



Equity Research | Diamond Bank Plc

ARM Research

[research@armsecurities.com.ng](mailto:research@armsecurities.com.ng)

+234 1 270 1652

1 August 2013

Interim Earnings Report

6 months ended 30<sup>th</sup> June, 2013

**Recommendation: BUY**

- Diamond Bank reported 32% YoY growth in turnover to N85.6bn for the 6 months to June 2013. PBT and PAT came in at N17.6bn and N12.6bn reflecting respective YoY growth of 14% and 27%.
- Q2 13 Gross earnings of N45.7bn were 14% above our estimates while PBT was 5% behind on higher opex and impairment charges. PAT disappointed by a wider 17% margin, reflecting 8pps higher tax rate for the quarter vs our 20% estimate.

### ***Revenue recovery waxing stronger...***

- Diamond's ongoing recovery from a weak Q4 12 was even stronger than we envisaged with Q3 13 interest income (+7%QoQ) of N36bn surpassing our estimates by 9%. This largely reflected increase in earning asset volumes as asset yield of 11.3% was in line with our expectations. New funds were channeled into loans (+5% QoQ) and long term securities (+81% QoQ) even as Diamond drastically cut back on trading assets (-96% QoQ). However, the main boost to revenue was from non interest sources (+58% QoQ) which were 34% above our estimate. While other sub-components showed a strong growth trend, fee & commission income (+46% QoQ) was surprisingly strong—whereas expectations for more tempered growth in light of regulatory caps on fees underpinned our more sedate

### Income Statement Data

	2013- 6 'm	2012 - 6 'm	%chg
Revenue	85,581	64,695	32%
PBT	17,561	15,376	14%
Tax	(4,917)	(5,382)	-9%
PAT	12,644	9,995	27%

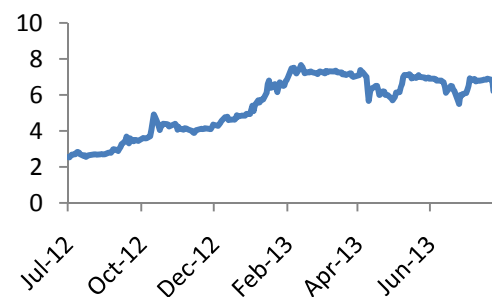
### Balance Sheet Data

	2013-Jun 'm	2012 -Dec 'm	%chg
Cash	129,419	132,196	-2%
Loans	624,539	585,200	7%
Deposits	1,032,032	910,234	13%
Fixed Asset	46,969	44,980	4%
Net Assets	120,761	108,856	11%

### Stock Data

Price	N6.74
52 week range	N2.53– N7.66
Market Cap. (N'm)	97,563.14
1-month Avg. Vol	14,687,375
Curr. PE	3.9x
Bloomberg Ticker	DIAMONDB NL
Reuters Ticker	DIAMONB.LG

### Diamond Plc - Share Price Trend



### Analyst(s)

Adeolu Omotola

[adeolu.omotola@arm.com.ng](mailto:adeolu.omotola@arm.com.ng)

---

NIR growth forecast.

- Conversely, Diamond was more impacted by competitive pressures for funds than we envisaged. In contrast to our expectations that its resilient deposit mobilization channels would help Diamond lower funding costs from the Q1 13 peak, interest expense was flat QoQ (Q1: +33%). Thus, while further deposit growth (+4% QoQ) helped moderate annualized WACF 10bps QoQ to 3%, this was ahead of our FY 13E of 2.9%.

***...But inefficiencies and impairments erode benefits***

- Operating costs jumped 14% QoQ to N21.1 bn, exceeding our estimate by a similar margin. Personnel expenses were up 42% QoQ amid a general rise across subcomponents. Nonetheless, on stronger revenues, quarterly CIR was 3pps lower QoQ to 58%, with the 59% H1 level still in line with our FY 13 estimate.
- Even more significant was the doubling of provisions QoQ to N6.5bn in Q2 13, 61% ahead of our estimates. Having subscribed to the view that the rebound in Q1 charges (after a N6.4bn writeback in Q4 12) would recur intermittently (which informed our more conservative FY 13E forecasts), we are still somewhat concerned at the magnitude of the Q2 jump and its potential implications going forward.
- The opex and provisions jump drained operating gains holding PBT and PAT flat QoQ at N8.8bn and N6.4bn respectively, with corresponding margins at 15% and 14%. For similar reasons, PBT margins were 2pps lower our estimates while the PAT margins were 4pps lower.

