

## Abu Dhabi Islamic Bank (ADIB)

Decline in non-funded income and higher tax expense impacted profitability

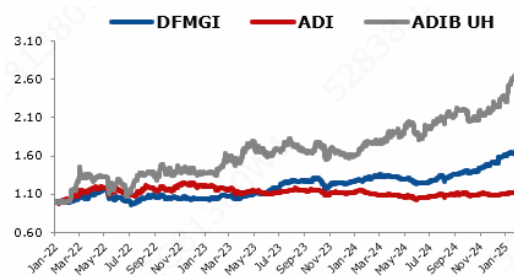
**Current Price**  
AED 15.6

**Target Price**  
AED 16.00

**Upside/Downside (%)**  
**+2.6%**

**Rating**  
**HOLD**

- ADIB expects its gross financing to grow more than 10% YOY in 2025.
- The Bank anticipates its NIMs to stay stable and shall experience a gradual decline after the interest rate cut.
- NPL ratio declined from 4.4% in 3Q24 to 4.0% in 4Q24, at its lowest levels since FY2017.
- Net advances recorded a significant growth of 24.0% YOY and 5.5% QOQ to AED 142.6 Bn in 4Q24 attributable to growth in retail and wholesale financing across government & public sector enterprises.
- Impairments declined 9.3% YOY to AED 172 Mn in 4Q24 driven by strong recoveries.



### 4Q24 Net Profit lower than our estimate

Abu Dhabi Islamic Bank's (ADIB/ the Bank) net profit fell 2.1% YOY to AED 1,389 Mn in 4Q24, lower than our estimate of AED 1,513 Mn. The decrease in net profit is primarily attributed to lower fees and commission income and higher zakat charges partially offset by an increase in net funded income coupled with a decline in impairments, and operating expenses.

### P&L Highlights

ADIB's Islamic financing income grew 17.1% YOY to AED 2,367 Mn in 4Q24. Income from financial institutions fell 3.8% YOY to AED 523 Mn, driven by a substantial business volume in financing. Thus, total funded income rose 12.7% YOY to AED 2,890 Mn in 4Q24, driven by growth in interest-earning assets due to robust business volumes and an improved revenue mix partially offset by a decline in asset yield. Funded expenses rose 29.2% YOY to AED 1,227 Mn in 4Q24, mainly due to the significant rise in the cost of funds and interest-bearing liabilities. The cost of funds fell by 18 bps QOQ and grew by 20 bps YOY to 2.6% in 4Q24. Thus, net funded income grew 2.9% YOY to AED 1,663 Mn in 4Q24. However, NIMs fell 50 bps YOY but rose 7 bps QOQ to 3.1% in 4Q24. Fees and commission income fell 26.9% YOY to AED 422 Mn in 4Q24, while other non-funded income rose 35.8% YOY to AED 552 Mn. Thus, total non-funded income declined marginally 1.0% YOY to AED 974 Mn in 4Q24. Moreover, total operating income rose 1.4% YOY to AED 2,637 Mn in 4Q24. Furthermore, operating expenses fell 6.3% YOY to AED 821 Mn in 4Q24 owing to a reduction in G&A expenses and employee costs. However, calculated cost-to-income improved 257 bps YOY to 31.1% in 4Q24 attributable to improved operational efficiency due to digital initiatives and cost discipline. ADIB's impairments fell significantly 9.3% YOY to AED 172 Mn in 4Q24 driven by strong recoveries.

### Stock Information

Market Cap (AED, Mn)	58,112.00
Paid Up Capital (Mn)	3,632.00
52 Week High	16.02
52 Week Low	10.30
3M Avg. daily value (AED)	46,504,700

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

Total Assets	225,910
Total Liabilities	197,593
Total Equity	22,591
Total Deposits	182,675
Net Profit	1,513

### Financial Ratios

Dividend Yield (12m)	4.58
Dividend Pay-out (%)	55.87
Price-Earnings Ratio(x)	10.45
Price-to-Book Ratio (x)	2.51
Book Value (AED)	6.22
Return-on Equity (%)	25.25

### Stock Performance

5 Days	2.43%
1 Months	17.13%
3 Months	25.98%
6 Months	29.66%
1 Year	42.35%
Month to Date (MTD%)	2.56%
Quarter to Date (QTD%)	15.77%
Year to Date (YTD%)	15.77%

Additionally, zakat and NCI expenses more than doubled from AED 116 Mn in 4Q23 to AED 256 Mn in 4Q24 due to the introduction of the UAE corporate tax.

