

Abu Dhabi Islamic Bank (ADIB)

Strong growth in non-funded income and lower impairments drove profitability

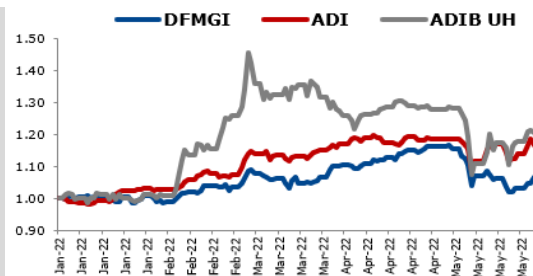
Current Price
AED 12.62

Target Price
AED 15.00

Upside/Downside (%)
19.0%

Rating
BUY

- The non-funded income grew 24.7% YOY to AED 1,064 Mn in 3Q24.
- NPL ratio (reported) declined 222 bps YOY and 32 bps QOQ to 4.4%, at its lowest levels since FY2017. Additionally, ADIB expects its NPL ratio to drop below 4.0% by 2024 year-end.
- Net advances recorded a significant growth of 20.0% YOY and 2.3% QOQ to AED 135.1 Bn in 3Q24 attributable to growth in retail and wholesale financing across government & public sector enterprises.
- Impairments fell significantly from AED 202 Mn in 3Q23 to AED 46 Mn driven by strong recoveries.



Stock Information

Market Cap (AED, Mn)	45,835.84
Paid Up Capital (Mn)	3,632.00
52 Week High	13.28
52 Week Low	9.89
3M Avg. daily value (AED)	26,491,170

3Q24 Net Profit higher than our estimate

Abu Dhabi Islamic Bank's (ADIB/ the Bank) net profit grew 13.6% YOY to AED 1,538 Mn in 3Q24, higher than our estimate of AED 1,336 Mn. The increase in net profit is primarily attributed to a strong growth in non-funded income and decline in impairments partially offset by a rise in operating expenses and zakat charge.

3Q24 Result Review (AED, Mn)

Total Assets	222,567
Total Liabilities	195,500
Total Equity	27,067
Total Deposits	179,744
Net Profit	1,538

P&L Highlights

ADIB's Islamic financing income from customers grew 18.8% YOY to AED 2,312 Mn in 3Q24, while Islamic financing income from financial institutions rose 16.6% YOY to AED 550 Mn driven by a strong growth in financing. Thus, total funded income rose 18.4% YOY to AED 2,862 Mn in 3Q24 driven by growth in interest-earning assets as a result of robust business volumes and an improved revenue mix. Funded expenses rose 52.3% YOY to AED 1,281 Mn in 3Q24 mainly due to the rise in the cost of funds and interest-bearing liabilities. Cost of funds grew 33 bps QOQ and 62 bps YOY to 2.8% in 3Q24. Thus, net funded income grew marginally 0.3% YOY to AED 1,581 Mn in 3Q24. However, NIMs fell 59 bps YOY and 32 bps QOQ to 3.0% in 3Q24 owing to a YOY decline in asset yield and higher cost of funds. Fees and commission income grew 43.5% YOY to AED 530 Mn in 3Q24, mainly due to the growth in income on cards, processing fees, and CFIB-related fees. The Bank witnessed the highest spends and sales volume in its card portfolio during 3Q24. Other non-funded income grew 10.4% YOY to AED 534 Mn in 3Q24. Thus, total non-funded income increased 24.7% YOY to AED 1,064 Mn in 3Q24. Moreover, total operating income rose 8.9% YOY to AED 2,645 Mn in 3Q24. Furthermore, operating expenses grew 7.5% YOY to AED 796 Mn in 3Q24 owing to an increase in G&A expenses and employee costs. However, calculated cost-to-income improved 37 bps YOY to 30.1% in 3Q24 attributable to operational efficiency due to digital initiatives.

