

## Abu Dhabi Islamic Bank (ADIB)

Strong growth in core income driven by higher volumes and improved margins

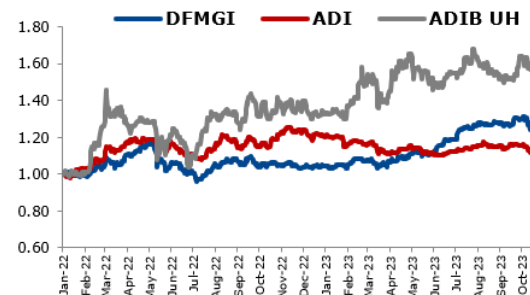
**Current Price**  
AED 10.70

**Target Price**  
AED 12.00

**Upside/Downside (%)**  
+12%

**Rating**  
**ACCUMULATE**

- ADIB recorded strong 27.5% YOY growth in customer deposits and 14.6% YOY growth in net advances
- Retail financing segment grew 11% 2023 YTD to AED 58.4 Bn while Wholesale financing recorded 3% 2023 YTD growth to AED 45.1 Bn
- ADIB added c. 157,000 customers as of 9M23 owing to its robust market position and emphasis on digital initiatives
- The Bank recorded a strong rise in non-funded income driven by growth in fees and commission income, investment income, foreign exchange and other income
- ADIB's capital position remained robust with a CET1 ratio of 13.4% and CAR of 18.0% in 3Q23



### Stock Information

Market Cap (AED, mm)	38,789.76
Paid Up Capital (mm)	3,632.00
52 Week High	11.90
52 Week Low	8.75
3M Avg. daily value (AED)	23,247,080

### 3Q23 Net Profit higher than our estimate

Abu Dhabi Islamic Bank's (ADIB or the Bank) net profit rose 34.2% YOY to AED 1,355 Mn in 3Q23, higher than our estimate of AED 1,255 Mn. The rise in net profit is primarily attributable to a strong double-digit growth recorded in net funded and non-funded income partially offset by an increase in operating expenses and higher impairments.

### P&L Highlights

ADIB's income from Islamic financing grew significantly from AED 1,234 Mn in 3Q22 to AED 1,946 Mn in 3Q23 driven by higher volumes and strong growth in financing. Net advances grew 14.6% YOY to AED 112.6 Bn in 3Q23. Total funded income rose significantly from AED 1,279 Mn in 3Q22 to AED 2,418 Mn in 3Q23 mainly due to the ongoing higher interest rates and increased interest-earning assets. Funded expense rose from AED 147 Mn in 3Q22 to AED 841 Mn in 3Q23 mainly due to the increase in cost of funds. Resultantly, net funded income grew 39.3% YOY to AED 1,577 Mn in 3Q23. Thus, NIMs rose 32 bps YOY and 4 bps QOQ to 3.6% in 3Q23. Fees and commission income rose 42.2% YOY to AED 370 Mn in 3Q23, mainly due to the growth in income from trade finance and card-related fees. While other non-funded income grew significantly from AED 286 Mn in 3Q22 to AED 484 Mn in 3Q23 due to an increase in investment income. Thus, non-funded income rose 56.3% YOY to AED 853 Mn in 3Q23. Total operating income grew 44.8% YOY to AED 2,430 Mn in 3Q23. Furthermore, operating expenses rose 37.2% YOY to AED 740 Mn in 3Q23 owing to the Bank's strategic and transformation investments and volume-related expenses. However, cost-to-income improved 168 bps YOY to 30.4% in 3Q23. Impairments rose from AED 125 Mn in 3Q22 to AED 202 Mn in 3Q23. Whereas zakat & NCI expenses rose from AED 4 Mn in 3Q22 to AED 134 Mn in 3Q23.

