

## Dubai Islamic Bank (DIB)

Strong non-core income and decline in impairments supported profitability

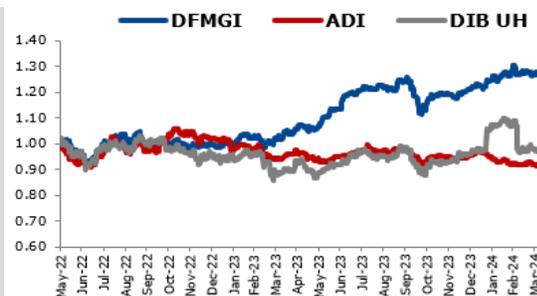
**Current Price**  
AED 5.63

**Target Price**  
AED 7.00

**Upside/Downside (%)**  
+24%

**Rating**  
BUY

- Net financing and Sukuk investment grew 15.2% YOY to AED 277 Bn in 1Q24, compared to AED 240 Bn in 1Q23.
- Corporate and Consumer segment accounted for 54% and 28% of the total loan book in 1Q24.
- DIB's non-core income grew strongly 43.6% YOY in 1Q24 primarily due to a rise in other operating income owing to the one-off gains, and growth in the share of profit from associates.
- NPL ratio declined marginally from 5.4% in 4Q23 to 5.0% in 1Q24 owing to the ongoing recoveries. Total coverage grew from 121% in 4Q23 to 126% in 1Q24.



### Stock Information

Market Cap (AED, mm)	40,765.39
Paid Up Capital (mm)	7,240.74
52 Week High	6.55
52 Week Low	5.15
3M Avg. daily value(AED)	43,093,100

### 1Q24 Result Review (AED, mm)

Total Assets	327,314
Total Liabilities	281,608
Total Equity	34,494
Total Deposits	235,783
Net Profit	1,593

### Financial Ratios

Dividend Yield (12m)	7.99
Dividend Pay-out (%)	51.03
Price-Earnings Ratio(x)	6.27
Price-to-Book Ratio (x)	1.18
Book Value (AED)	4.77
Return-on Equity (%)	19.49

### Stock Performance

5 Days	-1.23%
1 Months	-5.06%
3 Months	-9.92%
6 Months	4.45%
1 Year	5.83%
Month to Date (MTD%)	-3.43%
Quarter to Date (QTD%)	-3.43%
Year to Date (YTD%)	-1.57%

### 1Q24 Net Profit in-line with our estimate

Dubai Islamic Bank ("DIB", "The Bank") net profit grew 7.8% YOY to AED 1,593 Mn in 1Q24, in line with our estimate of AED 1,568 Mn. The rise in net profit is primarily driven by strong growth in the non-funded income along with lower impairments, partially offset by a marginal decline in net funded income and growth in operating expenses.

### P&L Highlights

Funded income grew 23.9% YOY to AED 4,757 Mn in 1Q24 due to an increase in net financing and other interest-earning assets. Net financing grew 8.6% YOY to AED 201 Bn in 1Q24. Funded expenses grew significantly from AED 1,676 Mn in 1Q23 to AED 2,609 Mn in 1Q24 due to an increase in the cost of funds owing to higher benchmark rates. Thus, net funded income declined marginally 0.7% YOY to AED 2,148 Mn in 1Q24. NIMs declined 34 bps YOY and 18 bps QOQ to 2.8% in 1Q24. The Bank's fees and commission income grew 15.9% YOY to AED 483 Mn in 1Q24. Whereas other non-funded income rose strongly from AED 175 Mn in 1Q23 to AED 367 Mn in 1Q24 supported by one-off gains and an increase in share of profit from associates. Thus, non-funded income recorded a strong growth of 43.6% YOY to AED 850 Mn in 1Q24. As a result, operating profit grew 8.8% YOY to AED 2,998 Mn in 1Q24. Additionally, operating expenses rose 14.4% YOY to AED 849 Mn in 1Q24, owing to an increase in wages and administrative expenses. Resultantly, the cost-to-income ratio grew 139 bps YOY to 28.3% in 1Q24. Furthermore, impairment charges declined significantly from AED 496 Mn in 1Q23 to AED 299 Mn in 1Q24 primarily due to recoveries of certain provisions. Tax expenses grew from AED 11 Mn in 1Q23 to AED 186 Mn in 1Q24 owing to the introduction of UAE corporate tax. While,

Share of profit attributable to non-controlling interest holders grew from AED 28 Mn in 1Q23 to AED 72 Mn in 1Q24.

