

Equity Research

Nigeria: Initial impressions

DIAMOND BANK PLC

Strong numbers, but approaching CAR limit

Event: Diamond Bank plc released its unaudited H1:12 results on Wednesday 11 July 2012, showing 290% y/y growth in EPS.

Line item (N'm)	H1:12	H1:11	%Change	FY12e	%Change vs. FY11
Gross Earnings	67,779	43,615	55%	133,832	39%
Interest income	52,083	29,310	78%	101,663	50%
Interest expense	-10,079	-4,847	108%	-26,668	117%
Net interest income after loan impairment losses	31,873	13,221	141%	30,847	35%
Non-interest income	12,613	15,114	-17%	32,169	16%
Overheads	-29,110	-25,309	15%	-55,580	19%
PBT	15,377	3,026	408%	20,983	-229%
Income tax expense	-5,382	-1,059	408%	-6,295	-226%
Net income /PAT	9,976	1,280	679%	14,688	-231%
EPS (N)	1.38	0.35	290%	1.01	na
Loans and advances to customers	505,678	348,679	45%	465,439	29%
Customer deposits	679,256	464,807	46%	752,120	25%
Net assets	88,091	107,602	-18%	102,146	9%

Sources: Company financials, Stanbic IBTC estimates

What do we think?

- Diamond Bank's H1:12 results were impressive and showed robust loan growth, which was ahead of our full year growth estimate and our coverage average estimates.
- Despite the annualised H1:12 ROE of 22.6% being ahead of our FY12e expectations of 14.4%, it has declined from 23.7% in Q1:12.
- The bank's operating efficiency seems to have been maintained in Q2:12 and is ahead of our FY12e expectations. The cost to income ratio declined to 53% in H1:12 from 67% in FY:11 and H1:11 but weakened slightly from 51.5% in Q1:12 and is below our FY12e estimate of 55%.
- Capital Adequacy (CAR) remains a concern; it declined to 12% from 12.4% in Q1:12. While we acknowledge that the current CAR level is above the regulatory minimum of 10%, the company seems more vulnerable to macro economic shocks such as currency devaluation. In our note titled "Naira devaluation bad for valuations" published on 22 June 2012, we highlighted that Diamond Bank was the most vulnerable within our coverage universe to a currency devaluation, which could likely trigger asset deterioration, due to its lower than peer CAR level and higher NPL ratio. Its low CAR could also constrain risk asset growth. Nevertheless, the bank is currently seeking approval to raise \$750m of tier II capital over the next two years. The bank intends to raise USD500m this year and has already secured USD70m from multilateral agencies, with plans to drawdown by midyear according to management.
- Diamond Bank's earnings performance was positive and in line with UBA's strong performance, the other bank within our coverage that has published H1:12 figures. In our note titled "H1:12 results maintaining momentum" published on 11 July 2012, we also highlighted that these numbers are unaudited interim figures and may change if audited, resulting in full year numbers moderating from the current H1:12 run rate.

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12 July 2012

Rele Adesina*

rele.adesina@stanbic.com

Muyiwa Oni*

muyiwa.oni@stanbic.com

NSE code	DIAMONDBNK
Bloomberg code	DIAMONDBNK NL
Recommendation	BUY
Share price (NGN)	2.41
Target price (NGN)	6.00
Implied return (%)	149

Share statistics (11/07/2012)

Market cap (NGN'm)	34,885
Market cap (USD'm)	217
Shares free float (%)	80.0
Shares in issue (m)	14,475
Book value (NGN'm)	93,333
Price/book (x)	0.4
ROAE (%)	-12
Capital adequacy ratio (%)	14.8%

Price relative to adjusted ASI



Source: NSE, Stanbic IBTC Research

Historical performance (%)

	Absolute	Relative
1 month	8.0	3.5
6 months	-23.9	-34.1
12 months	-59.8	-46.6

Source: NSE

Key positives:

