Cytonn INVESTMENTS

# Diamond Trust Bank– Q3’2023

**27th November, 2023**

Below is a summary of Diamond Trust Bank Q3’2023 performance:

| Balance Sheet Items (Kshs bn) | Q3'2022 | Q3'2023 | y/y change |
|---|---|---|---|
| Government Securities | 135.1 | 129.0 | (4.5%) |
| Net Loans and Advances | 243.7 | 289.1 | 18.7% |
| Total Assets | **507.5** | **598.0** | **17.8%** |
| Customer Deposits | 359.7 | 457.7 | 27.3% |
| Deposit Per Branch | 2.8 | 3.4 | 22.5% |
| Total Liabilities | 429.5 | 515.5 | 20.0% |
| Shareholders Funds | **70.1** | **71.8** | **2.4%** |

| Balance Sheet Ratios | Q3'2022 | Q3'2023 | y/y change |
|---|---|---|---|
| Loan to Deposit Ratio | 67.7% | 63.2% | (4.6%) |
| Government Securities to Deposit ratio | 37.5% | 28.2% | (9.4%) |
| Return on average equity | 8.0% | 10.0% | 2.0% |
| Return on average assets | 1.2% | 1.3% | 0.1% |

| Income Statement (Kshs bn) | Q3'2022 | Q3'2023 | y/y change |
|---|---|---|---|
| Net Interest Income | 16.8 | 20.1 | 19.6% |
| Non-Interest Income | 6.9 | 9.2 | 33.9% |
| **Total Operating income** | **23.7** | **29.3** | **23.7%** |
| Loan Loss provision | 4.0 | 6.0 | 50.1% |
| Total Operating expenses | **14.7** | **20.7** | **40.5%** |
| Profit before tax | **8.9** | **8.7** | **(2.1%)** |
| **Profit after tax** | **6.3** | **6.6** | **5.2%** |
| **Core EPS** | **22.5** | **23.6** | **5.2%** |

| Income Statement Ratios | Q3'2022 | Q3'2023 | % point change |
|---|---|---|---|
| Yield from interest-earning assets | 9.7% | 10.3% | 0.6% |
| Cost of funding | 4.1% | 5.1% | 1.0% |
| Net Interest Spread | 5.6% | 5.2% | (0.4%) |
| Net Interest Income as % of operating income | 71.0% | 68.6% | (2.4%) |
| Non-Funded Income as a % of operating income | 29.0% | 31.4% | 2.4% |
| Cost to Income | 62.2% | 70.6% | 8.4% |
| CIR without provisions | 45.3% | 50.1% | 4.8% |
| Cost to Assets | 4.8% | 5.1% | 0.3% |
| Net Interest Margin | 5.7% | 5.4% | (0.2%) |

| Capital Adequacy Ratios | Q3'2022 | Q3'2023 | % points change |
|---|---|---|---|
| Core Capital/Total deposit Liabilities | 21.9% | 19.7% | (2.2%) |
| Minimum Statutory ratio | 8.0% | 8.0% | |
| **Excess** | 13.9% | 11.7% | (2.2%) |
| Core Capital/Total Risk Weighted Assets | 20.0% | 18.6% | (1.4%) |
| Minimum Statutory ratio | 10.5% | 10.5% | |
| **Excess** | 9.5% | 8.1% | (1.4%) |
| Total Capital/Total Risk Weighted Assets | 21.1% | 19.2% | (1.9%) |
| Minimum Statutory ratio | 14.5% | 14.5% | |
| **Excess** | 6.6% | 4.7% | (1.9%) |
| Liquidity Ratio | 60.5% | 60.5% | 0.0% |
| Minimum Statutory ratio | 20.0% | 20.0% | |
| **Excess** | **40.5%** | **40.5%** | **0.0%** |

