

## Dubai Islamic Bank (DIB)

Impairments reversals boosted the bottom line

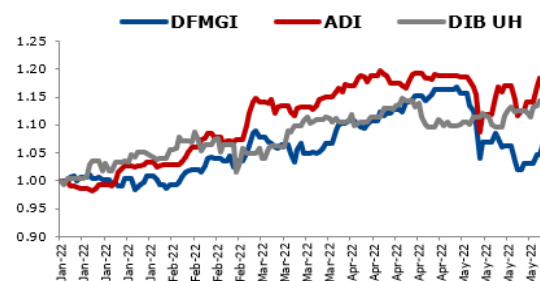
**Current Price**  
AED 6.37

**Target Price**  
AED 7.25

**Upside/Downside (%)**  
+14%

**Rating**  
**ACCUMULATE**

- Net financing and Sukuk investment grew from AED 278 Bn in 2Q24 to AED 286 Bn in 3Q24.
- The Bank expects the loan book to grow and surpass the year-end guidance, driven by a strong underwriting pipeline.
- DIB's non-funded income grew 19.8% YOY to 883 Mn in 3Q24, primarily due to higher share of associates profit and other income partially offset by decline in fees and commissions.
- Asset quality remained strong as the (reported) NPL ratio declined from 5.0% in 2Q24 to 4.3% in 3Q24, while (reported) coverage also grew from 95.0% in 2Q24 to 97.0% in 3Q24.
- The Bank recorded impairments reversals of AED 123 in 3Q24 compared to impairment charges of AED 450 in 3Q23.



### 3Q24 Net Profit higher than our estimate

Dubai Islamic Bank ("DIB", "The Bank") net profit grew 23.2% YOY to AED 2,030 Mn in 3Q24, higher than our estimate of AED 1,505 Mn. The growth in net profit is primarily driven by impairments recovery coupled with increase in non-funded income, partially offset by growth in operating expenses and income tax charges.

### P&L Highlights

Funded income grew 7.1% YOY to AED 4,820 Mn in 3Q24, mainly due to an increase in net financing and the Sukuk portfolio. Net financing and Sukuk portfolio grew 7.7% on a 2024 YTD basis to AED 286 Bn in 3Q24. Funded expenses grew significantly from AED 2,271 Mn in 3Q23 to AED 2,676 Mn in 3Q24 due to higher cost of funds. Thus, net funded income declined 3.9% YOY to AED 2,144 Mn in 3Q24. NIMs declined 30 bps YOY to 2.8% in 3Q24. The Bank's fees and commission income declined 14.4% YOY to AED 330 Mn in 3Q24. Other non-funded income grew strongly from AED 352 Mn in 3Q23 to AED 553 Mn in 3Q24, attributed to increased share of associates profit, higher income from property under construction and other income. Thus, non-funded income recorded a strong growth of 19.8% YOY to AED 883 Mn in 3Q24. As a result, operating profit grew 2.0% YOY to AED 3,027 Mn in 3Q24. General expenses rose 9.9% YOY to AED 869 Mn in 3Q24. Resultantly, the cost-to-income ratio grew 205 bps YOY to 28.7% in 3Q24. Furthermore, the Bank reported impairment reversals of AED 123 Mn in 3Q24 compared to impairment charges of AED 450 Mn in 3Q23, primarily due to ongoing recoveries. Tax expenses grew from AED 14 Mn in 3Q23 to AED 210 Mn in 3Q24 owing to the introduction of corporate tax in the UAE. Share of profit attributable to non-controlling interest holders declined from AED 65 Mn in 3Q23 to AED 41 Mn in 3Q24.

