

Sharjah Islamic Bank (SIB)

Higher non-core income and increased lending supported profitability

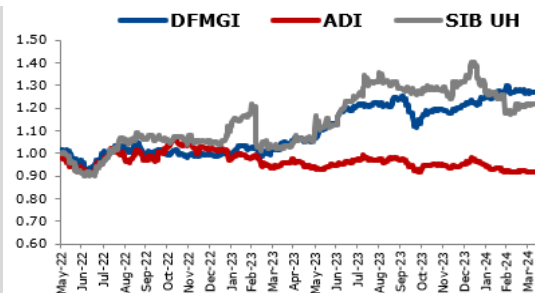
Current Price
AED 2.22

Target Price
AED 2.20

Upside/Downside (%)
-0.9%

Rating
HOLD

- SIB's advances grew 9.7% YOY to AED 33.4 Bn in 1Q24, while deposits grew 7.6% YOY to 45.1 Bn in 1Q24.
- NIMs declined 24 bps YOY and 12 bps QOQ to 2.0% in 1Q24, primarily due to the higher cost of funds.
- CASA deposits as a percentage of total deposits declined from 35.2% in 4Q23 to 33.7% in 1Q24.
- Asset quality improved as the NPL declined from 5.6% in 4Q23 to 5.5% in 1Q24. Provision coverage against NPLs also grew from 93.8% in 4Q23 to 95.8% in 1Q24.
- Capitalization stood strong with a CET 1 ratio of 12.6% and CAR of 17.7% in 1Q24.



Stock Information

Market Cap (AED, mm)	7,183.20
Paid Up Capital (mm)	3,235.68
52 Week High	2.65
52 Week Low	1.90
3M Avg. daily value (AED)	1,939,358

1Q24 Result Review (AED, mm)

Total Assets	70,116
Total Liabilities	62,060
Total Equity	8,056
Total Deposits	45,079
Net Profit	260

Financial Ratios

Dividend Yield (12m)	4.50
Dividend Pay-out (%)	42.59
Price-Earnings Ratio(x)	9.02
Price-to-Book Ratio (x)	1.15
Book Value (AED)	1.92
Return-on Equity (%)	14.80

Stock Performance

5 Days	0.45%
1 Months	-0.89%
3 Months	-7.50%
6 Months	-5.93%
1 Year	16.84%
Month to Date (MTD%)	-1.33%
Quarter to Date (QTD%)	-1.33%
Year to Date (YTD%)	-8.64%

1Q24 Net Profit lower than our estimate

Sharjah Islamic Bank's (SIB/the Bank) net profit grew 11.4% YOY to AED 260 Mn in 1Q24, lower than our estimate of AED 288 Mn. The growth in net profit is mainly driven by strong growth recorded in non-funded income along with lower provisions partially offset by a marginal decline in net funded income and a rise in general and administrative expenses.

P&L Highlights

SIB's funded income grew 23.5% YOY to AED 858 Mn in 1Q24 mainly driven by a healthy growth in net advances and expansion in asset yield. Net advances grew 9.7% YOY to AED 33.4 Bn in 1Q24. The Bank's asset yield rose 39 bps YOY to 5.5% in 1Q24. On the other hand, funded expenses grew 51.1% YOY to AED 442 Mn in 1Q24 impacting margins. Thus, the Bank's net funded income marginally declined 0.6% YOY to AED 368 Mn in 1Q24. NIM's declined 24 bps YOY and 12 bps QOQ to 2.0% in 1Q24. SIB's net fee and commission income increased from AED 58 Mn in 1Q23 to AED 78 Mn in 1Q24. However, the Bank's investment income declined 31.0% YOY to AED 8 Mn in 1Q24. Foreign exchange income grew 4% YOY to AED 17 Mn in 1Q24. The Bank's other income grew from AED 27 Mn in 1Q23 to AED 34 Mn in 1Q24. Thus, the Bank's non-funded income grew from AED 113 Mn in 1Q23 to AED 137 Mn in 1Q24. As a result, total operating income grew 4.3% YOY to AED 505 Mn in 1Q24. SIB's operating expenses rose 11.7% YOY to AED 174 Mn in 1Q24. Thus, the Bank's cost-to-income ratio rose 227 bps YOY to 34.5% in 1Q24. Provisions declined significantly from AED 95 Mn in 1Q23 to AED 45 Mn in 1Q24.

Balance Sheet Highlights

SIB's total assets grew 16.4% YOY and 6.4% QOQ to AED 70.1 Bn in 1Q24 mainly due to the growth in net advances, investment securities, and liquid assets. Net advances grew 9.7% YOY and 1.0% QOQ to AED 33.4 Bn in 1Q24. Investment securities grew 52.3% YOY and 15.4% QOQ to AED 15.6 Bn in 1Q24. SIB's total liquid assets stood at AED 15.3 Bn, representing 21.8% of total assets as of 1Q24. The Bank's customer deposits grew 7.6% YOY and declined 0.3% QOQ to AED 45.1 Bn in 1Q24. Total equity grew 7.7% YOY and declined 0.9% QOQ to AED 8.1 Bn in 1Q24. The decline in total equity was mainly due to the issuance of a 10% cash dividend and adjustment from retained earnings for 2023.