- Gross earnings were up 55% and 21% y/y and q/q respectively vs. our FY12e growth estimate of 35%, driven by strong interest income growth.
- Interest income was up 77% y/y and 9% q/q to N52.08bn and N27.17bn respectively.
- Loans and advances were up 49% y/y to N505.7bn. This represents a 17% q/q growth from N433.54bn in Q1:12 and 29% ytd from N339.27bn in FY:11. This compares with our growth forecast of 29.3%. We expect Diamond Bank to be an outlier within our coverage as we expect our coverage banks to grow loans by 15% on average. We believe that Diamond Bank's strong loan growth has been supported partly by movement up the credit curve due to the higher volumes in the segment.
- Asset quality has continued to improve with NPL declining to 7.6% by H1:12 from 8% and 9.4% in Q1:12 and FY:11 respectively. This compares with our FY12e estimates of 6.2%. Loan growth has been the main driver of the lower NPL ratio and we believe that there hasn't been time for the loan book to season.
- Annualised cost of risk also declined by 50 bps to 4.2% from 4.7% in Q1:12 and 11.6% in FY:11 and lower than our FY12e estimates of 5%.

Key negatives:

- Interest expense was up 108% y/y and 14% q/q. Diamond Banks cost of funds have been on an increasing trend, increasing by 10 bps to 2.8% from 2.7% in Q1:12 vs. 2.2% in FY:11. Albeit considerably better than tier II peer average of 4.2%.
- Loan loss expense increased by 18% q/q to N5.9bn in Q2:12 from N4.6bn in Q1:12 but is down 10% y/y to N10.13bn. This compares with our FY12e estimate of a 38% decline to N27.3bn.
- Operating expenses increased by 15% y/y to N29.1bn in H1:12 and 16.4% to N15.66bn in Q2:12. This was driven by a 18% increase in personnel expenses and 85% rise in other operating expenses q/q however we have little colour on this as yet.

Valuation and recommendation (Buy; N6.00 TP)

- Diamond Bank is currently trading at a FY12e PE of 2.4x, a discount to its peer average of 3.4x and a P/BV of 0.3x vs. its peer average of 0.4x. Based on the current share price, we expect a DY of 16.8% for FY12e, ahead of its peer average of 15.2%. We maintain our Buy recommendation and N6.00 target price.

Income statement (NGN'm)

Year-end: December	FY 09	FY 10	FY 11	FY 12E	FY 13E	FY 14E
Net interest income	25,850	49,003	55,650	74,995	74,958	85,068
Non-interest income	16,608	25,197	27,794	32,169	36,994	42,543
Total revenues	67,735	91,022	96,340	133,832	149,258	167,309
Total costs	-30,087	-46,565	-55,580	-58,877	-67,390	-77,147
Operating profit	12,371	27,635	27,865	48,287	44,562	50,464
Pre-tax profit	-12,374	4,773	-16,284	20,983	28,424	34,997
Net profit	-8,174	1,288	-11,215	14,688	21,318	26,248
EPS (Kobo)	(56.47)	8.90	(77.47)	101.47	147.27	181.33
DPS (Kobo)	9.00	15.00	-	40.59	58.91	72.53
Ratios:						
Net interest income growth (%)	-38.4%	89.6%	13.6%	34.8%	0.0%	13.5%
Non-interest income growth (%)	-46.7%	51.7%	10.3%	15.7%	15.0%	15.0%
Revenue growth (%)	-37.8%	34.4%	5.8%	38.9%	11.5%	12.1%
Cost growth (%)	-29.4%	54.8%	19.4%	5.9%	14.5%	14.5%
Cost/income (%)	70.9%	62.8%	66.6%	54.9%	60.2%	60.5%
Cost/total assets (%)	4.6%	7.8%	7.3%	6.4%	6.5%	6.5%
Effective tax rate (%)	33.94%	72.16%	30.79%	30.00%	25.00%	25.00%
Net profit growth (%)	-258.1%	-115.8%	-970.4%	-231.0%	45.1%	23.1%