### Stock Information

Market Cap (AED, mn)	46,195.95
Paid Up Capital (mn)	7,240.74
52 Week High	6.55
52 Week Low	5.45
3M Avg. daily value(AED)	28,402,220

### 3Q24 Result Review (AED, mn)

Total Assets	329,169
Total Liabilities	280,205
Total Equity	37,755
Total Deposits	236,868
Net Profit	2,030

### Financial Ratios

Dividend Yield (12m)	7.05
Dividend Pay-out (%)	51.03
Price-Earnings Ratio(x)	6.61
Price-to-Book Ratio (x)	1.22
Book Value (AED)	5.22
Return-on Equity (%)	19.19

### Stock Performance

5 Days	2.08%
1 Months	4.42%
3 Months	9.43%
6 Months	12.92%
1 Year	15.16%
Month to Date (MTD%)	2.08%
Quarter to Date (QTD%)	1.27%
Year to Date (YTD%)	11.54%

### Balance Sheet Highlights

DIB's net advances grew 3.9% YOY and 3.8% QOQ to AED 207 Bn in 3Q24, mainly due to new underwritings. The Bank's consumer segment grew to AED 61 Bn in 3Q24, primarily due to increased personal finance, auto finance, home finance and credit cards. DIB continued to record the routine repayments in the consumer segment of AED 14.4 Bn in 3Q24, while the portfolio's net new underwriting grew from AED 3.1 Bn in 9M23 to AED 5.1 Bn in 9M24. In addition, the Bank's corporate segment grew to AED 146 Bn in 3Q24. The Sukuk investment portfolio grew 19.2% YOY to AED 79 Bn in 3Q24. The Bank's total assets grew 5.0% YOY and 2.0% QOQ to AED 329 Bn in 3Q24. Customer deposits grew 2.2% YOY and 1.2% QOQ to AED 237 Bn in 3Q24. CASA deposits contribution remained at 38% in 3Q24 compared to 37% in 3Q23. In addition, total equity grew 2.2% YOY and 4.8% QOQ to AED 38 Bn in 3Q24.

### Target Price and Rating

We revise our rating from BUY to ACCUMULATE on DIB with an unchanged target price of AED 7.25. Strong growth in non-funded income and impairments reversals drove the Bank's profitability in 3Q24. The Bank's total non-funded income as a percentage of total operating income grew from 24.8% in 3Q23 to 29.2% in 3Q24. The Bank's net loan book grew 3.9% YOY and 3.8% QOQ to AED 207 Bn in 3Q24. It surpassed its year-end targets for financing and Sukuk investments, recording a 7.0% on a 2024 YTD basis compared to its 5.0% guidance for 2024. It has further revised its year-end guidance to around 10.0%. In addition, the Bank's Sukuk investment portfolio grew 16% on a 2024 YTD basis to AED 79 Bn in 3Q24. NIMs declined 30 bps YOY and remained flat QOQ to 2.8% in 3Q24, mainly due to higher funding costs that pressured the core business margins. DIB assets reprice faster than its liabilities, giving it an advantage of sustaining and improving its NIMs. The Bank expects this strategy to positively impact NIMs in 2024 and also during the declining interest rates scenario. Furthermore, the Bank anticipates its NIMs to accelerate in 2025, driven by its strategy to focus on fixed-rate business, including consumer and fixed-income portfolios. DIB's cost-to-income ratio grew 205 bps YOY and 138 bps QOQ to 28.7% in 3Q24, owing to increased general expenses. However, it expects the cost-to-income to be at 27% in 2024. Furthermore, the Bank's asset quality remained strong as the (reported) NPL ratio improved to 4.3% in 3Q24 compared to 5.0% in 2Q24, mainly due to the ongoing recoveries. Meanwhile, (reported) coverage grew from 95.0% in 2Q24 to 97.0% in 3Q24. DIB's capitalization also remained healthy, with a capital adequacy ratio of 18.3% and a CET 1 ratio of 13.9% in 3Q24. Considering all these factors, we revised our rating to ACCUMULATE on the stock.

#### DIB - Relative valuation

(at CMP)	2019	2020	2021	2022	2023	2024F
PE	9.13	16.68	11.99	9.05	7.17	7.83
PB	1.63	1.60	1.49	1.38	1.26	1.16
Dividend yield	5.5%	3.2%	4.0%	4.8%	7.1%	7.1%