**Income Statement**

- Core earnings per share grew by 5.2% to Kshs 23.6, from Kshs 22.5 in Q3'2022, driven by the 23.7% growth in total operating income to Kshs 29.3 bn, from Kshs 23.7 bn in Q3'2022. The Core EPS was however weighed down by a 40.5% increase in total operating expenses to Kshs20.7, from Kshs 14.7 bn in Q3'2022,
- The 23.7% growth in total operating income was mainly driven by a 33.9% growth in Non-Interest Income to Kshs 9.2 bn from Kshs 6.9 bn in Q3'2022, coupled with a 19.6% growth in Net Interest Income (NII) to Kshs 20.1 bn, from Kshs 16.8 bn in Q3'2022,
- Interest income grew by 33.0% to Kshs 38.6 bn from Kshs 29.0 bn in Q3'2022, mainly driven by a 34.7% growth in interest income from loans and advances to Kshs 20.5 bn from Kshs 15.2 bn in Q3'2022, coupled with a 29.8% growth in interest income from government securities to Kshs 17.6 bn, from Kshs 13.6 bn in Q3'2022.
- Interest expenses rose by 51.5% to Kshs 18.5 bn from Kshs 12.2 bn in Q3'2022, driven by 41.4% increase in interest expense on customer deposits to Kshs 14.9 bn from Kshs 10.5 bn in Q3'2022, coupled with a 149.0% increase in interest expense on deposits from banking institutions to Kshs 1.7 bn from Kshs 0.7 bn in Q3'2022 as well as a 92.5% increase in other interest expenses to Kshs 1.8 bn in Q3'2023 from Kshs 1.0 bn recorded in Q3'2022. Consequently, Cost of funds (COF) increased by 1.0% points to 5.1% from 4.1% recorded in Q3'2022, owing toa faster 49.3% increase in Trailing interest expense to Kshs 23.5 bn from Kshs 15.7 bn recorded in Q3'2022, compared to a slower 19.7% increase in average interest bearing liabilities to Kshs 457.7 bn from Kshs 382.4 bn in Q3'2022.Trailing interest expense refers to the performance of the interest expense for the past 12 consecutive months. Net Interest Margin (NIM) decreased by 0.3% points to 5.4% from 5.7% in Q3'2022, attributable to a 23.5% increase in average interest earning assets to Kshs 480.5 bn from Kshs 389.0 bn recorded in Q3'2022, which outpaced the 18.6% increase in trailing net interest income to Kshs 26.2 bn from Kshs 22.1 bn in Q3'2022,
- Non-Funded Income (NFI) increased by 33.9% to Kshs 9.2 bn from Kshs 6.9 bn in Q3'2022, mainly driven by a 39.1% increase in income from forex trading to Kshs 4.5 bn, from Kshs 3.3 bn in Q3'2022, coupled with a 32.3% increase in income from other fees to Kshs 2.3 bn from Kshs 1.7 bn in Q3'2022. Total fees and commissions increased by 25.2% to Kshs 3.8 bn, from Kshs 3.0 bn in Q3'2022. The revenue mix shifted to 69:31 from 71:29 for the Funded to Non-funded income owing to the faster growth in Non-Funded income of 33.9%, compared to 19.6% increase in Funded income ,
- Total operating expenses increased by 40.5% to Kshs 20.7 bn from Kshs 14.7 bn in Q3'2022, driven by a 50.1% increase in loan loss provision to Kshs 6.0 bn from Kshs 4.0 bn in Q3'2022, coupled with a 43.0% increase in staff costs to Kshs 6.3 bn from Kshs 4.4 bn recorded in Q3'2022,
- Cost to Income Ratio (CIR) increased by 8.4% points, to 70.6% from 62.2% in Q3'2022, owing to the 40.5% increase in total operating expenses, compared to the lower 23.7% increase in total operating income. Notably, CIR without LLP increased by 4.8% points to 50.1%, from 45.3% in Q3'2023, and,
- Profit before tax decreased by 2.1% to Kshs 8.7 bn from Kshs 8.9 bn in Q3'2022, with effective tax rate decreasing to 24.3% from 29.6%, leading to an 5.2% increase in profit after tax to Kshs 6.6 bn in Q3'2023, from Kshs 6.3 bn in Q3'2022.

