

Sharjah Islamic Bank (SIB)

Substantial growth in non-core income boosted profitability

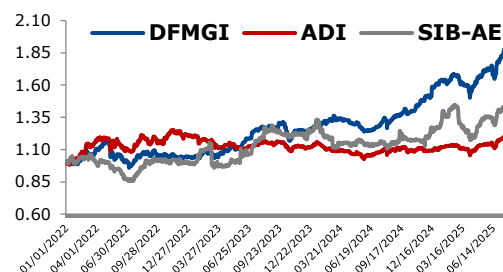
Current Price
AED 2.80

Target Price
AED 3.00

Upside/Downside (%)
+7.1%

Rating
HOLD

- SIB's funded income rose 6.8% YOY to AED 968 Mn in 2Q25, mainly driven by an increase in net advances and asset yield.
- SIB's net advances grew 22.1% YOY and 6.6% QOQ to AED 43.0 Bn in 2Q25, while Customer deposits grew 6.6% YOY and 1.2% QOQ to AED 52.7 Bn.
- The Bank's cost-to-income ratio increased 63 bps YOY to 32.8% in 2Q25 due to the Bank's efforts towards strategic investment for long-term growth.
- NPL declined from 4.5% in 1Q25 to 4.3% in 2Q25, while the stage 2 loan as a percentage of gross loans declined from 5.0% in 1Q25 to 4.5% in 2Q25.



2Q25 Net Profit higher than our estimate

Sharjah Islamic Bank's (SIB/the Bank) net profit grew 24.9% YOY to AED 378 Mn in 2Q25, higher than our estimate of AED 282 Mn. The growth in net profit is mainly driven by a rise in funded and non-funded income, coupled with a decline in impairments, partially offset by an increase in G&A expenses and tax charge.

P&L Highlights

SIB's funded income rose 6.8% YOY to AED 968 Mn in 2Q25, mainly driven by an increase in net advances and asset yield. On the other hand, funded expenses increased 7.6% YOY to AED 585 Mn in 2Q25. However, the cost of funds declined 25 bps YOY to 3.3% in 2Q25. SIB's net funded income grew 5.6% YOY to AED 383 Mn in 2Q25. As per our calculation, SIB's NIMs fell 14 bps YOY to 1.7% in 2Q25. The Bank's fee and commission income significantly increased from AED 125 Mn in 2Q24 to AED 197 Mn in 2Q25 mainly due to solid growth in commission income, whereas the fee and commission expense grew 10.6% YOY to AED 28 Mn in 2Q25. Investment income declined 4.5% YOY to AED 21 Mn in 2Q25. Foreign exchange income more than doubled from AED 14 Mn in 2Q24 to AED 32 Mn in 2Q25. The Bank's other income inched up 0.3% YOY to AED 27 Mn in 2Q25. As a result, SIB's non-funded income rose 53.3% YOY to AED 248 Mn in 2Q25 primarily due to the Bank's efforts on diversifying revenue stream sources through other non-financing and fee-based income sources. The Bank's total operating income increased 20.3% YOY to AED 631 Mn in 2Q25. Meanwhile, G&A rose 22.7% YOY to AED 207 Mn in 2Q25. However, the Bank's cost-to-income ratio increased 63 bps YOY to 32.8% in 2Q25. The Bank's impairments fell substantially from AED 22 Mn in 2Q24 to AED 8 Mn in 2Q25. Additionally, tax expense grew 23.4% YOY to AED 38 Mn in 2Q25.

Stock Information

Market Cap (AED, Mn)	9,059.90
Paid Up Capital (Mn)	3,067.98
52 Week High	2.86
52 Week Low	2.16
3M Avg. daily value (AED)	5,900,632

2Q25 Result Review (AED, Mn)

Total Assets	84,708
Total Liabilities	74,269
Total Equity	10,439
Total Deposits	52,721
Net Profit	378

Financial Ratios

Dividend Yield (12m)	4.12
Dividend Pay-out (%)	50.20
Price-Earnings Ratio(x)	8.33
Price-to-Book Ratio (x)	1.18
Book Value (AED)	2.11
Return-on Equity (%)	15.00

Stock Performance

5 Days	2.19%
1 Months	9.38%
3 Months	19.15%
6 Months	3.32%
1 Year	23.35%
Month to Date (MTD%)	1.82%
Quarter to Date (QTD%)	1.82%
Year to Date (YTD%)	12.45%

Balance Sheet Highlights

SIB's total assets grew 14.1% YOY and 2.3% QOQ to AED 84.7 Bn in 2Q25, primarily due to the rise in cash and bank balance, investments, and net advances. Investment securities grew 10.1% YOY and 0.1% QOQ to AED 17.8 Bn in 2Q25. Net advances recorded a strong growth of 22.1% YOY and 6.6% QOQ to AED 43.0 Bn in 2Q25. SIB's total liquid assets stood at AED 17.8 Bn in 2Q25, representing 21.1% of total assets. The Bank's customer deposits grew 6.6% YOY and 1.2% QOQ to AED 52.7 Bn in 2Q25. CASA deposits represented 40.7% of the total deposits during 2Q25.

