

## Sharjah Islamic Bank (SIB)

Growth in non-funded income and lower provisions boosted profitability

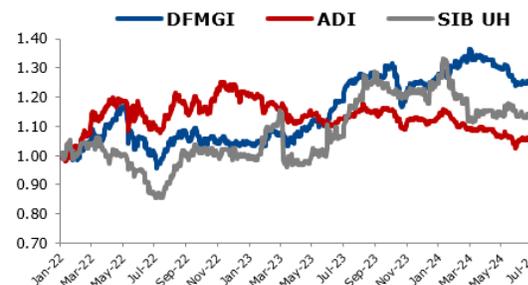
**Current Price**  
AED 2.24

**Target Price**  
AED 2.20

**Upside/Downside (%)**  
-1.8%

**Rating**  
HOLD

- SIB's net advances grew 11.5% YOY and 5.5% QOQ to AED 35.2 Bn in 2Q24.
- NIMs declined 28 bps YOY and 17 bps QOQ to 1.9% in 2Q24 owing to higher cost of funds.
- The bank's CASA deposits as a percentage of total deposits declined from 33.7% in 1Q24 to 31.9% in 2Q24.
- SIB's asset quality improved as the NPL declined from 5.6% in 1Q24 to 5.5% in 2Q24 due to a healthy recovery of bad loans.
- SIB successfully issued sukuk worth USD 500 Mn with a maturity of 5 years.



### 2Q24 Net Profit higher than our estimate

Sharjah Islamic Bank's (SIB/the Bank) net profit grew 17.2% YOY to AED 307 Mn in 2Q24, higher than our estimate of AED 263 Mn. Increase in net profit is mainly driven by healthy growth in net funded income and non-funded income owing to robust consumer demand and economic expansion in the UAE along with decline in provisions partially offset by a rise in G&A expense and higher tax charges.

### P&L Highlights

SIB's funded income grew 21.7% YOY to AED 906 Mn in 2Q24 mainly driven by a solid growth in net advances owing to strong consumer demand and economic expansion in the UAE. The Bank's asset yield rose 5 bps YOY but fell 4 bps QOQ to 5.5% in 2Q24. On the other hand, funded expenses grew 37.3% YOY to AED 544 Mn in 2Q24 due to higher cost of funds impacting margins. Thus, the Bank's net funded income increased 4.0% YOY to AED 362 Mn in 2Q24. As per our calculation, SIB's NIMs declined 28 bps YOY and 17 bps QOQ to 1.9% in 2Q24. The Bank's net fee and commission income increased from AED 66 Mn in 2Q23 to AED 99 Mn in 2Q24. However, investment income declined 10.5% YOY to AED 22 Mn in 2Q24. Foreign exchange income fell significantly 25.2% YOY to AED 14 Mn in 2Q24. The Bank's other income grew 17.3% YOY to AED 26 Mn in 2Q24. Thus, SIB's non-funded income rose 22.5% YOY to AED 162 Mn in 2Q24. As a result, total operating income grew 9.1% YOY to AED 524 Mn in 2Q24. SIB's operating expenses rose 3.4% YOY to AED 165 Mn in 2Q24. The Bank's cost-to-income ratio improved 173 bps YOY and 306 bps QOQ to 31.5% in 2Q24 owing to the effective cost-management measures taken by the management. Provisions declined significantly from AED 60 Mn in 2Q23 to AED 22 Mn in 2Q24 owing to improvement in the economic condition and asset quality. The Bank recorded tax expense

### Stock Information

Market Cap (AED, Mn)	7,247.92
Paid Up Capital (Mn)	3,235.68
52 Week High	2.65
52 Week Low	2.15
3M Avg. daily value (AED)	891,875

### 2Q24 Result Review (AED, Mn)

Total Assets	74,237
Total Liabilities	65,904
Total Equity	8,333
Total Deposits	49,462
Net Profit	307

