

## Dubai Islamic Bank (DIB)

Higher gains from investment properties & lower impairments boosted profitability

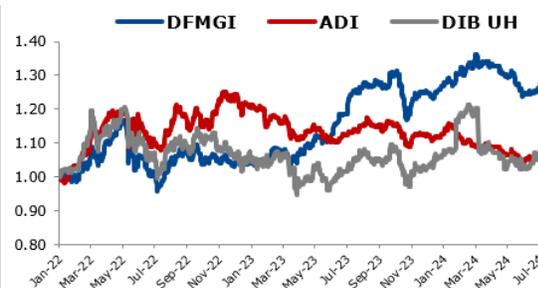
**Current Price**  
AED 5.92

**Target Price**  
AED 7.00

**Upside/Downside (%)**  
+18%

**Rating**  
BUY

- Net financing and Sukuk investment grew from AED 277 Bn in 1Q24 to AED 278 Bn in 2Q24.
- The Bank expects the loan book to grow and surpass the year-end guidance, driven by anticipated transactions concluded in July and a strong underwriting pipeline.
- DIB's non-core income grew strongly 31.0% YOY to AED 924 Mn in 2Q24, primarily due to the higher gains recorded in the investment properties.
- Asset quality remained strong as the (reported) NPL ratio remained stable at 5.0% in 2Q24 compared to 1Q24, while (reported) coverage also grew from 93% in 1Q24 to 95% in 2Q24.



### Stock Information

Market Cap (AED, mn)	42,145.99
Paid Up Capital (mn)	7,119.26
52 Week High	6.55
52 Week Low	5.20
3M Avg. daily value(AED)	31,952,510

### 2Q24 Result Review (AED, mn)

Total Assets	322,651
Total Liabilities	275,488
Total Equity	36,011
Total Deposits	234,018
Net Profit	1,677

### Financial Ratios

Dividend Yield (12m)	7.60
Dividend Pay-out (%)	51.03
Price-Earnings Ratio(x)	6.49
Price-to-Book Ratio (x)	1.19
Book Value (AED)	4.98
Return-on Equity (%)	18.98

### Stock Performance

5 Days	-0.67%
1 Months	4.59%
3 Months	7.64%
6 Months	-5.28%
1 Year	3.68%
Month to Date (MTD%)	3.14%
Quarter to Date (QTD%)	3.14%
Year to Date (YTD%)	3.50%

### 2Q24 Net Profit higher than our estimate

Dubai Islamic Bank ("DIB", "The Bank") net profit grew 6.7% YOY to AED 1,677 Mn in 2Q24, higher than our estimate of AED 1,555 Mn. The rise in net profit is primarily driven by strong growth in the non-funded income coupled with lower impairments, partially offset by growth in operating expenses and income tax charges.

### P&L Highlights

Funded income grew 14.1% YOY to AED 4,760 Mn in 2Q24, mainly due to an increase in net financing and the Sukuk portfolio. Net financing and Sukuk portfolio grew 3.8% on a 2024 YTD basis to AED 278 Bn in 2Q24. Funded expenses grew significantly from AED 2,054 Mn in 2Q23 to AED 2,625 Mn in 2Q24 due to higher cost of funds. Thus, net funded income rose marginally 0.8% YOY to AED 2.1 Bn in 2Q24. NIMs declined 26 bps YOY and 6 bps QOQ to 2.8% in 2Q24. The Bank's fees and commission income declined 12.4% YOY to AED 429 Mn in 2Q24. Other non-funded income grew strongly from AED 216 Mn in 2Q23 to AED 496 Mn in 2Q24, attributed to higher income from investment property, increase in share of associates profit and higher income from property under construction. Thus, non-funded income recorded a strong growth of 31.0% YOY to AED 924 Mn in 2Q24. As a result, operating profit grew 8.3% YOY to AED 3,060 Mn in 2Q24. General expenses rose 14.7% YOY to AED 836 Mn in 2Q24. As a result, the cost-to-income ratio grew by 152 bps YOY to 27.3%, which was attributed to investments in talent acquisition and strategic upgrades in customer-centric technology. Furthermore, impairment charges declined from AED 463 Mn in 2Q23 to AED 354 Mn in 2Q24, primarily due to ongoing recoveries. Tax expenses grew from AED 28 Mn in 2Q23 to AED 157 Mn in 2Q24 owing to the introduction of UAE

corporate tax. Share of profit attributable to non-controlling interest holders grew from AED 34 Mn in 2Q23 to AED 36 Mn in 2Q24.

