

Dubai Islamic Bank (DIB)

Strong non-funded growth and reversals in impairments supported profitability

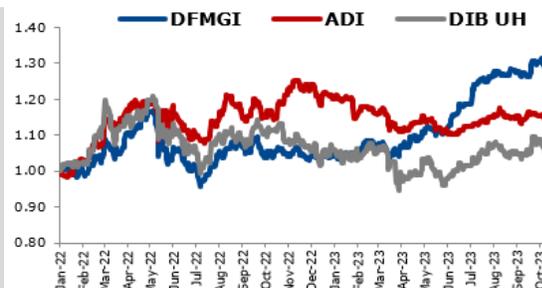
Current Price
AED 6.36

Target Price
AED 7.00

Upside/Downside (%)
+10%

Rating
ACCUMULATE

- DIB's non-funded income grew strongly 48.3% YOY to AED 881 Mn in 4Q23 primarily due to a rise in other operating income owing to the one-off gains, growth in income from investment properties, and increase in the share of profit from associates.
- The Bank recorded a reversal in impairments of AED 13 Mn in 4Q23 compared to impairments charges of AED 653 Mn in 4Q22.
- Net financing and Sukuk investment grew 12.0% to AED 267 Bn in 2023, compared to AED 238 Bn in 2022.
- NPL ratio declined from 5.8% in 3Q23 to 5.2% in 4Q23. Stage 2 loans as a percentage of total loans also declined to 6.9% in 4Q23 as compared to 8.8% in 3Q23.



Stock Information

Market Cap (AED, Mn)	46,195.95
Paid Up Capital (Mn)	7,240.74
52 Week High	6.44
52 Week Low	5.10
3M Avg. daily value(AED)	29,671,100

4Q23 Net Profit higher than our estimate

Dubai Islamic Bank ("DIB", "The Bank") recorded 47.1% YOY growth in net profit to AED 2,101 Mn in 4Q23, higher than our estimate of AED 1,685 Mn. The rise in net profit is primarily attributed by solid growth recorded in the non-funded income along with a reversal in impairments partially offset by a growth in operating expenses.

P&L Highlights

Funded income grew 29.7% YOY to AED 4,714 Mn in 4Q23 due to an increase in asset yield and strong growth in net financing. The Bank's asset yield rose 84 bps YOY and 14 bps QOQ to 6.4% in 4Q23, while net financing grew 7.2% YOY to AED 199 Bn in 4Q23. Funded expenses grew significantly from AED 1,414 Mn in 4Q22 to AED 2,477 Mn in 4Q23 due to an increase in the cost of funds owing to higher benchmark rates. Thus, net funded income grew 0.7% YOY to AED 2,237 Mn in 4Q23. DIB's NIMs declined 35 bps YOY and 6 bps QOQ to 3.0% in 4Q23. The Bank's fees and commission income grew 37.7% YOY to AED 502 Mn in 4Q23 driven by higher financing processing fees, whereas other non-funded income rose strongly from AED 229 Mn in 4Q22 to AED 378 Mn in 4Q23 supported by strong rise from income from investment properties owing to Dubai's robust property rental market along with rise in other operating income owing to the one-off gains and increase in share of profit from associates. Thus, non-funded income recorded a strong growth of 48.3% YOY to AED 881 Mn in 4Q23. As a result, operating profit grew 10.8% YOY to AED 3,118 Mn in 4Q23. Additionally, operating expenses rose 29.9% YOY to AED 900 Mn in 4Q23 due to an increase in G&A and personal expenses. Resultantly, the cost-to-income ratio grew 425 bps YOY to 28.9% in 4Q23. Furthermore, the Bank recorded a reversal in impairments charges of AED 13 Mn in 4Q23 compared to impairments

4Q23 Result Review (AED, Mn)

Total Assets	314,292
Total Liabilities	266,857
Total Equity	36,293
Total Deposits	222,054
Net Profit	2,101

Financial Ratios

Dividend Yield (12m)	4.69
Dividend Pay-out (%)	51.03
Price-Earnings Ratio(x)	7.27
Price-to-Book Ratio (x)	1.27
Book Value (AED)	5.02
Return-on Equity (%)	18.38

Stock Performance

5 Days	2.08%
1 Months	10.00%
3 Months	16.85%
6 Months	10.57%
1 Year	14.54%
Month to Date (MTD%)	0.95%
Quarter to Date (QTD%)	11.54%
Year to Date (YTD%)	11.54%

charges of AED 653 Mn in 4Q22 primarily due to the settlement of large legacy accounts. Tax expenses grew from AED 18 Mn in 4Q22 to AED 44 Mn in 4Q23, while share of profit attributable to non-controlling interest holders grew from AED 22 Mn in 4Q22 to AED 86 Mn in 4Q23.