### Financial Ratios

Dividend Yield (12m)	4.46
Dividend Pay-out (%)	42.59
Price-Earnings Ratio(x)	8.75
Price-to-Book Ratio (x)	1.12
Book Value (AED)	2.01
Return-on Equity (%)	14.85

### Stock Performance

5 Days	-1.32%
1 Months	0.45%
3 Months	1.36%
6 Months	-7.82%
1 Year	-1.32%
Month to Date (MTD%)	1.36%
Quarter to Date (QTD%)	1.36%
Year to Date (YTD%)	-7.82%

of AED 30n Mn in 2Q24 compared to nil in 2Q23 owing to the introduction of the UAE corporate tax.

### Balance Sheet Highlights

SIB's total assets grew significantly by 21.6% YOY and 5.9% QOQ to AED 74.2 Bn in 2Q24 mainly due to the growth in net advances, investment securities, and liquid assets. Investment securities grew 40.2% YOY and 3.2% QOQ to AED 16.1 Bn in 2Q24. Investment securities measured at amortized cost witnessed a significant growth of 29.0% YOY and reached AED 12.4 Bn owing to the rebound of the money market post-pandemic. Net advances grew 11.5% YOY and 5.5% QOQ to AED 35.2 Bn in 2Q24. SIB's total liquid assets stood at AED 17.0 Bn, representing 22.9% of total assets as of 2Q24 indicating a healthy liquidity level. The Bank's customer deposits grew 17.4% YOY and 9.7% QOQ to AED 49.5 Bn in 2Q24. Total equity grew 7.2% YOY and 3.4% QOQ to AED 8.3 Bn in 2Q24.

### Target Price and Rating

We maintain our HOLD rating on SIB with a target price of AED 2.20. SIB's net advances grew 11.5% YOY and 5.5% QOQ to AED 35.2 Bn in 2Q24. However, NIM's declined 28 bps YOY and 17 bps QOQ to 1.9% in 2Q24 owing to higher cost of funds which grew 43 bps YOY and 14 bps QOQ to 3.51%. The Bank's customer deposits grew 17.4% YOY and 9.7% QOQ to AED 49.5 Bn in 2Q24 owing to the competitiveness of the bank's products. The bank's CASA deposits as a percentage of total deposits declined from 33.7% in 1Q24 to 31.9% in 2Q24. This is likely to affect the Bank's margins as a result of a higher share of time deposits. Furthermore, SIB's asset quality improved as the reported NPL declined from 5.6% in 1Q24 to 5.5% in 2Q24 due to a healthy recovery of bad loans. The decline in NPLs reflects the bank's ability to manage credit risks and mitigate potential losses. The reported Provision coverage ratio stood at 94.7% in 2Q24, well above the regulatory levels providing an adequate cushion against bad loans. Furthermore, SIB's calculated cost-to-income ratio improved 173 bps YOY and 306 bps QOQ to reach 31.5% in 2Q24 owing to the effective cost-control measures implemented by the group resulting in an improvement in the margin. The bank also maintained a healthy capital adequacy ratio of 17.2% and CET 1 ratio of 12.4% in 2Q24 indicating a strong financial position and adherence to regulatory requirements. SIB successfully issued sukuk worth USD 500 Mn with a maturity of 5 years to improve its liquidity position. Thus, based on our analysis, we maintain our HOLD rating on the stock.

### SIB - Relative valuation

(at CMP)	2019	2020	2021	2022	2023	2024F
PE	13.28	17.86	14.10	12.96	9.54	7.75
PB	1.27	1.25	1.24	1.25	1.15	1.04
Dividend yield	2.0%	3.4%	3.4%	4.3%	4.5%	4.5%