### 3Q23 Result Review (AED, mm)

Total Assets	184,124
Total Liabilities	159,424
Total Equity	24,700
Total Deposits	151,545
Net Profit	1,355

### Financial Ratios

Dividend Yield (12m)	4.59
Dividend Pay-out (%)	53.57
Price-Earnings Ratio(x)	8.79
Price-to-Book Ratio (x)	2.05
Book Value (AED)	5.21
Return-on Equity (%)	24.99

5 Days	7.88%
1 Months	-4.81%
3 Months	-2.02%
6 Months	0.95%
1 Year	17.11%
Month to Date (MTD%)	3.69%
Quarter to Date (QTD%)	-5.15%
Year to Date (YTD%)	17.23%

### Balance Sheet Highlights

ADIB's total assets grew 25.1% YOY to AED 184.1 Bn in 3Q23 mainly due to a growth in investment portfolio and rise in net financing. ADIB's net advances rose 14.6% YOY to AED 112.6 Bn in 3Q23. Gross customer financing grew 14.0% YOY to AED 117.6 Bn mainly due to the 3% 2023 YTD growth in wholesale financing across government, public, and corporate and 11% 2023 YTD expansion in retail loan book. In addition, the bank's investment portfolio rose 21% to AED 23.0 Bn in 3Q23. ADIB's customer deposits rose significantly 27.5% YOY to AED 151.5 Bn in 3Q23 while CASA deposits of the Bank rose 13.0% to AED 99 Bn and comprise 66.0% of total customer deposits in 3Q23. Furthermore, total equity excluding tier 1 equity rose 15.4% YOY to AED 18.9 Bn in 3Q23.

### Target Price and Rating

We maintain our ACCUMULATE rating on Abu Dhabi Islamic Bank with an unchanged target price of AED 12.00. ADIB reported the highest quarterly net profit of AED 1.4 Bn in 3Q23 driven by a double-digit growth in net funded and non-funded income. Funded income increased significantly supported by higher volumes and improved margins while non-funded income was fueled by a strong rise in fees and commission income, investment income, foreign exchange and other income. The Bank recorded a healthy growth in fee and commission income which rose 42.2% YOY to AED 370 Mn in 3Q23. ADIB's robust market position and emphasis on digital initiatives allowed it to increase its market share as it added c. 157,000 customers as of 9M23. ADIB's net advances grew 14.6% YOY driven by growth in retail and wholesale financing. Retail financing segment grew 11% 2023 YTD to AED 58.4 Bn whereas, Wholesale financing recorded 3% 2023 YTD growth to AED 45.1 Bn. NIMs of the Bank also expanded 32 bps YOY and 4 bps QOQ to 3.6% in 3Q23. Customer deposits also rose strongly registering 27.5% YOY growth owing to an increase in CASA deposits. The Bank recorded a decline in its cost-to-income ratio from 32.1% in 3Q22 to 30.4% in 3Q23 due to a strong rise in operating income. Furthermore, the Bank's asset quality improved with the NPL ratio declining from 7.5% in 2Q23 to 6.6% in 3Q23. Stage 2 loans as a percentage of total gross loans also declined from 5.5% in 2Q23 to 5.0% in 3Q23. However, provision coverage declined from 66.9% in 2Q23 to 64.9% in 3Q23. The coverage ratio with collaterals stood at 131% in 3Q23 as compared to 128% in 2Q23. It also maintained healthy capitalization with a CET 1 ratio of 13.4%, a tier 1 ratio of 16.9%, and a capital adequacy ratio of 18.0% in 3Q23. Hence based on our analysis we assign an ACCUMULATE rating on the stock.

