



FAIDA
INVESTMENT BANK

DIAMOND TRUST BANK – FY2012 EARNINGS UPDATE

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Investment Summary

We maintain our BUY recommendation

Profit after tax up by 39.9%

Interest yield on loans stood at 15.7%

Non interest income went up by 11.8%

Cost to income ratio rises marginally

We maintain our BUY recommendation on Diamond Trust Bank (DTB) with a target price of KES 168.91 which represents a 16.5% upside from the current share price of KES 145.00 (as at March 22nd 2013).

Diamond Trust Bank released its FY2012 results which showed a 39.9% growth in profit after tax to KES 3.6 billion compared to KES 2.7 billion recorded during the previous financial year.

Key results highlight includes:

- ✓ **High yields push up interest income:** Total interest income went up by 65.1% to KES 16.6 billion compared to KES 10.0 billion recorded during the previous financial year. The interest yield on loans and advances stood at 15.7% compared to 12.5% recorded in FY2011.
- ✓ **Tight liquidity increases cost of funding:** The tight liquidity during the year under review saw the bank incur higher cost of funding as evidenced by the 125.6% increase in total interest expenses to KES 7.5 billion compared to KES 3.3 billion recorded in FY2011.
- ✓ **Non Interest income rises slower than interests income:** Total non interest income went up by 11.8% to KES 3.1 billion compared to KES 2.8 billion recorded during the previous financial year. As a percentage of total income the total non interest income stood at 25.5% compared to 29.3% recorded in FY2011.
- ✓ **Cost to income ratio rises marginally:** Total operating expenses, excluding the loan loss provisions, went up by 13.2% to KES 5.2 billion compared to KES 4.6 billion recorded during the previous financial year. The cost to income ratio went up from 41.7% to 42.4% in FY2012.

Year to 31 Dec	2011A	2012A	2013F
Net Income (KES '000,000)	2,657	3,628	4,098
EPS (KES)	13.15	17.44	18.62
BVPS	60.19	84.63	98.59
P/B	2.41X	1.71X	1.47X
ROE	20.05%	19.48%	22.57%
C/I	41.70%	42.39%	45.55%

Source: company reports & FIB estimates

DIAMOND TRUST BANK

DTB FY2012 Income Statement		KES '000	Dec-11	Dec-12	% Change
Total Interest Income		10,039,098	16,579,014	65.1%	
Total Interest expenses		3,304,202	7,453,923	125.6%	
Net Interest Income		6,734,896	9,125,091	35.5%	
Total Non interest income		2,787,393	3,115,254	11.8%	
<u>Total Operating Income</u>		<u>9,522,289</u>	<u>12,240,345</u>	<u>28.5%</u>	
Total Operating Expenses		5,214,393	6,214,595	19.2%	
Profit from Operations		4,307,896	6,025,750	39.9%	
Share of associates profit after Tax		(483)	2,149		
Profit before tax		4,307,413	6,027,899	39.9%	
Current Tax		(1,489,336)	(2,187,851)	46.9%	
Deferred tax credit		178,649	227,930	27.6%	
Profit after tax		2,996,726	4,067,978	35.7%	
Minority Interest		339,929	440,212	29.5%	
Profit after tax & minority interest		2,656,797	3,627,766	36.5%	
Basic EPS		13.15	17.44	32.6%	
Diluted EPS		1.70	1.90	11.8%	
DTBK 1H2011 Balance Sheet		KES '000			
		Dec-11	Dec-12	% change	
Total Assets	107,765,064	135,461,412	25.7%		
Loan book	71,297,721	87,707,243	23.0%		
Government securities	8,086,583	18,402,894	127.6%		
Total Deposits	85,986,399	106,975,254	24.4%		
Total Liabilities	94,516,245	116,834,491	23.6%		
Shareholder funds & non controlling int.	13,248,819	18,626,921	40.6%		
Total shareholder and liability funds	107,765,064	135,461,412	25.7%		

Profit after tax at KES 3.6 billion

Diamond Trust Bank released its FY2012 results which showed a 39.9% growth in profit after tax to KES 3.6 billion compared to KES 2.7 billion recorded during the previous financial year. This is in line with our forecast of KES 3.6 billion in our initiation of coverage report on the banking sector, "The innovation imperative...".