FABS Estimates & Co Data

**SIB – P&L**

AED Mn	2Q23	1Q24	2Q24	2Q24F	Var	YOY Ch	QOQ Ch	2023	2024F	Change
Income from fin. & leasing	745	858	906	880	3.0%	21.7%	5.6%	3,089	3,496	13.2%
Depositors' share of profit	-396	-490	-544	-505	7.7%	37.3%	11.0%	-1,636	-2,017	23.3%
Profit expense on Sukuks	0	0	0	0	NM	NM	NM	-77	-92	18.7%
<b>Net funded income</b>	<b>349</b>	<b>368</b>	<b>362</b>	<b>376</b>	<b>-3.5%</b>	<b>4.0%</b>	<b>-1.5%</b>	<b>1,453</b>	<b>1,479</b>	<b>1.8%</b>
Fees and commissions	85	102	125	97	28.4%	46.7%	22.0%	353	441	25.0%
Fee and commission Exp	-19	-25	-26	-24	5.3%	35.2%	4.0%	-78	-110	42.3%
Investment income	25	8	22	9	NM	-10.5%	NM	75	60	-20.0%
Foreign exchange income	18	17	14	18	-21.9%	-25.2%	-20.3%	64	65	2.0%
Other income	23	34	26	35	-24.1%	17.3%	-21.0%	108	116	8.0%
<b>Total non-funded income</b>	<b>132</b>	<b>137</b>	<b>162</b>	<b>134</b>	<b>20.5%</b>	<b>22.5%</b>	<b>18.4%</b>	<b>522</b>	<b>572</b>	<b>9.6%</b>
<b>Total operating income</b>	<b>481</b>	<b>505</b>	<b>524</b>	<b>510</b>	<b>2.8%</b>	<b>9.1%</b>	<b>3.9%</b>	<b>1,975</b>	<b>2,051</b>	<b>3.9%</b>
General & admin. expenses	-160	-174	-165	-178	-7.5%	3.4%	-5.3%	-684	-718	4.9%
<b>Pre provision profit</b>	<b>321</b>	<b>330</b>	<b>359</b>	<b>331</b>	<b>8.4%</b>	<b>11.9%</b>	<b>8.7%</b>	<b>1,291</b>	<b>1,333</b>	<b>3.3%</b>
Provisions	-60	-45	-22	-42	-47.0%	-62.6%	-50.5%	-221	-205	-7.3%
<b>Profit before tax</b>	<b>262</b>	<b>285</b>	<b>337</b>	<b>289</b>	<b>16.5%</b>	<b>28.8%</b>	<b>18.1%</b>	<b>852</b>	<b>1,129</b>	<b>32.6%</b>
Corporate tax	0	-26	-30	-26	16.9%	NM	18.2%	0	-102	NM
<b>Net Profit attributable</b>	<b>262</b>	<b>260</b>	<b>307</b>	<b>263</b>	<b>16.4%</b>	<b>17.2%</b>	<b>18.0%</b>	<b>852</b>	<b>1,027</b>	<b>20.6%</b>

FABS estimate & Co Data

**SIB - KPI**

	2Q23	1Q24	2Q24	YOY Ch	QOQ Ch	2023	2024F	Change
Net FI/OI	72.5%	72.9%	69.1%	-339	-379	73.6%	72.1%	-147
NIM	2.1%	2.0%	1.9%	-28	-17	2.2%	1.9%	-21
NIS	2.3%	2.1%	2.0%	-38	-18	2.5%	2.2%	-28
Fees & comms/OI	17.7%	20.3%	23.8%	611	354	17.9%	21.5%	364
Cost to income (calculated)	33.2%	34.5%	31.5%	-173	-306	34.7%	35.0%	34
Provisions/PPP	18.5%	13.6%	6.2%	-1,234	-741	17.1%	15.3%	-176
NP/OI	54.4%	51.4%	58.5%	405	702	43.1%	50.1%	696
Cost of risk (calculated)	0.7%	0.5%	0.2%	-48	-27	0.7%	0.6%	-6
Loan-to-deposit	74.9%	74.0%	71.2%	-378	-285	73.1%	72.2%	-85
NPL (calculated)	5.8%	5.6%	5.4%	-36	-12	5.6%	5.8%	20
NPL Coverage (calculated)	84.7%	83.0%	82.4%	-232	-60	85.0%	85.8%	78
CET 1	13.8%	12.6%	12.4%	-140	-24	13.6%	13.4%	-26
Capital adequacy	19.4%	17.7%	17.2%	-213	-44	18.9%	18.0%	-88
ROAE	11.9%	12.6%	13.1%	113	50	12.6%	14.1%	151
ROAA	1.1%	1.2%	1.2%	1	0	1.2%	1.3%	11