Balance sheet (NGN'm)

	FY 09	FY 10	FY 11	FY 12E	FY 13E	FY 14E
Securities	68,777	73,492	103,170	118,646	136,443	156,909
Net loans	302,467	294,228	339,267	438,714	507,308	586,608
Total assets	650,757	594,795	803,707	916,590	1,039,742	1,180,073
Deposits	482,056	412,032	601,696	752,120	843,399	946,217
Total liabilities	544,664	487,610	710,374	814,444	926,938	1,051,520
Shareholders equity	106,093	107,085	93,333	102,146	112,805	128,554
Ratios:						
NPL/gross loans (%)	19.3%	15.6%	11.4%	6.2%	5.7%	5.2%
Loans/assets (%)	46.5%	49.5%	42.2%	47.9%	48.8%	49.7%
Deposits/liabilities (%)	88.5%	84.5%	84.7%	92.3%	91.0%	90.0%
Loans/deposits (%)	62.7%	71.4%	56.4%	58.3%	60.2%	62.0%
Asset growth (%)	-4.6%	-8.6%	35.1%	54.1%	13.4%	13.5%
Equity growth (%)	-7.3%	0.9%	-12.8%	-4.6%	10.4%	14.0%
Equity/assets (%)	16.3%	18.0%	11.6%	11.1%	10.8%	10.9%
Net interest margin (%)	5.3%	11.0%	9.4%	9.0%	7.9%	7.9%
ROAE (%)	-11.2%	1.8%	-16.8%	14.4%	20.9%	23.3%
ROAA (%)	-1.8%	0.3%	-1.4%	1.6%	2.1%	2.2%
CAR (%)	19.5%	17.3%	14.8%	13.1%	13.6%	13.6%

KPI's

	FY 09	FY 10	FY 11	FY 12E	FY 13E	FY 14E
Loan growth (%)	3.1%	-7.5%	10.0%	29.3%	15.0%	15.0%
Deposit growth (%)	3.2%	-14.5%	46.0%	82.5%	12.1%	12.2%
NPL/gross loans (%)	19.3%	15.6%	11.4%	6.2%	5.7%	5.2%
Cost/income (%)	70.9%	62.8%	66.6%	54.9%	60.2%	60.5%
NII/total income (%)	38.2%	53.8%	57.8%	56.0%	50.2%	50.8%

Sources: Company financials, Stanbic IBTC estimates

Income statement (USD'm)

Year-end: December	FY 09	FY 10	FY 11	FY 12E	FY 13E	FY 14E
Net interest income	174	326	359	463	463	525
Non-interest income	112	167	179	199	228	263
Total revenues	455	605	622	826	921	1,033
Total costs	-202	-309	-359	-363	-416	-476
Operating profit	83	184	180	298	275	312
Pre-tax profit	-83	32	-105	130	175	216
Net profit	-55	9	-72	91	132	162
EPS (Cents)						
DPS (Cents)	(0.38)	0.06	(0.50)	0.63	0.91	1.12
	0.06	0.10	-	0.25	0.36	0.45
Ratios:						
Net interest income growth (%)	-38.4%	89.6%	13.6%	34.8%	0.0%	13.5%
Non-interest income growth (%)	-46.7%	51.7%	10.3%	15.7%	15.0%	15.0%
Revenue growth (%)	-37.8%	34.4%	5.8%	38.9%	11.5%	12.1%
Cost growth (%)	-29.4%	54.8%	19.4%	5.9%	14.5%	14.5%
Cost/income (%)	70.9%	62.8%	66.6%	54.9%	60.2%	60.5%
Cost/total assets (%)	4.6%	7.8%	7.3%	6.4%	6.5%	6.5%
Effective tax rate (%)	33.9%	72.2%	30.8%	30.0%	25.0%	25.0%
Net profit growth (%)	-258.1%	-115.8%	-970.4%	-231.0%	45.1%	23.1%