Target Price and Rating

We maintain our HOLD rating on SIB with a revised target price of AED 3.00. The Bank showed strong growth in profitability in 2Q25, supported by a surge in non-core income and a decline in impairments. The Group's liquid assets stood at AED 17.8 Bn in 2Q25, representing 21.1% of total assets, reflecting a strong liquidity position to meet short-term obligations. SIB's net advances grew significantly by 22.1% YOY and 6.6% QOQ to AED 43.0 Bn in 2Q25. Meanwhile, NIMs grew 3 bps QOQ to 1.7% in 2Q25. Customer deposits rose 6.6% YOY and 1.2% QOQ to AED 52.7 Bn in 2Q25. The Bank's CASA deposits stood at 40.7% of total deposits in 2Q25 compared to 42.2% in 2024. The Bank's cost-to-income ratio increased 63 bps to 32.8% in 2Q25 due to the efforts undertaken towards strategic investment for long-term growth. Furthermore, asset quality strengthened as the calculated NPL declined from 4.5% in 1Q25 to 4.3% in 2Q25. The stage 2 loan as a percentage of gross loans declined from 5.0% in 1Q25 to 4.5% in 2Q25. SIB provision coverage ratio stood at 87.4% in 2Q25, indicating the Bank's ability to manage default risks and mitigate potential losses. The Bank's loan-to-deposit ratio increased to 81.5% in 2Q25, compared to 77.4% in 1Q25, indicating a well-balanced risk profile. SIB maintained a capital adequacy ratio of 15.8% and CET 1 ratio of 11.5% in 2Q25, indicating a strong financial position and adherence to regulatory requirements. Thus, based on the above analysis, we maintain our HOLD rating on the stock.

SIB - Relative valuation

(at CMP)	2020	2021	2022	2023	2024	2025F
PE	22.32	17.62	16.20	12.08	9.37	7.71
PB	1.56	1.55	1.56	1.44	1.40	1.25
EPS	0.125	0.159	0.173	0.232	0.299	0.363
BVPS	1.795	1.811	1.791	1.944	1.999	2.236
DPS	0.076	0.076	0.095	0.100	0.150	0.150
Dividend yield	2.7%	2.7%	3.4%	3.6%	5.4%	5.4%

FABS Estimates & Co Data

SIB – P&L

AED Mn	2Q24	1Q25	2Q25	2Q25F	Var	YOY Ch	QOQ Ch	2024	2025F	Change
Income from fin. & leasing	906	914	968	920	5.3%	6.8%	5.9%	3,725	3,901	4.7%
Depositors' share of profit	-544	-547	-585	-537	9.1%	7.6%	7.1%	-2,215	-2,339	5.6%
Net funded income	362	367	383	383	0.0%	5.6%	4.2%	1,510	1,562	3.5%
Fees and commissions	125	136	197	139	41.8%	57.4%	44.6%	500	614	23.0%
Fee and commission Exp	-26	-28	-28	-26	10.3%	10.6%	-0.3%	-99	-114	14.6%
Investment income	22	2	21	2	NM	-4.5%	NM	85	77	-10.0%
Foreign exchange income	14	26	32	26	20.8%	NM	24.4%	63	100	60.0%
Other income	26	29	27	32	-18.1%	0.3%	-9.9%	123	117	-5.0%
Total non-funded income	162	164	248	174	42.9%	53.3%	50.9%	671	795	18.4%
Total operating income	524	532	631	556	13.4%	20.3%	18.6%	2,181	2,357	8.1%
General & admin. expenses	-169	-198	-207	-206	0.6%	22.7%	4.4%	-779	-896	14.9%
Pre provision profit	355	333	424	351	20.9%	19.2%	27.1%	1,402	1,461	4.2%
Provisions	-22	17	-8	-41	-80.5%	-64.5%	NM	-210	-83	-60.5%
Profit before tax	333	351	416	310	34.1%	24.8%	18.6%	1,149	1,378	20.0%
Corporate tax	-30	-32	-38	-28	34.6%	23.4%	18.5%	-101	-124	22.8%
Net Profit attributable	303	319	378	282	-25.4%	24.9%	18.6%	1,048	1,254	19.7%

