

# First Look Note | 1Q24

**UAE Equity Research** 

Sector: Banking

Market: ADX

# **Abu Dhabi Islamic Bank (ADIB)**

Strong non-core income and healthy asset quality supported profitability

Current Price	Target Price	Upside/Downside (%)	Rating ACCUMULATE
AED 11.30	AED 12.50	+11%	

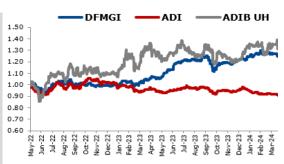
- Gross customer financing grew 7.6% YOY to AED 121 Bn, driven by growth in retail and wholesale financing segments across government and public sector enterprises.
- The Bank's loan portfolio consists of c.60-65% fixed-rate loans and the remaining on a floating rate.
- ADIB added c. 46,000 customers in 1Q24 owing to its robust market position and emphasis on digital initiatives.
- NPL ratio declined to its lowest level since 1Q19 to 5.5% in 1Q24 with a strong coverage ratio of 73.0% in 1Q24.
- Capital position remained robust with a CET1 ratio of 12.6% and CAR of 17.2% in 1Q24

## 1Q24 Net Profit in line with our estimate

Abu Dhabi Islamic Bank's (ADIB/ the Bank) net profit grew 28.2% YOY to AED 1,357 Mn in 1Q24, in line with our estimate of AED 1,343 Mn. The increase in net profit is primarily attributed to a growth in net funded and non-funded income coupled with lower impairments partially offset by increased operating expenses and higher zakat and tax expenses.

#### **P&L Highlights**

ADIB's income from Islamic financing grew significantly from AED 1,713 Mn in 1Q23 to AED 2,081 Mn in 1Q24 driven by higher volumes and strong growth in financing. Net advances grew 9.0% YOY to AED 117 Bn in 1Q24. Total funded income grew significantly from AED 2,014 Mn in 1023 to AED 2,666 Mn in 1024 driven by expansion in asset yield and growth in interest-earning assets. Funded expenses rose from AED 589 Mn in 1Q23 to AED 975 Mn in 1Q24 mainly due to the rise in the cost of funds. Cost of funds grew 77 bps YOY and declined 0.4 bps QOQ to 2.4% in 1Q24. Thus, net funded income grew 18.6% YOY to AED 1,690 Mn in 1024. However, NIMs grew 14 bps YOY to 3.7% in 1Q24 despite the higher cost of funds. Fees and commission income grew strongly 39.6% YOY to AED 418 Mn in 1Q24, mainly due to the growth in card-related fees. Other non-funded income grew 31.3% YOY to AED 409 Mn in 1Q24 mainly due to a growth in investments and income from associates and joint ventures partially offset by a decline in foreign exchange income. Thus, nonfunded income grew 35.3% YOY to AED 827 Mn in 1Q24. Total operating income grew 23.6% YOY to AED 2,517 Mn in 1Q24. Furthermore, operating expenses grew 5.4% YOY to AED 765 Mn in 1Q24 owing to investments in talent and strategic initiatives supporting business growth. However, cost-to-income declined 525



Stock Information					
Market Cap (AED, mn)	41,041.60				
Paid Up Capital (mn)	3,632.00				
52 Week High	11.88				
52 Week Low	9.80				
3M Avg. daily value (AED)	31,106,030				

1Q24 Result Review (AED, mn)					
Total Assets	194,647				
Total Liabilities	170,633				
Total Equity	24,014				
Total Deposits	160,262				
Net Profit	1,357				

Financial Ratios	
Dividend Yield (12m)	6.50
Dividend Pay-out (%)	55.66
Price-Earnings Ratio(x)	8.57
Price-to-Book Ratio (x)	1.96
Book Value (AED)	5.61
Return-on Equity (%)	28.25

5 Days	1.25%
1 Months	-0.53%
3 Months	1.62%
6 Months	12.55%
1 Year	1.99%
Month to Date (MTD%)	2.54%
Quarter to Date (QTD%)	2.54%
Year to Date (YTD%)	11.66%



bps YOY to 30.4% in 1Q24. Impairments declined significantly 25.4% YOY to AED 109 Mn in 1Q24. Zakat & NCI expenses rose from AED 105 Mn in 1Q23 to AED 286 Mn in 1Q24.

## **Balance Sheet Highlights**

ADIB's total assets grew 13.1% YOY and 0.9% QOQ to AED 195 Bn in 1Q24 driven by increased net financing, cash, and bank balance with the central bank and investments portfolio. ADIB's net advances grew 9.0% YOY and 1.7% QOQ to AED 117 Bn in 1Q24. Gross customer financing grew 7.6% YOY to AED 121 Bn, driven by growth in retail and wholesale financing segments across government and public sector enterprises. In addition, the Bank's investment portfolio grew 25.2% YOY to AED 26.3 Bn in 1Q24. ADIB's customer deposits grew 13.1% YOY and 2.0% QOQ to AED 160 Bn in 1Q24 while CASA deposits of the Bank grew 9% to AED 106 Bn and comprise 66% of total customer deposits in 1Q24. Furthermore, total equity, excluding tier 1 equity rose 10.8% YOY and declined 9.4% QOQ to AED 18.5 Bn in 1Q24.

