



Equity Research | Diamond Bank Plc

ARM Research

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Initial View

12 months ended 31<sup>st</sup> December, 2014

**Recommendation: BUY (₦6.06)**

- Diamond Bank Plc (Diamond) reported a 15% YoY rise in gross earnings to ₦205 billion for the 12 months ended December 2014 whilst PBT and PAT declined 12% and 11% YoY to ₦23.9 billion and to ₦22.1 billion respectively.
- Diamond declared a 10 kobo dividend per share which implies a 9% payout ratio (FY 13: 15%) and a yield of 3% using its last trading price.

***FX boost to non-funded income offsets weakness in interest income***

- In line with pattern of strong FX trading income reported by banks thus far, Diamond recorded 34% QoQ jump in non-interest revenues to ₦14.9 billion underpinned by an eighteen-fold surge in other income to ₦2.8 billion. The upswing in NIR offset impact of stagnant QoQ movement (-0.5%) in interest income resulting in 7% QoQ increase in gross earnings to ₦56 billion. Parsing through breakdown on interest income reveals offsetting impact of 3% QoQ moderation in interest income from loans and advances on higher bank placements (+15% QoQ) and Securities (+2% QoQ). The cutback in income from risk assets emanated despite 10% QoQ rise in loans and suggests weaker pricing with overall asset yields contracting 140bps QoQ to 8.8% on an annualized basis.

**Income Statement Data**

	2014 – 12M'm	2013 – 12M'm	%chg
Gross Earnings	205,308	178,066	15%
PBT	28,101	32,080	-12%
Tax	2,616	3,535	-26%
PAT	25,485	28,544	-11%

**Balance Sheet Data**

	2014-Dec 'm	2013-Dec 'm	%chg
Cash	301,393	228,322	32%
Loans	791,095	689,168	15%
Deposits	1,493,081	1,206,044	24%
Fixed Asset	55,062	49,827	11%
Net Assets	209,025	138,854	51%

**Stock Data**

Price	₦4.35
52 week range	₦3.45– ₦6.76
Market Cap. (N'm)	62,967
1-month Avg. Vol	28,064,706
Curr. PE	2.8x
Bloomberg Ticker	DIAMONDB: NL
Reuters Ticker	DIAMONB.LG

**Diamond Bank Plc- Share Price Trend**



**Analyst(s)**

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- Similarly, interest expense was also flat (-0.3% QoQ) with breakdowns indicating a possible reclassification in interbank takings (with a negative figure in Q4) offsetting the effect of 8% QoQ rise in charges on customer deposits which rose 19% over the quarter.

### ***Spike in provisioning drives earnings lower***

- Despite sustained tight lid on personnel costs which contracted 3.5% QoQ to ₦8.3 billion, Q4 14 opex rose 3.6% to ₦25.9 billion. As with banking coverage to have released thus far, regulatory induced pressures via other expenses (+6.4% QoQ) offset the gains from improving cost control. Nonetheless, reflecting NIR boost to operating income, CIR declined 300bps QoQ to 62%.
- Impairments rose more than double over the quarter to ₦11.7 billion (highest in nine quarters) resulting in annualized cost of risk climbing 160bps QoQ to 3.2%. Whilst we are yet unclear as to the drivers, we believe weakness in USDNGN and oil price weighed on asset quality in general commerce, manufacturing and oil & gas loan book which cumulatively account for 56% of Diamond's risk assets as at FY 14.
- Thus, largely reflecting the jump in impairments, Q4 14 PBT declined 43% QoQ to ₦4.4 billion whilst a tax credit of ₦945 million pared declines in PAT (-17% QoQ to ₦5.3 billion). The weaker Q4 performance largely contributed to the 430bps and 360bps YoY moderation in FY 14 PBT and PAT margins to 14% and 12% respectively.

### ***Muted loan growth outlook and weaker CAR poses downside to ratings***

- Going forward, as with the industry, the lower oil price and weaker naira raises concerns over quality of risk assets, with Diamond's high NPL ratios drawing more attention. More importantly, limited buffer to regulatory CAR threshold of 16% for SIFI as Diamond reported 19bps YoY rise in CAR to 17.48% (in contrast to 20% guidance mentioned at 9M 14 conference call on the back of ₦50 billion rights issue) should constrain loan growth over FY 15. The low CAR ratio also raises the possibility of additional dilution, which together with the weaker macroeconomic environment and loan growth outlook underpins scope for compression in our last FVE for Diamond at **₦6.06** (adjusted for rights issue) to trigger change in our **BUY** rating. Diamond currently trades at P/E of 2.4x and P/B of 0.4x which are both at discounts to peer averages. Our estimates are under review.
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### 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

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