

Dubai Islamic Bank (DIB)

Strong growth in non-funded income and healthy asset quality supported profitability

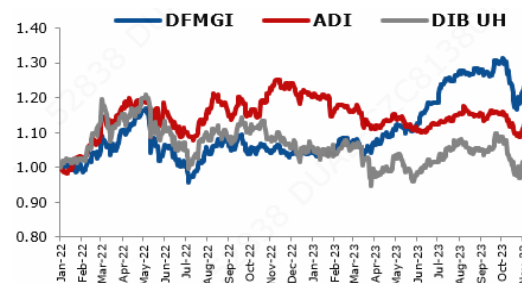
Current Price
AED 5.49

Target Price
AED 7.00

Upside/Downside (%)
+27.5%

Rating
BUY

- DIB's net funded income grew strongly 49.0% YOY in 3Q23 primarily due to strong growth in fees and commission income and strong rise in income from investment properties
- DIB's net financing and Sukuk investment rose 11.3% YTD to AED 265 Bn, compared to AED 238 Bn in 2022.
- DIB's Corporate loan book grew 8.2% YTD to AED 145 Bn while, Consumer financing grew 4% YTD to AED 54 Bn
- The Bank's NPL ratio declined to 5.8% in 3Q23. The provision coverage ratio also improved to 77.2% in 3Q23 from 74.3% in 2Q23 whereas provision including collateral stood at 117% in 3Q23 as compared to 113% in 2Q23



3Q23 Net Profit in line with our estimate

Dubai Islamic Bank ("DIB", "The Bank") recorded 19.7% YOY growth in net profit to AED 1,648 Mn in 3Q23, in line with our estimate of AED 1,664 Mn. The growth in net profit is mainly attributable to strong rise in the net funded and non-funded income along with lower impairments partially offset by a growth in operating expenses.

P&L Highlights

Funded income grew 44.6% YOY to AED 4,501 Mn in 3Q23 due to an increase in asset yield and strong growth in net financing. The Bank's asset yield rose 145 bps YOY and 23 bps QOQ to 6.2% in 3Q23. While net financing grew 6.3% YOY to AED 199 Bn in 3Q23. Funded expenses grew significantly from AED 994 Mn in 3Q22 to AED 2,271 Mn in 3Q23 due to an increase in the cost of funds owing to higher benchmark rates. Thus, net funded income rose 5.3% YOY to AED 2,230 Mn in 3Q23. DIB's NIMs declined 16 bps YOY and grew 4 bps QOQ to 3.1% in 3Q23. The Bank's fees and commission income grew 16.7% YOY to AED 385 Mn in 3Q23 driven by higher financing processing fees. Whereas other non-funded income rose strongly from AED 165 Mn in 3Q22 to AED 352 Mn in 3Q23 supported by strong rise from income from investment properties owing to Dubai's robust property rental market along with rise in other operating income. Thus, non-funded income recorded a strong growth of 49.0% YOY to AED 737 Mn in 3Q23. As a result, operating profit rose 13.5% YOY to AED 2,967 Mn in 3Q23. Additionally, operating expenses grew 15.4% YOY to AED 791 Mn in 3Q23 due to an increase in G&A and personal expenses. However, the cost-to-income ratio grew marginally 43 bps YOY to 26.6% in 3Q23. Furthermore, impairments declined 10.5% YOY to AED 450 Mn in 3Q23. Tax expenses declined 44.0% YOY to AED 14 Mn in 3Q23. While, share of profit attributable to non-controlling interest holders increased from AED 24 Mn in 3Q22 to AED 65 Mn in 2Q23.

