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Diamond Bank Plc

Q3 Results: 9M ended September 30, 2010

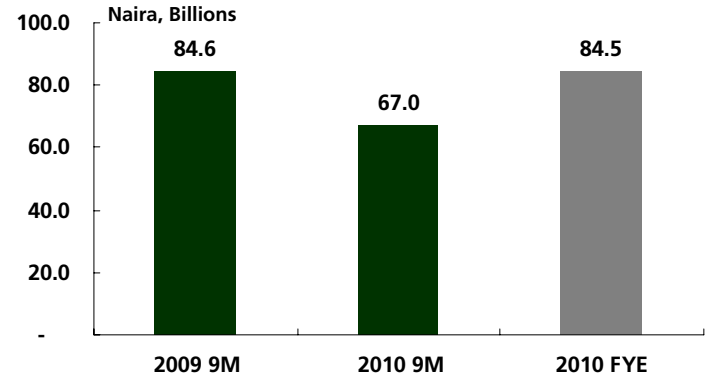
Research Update

November 5, 2010

Diamond Bank 9M September 2010 Results

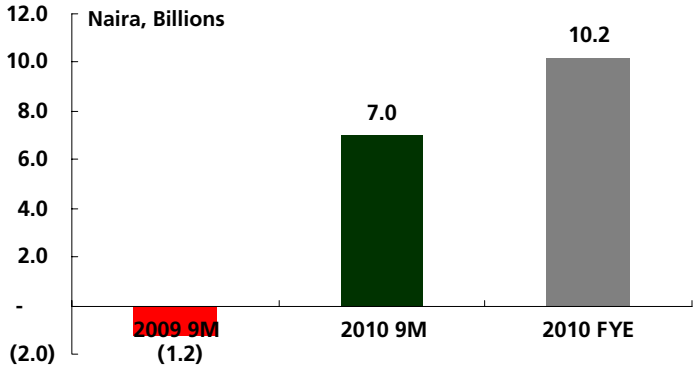
Surging Return to Profitability as Top-line Contracts: Diamond Bank Plc recently announced its Q3 results for September 2010 showing a 20.8% drop in gross earnings from N84.6bn (US$562.1m) in 2009 to N67.0bn (US$445.3m) in 2010. The bank however returned to profitability posting pre and post tax profits of N7.0bn (US$46.5m) and N4.9bn (US$32.4m) in 2010 respectively, up from the N1.2bn (US$8.3m) and N1.8bn (US$11.8m) in losses reported in the corresponding 2009 period. The reduction in the top line is consistent with the trend that has seen banks struggle with lower yields on assets amid a challenging credit environment. Further analysis of the bank's revenue profile by business segments however indicates that the strategic drive towards expanding retail banking business has begun to yield benefits; the bank's regional businesses (comprising retail banking) notched a 30.8% gain in absolute terms between Q3 2009 and Q3 2010, accounting for 66.0% of total earnings as against 40.0% in 2009. Apart from the 5.2% QoQ reduction in operating expenses, the 52.2% drop in cost of risk had the most impact on profitability. Deposits largely held steady, while risk assets declined by 11.9% over the period. On this basis, we forecast a 2010E EPS of N0.49 implying a P/E of 15.2x which is at a premium to its peers. We therefore place a **SELL** recommendation on the stock, based on our 6M price target of **N5.22**, representing a 29.4% downside.

Chart 1: Gross Earnings, 2009 Q3, 2010 Q3 and 2010 FY Forecast



Source: NSE, Afrinvest Research

Chart 2: Pre-Tax Profits, 2009 Q3, 2010 Q3 and 2010 FY Forecast



Source: NSE, Afrinvest Research

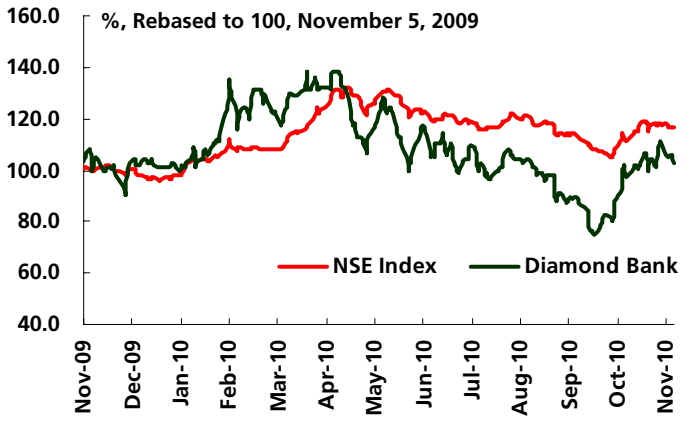
Chart 3: Key Ratios and Statistics

6– Month Price Target (Naira)	5.22
Share Price, Naira (November 5, 2010)	7.40
Market Cap (Naira, bn)	107.1
Market Cap (US$, m)	711.5
52-Week Range (Low - High)	5.40 - 9.97
ROE (FY 2010E), %	6.3%
2010FYE EPS (Naira)	0.49
2010FYE P/E, Times	15.2x
Shares Outstanding (bn)	14.5

Company Description:
Diamond Bank is a leading mid-tier bank, offering a full range of banking products and services in retail, commercial, corporate and investment banking. Its reputation for good corporate governance and excellent management saw a strategic investment by ACTIS. The bank has indicated its intent to divest of all non-banking businesses following the abolishment of the universal banking regime.

Source: Afrinvest Research

Chart 4: Last Twelve Months Price Performance, versus NSE



Source: NSE, Afrinvest Research

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