

Below is a summary of Diamond Trust Bank's Q1'2024 performance:

| Balance Sheet Items        | Q1'2023      | Q1'2024      | y/y change    |
|----------------------------|--------------|--------------|---------------|
| Government Securities      | 131.6        | 115.4        | (12.4%)       |
| Net Loans and Advances     | 270.4        | 268.9        | (0.5%)        |
| <b>Total Assets</b>        | <b>553.3</b> | <b>571.9</b> | <b>3.4%</b>   |
| Customer Deposits          | 404.6        | 425.2        | 5.1%          |
| Deposits per branch        | 3.1          | 3.2          | 1.2%          |
| <b>Total Liabilities</b>   | <b>470.8</b> | <b>490.5</b> | <b>4.2%</b>   |
| <b>Shareholders' Funds</b> | <b>72.9</b>  | <b>71.9</b>  | <b>(1.5%)</b> |

| Key Ratios                              | Q1'2023 | Q1'2024 | % point change |
|---|---------|---------|----------------|
| Loan to Deposit ratio                   | 66.8%   | 63.3%   | (3.6%)         |
| Government Securities to Deposits ratio | 32.5%   | 27.1%   | (5.4%)         |
| Return on Average Equity                | 9.9%    | 11.2%   | 1.2%           |
| Return on Average Assets                | 1.4%    | 1.3%    | (0.1%)         |

| Income Statement                | Q1'2023 (Kshs bn) | Q1'2024 (Kshs bn) | y/y change   |
|---------------------------------|-------------------|-------------------|--------------|
| Net interest Income             | 6.7               | 7.1               | 6.2%         |
| Net non-interest income         | 2.8               | 3.7               | 31.8%        |
| <b>Total Operating income</b>   | <b>9.5</b>        | <b>10.8</b>       | <b>13.8%</b> |
| Loan loss provision             | 1.4               | 1.5               | 13.1%        |
| <b>Total Operating expenses</b> | <b>5.9</b>        | <b>6.8</b>        | <b>16.4%</b> |
| Profit before tax               | 3.6               | 4.0               | 9.2%         |
| <b>Profit after tax</b>         | <b>2.6</b>        | <b>2.9</b>        | <b>11.0%</b> |
| <b>Core EPS</b>                 | <b>9.5</b>        | <b>10.5</b>       | <b>11.0%</b> |

| Income Statement Ratios                      | Q1'2023 | Q1'2024 | y/y change |
|--|---------|---------|------------|
| Yield from interest-earning assets           | 9.7%    | 11.4%   | 1.8%       |
| Cost of funding                              | 4.5%    | 6.0%    | 1.5%       |
| Net Interest Spread                          | 5.2%    | 5.4%    | 0.2%       |
| Net Interest Income as % of operating income | 70.4%   | 65.7%   | (4.7%)     |
| Non-Funded Income as a % of operating income | 29.6%   | 34.3%   | 4.7%       |
| Cost to Income Ratio (CIR)                   | 61.7%   | 63.1%   | 1.4%       |
| CIR without provisions                       | 47.3%   | 48.8%   | 1.5%       |
| Cost to Assets                               | 4.7%    | 5.7%    | 1.0%       |
| Net Interest Margin                          | 5.4%    | 5.7%    | 0.3%       |

| Capital Adequacy Ratios                  | Q1'2023      | Q1'2024      | % points change |
|--|--------------|--------------|-----------------|
| Core Capital/Total Liabilities           | 21.1%        | 18.6%        | (2.5%)          |
| Minimum Statutory ratio                  | 8.0%         | 8.0%         |                 |
| <b>Excess</b>                            | <b>13.1%</b> | <b>10.6%</b> | <b>(2.5%)</b>   |
| Core Capital/Total Risk Weighted Assets  | 19.3%        | 17.4%        | (1.9%)          |
| Minimum Statutory ratio                  | 10.5%        | 10.5%        |                 |
| <b>Excess</b>                            | <b>8.8%</b>  | <b>6.9%</b>  | <b>(1.9%)</b>   |
| Total Capital/Total Risk Weighted Assets | 20.2%        | 18.2%        | (2.0%)          |
| Minimum Statutory ratio                  | 14.5%        | 14.5%        |                 |
| <b>Excess</b>                            | <b>5.7%</b>  | <b>3.7%</b>  | <b>(2.0%)</b>   |
| Liquidity Ratio                          | 56.2%        | 50.5%        | (5.7%)          |
| Minimum Statutory ratio                  | 20.0%        | 20.0%        |                 |
| <b>Excess</b>                            | <b>36.2%</b> | <b>30.5%</b> | <b>(5.7%)</b>   |

