

Abu Dhabi Islamic Bank (ADIB)

Strong asset quality and increase in CASA balance supported profitability

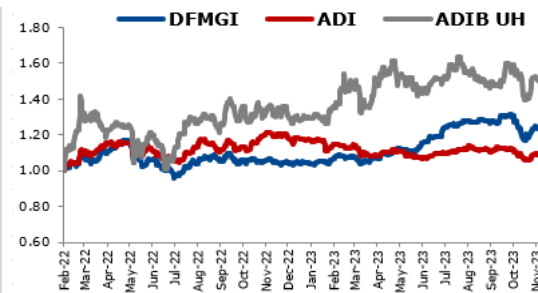
Current Price
AED 11.22

Target Price
AED 12.50

Upside/Downside (%)
11.4%

Rating
ACCUMULATE

- ADIB recorded strong 13.7% YOY growth in customer deposits to AED 157.06 Bn driven by a 9% rise in CASA deposits, which accounts for 65% of total deposits as of 4Q23
- Gross Customer financing grew 6.0% to AED 120.2 Bn mainly due to the growth in wholesale financing across government, and public sector, and corporate and retail sector
- The Bank added c. 206,000 customers in 2023 owing to its robust market position and emphasis on digital initiatives
- NPL declined from 6.6% in 3Q23 to 6.1% in 4Q23, with a strong coverage ratio of 70.8% in 4Q23
- Capital position remained robust with a CET1 ratio of 12.2% and CAR of 16.8% in 4Q23



Stock Information

Market Cap (AED, Mn)	40,751.04
Paid Up Capital (Mn)	3,632.00
52 Week High	11.90
52 Week Low	9.28
3M Avg. daily value (AED)	25,212,190

4Q23 Result Review (AED, Mn)

Total Assets	192,827
Total Liabilities	166,585
Total Equity	26,242
Total Deposits	157,067
Net Profit	1,419

Financial Ratios

Dividend Yield (12m)	4.37
Dividend Pay-out (%)	55.66
Price-Earnings Ratio(x)	8.74
Price-to-Book Ratio (x)	2.00
Book Value (AED)	5.61
Return-on Equity (%)	24.48

Stock Performance

5 Days	0.54%
1 Months	10.22%
3 Months	4.86%
6 Months	1.08%
1 Year	19.49%
Month to Date (MTD%)	-
Quarter to Date (QTD%)	-
Year to Date (YTD%)	10.87%

4Q23 Net Profit in line with our estimate

Abu Dhabi Islamic Bank's (ADIB/ the Bank) net profit rose 24.8% YOY to AED 1,419 Mn in 4Q23, in line with our estimate of AED 1,458 Mn. The rise in net profit is primarily attributable by a double-digit growth recorded in operating income driven by a strong rise in net funded and non-funded income and lower impairments partially offset by an increase in operating expenses.

P&L Highlights

ADIB's income from Islamic financing grew significantly from AED 1,623 Mn in 4Q22 to AED 2,022 Mn in 4Q23 driven by higher volumes and strong growth in financing. Net advances grew 6.8% YOY to AED 115.0 Bn in 4Q23. Total funded income rose significantly from AED 1,922 Mn in 4Q22 to AED 2,566 Mn in 4Q23 mainly supported by higher interest rates and increased interest-earning assets. Funded expense rose from AED 573 Mn in 4Q22 to AED 950 Mn in 4Q23 mainly due to the rise in cost of funds. Cost of funds grew 68 bps YOY and 24 bps QOQ to 2.4% in 4Q23. Thus, net funded income grew 19.8% YOY to AED 1,616 Mn in 4Q23. However, NIMs remained stable at 3.6% in 4Q23 due to rise in cost of funds. Fees and commission income grew 9.1% YOY to AED 577 Mn in 4Q23, mainly due to the growth in income from trade finance and card-related fees. Whereas other non-funded income declined 7.8% YOY to AED 406 Mn in 4Q23 mainly due to a decline in income from associates and joint venture. Thus, non-funded income grew 1.4% YOY to AED 984 Mn in 4Q23. Total operating income grew 12.1% YOY to AED 2,599 Mn in 4Q23. Furthermore, operating expenses rose 27.4% YOY to AED 876 Mn in 4Q23 owing to the Bank's strategic and transformation investments and volume-related expenses. Resultantly, cost-to-income also grew 403 bps YOY to 33.7% in 4Q23. Impairments declined significantly

from AED 416 Mn in 4Q22 to AED 189 Mn in 4Q23. Whereas Zakat & NCI expenses rose from AED 78 Mn in 4Q22 to AED 116 Mn in 4Q23.