# **Target Price and Rating**

We maintain our ACCUMULATE rating on Abu Dhabi Islamic Bank with a target price of AED 12.50. ADIB reported strong growth in profitability in 1Q24, driven by a double-digit growth in in core and non-core income. The Bank's non-core income grew strongly 35.3% YOY in 1Q24, accounting for 33% of total operating income in 1Q24, compared to 30% in 1Q23. ADIB's gross customer financing grew 7.6% YOY to AED 121 Bn in 1Q24 driven by growth in the retail and wholesale financing segment. In the retail financing sector, home finance experienced strong growth during 1024. ADIB anticipates the growth in home finance to grow due to its strategic campaigns and focused approach to collaborating with developers. The Bank's loan portfolio consists of c.60-65% fixed-rate loans and the remaining on a floating rate. NIMs grew 14 bps YOY and 6 bps QOQ to 3.7% in 1Q24 despite the growth in cost of funds. ADIB's investment portfolio grew from AED 24.5 Bn in 4Q23 to AED 26.3 Bn in 1Q24. The Bank focuses on strategically growing this portfolio, considering it as a natural hedge, especially with anticipated interest rate declines in the later period of the year. ADIB's robust market position and emphasis on digital initiatives allowed it to increase its market share and as a result, it added 46,000 customers in 1Q24. This also contributed to the deposit growth which grew 13.1% YOY and 2.0% QOQ to AED 160 Bn in 1Q24. The growth in deposits was supported by an increase in CASA deposit which now accounts for 66.0% of total deposits in 1Q24. The Bank's cost-to-income ratio declined 525 bps YOY to 30.4% in 1024. ADIB expects the cost-to-income to range below 30% in 2024. Furthermore, the Bank's asset quality improved as NPLs declined from 6.1% in 4Q23 to 5.5% in 1Q24. However, provision coverage declined from 74.0% in 4Q23 to 73.0% in 1Q24. Meanwhile, the coverage ratio with collaterals stood at 145% in 1Q24 as compared to 139% in 4Q23. ADIB maintained healthy capitalization with a CET 1 ratio of 12.6% and a total capital adequacy ratio of 17.2% in 1024. Hence based on our analysis, we maintain an ACCUMULATE rating on the stock.

#### **ADIB - Relative valuation**

(at CMP)	2019	2020	2021	2022	2023	2024F
PE	17.9	31.1	19.8	12.4	8.8	7.9
PB	2.9	2.9	2.6	2.3	2.0	1.8
Dividend yield	2.4%	1.8%	2.8%	4.3%	6.3%	6.4%

FABS Estimates & Co Data



# ADIB - P&L

AED mn	1Q23	4Q23	1Q24	1Q24F	Var.	YOY Ch	QOQ Ch	2023	2024F	Change
Funded income	2,014	2,566	2,666	2,627	1.5%	32.4%	3.9%	9,221	10,107	9.6%
Funded expense	-589	-950	-975	-997	-2.1%	65.7%	2.7%	-3,099	-3,355	8.3%
Net funded income	1,425	1,616	1,690	1,630	3.7%	18.6%	4.6%	6,122	6,751	10.3%
Fees and commission	300	577	418	531	-21.3%	39.6%	-27.6%	1,615	1,648	2.0%
Other non-funded inc.	311	406	409	374	9.4%	31.3%	0.6%	1,556	1,587	2.0%
Non-Funded Inc	611	984	827	905	-8.6%	35.3%	-15.9%	3,172	3,235	2.0%
Operating income	2,037	2,599	2,517	2,535	-0.7%	23.6%	-3.2%	9,294	9,986	7.5%
Operating expenses	-726	-876	-765	-917	-16.6%	5.4%	-12.6%	-3,061	-3,122	2.0%
Pre-provision inc.	1,310	1,724	1,752	1,618	8.3%	33.7%	1.6%	6,232	6,864	10.1%
Financing impairment	-146	-189	-109	-189	-42.1%	-25.4%	-42.4%	-760	-829	9.0%
Profit before NCI	1,164	1,534	1,643	1,429	14.9%	41.1%	7.1%	5,472	6,035	10.3%
NIC. & zakat	-105	-116	-286	-86	231.7%	171.6%	147.1%	-472	-588	24.7%
Net Profit	1,059	1,419	1,357	1,343	1.0%	28.2%	-4.3%	5,000	5,447	8.9%