#### ADIB - Relative valuation

(at CMP)	2018	2019	2020	2021	2022	2023F
PE	15.72	15.85	27.55	17.54	10.95	7.67
PB	2.81	2.54	2.53	2.30	2.05	1.73
Dividend yield	2.7%	2.7%	2.1%	3.1%	4.9%	4.9%

FABS Estimates & Co Data

**ADIB – P&L**

AED mm	3Q22	2Q23	3Q23A	3Q23F	Var.	YOY Ch	QOQ Ch	2022	2023F	Change
<b>Funded income</b>	<b>1,279</b>	<b>2,224</b>	<b>2,418</b>	<b>2,258</b>	<b>7.1%</b>	<b>89.0%</b>	<b>8.7%</b>	<b>5,042</b>	<b>9,248</b>	<b>83.4%</b>
Funded expense	-147	-720	-841	-741	13.5%	471.4%	16.9%	-891	-3,108	248.9%
<b>Net funded income</b>	<b>1,132</b>	<b>1,504</b>	<b>1,577</b>	<b>1,517</b>	<b>3.9%</b>	<b>39.3%</b>	<b>4.8%</b>	<b>4,151</b>	<b>6,140</b>	<b>47.9%</b>
Fees and commission	260	369	370	406	-8.9%	42.2%	0.2%	1,368	1,464	7.0%
Other non-funded inc.	286	355	484	372	29.9%	69.0%	36.4%	1,316	1,684	28.0%
<b>Non-Funded Inc</b>	<b>546</b>	<b>724</b>	<b>853</b>	<b>778</b>	<b>9.7%</b>	<b>56.3%</b>	<b>17.9%</b>	<b>2,684</b>	<b>3,148</b>	<b>17.3%</b>
<b>Operating income</b>	<b>1,678</b>	<b>2,228</b>	<b>2,430</b>	<b>2,295</b>	<b>5.9%</b>	<b>44.8%</b>	<b>9.1%</b>	<b>6,835</b>	<b>9,288</b>	<b>35.9%</b>
Operating expenses	-539	-719	-740	-726	1.8%	37.2%	2.8%	-2,387	-2,965	24.2%
<b>Pre-provision inc.</b>	<b>1,139</b>	<b>1,508</b>	<b>1,690</b>	<b>1,568</b>	<b>7.8%</b>	<b>48.4%</b>	<b>12.0%</b>	<b>4,448</b>	<b>6,323</b>	<b>42.1%</b>
Financing impairment	-125	-223	-202	-193	4.8%	61.4%	-9.4%	-769	-778	1.2%
<b>Profit before NCI</b>	<b>1,014</b>	<b>1,286</b>	<b>1,488</b>	<b>1,376</b>	<b>8.2%</b>	<b>46.8%</b>	<b>15.8%</b>	<b>3,680</b>	<b>5,545</b>	<b>50.7%</b>
NIC. & zakat	-4	-117	-134	-121	10.4%	NM	14.0%	-92	-498	NA
<b>Net Profit</b>	<b>1,010</b>	<b>1,168</b>	<b>1,355</b>	<b>1,255</b>	<b>7.9%</b>	<b>34.2%</b>	<b>15.9%</b>	<b>3,587</b>	<b>5,047</b>	<b>40.7%</b>

*FABS estimate & Co Data*
**ADIB - KPI**

	3Q22	2Q23	3Q23	YOY Ch	QOQ Ch	2022	2023	Change
Net FI/OI	67.5%	67.5%	64.9%	-258	-264	60.7%	66.1%	537
NIM	3.3%	3.6%	3.6%	32	4	2.9%	3.7%	80
NIS	15.5%	16.6%	15.2%	-28	-135	20.0%	15.8%	-426
Fees & comms/OI	17.1%	15.9%	19.9%	286	399	19.3%	18.1%	-112
Cost to income	32.1%	32.3%	30.4%	-168	-184	34.9%	31.9%	-300
Provisions/PPP	11.0%	14.8%	11.9%	96	-282	17.3%	12.3%	-498
NP/OI	60.2%	52.4%	55.7%	-442	330	52.5%	54.3%	185
ROAE	19.8%	25.4%	25.7%	589	31	19.8%	24.5%	467
ROAA	2.2%	2.5%	2.6%	38	11	2.3%	2.9%	51