Balance Sheet Highlights

ADIB's total assets grew 14.4% YOY to AED 192.8 Bn in 4Q23 mainly due to a growth in cash and balances with central bank, investment portfolio and rise in net financing. ADIB's net advances grew 6.8% YOY to AED 115.0 Bn in 4Q23. Gross customer financing grew 6.0% YOY to AED 120.2 Bn, mainly due to the growth in wholesale financing across government, public, and corporate and retail sector. In addition, the bank's investment portfolio rose 26% YOY to AED 24.5 Bn in 4Q23. ADIB's customer deposits rose 13.7% YOY to AED 157.1 Bn in 4Q23 while CASA deposits of the Bank grew 9% to AED 103 Bn and comprise 65.0% of total customer deposits in 4Q23. Furthermore, total equity excluding tier 1 equity rose 14.9% YOY to AED 20.4 Bn in 4Q23.

Target Price and Rating

We revise our rating on Abu Dhabi Islamic Bank from BUY to ACCUMULATE with a revised target price of AED 12.50. The Bank's stock price rose 7.9% since our last rating. ADIB reported strong growth in profitability in 4Q23 driven by a strong rise in net funded and non-funded income. The growth in funded income was driven by higher interest-earning assets and expansion in asset yield. In comparison, the growth in non-funded income was supported by an increase in fees and commission income. ADIB's robust market position and emphasis on digital initiatives allowed it to increase its market share and as a result, it added 206,000 customers in 2023. This also contributed to the deposit growth which grew 3.6% QOQ to AED 157.1 Bn in 4Q23. The growth in deposits was supported by an increase in CASA deposits, which now account for 65.0% of total deposits in 4Q23. ADIB's net advances grew 6.8% YOY in 4Q23, driven by retail and wholesale financing growth. Retail financing accounts for 52.1% of total customer financing, whereas Wholesale financing accounts for 42.3% of total financing as of 4Q23. The retail financing segment grew 12% to AED 62.6 Bn in 4Q23. Wholesale financing recorded 5% growth to AED 50.9 Bn in 4Q23. NIMs remained stable in 4Q23 as compared to 4Q22. The Bank expects NIMs to remain flat at 4.5% in 2024 despite interest rate cuts expected in 2H24. The NIM is anticipated to benefit from a higher share of retail financing owing to slower repricing during the declining interest rate scenario. In addition, the Bank also holds a part of its investment in long-term Sukuk which will also support margins. ADIB recorded an increase in its cost-to-income ratio from 29.7% in 4Q22 to 33.7% in 4Q23 mainly due to the increase in Bank's strategic and transformation investments and volume-related expenses. However, cost of risk declined from 0.69% in 3Q23 to 0.63% in 4Q23 indicating the Bank's ability to manage risk effectively. Furthermore, the Bank's asset quality improved as NPLs declined from 6.6% in 3Q23 to 6.1% in 4Q23. Stage 2 loans as a percentage of total gross loans also declined from 5.0% in 3Q23 to 4.6% in 4Q23. Provision coverage also strengthened from 64.9% in 3Q23 to 70.8% in 4Q23. The coverage ratio with collaterals stood at 139% in 4Q23 as compared to 131% in 3Q23. ADIB maintained healthy capitalization with a CET 1 ratio of 12.2%, a tier 1 ratio of 15.7%, and a capital adequacy ratio of 16.8% in 4Q23. The Bank's board of directors also proposed a cash dividend of 71 fils per share leading to a dividend yield of 6.4%. Hence based on our analysis, we assign an ACCUMULATE rating on the stock.

ADIB - Relative valuation

(at CMP)	2019	2020	2021	2022	2023	2024F
PE	17.7	30.7	19.6	12.2	8.7	8.2
PB	2.8	2.8	2.6	2.3	2.0	1.8
Dividend yield	2.4%	1.8%	2.8%	4.4%	6.4%	5.1%

FABS Estimates & Co Data
ADIB – P&L

AED Mn	4Q22	3Q23	4Q23A	4Q23F	VAR	YOY Ch	QOQ Ch	2022	2023	Change
Funded income	1,922	2,418	2,566	2,634	-2.6%	33.5%	6.1%	5,042	9,221	82.9%
Funded expense	-573	-841	-950	-960	-1.1%	65.9%	12.9%	-891	-3,099	247.9%
Net funded income	1,349	1,577	1,616	1,674	-3.5%	19.8%	2.5%	4,151	6,122	47.5%
Fees and commission	529	370	577	382	51.0%	9.1%	56.2%	1,368	1,615	18.0%
Other non-funded inc.	440	484	406	501	-19.0%	-7.8%	-16.0%	1,316	1,556	18.3%
Non-Funded Inc	970	853	984	884	11.3%	1.4%	15.3%	2,684	3,172	18.2%
Operating income	2,319	2,430	2,599	2,558	1.6%	12.1%	7.0%	6,835	9,294	36.0%
Operating expenses	-688	-740	-876	-779	12.4%	27.4%	18.4%	-2,387	-3,061	28.3%
Pre-provision inc.	1,631	1,690	1,724	1,778	-3.1%	5.7%	2.0%	4,448	6,232	40.1%
Financing impairment	-416	-202	-189	-207	-8.7%	-54.5%	-6.2%	-769	-760	-1.1%
Profit before NCI	1,215	1,488	1,534	1,571	-2.3%	26.3%	3.1%	3,680	5,472	48.7%
NIC. & zakat	-78	-134	-116	-113	2.7%	47.6%	-13.4%	-92	-472	NM
Net Profit	1,136	1,355	1,419	1,458	-2.7%	24.8%	4.7%	3,587	5,000	39.4%

