

## Dubai Islamic Bank (DIB)

Solid growth in non-funded income drove profitability

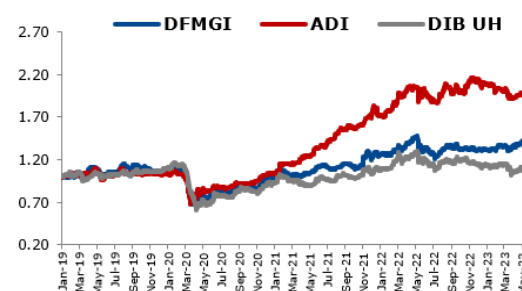
**Current Price**  
AED 5.73

**Target Price**  
AED 7.00

**Upside/Downside (%)**  
+22.2%

**Rating**  
BUY

- DIB revised its net financing & sukuk growth guidance upward for FY2023 from 5% to 7.5%.
- Non-funded income rose 25.6% YOY and 19.2 QOQ to AED 706 Mn in 2Q23 driven by a growth in fee & commission and other non-funded income.
- The Bank's NPL ratio stood at the lowest rate since December 2020 at 5.1% in 2Q23. The provision coverage ratio improved to 98.5% in 2Q23 from 92.4% in 1Q23 whereas provision including collateral stood at 150% in 2Q23 as compared to 143% in 1Q23.



### Stock Information

Market Cap (AED, mm)	41,634.28
Paid Up Capital (mm)	7,240.74
52 Week High	6.20
52 Week Low	5.10
3M Avg. daily value(AED)	36,873,760

### 2Q23 Result Review (AED, mm)

Total Assets	299,762
Total Liabilities	255,301
Total Common Equity	33,465
Total Deposits	210,684
Net Profit	1,571

### Financial Ratios

Dividend Yield (12m)	5.22
Dividend Pay-out (%)	42.94
Price-Earnings Ratio(x)	7.67
Price-to-Book Ratio (x)	1.24
Book Value (AED)	4.63
Return-on Equity (%)	16.84

### Stock Performance

5 Days	0.88%
1 Months	5.12%
3 Months	3.42%
6 Months	3.60%
1 Year	-2.21%
Month to Date (MTD%)	5.12%
Quarter to Date (QTD%)	5.12%
Year to Date (YTD%)	0.88%

### 2Q23 Net Profit in line with our estimate

Dubai Islamic Bank ("DIB", "The Bank") net profit increased 17.4% YOY to AED 1,571 Mn in 2Q23, in line with our estimate of AED 1,525 Mn. The increase in net profit is mainly attributable to growth in funded and non-funded income along with a decline in impairments partially offset by an increase in operating expenses.

### P&L Highlights

Funded income increased 55.3% YOY to AED 4,173 Mn in 2Q23 due to an increase in asset yield. The Bank's asset yield rose 194 bps YOY and 35 bps QOQ to 6.0% in 2Q23. On the other hand, funded expenses increased significantly from AED 677 Mn in 2Q22 to AED 2,054 Mn in 2Q23 due to an increase in the cost of funds owing to higher benchmark rates. Thus, net funded income increased 5.4% YOY to AED 2,119 Mn in 2Q23. DIB's NIMs grew 1 bps YOY and declined 13 bps QOQ to 3.0% in 2Q23. Moreover, fees and commission income increased 18.3% YOY to AED 490 Mn in 2Q23 whereas other non-funded income rose 46.0% YOY to AED 216 Mn in 2Q23. Thus, non-funded income recorded a strong growth of 25.6% YOY to AED 706 Mn in 2Q23. As a result, operating profit rose 9.8% YOY to AED 2,825 Mn in 2Q23. Additionally, operating expenses increased 10.9% YOY to AED 729 Mn in 2Q23 due to an increase in G&A and personal expenses. The bank made continuous enhancements in digital and transactional banking services to provide an excellent customer experience. Resultantly, the cost-to-income ratio rose 25 bps YOY and declined 112 bps QOQ to 25.8% in 2Q23. Furthermore, impairments declined 12.8% YOY to AED 463 Mn in 2Q23. Tax expenses moderated 2.8% YOY to AED 28 Mn in 2Q23. Share of profit attributable to non-controlling interest holders increased from AED 17 Mn in 2Q22 to AED 34 Mn in 2Q23.

