

Abu Dhabi Islamic Bank (ADIB)

Strong growth in funded & non-funded income along with robust growth in advances drove profitability

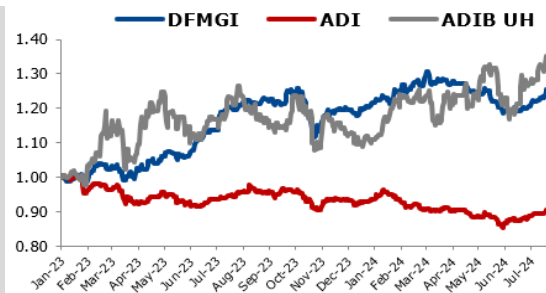
Current Price
AED 12.42

Target Price
AED 13.50

Upside/Downside (%)
+9%

Rating
HOLD

- Gross customer financing grew 18.7% YOY to AED 136.6 Bn in 2Q24, driven by growth in retail and wholesale financing segments across government and public sector enterprises.
- ADIB revised 2024 gross financing guidance upwards from 5-7% to more than 16% owing to strong growth in 1H24.
- ADIB added 97,465 customers in 1H24 reflecting its strong ability to attract clients.
- NPL ratio declined to its lowest level since 2018 to 4.7% in 2Q24 with a strong coverage ratio of 77.0%.
- Capital position remained robust with a CET1 ratio of 12.9% and CAR of 17.2% in 1Q24.



Stock Information

Market Cap (AED, Mn)	45,109.44
Paid Up Capital (Mn)	3,632.00
52 Week High	12.46
52 Week Low	9.80
3M Avg. daily value (AED)	32,614,580

2Q24 Net Profit higher than our estimate

Abu Dhabi Islamic Bank's (ADIB/ the Bank) net profit grew 27.8% YOY to AED 1,493 Mn in 2Q24, higher than our estimate of AED 1,389 Mn. The increase in net profit is primarily attributed to a strong growth in net funded and non-funded income partially offset by a rise in impairments and tax expense.

P&L Highlights

ADIB's income from Islamic financing grew 18.5% YOY to AED 2,178 Mn in 2Q24 driven by a strong growth in financing. Net advances grew 20.8% YOY to AED 132 Bn in 2Q24. Total funded income rose 20.9% YOY to AED 2,689 Mn in 2Q24 driven by growth in interest-earning assets partially offset by a decline in asset yield. Funded expenses rose 46.9% YOY to AED 1,057 Mn in 2Q24 mainly due to the rise in the cost of funds. The cost of funds grew by 54 bps YOY and 5 bps QOQ to 2.5% in 2Q24. Thus, net funded income grew 8.4% YOY to AED 1,631 Mn in 2Q24. However, NIMs fell 23 bps YOY to 3.4% in 2Q24 owing to a decline in asset yield and higher cost of funds. Fees and commission income grew 18.5% YOY to AED 437 Mn in 2Q24, mainly due to the growth in investment banking, cards and retail fees. Other non-funded income grew significantly from AED 355 Mn in 2Q23 to AED 764 Mn in 2Q24 mainly due to a growth in income from investment, FX, and other income. Thus, non-funded income grew 66.0% YOY to AED 1,201 Mn in 2Q24. Total operating income grew 27.1% YOY to AED 2,832 Mn in 2Q24. Furthermore, operating expenses increased 6.1% YOY to AED 763 Mn in 2Q24 owing to investments in talent and strategic initiatives supporting business growth. However, reported cost-to-income declined 535 bps YOY to 26.9% in 2Q24. In addition, impairments rose 31.4% YOY to AED 293 Mn in 2Q24 in line with an increase in the financing portfolio. Zakat

2Q24 Result Review (AED, Mn)

Total Assets	213,403
Total Liabilities	187,916
Total Equity	19,855
Total Deposits	172,244
Net Profit	1,493

Financial Ratios

Dividend Yield (12m)	5.75
Dividend Pay-out (%)	55.66
Price-Earnings Ratio(x)	8.56
Price-to-Book Ratio (x)	2.27
Book Value (AED)	5.47
Return-on Equity (%)	28.05

Stock Performance

5 Days	1.31%
1 Months	7.25%
3 Months	9.33%
6 Months	13.32%
1 Year	10.30%
Month to Date (MTD%)	7.25%
Quarter to Date (QTD%)	7.25%
Year to Date (YTD%)	22.73%

and NCI expenses grew from AED 117 Mn in 2Q23 to AED 283 Mn in 2Q24 due to the introduction of the UAE corporate tax.

Balance Sheet Highlights

ADIB's total assets grew 17.1% YOY and 9.6% QOQ to AED 213.4 Bn in 2Q24, which was mainly driven by increased net financing, cash, and investment portfolio. ADIB's net advances recorded a significant growth of 20.8% YOY and 12.9% QOQ to AED 132.1 Bn in 2Q24. Gross customer financing grew 18.7% YOY to AED 136.6 Bn in 2Q24, driven by growth in retail and wholesale financing segments across government and public sector enterprises. ADIB's customer deposits grew 14.5% YOY and 7.5% QOQ to AED 172.2 Bn in 2Q24, while CASA deposits accounted for 62.7% of total customer deposits. Furthermore, total equity, excluding tier 1 equity rose 11.9% YOY and 7.6% QOQ to AED 19.9 Bn in 2Q24.