### Balance Sheet Highlights

DIB's net advances grew 5.1% YOY and declined 0.8% QOQ to AED 199 Bn in 2Q24, mainly due to the subdued performance of the corporate sector owing to early repayments. However, the consumer sector grew mainly due to an increase in personal finance, auto finance, and credit cards. DIB continued to record the routine repayments of AED 8.4 Bn in 2Q24 in the consumer sector, while the portfolio's gross new underwriting grew from AED 2 Bn in 2H23 to AED 4 Bn in 2H24. The Sukuk investment portfolio grew strongly 28.0% YOY and 3.9% QOQ to AED 79 Bn in 2Q24. The Bank's total assets grew 7.6% YOY and declined 1.4% QOQ to AED 323 Bn in 2Q24. Customer deposits grew 11.1% YOY and declined marginally 0.7% QOQ to AED 234 Bn in 2Q24. However, DIB's CASA deposits contribution rose from 37% in 1Q24 to 42% in 2Q24. In addition, total equity grew 7.6% YOY and 4.4% QOQ to AED 36 Bn in 2Q24.

### Target Price and Rating

We maintain our BUY rating on DIB with a target price of AED 7.00. Strong growth in non-core income and a decline in impairments charges boosted the Bank's profitability in 2Q24. The Bank's total non-funded income as a percentage of total operating income grew from 25.0% in 2Q23 to 30.2% in 2Q24. DIB recorded a gain in investment property by leveraging the robust property market to derisk its balance sheet through the exit of legacy portfolios in 2Q24. It plans to continue capitalizing on the strong market conditions by further divesting its property holdings, which is anticipated to boost its non-funded income. The Bank's loan book grew 5.1% YOY and declined 0.8% QOQ to AED 199 Bn in 2Q24. It expects the loan book to grow and surpass the year-end guidance, driven by anticipated transactions concluded in July and a strong underwriting pipeline. In addition, the Sukuk investment portfolio grew 15% YTD to AED 79 Bn in 2Q24. Government and FI sectors accounted for c.80% of the total portfolio as of 2Q24. NIMs declined 26 bps YOY and 6 bps QOQ to 2.8% in 2Q24, mainly due to higher funding costs that pressured the core business margins. DIB aims to boost NIMs by reducing high-cost and fixed deposits and enhancing the CASA ratio through new customer acquisition and targeted campaigns. The Bank expects this strategy to positively impact NIMs in 2H24 and also during the declining interest rates scenario. DIB's cost-to-income ratio grew 152 bps YOY to 27.3% in 2Q24, owing to higher general expenses. 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 remained stable at 5.0% in 2Q24 compared to 1Q24, mainly due to the ongoing recoveries. Meanwhile, (reported) coverage grew from 93% in 1Q24 to 95% in 2Q24. DIB's capitalization also remained healthy, with a capital adequacy ratio of 18.1% and a CET 1 ratio of 13.7% in 2Q24. Considering all these factors, we maintain our BUY rating on the stock.

#### DIB - Relative valuation

(at CMP)	2019	2020	2021	2022	2023	2024F
PE	8.62	15.76	11.32	8.55	6.77	6.85
PB	1.54	1.51	1.41	1.31	1.19	1.09
Dividend yield	5.9%	3.4%	4.2%	5.0%	7.6%	7.6%