FABS Estimates & Co Data

**DIB – P&L**

AED mn	3Q23	2Q24	3Q24	3Q24F	Var	YOY Ch	QOQ Ch	2023	2024F	Change
Funded income	4,501	4,760	4,820	4,769	1.1%	7.1%	1.3%	17,227	19,172	11.3%
Funded expense	-2,271	-2,625	-2,676	-2,611	2.5%	17.8%	2.0%	-8,477	-10,508	24.0%
<b>Net funded income</b>	<b>2,230</b>	<b>2,135</b>	<b>2,144</b>	<b>2,157</b>	<b>-0.6%</b>	<b>-3.9%</b>	<b>0.4%</b>	<b>8,749</b>	<b>8,664</b>	<b>-1.0%</b>
Fees & commissions	385	429	330	433	-23.8%	-14.4%	-23.1%	1,795	1,813	1.0%
Other non-funded income	352	496	553	301	84.0%	57.3%	11.6%	1,121	1,670	49.0%
<b>Non-Funded Income</b>	<b>737</b>	<b>924</b>	<b>883</b>	<b>734</b>	<b>20.4%</b>	<b>19.8%</b>	<b>-4.5%</b>	<b>2,916</b>	<b>3,483</b>	<b>19.4%</b>
<b>Operating income</b>	<b>2,967</b>	<b>3,060</b>	<b>3,027</b>	<b>2,891</b>	<b>4.7%</b>	<b>2.0%</b>	<b>-1.1%</b>	<b>11,665</b>	<b>12,147</b>	<b>4.1%</b>
General expenses	-791	-836	-869	-838	3.7%	9.9%	3.9%	-3,162	-3,409	7.8%
<b>Pre-provisioning profit</b>	<b>2,177</b>	<b>2,224</b>	<b>2,158</b>	<b>2,054</b>	<b>5.1%</b>	<b>-0.8%</b>	<b>-2.9%</b>	<b>8,503</b>	<b>8,737</b>	<b>2.7%</b>
Impairment charges	-450	-354	123	-367	NM	NM	NM	-1,396	-852	-38.9%
<b>Profit before tax</b>	<b>1,727</b>	<b>1,870</b>	<b>2,281</b>	<b>1,687</b>	<b>35.2%</b>	<b>32.1%</b>	<b>22.0%</b>	<b>7,108</b>	<b>7,885</b>	<b>10.9%</b>
Tax	-14	-157	-210	-143	46.6%	NM	34.0%	-98	-762	NM
<b>Profit before NCI</b>	<b>1,713</b>	<b>1,713</b>	<b>2,071</b>	<b>1,543</b>	<b>34.2%</b>	<b>20.9%</b>	<b>20.9%</b>	<b>7,010</b>	<b>7,123</b>	<b>1.6%</b>
Non-controlling interests	-65	-36	-41	-39	5.9%	-37.1%	12.9%	-212	-217	2.3%
<b>Profit for the period</b>	<b>1,648</b>	<b>1,677</b>	<b>2,030</b>	<b>1,505</b>	<b>34.9%</b>	<b>23.2%</b>	<b>21.1%</b>	<b>6,798</b>	<b>6,906</b>	<b>1.6%</b>

FABS estimate & Co Data

**DIB - KPI**

	3Q23	2Q24	3Q24	YOY Ch	QOQ Ch	2023	2024F	Change
Net FI/OI	75.2%	69.8%	70.8%	-434	104	75.0%	71.3%	-368
NIM	3.1%	2.8%	2.8%	-30	0	3.1%	2.8%	-28
NIS	2.6%	2.2%	2.2%	-38	-4	2.6%	2.2%	-41
Fees & commissions/OI	13.0%	14.0%	10.9%	-209	-312	15.4%	14.9%	-46
Other non-funded/OI	11.9%	16.2%	18.3%	642	208	9.6%	13.7%	414
Cost to income – calculated	26.6%	27.3%	28.7%	205	138	27.1%	28.1%	97
Impairment/PPP	20.7%	15.9%	-5.7%	NM	NM	16.4%	9.8%	-666
NCI/PBT	3.8%	2.1%	2.0%	-182	-14	3.0%	3.1%	2
NP/OI	55.5%	54.8%	67.1%	1,153	1,225	58.3%	56.9%	-142
Cost of risk – reported	0.7%	0.4%	-0.2%	NM	NM	0.7%	0.4%	-27
Loan-to-deposit - calculated	90.1%	85.1%	87.3%	-278	216	89.8%	89.0%	-82
NPL – reported	6.0%	5.0%	4.3%	-173	-72	5.2%	4.3%	-86
Coverage – reported	84.0%	95.0%	97.0%	1,300	200	90.0%	83.5%	-650
CET 1	13.6%	13.7%	13.9%	29	28	12.8%	14.2%	144
Capital adequacy	18.1%	18.1%	18.3%	13	19	17.3%	18.5%	120
ROAA	2.1%	2.3%	2.3%	22	5	2.3%	2.1%	-14
ROAE	17.0%	19.0%	19.2%	222	21	18.4%	17.0%	-138