Target Price and Rating

We revise our rating from REDUCE to HOLD on SIB with a target price of AED 2.20. SIB's net advances grew 9.7% YOY to AED 33.4 Bn in 1Q24. NIMs declined 24 bps YOY to 2.0% in 1Q24, primarily due to an increased cost of funds. The Bank's cost of funds grew 81 bps YOY and declined 17 bps QOQ to 3.3% in 1Q24. Customer deposits rose 7.6% YOY and declined 0.3% QOQ to AED 45.1 Bn in 1Q24. The increase in customer deposits is primarily attributable to growth in escrow accounts. The Bank's CASA deposits as a percentage of total deposits declined from 35.2% in 4Q23 to 33.7% in 1Q24. The Bank sought another funding source, such as "Due to other financing institutions", primarily due to flat growth in customer deposits on a QOQ basis in 1Q24. We believe this will be an expensive source of funding compared to deposits. In addition, the Bank increased its investment in Wakalah from AED 8.6 Bn in 4Q23 to AED 10.0 Bn in 1Q24, mainly due to the fixed rate of return offered on these investments. The Bank investment securities grew from AED 13.5 Bn in 4Q23 to 15.6 Bn in 1Q24. Furthermore, SIB's asset quality improved as the NPL declined from 5.6% in 4Q23 to 5.5% in 1Q24 owing to the successful recovery on bad financing and growth in investment in Islamic financing. Provision coverage against NPLs grew from 93.8% in 4Q23 to 95.8% in 1Q24, providing a cushion against bad loans going forward. The Bank's capitalization stood strong with a CET 1 ratio of 12.6% and CAR of 17.7% in 1Q24. However, SIB's loan book continued to remain concentrated in the government, real estate, and personal sectors. Loans to the government sector account for 34.0% of the total financing portfolio, while loans to the real estate sector accounted for 25.2% as of 1Q24. The Bank should diversify its financing to other sectors as high loan concentration to a single sector might impact the credit profile in a downturn. Thus, based on our analysis, we revise our rating to HOLD on the stock.

SIB - Relative valuation

(at CMP)	2019	2020	2021	2022	2023	2024F
PE	13.1	17.6	13.9	11.0	8.4	8.5
PB	1.3	1.2	1.2	1.2	1.1	1.0
Dividend yield	2.1%	3.4%	3.4%	4.3%	4.5%	4.5%

FABS Estimates & Co Data

SIB – P&L

AED mm	1Q23	4Q23	1Q24	1Q24F	Var.	YOY Ch	QOQ Ch	2023	2024F	Change
Income from fin. & leasing	695	857	858	906	-5.3%	23.5%	0.1%	3,089	3,330	7.8%
Depositors' share of profit	-324	-410	-490	-442	10.9%	51.1%	19.5%	-1,636	-1,891	15.6%
Net funded income	370	370	368	464	-20.7%	-0.6%	-0.5%	1,453	1,439	-0.9%
Fees and commissions	74	121	102	85	21.0%	38.4%	-15.3%	353	318	-10.0%
Fee and commission Exp	-16	-22	-25	-22	9.9%	52.1%	12.1%	-78	-89	14.7%
Investment Income	12	40	8	20	-59.9%	-31.0%	-80.0%	75	64	-15.0%
Foreign Exchange income	17	21	17	22	-20.0%	4.0%	-18.4%	64	54	-15.0%
Other Income	27	32	34	33	1.5%	22.3%	3.5%	108	97	-10.0%
Total non-funded income	113	192	137	137	-0.2%	20.4%	-29.0%	522	444	-15.0%
Total operating income	484	562	505	601	-16.0%	4.3%	-10.2%	1,975	1,883	-4.7%
General & admin. Expenses	-156	-211	-174	-225	-22.7%	11.7%	-17.5%	-684	-708	3.4%
Pre provision profit	328	351	330	376	-12.1%	0.8%	-5.8%	1,291	1,175	-9.0%
Provisions	-95	-48	-45	-59	-23.3%	-52.5%	-6.4%	-221	-246	11.4%
Revaluation loss on prop	0	-218	0	0	NM	NM	NM	-218	0	NM
Profit before tax	233	84	285	317	-10.0%	22.5%	238.8%	852	929	9.1%
Corporate tax	0	0	-26	-29	-9.7%	NM	NM	0	-84	NM
Net Profit attributable	233	84	260	288	-10.0%	11.4%	NM	852	846	-0.7%