FABS Estimates & Co Data

**DIB – P&L**

AED mn	2Q23	1Q24	2Q24	2Q24F	VAR	YOY Ch	QOQ Ch	2023	2024F	Change
Funded income	4,173	4,757	4,760	4,758	0.0%	14.1%	0.1%	17,227	19,581	13.7%
Funded expense	-2,054	-2,609	-2,625	-2,629	-0.2%	27.8%	0.6%	-8,477	-10,475	23.6%
<b>Net funded income</b>	<b>2,119</b>	<b>2,148</b>	<b>2,135</b>	<b>2,129</b>	<b>0.3%</b>	<b>0.8%</b>	<b>-0.6%</b>	<b>8,749</b>	<b>9,106</b>	<b>4.1%</b>
Fees & commissions	490	483	429	493	-13.0%	-12.4%	-11.2%	1,795	1,938	8.0%
Other non-funded income	216	367	496	341	45.5%	129.2%	35.2%	1,121	1,555	38.7%
<b>Non-Funded Income</b>	<b>706</b>	<b>850</b>	<b>924</b>	<b>833</b>	<b>10.9%</b>	<b>31.0%</b>	<b>8.8%</b>	<b>2,916</b>	<b>3,493</b>	<b>19.8%</b>
<b>Operating income</b>	<b>2,825</b>	<b>2,998</b>	<b>3,060</b>	<b>2,963</b>	<b>3.3%</b>	<b>8.3%</b>	<b>2.1%</b>	<b>11,665</b>	<b>12,599</b>	<b>8.0%</b>
General expenses	-729	-849	-836	-846	-1.2%	14.7%	-1.5%	-3,162	-3,405	7.7%
<b>Pre-provisioning profit</b>	<b>2,096</b>	<b>2,149</b>	<b>2,224</b>	<b>2,117</b>	<b>5.1%</b>	<b>6.1%</b>	<b>3.5%</b>	<b>8,503</b>	<b>9,194</b>	<b>8.1%</b>
Impairment charges	-463	-299	-354	-315	12.1%	-23.5%	18.4%	-1,396	-1,489	6.7%
<b>Profit before tax</b>	<b>1,633</b>	<b>1,850</b>	<b>1,870</b>	<b>1,801</b>	<b>3.8%</b>	<b>14.5%</b>	<b>1.1%</b>	<b>7,108</b>	<b>7,705</b>	<b>8.4%</b>
Tax	-28	-186	-157	-182	-13.8%	NM	-15.7%	-98	-770	NM
<b>Profit before NCI</b>	<b>1,605</b>	<b>1,664</b>	<b>1,713</b>	<b>1,619</b>	<b>5.8%</b>	<b>6.7%</b>	<b>2.9%</b>	<b>7,010</b>	<b>6,934</b>	<b>-1.1%</b>
Non-controlling interests	-34	-72	-36	-65	-44.1%	6.5%	-49.5%	-212	-211	-0.4%
<b>Profit for the period</b>	<b>1,571</b>	<b>1,593</b>	<b>1,677</b>	<b>1,555</b>	<b>7.9%</b>	<b>6.7%</b>	<b>5.3%</b>	<b>6,798</b>	<b>6,723</b>	<b>-1.1%</b>

FABS estimate & Co Data

**DIB - KPI**

	2Q23	1Q24	2Q24	YOY Ch	QOQ Ch	2023	2024F	Change
Net FI/OI	75.0%	71.7%	69.8%	-522	-187	75.0%	72.3%	-273
NIM	3.0%	2.8%	2.8%	-26	-6	3.1%	3.0%	-13
NIS	2.6%	2.3%	2.2%	-32	-5	2.6%	2.4%	-24
Fees & commissions/OI	17.3%	16.1%	14.0%	-332	-210	15.4%	15.4%	0
Other non-funded/OI	7.7%	12.2%	16.2%	854	397	9.6%	12.3%	273
Cost to income – calculated	25.8%	28.3%	27.3%	152	-100	27.1%	27.0%	-8
Impairment/PPP	22.1%	13.9%	15.9%	-616	201	16.4%	16.2%	-22
NCI/PBT	2.1%	4.3%	2.1%	0	-219	3.0%	3.1%	2
NP/OI	55.6%	53.1%	54.8%	-82	168	58.3%	53.4%	-491
Cost of risk – reported	0.7%	0.4%	0.4%	-30	0	0.7%	0.7%	3
Loan-to-deposit - calculated	89.9%	85.2%	85.1%	-480	-7	89.8%	87.8%	-202
NPL – reported	6.4%	5.0%	5.0%	-141	2	5.2%	5.0%	-16
Coverage – reported	81.0%	93.0%	95.0%	1,400	200	90.0%	83.5%	-650
CET 1	13.4%	13.1%	13.7%	30	59	12.8%	13.3%	50
Capital adequacy	17.9%	17.5%	18.1%	17	59	17.3%	17.5%	28
ROAA	1.8%	2.0%	2.0%	19	1	2.1%	1.9%	-18
ROAE	16.6%	18.3%	18.7%	214	37	18.4%	16.6%	-182

