# Abu Dhabi Islamic Bank

Strong asset growth and improved margins boosted profitability

## 4Q22 Net Profit higher than our estimates

أبوظبي الأول للأوراق المالية

Abu Dhabi Islamic Bank's (ADIB or the Bank) net profit rose 56.0% YOY to AED 1,136 Mn in 4Q22, exceeding our estimate of AED 1,008 Mn. The increase in net profit was mainly driven by a solid rise in net funded and non-funded income partially offset by a rise in operating expenses and higher impairments.

## **P&L highlights**

FAB

ADIB's funded income including income from Islamic financing increased significantly from AED 882 Mn in 4Q21 to AED 1,922 Mn in 4Q22. The increase in funded income was driven by a 236 bps YOY increase in asset yield further supported by an increase in net advances which grew 26.0% YOY to AED 112.2 Bn. Funded expense rose significantly from AED 82 Mn in 4Q21 to AED 573 Mn in 4Q22 due to the high cost of funds which increased from 0.3% in 4021 to 1.7% in 4Q22. Resultantly, net funded income grew 68.7% YOY to AED 1,349 Mn in 4Q22. NIMs also rose 108 bps YOY and 30 bps QOQ to 3.6% in 4Q22. Fees and commission income witnessed a sharp rise to AED 529 Mn in 4Q22, up from AED 269 Mn in 4Q21 owing to a strong 22.0% growth in the Bank's customer base in 2022. Similarly, other non-funded income rose 10.6% YOY to AED 440 Mn in 4Q22. Thus, non-funded income rose 45.4% YOY to AED 970 Mn in 4Q22. As a result, total operating income increased 58.1% YOY to AED 2,319 Mn in 4Q22. Furthermore, operating expenses rose 29.5% YOY to AED 688 Mn in 4Q22 reflecting Bank's cost optimization initiatives and investments toward digitization. Impairments more than doubled from AED 203 Mn in 4021 to AED 416 Mn in 4Q22. Zakat expenses rose from AED 4 Mn in 4Q21 to AED 48 Mn in 4Q22 whereas share of profit attributable to noncontrolling interest increased from 0.2 Mn in 4Q21 to AED 31 Mn in 4022.

## **Balance Sheet highlights**

ADIB's total assets increased significantly 23.1% to AED 168.5 Bn in 2022 mainly due to an increase in cash balance and a rise in net financing assets. The Bank's net advances rose 26.0% to AED 112.2 Bn in 2022. The increase in net financing was mainly due to the 20% YOY growth in wholesale financing across government, public, corporates, and financial institutions and also due to the strong 10% rise in retail financing portfolio. ADIB's customer deposits rose 26.0% to AED 138.1 Bn in 2022 driven by a strong rise in CASA deposits. CASA deposits rose 14% to 94 Bn and stood at 68% of total customer deposits in 2022. Furthermore, total equity rose 12.2% to AED 17.7 Bn in 2022.

## **Target price and rating**

We maintain our BUY rating on Abu Dhabi Islamic Bank with a revised target price of AED 12.00. ADIB recorded strong growth in 2022 benefiting from the rising interest rate scenario and growth in customer base. The Bank launched a new 2025 strategy with the purpose of being a lifelong partner for customers, colleagues, and the community. In addition, ADIB also launched various new products in 2022 which enabled it to increase its market share and diversify its revenue segment. It also placed a strong emphasis on its digitalization plan, as 126,000 customers joined ADIB in 2022, with

# **Rating : BUY**

# First Look Note – 4Q22

# Sector: Banking

Recommendation	
Current Price (23-Feb-23)	10.20
Target Price (AED)	12.00
Upside/Downside (%)	+18%

## Stock Information Market Cap (mm) 37,046.40 Paid Up Capital (mm) 3,632.00 52 Week High 10.86 52 Week Low 7.03 3M Avg. daily value (AED) 15,617,300 DFMGI ADI -ADIB UH 2,90 2.40 1.90 1.40 0.90

Financial Ratios	
Dividend Yield (12m)	3.05
Dividend Pay-out (%)	53.57
Price-Earnings Ratio (x)	11.15
Price-to-Book Ratio (x)	2.09
Book Value (AED)	4.88
Return-on Equity (%)	19.82
Earning Per Share (AED)	0.91
Beta	1.05

Stock Performance	
5 Days	0.00%
1 Months	12.83%
3 Months	7.37%
6 Months	11.96%
1 Year	18.60%
Month to Date (MTD)	8.28%
Quarter to Date (QTD)	11.96%
Year to Date (YTD)	11.96%



40% joining through digital account opening. ADIB's digitally active customers rose from 67.0% in 3Q22 to 70.0% in 4Q22. The bank is also continuing to build its new financial strategy in order to provide a comprehensive financial solution for SMEs to support their immediate and long-term goals for up to AED 1.5 Mn. Furthermore, ADIB's net advances increased 26.0% to AED 112.2 Bn in 2022. Retail banking portfolio which is a critical growth aspect for the Bank showed a solid performance, growing 10% to AED 53.7 Bn in 2022 owing to better client offers and greater channel productivity. Wholesale banking also delivered a solid return, as it grew 20% to AED 44.1 Bn in 2022, owing to the resurgence in economic activity and solid momentum in deal execution. ADIB's cost-to-income ratio declined from 40.7% in 2021 to 34.9% in 4022 mainly due to the growth in revenue. It also further expects its cost-to-income ratio to remain below 35% in 2023. Furthermore, the Bank's NPL ratio declined marginally from 7.9% in 3Q22 to 7.7% in 4Q22 with an increase in provision coverage from 61.0% in 3Q22 to 64.9% in 4Q22. Stage 2 loans as a percentage of total gross loans declined from 7.6% in 3Q22 to 6.6% in 4Q22 indicating improvement in asset quality. The capitalization remained strong in 2022 with a CET 1 Ratio of 12.1%, tier 1 ratio of 16.0%, and capital adequacy ratio of 17.2%. In addition, the Bank's board of directors proposed a cash dividend of AED 0.4898 in 2022 leading to a dividend yield of 4.8%. Thus considering the abovementioned factors, we maintain our BUY rating on the stock.