Financial Ratios

Dividend Yield (12m)	5.66
Dividend Pay-out (%)	55.66
Price-Earnings Ratio(x)	8.40
Price-to-Book Ratio (x)	2.14
Book Value (AED)	5.89
Return-on Equity (%)	27.07

Stock Performance

5 Days	0.16%
1 Months	3.44%
3 Months	-0.63%
6 Months	4.99%
1 Year	18.61%
Month to Date (MTD%)	0.16%
Quarter to Date (QTD%)	-0.79%
Year to Date (YTD%)	24.70%

ADIB's impairments fell significantly from AED 202 Mn in 3Q23 to AED 46 Mn driven by strong recoveries. Zakat and NCI expenses grew from AED 134 Mn in 3Q23 to AED 265 Mn in 3Q24 due to the introduction of the UAE corporate tax.

Balance Sheet Highlights

ADIB's total assets grew 20.9% YOY and 4.3% QOQ to AED 222.6 Bn in 3Q24 mainly driven by increased net financing, cash, and investments portfolio. ADIB's net advances recorded a significant growth of 20.0% YOY and 2.3% QOQ to AED 135.1 Bn in 3Q24 attributable to growth in retail and wholesale financing across government & public sector enterprises. ADIB's customer deposits grew 18.6% YOY and 4.4% QOQ to AED 179.7 Bn in 3Q24, while CASA deposits accounted for 60.6% of total customer deposits. ADIB's investment portfolio grew from AED 23.0 Bn in 3Q23 to AED 28.8 Bn in 3Q24.

Target Price and Rating

We maintain our BUY rating on Abu Dhabi Islamic Bank with an unchanged target price of AED 15.0. ADIB reported the highest quarterly profit to date in 3Q24 mainly attributable to strong growth in non-funded income and decline in impairments. ADIB is focusing on achieving operational efficiencies through digital initiatives while also improving customer experience. Thus, it aims to develop a 'Gen AI' framework for fraud management, compliance, and customer service. ADIB is well on track to launch ADIB Ventures to accelerate innovation as well as collaboration with the global fintech industry. Moreover, the Bank is committed to maintaining robust growth in non-funded income to benefit in the declining rate cycle environment and also reflecting its ability to generate revenue from diverse streams. ADIB expects gross financing to grow by more than 16% in FY2024 owing to its robust growth strategy and balanced growth across retail and wholesale financing. More than 45% of the Company's financing portfolio comprises fixed-rate long-term advances beyond 9-12 months which will have a comparatively slower impact on the Bank's asset yield when interest rates decline. ADIB added 150,000 customers during 9M24 reflecting its strong ability to attract clients. The Bank's CASA deposits accounted for 60.6% of total deposits in 3Q24, whereas AED 22 Bn of the Wakala deposits will be repriced at a lower rate in 4Q24 will benefit the cost of funds leading the NIMs to benefit in 2024. The Bank's NPL ratio declined 222 bps YOY and 32 bps QOQ to 4.4%, at its lowest levels since 1Q17, reflecting a stable credit quality and ability to manage risk effectively. Additionally, ADIB expects its NPL ratio to drop below 4.0% by 2024 year-end. The reported NPL Coverage ratio increased from 77.0% in 2Q24 to 78.0% in 3Q24, providing a strong cushion against potential bad loans. Meanwhile, the coverage ratio including collaterals stood at 154.0% in 3Q24 compared to 149.0% in 2Q24. However, as per our calculation, the cost of risk declined 55 bps YOY and 72 bps QOQ to 0.1% in 3Q24. ADIB expects to record a cost of risk of 0.4-0.6% for FY2024. As per our calculation, NIMs fell 59 bps YOY and 32 bps QOQ to 3.0% in 3Q24 owing to higher cost of funds. ADIB maintained healthy capitalization with a reported CET 1 ratio of 13.4% and a total capital adequacy ratio of 17.6% in 3Q24. Hence based on our analysis, we assign a BUY rating on the stock.