FABS estimate & Co Data

**SIB - Key B/S items**

AED Mn	2Q23	3Q23	4Q23	1Q24	2Q24	YOY Ch
Net advances	31,578	31,865	33,030	33,364	35,199	11.5%
QOQ ch	3.9%	0.9%	3.7%	1.0%	5.5%	
Total assets	61,061	63,409	65,879	70,116	74,237	21.6%
QOQ ch	1.4%	3.8%	3.9%	6.4%	5.9%	
Customer deposits	42,135	45,241	45,207	45,079	49,462	17.4%
QOQ ch	0.6%	7.4%	-0.1%	-0.3%	9.7%	
Total equity	7,774	7,998	8,127	8,056	8,333	7.2%
QOQ ch	3.9%	2.9%	1.6%	-0.9%	3.4%	

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	2.18	70.0%	1.53
Relative Valuation (RV)	2.26	30.0%	0.68
<b>Weighted Average Valuation (AED)</b>			<b>2.20</b>
Current market price (AED)			2.24
Upside/Downside (%)			-1.8%

### 1) Residual Income Method:

We have discounted the economic profit/excess equity using the cost of equity of 9.2%. Cost of equity is calculated by using 10-year government bond yield of 4.2%, beta of 0.90 and equity risk premium of 4.6%. 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)	412
Terminal value (AED, Mn)	152
Book Value of Equity (as of June 2024)	6,496
<b>FV to Common shareholders (AED, Mn)</b>	<b>7,060</b>
No. of share (Mn)	3,236
Current Market Price (AED)	2.24
<b>Fair Value per share (AED)</b>	<b>2.18</b>

### Residual Income Method

(All Figures in AED Mn)	FY 2024E	FY 2025E	FY 2026E	FY 2027E	FY 2028E
Net Profit	1,027	869	813	812	843
(-) Equity Charge	-643	-693	-738	-783	-827
<b>Excess Equity</b>	<b>170</b>	<b>176</b>	<b>75</b>	<b>29</b>	<b>16</b>
Discounting Factor	0.96	0.88	0.81	0.74	0.68
<b>Present Value of Excess Equity</b>	<b>163</b>	<b>155</b>	<b>61</b>	<b>22</b>	<b>11</b>

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	11,420	1.3	1.2	6.5	6.8	7.2	7.2
RAKBank	2,900	0.9	0.9	5.6	6.1	6.9	7.5
Emirates NBD	30,180	1.0	0.9	4.8	5.8	5.9	6.1
Abu Dhabi Commercial Bank	16,480	0.9	0.9	8.0	8.1	6.4	6.5
Dubai Islamic Bank	11,570	1.1	1.0	7.3	7.4	7.3	7.4
Commercial Bank of Dubai	5,040	1.2	1.2	NA	NA	7.1	6.5
<b>Average</b>		<b>1.1x</b>	<b>1.0x</b>	<b>6.5x</b>	<b>6.9x</b>	<b>6.8%</b>	<b>6.9%</b>
<b>Median</b>		<b>1.0x</b>	<b>1.0x</b>	<b>6.5x</b>	<b>6.8x</b>	<b>7.0%</b>	<b>6.9%</b>
<b>Max</b>		<b>1.2x</b>	<b>1.1x</b>	<b>7.3x</b>	<b>7.4x</b>	<b>7.2%</b>	<b>7.3%</b>
<b>Min</b>		<b>0.9x</b>	<b>0.9x</b>	<b>5.6x</b>	<b>6.1x</b>	<b>6.5%</b>	<b>6.5%</b>

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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