Balance Sheet Highlights

DIB's net advances grew 7.2% YOY and 0.2% QOQ to AED 199 Bn in 4Q23 driven by growth in the corporate and retail loan book. The Bank's Corporate loan book grew primarily due to an increase in lending to utilities, automobile, services and financial institutional sectors, while Corporate loan book was supported by higher lending to SME, auto finance and personal finance. DIB's continued to record the routine repayments and early settlements of AED 23 Bn and AED 17 Bn from the corporate and consumer segment, respectively in 4Q23. In addition, the sukuk investment portfolio grew 31% YOY to AED 68 Bn in 4Q23 and now accounts for 22% of Bank's total assets. The Bank's total assets grew 9.0% YOY and 0.3% QOQ to AED 314 Bn in 4Q23. Customer deposits grew 11.8% YOY and 0.5% QOQ to AED 222 Bn in 4Q23 strengthening the liquidity position. CASA deposits now account for 37% of total deposits as of 4Q23. In addition, total equity grew 9.8% YOY and 3.9% QOQ to AED 36 Bn in 4Q23.

Target Price and Rating

We revise our rating from BUY to ACCUMULATE on DIB with an unchanged target price of AED 7.00. DIB's stock price grew 7.6% since our last rating. The Bank recorded strong growth in profitability primarily due to the solid 48.3% YOY growth in non-funded income and the reversal of impairment charges during 4Q23. Net advances grew 7.2% YOY to AED 199 Bn in 2023 supported by expansion in the Corporate and Retail loan book. Retail loan book grew 7% YOY to AED 143 Bn in 4Q23 driven by strong growth in lending to utilities, automobile, services and financial sectors, while corporate loan book grew 8% YOY to AED 56 Bn in 2023 due to growth in lending across all the sectors. In addition, the Bank's sukuk investment portfolio grew 31% to AED 68 Bn and now accounts 22% of Bank's total assets in 2023. DIB's deposits recorded a strong growth of 11.8% to AED 222 Bn in 2023 with CASA balance now accounting for 37% of total deposits. NIMs declined 35 bps YOY and 6 bps QOQ to 3.0% in 4Q23 due to higher cost of funds, which pressurized the core business margins. The Bank's NIMs are expected to moderate in 2024 due to higher exposure of corporate loans which will be partially offset by quick repricing as 63% of deposits are fixed. The Bank recorded a reversal of impairments in 4Q23 due to the settlement of large legacy accounts which supported profitability. Furthermore, DIB's asset quality improved as NPLs declined from 5.8% in 3Q23 to 5.2% in 4Q23. Stage 2 loans as a percentage of total loans also declined to 6.9% in 4Q23 as compared to 8.8% in 3Q23. Provision coverage also strengthened from 77.2% in 3Q23 to 82.7% in 4Q23. DIB's capitalization also stood strong with a CAR of 17.3% and CET 1 ratio of 12.8% in 4Q23. The Bank's board of directors also proposed a dividend of 45 fils per share, leading to an attractive dividend yield of 7.1% in 2023. Thus, based on the above-mentioned factors, we assign an ACCUMULATE rating on the stock.

DIB - Relative valuation

(at CMP)	2019	2020	2021	2022	2023	2024F
PE	9.14	16.71	12.00	9.06	7.18	7.93
PB	1.63	1.60	1.50	1.39	1.26	1.17
Dividend yield	5.5%	3.2%	4.0%	4.7%	7.1%	7.1%

FABS Estimates & Co Data

DIB – P&L

AED Mn	4Q22	3Q23	4Q23	4Q23F	VAR	YOY Ch	QOQ Ch	2022	2023	Change
Funded income	3,635	4,501	4,714	4,897	-3.8%	29.7%	4.7%	11,739	17,227	46.7%
Funded expense	-1,414	-2,271	-2,477	-2,424	2.2%	75.1%	9.0%	-3,634	-8,477	133.3%
Net funded income	2,220	2,230	2,237	2,473	-9.6%	0.7%	0.3%	8,105	8,749	8.0%
Fees & commissions	365	385	502	421	19.4%	37.7%	30.3%	1,601	1,795	12.1%
Other non-funded income	229	352	378	242	56.0%	65.3%	7.6%	762	1,121	47.2%
Non-Funded Income	594	737	881	663	32.8%	48.3%	19.5%	2,363	2,916	23.4%
Operating income	2,814	2,967	3,118	3,136	-0.6%	10.8%	5.1%	10,467	11,665	11.4%
General expenses	-693	-791	-900	-764	17.7%	29.9%	13.8%	-2,733	-3,162	15.7%
Pre-provisioning profit	2,121	2,177	2,218	2,372	-6.5%	4.5%	1.9%	7,734	8,503	9.9%
Impairment charges	-653	-450	13	-616	NM	NM	NM	-2,103	-1,396	-33.6%
Profit before tax	1,469	1,727	2,230	1,756	27.0%	51.9%	29.2%	5,631	7,108	26.2%
Tax	-18	-14	-44	-19	NM	NM	NM	-79	-98	23.2%
Profit before NCI	1,451	1,713	2,186	1,737	25.9%	50.7%	27.7%	5,552	7,010	26.3%
Non-controlling interests	-22	-65	-86	-53	63.0%	NM	31.8%	-77	-212	NM
Profit for the period	1,429	1,648	2,101	1,685	24.7%	47.1%	27.5%	5,474	6,798	24.2%