ADIB - Relative valuation

(at CMP)	2019	2020	2021	2022	2023	2024F
PE	19.93	34.64	22.06	13.77	9.81	8.34
PB	3.19	3.18	2.90	2.58	2.25	2.30
Dividend yield	2.2%	1.6%	2.5%	3.9%	5.7%	6.0%

FABS Estimates & Co Data

ADIB – P&L

AED mn	3Q23	2Q24	3Q24	3Q24F	Var.	YOY Ch	QOQ Ch	2023	2024F	Change
Funded income	2,418	2,689	2,862	2,788	2.7%	18.4%	6.5%	9,221	11,162	21.0%
Funded expense	-841	-1,057	-1,281	-1,153	11.1%	52.3%	21.2%	-3,099	-4,687	51.2%
Net funded income	1,577	1,631	1,581	1,635	-3.3%	0.3%	-3.1%	6,122	6,475	5.8%
Fees and commission	370	437	530	459	15.6%	43.5%	21.4%	1,615	1,971	22.0%
Other non-funded income	484	764	534	458	16.5%	10.4%	-30.1%	1,556	2,241	44.0%
Non-Funded Income	853	1,201	1,064	917	16.0%	24.7%	-11.4%	3,172	4,212	32.8%
Operating income	2,430	2,832	2,645	2,552	3.7%	8.9%	-6.6%	9,294	10,687	15.0%
Operating expenses	-740	-763	-796	-767	3.7%	7.5%	4.3%	-3,061	-3,133	2.4%
Pre-provision inc.	1,690	2,069	1,850	1,785	3.6%	9.5%	-10.6%	6,232	7,553	21.2%
Financing impairment	-202	-293	-46	-190	-75.6%	-77.1%	-84.2%	-760	-637	-16.3%
Profit before NCI	1,488	1,777	1,804	1,596	13.0%	21.2%	1.5%	5,472	6,917	26.4%
NIC. & zakat	-134	-283	-265	-260	2.2%	98.6%	-6.4%	-472	-1,081	NM
Net Profit	1,355	1,493	1,538	1,336	15.1%	13.6%	3.0%	5,000	5,836	16.7%

FABS estimate & Co Data
ADIB - KPI

	3Q23	2Q24	3Q24F	YOY Ch	QOQ Ch	2023	2024F	Change
Net FI/OI	64.9%	57.6%	59.8%	-511	217	65.9%	60.6%	-528
NIM	3.6%	3.4%	3.0%	-59	-32	3.6%	3.2%	-35
NIS	3.4%	3.1%	2.7%	-68	-36	3.3%	2.9%	-42
Fees & comms/OI	15.2%	15.4%	20.0%	484	462	17.4%	18.4%	106
Other non-funded/OI	19.9%	27.0%	20.2%	27	-679	16.7%	21.0%	422
Cost to income ratio (calculated)	30.4%	26.9%	30.1%	-37	313	32.9%	29.3%	-362
Provisions/PPP	11.9%	14.1%	2.5%	-944	-1,164	12.2%	8.4%	-377
NP/OI	55.7%	52.7%	58.1%	240	542	53.8%	54.6%	80
Cost of risk	0.7%	0.9%	0.1%	-55	-72	0.5%	0.5%	1
Loan-to-deposit	74.3%	76.7%	75.2%	88	-149	73.2%	75.6%	233
NPL – (reported)	6.6%	4.7%	4.4%	-222	-32	4.7%	4.0%	-74
Coverage excluding collateral (reported)	64.9%	77.0%	78.0%	1,308	100	74.0%	79.3%	535
CET1	13.4%	12.9%	13.4%	2	52	12.2%	11.9%	-34
Capital adequacy	18.0%	17.2%	17.6%	-46	40	16.8%	15.8%	-98
ROAE	25.0%	28.0%	27.1%	208	-98	24.5%	25.0%	47
ROAA	2.8%	2.8%	2.9%	1	1	2.8%	2.8%	0