FABS estimate & Co Data

SIB - KPI

	1Q23	4Q23	1Q24	YOY Ch	QOQ Ch	2023	2024F	Change
Net FI/OI	76.5%	65.8%	72.9%	-362	715	73.6%	76.4%	287
NIM	2.3%	2.1%	2.0%	-24	-12	2.2%	2.0%	-16
NIS	2.6%	2.3%	2.2%	-42	-10	2.5%	2.3%	-23
Fees & comms/OI	15.3%	21.5%	20.3%	500	-122	17.9%	16.9%	-100
Cost to income	32.3%	37.6%	34.5%	227	-307	34.7%	37.6%	294
Provisions/PPP	28.9%	13.7%	13.6%	-1,526	-9	17.1%	20.9%	382
NP/OI	48.2%	15.0%	51.4%	327	NM	43.1%	44.9%	179
Cost of risk - calculated	1.2%	0.6%	0.5%	-66	-5	0.7%	0.7%	6
Loan-to-deposit	72.6%	73.1%	74.0%	142	95	73.1%	72.2%	-85
NPL	6.3%	5.6%	5.5%	-80	-10	5.6%	5.8%	20
NPL Coverage	83.7%	93.8%	95.8%	1,210	200	93.8%	85.8%	-800
CET 1	13.8%	13.6%	12.6%	-115	-101	13.6%	14.2%	57
Capital adequacy	19.4%	18.9%	17.7%	-177	-121	18.9%	19.2%	38
ROAE	12.2%	13.7%	14.0%	186	36	14.1%	12.9%	-118
ROAA	1.2%	1.3%	1.3%	12	-3	1.4%	1.3%	-10

FABS estimate & Co Data

SIB - Key B/S items

AED mm	1Q23	2Q23	3Q23	4Q23	1Q24	YOY Ch
Net advances	30,402	31,578	31,865	33,030	33,364	9.7%
QOQ ch	-0.9%	3.9%	0.9%	3.7%	1.0%	
Total assets	60,246	61,061	63,409	65,879	70,116	16.4%
QOQ ch	1.9%	1.4%	3.8%	3.9%	6.4%	
Customer deposits	41,879	42,135	45,241	45,207	45,079	7.6%
QOQ ch	5.9%	0.6%	7.4%	-0.1%	-0.3%	
Total equity	7,483	7,774	7,998	8,127	8,056	7.7%
QOQ ch	-2.0%	3.9%	2.9%	1.6%	-0.9%	

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	2.26	70.0%	1.57
Relative Valuation (RV)	2.08	30.0%	0.63
Weighted Average Valuation (AED)			2.20
Current market price (AED)			2.22
Upside/Downside (%)			-0.9%

1) Residual Income Method:

We have discounted the economic profit/excess equity using the cost of equity of 8.6%. Cost of equity is calculated by using 10-year government bond yield of 4.5%, beta of 0.90 and equity risk premium of 3.7%. 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)	529
Terminal value (AED, Mn)	519
Book Value of Equity (as of March 2024)	6,219
FV to Common shareholders (AED, Mn)	7,267
No. of share (Mn)	3,236
Current Market Price (AED)	2.22
Fair Value per share (AED)	2.26

Residual Income Method

(All Figures in AED Mn)	FY 2024E	FY 2025E	FY 2026E	FY 2027E	FY 2028E
Net Profit	846	822	798	795	801
(-) Equity Charge	-588	-631	-672	-712	-751
Excess Equity	178	191	126	82	50
Discounting Factor	0.94	0.87	0.80	0.74	0.68
Present Value of Excess Equity	168	166	101	61	34

Source: FAB Securities

2) Relative Valuation:

We have used local peers to value SIB and it is valued using the PB multiple. It is valued with 2024 PB multiple of 1.0x in line with peers.

Company	Market (USD Mn)	P/B (x)		P/E (x)		Dividend Yield (%)	
		2024F	2025F	2024F	2025F	2024F	2025F
Mashreq Bank	9,400	1.1	1.0	5.4	5.6	8.7	8.7
RAKBank	2,820	0.9	0.8	6.1	5.9	6.6	7.6
Emirates NBD	27,950	0.9	0.8	5.3	5.6	6.4	6.4
Abu Dhabi Commercial Bank	16,620	0.9	0.9	8.0	8.2	6.6	6.5
Dubai Islamic Bank	11,180	1.1	1.0	7.2	7.3	7.6	7.6
Commercial Bank of Dubai	5,460	1.3	1.2	NA	NA	6.8	6.2
Average		1.0	1.0	6.4	6.5	7.1%	7.2%
Median		1.0	0.9	6.1	5.9	6.7%	7.0%
Max		1.1	1.0	7.2	7.3	7.4%	7.6%
Min		0.9	0.8	5.4	5.6	6.6%	6.4%

Source: FAB Securities

