

Dubai Islamic Bank (DIB)

Solid growth in non-funded income and lower provisions boosted profitability

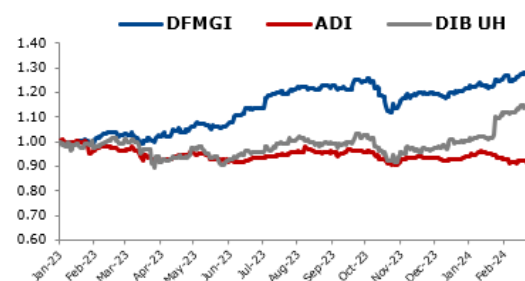
Current Price
AED 9.66

Target Price
AED 9.50

Upside/Downside (%)
-1.7%

Rating
HOLD

- Customer deposits grew 21.2% YOY and 7.1% QOQ to AED 283.7 Bn in 2Q25, driven by effective strategies for customer acquisition and retention.
- Calculated NIM contracted by 32 basis points YOY to 2.5% in 2Q25.
- Reported NPLs declined 163 bps YOY and 34 bps QOQ to 3.4% in 2Q25, reaching its lowest level in the past five years.
- Total reported provision coverage ratio grew from 98.0% in 1Q25 to 103.0% in 2Q25.
- IB entered into a USD 150 Mn Murabaha financing agreement with Turkcell.



Stock Information

Market Cap (AED, mn)	69,813.89
Paid Up Capital (mn)	7,227.11
52 Week High	10.05
52 Week Low	5.61
3M Avg. daily value(AED)	64,039,610

2Q25 Net Profit higher than our estimate

Dubai Islamic Bank ("DIB", "the Bank") net profit grew 10.8% YOY to AED 1,858 Mn in 2Q25, higher than our estimate of AED 1,682 Mn. The growth in net profit was driven by an increase in non-funded income, and a substantial decline in impairment charges, partially offset by a rise in operating expenses, tax charges and non-controlling interest.

P&L Highlights

Funded income fell 0.3% YOY to AED 4,745 Mn in 2Q25, due to a decline in asset yield, partially offset by strong growth with expansion in the Sukuk portfolio. Funded expenses remained flat at AED 2,623 Mn in 2Q25 compared to 2Q24, due to a decline in the cost of funds. As a result, net funded income declined marginally 0.6% YOY to AED 2,122 Mn in 2Q25. However, the calculated NIM contracted 32 bps YOY to 2.5% in 2Q25. Fee and commission income, fell marginally 0.6% YOY to AED 426 Mn in 2Q25, driven by strong growth in the Consumer Banking Segment. Other non-funded income grew strongly from AED 496 Mn in 2Q24 to AED 670 Mn in 2Q25. Thus, non-funded income saw strong growth of 18.6% YOY to AED 1,097 Mn in 2Q25. As a result, total operating income rose notably by 5.2% YOY to AED 3,219 Mn in 2Q25. Operating expenses increased 10.6% YOY to AED 925 Mn in 2Q25, driven by continued investments in technology and digital upgrades. As a result, the calculated cost-to-income ratio increased 140 bps YOY to 28.7% in 2Q25. Furthermore, impairment charges fell significantly from AED 354 Mn in 2Q24 to AED 93 Mn in 2Q25, supported by prudent underwriting practices and robust risk management. Tax expenses grew from AED 157 Mn in 2Q24 to AED 268 Mn in 2Q25 due to an increase in tax rate. The Bank's share of profit attributable to non-controlling interest holders surged significantly from AED 36 Mn in 2Q24 to AED 75 Mn in 2Q25.

2Q25 Result Review (AED, Mn)

Total Assets	373,479
Total Liabilities	323,314
Total Equity	39,768
Total Deposits	283,663
Net Profit	1,858

Financial Ratios

Dividend Yield (12m)	4.66
Dividend Pay-out (%)	43.30
Price-Earnings Ratio(x)	6.82
Price-to-Book Ratio (x)	1.29
Book Value (AED)	5.50
Return-on Equity (%)	19.76

Stock Performance

5 Days	-2.91%
1 Months	3.43%
3 Months	27.11%
6 Months	25.45%
1 Year	64.29%
Month to Date (MTD%)	-3.21%
Quarter to Date (QTD%)	6.50%
Year to Date (YTD%)	36.25%

Balance Sheet Highlights

The Bank's total asset expanded 15.8% YOY and 5.1% QOQ to AED 373.5 Bn in 2Q25, supported by strong performance in new underwriting, primarily driven by strong growth in the aviation, financial institutions, and utility sectors. Net advances rose 19.1% YOY and 6.7% QOQ to AED 237.4 Bn in 2Q25, driven by strong momentum in both retail and corporate segments. In addition, sukuk investments comprising high-quality and well-rated sovereigns and FIs, grew 13.5% YOY and 6.1% QOQ to AED 89.3 Bn in 2Q25. Customer deposits grew 21.2% YOY and 7.1% QOQ to AED 283.7 Bn in 2Q25, attributed to effective customer acquisition and retention strategies, with CASA representing 36% of the total deposits in 2Q25.

