

Abu Dhabi Islamic Bank (ADIB)

Strong non-core income and healthy asset quality supported profitability

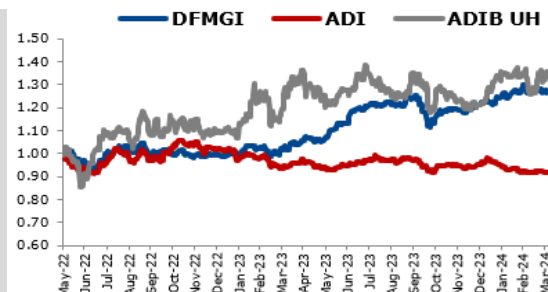
Current Price
AED 11.30

Target Price
AED 12.50

Upside/Downside (%)
+11%

Rating
ACCUMULATE

- 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 1Q23 to AED 2,666 Mn in 1Q24 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 1Q24. 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, non-funded 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 1Q24. 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 1Q24. 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 1Q24. 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 (USD Mn)	P/B (x)		P/E (x)		Dividend Yield (x)	
		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
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