3Q23 Result Review (AED, mm)

Total Assets	313,380
Total Liabilities	267,371
Total Common Equity	34,948
Total Deposits	220,917
Net Profit	1,648

Financial Ratios

Dividend Yield (12m)	5.46
Dividend Pay-out (%)	42.94
Price-Earnings Ratio(x)	6.98
Price-to-Book Ratio (x)	1.14
Book Value (AED)	4.84
Return-on Equity (%)	16.97

5 Days	-0.90%
1 Months	1.48%
3 Months	-2.14%
6 Months	3.00%
1 Year	-5.02%
Month to Date (MTD%)	1.67%
Quarter to Date (QTD%)	-6.15%
Year to Date (YTD%)	-3.68%

Balance Sheet Highlights

DIB's net advances grew 6.3% YOY and 5.0% QOQ to AED 199 Bn in 3Q23 driven by growth in the corporate and retail loan book. The new origination rose 60% YOY to AED 53 Bn during 9M2023 supported by AED 37 Bn in new financing to corporate segment and AED 16 Bn in financing to Consumer Segment. Corporate loan book was driven by healthy demand for credit from large corporates and regional cross-border financing. The growth in the Bank's Consumer loan book was supported by higher lending to personal finance and auto finance. DIB's recorded continued to record the routine repayments and early settlements of AED 28 Bn and AED 26 Bn from the corporate and consumer segment, respectively in 9M23. The Bank's total assets rose 14.0% YOY and 4.5% QOQ to AED 313 Bn in 3Q23. Customer deposits grew 18.4% YOY and 4.9% QOQ to AED 221 Bn in 3Q23 strengthening the liquidity position. CASA deposits increased from AED 81 Bn in 2Q23 to AED 82 Bn in 3Q23 and now comprise 37% of total deposits. In addition, total equity rose 8.4% YOY and 4.4% QOQ to AED 35 Bn in 3Q23.

Target Price and Rating

We maintain our BUY rating on DIB with a target price of AED 7.00. The Bank recorded growth in profitability during 3Q23 attributable to the significant 49.0% YOY growth in non-funded income and decline in impairment charges. The growth in non-funded income was primarily fueled by a strong rise in fees and commission income and growth in income from investment properties owing to a robust property rental market. The Bank's net advances grew 6.3% YOY and 5.0% QOQ to AED 199 Bn in 3Q23 supported by expansion in the Corporate and Retail loan book. The Bank's Corporate loan book grew 8.2% YTD to AED 145 Bn owing to an increase in services coupled with growth in financial institutions and automobile sector. The Consumer financing grew 4% YTD to AED 54 Bn supported by a growth in personal and auto finance. DIB's financing to the real estate sector dropped further in the 3Q23, falling below 18%, below its target of 20% in 2023. DIB's deposits recorded a strong growth of 18.4% YOY and 4.9% QOQ to AED 221 Bn in 3Q23 resulting in a loan-to-deposit ratio of 90.1% in 3Q23 as compared to 89.9% in 2Q23. The Bank has enough room for loan growth due to strong liquidity. The Bank's NIMs declined 16 bps YOY to 3.1% in 3Q23 due to higher cost of funds which pressurized the core business margins. However, it remained in line with DIB's target of 3.0% in 2023. The Bank's cost of risk continued to decline 6 bps QOQ to 0.89% indicating strong credit quality. Furthermore, DIB's asset quality improved as NPLs declined from 6.1% in 2Q23 to 5.8% in 3Q23. The Bank's provision coverage rose to 77.2% in 3Q23, compared to 74.3% in 2Q23. While total coverage including collateral stood at 117% in 3Q23 as compared to 113% in 2Q23. Stage 2 loans as a percentage of total loans increased to 8.8% in 3Q23 as compared to 9.2% in 2Q23. DIB's capitalization also stood strong with a CAR of 18.1% and CET 1 ratio of 13.6% in 3Q23. DIB offers one of the highest dividend yields in the UAE Banking sector of 6.0% in 2023 compared to sector average of 5.2% in 2023. 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	7.63	7.97	14.57	10.47	7.90	6.80
PB	1.51	1.42	1.39	1.30	1.21	1.08
Dividend yield	6.4%	6.4%	3.6%	4.5%	5.4%	6.0%