**Balance Sheet**

- The balance sheet recorded an expansion as total assets grew by 17.8% to Kshs 598.0 bn, from Kshs 507.5 bn in Q3'2022, driven by a 18.7% loan book expansion to Kshs 289.1 bn, from Kshs 243.7 bn in Q3'2022, coupled with a 73.2% increase in investment securities securities to Kshs 77.7 bn from Kshs 44.9 bn in Q3'2022. Additionally, placements recorded a 28.3% increase to Kshs 23.4 bn, from Kshs 18.2 bn in Q3'2022, which outpaced the 4.5% decline in government securities investments to Kshs 129.0 bn, from Kshs 135.1 bn in Q3'2022,
- Total liabilities rose by 20.0% to Kshs 515.5 bn from Kshs 429.5 bn in Q3'2022, driven by a 27.3% growth in customer deposits to Kshs 457.7 bn, from Kshs 359.7 bn in Q3'2022, coupled with a 200.9% increase in balances due to Central Bank to 6.0 bn from Kshs 2.0 bn recorded in Q3'2022.

- The relatively faster 27.3% growth in deposits as compared to the 18.7% growth in loans led to a decrease in the loan to deposits ratio by 4.5% points to 63.2%, from 67.7% in Q3’2022,
- The bank’s Asset Quality improved, with Gross NPL ratio decreasing to 12.6% in Q3’2023 from 12.7% in Q3’2022, attributable to 17.4% increase in Gross non-performing loans to Kshs 38.7 bn, from Kshs 33.0 bn in Q3’2022, compared to the higher 19.1% increase in gross loans to Kshs 308.0 bn, from Kshs 258.6 bn recorded in Q3’2022,
- General Provisions (LLP) increased by 32.9% to Kshs 17.2 bn in Q3’2023 from Kshs 13.0 bn in Q3’2022. The NPL coverage increased to 48.7% in Q3’2023, from 45.2% in Q3’2022, attributable to the 32.9% increase in general provisions which outpaced the 17.4% increase in gross-non performing loans, coupled with the 17.0% decrease in interest in suspense to Kshs 1.6 bn from 12.0 bn in Q3’2022
- Shareholders’ funds increased by 2.4% to Kshs 71.8 bn in Q3’2023, from Kshs 70.1 bn in Q3’2022, supported by a 8.7% increase in retained earnings to Kshs 64.9 bn, from Kshs 59.7 bn in Q3’2022,
- DTB-K remains capitalized with a core capital to risk-weighted assets ratio of 18.6%, 8.1% points above the statutory requirement of 10.5%. In addition, the total capital to risk-weighted assets ratio came in at 19.2%, exceeding the statutory requirement of 14.5% by 4.7% points, and,
- The bank currently has a Return on Average Assets (ROaA) of 1.3%, and a Return on Average Equity (ROaE) of 10.0%.

**Key Take-Outs:**

1. **Earnings growth -** Core earnings per share (EPS) grew by 5.2% to Kshs 23.6, from Kshs 22.5 in Q3’2022, driven by the 23.7% growth in total operating income to Kshs 29.3 bn, from Kshs 23.7 bn in Q3’2022.
2. **Asset quality Improvement-** The bank’s asset quality improved as evidenced by the NPL ratio decreasing to 12.6% in Q3’2023 from 12.7% in Q3’2022, attributable to 17.4% increase in Gross non-performing loans to Kshs 38.7 bn, from Kshs 33.0 bn in Q3’2022, compared to the higher 19.1% increase in gross loans to Kshs 308.0 bn, from Kshs 258.6 bn recorded in Q3’2022,

Going forward, the factors that would drive the bank’s growth would be:

- **Digital and branch network expansion**. The lender’s focus on digital transformation as well as expanded branch coverage is expected to enhance its earnings, with the bank allocating Kshs 350.0 mn in branch expansion . Additionally, the lender reported that 71.0% of the financial transactions took place outside the physical branches. This convenience is set to increase productivity for the lender;

**Valuation Summary**

- We are of the view that DTB-K is a “buy” with a target price of Kshs 58.6 representing an upside of 28.1%, from the current price of 45.8 as of 1st December 2023, inclusive of a dividend yield of 10.9%.
- DTB-K is currently trading at a P/TBV of 0.2x and a P/E of 1.8x vs an industry average of 0.8x and 3.5x respectively.