

## Sharjah Islamic Bank (SIB)

Growth in funded income weighed by higher impairments

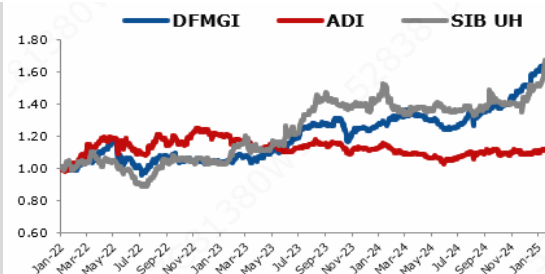
**Current Price**  
AED 2.64

**Target Price**  
AED 2.60

**Upside/Downside (%)**  
-1.5%

**Rating**  
HOLD

- SIB's net funded income increased 10.4% YOY to AED 406 Mn in 4Q24.
- Provisions increased significantly from AED 48 Mn in 4Q23 to AED 110 Mn in 4Q24.
- The Bank's cost-to-income ratio increased from 39.4% in 4Q23 to 45.4% in 4Q24 owing to increase in operating expenses.
- SIB's non-funded income declined from AED 194 Mn in 4Q23 to AED 161 Mn in 4Q24.
- SIB's asset quality improved as the calculated NPL declined from 5.1% in 3Q24 to 4.8% in 4Q24 owing to strong recovery and increase in overall investments in Islamic financing.



### 4Q24 Net Profit lower than our estimate

Sharjah Islamic Bank's (SIB/the Bank) net profit grew from AED 74 Mn in 4Q23 to AED 145 Mn in 4Q24, lower than our estimate of AED 216 Mn. The growth in net profit is mainly driven by a healthy growth in net funded income coupled with lower revaluation loss on properties, partially offset by a decline in non-funded income, rise in G&A expense and higher impairment charge.

### P&L Highlights

SIB's funded income grew 17.4% YOY to AED 1,004 Mn in 4Q24 mainly driven by a solid growth in net advances partially offset by lower asset yield. On the other hand, funded expenses grew 45.8% YOY to AED 598 Mn in 4Q24 due to higher cost of funds and increase in customer deposits. Thus, the Bank's net funded income increased 10.4% YOY to AED 406 Mn in 4Q24. As per our calculation, SIB's NIMs declined 18 bps YOY to 2.0% in 4Q24. The Bank's net fee and commission income increased from AED 97 Mn in 4Q23 to AED 112 Mn in 4Q24. Investment income amounted to AED 22 Mn in 4Q24 compared to AED 40 Mn in 4Q23. Foreign exchange income fell significantly from AED 21 Mn in 4Q23 to AED 9 Mn in 4Q24. The Bank's other income fell from AED 37 Mn in 4Q23 to AED 18 Mn in 4Q24. Thus, SIB's non-funded income declined from AED 194 Mn in 4Q23 to AED 161 Mn in 4Q24. As a result, total operating income inched up 0.8% YOY to AED 567 Mn in 4Q24. SIB's operating expenses rose 16.3% YOY to AED 258 Mn in 4Q24. The Bank's cost-to-income ratio increased from 39.4% in 4Q23 to 45.4% in 4Q24 owing to increase in operating expenses. Pre-provision profit of the bank fell 9.2% YOY to AED 309 Mn in 4Q24. Provisions increased significantly from AED 48 Mn in 4Q23 to AED 110 Mn in 4Q24. Revaluation loss on property fell from AED 218 Mn in 4Q23 to AED 43 Mn in 4Q24. The Bank recorded a tax expense of AED 11 Mn in 4Q24 compared to nil in 4Q23 owing to the introduction of the UAE corporate tax.