***Upgrade to operating forecasts offset by elevated charges***

- In view of its contribution to interest income, we have revised our earning asset volumes upwards to capture the steady growth in funding base. However, similar adjustments to non-interest revenue are tempered by our view that Diamond has limited scope for trading gains having depleted its trading portfolio. Overall, our Q3 13 revenues at N47bn are 18% higher than previous but imply a modest 3% QoQ growth. The muted QoQ trend also reflects our view that recent CRR hike puts a premium on liquidity within the industry in fending off higher funding costs; Diamond's heavy weighting in HTM assets in Q2 could thus prove a
-

---

disadvantage, especially as its Eurobond plans are now on ice.

- This has also reflected in our interest expense estimates which we have revised 19% higher to match the flat quarterly level through H1 at N9.4bn. As a result our FY 13 E WACF is 40bps higher at 3.3%.
- Similarly we have revised our opex estimates 12% higher to N21bn to match the H1 run-rate. Nonetheless, on upward revenue revision, our FY CIR estimate is unchanged at 59%. We have also revised our provisions estimates 24% higher to match the H1 average, pending clarification from management over drivers of negative provisioning surprise.
- As a result of opex and provisions our PBT and PAT estimates are unchanged at N37bn and N29.4bn respectively, the latter translating to EPS of N2.03.

***Deep valuation discount still intact, preserves BUY rating***

- Our fair value estimate is also unchanged at **N9.6** which implies a 42% upside potential from current price. Furthermore, current PE of 3.9x, forward PE of 3.3x and P/Bv of 0.8x remain attractive compared with respective peer averages of 6.9x, 6.3x and 1.4x. Hence, we retain a BUY rating on the stock.
-

## Summary of Forecasts

Quarterly					
Income Statement (N'm)	Q3 2013E	Q4 2013E	Q1 2014E	Q2 2014E	
Net interest income	31,411	23,909	29,123	30,312	
Non-interest income	6,498	9,643	11,216	11,673	
<b>Total Revenue</b>	<b>37,909</b>	<b>33,552</b>	<b>40,339</b>	<b>41,985</b>	
Total Operating Costs	(20,842)	(21,221)	(24,289)	(25,280)	
<b>Operating Profit</b>	<b>17,067</b>	<b>12,331</b>	<b>16,050</b>	<b>16,705</b>	
Impairment Charge	(5,061)	(5,153)	(3,282)	(3,416)	
<b>Pre-tax Profit</b>	<b>12,006</b>	<b>7,179</b>	<b>12,768</b>	<b>13,289</b>	
Tax	(1,205)	(1,227)	(3,192)	(3,192)	
<b>Post-tax Profit</b>	<b>10,801</b>	<b>5,952</b>	<b>9,576</b>	<b>10,097</b>	
Annual					
Income Statement (N'm)	2012A	6m' 2013	2013E	2014E	2015E
Net interest income	89,322	51,442	106,762	118,869	117,163
Non-interest income	23,739	15,529	31,670	45,778	45,590
<b>Total Revenue</b>	<b>113,060</b>	<b>66,971</b>	<b>138,432</b>	<b>164,648</b>	<b>162,753</b>
Total Operating Costs	- 68,548	- 39,612	- 81,675	- 99,138	- 100,010
<b>Operating Profit</b>	<b>44,512</b>	<b>27,359</b>	<b>56,757</b>	<b>65,510</b>	<b>62,743</b>
Impairment Charge	- 17,028	- 9,798	- 20,011	- 13,395	- 17,264
<b>Pre-tax Profit</b>	<b>27,482</b>	<b>17,561</b>	<b>36,746</b>	<b>52,115</b>	<b>45,479</b>
Tax	- 5,373	- 4,917	- 7,349	- 13,029	- 11,370
<b>Post-tax Profit</b>	<b>22,108</b>	<b>12,644</b>	<b>29,397</b>	<b>39,086</b>	<b>34,109</b>
Balance Sheet (N'm)	2012A	Jun 2012	2013E	2014E	2015E
<b>Assets</b>					
Cash & Short term funds	222,307	134,986	152,138	166,751	166,062
Due from banks	139,803	149,643	164,828	207,685	247,739
Net Loans	585,200	624,539	676,160	779,200	875,111
Fixed Assets	44,980	46,969	44,324	60,638	87,043
Other Assets	185,813	377,674	342,122	295,610	289,586
<b>Total Asset</b>	<b>1,178,104</b>	<b>1,333,811</b>	<b>1,379,571</b>	<b>1,509,884</b>	<b>1,665,542</b>
<b>Liabilities</b>					
Deposits	910,234	1,032,032	1,040,246	1,113,143	1,215,433
Due to banks	31,207	33,778	27,277	13,395	25,015
Borrowings	69,434	68,584	81,831	88,408	92,702
Other liabilities	58,373	78,656	90,510	124,576	138,318
<b>Total liabilities</b>	<b>1,069,248</b>	<b>1,213,050</b>	<b>1,239,864</b>	<b>1,339,522</b>	<b>1,471,468</b>
<b>Shareholders' fund</b>	<b>108,856</b>	<b>120,761</b>	<b>139,707</b>	<b>170,362</b>	<b>194,074</b>
<b>Key Data</b>					
EPS (Adj)	1.53	0.87	2.03	2.70	2.35
DPS	-	-	-	0.40	0.71
BVPS	7.52	8.34	9.65	11.77	13.41
ROE	20%	10%	21%	23%	18%
ROA	1.9%	0.9%	2.1%	2.6%	2.0%
<b>Key Ratios</b>					
Loan to Asset	50%	47%	50%	51%	52%
Cost to income	61%	59%	59%	60%	61%
Net Profit Margin	16%	14%	17%	19%	16%
Liquidity ratio	38%	27%	30%	33%	33%
Capital adequacy ratio	17%	16%	15%	16%	16%