### Balance Sheet Highlights

DIB's net advances grew 8.6% YOY and 0.7% QOQ to AED 201 Bn in 1Q24 driven by growth in the corporate and retail loan book. The Bank's Consumer loan book grew mainly due to an increase in personal finance, auto finance, and mortgages. DIB continued to record the routine repayments of AED 8.7 Bn in 1Q24. In addition, the early settlements declined 27% YOY to AED 3.2 Bn in 1Q24. The sukuk investment portfolio grew strongly 37% YOY to AED 76 Bn in 1Q24. The Bank's total assets grew 12.1% YOY and 4.1% QOQ to AED 327 Bn in 1Q24. Customer deposits grew 18.9% YOY and 6.2% QOQ to AED 236 Bn in 1Q24 strengthening the liquidity position. CASA deposits now account for 38% of total deposits as of 1Q24. In addition, total equity grew 7.5% YOY and declined 5.0% QOQ to AED 34 Bn in 1Q24.

### Target Price and Rating

We maintain our BUY rating on DIB with a target price of AED 7.00. Strong growth in non-funded income and lower impairments boosted profitability for the Bank in 1Q24. The Bank's loan book grew 8.6% YOY to AED 201 Bn in 1Q24, driven by increased corporate and retail lending. In addition, the sukuk investment portfolio grew 11% YTD to AED 76 Bn in 1Q24. Government and FI sectors accounted for c.80% of the total portfolio as of 1Q24. The Bank's yield on the sukuk portfolio grew 27 bps YOY to 4.8% in 1Q24. DIB plans to remain invested in the long-term treasury assets owing to the higher interest rates. NIMs declined 34 bps YOY and 18 bps QOQ to 2.8% in 1Q24 due to higher cost of funds, which pressured the core business margins. NIMs are further expected to remain under pressure in anticipation of a decline in interest rates in the latter half of the year. Cost of funds grew 112 bps YOY and 10 bps QOQ to 4.0% in 1Q24. The Bank anticipates the cost of funds to remain challenging owing to the expectation that deposits will roll out at higher rates. DIB's cost-to-income ratio grew to 28.3% in 1Q24 owing to higher administrative expenses and wages. It expects the cost-to-income to amount to 27-28% in FY2024. Furthermore, the NPL ratio declined from 5.4% in 4Q23 to 5.0% in 1Q24 mainly due to the ongoing recoveries. Meanwhile, total coverage grew from 121% in 4Q23 to 126% in 1Q24. In addition, the Bank does not expect its asset quality to spill in the higher interest rate environment. Capitalization also remained healthy, with a capital adequacy ratio of 17.5% and a CET 1 ratio of 13.1% in 1Q24. Considering all these factors, we maintain our BUY rating on the stock.

### DIB - Relative valuation

(at CMP)	2019	2020	2021	2022	2023	2024F
PE	8.33	15.23	10.94	8.26	6.54	7.26
PB	1.48	1.46	1.36	1.26	1.15	1.06
Dividend yield	6.1%	3.5%	4.3%	5.2%	7.9%	7.9%