FABS estimate & Co Data

SIB - KPI

	2Q24	1Q25	2Q25	YOY Ch	QOQ Ch	2024	2025F	Change
Net FI/OI	69.1%	69.1%	60.7%	-846	-842	69.2%	66.3%	-294
NIM	1.9%	1.7%	1.7%	-14	3	1.9%	1.7%	-23
NIS	2.0%	1.8%	1.7%	-21	-4	2.2%	2.0%	-16
Fees & comms/OI	23.8%	25.6%	31.2%	735	561	22.9%	26.1%	317
Cost to income	32.2%	37.3%	32.8%	63	-447	35.7%	38.0%	228
Provisions/PPP	6.3%	-5.2%	1.9%	-440	703	15.0%	5.7%	-932
NP/OI	57.7%	60.0%	60.0%	222	-1	48.0%	53.2%	517
Cost of risk (calculated)	0.2%	-0.2%	0.1%	-18	24	0.6%	0.2%	-37
Loan-to-deposit	71.2%	77.4%	81.5%	1,037	417	73.6%	76.6%	298
NPL (Calculated)	5.4%	4.5%	4.3%	-118	-28	4.9%	5.0%	15
NPL Coverage (Calculated)	82.4%	88.5%	87.4%	500	-106	88.6%	86.0%	-259
CET 1	12.4%	11.3%	11.5%	-91	15	11.5%	11.4%	-8
Capital adequacy	17.2%	15.8%	15.8%	-146	0	16.2%	15.5%	-65
ROAE	13.1%	16.2%	16.5%	342	26	15.0%	17.0%	198
ROAA	1.3%	1.5%	1.5%	15	4	1.4%	1.4%	-6

FABS estimate & Co Data

SIB - Key B/S items

AED Mn	2Q24	3Q24	4Q24	1Q25	2Q25F	YOY Ch
Net advances	35,199	36,551	38,083	40,309	42,987	22.1%
QOQ ch	5.5%	3.8%	4.2%	5.8%	6.6%	
Total assets	74,237	74,796	79,210	82,770	84,708	14.1%
QOQ ch	5.9%	0.8%	5.9%	4.5%	2.3%	
Customer deposits	49,462	47,995	51,758	52,099	52,721	6.6%
QOQ ch	9.7%	-3.0%	7.8%	0.7%	1.2%	
Total equity	8,333	8,694	8,303	8,162	10,439	25.3%
QOQ ch	3.4%	4.3%	-4.5%	-1.7%	27.9%	

FABS estimate & Co Data

Valuation:

We use Residual Income and Relative Valuation (RV) method to value SIB. We have assigned 70% weight to Residual Income, and 30% to RV method.

Valuation Method	Target	Weight	Weighted Value
Residual Income	3.03	70.0%	2.12
Relative Valuation (RV)	2.93	30.0%	0.88
Weighted Average Valuation (AED)			3.00
Current market price (AED)			2.80
Upside/Downside (%)			+7.1%

1) Residual Income Method:

We have discounted the economic profit/excess equity using the cost of equity of 9.1%. Cost of equity is calculated by using 10-year government bond yield of 5.1%, beta of 0.90 and equity risk premium of 4.5%. Government bond yield is calculated after adding Abu Dhabi 10-year spread over 10-year US risk-free rate. Also, assumed a terminal growth rate of 2.0%.

Sum of PV (AED, Mn)	1,070
Terminal value (AED, Mn)	1,453
Book Value of Equity (as of June 2025)	6,766
FV to Common shareholders (AED, Mn)	9,290
No. of share (Mn)	3,068
Current Market Price (AED)	2.80
Fair Value per share (AED)	3.03

Residual Income Method

(All Figures in AED Mn)	FY 2025E	FY 2026E	FY 2027E	FY 2028E	FY 2029E
Net Profit	1,162	1,090	1,087	1,097	1,063
(-) Equity Charge	-660	-724	-787	-851	-912
Excess Equity	502	366	300	246	151
Discounting Factor	0.96	0.88	0.81	0.74	0.68
Present Value of Excess Equity	221¹	323	242	182	102

Source: FAB Securities, ¹Adjusted for partial year

2) Relative Valuation:

We have used local peers to value SIB, and it is valued using the PB multiple. It is valued with a 2025 PB multiple of 1.2x compared to the peer median of 1.4x due to lower ROE and ROA of the Bank.

Company	Market (USD Mn)	P/B (x)		P/E (x)		Dividend Yield (%)	
		2025F	2026F	2025F	2026F	2025F	2026F
Mashreq Bank	13,214	1.3	1.2	7.0	6.8	7.2%	8.3%
RAKBank	4,009	1.2	1.1	6.7	7.4	7.4%	6.6%
Emirates NBD	41,615	1.2	1.0	7.1	7.4	4.3%	4.5%
Abu Dhabi Commercial Bank	28,251	1.5	1.3	11.3	10.4	4.3%	4.6%
Dubai Islamic Bank	18,082	1.5	1.4	10.0	10.1	4.9%	5.0%
Commercial Bank of Dubai	7,152	1.6	1.5	8.7	9.6	6.3%	4.5%
Average		1.4x	1.3x	8.5x	8.6x	5.7%	5.6%
Median		1.4x	1.3x	7.9x	8.5x	5.6%	4.8%
Max		1.5x	1.4x	9.7x	10.0x	6.9%	6.2%
Min		1.3x	1.1x	7.0x	7.4x	4.5%	4.6%

Source: FAB Securities

Research Rating Methodology:

Rating	Upside/Downside potential
BUY	Higher than +15%
ACCUMULATE	Between +10% to +15%
HOLD	Lower than +10% to -5%
REDUCE	Between -5% to -15%
SELL	Lower than -15%

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