Balance sheet (USD'm)

	Dec-09	FY 10	FY 11	FY 12E	FY 13E	FY 14E
Securities	462	488	666	732	842	969
Net loans	2,031	1,955	2,189	2,708	3,132	3,621
Total assets	4,370	3,952	5,185	5,658	6,418	7,284
Deposits	3,237	2,738	3,882	4,643	5,206	5,841
Total liabilities	3,658	3,240	4,583	5,027	5,722	6,491
Shareholders equity	713	712	602	631	696	794
Ratios:						
NPL/gross loans (%)	19.3%	15.6%	11.4%	6.2%	5.7%	5.2%
Loans/assets (%)	46.5%	49.5%	42.2%	47.9%	48.8%	49.7%
Deposits/liabilities (%)	88.5%	84.5%	84.7%	92.3%	91.0%	90.0%
Loans/deposits (%)	62.7%	71.4%	56.4%	58.3%	60.2%	62.0%
Asset growth (%)	-4.6%	-8.6%	35.1%	54.1%	13.4%	13.5%
Equity growth (%)	-7.3%	0.9%	-12.8%	-4.6%	10.4%	14.0%
Equity/assets (%)	16.3%	18.0%	11.6%	11.1%	10.8%	10.9%
Net interest margin (%)	5.3%	11.0%	9.4%	9.0%	7.9%	7.9%
ROAE (%)	-11.2%	1.8%	-16.8%	14.4%	20.9%	23.3%
ROAA (%)	-1.8%	0.3%	-1.4%	1.6%	2.1%	2.2%
CAR (%)	19.5%	17.3%	14.8%	13.1%	13.6%	13.6%

KPI's

	Dec-09	FY 10	FY 11	FY 12E	FY 13E	FY 14E
Loan growth (%)	3.1%	-7.5%	10.0%	29.3%	15.0%	15.0%
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Cost/income (%)	70.9%	62.8%	66.6%	54.9%	60.2%	60.5%
NII/total income (%)	38.2%	53.8%	57.8%	56.0%	50.2%	50.8%

Sources: Company financials, Stanbic IBTC estimates

Companies Mentioned (Price as of 11 July 2012)

Diamond Bank plc, (DIAMONDBK NL, PRICE: NGN2.41, BUY, TP: NGN6.00)
United Bank for Africa plc, (UBA NL, PRICE: NGN4.09, BUY, TP: NGN5.80)