**Income Statement**

- Core earnings per share grew by 11.0% to Kshs 10.5, from Kshs 9.5 in Q1'2023, driven by the 13.8% increase in total operating income to Kshs 10.8 bn, from Kshs 9.5 bn in Q1'2023. However, the performance was weighed down by a 16.4% increase in total operating expenses to Kshs 6.8 bn from Kshs 5.9 bn in Q1'2023,
- The 13.8% increase in total operating income was mainly driven by a 31.8% increase in Net Non Interest Income (NFI) to Kshs 3.7 bn from Kshs 2.8 bn in Q1'2023, coupled with the 6.2% growth in Net Interest Income (NII) to Kshs 7.1 bn, from Kshs 6.7 bn in Q1'2023,
- Interest income grew by 20.0% to Kshs 14.6 bn from Kshs 12.2 bn in Q1'2023, mainly driven by a 23.4% growth in interest income from loans and advances to Kshs 7.9 bn from Kshs 6.4 bn in Q1'2023, coupled with a 14.4% increase in interest income from government securities to Kshs 6.4 bn, from Kshs 5.6 bn in Q1'2023. As such, the Yield on Interest-Earning Assets (YIEA) increased to 11.4% from 9.7% recorded in Q1'2023, mainly attributable to the faster 29.6% growth in interest income compared to a 9.5% increase in average interest-earning assets to Kshs 488.2 bn, from Kshs 445.7 bn in Q1'2023,
- Interest expenses rose by 36.8% to Kshs 7.5 bn from Kshs 5.5 bn in Q1'2023, mainly driven by a 30.3% increase in interest expense on customer deposits to Kshs 5.9 bn from Kshs 4.5 bn in Q1'2023, coupled with a 159.5% increase in interest expense from deposits and placements to Kshs 1.1 bn from Kshs 0.4 bn in Q1'2023. Consequently, Cost of funds (COF) increased by 1.5% points to 6.0% from 4.5% recorded in Q1'2023, owing to a faster 46.2% increase in Trailing interest expense to Kshs 27.8 bn from Kshs 19.0 bn recorded in Q1'2023, compared to the 9.0% increase in average interest-bearing liabilities to Kshs 459.8 bn, from the Kshs 421.8 bn recorded in Q1'2023. Trailing interest expense refers to the performance of the interest expense for the past 12 consecutive months. Net Interest Margin (NIM) increased by 0.3% points to 5.7% from 5.4% in Q1'2023, attributable to a 16.5% increase in trailing net interest income to Kshs 28.0 bn from Kshs 24.0 bn recorded in Q1'2023 which outpaced the 9.5% growth in average interest-earning assets,
- Non-Funded Income (NFI) increased by 31.8% to Kshs 3.7 bn from Kshs 2.8 bn in Q1'2023, mainly driven by a 42.7% increase in fees and commissions to Kshs 0.6 bn, from Kshs 0.4 bn in Q1'2023, coupled with the 14.3% increase in the FX trading income to Kshs 1.7 bn from Kshs 1.5 bn in Q1'2023, highlighting the bank's increased foreign exchange margins. Total fees and commissions increased by 33.6% to Kshs 1.5 bn, from Kshs 1.1 bn in Q1'2023. The revenue mix shifted to 66:34 from 70:30 for the funded to Non-funded income owing to the 31.8% increase in the Non Funded Income compared to the 6.2% growth in Funded Income,
- Total operating expenses increased by 16.4% to Kshs 6.8 bn from Kshs 5.9 bn in Q1'2023, driven by a 12.8% increase in staff costs to Kshs 2.3 bn from Kshs 2.0 bn recorded in Q1'2023, coupled with a 21.0% increase in other operating expenses to Kshs 3.0 bn from Kshs 2.5 bn recorded in Q1'2023, and the 13.1% increase in loan loss provisions to Kshs 1.5 bn from Kshs 1.4 bn recorded in Q1'2023. The increase in provisioning is partly attributable to sustained credit risk despite improved economic environment as evidenced by the average Q1'2024 Purchasing Managers Index (PMI) of 50.3, up from an average of 49.3 in Q1'2023,
- Cost to Income Ratio (CIR) increased by 1.4% points to 63.1% from 61.7% in Q1'2023, owing to the 16.4% increase in total operating expenses, which outpaced the 13.8% increase in total operating income. Notably, CIR without LLP increased by 1.5% points to 48.8% from 47.3% recorded in Q1'2023, and,
- Profit before tax increased by 9.2% to Kshs 4.0 bn from Kshs 3.6 bn recorded in Q1'2023, with effective tax rate decreasing to 26.2% in Q1'2024 from 27.4% in Q1'2023, leading to an 11.0% increase in profit after tax to Kshs 2.9 bn in Q1'2024, from Kshs 2.6 bn in Q1'2023.