Target Price and Rating

We maintain our HOLD rating on Abu Dhabi Islamic Bank with a revised target price of AED 13.50. ADIB reported strong growth in profitability in 2Q24, which is mainly attributable to strong growth in retail financing driven by a rise in home finance, personal finance, and auto finance. The Bank enhanced its strategy, resulting in strong loan acquisitions during 2Q24. ADIB revised 2024 gross financing guidance upwards from 5-7% to more than 16% owing to strong growth in 1H24. The Bank expects its overall financing to grow in 2H24 with an expansion in retail portfolio while marginal moderation is expected in the corporate portfolio. ADIB added 97,465 customers in 1H24 reflecting its strong ability to attract clients. The Bank's deposits grew 14.5% YOY and 7.5% QOQ to AED 172 Bn with CASA deposits accounting for 62.7% of total deposits in 2Q24. The Bank's financing portfolio is largely repriced as of 2Q24. However, the cost of funds might increase in the upcoming period which will impact the margins due to the lower share of CASA ratio on the corporate side which reprices quickly. NIMs fell 23 bps YOY and 32 bps QOQ to 3.4% in 2Q24 owing to a decline in asset yield and higher cost of funds. ADIB's investment portfolio grew from AED 24.5 Bn in 4Q23 to AED 27.2 Bn in 2Q24. ADIB is continuously adding to its investment portfolio and further plans to build its portfolio selectively considering it as a natural hedge, especially with anticipated interest rate declines in the later period of the year. Furthermore, the Bank's asset quality improved as NPLs declined from 5.5% in 1Q24 to 4.7% in 2Q24 to the lowest levels since 2018 attributable to the efforts taken by assigning a specialized team to recover legacy exposures. Similarly, provision coverage grew from 73.0% in 1Q24 to 77.0% in 2Q24. Meanwhile, the coverage ratio including collaterals stood at 149% in 2Q24 compared to 145% in 1Q24. ADIB maintained healthy capitalization with a CET 1 ratio of 12.9% and a total capital adequacy ratio of 17.2% in 2Q24. Hence based on our analysis, we assign a HOLD rating on the stock.

ADIB - Relative valuation

(at CMP)	2019	2020	2021	2022	2023	2024F
PE	19.33	33.60	21.39	13.36	9.52	8.21
PB	3.10	3.08	2.81	2.50	2.18	2.24
Dividend yield	2.2%	1.7%	2.5%	4.0%	5.8%	5.9%

FABS Estimates & Co Data

ADIB – P&L

AED Mn	2Q23	1Q24	2Q24	2Q24F	Var.	YOY Ch	QOQ Ch	2023	2024F	Change
Funded income	2,224	2,666	2,689	2,717	-1.0%	20.9%	0.9%	9,221	10,795	17.1%
Funded expense	-720	-975	-1,057	-983	7.6%	46.9%	8.4%	-3,099	-4,026	29.9%
Net funded income	1,504	1,690	1,631	1,734	-5.9%	8.4%	-3.5%	6,122	6,769	10.6%
Fees and commission	369	418	437	427	2.4%	18.5%	4.5%	1,615	1,777	10.0%
Other non-funded income	355	409	764	417	83.2%	115.3%	86.8%	1,556	2,179	40.0%
Non-Funded Income	724	827	1,201	844	42.3%	66.0%	45.2%	3,172	3,956	24.7%
Operating income	2,228	2,517	2,832	2,578	9.9%	27.1%	12.5%	9,294	10,725	15.4%
Operating expenses	-719	-765	-763	-749	1.8%	6.1%	-0.3%	-3,061	-3,066	0.2%
Pre-provision inc.	1,508	1,752	2,069	1,828	13.2%	37.2%	18.1%	6,232	7,659	22.9%
Financing impairment	-223	-109	-293	-141	107.1%	31.4%	168.0%	-760	-766	0.8%
Profit before NCI	1,286	1,643	1,777	1,687	5.3%	38.2%	8.1%	5,472	6,892	26.0%
NIC. & zakat	-117	-286	-283	-298	-4.9%	NM	-0.8%	-472	-1,139	NM
Net Profit	1,168	1,357	1,493	1,389	7.5%	27.8%	10.0%	5,000	5,753	15.1%