FABS estimate & Co Data

**DIB - Key B/S items**

AED mn	3Q23	4Q23	1Q24	2Q24	3Q24	YOY Ch
Net advances	199,003	199,453	200,927	199,251	206,790	3.9%
QOQ ch	5.0%	0.2%	0.7%	-0.8%	3.8%	
Total assets	313,380	314,292	327,314	322,651	329,169	5.0%
QOQ ch	4.5%	0.3%	4.1%	-1.4%	2.0%	
Customer deposits	220,917	222,054	235,783	234,018	236,868	2.2%
QOQ ch	4.9%	0.5%	6.2%	-0.7%	1.2%	
Total equity	34,948	36,293	34,494	36,011	37,755	2.2%
QOQ ch	4.4%	3.9%	-5.0%	4.4%	4.8%	

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	7.33	70.0%	5.13
Relative Valuation (RV)	7.06	30.0%	2.12
<b>Weighted Average Valuation (AED)</b>			<b>7.25</b>
Current market price (AED)			6.37
Upside/Downside (%)			+13.8%

### 1) Residual Income Method:

We have discounted the economic profit/excess equity using the cost of equity of 8.9%. Cost of equity is calculated by using 10-year government bond yield of 5.3%, beta of 0.85 and equity risk premium of 4.2%. 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)	5,944
Terminal value (AED, Mn)	11,093
Book Value of Equity (as of June 2024)	36,011
<b>FV to Common shareholders (AED, Mn)</b>	<b>53,048</b>
No. of share (Mn)	7,241
Current Market Price (AED)	6.37
<b>Fair Value per share (AED)</b>	<b>7.33</b>

### Residual Income Method

(All Figures in AED Mn)	FY 2024E	FY 2025E	FY 2026E	FY 2027E	FY 2028E
Net Profit	6,501	6,017	5,785	5,736	5,656
(-) Equity Charge	-3,545	-3,826	-4,086	-4,342	-4,591
<b>Excess Equity</b>	<b>2,955</b>	<b>2,190</b>	<b>1,699</b>	<b>1,393</b>	<b>1,064</b>
Discounting Factor	0.99	0.91	0.83	0.76	0.70
<b>Present Value of Excess Equity</b>	<b>729<sup>1</sup></b>	<b>1,986</b>	<b>1,415</b>	<b>1,066</b>	<b>748</b>

Source: FAB Securities, <sup>1</sup>Adjusted for partial year

## 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 (%)	
		2024F	2025F	2024F	2025F	2024F	2025F
Commercial Bank of Dubai	5,543	1.4	1.3	7.5	7.9	6.3	5.8
Abu Dhabi Islamic Bank	12,103	2.0	1.8	8.7	9.0	6.2	6.2
Emirates NBD	34,200	1.1	1.0	5.5	6.2	5.9	5.8
Abu Dhabi Commercial Bank	16,735	0.9	0.9	7.7	8.0	6.6	6.4
Alinma Bank	18,790	2.1	1.9	12.9	11.8	3.0	3.5
First Abu Dhabi Bank	40,039	1.2	1.2	9.1	9.6	5.7	5.4
<b>Average</b>		<b>1.4x</b>	<b>1.3x</b>	<b>8.6x</b>	<b>8.7x</b>	<b>5.6%</b>	<b>5.5%</b>
<b>Median</b>		<b>1.3x</b>	<b>1.2x</b>	<b>8.2x</b>	<b>8.5x</b>	<b>6.1%</b>	<b>5.8%</b>
<b>Max</b>		<b>1.8x</b>	<b>1.7x</b>	<b>9.0x</b>	<b>9.5x</b>	<b>6.3%</b>	<b>6.1%</b>
<b>Min</b>		<b>1.1x</b>	<b>1.0x</b>	<b>7.5x</b>	<b>7.9x</b>	<b>5.7%</b>	<b>5.5%</b>

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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