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

(at CMP)	2018	2019	2020	2021	2022	2023F
PE	15.0	15.2	26.3	16.8	10.47	9.9
PB	2.7	2.4	2.4	2.2	1.96	1.8
Dividend Yield	2.9%	2.9%	2.1%	3.2%	4.8%	5.0%

FABS Estimates & Co Data

ADIB - P&L										
AED mm	4Q21	3Q22	4Q22	4Q22F	Var.	YOY Ch	QOQ Ch	2021	2022	Change
Funded income	882	1,279	1,922	1,354	41.9%	117.9%	50.2%	3,675	5,042	37.2%
Funded expense	-82	-147	-573	-196	191.7%	596.5%	288.9%	-330	-891	170.0%
Net funded income	800	1,132	1,349	1,158	16.6%	68.7%	19.2%	3,345	4,151	24.1%
Fees and commission	269	260	529	265	99.6%	96.9%	103.6%	958	1,368	42.8%
Other non-funded inc.	398	286	440	272	62.0%	10.6%	53.9%	1,257	1,316	4.7%
Non Funded Inc	667	546	970	537	80.6%	45.4%	77.5%	2,215	2,684	21.2%
Operating income	1,467	1,678	2,319	1,695	36.8%	58.1%	38.2%	5,560	6,835	22.9%
Operating expenses	-531	-539	-688	-549	25.3%	29.5%	27.6%	-2,260	-2,387	5.6%
Pre-provision inc.	936	1,139	1,631	1,146	42.4%	74.3%	43.2%	3,300	4,448	34.8%
Financing impairment	-203	-125	-416	-133	212.0%	104.7%	232.9%	-954	-769	-19.4%
Profit before NCI	733	1,014	1,215	1,012	20.0%	65.8%	19.8%	2,345	3,680	56.9%
NIC. & zakat	-4	-4	-78	-4	NM	NM	NM	-16	-92	480.9%
Net profit	728	1,010	1,136	1,008	12.7%	56.0%	12.5%	2,329	3,587	54.0%

FABS Estimates & Co Data

#### ADIB - P&L KPI

	4Q22	3Q22	4Q22	YOY Ch	QOQ Ch	2021	2022	Change
Net FI/OI	54.5%	67.5%	58.2%	366	-927	60.2%	60.7%	57
NIM	2.5%	3.3%	3.6%	108	30	2.7%	2.9%	20
NIS	2.5%	3.2%	3.4%	90	16	2.6%	2.8%	15
Fees & commissions/OI	18.3%	15.5%	22.8%	450	733	17.2%	20.0%	278
Other non-funded/OI	27.2%	17.1%	19.0%	-816	194	22.6%	19.3%	-335
Cost to income	36.2%	32.1%	29.7%	-654	-247	40.7%	34.9%	-573
Impairment/PPP	21.7%	11.0%	25.5%	380	1,455	28.9%	17.3%	-1,164
NP/OI	49.6%	60.2%	49.0%	-64	-1,116	41.9%	52.5%	1,059
ROAE	13.4%	18.3%	29.2%	1,580	1,093	13.7%	19.8%	608
ROAA	1.7%	2.2%	3.4%	168	121	1.8%	2.3%	59

FABS Estimates & Co Data



# ADIB- Key BS Items

AED mm	4Q21	1Q22	2Q22	3Q22	4Q22	YOY Ch
Net advances	89,043	91,169	92,286	98,356	112,236	26.0%
QOQ Change	4.3%	2.4%	1.2%	6.6%	14.1%	
Total assets	136,868	138,583	141,944	147,209	168,517	23.1%
QOQ Change	2.6%	1.3%	2.4%	3.7%	14.5%	
Customer deposits	109,611	110,808	115,188	118,823	138,137	26.0%
QOQ Change	2.4%	1.1%	4.0%	3.2%	16.3%	
Total equity	15,793	15,119	15,638	16,407	17,726	12.2%
QOQ Change	4.2%	-4.3%	3.4%	4.9%	8.0%	

FABS estimate & Co Data

# **Research Rating Methodology:**

Rating	Upside/Downside potential
BUY	Higher than +15%
ACCUMULATE	Between +10% to +15%
HOLD	Lower than $+10\%$ to $-5\%$
REDUCE	Between -5% to -15%
SELL	Lower than -15%

# **FAB Securities Contacts:**

# Research AnalystsAhmad Banihani+971-2-6161629ahmad.banihani@Bankfab.comSales & ExecutionAbu Dhabi Head Office<br/>Trading Desk+971-2-6161700/1<br/>+971-2-6161777Online Trading Link<br/>+971-2-6161777Institutional Desk<br/>Sales and Marketing+971-4-4245765<br/>+971-2-6161703Online Trading Link<br/>+971-2-6161703

# 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.



# FAB Securities Awards