### Balance Sheet Highlights

ADIB's total assets grew 17.2% YOY and 1.5% QOQ to AED 225.9 Bn in 4Q24 mainly driven by increased net financing, cash, and investments portfolio. ADIB's net advances recorded a significant growth of 24.0% YOY and 5.5% QOQ to AED 142.6 Bn in 4Q24 attributable to strong growth in financing across the retail and government & public sector. ADIB's customer deposits grew 16.3% YOY and 1.6% QOQ to AED 182.7 Bn in 4Q24, while CASA deposits accounted for 61.0% of total customer deposits. ADIB's investment portfolio grew from AED 24.5 Bn in 4Q23 to AED 29.3 Bn in 4Q24.

### Target Price and Rating

We maintain our HOLD rating on Abu Dhabi Islamic Bank with a revised target price of AED 16.0. ADIB reported a marginal decline in profitability during 4Q24 mainly attributable decline in non-funded income. The Bank witnessed a solid growth in investments and net advances which drove the Company's core income despite a decline in asset yield. ADIB expects its gross financing to grow more than 10% YOY in 2025. ADIB's NIMs fell 50 bps YOY but grew 7 bps QOQ to 3.1% in 4Q24. The Bank anticipates NIMs to stay stable and shall experience a gradual decline after the interest rate cut. Meanwhile, competitive pressures will lead to some rate cuts in lending, but ADIB expects to offset this through higher volumes and strategic pricing. The Bank's interest rate sensitivity remained unchanged with AED 120 Mn impact on net income from a 50 bps change in net interest rates. Moreover, ADIB expects the non-funded income to play a crucial role in the Bank's growth in the declining rate scenario. Consequently, ADIB added 2,16,000 net customers in 2024 reflecting its strong ability to attract clients. Strong growth in the customer base is expected to drive the Bank's core and non-core income in the upcoming period. The Bank's total deposits grew 16.3% YOY to AED 182.7 Bn in 4Q24 with CASA deposits accounting for 61.0% of total deposits benefiting the NIMs. ADIB witnessed a strong improvement in asset quality as the NPL ratio declined from 4.4% in 3Q24 to 4.0% in 4Q24, at its lowest levels since 1Q17, driven by legacy portfolio management and better underwriting standards. The reported NPL Coverage ratio increased from 78.0% in 3Q24 to 81.5% in 4Q24, providing a strong cushion against potential bad loans. Meanwhile, the coverage ratio including collaterals improved from 154% in 3Q24 to 157% in 4Q24. As per our calculation, the cost of risk declined 16 bps YOY and rose 33 bps QOQ to 0.5% in 4Q24. ADIB expects to record a cost of risk of 0.4-0.6% for 2025. ADIB maintained healthy capitalization with a reported CET 1 ratio of 12.1% and a total capital adequacy ratio of 16.2% in 4Q24. Hence based on our analysis, we assign a HOLD rating on the stock.

#### ADIB - Relative valuation

(at CMP)	2020	2021	2022	2023	2024	2025F
PE	42.89	27.31	17.05	12.15	10.45	10.54
PB	3.94	3.59	3.20	2.78	2.85	2.24
Dividend yield	1.3%	2.0%	3.1%	4.6%	5.3%	5.3%

