



**Diamond Trust
Bank Q3'24
Earnings Note**





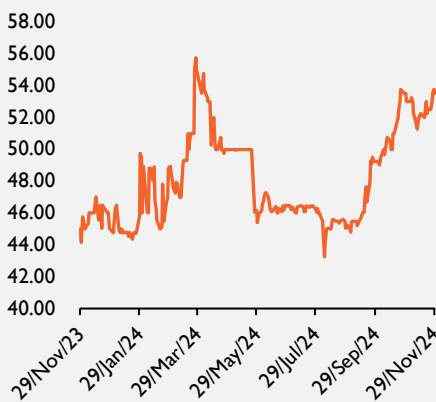
Diamond Trust Bank Q3'24 Earnings Note

December 2nd, 2024

Ticker Information

NSE Code:	DTK
Issued Shares (Bn):	3.77
52-week high:	KES 55.75
52-week low:	KES 43.25

Chart 1: Price Trend (Last 12 Months)



Source: NSE, AIB-AXYS Research

Historical Share Performance

Last	1M	3M	6M	12M
Change	0.0%	18.8%	15.9%	18.9%

Source: NSE, AIB-AXYS Research

Analyst

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Recommendation

HOLD

Current Price

KES 53.50

Target Price

KES 59.50

Summary

- Diamond Trust Bank** demonstrated resilient financial performance in the first nine months of 2024, delivering a **12.6% y/y increase in net earnings to KES 7.44Bn**. Revenue expanded by 5.9% y/y to KES 31.02Bn driven by robust growth in net interest income and diversified non-funded income streams. Net interest margin marginally widened by 10bps y/y to 5.3%. The trailing return on equity increased by 180bps y/y to 11.8% while the trailing return on assets increased marginally by 20bps y/y to 1.5%.

Key Highlights

- Resilient Core Banking Performance:** Net Interest Income expanded by 6.1% y/y to KES 21.32Bn underpinned by a substantial 16.9% y/y increase in interest from loans and a 10.1% y/y growth in interest from government securities. Non-funded income expanded by 5.7% y/y to KES 9.71Bn despite the 18.0% y/y decrease in forex trading income. Operating income consequently increased by 5.9% y/y to KES 31.02Bn. The average yield on interest earnings paced up by 120bps y/y to 11.6% reflecting higher reinvestment returns. However, this gain was substantially counterbalanced by a 110bps y/y increase in the cost of funds to 6.2% attributable to the prevailing high interest rate environment. Consequently, the net interest margin widened marginally by 10bps y/y to 5.3%.
- Deteriorating Asset Quality:** Gross Non-Performing Loans (NPLs) increased 110bps y/y to KES 39.14Bn. The deterioration translated to a pronounced 130bps y/y increase in the gross NPL ratio to 13.5%, signaling mounting credit risk in the bank's loan portfolio. Concurrently, the NPL coverage ratio contracted by 11% y/y to 39.1%, potentially exposing the bank to greater financial vulnerability. In a counterintuitive move, management reduced credit impairment provisions by 12.3% y/y to KES 5.27 Bn, a strategy that appears incongruous with the observed deterioration in loan quality.

Balance Sheet Dynamics

Customer deposits fell moderately by 3.5% y/y to KES 441.88Bn while the loan book contracted 4.9% y/y to KES 275.03Bn reflecting subdued credit demand and liquidity tightening. In a strategic shift, management reduced its exposure to government securities by 11.3% y/y to KES 183.29Bn, redirecting resources toward higher-yielding customer assets while ensuring sufficient liquidity. This reallocation also contributed to a reduction in fair value losses on government securities, reflecting prudent portfolio management.

Pressurized Operating Efficiency

The lender experienced a notable compression in operating efficiency, with cost-to-income ratio (excluding loan-loss provisions) expanding by 90bps y/y to 50.9%. The erosion in efficiency metrics stems from pre-provision operating expenses escalating by 10.9% y/y, which outpaced the 5.9% y/y growth in operating income. The uptick in expenses was attributed to the bank's strategic investments in enhancing core digital infrastructure and higher staff costs associated with its branch expansion initiatives.

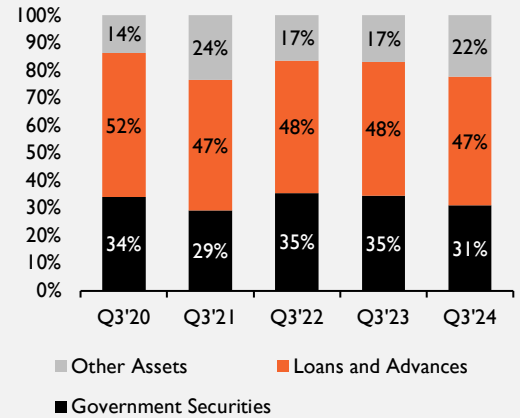
Outlook

We maintain a constructive view of the lenders medium-term growth trajectory, anchored by the robust performance of its subsidiary operations and strategic initiatives. We see the bank's ongoing digital transformation as a critical differentiator in an increasingly competitive banking landscape. We anticipate that the bank's strategic branch network expansion will unlock new market opportunities and enhance customer accessibility. We expect a temporary elevation in operating expenses from branch network investments, viewing these as strategic long-term value creation initiatives rather than short-term cost burdens.