FABS Estimates & Co Data

**DIB – P&L**

AED mm	1Q23	4Q23	1Q24	1Q24F	VAR	YOY Ch	QOQ Ch	2023	2024F	Change
Funded income	3,839	4,714	4,757	4,915	-3.2%	23.9%	0.9%	17,227	18,164	5.4%
Funded expense	-1,676	-2,477	-2,609	-2,622	-0.5%	55.7%	5.4%	-8,477	-9,218	8.7%
<b>Net funded income</b>	<b>2,163</b>	<b>2,237</b>	<b>2,148</b>	<b>2,292</b>	<b>-6.3%</b>	<b>-0.7%</b>	<b>-4.0%</b>	<b>8,749</b>	<b>8,946</b>	<b>2.3%</b>
Fees & commissions	417	502	483	528	-8.4%	15.9%	-3.8%	1,795	1,938	8.0%
Other non-funded income	175	378	367	257	42.7%	109.6%	-3.1%	1,121	883	-21.3%
<b>Non-Funded Income</b>	<b>592</b>	<b>881</b>	<b>850</b>	<b>785</b>	<b>8.3%</b>	<b>43.6%</b>	<b>-3.5%</b>	<b>2,916</b>	<b>2,821</b>	<b>-3.3%</b>
<b>Operating income</b>	<b>2,755</b>	<b>3,118</b>	<b>2,998</b>	<b>3,077</b>	<b>-2.6%</b>	<b>8.8%</b>	<b>-3.8%</b>	<b>11,665</b>	<b>11,767</b>	<b>0.9%</b>
General expenses	-742	-900	-849	-892	-4.9%	14.4%	-5.7%	-3,162	-3,081	-2.6%
<b>Pre-provisioning profit</b>	<b>2,013</b>	<b>2,218</b>	<b>2,149</b>	<b>2,184</b>	<b>-1.6%</b>	<b>6.7%</b>	<b>-3.1%</b>	<b>8,503</b>	<b>8,686</b>	<b>2.1%</b>
Impairment charges	-496	13	-299	-420	-28.8%	-39.8%	NM	-1,396	-1,314	-5.9%
<b>Profit before tax</b>	<b>1,517</b>	<b>2,230</b>	<b>1,850</b>	<b>1,765</b>	<b>4.9%</b>	<b>22.0%</b>	<b>-17.0%</b>	<b>7,108</b>	<b>7,372</b>	<b>3.7%</b>
Tax	-11	-44	-186	-164	13.4%	NM	NM	-98	-700	NM
<b>Profit before NCI</b>	<b>1,506</b>	<b>2,186</b>	<b>1,664</b>	<b>1,601</b>	<b>4.0%</b>	<b>10.5%</b>	<b>-23.9%</b>	<b>7,010</b>	<b>6,672</b>	<b>-4.8%</b>
Non-controlling interests	-28	-86	-72	-32	NM	NM	-16.4%	-212	-203	-4.1%
<b>Profit for the period</b>	<b>1,478</b>	<b>2,101</b>	<b>1,593</b>	<b>1,568</b>	<b>1.5%</b>	<b>7.8%</b>	<b>-24.2%</b>	<b>6,798</b>	<b>6,468</b>	<b>-4.8%</b>

FABS estimate & Co Data

**DIB - KPI**

	1Q23	4Q23	1Q24	YOY Ch	QOQ Ch	2023	2024F	Change
Net FI/OI	78.5%	71.8%	71.7%	-686	-10	75.0%	76.0%	102
NIM	3.2%	3.0%	2.8%	-34	-18	3.1%	3.0%	-10
NIS	2.8%	2.5%	2.3%	-48	-18	2.6%	2.5%	-13
Fees & commissions/OI	15.1%	16.1%	16.1%	98	0	15.4%	16.5%	109
Other non-funded/OI	6.3%	12.1%	12.2%	588	9	9.6%	7.5%	-211
Cost to income	26.9%	28.9%	28.3%	139	-55	27.1%	26.2%	-92
Impairment/PPP	24.6%	-0.6%	13.9%	-1,075	1,447	16.4%	15.1%	-129
NCI/PBT	1.8%	3.9%	4.3%	245	39	3.0%	3.1%	2
NP/OI	53.6%	67.4%	53.1%	-51	-1,426	58.3%	55.0%	-330
Cost of risk	0.8%	0.2%	0.4%	-40	20	0.7%	0.6%	-5
Loan-to-deposit (calculated)	93.3%	89.8%	85.2%	-808	-461	89.8%	90.5%	68
NPL	6.5%	5.4%	5.0%	-153	-43	5.2%	5.5%	34
Coverage	113.0%	121.0%	126.0%	1,300	500	121.0%	83.5%	-3,750
CET 1	13.3%	12.8%	13.1%	-20	27	12.8%	13.8%	97
Capital adequacy	17.9%	17.3%	17.5%	-45	23	17.3%	18.2%	91
ROAA	1.9%	2.2%	2.2%	22	-1	2.3%	2.0%	-21
ROAE	17.3%	19.1%	19.5%	226	45	19.6%	17.1%	-254