FABS Estimates & Co Data

DIB – P&L

AED mm	3Q22	2Q23	3Q23A	3Q23F	VAR	YOY Ch	QOQ Ch	2022	2023F	Change
Funded income	3,112	4,173	4,501	4,416	1.9%	44.6%	7.9%	11,739	17,395	48.2%
Funded expense	-994	-2,054	-2,271	-2,176	4.4%	128.5%	10.6%	-3,634	-8,395	131.0%
Net funded income	2,119	2,119	2,230	2,240	-0.5%	5.3%	5.3%	8,105	9,000	11.0%
Fees & commissions	330	490	385	480	-19.7%	16.7%	-21.3%	1,601	1,841	15.0%
Other non-funded income	165	216	352	231	52.4%	113.7%	62.6%	762	586	-23.0%
Non-Funded Income	495	706	737	711	3.7%	49.0%	4.4%	2,363	2,427	2.7%
Operating income	2,613	2,825	2,967	2,951	0.5%	13.5%	5.0%	10,467	11,427	9.2%
General expenses	-685	-729	-791	-723	9.4%	15.4%	8.5%	-2,733	-2,897	6.0%
Pre-provisioning profit	1,928	2,096	2,177	2,228	-2.3%	12.9%	3.9%	7,734	8,530	10.3%
Impairment charges	-502	-463	-450	-500	-10.0%	-10.5%	-2.7%	-2,103	-2,013	-4.3%
Profit before tax	1,426	1,633	1,727	1,729	-0.1%	21.1%	5.7%	5,631	6,518	15.7%
Tax	-25	-28	-14	-31	-53.8%	-44.0%	-49.6%	-79	-104	31.6%
Profit before NCI	1,401	1,605	1,713	1,698	0.8%	22.3%	6.7%	5,552	6,413	15.5%
Non-controlling interests	-24	-34	-65	-34	NM	NM	NM	-77	-119	53.2%
Profit for the period	1,377	1,571	1,648	1,664	-1.0%	19.7%	4.9%	5,474	6,295	15.0%

FABS estimate & Co Data
DIB - KPI

	3Q22	2Q23	3Q23	YOY Ch	QOQ Ch	2022	2023F	Change
Net FI/OI	81.1%	75.0%	75.9%	-515	91	77.4%	78.8%	133
NIM	3.2%	3.0%	3.1%	-16	4	3.0%	3.3%	21
NIS	3.0%	2.6%	2.6%	-43	2	2.8%	2.8%	-1
Fees & commissions/OI	12.6%	17.3%	16.3%	363	-107	15.3%	16.1%	82
Other non-funded/OI	6.3%	7.7%	7.8%	152	17	7.3%	5.1%	-215
Cost to income	26.2%	25.8%	24.5%	-172	-131	26.1%	25.3%	-76
Impairment/PPP	26.1%	22.1%	22.4%	-363	35	27.2%	23.6%	-360
NCI/PBT	1.7%	2.1%	2.0%	29	-12	1.4%	1.9%	46
NP/OI	52.7%	55.6%	56.4%	371	77	52.3%	55.1%	279
ROAA	1.9%	2.0%	2.0%	7	2	1.9%	2.1%	21
ROAE	16.9%	17.9%	17.9%	97	4	17.2%	18.0%	79

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

AED mm	3Q22	4Q22	1Q23	2Q23	3Q23	YOY Ch
Net advances	187,231	186,043	185,016	189,501	199,003	6.3%
QOQ ch	-3.7%	-0.6%	-0.6%	2.4%	5.0%	
Total assets	274,856	288,238	291,984	299,762	313,380	14.0%
QOQ ch	-2.6%	4.9%	1.3%	2.7%	4.5%	
Customer deposits	186,512	198,637	198,302	210,684	220,917	18.4%
QOQ ch	-7.8%	6.5%	-0.2%	6.2%	4.9%	
Total equity	32,230	33,039	32,078	33,465	34,948	8.4%
QOQ ch	3.9%	2.5%	-2.9%	4.3%	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	7.49	70.0%	5.24
Relative Valuation (RV)	5.87	30.0%	1.76
Weighted Average Valuation (AED)			7.00
Current market price (AED)			5.49
Upside/Downside (%)			+27.5%

1) Residual Income Method:

We have discounted the economic profit/excess equity using the cost of equity of 9.1%. Cost of equity is calculated by using 10-year government bond yield of 5.0%, beta of 1.00 and equity risk premium of 4.0%. 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)	5,423
Terminal value (AED, Mn)	13,835
Book Value of Equity (as of Sept 2023)	34,948
FV to Common shareholders (AED, Mn)	54,206
No. of share (Mn)	7,241
Current Market Price (AED)	5.49
Fair Value per share (AED)	7.49

Residual Income Method

(All Figures in AED Mn)	FY 2023E	FY 2024E	FY 2025E	FY 2026E	FY 2027E
Net Profit	5,891	5,637	5,507	5,624	5,989
(-) Equity Charge	-3,355	-3,686	-3,986	-4,297	-4,614
Excess Equity	423	1,951	1,521	1,327	1,374
Discounting Factor	0.99	0.91	0.83	0.76	0.70
Present Value of Excess Equity	418	1,769	1,264	1,011	960

Source: FAB Securities

2) Relative Valuation:

We have used local and international peers to value DIB and it is valued using the PB multiple. It is valued at a PB multiple of 1.2x 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	3,747	1.0	1.0	NA	NA	5.6	6.0
Abu Dhabi Islamic Bank	9,928	1.9	1.7	8.8	9.1	6.5	5.8
Emirates NBD	27,520	1.0	0.9	4.7	5.6	5.2	5.2
Alinma Bank	37,400	2.2	2.1	14.0	12.5	3.8	4.2
First Abu Dhabi Bank	3,747	1.0	1.0	9.1	9.5	4.8	4.7
Average		1.4x	1.4x	9.2x	9.2x	5.2%	5.2%
Median		1.2x	1.1x	9.0x	9.3x	5.2%	5.2%
Max		1.9x	1.7x	10.3x	10.3x	5.6%	5.8%
Min		1.0x	1.0x	7.8x	8.2x	4.8%	4.7%

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%

FAB Securities Contacts:

Research Analyst

Ahmad Banihani +971-2-6161629 ahmad.banihani@Bankfab.com

Sales & Execution

Abu Dhabi Head Office

Trading Desk +971-2-6161700/1 Online Trading Link
+971-2-6161777

Institutional Desk +971-4-4245765

DISCLAIMER

This report has been prepared by FAB Securities (FABS), which is authorised by the UAE Securities and Commodities Authority, licensing registration number 604002, and is a member of the Abu Dhabi Securities Exchange and Dubai Financial Market. The information, opinions and materials contained in this report are provided for information purposes only and are not to be used, construed, or considered as an offer or the solicitation of an offer or recommendation to sell or to buy or to subscribe for any investment security or other financial instrument. The information, opinions and material in this report have been obtained and derived from publicly available information and other sources considered reliable without being independently verified for their accuracy or completeness. FABS gives no representation or warranty, express or implied, as to the accuracy and completeness of information and opinions expressed in this report. Opinions expressed are current as of the original publication date appearing on the report only and the information, including the opinions contained herein, are subject to change without notice. FABS is under no obligation to update this report. The investments referred to in this report might not be suitable for all recipients. Recipients should not base their investment decisions on this report and should make their own investigations, and obtain independent advice, as appropriate. Any loss or other consequences arising from the uses of material contained in this report shall be the sole and exclusive responsibility of the recipient and FABS accepts no liability for any such loss or consequence. The value of any investment could fall as well as rise and the investor may receive less than the original amount invested. Some investments mentioned in this report might not be liquid investments, which could be difficult to realise in cash. Some investments discussed in this report could be characterised by high level of volatility, which might result in loss. FABS owns the intellectual property rights and any other material contained in this report. No part of this report may be reproduced, utilised or modified in any form either in whole or in part or by any electronic, mechanical or other means, now known or hereafter invented, including photocopying and recording, or stored in any retrieval system without the prior consent of FABS in writing. While utmost care has been taken to ensure that the information provided is accurate and correct, neither FABS, nor its employees shall, in any way, be responsible for the contents. By accepting this document, the recipient agrees he/she has read the above disclaimer and to be bound by the foregoing limitations/restrictions.