### Stock Information

|                           |           |
|---------------------------|-----------|
| Market Cap (AED, Mn)      | 8,542.19  |
| Paid Up Capital (Mn)      | 3,235.68  |
| 52 Week High              | 2.82      |
| 52 Week Low               | 2.15      |
| 3M Avg. daily value (AED) | 7,715,706 |

### 4Q24 Result Review (AED, Mn)

|                   |        |
|-------------------|--------|
| Total Assets      | 79,210 |
| Total Liabilities | 70,907 |
| Total Equity      | 8,303  |
| Total Deposits    | 51,758 |
| Net Profit        | 145    |

### Financial Ratios

|                         |       |
|-------------------------|-------|
| Dividend Yield (12m)    | 3.79  |
| Dividend Pay-out (%)    | 30.88 |
| Price-Earnings Ratio(x) | 8.08  |
| Price-to-Book Ratio (x) | 1.32  |
| Book Value (AED)        | 2.00  |
| Return-on Equity (%)    | 17.16 |

### Stock Performance

|                        |        |
|------------------------|--------|
| 5 Days                 | 0.00%  |
| 1 Months               | 6.45%  |
| 3 Months               | 15.28% |
| 6 Months               | 19.46% |
| 1 Year                 | 13.30% |
| Month to Date (MTD%)   | 0.00%  |
| Quarter to Date (QTD%) | 6.02%  |
| Year to Date (YTD%)    | 6.02%  |

### Balance Sheet Highlights

SIB's total assets grew by 20.2% YOY and 5.9% QOQ to AED 79.2 Bn in 4Q24 mainly due to the growth in net advances, liquid assets and investment securities. Investment securities grew 31.2% YOY and 6.6% QOQ to AED 17.8 Bn in 4Q24. Investment securities measured at amortized cost witnessed a significant growth of 37.5% YOY to AED 13.2 Bn owing to favourable market conditions in the UAE including increased liquidity, growing investor demand, and government support for infrastructure as well as economic development projects. Net advances grew 14.1% YOY and 3.1% QOQ to AED 37.7 Bn in 4Q24. SIB's total liquid assets stood at AED 17.1 Bn, representing 21.6% of total assets as of 4Q24 indicating a healthy liquidity level. The Bank's customer deposits grew 14.5% YOY and 7.8% QOQ to AED 51.8 Bn in 4Q24. CASA deposits represented 42.2% of the total deposits.

### Target Price and Rating

We revise our rating from REDUCE to HOLD on SIB with a revised target price of AED 2.60. SIB witnessed healthy growth in the net funded income and stable NIMs despite high funding costs. NIM's improved 9 bps QOQ but fell 18 bps YOY to 2.0% in 4Q24. SIB's net profit sensitivity stood at AED 14.7 Mn in 2024, for every 50-bps movement in the interest rate. Hence, margins will be less sensitive to interest rate changes which is likely to benefit the Bank in a declining interest rate scenario. The bank's CASA deposits as a percentage of total deposits remained at the same level as 4Q23 at 42.2% in 4Q24. In addition, SIB's investment book which majorly consists of long-term investments is likely to benefit the Bank in a declining interest rate scenario. Moreover, higher investment in sukuk will also benefit the Bank. Furthermore, SIB's asset quality improved as the calculated NPL declined from 5.1% in 3Q24 to 4.8% in 4Q24 owing to strong recovery and an increase in overall investments in Islamic financing, reflecting the bank's ability to manage credit risks and mitigate potential losses. The proportion of stage 2 loans declined from 6.9% in 3Q24 to 5.3% in 4Q24, reflecting an improvement in the asset quality. The Provision coverage ratio stood at 89.9% in 4Q24, compared to 85.0% in 3Q24. SIB's loan to the government sector rose 16.7% YOY to AED 14.4 Bn in 2024, which is likely to benefit the Bank owing to the sector's low-risk credit profile. However, SIB's calculated cost-to-income ratio increased from 39.4% in 4Q23 to 45.4% in 4Q24 owing to higher operating expenses incurred by the bank in 4Q24. The bank also maintained a healthy capital adequacy ratio of 17.2% and CET 1 ratio of 12.4% in 4Q24 indicating a strong financial position and adherence to regulatory requirements. The Board of Directors recommended a dividend payment of 15 fils per share amounting to AED 458.7 Mn for FY2024. Thus, based on our analysis, we assign a HOLD rating on the stock.