FABS estimate & Co Data
ADIB - KPI

	4Q22	3Q23	4Q23	YOY Ch	QOQ Ch	2022	2023	Change
Net FI/OI	58.2%	64.9%	62.2%	397	-272	60.7%	65.9%	514
NIM	3.6%	3.6%	3.6%	0	-2	2.9%	3.6%	70
NIS	3.4%	3.4%	3.3%	-9	-7	2.8%	3.3%	54
Fees & comms/OI	22.8%	15.2%	22.2%	-61	700	20.0%	17.4%	-264
Other non-funded/OI	19.0%	19.9%	15.6%	-337	-428	19.3%	16.7%	-250
Cost to income	29.7%	30.4%	33.7%	403	324	34.9%	32.9%	-198
Provisions/PPP	25.5%	11.9%	11.0%	-1,454	-96	17.3%	12.2%	-509
NP/OI	49.0%	55.7%	54.6%	557	-117	52.5%	53.8%	132
ROAE	21.0%	25.7%	25.4%	443	-28	19.8%	24.5%	466
ROAA	2.3%	2.6%	2.7%	38	8	2.3%	2.8%	42

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

AED Mn	4Q22	1Q23	2Q23	3Q23	4Q23	YOY Ch
Net advances	107,717	107,274	109,329	112,595	115,002	6.8%
QOQ ch	9.6%	-0.4%	1.9%	3.0%	2.1%	
Total assets	168,517	172,147	182,167	184,124	192,827	14.4%
QOQ ch	14.5%	2.2%	5.8%	1.1%	4.7%	
Customer deposits	138,137	141,756	150,401	151,545	157,067	13.7%
QOQ ch	16.3%	2.6%	6.1%	0.8%	3.6%	
Total equity	17,726	16,654	17,745	18,926	20,374	14.9%
QOQ ch	8.0%	-6.1%	6.6%	6.7%	7.7%	

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	12.80	70.0%	8.96
Relative Valuation (RV)	11.81	30.0%	3.54
Weighted Average Valuation (AED)			12.50
Current market price (AED)			11.22
Upside/Downside (%)			+11.4%

1) Residual Income Method:

We have discounted the economic profit/excess equity using the cost of equity of 8.5%. Cost of equity is calculated by using 10-year government bond yield of 4.5%, beta of 1.0 and equity risk premium of 4.0%. 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)	9,962
Terminal value (AED, Mn)	16,138
Book Value of Equity (as of Dec 2023)	20,374
FV to Common shareholders (AED, Mn)	46,475
No. of share (Mn)	3,632
Current Market Price (AED)	11.22
Fair Value per share (AED)	12.80

Residual Income Method

(All Figures in AED Mn)	FY 2024E	FY 2025E	FY 2026E	FY 2027E	FY 2028E
Net Profit	4,933	4,731	4,412	4,139	3,887
(-) Equity Charge	-1,549	-1,798	-2,016	-2,199	-2,349
Excess Equity	3,384	2,933	2,395	1,939	1,538
Discounting Factor	0.93	0.85	0.79	0.73	0.67
Present Value of Excess Equity	3,136	2,505	1,886	1,407	1,028

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 1.9x 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)	4,064	1.1	NA	NA	NA	5.5	6.0
Abu Dhabi Commercial Bank (ADCB)	17,714	1.0	0.9	8.6	8.4	5.8	5.9
Emirates NBD	30,184	1.0	0.9	6.1	6.0	4.9	4.9
Dubai Islamic Bank (DIB)	11,374	1.1	1.0	8.0	7.3	5.9	6.1
FAB	45,700	1.4	1.3	11.4	11.4	4.0	4.2
Alinma Bank	22,870	2.6	2.4	16.1	15.0	3.0	3.2
Al Rajhi Bank	92,840	3.5	3.2	19.5	17.2	3.0	3.6
Bank Albilad	12,380	2.7	2.4	17.2	15.7	1.8	2.2
Average		1.8x	1.7x	12.4x	11.6x	4.2%	4.5%
Median		1.2x	1.3x	11.4x	11.4x	4.4%	4.5%
Max		2.6x	2.4x	16.7x	15.4x	5.6%	5.9%
Min		1.1x	1.0x	8.3x	7.8x	3.0%	3.5%

Source: FAB Securities