The earnings per share grew by 32.6% to KES 17.44 compared to KES 13.15 recorded in FY2011.

Total income up by 65.1%

High yields push up interest income: Total interest income went up by 65.1% to KES 16.6 billion compared to KES 10.0 billion recorded during the previous financial year. Interest income on loans and advances went up by 54.4% during the year under review to KES 13.8 billion compared to KES 8.9 billion recorded in FY2011. This increase was driven by a 23.0% growth in loans and advances to KES 87.7 billion coupled with a higher yield during the period.

The interest yield on loans and advances stood at 15.7% compared to 12.5% recorded in FY2011. This was higher than our forecast yield of 13.2%. In our forecast we had assumed a reduction in interest rates in 4Q2012 in line with the reduction in Central Bank Rate (CBR) by the Central Bank of Kenya (CBK).

Interest on government securities up by 193.5%

Interest on government securities went up by 193.5% to KES 2.3 billion compared to KES 790.4 million recorded during the previous financial year. This was driven by a 127.6% growth in Kenya government securities to KES 18.4 billion compared to KES 8.1 billion recorded in FY2011, a KES 10.3 billion increase. The yield on government securities went up to 10.2% compared to 7.2% recorded during the previous financial year.

Tight liquidity increases cost of funding: The tight liquidity during the year under review saw the bank incur higher cost of funding as evidenced by the 125.6% increase in total interest expenses to KES 7.5 billion compared to KES 3.3 billion

recorded in FY2011. Interest expenses on customer deposits increased by 131.9% to KES 7.2 billion compared to KES 1.9 billion recorded during the previous financial year.

Non Interest income rises slower than interests income: Total non interest income went up by 11.8% to KES 3.1 billion compared to KES 2.8 billion recorded during the previous financial year. As a percentage of total income the total non interest income stood at 25.5% compared to 29.3% recorded in FY2011. This can be attributed to the high interest yields which saw the net interest income increase by 35.5% to KES 9.1 billion.

Fees and commissions on loans and advances went up by 9.0% to KES 631.5 million while foreign exchange trading income went up by 19.0% to KES 1.2 billion compared to KES 996.5 million recorded in FY2011.

Cost to income ratio rises marginally: Total operating expenses, excluding the loan loss provisions, went up by 13.2% to KES 5.2 billion compared to KES 4.6 billion recorded during the previous financial year. The cost to income ratio went up from 41.7% to 42.4% in FY2012. This was in-line with our cost to income forecast of 42.1%.

Staff costs went up by 12.7% to KES 2.3 billion compared to KES 2.0 billion recorded in FY2011. The increase in branch network saw the rental charges and depreciation charge on property and equipment go up by 25.25 and 14.9% respectively to KES 378.1 million and KES 420.6 million.

The loan loss provisions went up by 62.5% to KES 1.0 billion compared to the provisions of KES 631.3 million recorded during the previous financial year. Total non performing loans went up by 50.3% to KES 957.1 million from non performing loans of 637.0 million recorded in FY2011. As a percentage of total loans, the total non performing loans represented 1.1% compared to 0.9% recorded during the previous financial year.

Balance Sheet

The assets of the bank grew by 25.7% y-o-y to KES 135.5 billion compared to KES 107.8 billion recorded in FY2011. Q-o-Q growth stood at 4.4% from KES 129.8 billion.

Loans and advances went up by 23.0% y-o-y to KES 87.7 billion compared to KES 71.3 billion recorded during the previous financial year. Q-o-Q growth stood at 2.6% from KES 85.5 billion. Kenya government securities also went up by 127.6% to KES 18.4 billion compared to KES 8.1 billion recorded in FY2011.

Total liabilities went up by 23.6% to KES 116.8 billion compared to KES 116.8 billion from KES 94.5 billion recorded in FY2011.

Customer deposits went up by 24.4% during the year to KES 107.0 billion from KES 86.0 billion recorded in FY2011. Q-o-Q growth stood at 4.5% compared to a Q-o-Q change of 0.15% recorded in 4Q2011.

Outlook

Branch network to continue to push revenue growth

Going forward, we are likely to see the branch network continuing to push revenue growth as highlighted in our banking sector report, "The innovation imperative...".

We maintain our BUY recommendation with a target price of KES 168.91 which represents a 16.5% upside from the current share price of KES 145.00 (as at March 22nd 2013).