FABS estimate & Co Data

**DIB - Key B/S items**

AED mm	1Q23	2Q23	3Q23	4Q23	1Q24	YOY Ch
Net advances	185,016	189,501	199,003	199,453	200,927	8.6%
QOQ ch	-0.6%	2.4%	5.0%	0.2%	0.7%	
Total assets	291,984	299,762	313,380	314,292	327,314	12.1%
QOQ ch	1.3%	2.7%	4.5%	0.3%	4.1%	
Customer deposits	198,302	210,684	220,917	222,054	235,783	18.9%
QOQ ch	-0.2%	6.2%	4.9%	0.5%	6.2%	
Total equity	32,078	33,465	34,948	36,293	34,494	7.5%
QOQ ch	-2.9%	4.3%	4.4%	3.9%	-5.0%	

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	6.98	70.0%	4.89
Relative Valuation (RV)	7.04	30.0%	2.11
<b>Weighted Average Valuation (AED)</b>			<b>7.00</b>
Current market price (AED)			5.63
Upside/Downside (%)			+24%

### 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 5.2%, beta of 1.00 and equity risk premium of 3.8%. Government bond yield is calculated after adding Dubai 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)	6,234
Terminal value (AED, Mn)	9,814
Book Value of Equity (as of Dec 2023)	34,494
<b>FV to Common shareholders (AED, Mn)</b>	<b>50,542</b>
No. of share (Mn)	7,241
Current Market Price (AED)	5.63
<b>Fair Value per share (AED)</b>	<b>6.98</b>

### Residual Income Method

(All Figures in AED Mn)	FY 2024E	FY 2025E	FY 2026E	FY 2027E	FY 2028E
Net Profit	6,064	5,721	5,747	5,654	5,580
(-) Equity Charge	-3,555	-3,813	-4,074	-4,326	-4,571
<b>Excess Equity</b>	<b>1,714</b>	<b>1,908</b>	<b>1,673</b>	<b>1,328</b>	<b>1,008</b>
Discounting Factor	0.94	0.86	0.79	0.73	0.67
<b>Present Value of Excess Equity</b>	<b>1,616</b>	<b>1,650</b>	<b>1,327</b>	<b>967</b>	<b>673</b>

Source: FAB Securities

## 2) Relative Valuation:

We have used local and international peers to value DIB, which is valued using the PB multiple. It is valued at a 2024 PB multiple of 1.3x, in line with peers.

Company	Market (USD Mn)	P/B (x)		P/E (x)		Dividend Yield (x)	
		2023F	2024F	2023F	2024F	2023F	2024F
Commercial Bank of Dubai	5,460	1.3	1.2x	NA	NA	6.8	6.2
Abu Dhabi Islamic Bank	10,900	1.8	1.6	8.6	8.5	6.3	6.3
Emirates NBD	27,950	0.9	0.8	5.3	5.6	6.4	6.4
Abu Dhabi Commercial Bank	16,620	0.9	0.9	8.0	8.2	6.6	6.5
Alinma Bank	22,410	2.4	2.2	15.0	13.8	2.9	3.1
Bank Albilad	11,920	2.6	2.3	16.5	14.8	1.6	1.8
First Abu Dhabi Bank	37,340	1.1	1.1	9.1	9.0	5.6	5.6
<b>Average</b>		<b>1.6x</b>	<b>1.4x</b>	<b>10.4x</b>	<b>10.0x</b>	<b>5.2%</b>	<b>5.1%</b>
<b>Median</b>		<b>1.3x</b>	<b>1.2x</b>	<b>8.9x</b>	<b>8.8x</b>	<b>6.3%</b>	<b>6.2%</b>
<b>Max</b>		<b>2.1x</b>	<b>1.9x</b>	<b>13.5x</b>	<b>12.6x</b>	<b>6.5%</b>	<b>6.3%</b>
<b>Min</b>		<b>1.0x</b>	<b>1.0x</b>	<b>8.1x</b>	<b>8.3x</b>	<b>4.2%</b>	<b>4.3%</b>

Source: FAB Securities