Target Price and Rating

We maintain our HOLD rating on DIB with a target price of AED 9.50. DIB recorded a strong net profit growth in 2Q25, primarily driven by a solid rise in non-funded income and a decline in provisions. DIB's funded income continued to remain stable despite lower margins due to lower interest rates. However, the bank managed to compensate by lowering deposit rates to minimize the impact. DIB's net advances rose 19.1% YOY and 6.7% QOQ to AED 237.4 Bn in 2Q25, fueled by robust gross new underwriting across retail and corporate segments. The bank is confident of hitting its 15% full-year target by 3Q25 itself. On the other hand, customer deposits expanded 21.2% YOY and 7.1% QOQ to AED 283.7 Bn in 2Q25, supported by strategic customer acquisition and retention efforts. Thereby, the bank's liquidity improved with the headline loan to deposits ratio declining 35 bps QOQ to 83.7% in 2Q25. Meanwhile, asset quality improved as the reported NPLs declined 163 bps YOY and 34 bps QOQ to 3.4% in 2Q25, reaching its lowest level in the past five years. Whereas, the reported provision coverage ratio grew from 98% in 1Q25 to 103% in 2Q25. Furthermore, while stage 2 declined 23% YOY in 2Q25, reflecting the bank's improved asset quality and effective risk management. However, the Bank CASA deposit declined from 42% in 2Q24 to 36% in 2Q25. DIB's capital position remained strong, with a CET1 ratio of 13.0% and a CAR of 16.7% in 2Q25. DIB entered into a USD 150 Mn Murabaha financing agreement with Turkcell to support its digital infrastructure investments. Considering all these factors, we maintain our HOLD rating on the stock.

DIB - Relative valuation

(at CMP)	2020	2021	2022	2023	2024	2025F
PE	25.83	18.56	14.01	11.10	9.42	10.07
PB	2.47	2.31	2.14	1.95	1.78	1.61
EPS	0.378	0.526	0.697	0.880	1.037	0.971
BVPS	3.951	4.226	4.563	5.012	5.486	6.055
DPS	0.200	0.250	0.300	0.450	0.450	0.450
Dividend yield	2.1%	2.6%	3.1%	4.7%	4.7%	4.7%

FABS Estimates & Co Data

DIB – P&L

AED mm	2Q24	1Q25	2Q25	2Q25F	Var.	YOY Ch	QOQ Ch	2024	2025F	Change
Funded income	4,760	4,550	4,745	4,532	4.7%	-0.3%	4.3%	19,454	18,832	-3.2%
Funded expense	-2,625	-2,358	-2,623	-2,317	13.2%	0.0%	11.3%	-10,505	-9,296	-11.5%
Net funded income	2,135	2,192	2,122	2,215	-4.2%	-0.6%	-3.2%	8,949	9,536	6.6%
Fees & commissions	429	505	426	515	-17.3%	-0.6%	-15.6%	1,748	1,853	6.0%
Other non-funded income	496	457	670	495	35.5%	35.3%	46.7%	2,139	2,221	3.8%
Non-funded Income	924	962	1,097	1,010	8.6%	18.6%	14.0%	3,887	4,075	4.8%
Operating income	3,060	3,154	3,219	3,225	-0.2%	5.2%	2.1%	12,837	13,610	6.0%
Operating expenses	-836	-883	-925	-891	3.8%	10.6%	4.8%	-3,425	-3,511	2.5%
Pre-provisioning profit	2,224	2,271	2,294	2,334	-1.7%	3.2%	1.0%	9,412	10,100	7.3%
Impairment charges	-354	-163	-93	-302	-69.1%	-73.6%	-42.8%	-407	-1,181	NM
Profit before tax	1,870	2,108	2,201	2,032	8.3%	17.7%	4.4%	9,005	8,919	-1.0%
Tax	-157	-311	-268	-299	-10.4%	70.6%	-13.9%	-840	-1,311	56.1%
Profit before NCI	1,713	1,797	1,933	1,734	11.5%	12.8%	7.5%	8,165	7,608	-6.8%
Non-controlling interests	-36	-58	-75	-52	44.3%	107.4%	30.0%	-231	-232	0.5%
Profit for the period	1,677	1,740	1,858	1,682	10.5%	10.8%	6.8%	7,934	7,376	-7.0%