FABS estimate & Co Data

DIB - KPI

	4Q22	3Q23	4Q23	YOY Ch	QOQ Ch	2022	2023	Change
Net FI/OI	78.9%	75.2%	71.8%	-715	-341	77.4%	75.0%	-242
NIM	3.4%	3.1%	3.0%	-35	-6	3.0%	3.1%	3
NIS	3.0%	2.6%	2.5%	-55	-10	2.8%	2.6%	-24
Fees & commissions/OI	13.0%	13.0%	16.1%	315	313	15.3%	15.4%	9
Other non-funded/OI	8.1%	11.9%	12.1%	400	28	7.3%	9.6%	233
Cost to income	24.6%	26.6%	28.9%	425	222	26.1%	27.1%	99
Impairment/PPP	30.8%	20.7%	-0.6%	-3,134	-2,124	27.2%	16.4%	-1,077
NCI/PBT	1.5%	3.8%	3.9%	238	12	1.4%	3.0%	163
NP/OI	50.8%	55.5%	67.4%	1,662	1,186	52.3%	58.3%	597
ROAA	1.9%	2.0%	2.2%	22	17	1.9%	2.3%	33
ROAE	16.8%	17.9%	19.1%	231	118	17.2%	19.6%	240

FABS estimate & Co Data

DIB - Key B/S items

AED Mn	4Q22	1Q23	2Q23	3Q23	4Q23	YOY Ch
Net advances	186,043	185,016	189,501	199,003	199,453	7.2%
QOQ ch	-0.6%	-0.6%	2.4%	5.0%	0.2%	
Total assets	288,238	291,984	299,762	313,380	314,292	9.0%
QOQ ch	4.9%	1.3%	2.7%	4.5%	0.3%	
Customer deposits	198,637	198,302	210,684	220,917	222,054	11.8%
QOQ ch	6.5%	-0.2%	6.2%	4.9%	0.5%	
Total equity	33,039	32,078	33,465	34,948	36,293	9.8%
QOQ ch	2.5%	-2.9%	4.3%	4.4%	3.9%	

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%	5.18
Relative Valuation (RV)	5.87	30.0%	1.82
Weighted Average Valuation (AED)			7.00
Current market price (AED)			6.36
Upside/Downside (%)			+10%

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)	6,624
Terminal value (AED, Mn)	10,619
Book Value of Equity (as of Dec 2023)	36,293
FV to Common shareholders (AED, Mn)	53,536
No. of share (Mn)	7,241
Current Market Price (AED)	6.36
Fair Value per share (AED)	7.39

Residual Income Method

(All Figures in AED Mn)	FY 2024E	FY 2025E	FY 2026E	FY 2027E	FY 2028E
Net Profit	5,791	5,656	5,657	5,626	5,649
(-) Equity Charge	-3,531	-3,783	-4,035	-4,285	-4,536
Excess Equity	2,260	1,873	1,622	1,342	1,113
Discounting Factor	0.92	0.85	0.78	0.71	0.65
Present Value of Excess Equity	2,088	1,588	1,261	958	729

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	4,064	1.1	NA	NA	NA	5.5	6.0
Abu Dhabi Islamic Bank	10,107	1.7	1.6	8.9	8.3	5.9	6.2
Emirates NBD	30,184	1.0	0.9	6.1	6.0	4.9	4.9
Abu Dhabi Commercial Bank	17,714	1.0	0.9	8.6	8.4	5.8	5.9
First Abu Dhabi Bank	45,700	1.4	1.3	11.4	11.4	4.0	4.2
Average		1.2x	1.2x	8.7x	8.5x	5.2%	5.4%
Median		1.1x	1.1x	8.7x	8.3x	5.5%	5.9%
Max		1.4x	1.4x	9.5x	9.1x	5.8%	6.0%
Min		1.0x	0.9x	8.0x	7.7x	4.9%	4.9%

Source: FAB Securities