FABS Estimates & Co Data

**ADIB – P&L**

AED mn	4Q23	3Q24	4Q24	4Q24F	Var.	YOY Ch	QOQ Ch	2023	2024	Change
Funded income	2,566	2,862	2,890	2,883	0.2%	12.7%	1.0%	9,221	11,107	20.4%
Funded expense	-950	-1,281	-1,227	-1,278	-3.9%	29.2%	-4.2%	-3,099	-4,541	46.5%
<b>Net funded income</b>	<b>1,616</b>	<b>1,581</b>	<b>1,663</b>	<b>1,606</b>	<b>3.6%</b>	<b>2.9%</b>	<b>5.2%</b>	<b>6,122</b>	<b>6,566</b>	<b>7.3%</b>
Fees and commission	577	530	422	585	-27.9%	-26.9%	-20.4%	1,615	1,807	11.9%
Other non-funded income	406	534	552	534	3.3%	35.8%	3.4%	1,556	2,259	45.1%
<b>Non-Funded Income</b>	<b>984</b>	<b>1,064</b>	<b>974</b>	<b>1,120</b>	<b>-13.0%</b>	<b>-1.0%</b>	<b>-8.5%</b>	<b>3,172</b>	<b>4,066</b>	<b>28.2%</b>
<b>Operating income</b>	<b>2,599</b>	<b>2,645</b>	<b>2,637</b>	<b>2,725</b>	<b>-3.2%</b>	<b>1.4%</b>	<b>-0.3%</b>	<b>9,294</b>	<b>10,632</b>	<b>14.4%</b>
Operating expenses	-876	-796	-821	-770	6.6%	-6.3%	3.1%	-3,061	-3,145	2.7%
<b>Pre-provision inc.</b>	<b>1,724</b>	<b>1,850</b>	<b>1,817</b>	<b>1,956</b>	<b>-7.1%</b>	<b>5.4%</b>	<b>-1.8%</b>	<b>6,232</b>	<b>7,487</b>	<b>20.1%</b>
Financing impairment	-189	-46	-172	-184	-6.8%	-9.3%	NM	-760	-620	-18.5%
<b>Profit before NCI</b>	<b>1,534</b>	<b>1,804</b>	<b>1,645</b>	<b>1,772</b>	<b>-7.2%</b>	<b>7.2%</b>	<b>-8.8%</b>	<b>5,472</b>	<b>6,868</b>	<b>25.5%</b>
NIC. & zakat	-116	-265	-256	-258	-0.9%	NM	-3.5%	-472	-1,091	NM
<b>Net Profit</b>	<b>1,419</b>	<b>1,538</b>	<b>1,389</b>	<b>1,513</b>	<b>-8.2%</b>	<b>-2.1%</b>	<b>-9.7%</b>	<b>5,000</b>	<b>5,777</b>	<b>15.5%</b>

FABS estimate & Co Data

**ADIB - KPI**

	4Q23	3Q24	4Q24	YOY Ch	QOQ Ch	2023	2024	Change
Net FI/OI	62.2%	59.8%	63.1%	91	330	65.9%	61.8%	-412
NIM	3.6%	3.0%	3.1%	-50	7	3.6%	3.3%	-28
NIS	3.3%	2.7%	2.8%	-53	8	3.3%	3.0%	-36
Fees & comms/OI	22.2%	20.0%	16.0%	-621	-405	17.4%	17.0%	-38
Other non-funded/OI	15.6%	20.2%	20.9%	530	74	16.7%	21.2%	450
Cost to income ratio (calculated)	33.7%	30.1%	31.1%	-257	104	32.9%	29.6%	-336
Provisions/PPP	11.0%	2.5%	9.5%	-153	695	12.2%	8.3%	-392
NP/OI	54.6%	58.1%	52.7%	-191	-548	53.8%	54.3%	53
Cost of risk	0.6%	0.1%	0.5%	-16	33	0.5%	0.4%	-7
Loan-to-deposit	73.2%	75.2%	78.1%	485	289	73.2%	78.1%	485
NPL – (reported)	6.1%	4.4%	4.0%	-210	-40	4.7%	4.0%	-66
Coverage excluding collateral (reported)	74.0%	78.0%	81.5%	750	350	74.0%	81.5%	750
CET1	12.2%	13.4%	12.1%	-15	-130	12.2%	12.1%	-15
Capital adequacy	16.8%	17.6%	16.2%	-59	-136	16.8%	16.2%	-59
ROAE	24.5%	27.1%	25.2%	77	-182	24.5%	25.2%	77
ROAA	2.8%	2.9%	2.8%	-1	-10	2.8%	2.8%	-1