## Balance Sheet Highlights

DIB's net advances declined 2.5% YOY and increased 2.4% QOQ to AED 189.5 Bn in 2Q23 driven by growth in the corporate and retail loan book. Corporate loan book was driven by healthy demand of credit from large corporates and lesser repayments. The enhancement of digital channels drove the demand for mortgages and auto loans. The Bank's total assets rose 6.2% YOY and 2.7% QOQ to AED 300.0 Bn in 2Q23, Customer deposits grew 4.2% YOY and 6.2% QOQ to AED 0.7 Bn in 2Q23 strengthening the liquidity position. CASA deposits increased from AED 79 Bn in 1Q23 to AED 81 Bn in 2Q23 and now comprise 39% of total deposits. In addition, total equity rose 7.9% YOY and 4.3% QOQ to AED 33.5 Bn in 2Q23.

## Target Price and Rating

We maintain our BUY rating on DIB with a target price of AED 7.00. The Bank recorded strong growth in net profit due to the solid growth in non-funded income which grew 25.6% YOY and 19.2% QOQ in 2Q23. The Bank's net advances declined 2.5% YOY but rose 2.4% QOQ to AED 189.5 Bn in 2Q23 while it further revised its net financing growth guidance upward of 2023 from 5% to 7.5%. The growth is mainly driven by an expansion of the Corporate and Retail loan book. DIB's deposits recorded a strong growth of 4.3% YOY to AED 210.7 Bn in 2Q23 resulting in a loan-to-deposit ratio of 89.9% in 2Q23 as compared to 93.3% in 1Q23. The Bank has enough room for loan growth due to strong liquidity. The Bank's NIMs declined 13 bps QOQ to 3.0% in 2Q23 due to higher cost of funds which pressurized the core business margins. However, DIB's asset quality improved as NPLs declined from 6.2% in 1Q23 to 6.1% in 2Q23 while provision remained flat at 74.3% in 2Q23. Stage 2 loans as a percentage of total loans increased to 9.2% in 2Q23 as compared to 8.0% in 1Q23 due to the transfer from other stages. The Bank's capitalization stood strong with a CAR of 17.9% and CET 1 ratio of 14.4% in 2Q23. DIB launched a new digital platform 'alt' that offers multiple digital banking solutions under one roof. The new digital platform offers over 135 banking services through DIB mobile app, WhatsApp, online banking, and ATMs. The launch of the new platform will further diversify the Bank's revenue sources with various product offerings. Thus, considering the above-mentioned factors, we maintain our BUY rating on the stock.

### DIB - Relative valuation

(at CMP)	2018	2019	2020	2021	2022	2023F
PE (x)	7.91	8.26	15.10	10.85	8.19	7.47
PB (x)	1.56	1.47	1.45	1.35	1.25	1.13
Dividend yield (%)	6.1%	6.1%	3.5%	4.4%	5.2%	5.7%