Source: Company financials, ARM Estimates

### ARM ratings and recommendations

ARM now employs a two-tier rating system which is based on systemic importance of the security under review and the deviation of our target price for the stock from current market price. We characterize systemic importance as a function of a stock's ranking among the group of top 20 stocks by NSE market capitalization over a trailing 6 month period (minimum) to the review date. We adopt a 5 point rating system for this category of stocks and a 3 point rating system for stocks outside this group. The choice of top 20 stocks arises from the consideration that this group of stocks constitutes >75% of overall market capitalization and stocks outside this group are generally less liquid and individually account for <<1% of market capitalization. For stocks in both categories, the basis for ratings subject to target price deviation is outlined below:

TOP 20		NON-TOP 20	
Rating	Deviation	Rating	Deviation
STRONG BUY	>20%	BUY	>20%
OVERWEIGHT	10% — 20 %	NEUTRAL	5% — 20 %
NEUTRAL	0% — 10 %	SELL	<5%
UNDERWEIGHT	-5% — 0%		
SELL	<-5%		

RECOMMENDATION KEY	
Rating	Recommendation
BUY	Accumulate security to a substantial extent constrained only by portfolio diversification considerations
OVERWEIGHT	Accumulate security to an extent moderated by cognizance of its benchmark weight
NEUTRAL	Maintain status quo for security with respect to current holding—i.e. keep if already holding and don't buy otherwise—subject to reasonable portfolio constraints
UNDERWEIGHT	Minimise exposure to security taking cognizance of its index weighting
SELL	Sell-off security completely from portfolio

---

Copyright © 2013 Asset & Resource Management Company Limited (“ARM”).

All rights reserved. Unauthorised use, reproduction, distribution or disclosure of this document is strictly prohibited.

This material has been issued by Asset & Resource Management Company Limited (“ARM”), a Company regulated by the Nigerian Securities and Exchange Commission. The analyst(s) primarily responsible for preparing this research report, in whole or in part, certifies that with respect to each security or issuer covered; all of the views expressed accurately reflect his/her personal views about the subject securities and issuers and no part of his/her compensation was, is, or will be, directly or indirectly, related to the inclusion of specific recommendations or views in the report.

This research report is based on information from sources that ARM and its analysts believe to be reliable. Neither ARM nor any of its research analysts, nor any member of the ARM Group, gives any representation or warranty, express or implied, or undertaking of any kind or assumes responsibility or liability of any kind with respect to the accuracy or completeness of the information set out in this report or any third party’s use (or the results of such use) of such information. This report is provided solely for informational purposes and is not to be construed as providing advice, recommendations, or endorsements of any kind whatsoever. The investments and strategies discussed here may not be suitable for all investors; counsel of investment advisor should be obtained with regard to such investments and or strategies. This research report is not a replacement for advice from an accountant, lawyer, personal finance advisor or other category of investment advisor. The investments discussed in this report may oscillate in price or value. Opinions and information provided are made as of the date of the report issue and are subject to change without notice. This research report is not intended as an offer or solicitation for the purchase or sale of any financial instrument. Reference herein to any specific security or financial instrument does not necessarily constitute or imply its endorsement or recommendation by ARM, its directors, officers, employees or designated agents. Members of ARM may act as broker, advisor or lender, or make a market in any investments or issuers referenced in this report. Further information on any of the securities discussed herein may be obtained upon request to ARM. By accepting this document, you agree to be bound by the foregoing limitations.

---