*FABS estimate & Co Data*
**ADIB - Key B/S items**

AED mm	3Q22	4Q22	1Q23	2Q23	3Q23	YOY Ch
Net advances	98,240	107,717	107,274	109,329	112,595	14.6%
QOQ ch	6.6%	9.6%	-0.4%	1.9%	3.0%	
Total assets	147,209	168,517	172,147	182,167	184,124	25.1%
QOQ ch	3.7%	14.5%	2.2%	5.8%	1.1%	
Customer deposits	118,823	138,137	141,756	150,401	151,545	27.5%
QOQ ch	3.2%	16.3%	2.6%	6.1%	0.8%	
Total equity	16,407	17,726	16,654	17,745	18,926	15.4%
QOQ ch	4.9%	8.0%	-6.1%	6.6%	6.7%	

*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	13.02	70.0%	9.11
Relative Valuation (RV)	9.63	30.0%	2.89
<b>Weighted Average Valuation (AED)</b>			<b>12.00</b>
Current market price (AED)			10.70
Upside/Downside (%)			13.01%

### 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 4.5%, beta of 1.0 and equity risk premium of 4.7%. 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)	8,573
Terminal value (AED, Mn)	19,772
Book Value of Equity (as of Sept 2023)	18,926
<b>FV to Common shareholders (AED, Mn)</b>	<b>47,272</b>
No. of share (Mn)	3,632
Current Market Price (AED)	10.70
<b>Fair Value per share (AED)</b>	<b>13.02</b>

### Residual Income Method

(All Figures in AED Mn)	FY 2023E	FY 2024E	FY 2025E	FY 2026E	FY 2027E
Net Profit	4,672	4,733	4,762	4,609	4,540
(-) Equity Charge	-1,483	-1,778	-2,049	-2,303	-2,537
<b>Excess Equity</b>	<b>532</b>	<b>2,955</b>	<b>2,713</b>	<b>2,306</b>	<b>2,003</b>
Discounting Factor	0.99	0.90	0.83	0.76	0.69
<b>Present Value of Excess Equity</b>	<b>524</b>	<b>2,668</b>	<b>2,244</b>	<b>1,747</b>	<b>1,390</b>

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 PB multiple of 1.7x as compared to peer valuation of 1.1x.

Company	Market (USD Mn)	P/B (x)		P/E (x)		Dividend Yield (x)	
		2023F	2024F	2023F	2024F	2023F	2024F
Commercial Bank of Dubai (CBD)	3,747	1.0	1.0	NA	NA	5.6	6.0
Abu Dhabi Commercial Bank (ADCB)	15,540	0.9	0.9	7.8	8.1	6.6	6.4
Emirates NBD	27,520	1.0	0.9	4.7	5.6	5.2	5.2
Dubai Islamic Bank (DIB)	10,450	1.1	1.0	7.1	7.6	6.2	6.2
FAB	37,400	1.2	1.1	9.1	9.5	4.8	4.7
Alinma Bank	17,230	2.2	2.1	14.0	12.5	3.8	4.2
Al Rajhi Bank	68,490	2.9	2.5	15.8	14.2	3.4	3.8
Bank Albilad	9,774	2.4	2.1	15.7	13.5	1.8	2.1
<b>Average</b>		<b>1.6x</b>	<b>1.5x</b>	<b>10.6x</b>	<b>10.2x</b>	<b>4.7%</b>	<b>4.8%</b>
<b>Median</b>		<b>1.1x</b>	<b>1.1x</b>	<b>9.1x</b>	<b>9.5x</b>	<b>5.0%</b>	<b>5.0%</b>
<b>Max</b>		<b>2.2x</b>	<b>2.1x</b>	<b>14.9x</b>	<b>13.0x</b>	<b>5.8%</b>	<b>6.0%</b>
<b>Min</b>		<b>1.0x</b>	<b>1.0x</b>	<b>7.5x</b>	<b>7.9x</b>	<b>3.7%</b>	<b>4.1%</b>

Source: FAB Securities