FABS Estimates & Co Data

### DIB - P&L

AED mm	2Q22	1Q23	2Q23	2Q23F	Var.	YOY Ch	QOQ Ch	2022	2023F	Change
Funded income	2,687	3,839	4,173	4,029	3.6%	55.3%	8.7%	11,739	16,503	40.6%
Funded expense	-677	-1,676	-2,054	-1,750	17.4%	203.4%	22.5%	-3,634	-7,328	101.6%
<b>Net funded income</b>	<b>2,010</b>	<b>2,163</b>	<b>2,119</b>	<b>2,279</b>	<b>-7.0%</b>	<b>5.4%</b>	<b>-2.0%</b>	<b>8,105</b>	<b>9,174</b>	<b>13.2%</b>
Fees & commissions	414	417	490	425	15.1%	18.3%	17.4%	1,601	1,665	4.0%
Other non-funded income	148	175	216	145	49.2%	46.0%	23.6%	762	586	-23.0%
<b>Non Funded Income</b>	<b>562</b>	<b>592</b>	<b>706</b>	<b>570</b>	<b>23.8%</b>	<b>25.6%</b>	<b>19.2%</b>	<b>2,363</b>	<b>2,251</b>	<b>-4.7%</b>
<b>Operating income</b>	<b>2,572</b>	<b>2,755</b>	<b>2,825</b>	<b>2,849</b>	<b>-0.9%</b>	<b>9.8%</b>	<b>2.5%</b>	<b>10,467</b>	<b>11,425</b>	<b>9.2%</b>
General expenses	-657	-742	-729	-750	-2.8%	10.9%	-1.7%	-2,733	-3,075	12.5%
<b>Pre-provisioning profit</b>	<b>1,915</b>	<b>2,013</b>	<b>2,096</b>	<b>2,099</b>	<b>-0.1%</b>	<b>9.5%</b>	<b>4.1%</b>	<b>7,734</b>	<b>8,350</b>	<b>8.0%</b>
Impairment charges	-531	-496	-463	-511	-9.5%	-12.8%	-6.8%	-2,103	-2,180	3.7%
<b>Profit before tax</b>	<b>1,384</b>	<b>1,517</b>	<b>1,633</b>	<b>1,588</b>	<b>2.9%</b>	<b>18.0%</b>	<b>7.7%</b>	<b>5,631</b>	<b>6,170</b>	<b>9.6%</b>
Tax	-29	-11	-28	-33	-15.3%	-2.8%	143.7%	-79	-99	24.6%
<b>Profit before NCI</b>	<b>1,355</b>	<b>1,506</b>	<b>1,605</b>	<b>1,555</b>	<b>3.3%</b>	<b>18.4%</b>	<b>6.6%</b>	<b>5,552</b>	<b>6,071</b>	<b>9.4%</b>
Non-controlling interests	-17	-28	-34	-29	16.2%	103.8%	22.1%	-77	-112	45.0%
<b>Profit for the period</b>	<b>1,339</b>	<b>1,478</b>	<b>1,571</b>	<b>1,525</b>	<b>3.0%</b>	<b>17.4%</b>	<b>6.3%</b>	<b>5,474</b>	<b>5,959</b>	<b>8.9%</b>

FABS estimate & Co Data

**DIB - KPI**

	2Q22	1Q23	2Q23	YOY Ch	QOQ Ch	2022	2023F	Change
Net FI/OI	78.2%	78.5%	75.0%	-314	-350	77.4%	80.3%	287
NIM	3.0%	3.2%	3.0%	1	-13	3.0%	3.4%	30
NIS	2.9%	2.8%	2.6%	-31	-21	2.8%	3.0%	11
Fees & commissions/OI	16.1%	15.1%	17.3%	124	220	15.3%	14.6%	-72
Other non-funded/OI	5.8%	6.3%	7.7%	190	131	7.3%	5.1%	-215
Cost to income	25.6%	26.9%	25.8%	25	-112	26.1%	26.9%	80
Impairment/PPP	27.7%	24.6%	22.1%	-564	-257	27.2%	26.1%	-108
NCI/PBT	1.2%	1.8%	2.1%	89	27	1.4%	1.9%	46
NP/OI	52.0%	53.6%	55.6%	358	199	52.3%	52.2%	-15
ROAA	1.8%	1.9%	2.0%	16	4	1.9%	2.0%	11
ROAE	17.0%	17.3%	17.9%	85	60	17.2%	17.1%	-9