FABS estimate & Co Data

DIB - KPI

	2Q24	1Q25	2Q25	YOY Ch	QOQ Ch	2024	2025F	Change
Net FI/OI	69.8%	69.5%	65.9%	-386	-356	69.7%	70.1%	35
NIM	2.8%	2.6%	2.5%	-32	-18	2.9%	2.7%	-12
NIS	2.2%	2.2%	2.0%	-25	-17	2.3%	2.3%	0
Fees & commissions/OI	14.0%	16.0%	13.2%	-77	-278	13.6%	13.6%	0
Other non-funded/OI	16.2%	14.5%	20.8%	463	634	16.7%	16.3%	-34
Cost to income	27.3%	28.0%	28.7%	140	74	26.7%	25.8%	-89
Impairment/PPP	15.9%	7.2%	4.1%	-1,184	-311	4.3%	11.7%	737
NCI/PBT	2.1%	3.2%	3.9%	177	67	2.8%	3.1%	22
NP/OI	54.8%	55.2%	57.7%	292	257	61.8%	54.2%	-762
Cost of risk	0.4%	0.3%	0.2%	-24	-13	0.2%	0.5%	31
Loan-to-deposit (calculated)	85.1%	84.0%	83.7%	-146	-35	85.5%	85.0%	-47
NPL - Reported	5.0%	3.7%	3.4%	-163	-34	3.9%	3.5%	-43
Coverage - Calculated	84.0%	83.5%	86.9%	286	334	78.6%	80.0%	145
CET 1	13.7%	13.4%	13.0%	-68	-39	13.2%	12.9%	-35
Capital adequacy	18.1%	17.3%	16.7%	-138	-56	18.3%	17.3%	-95
ROAA	2.3%	2.4%	2.4%	12	1	2.4%	2.0%	-39
ROAE	19.0%	21.1%	20.6%	158	-54	19.8%	16.8%	-294

FABS estimate & Co Data

DIB - Key B/S items

AED mm	2Q24	3Q24	4Q24	1Q25	2Q25	YOY Ch
Net financings	199,251	206,790	212,427	222,553	237,376	19.1%
QOQ change	-0.8%	3.8%	2.7%	4.8%	6.7%	
Total assets	322,651	329,169	344,687	355,269	373,479	15.8%
QOQ change	-1.4%	2.0%	4.7%	3.1%	5.1%	
Customer deposits	234,018	236,868	248,546	264,847	283,663	21.2%
QOQ change	-0.7%	1.2%	4.9%	6.6%	7.1%	
Shareholders' fund	36,011	37,755	39,724	38,084	39,768	10.4%
QOQ change	4.4%	4.8%	5.2%	-4.1%	4.4%	

FABS estimate & Co Data

Valuation:

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

Valuation Method	Target	Weight	Weighted Value
Residual Income	9.66	70.0%	6.76
Relative Valuation (RV)	9.15	30.0%	2.74
Weighted Average Valuation (AED)			9.50
Current market price (AED)			9.66
Upside/Downside (%)			-1.7%

1) Residual Income Method:

We have discounted the economic profit/excess equity using the cost of equity of 9.0%. Cost of equity is calculated by using 10-year government bond yield of 5.6%, beta of 0.87 and equity risk premium of 3.9%. Government bond yield is calculated after adding Dubai's 10-year CDS spread over a 10-year US risk-free rate. Also, assumed a terminal growth rate of 2.0%.

Sum of PV (AED, Mn)	9,065
Terminal value (AED, Mn)	21,088
Book Value of Equity (as of June 2025)	39,768
FV to Common shareholders (AED, Mn)	69,921
No. of share (Mn)	7,241
Current Market Price (AED)	9.66
Fair Value per share (AED)	9.66

Residual Income Method

(All Figures in AED Mn)	FY 2025E	FY 2026E	FY 2027E	FY 2028E	FY 2029E
Net Profit	7,047	7,030	7,155	7,476	7,687
(-) Equity Charge	(3,963)	(4,334)	(4,716)	(5,127)	(5,557)
Excess Equity	3,084	2,696	2,439	2,349	2,130
Discounting Factor	0.97	0.89	0.81	0.75	0.68
Present Value of Excess Equity	1,489	2,388	1,981	1,750	1,456

Source: FAB Securities

2) Relative Valuation:

We have used local and regional peers to value DIB, which is valued using the PB multiple. It is valued at a 2025 PB multiple of 1.5x, in line with peers.

Company	Market Cap (USD Mn)	P/B (x)		P/E (x)		Dividend Yield (x)	
		2025F	2026F	2025F	2026F	2025F	2026F
Commercial Bank of Dubai	7,152	1.6	1.5	8.7	9.6	6.3%	4.5%
Abu Dhabi Islamic Bank	21,773	3.2	2.8	13.6	12.7	3.8%	4.2%
Emirates NBD	41,615	1.2	1.0	7.1	7.4	4.3%	4.5%
Abu Dhabi Commercial Bank	28,251	1.5	1.3	11.3	10.4	4.3%	4.6%
Alinma Bank	17,652	1.8	1.6	11.0	10.3	4.3%	4.6%
First Abu Dhabi Bank	50,227	1.4	1.3	10.7	10.4	4.7%	4.7%
Average		1.8x	1.6x	10.4x	10.1x	4.6%	4.5%
Median		1.5x	1.4x	10.9x	10.4x	4.3%	4.6%
Max		1.8x	1.6x	11.2x	10.4x	4.6%	4.6%
Min		1.4x	1.3x	9.2x	9.8x	4.3%	4.5%

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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