

## Abu Dhabi Islamic Bank

Strong asset growth and improved margins boosted profitability

### 4Q22 Net Profit higher than our estimates

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

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 4Q21 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 4Q21 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 non-controlling interest increased from 0.2 Mn in 4Q21 to AED 31 Mn in 4Q22.

### 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

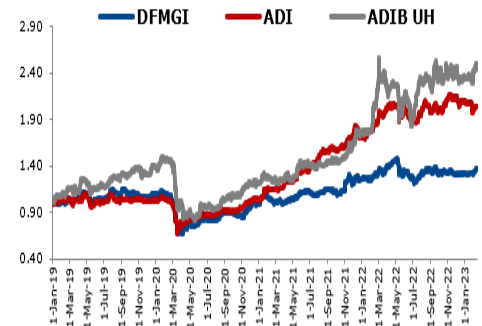
**Sector: Banking**

#### 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 |



#### 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 4Q22 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       |
|---------------------------|--------------|--------------|--------------|--------------|--------------|---------------|--------------|--------------|--------------|--------------|
| <b>Funded income</b>      | <b>882</b>   | <b>1,279</b> | <b>1,922</b> | <b>1,354</b> | <b>41.9%</b> | <b>117.9%</b> | <b>50.2%</b> | <b>3,675</b> | <b>5,042</b> | <b>37.2%</b> |
| Funded expense            | -82          | -147         | -573         | -196         | 191.7%       | 596.5%        | 288.9%       | -330         | -891         | 170.0%       |
| <b>Net funded income</b>  | <b>800</b>   | <b>1,132</b> | <b>1,349</b> | <b>1,158</b> | <b>16.6%</b> | <b>68.7%</b>  | <b>19.2%</b> | <b>3,345</b> | <b>4,151</b> | <b>24.1%</b> |
| 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%         |
| <b>Non Funded Inc</b>     | <b>667</b>   | <b>546</b>   | <b>970</b>   | <b>537</b>   | <b>80.6%</b> | <b>45.4%</b>  | <b>77.5%</b> | <b>2,215</b> | <b>2,684</b> | <b>21.2%</b> |
| <b>Operating income</b>   | <b>1,467</b> | <b>1,678</b> | <b>2,319</b> | <b>1,695</b> | <b>36.8%</b> | <b>58.1%</b>  | <b>38.2%</b> | <b>5,560</b> | <b>6,835</b> | <b>22.9%</b> |
| Operating expenses        | -531         | -539         | -688         | -549         | 25.3%        | 29.5%         | 27.6%        | -2,260       | -2,387       | 5.6%         |
| <b>Pre-provision inc.</b> | <b>936</b>   | <b>1,139</b> | <b>1,631</b> | <b>1,146</b> | <b>42.4%</b> | <b>74.3%</b>  | <b>43.2%</b> | <b>3,300</b> | <b>4,448</b> | <b>34.8%</b> |
| Financing impairment      | -203         | -125         | -416         | -133         | 212.0%       | 104.7%        | 232.9%       | -954         | -769         | -19.4%       |
| <b>Profit before NCI</b>  | <b>733</b>   | <b>1,014</b> | <b>1,215</b> | <b>1,012</b> | <b>20.0%</b> | <b>65.8%</b>  | <b>19.8%</b> | <b>2,345</b> | <b>3,680</b> | <b>56.9%</b> |
| NIC. & zakat              | -4           | -4           | -78          | -4           | NM           | NM            | NM           | -16          | -92          | 480.9%       |
| <b>Net profit</b>         | <b>728</b>   | <b>1,010</b> | <b>1,136</b> | <b>1,008</b> | <b>12.7%</b> | <b>56.0%</b>  | <b>12.5%</b> | <b>2,329</b> | <b>3,587</b> | <b>54.0%</b> |

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

*FABS estimate & Co Data*



**FAB Securities Awards**



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Best Brokerage in the UAE  
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