FABS estimate & Co Data

ADIB - KPI

	2Q23	1Q24	2Q24	YOY Ch	QOQ Ch	2023	2024F	Change
Net FI/OI	67.5%	67.1%	57.6%	-992	-954	65.9%	63.1%	-276
NIM	3.6%	3.7%	3.4%	-23	-32	3.6%	3.4%	-15
NIS	3.4%	3.4%	3.1%	-31	-31	3.3%	3.2%	-17
Fees & comms/OI	16.6%	16.6%	15.4%	-113	-118	17.4%	16.6%	-81
Other non-funded/OI	15.9%	16.2%	27.0%	1,105	1,073	16.7%	20.3%	357
Cost to income ratio	32.3%	30.4%	26.9%	-535	-346	32.9%	28.6%	-435
Provisions/PPP	14.8%	6.2%	14.1%	-63	791	12.2%	10.0%	-219
NP/OI	52.4%	53.9%	52.7%	27	-119	53.8%	53.6%	-16
Cost of risk	0.8%	0.4%	0.9%	8	48	0.5%	0.6%	11
Loan-to-deposit	72.7%	73.0%	76.7%	398	370	73.2%	77.5%	432
NPL – (reported)	7.5%	5.5%	4.7%	-280	-80	6.1%	6.0%	-11
Coverage excluding collateral (reported)	66.9%	73.0%	77.0%	1,014	400	74.0%	71.2%	-277
CET1	12.8%	12.6%	12.9%	3	24	12.2%	11.8%	-47
Capital adequacy	17.7%	17.2%	17.2%	-48	2	16.8%	15.7%	-110
ROAE	23.7%	25.5%	27.5%	386	198	24.5%	24.6%	15
ROAA	2.3%	2.6%	2.6%	29	2	2.8%	2.6%	-16

FABS estimate & Co Data

ADIB - Key B/S items

AED Mn	2Q23	3Q23	4Q23	1Q24	2Q24	YOY Ch
Net advances	109,329	112,595	115,002	116,943	132,066	20.8%
QOQ ch	1.9%	3.0%	2.1%	1.7%	12.9%	
Total assets	182,167	184,124	192,827	194,647	213,403	17.1%
QOQ ch	5.8%	1.1%	4.7%	0.9%	9.6%	
Customer deposits	150,401	151,545	157,067	160,262	172,244	14.5%
QOQ ch	6.1%	0.8%	3.6%	2.0%	7.5%	
Total equity	17,745	18,926	20,374	18,458	19,855	11.9%
QOQ ch	6.6%	6.7%	7.7%	-9.4%	7.6%	

FABS estimate & Co Data

Valuation:

We use Residual Income and Relative Valuation (RV) method to value ADIB. We have assigned 70% weight to Residual Income, and 30% to RV method.

Valuation Method	Target	Weight	Weighted Value
Residual Income	14.13	70.0%	9.89
Relative Valuation (RV)	12.05	30.0%	3.61
Weighted Average Valuation (AED)			13.50
Current market price (AED)			12.42
Upside/Downside (%)			+9%

1) Residual Income Method:

We have discounted the economic profit/excess equity using the cost of equity of 9.3%. Cost of equity is calculated by using 10-year government bond yield of 5.0%, beta of 1.0 and equity risk premium of 4.3%. Government bond yield is calculated after adding Abu Dhabi 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)	12,088
Terminal value (AED, Mn)	19,362
Book Value of Equity (as of June 2023)	19,855
FV to Common shareholders (AED, Mn)	51,306
No. of share (Mn)	3,632
Current Market Price (AED)	12.42
Fair Value per share (AED)	14.13

Residual Income Method

(All Figures in AED Mn)	FY 2024E	FY 2025E	FY 2026E	FY 2027E	FY 2028E
Net Profit	5,406	5,516	5,199	4,980	4,795
(-) Equity Charge	-1,751	-2,051	-2,307	-2,531	-2,731
Excess Equity	3,655	3,465	2,892	2,449	2,065
Discounting Factor	0.96	0.88	0.80	0.74	0.67
Present Value of Excess Equity	3,517	3,050	2,328	1,804	1,390

Source: FAB Securities

2) Relative Valuation:

We have used local and international peers to value ADIB and it is valued using the PB multiple. We applied premium to peer valuation since it generates superior return on equity as compared to its peers, also expect this premium to be maintained. It is valued at 2024 PB multiple of 1.9x as compared to peer valuation of 1.2x.

Company	Market (USD Mn)	P/B (x)		P/E (x)		Dividend Yield (x)	
		2024F	2025F	2024F	2025F	2024F	2025F
Commercial Bank of Dubai (CBD)	5,040	1.2	1.2	NA	NA	7.1	6.5
Abu Dhabi Commercial Bank (ADCB)	16,480	0.9	0.9	8.0	8.1	6.4	6.5
Emirates NBD	29,580	1.0	0.9	5.2	5.8	6.3	6.2
Dubai Islamic Bank (DIB)	11,570	1.1	1.0	7.3	7.4	7.3	7.4
Alinma	21,610	2.5	2.2	15.2	13.5	2.9	3.1
Al Rajhi Bank	83,870	3.4	3.2	18.9	16.5	3.1	3.5
Bank Albilad	11,920	2.4	2.2	15.9	14.2	1.5	1.9
Average		1.8x	1.6x	11.8x	10.9x	4.9%	5.0%
Median		1.2x	1.2x	11.6x	10.8x	6.3%	6.2%
Max		2.4x	2.2x	15.7x	14.0x	6.7%	6.5%
Min		1.0x	0.9x	7.5x	7.6x	3.0%	3.3%

Source: FAB Securities