**Balance Sheet**

- The balance sheet recorded an expansion as total assets grew by 3.4% to Kshs 571.9 bn, from Kshs 553.3 bn in Q1'2024, driven by a by a 204.7% increase in placements in the group to Kshs 42.6 bn, from 14.0 bn in Q1'2023, which outpaced the 0.5% decline in net loans and advances to Kshs 268.9 bn, from Kshs 270.4 bn in Q1'2023,

- and the 12.4% decline in investment in government securities to Kshs 115.4 bn, from Kshs 131.6 bn in Q1’2023,
- Total liabilities rose by 4.2% to Kshs 490.5 bn from Kshs 470.8 bn in Q1’2024, driven by a 5.1% growth in customer deposits to Kshs 425.2 bn, from Kshs 404.6 bn in Q1’2023, coupled with a 214.5% increase in other liabilities to 31.7 bn from Kshs 10.0 bn recorded in Q1’2023, which outpaced the 50.0% decline in placements to Kshs 15.1 bn, from Kshs 30.3 bn in Q1’2023 and the 28.2% decline in borrowings to Kshs 18.5 bn, from Kshs 25.7 bn in Q1’2023. With 134 branches countrywide and 1 branch in South Sudan, compared to 129 branches in Q1’2023, deposits per branch increased by 1.2% to Kshs 3.2 bn, from Kshs 3.1 bn in Q1’2023,
  - The 5.1% growth in customer deposits as compared to the 0.5% decline in loans led to a decrease in the loan to deposits ratio to 63.3%, from 66.8% in Q1’2023,
  - The bank’s Asset Quality declined, with Gross NPL ratio increasing to 14.9% in Q1’2024, from 12.3% in Q1’2023, attributable to 22.4% increase in Gross non-performing loans to Kshs 43.0 bn, from Kshs 35.1 bn in Q1’2023, which outpaced the 0.5% increase in gross loans to Kshs 287.9 bn, from Kshs 286.5 bn recorded in Q1’2023,
  - General Provisions (LLP) increased by 23.6% to Kshs 18.3 bn in Q1’2024 from Kshs 14.8 bn in Q1’2023. The NPL coverage decreased to 44.0% in Q1’2024, from 45.9% in Q1’2023, attributable to the 22.4% increase in Gross non-performing loans to Kshs 43.0 bn, from Kshs 35.1 bn in Q1’2023, which outweighed the 23.6% increase in general provisions and the 49.7% decrease interest in suspense to Kshs 0.7 bn, from Kshs 1.3 bn in Q1’2023,
  - Shareholders’ funds decreased by 1.5% to Kshs 71.9 bn in Q1’2024, from Kshs 72.9 bn in Q1’2023, but was however supported by an 8.5% increase in retained earnings to Kshs 2.6 bn, from Kshs 2.4 bn in Q1’2023,
  - DTB-K bank remains capitalized with a core capital to risk-weighted assets ratio of 17.4%, 6.9% points above the statutory requirement of 10.5%. In addition, the total capital to risk-weighted assets ratio came in at 18.2%, exceeding the statutory requirement of 14.5% by 3.7% points, and,
  - The bank currently has a Return on Average Assets (ROaA) of 1.3%, and a Return on Average Equity (ROaE) of 11.2%.

**Key Take-Outs:**

1. **Increased earnings** - Core earnings per share (EPS) grew by 11.0% to Kshs 10.5, from Kshs 9.5 in Q1’2023, driven by the 13.8% increase in total operating income to Kshs 10.8 bn, from Kshs 9.5 bn in Q1’2023,
2. **Declined asset quality** – The bank’s gross NPL ratio increased 14.9% in Q1’2024, from 12.3% in Q1’2023, attributable to 22.4% increase in Gross non-performing loans to Kshs 43.0 bn, from Kshs 35.1 bn in Q1’2023, which outpaced the 0.5% increase in gross loans to Kshs 287.9 bn, from Kshs 286.5 bn recorded in Q1’2023, and,
3. **Increased Provisioning** - On the back of high credit risk still attached to the country despite the improvement in the business environment in Q1’2024, the bank increased its provisions holdings to cover the anticipated losses in the future, with its general provisions increasing by 23.6% to Kshs 18.3 bn in Q1’2024 from Kshs 14.8 bn in Q1’2023,

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

- **Revenue Diversification.** The lender has a great opportunity to explore the growth of its non-funded income streams, which grew by 31.8% to Kshs 3.7 bn from Kshs 2.8 bn in Q1’2023. They have, over the years, launched a number of products and continue to simultaneously offer differentiated products for diaspora bankers, micro and small enterprises, home and vehicle insurance, bancassurance, and the DTB Weza platform which makes overdrafts much more accessible,

**Valuation Summary**

- We are of the view that Diamond Trust bank is a “**buy**” with a target price of Kshs 65.2 representing a upside of 42.0%, from the current price of 45.9 as of 31<sup>st</sup> May 2024, inclusive of a dividend yield of 10.9%, and,
- DTB-K Bank is currently trading at a P/TBV of 0.2x and a P/E of 1.6x vs an industry average of 0.8x and 3.7x respectively.