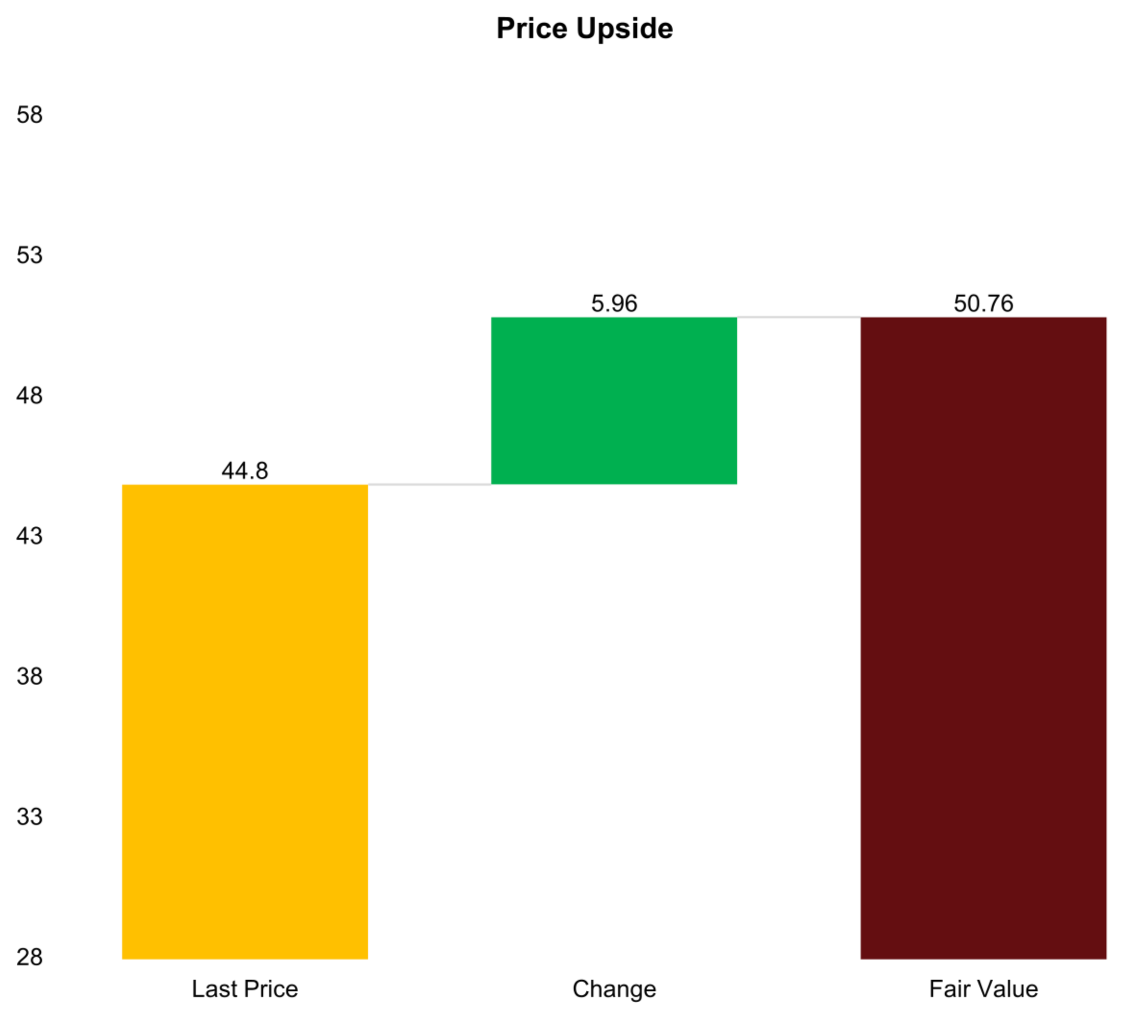
The bank's expansion plans, which are aligned with its broader growth strategy, are expected to result in higher operating costs. This will mainly come from increased staffing. In HY 24, the banks saw an 8% Y/Y increase in branches to 157 branches. This translated into a 5% Y/Y increase in employees.

These expansion efforts are expected to attract more customer deposits. The lender experienced a 72% y/y increase in its customer base in HY 24. This expansion in turn will result in a rise in interest expenses on the back of increased customer deposits.

Additionally, DTB's ongoing investment in digitization aims to enhance its service channels, leading to improved operational efficiency and greater customer satisfaction.

While initial setup costs and increased expenses may weigh on the lender's short-term profits, we believe that the strategy will deliver long-term gains. The benefits are expected to include a larger customer base, enhanced efficiency, and a steadily growing loan book.

We believe that DTB Group's growth trajectory is solid and consistent. It's price as of 3rd of September 2024 was KES 44.80 This price presents a 13.30% upside for patient investors who are comfortable weathering the short-term price volatility.



Source: Company Financials and Faida Forecasts

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Glossary of Terms

Target Price – Analyst estimate of the fair value or intrinsic value of the company.
Cost of Funds - This is the effective average interest rate paid on interest-earning liabilities. It is calculated as Total Interest Expense/Average Interest Earning Liabilities.
Loan Yield - This is the effective average interest rate received on average loans and advances. It is calculated as Interest on Loans and Advances/Average Loans and Advances.
Cost of Risk – This ratio measures the amount of risk involved in lending. It is calculated as Net Impairment Provisions/Average Gross Loans in the period.
Non-Performing Loans -These are loans that have been classified as impaired. The CBK classifies loans into five categories i.e. Normal, Watch, Substandard, Doubtful, and Loss depending on the performance of the loan. The last three i.e. sub-standard, doubtful, and loss are referred to as non-performing loans. Under IFRS, these are classified as stage 3 loans.
Non-Performing Loans (NPL) Ratio - This is the proportion of NPLs in the loan book. It is calculated as Gross NPLs/Gross Loans.
Non-Funded/Non-Interest Income– This represents income that is not classified as interest income.

Recommendation

BUY – Minimal risks to catalysts.
SELL- Risks outweigh the catalysts.
NEUTRAL – This is where the positives and negatives in a company almost balance out. You can accumulate for the long term