#### SIB - Relative valuation

| (at CMP)       | 2020  | 2021  | 2022  | 2023  | 2024 | 2025F |
|----------------|-------|-------|-------|-------|------|-------|
| PE             | 21.05 | 16.62 | 15.28 | 11.39 | 8.93 | 8.81  |
| PB             | 1.47  | 1.46  | 1.47  | 1.36  | 1.32 | 1.21  |
| Dividend yield | 2.9%  | 2.9%  | 3.6%  | 3.8%  | 5.7% | 5.7%  |

FABS Estimates & Co Data

**SIB – P&L**

| AED Mn                         | 4Q23       | 3Q24       | 4Q24       | 4Q24F      | Var.          | YOY Ch        | QOQ Ch        | 2023         | 2024         | Change       |
|--------------------------------|------------|------------|------------|------------|---------------|---------------|---------------|--------------|--------------|--------------|
| Income from fin. & leasing     | 855        | 957        | 1,004      | 984        | 2.0%          | 17.4%         | 4.9%          | 3,089        | 3,725        | 20.6%        |
| Depositors' share of profit    | -410       | -584       | -598       | -659       | -9.3%         | 45.8%         | 2.4%          | -1,636       | -2,215       | 35.4%        |
| <b>Net funded income</b>       | <b>368</b> | <b>373</b> | <b>406</b> | <b>325</b> | <b>25.0%</b>  | <b>10.4%</b>  | <b>8.7%</b>   | <b>1,453</b> | <b>1,510</b> | <b>3.9%</b>  |
| Fees and commissions           | 118        | 136        | 136        | 145        | -6.1%         | 14.7%         | -0.2%         | 353          | 500          | 41.5%        |
| Fee and commission Exp         | -22        | -25        | -24        | -26        | -9.7%         | 7.4%          | -6.9%         | -78          | -99          | 27.9%        |
| Investment income              | 40         | 33         | 22         | 23         | -6.2%         | -45.1%        | -34.1%        | 75           | 85           | 13.1%        |
| Foreign exchange income        | 21         | 23         | 9          | 16         | -45.9%        | -58.7%        | -61.1%        | 64           | 63           | -1.7%        |
| Other income                   | 37         | 45         | 18         | 29         | -38.5%        | -50.9%        | -60.0%        | 108          | 123          | 14.5%        |
| <b>Total non-funded income</b> | <b>194</b> | <b>212</b> | <b>161</b> | <b>188</b> | <b>-14.2%</b> | <b>-17.2%</b> | <b>-24.0%</b> | <b>522</b>   | <b>671</b>   | <b>28.6%</b> |
| <b>Total operating income</b>  | <b>562</b> | <b>585</b> | <b>567</b> | <b>512</b> | <b>10.7%</b>  | <b>0.8%</b>   | <b>-3.1%</b>  | <b>1,975</b> | <b>2,181</b> | <b>10.4%</b> |
| General & admin. expenses      | -221       | -182       | -258       | -223       | 15.6%         | 16.3%         | 41.4%         | -694         | -779         | 12.2%        |
| <b>Pre provision profit</b>    | <b>341</b> | <b>403</b> | <b>309</b> | <b>289</b> | <b>6.8%</b>   | <b>-9.2%</b>  | <b>-23.3%</b> | <b>1,281</b> | <b>1,402</b> | <b>9.5%</b>  |
| Provisions                     | -48        | -33        | -110       | -52        | NM            | NM            | NM            | -221         | -210         | -4.6%        |
| <b>Profit before tax</b>       | <b>74</b>  | <b>370</b> | <b>157</b> | <b>237</b> | <b>-33.9%</b> | <b>NM</b>     | <b>-57.6%</b> | <b>842</b>   | <b>1,149</b> | <b>36.5%</b> |
| Corporate tax                  | 0          | -33        | -11        | -21        | -45.9%        | NM            | -65.9%        | 0            | -101         | NM           |
| <b>Net Profit attributable</b> | <b>74</b>  | <b>336</b> | <b>145</b> | <b>216</b> | <b>-32.8%</b> | <b>95.8%</b>  | <b>-56.8%</b> | <b>842</b>   | <b>1,048</b> | <b>24.5%</b> |