Recommendation

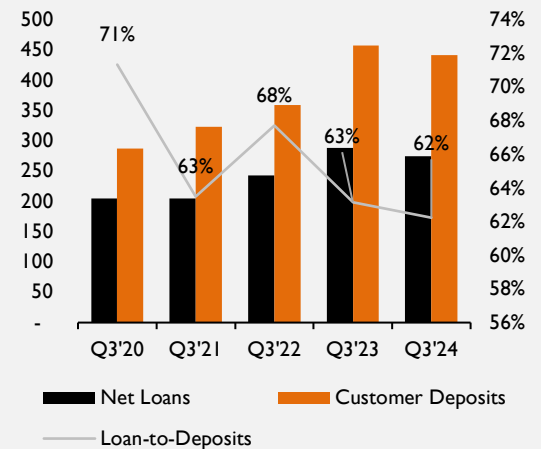
- **We maintain our HOLD recommendation on Diamond Trust Bank on account of lackluster growth on its return on equity.** At the current market price, the stock is trading at P/E ratio of 2.0x and a P/B ratio of 0.2x. Our one-year target price for Diamond Trust Bank currently stands at KES 59.50 - representing a c. 11.2% upside potential from current levels.

Chart 2: Asset Composition



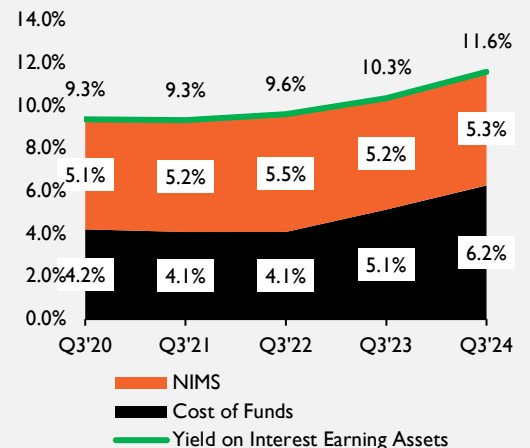
Source: Company filings, AIB-AXYS Research.

Chart 3: Faster Deposit Mobilization



Source: Company filings, AIB-AXYS Research.

Chart 4: Widening Net Interest Margin



Source: Company filings, AIB-AXYS Research.

Income Statement (KES Bn)	Q3'20	Q3'21	Q3'22	Q3'23	Q3'24	% y/y change
Net Interest Income	13.91	14.73	16.81	20.10	21.32	▲ 6.1%
Net non-Interest Income	5.03	4.79	6.86	9.19	9.71	▲ 5.7%
Total Operating income	18.95	19.52	23.67	29.28	31.02	▲ 5.9%
Provision for Impairment	(2.89)	(3.06)	(4.00)	(6.01)	(5.27)	▼ (12.3%)
Total Operating expenses	(12.36)	(12.11)	(14.71)	(20.67)	(21.07)	▲ 1.9%
Profit before tax	6.60	7.41	8.94	8.73	9.81	▲ 12.3%
Profit after tax	4.33	5.17	6.29	6.61	7.44	▲ 12.6%
Core EPS Annualized	19.20	22.93	27.43	28.61	31.03	▲ 8.5%

Balance Sheet (KES Bn)	Q3'20	Q3'21	Q3'22	Q3'23	Q3'24	% y/y change
Government Securities	134.08	126.38	179.92	206.72	183.29	▼ (11.3%)
Loans and Advances	205.60	205.55	243.67	289.14	275.03	▼ (4.9%)
Total Assets	393.96	434.39	507.49	598.00	590.63	▼ (1.2%)
Customer Deposits	288.16	323.74	359.68	457.74	441.88	▼ (3.5%)
Total Liabilities	324.88	359.89	429.61	515.51	506.59	▼ (1.7%)
Shareholder's Funds	62.79	67.48	70.10	71.80	74.17	▲ 3.3%

Ratio Analysis	Q3'20	Q3'21	Q3'22	Q3'23	Q3'24	% y/y change
Spreads Analysis						
Yield on Assets	9.3%	9.3%	9.6%	10.3%	11.6%	▲ 1.2%
Cost of Funds	4.2%	4.1%	4.1%	5.1%	6.2%	▲ 1.1%
Net Interest Margin	5.1%	5.2%	5.5%	5.2%	5.3%	▲ 0.1%
ROaE	9.2%	6.7%	8.0%	10.0%	11.8%	▲ 1.8%
ROaA	1.4%	1.1%	1.2%	1.3%	1.5%	▲ 0.2%
Profit Margin	22.8%	26.5%	26.6%	22.6%	24.0%	▲ 1.4%

Operating Efficiency	Q3'20	Q3'21	Q3'22	Q3'23	Q3'24	% y/y change
Cost to Income Less LLP	50.0%	46.3%	45.3%	50.1%	50.9%	▲ 0.9%
Cost to Assets Less LLP	2.4%	2.1%	2.1%	2.5%	2.7%	▲ 0.2%
Loan to Deposit	71.4%	63.5%	67.7%	63.2%	62.2%	▼ (0.9%)

Asset Quality	Q3'20	Q3'21	Q3'22	Q3'23	Q3'24	% y/y change
Gross NPL Ratio	8.9%	11.9%	12.7%	12.2%	13.5%	▲ 1.3%
NPL Coverage	62.5%	40.0%	49.0%	50.2%	39.1%	▼ (11.0%)
Cost of Risk	1.4%	1.5%	1.6%	2.1%	1.9%	▼ (0.2%)

Capital Adequacy	Q3'20	Q3'21	Q3'22	Q3'23	Q3'24	% y/y change
Core Capital/TRWA	19.2%	20.7%	20.0%	18.6%	16.3%	▼ (2.3%)
Total Capital /TRWA	20.8%	22.1%	21.2%	19.2%	18.0%	▼ (1.2%)
Liquidity	53.6%	61.6%	60.5%	50.1%	52.5%	▲ 2.4%



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