FABS estimate & Co Data
ADIB - Key B/S items

AED mn	3Q23	4Q23	1Q24	2Q24	3Q24	YOY Ch
Net advances	112,595	115,002	116,943	132,066	135,132	20.0%
QOQ ch	3.0%	2.1%	1.7%	12.9%	2.3%	
Total assets	184,124	192,827	194,647	213,403	222,567	20.9%
QOQ ch	1.1%	4.7%	0.9%	9.6%	4.3%	
Customer deposits	151,545	157,067	160,262	172,244	179,744	18.6%
QOQ ch	0.8%	3.6%	2.0%	7.5%	4.4%	
Total equity (excluding Tier 1 & NCI)	18,926	20,374	18,458	19,855	21,378	13.0%
QOQ ch	6.7%	7.7%	-9.4%	7.6%	7.7%	

FABS estimate & Co Data

Valuation:

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

Valuation Method	Target	Weight	Weighted Value
Residual Income	15.37	70.0%	10.76
Relative Valuation (RV)	14.14	30.0%	4.24
Weighted Average Valuation (AED)			15.00
Current market price (AED)			12.62
Upside/Downside (%)			19.0%

1) Residual Income Method:

We have discounted the economic profit/excess equity using the cost of equity of 8.9%. Cost of equity is calculated by using 10-year government bond yield of 4.8%, beta of 1.0 and equity risk premium of 4.4%. Government bond yield is calculated after adding Abu Dhabi 10-year CDS spread over 10-year US risk free rate. Also, assumed a terminal growth rate of 2.0%.

Sum of PV (AED, Mn)	9,609
Terminal value (AED, Mn)	24,822
Book Value of Equity (as of Sep 2024)	21,378
FV to Common shareholders (AED, Mn)	55,810
No. of share (Mn)	3,632
Current Market Price (AED)	12.62
Fair Value per share (AED)	15.37

Residual Income Method

(All Figures in AED Mn)	FY 2024E	FY 2025E	FY 2026E	FY 2027E	FY 2028E
Net Profit	5,489	5,471	5,387	5,518	5,559
(-) Equity Charge	-2,105	-2,378	-2,640	-2,902	-3,161
Excess Equity	3,383	3,093	2,747	2,616	2,398
Discounting Factor	0.99	0.91	0.83	0.76	0.70
Present Value of Excess Equity	835¹	2,804	2,287	2,000	1,683

Source: FAB Securities, ¹Adjusted for partial year

2) Relative Valuation:

We have used local and international peers to value ADIB and it is valued using the PB multiple. We applied premium to peer valuation since it generates superior return on equity as compared to its peers, also expect this premium to be maintained. It is valued at 2024 PB multiple of 2.2x as compared to peer valuation of 1.4x.

Company	Market (USD Mn)	P/B (x)		P/E (x)		Dividend Yield (x)	
		2024F	2025F	2024F	2025F	2024F	2025F
Commercial Bank of Dubai (CBD)	5,543	1.4	1.3	7.5	7.9	6.3	5.8
Abu Dhabi Commercial Bank (ADCB)	16,735	0.9	0.9	7.7	8.0	6.6	6.4
Emirates NBD	34,200	1.1	1.0	5.5	6.2	5.9	5.8
Dubai Islamic Bank (DIB)	12,258	1.2	1.1	7.5	8.0	7.2	7.2
Alinma	18,790	10.6	2.1	12.9	11.8	1.9	1.7
Al Rajhi Bank	90,490	14.3	3.4	19.1	16.1	3.1	2.8
Bank Albilad	11,990	13.3	2.6	16.7	15.1	2.3	2.1
Average		6.1x	1.8x	11.0x	10.4x	4.7%	4.5%
Median		1.4x	1.3x	7.7x	8.0x	5.9%	5.8%
Max		12.0x	2.4x	14.8x	13.5x	6.4%	6.1%
Min		1.1x	1.0x	7.5x	7.9x	2.7%	2.4%

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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