FABS estimate & Co Data

**SIB - KPI**

|                           | 4Q23  | 3Q24  | 4Q24  | YOY Ch | QOQ Ch | 2023  | 2024  | Change |
|---------------------------|-------|-------|-------|--------|--------|-------|-------|--------|
| Net FI/OI                 | 65.4% | 63.8% | 71.6% | 617    | 778    | 73.6% | 69.2% | -434   |
| NIM                       | 2.1%  | 1.9%  | 2.0%  | -18    | 9      | 2.2%  | 1.9%  | -24    |
| NIS                       | 2.3%  | 1.9%  | 2.1%  | -20    | 13     | 2.5%  | 2.2%  | -29    |
| Fees & comms/OI           | 21.1% | 23.3% | 24.0% | 289    | 70     | 17.9% | 22.9% | 502    |
| Cost to income            | 39.4% | 31.1% | 45.4% | 605    | 1,432  | 35.2% | 35.7% | 56     |
| Provisions/PPP            | 14.1% | 8.3%  | 35.5% | 2,138  | 2,721  | 17.2% | 15.0% | -222   |
| NP/OI                     | 13.2% | 57.5% | 25.6% | 1,244  | -3,183 | 42.6% | 48.0% | 543    |
| Cost of risk (calculated) | 0.6%  | 0.4%  | 1.1%  | 57     | 78     | 0.7%  | 0.6%  | -9     |
| Loan-to-deposit           | 73.1% | 76.2% | 72.8% | -25    | -334   | 73.1% | 0.0%  | -7,307 |
| NPL (Calculated)          | 5.5%  | 5.14% | 4.8%  | -63    | -31    | 5.6%  | 4.8%  | -76    |
| NPL Coverage calculated   | 85.0% | 85.0% | 89.9% | 488    | 492    | 85.0% | 89.9% | 488    |
| CET 1                     | 13.6% | 12.9% | 12.4% | -122   | -48    | 13.6% | 12.4% | -121   |
| Capital adequacy          | 18.9% | 17.7% | 17.2% | -167   | -48    | 18.9% | 17.1% | -179   |
| ROAE                      | 12.4% | 13.6% | 15.0% | 258    | 139    | 12.4% | 15.0% | 258    |
| ROAA                      | 1.3%  | 1.4%  | 1.4%  | 10     | 3      | 1.3%  | 1.4%  | 10     |

FABS estimate & Co Data

**SIB - Key B/S items**

| AED Mn            | 4Q23   | 1Q24   | 2Q24   | 3Q24   | 4Q24   | YOY Ch |
|-------------------|--------|--------|--------|--------|--------|--------|
| Net advances      | 33,030 | 33,364 | 35,199 | 36,551 | 37,687 | 14.1%  |
| QOQ ch            | 3.7%   | 1.0%   | 5.5%   | 3.8%   | 3.1%   |        |
| Total assets      | 65,879 | 70,116 | 74,237 | 74,796 | 79,210 | 20.2%  |
| QOQ ch            | 3.9%   | 6.4%   | 5.9%   | 0.8%   | 5.9%   |        |
| Customer deposits | 45,207 | 45,079 | 49,462 | 47,995 | 51,758 | 14.5%  |
| QOQ ch            | -0.1%  | -0.3%  | 9.7%   | -3.0%  | 7.8%   |        |
| Total equity      | 8,127  | 8,056  | 8,333  | 8,694  | 8,303  | 9,038  |
| QOQ ch            | 1.6%   | -0.9%  | 3.4%   | 4.3%   | -4.5%  |        |

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                         | 2.69   | 70.0%  | 1.88           |
| Relative Valuation (RV)                 | 2.39   | 30.0%  | 0.72           |
| <b>Weighted Average Valuation (AED)</b> |        |        | <b>2.60</b>    |
| Current market price (AED)              |        |        | 2.64           |
| Upside/Downside (%)                     |        |        | -1.5%          |