Disclosure Appendix

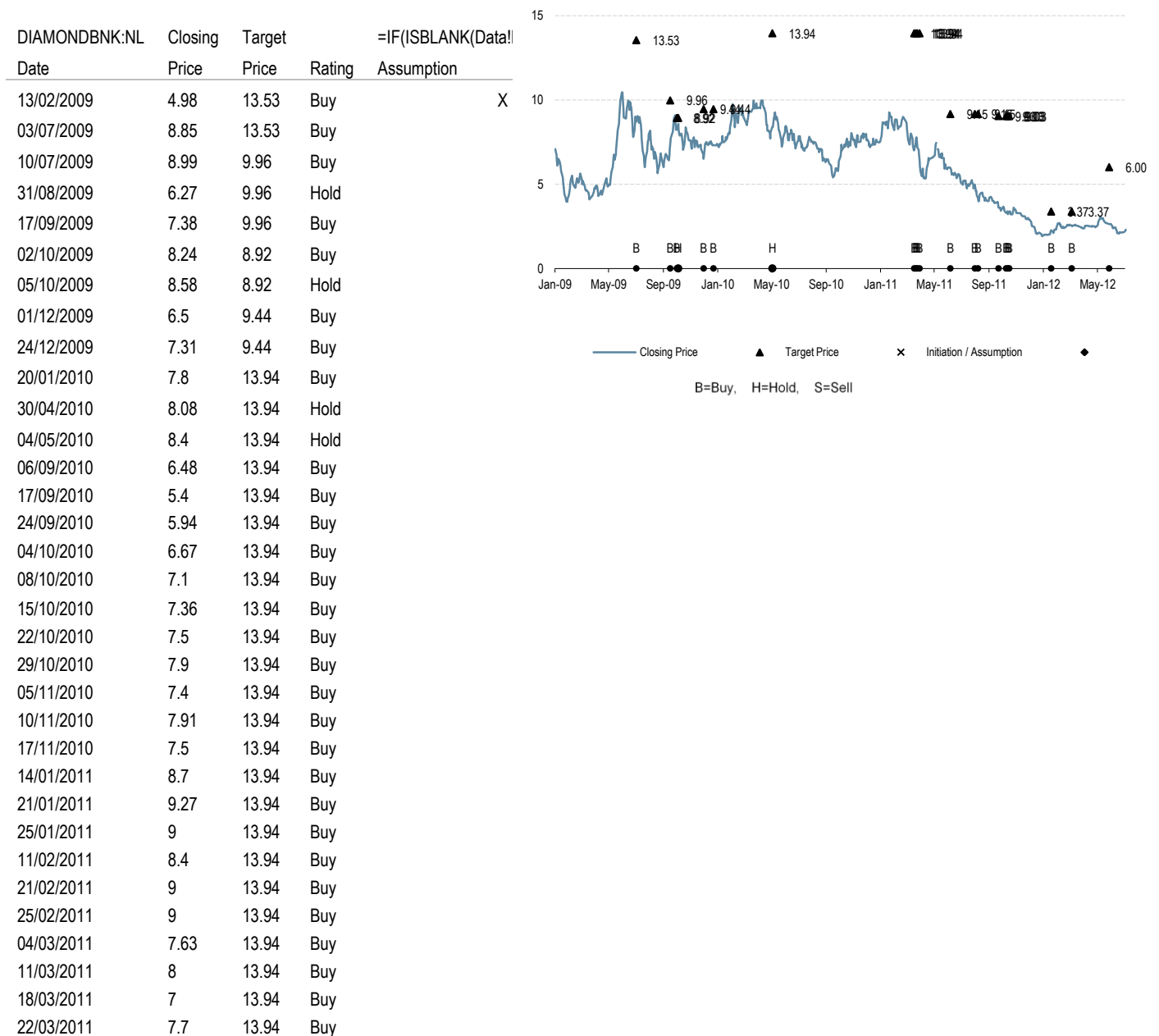
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3-Year Price, Target Price and Rating Change History Chart for DIAMONDBNK:NL



30/03/2011	6.37	13.94	Buy
01/04/2011	5.76	9.15	Buy
07/06/2011	5.96	9.15	Buy
06/07/2011	5.2	9.15	Buy
01/08/2011	4.98	9.15	Buy
08/08/2011	4.17	9.15	Buy
23/09/2011	3.61	9.03	Buy
10/10/2011	3.3	9.03	Buy
14/10/2011	3.23	9.03	Buy
17/10/2011	3.39	9.03	Buy
19/01/2012	2.28	3.37	Buy
05/03/2012	2.55	3.37	Buy
28/05/2012	2.63	6.00	Buy

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Price Target: (12 months) for (DIAMONDBK NL)

Method: We base our target price on a price to book methodology using exit P/B of 0.78x, average ROTC in next 3 years of 18.8% and cost of equity of 22.4%

Risks: Diamond Bank's capital adequacy ratio of 12.4% is low relative to our coverage average of 21% albeit higher than the regulatory requirement of 10%. This could restrain loan growth.

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Diamond Bank Plc (DIAMONDBK)	E
United Bank for Africa Plc (UBA)	E, H

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