FABS estimate & Co Data

#### ADIB - KPI

	1Q23	4Q23	1Q24	YOY Ch	QOQ Ch	2023	2024F	Change
Net FI/OI	70.0%	62.2%	67.1%	-285	498	65.9%	67.6%	173
NIM	3.5%	3.6%	3.7%	14	6	3.6%	3.6%	6
NIS	3.3%	3.3%	3.4%	3	6	3.3%	3.4%	5
Fees & comms/OI	14.7%	22.2%	16.6%	190	-560	17.4%	16.5%	-88
Other non-funded/OI	15.3%	15.6%	16.2%	95	61	16.7%	15.9%	-85
Cost to income	35.7%	33.7%	30.4%	-525	-329	32.9%	31.3%	-167
Provisions/PPP	11.2%	11.0%	6.2%	-494	-476	12.2%	12.1%	-12
NP/OI	52.0%	54.6%	53.9%	192	-67	53.8%	54.5%	74
Cost of risk	0.3%	0.6%	0.4%	8	-25	0.5%	0.7%	21
Loan-to-deposit	75.7%	73.2%	73.0%	-271	-25	73.2%	75.1%	192
NPL - Reported	7.7%	6.1%	5.5%	-220	-60	6.1%	6.1%	-3
Coverage excluding collateral	71.0%	74.0%	73.0%	200	-100	74.0%	70.7%	-330
CET1	12.5%	12.2%	12.6%	7	39	12.2%	12.6%	39
Capital adequacy	17.5%	16.8%	17.2%	-39	35	16.8%	17.2%	35
ROAE	22.9%	25.4%	27.3%	442	184	24.5%	23.8%	-72
ROAA	2.3%	2.7%	2.7%	43	8	2.8%	2.8%	2

FABS estimate & Co Data

# ADIB - Key B/S items

AED mn	1Q23	2Q23	3Q23	4Q23	1Q24	YOY Ch
Net advances	107,274	109,329	112,595	115,002	116,943	9.0%
QOQ ch	-0.4%	1.9%	3.0%	2.1%	1.7%	
Total assets	172,147	182,167	184,124	192,827	194,647	13.1%
QOQ ch	2.2%	5.8%	1.1%	4.7%	0.9%	
Customer deposits	141,756	150,401	151,545	157,067	160,262	13.1%
QOQ ch	2.6%	6.1%	0.8%	3.6%	2.0%	
Total equity	16,654	17,745	18,926	20,374	18,458	10.8%
QOQ ch	-6.1%	6.6%	6.7%	7.7%	-9.4%	

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	12.88	70.0%	9.02
Relative Valuation (RV)	11.61	30.0%	3.48
Weighted Average Valuation (AED)			12.50
Current market price (AED)			11.30
Upside/Downside (%)			+11%

# 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 5.3%, beta of 1.0 and equity risk premium of 3.7%. 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)	9,807
Terminal value (AED, Mn)	18,521
Book Value of Equity (as of Dec 2023)	18,458
FV to Common shareholders (AED, Mn)	46,786
No. of share (Mn)	3,632
Current Market Price (AED)	11.30
Fair Value per share (AED)	12.88

#### **Residual Income Method**

(All Figures in AED Mn)	FY 2024E	FY 2025E	FY 2026E	FY 2027E	FY 2028E
Net Profit	5,180	4,922	4,634	4,507	4,311
(-) Equity Charge	-1,661	-1,892	-2,088	-2,262	-2,412
Excess Equity	2,395	3,030	2,547	2,245	1,899
Discounting Factor	0.94	0.87	0.79	0.73	0.67
Present Value of Excess Equity	2,259	2,622	2,022	1,635	1,269

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 1.8x as compared to peer valuation of 1.2x.

Company	Market	Market P/B (x)		P/E (x)		Dividend Yield (x)	
	(USD Mn)	2024F	2025F	2024F	2025F	2024F	2025F
Commercial Bank of Dubai (CBD)	5,460	1.3	1.2	NA	NA	6.8	6.2
Abu Dhabi Commercial Bank (ADCB)	16,620	0.9	0.9	8.0	8.2	6.6	6.5
Emirates NBD	27,950	0.9	0.8	5.3	5.6	6.4	6.4
Dubai Islamic Bank (DIB)	11,180	1.1	1.0	7.2	7.3	7.6	7.6
FAB	37,340	1.1	1.1	9.1	9.0	5.6	5.6
Alinma Bank	22,410	2.4	2.2	15.0	13.8	2.9	3.1
Al Rajhi Bank	83,870	3.1	2.9	17.5	15.4	3.3	3.8
Bank Albilad	11,920	2.6	2.3	16.5	14.8	1.6	1.8
						= 40/	= 40/
Average		1.7x	1.5x	11.2x	10.6x	5.1%	5.1%
Median		1.2x	1.2x	9.1x	9.0x	6.0%	5.9%
Max		2.5x	2.2x	15.8x	14.3x	6.6%	6.4%
Min		1.0x	1.0x	7.6x	7.8x	3.2%	3.6%

Source: FAB Securities



# **Research Rating Methodology:**

Rating Upside/Downside potential

BUY
ACCUMULATE
HOLD
REDUCE
Between +10% to +15%
Between +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

+971-2-6161700/1

+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.

Online Trading Link