FABS estimate & Co Data

**ADIB - Key B/S items**

AED mn	4Q23	1Q24	2Q24	3Q24	4Q24	YOY Ch
Net advances	1,15,002	1,16,943	1,32,066	1,35,132	1,42,611	24.0%
QOQ ch	2.1%	1.7%	12.9%	2.3%	5.5%	
Total assets	1,92,827	1,94,647	2,13,403	2,22,567	2,25,910	17.2%
QOQ ch	4.7%	0.9%	9.6%	4.3%	1.5%	
Customer deposits	1,57,067	1,60,262	1,72,244	1,79,744	1,82,675	16.3%
QOQ ch	3.6%	2.0%	7.5%	4.4%	1.6%	
Total equity (excluding Tier 1 & NCI)	20,374	18,458	19,855	21,378	22,591	10.9%
QOQ ch	7.7%	-9.4%	7.6%	7.7%	5.7%	

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	18.39	70.0%	12.87
Relative Valuation (RV)	10.42	30.0%	3.13
<b>Weighted Average Valuation (AED)</b>			<b>16.00</b>
Current market price (AED)			15.60
Upside/Downside (%)			+2.6%

### 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)	12,262
Terminal value (AED, Mn)	31,940
Book Value of Equity (as of Dec 2024)	22,591
<b>FV to Common shareholders (AED, Mn)</b>	<b>66,794</b>
No. of share (Mn)	3,632
Current Market Price (AED)	15.60
<b>Fair Value per share (AED)</b>	<b>18.39</b>

### Residual Income Method

(All Figures in AED Mn)	FY 2025E	FY 2026E	FY 2027E	FY 2028E	FY 2029E
Net Profit	5,374	5,462	5,851	6,192	6,628
(-) Equity Charge	-2,248	-2,489	-2,747	-3,036	-3,346
<b>Excess Equity</b>	<b>3,126</b>	<b>2,973</b>	<b>3,104</b>	<b>3,156</b>	<b>3,282</b>
Discounting Factor	0.93	0.85	0.78	0.72	0.66
<b>Present Value of Excess Equity</b>	<b>2,893</b>	<b>2,526</b>	<b>2,422</b>	<b>2,262</b>	<b>2,159</b>

Source: FAB Securities

## 2) Relative Valuation:

We have used local and international peers to value ADIB and it is valued using the PB multiple. It is valued at 2024 PB multiple of 1.5x in line with the peers.

Company	Market (USD Mn)	P/B (x)		P/E (x)		Dividend Yield (x)	
		2024F	2025F	2024F	2025F	2024F	2025F
Commercial Bank of Dubai (CBD)	5,859	1.5	1.4	7.4	7.1	6.5%	6.7%
Abu Dhabi Commercial Bank (ADCB)	21,596	1.2	1.1	9.3	9.6	5.0%	5.1%
Emirates NBD	38,605	1.2	1.1	6.1	6.8	5.1%	5.2%
Dubai Islamic Bank (DIB)	14,933	1.4	1.3	8.6	9.5	6.1%	5.9%
Alinma	19,817	2.1	1.8	12.7	11.5	3.6%	3.9%
Al Rajhi Bank	1,05,477	3.6	3.3	18.5	16.4	3.1%	3.5%
Bank Albilad	13,095	2.5	2.4	17.8	16.3	1.5%	1.7%
<b>Average</b>		<b>1.9x</b>	<b>1.8x</b>	<b>11.5x</b>	<b>11.0x</b>	<b>4.4%</b>	<b>4.6%</b>
<b>Median</b>		<b>1.5x</b>	<b>1.4x</b>	<b>9.3x</b>	<b>9.6x</b>	<b>5.0%</b>	<b>5.1%</b>
<b>Max</b>		<b>2.3x</b>	<b>2.1x</b>	<b>15.2x</b>	<b>13.9x</b>	<b>5.6%</b>	<b>5.5%</b>
<b>Min</b>		<b>1.3x</b>	<b>1.2x</b>	<b>8.0x</b>	<b>8.3x</b>	<b>3.4%</b>	<b>3.7%</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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