### 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 4.3%, beta of 0.90 and equity risk premium of 4.7%. 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)                        | 1,170        |
| Terminal value (AED, Mn)                   | 1,516        |
| Book Value of Equity (as of Dec 2024)      | 6,008        |
| <b>FV to Common shareholders (AED, Mn)</b> | <b>8,694</b> |
| No. of share (Mn)                          | 3,236        |
| Current Market Price (AED)                 | 2.64         |
| <b>Fair Value per share (AED)</b>          | <b>2.69</b>  |

### Residual Income Method

| (All Figures in AED Mn)               | FY 2025E   | FY 2026E   | FY 2027E   | FY 2028E   | FY 2029E   |
|---------------------------------------|------------|------------|------------|------------|------------|
| Net Profit                            | 1,062      | 1,063      | 1,052      | 1,031      | 1,026      |
| (-) Equity Charge                     | -653       | -707       | -759       | -809       | -859       |
| <b>Excess Equity</b>                  | <b>408</b> | <b>356</b> | <b>293</b> | <b>221</b> | <b>167</b> |
| Discounting Factor                    | 0.92       | 0.84       | 0.77       | 0.71       | 0.65       |
| <b>Present Value of Excess Equity</b> | <b>377</b> | <b>301</b> | <b>227</b> | <b>157</b> | <b>108</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 1.1x in line with peers.

| Company                   | Market<br>(USD Mn) | P/B (x)     |             | P/E (x)     |             | Dividend Yield (%) |            |
|---------------------------|--------------------|-------------|-------------|-------------|-------------|--------------------|------------|
|                           |                    | 2025F       | 2026F       | 2025F       | 2026F       | 2025F              | 2026F      |
| Mashreq Bank              | 11,852             | 1.2         | 1.1         | 7.7         | 8.1         | 6.9                | 6.9        |
| RAKBank                   | 3,592              | 1.0         | 1.0         | 5.4         | 5.8         | 6.7                | 7.0        |
| Emirates NBD              | 35,597             | 1.0         | 0.9         | 5.5         | 6.2         | 5.3                | 6.1        |
| Abu Dhabi Commercial Bank | 23,669             | 1.2         | 1.1         | 7.7         | 8.0         | 4.9                | 5.2        |
| Dubai Islamic Bank        | 14,954             | 1.4         | 1.3         | 7.5         | 8.0         | 6.1                | 6.0        |
| Commercial Bank of Dubai  | 6,112              | 1.4         | 1.3         | 7.5         | 7.9         | 7.1                | 6.5        |
| <b>Average</b>            |                    | <b>1.2x</b> | <b>1.1x</b> | <b>7.6x</b> | <b>7.8x</b> | <b>6.2</b>         | <b>6.3</b> |
| <b>Median</b>             |                    | <b>1.2x</b> | <b>1.1x</b> | <b>7.3x</b> | <b>7.7x</b> | <b>6.4</b>         | <b>6.3</b> |
| <b>Max</b>                |                    | <b>1.3x</b> | <b>1.3x</b> | <b>8.3x</b> | <b>8.9x</b> | <b>6.9</b>         | <b>6.8</b> |
| <b>Min</b>                |                    | <b>1.1x</b> | <b>1.0x</b> | <b>6.7x</b> | <b>6.8x</b> | <b>5.5</b>         | <b>6.0</b> |

Source: FAB Securities

## Research Rating Methodology:

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| 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%           |

## FAB Securities Contacts:

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|----------------|----------------|--|

### Sales & Execution

Abu Dhabi Head Office

|              |                                    |                     |
|--------------|------------------------------------|---------------------|
| Trading Desk | +971-2-6161700/1<br>+971-2-6161777 | Online Trading Link |
|--------------|------------------------------------|---------------------|

|                    |                |
|--------------------|----------------|
| Institutional Desk | +971-4-4245765 |
|--------------------|----------------|

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