FABS estimate & Co Data

**DIB - Key B/S items**

AED mm	2Q22	3Q22	4Q22	1Q23	2Q23	YOY Ch
<b>Net advances</b>	194,359	187,231	186,043	185,016	189,501	-2.5%
QOQ ch	1.9%	-3.7%	-0.6%	-0.6%	2.4%	
<b>Total assets</b>	282,218	274,856	288,238	291,984	299,762	6.2%
QOQ ch	-1.7%	-2.6%	4.9%	1.3%	2.7%	
<b>Customer deposits</b>	202,214	186,512	198,637	198,302	210,684	4.2%
QOQ ch	-1.1%	-7.8%	6.5%	-0.2%	6.2%	
<b>Total Common Equity</b>	31,024	32,230	33,039	32,078	33,465	7.9%
QOQ ch	3.6%	3.9%	2.5%	-2.9%	4.3%	

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	7.53	70.0%	5.27
Relative Valuation (RV)	5.77	30.0%	1.73
<b>Weighted Average Valuation (AED)</b>			<b>7.00</b>
Current market price (AED)			5.73
Upside/Downside (%)			+22.2%

### 1) Residual Income Method:

We have discounted the economic profit/excess equity using the cost of equity of 8.5%. Cost of equity is calculated by using 10-year government bond yield of 5.1%, beta of 1.00 and equity risk premium of 3.4%. 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)	8,887
Terminal value (AED, Mn)	20,423
Book Value of Equity (as of June 2023)	25,201
<b>FV to Common shareholders (AED, Mn)</b>	<b>54,511</b>
No. of share (Mn)	7,241
Current Market Price (AED)	5.73
<b>Fair Value per share (AED)</b>	<b>7.53</b>

### Residual Income Method

(All Figures in AED Mn)	FY 2023E	FY 2024E	FY 2025E	FY 2026E	FY 2027E
Net Profit	5,555	4,639	4,678	4,730	5,155
(-) Equity Charge	(2,409)	(2,635)	(2,845)	(3,060)	(3,286)
<b>Excess Equity</b>	<b>3,146</b>	<b>2,004</b>	<b>1,833</b>	<b>1,670</b>	<b>1,868</b>
Discounting Factor	0.97	0.89	0.82	0.76	0.70
<b>Present Value of Excess Equity</b>	<b>3,037</b>	<b>1,783</b>	<b>1,503</b>	<b>1,262</b>	<b>1,301</b>

Source: FAB Securities

## 2) Relative Valuation:

We have used local peers to value DIB and it is valued using the PB multiple. It is valued at a PB multiple of 1.1x 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	3,823	1.1	1.1	10.8	9.5	4.8	5.3
Abu Dhabi Islamic Bank	11,025	2.0	1.8	9.9	10.2	5.4	5.3
Emirates NBD	27,969	1.1	1.0	5.8	6.9	4.5	4.5
Abu Dhabi Commercial Bank	16,395	1.0	0.9	8.3	9.1	6.1	5.2
First Abu Dhabi Bank	41,361	1.3	1.2	10.8	11.3	4.2	4.3
<b>Average</b>		<b>1.3x</b>	<b>1.2x</b>	<b>9.1x</b>	<b>9.4x</b>	<b>5.0%</b>	<b>4.9%</b>
<b>Median</b>		<b>1.1x</b>	<b>1.1x</b>	<b>9.9x</b>	<b>9.5x</b>	<b>4.8%</b>	<b>5.2%</b>
<b>Max</b>		<b>1.3x</b>	<b>1.2x</b>	<b>10.8x</b>	<b>10.2x</b>	<b>5.4%</b>	<b>5.3%</b>
<b>Min</b>		<b>1.1x</b>	<b>1.0x</b>	<b>8.3x</b>	<b>9.1x</b>	<b>4.5%</b>	<b>4.5%</b>

Source: FAB Securities