FABS estimate & Co Data

**DIB - Key B/S items**

AED mn	2Q23	3Q23	4Q23	1Q24	2Q24	YOY Ch
Net advances	189,501	199,003	199,453	200,927	199,251	5.1%
QOQ ch	2.4%	5.0%	0.2%	0.7%	-0.8%	
Total assets	299,762	313,380	314,292	327,314	322,651	7.6%
QOQ ch	2.7%	4.5%	0.3%	4.1%	-1.4%	
Customer deposits	210,684	220,917	222,054	235,783	234,018	11.1%
QOQ ch	6.2%	4.9%	0.5%	6.2%	-0.7%	
Total equity	33,465	34,948	36,293	34,494	36,011	7.6%
QOQ ch	4.3%	4.4%	3.9%	-5.0%	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	7.09	70.0%	4.96
Relative Valuation (RV)	6.81	30.0%	2.04
<b>Weighted Average Valuation (AED)</b>			<b>7.00</b>
Current market price (AED)			5.92
Upside/Downside (%)			+18%

### 1) Residual Income Method:

We have discounted the economic profit/excess equity using the cost of equity of 9.2%. Cost of equity is calculated by using 10-year government bond yield of 5.4%, beta of 0.90 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)	6,365
Terminal value (AED, Mn)	8,933
Book Value of Equity (as of June 2024)	36,011
<b>FV to Common shareholders (AED, Mn)</b>	<b>51,308</b>
No. of share (Mn)	7,241
Current Market Price (AED)	5.92
<b>Fair Value per share (AED)</b>	<b>7.09</b>

### Residual Income Method

(All Figures in AED Mn)	FY 2024E	FY 2025E	FY 2026E	FY 2027E	FY 2028E
Net Profit	6,318	6,274	6,095	5,821	5,736
(-) Equity Charge	-3,655	-3,970	-4,268	-4,540	-4,805
<b>Excess Equity</b>	<b>2,663</b>	<b>2,305</b>	<b>1,827</b>	<b>1,281</b>	<b>930</b>
Discounting Factor	0.96	0.88	0.81	0.74	0.68
<b>Present Value of Excess Equity</b>	<b>1,282</b>	<b>2,032</b>	<b>1,475</b>	<b>947</b>	<b>630</b>

Source: FAB Securities

## 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 1.2x, 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	5,040	1.2	1.2	NA	NA	7.1	6.5
Abu Dhabi Islamic Bank	11,970	2.0	1.8	8.9	9.1	6.0	5.9
Emirates NBD	29,580	1.0	0.9	5.2	5.8	6.3	6.2
Abu Dhabi Commercial Bank	16,480	0.9	0.9	8.0	8.1	6.4	6.5
Alinma Bank	21,610	2.5	2.2	15.2	13.5	2.9	3.1
Bank Albilad	11,500	2.4	2.2	15.9	14.2	1.5	1.9
First Abu Dhabi Bank	38,120	1.2	1.1	9.1	9.1	5.6	5.6
<b>Average</b>		<b>1.6x</b>	<b>1.5x</b>	<b>10.4x</b>	<b>10.0x</b>	<b>5.1%</b>	<b>5.1%</b>
<b>Median</b>		<b>1.2x</b>	<b>1.2x</b>	<b>9.0x</b>	<b>9.1x</b>	<b>6.0%</b>	<b>5.9%</b>
<b>Max</b>		<b>2.2x</b>	<b>2.0x</b>	<b>13.7x</b>	<b>12.4x</b>	<b>6.3%</b>	<b>6.3%</b>
<b>Min</b>		<b>1.1x</b>	<b>1.0x</b>	<b>8.2x</b>	<b>8.4x</b>	<b>4.3%</b>	<b>4.4%</b>

Source: FAB Securities

