

# **UAE Equity Research**

# **Dubai Islamic Bank (DIB)**

Strong asset quality and lower impairments boosted profitability

#### **4Q22 Net Profit in line with our estimate**

Dubai Islamic Bank ("DIB", "The Bank") net profit increased 7.7% YOY to AED 1,412 Mn in 4Q22, slightly higher than our estimate of AED 1,393 Mn. The increase in net profit is primarily driven by the Bank's strong growth in net funded income partially offset by a decline in non-funded income and an increase in operating expenses.

**P&L** highlights

Funded income rose significantly 63.3% YOY to AED 3,635 Mn in 4022. The increase in funded income was driven by a 217 bps YOY increase in asset yield further supported by an increase in net financing and Sukuk investments which grew 4.3% YOY to AED 238.3 Bn. Funded expenses also rose strongly from AED 577 Mn in 4Q21 to AED 1,414 Mn in 4Q22 mainly due to an increase in benchmark rates. As a result, net funded income recorded a 34.6% YOY increase to AED 2,220 Mn in 4Q22. Thus, NIMs rose 89 bps YOY and 12 bps QOQ to 3.37% in 4Q22. Non-funded income recorded a decline of 4.8% YOY to AED 594 Mn in 4Q22 due to a decline in fees and commission income and other operating income partially offset by an increase in the share of profits from associates. Share of associates rose from a loss of AED 1 Mn in 4Q21 to a profit of AED 42 Mn in 4Q22 . Resultantly, total operating income rose 23.8% YOY to AED 2,814 Mn in 4Q22. Operating expenses rose 5.7% YOY to AED 693 Mn in 4Q22, owing to the Bank's continued investment in the system and operational infrastructure. However, the cost-to-income ratio declined 423 bps YOY to 24.6% in 4Q22. Impairments charges increased significantly from AED 274 Mn in 4Q21 to AED 653 Mn in 4Q22. Tax expenses rose from AED 6 Mn in 4Q21 to AED 18 Mn in 4Q22 dragging profitability. Share to NCI increased from AED 25 Mn in 4Q21 to AED 39 Mn in 4Q22.

#### **Balance Sheet highlights**

The Bank's net financing declined marginally 0.3% YOY and 0.6% QOQ to AED 186 Bn in 2022 due to early prepayments of AED 14 Bn and AED 15 Bn in the corporate and consumer segments as a result of excess liquidity and higher interest rate partially offset by an increase in the consumer loan portfolio. While total assets rose 3.3% YOY to AED 288 Bn in 2022 majorly due to an increase in cash balance and a rise in the Sukuk investments. Customer deposits declined 3.5% YOY to AED 198.6 Bn in 2022. CASA deposits increased from AED 77 Bn to AED 87 Bn and now account for 44.0% of total deposits in 2022. The increase in CASA deposits was mainly due to a rise in the Bank's corporate funding base. Furthermore, the total equity of the Bank rose 8.0% YOY to AED 33 Bn in 2022.

Target price and rating

We maintain BUY rating on DIB with a target price of AED 7.00. The Bank held ample liquidity which will boost the credit growth in 2023. It also plans to deepen relationship with the government, public and large corporates to boost credit demand and anticipates it to grow by 5% in 2023. DIB reported cost-to-income ratio of 26.1% in 2022, the lowest amongst the banking sector in UAE. It plans to undertake initiatives to reduce it further. Furthermore, the NPL ratio declined marginally from 6.74% in 3Q22 to 6.67% in

# **Rating: BUY**

## First Look Note – 4Q22

**Sector: Banking** 

Recommendation	
Current Price (30-Jan-22)	5.72
Target Price (AED)	7.00
Upside/Downside (%)	+22.4%

Stock Information

Market Cap (mm)	40,765.39				
Paid Up Capital (mm)	7,240.74				
52 Week High	6.63				
52 Week Low	5.35				
3M Avg. daily value (AED)	31,731,220				
2.40 DFMGI —ADI	——DIB UH				
2.20 -					
2.00 - 1.80 - 1.60 -					
1.80 - 1.60 - 1.40 -					
1.80 - 1.60 -					
1.80 - 1.60 - 1.40 - 1.20 -					
1.80 1.60 1.40 1.20					

Financial Ratios	
Dividend Yield (12m)	4.37
Dividend Pay-out (%)	42.94
Price-Earnings Ratio (x)	8.19
Price-to-Book Ratio (x)	1.25
Book Value (AED)	4.57
Return-on Equity (%)	15.87
Earning Per Share (AED)	0.70
Beta	0.88

Stock Performance	
5 Days	-0.71%
1 Months	-1.23%
3 Months	-3.26%
6 Months	-4.25%
1 Year	2.36%
Month to Date (MTD)	-1.23%
Quarter to Date (QTD)	-1.23%
Year to Date (YTD)	-1.23%

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4Q22 mainly due to the ongoing recoveries with a coverage ratio of 78% in 4Q22. Stage 2 loans also declined from AED 19.8 Bn in 2021 to AED 15.6 Bn in 2022 indicating the Bank's strong asset quality trend. It reduced its real estate exposure from 23% in 2021 to 20% in 2022 will further aid the asset quality. The net financing and sukuk investment of the Bank grew 4.3% YOY to AED 238.3 Bn in 2022. The capitalization also remained healthy with a capital adequacy ratio of 17.6% and CET 1 ratio stood at 12.9% in 4Q22. Recently the Bank also partnered with AL Ramz to leverage capital markets services and expand financial offerings to its customers. This partnership enables the Al Ramz to provide DIB's clients the brokerage and associated services. Considering all these factors, we maintain our BUY rating on the stock.

**DIB** - Relative valuation

(at CMP)	2018	2019	2020	2021	2022	2023F
P/E (x)	7.92	8.27	15.12	10.86	8.20	7.18
P/B (x)	1.56	1.47	1.45	1.35	1.25	1.13
Dividend Yield (%)	6.1%	6.1%	3.5%	4.4%	5.2%	6.1%

FABS Estimates & Co Data

DIB - P&L

AED mm	4Q21	3Q22	4Q22	4Q22F	VAR	YOY Ch	QOQ Ch	2021	2022	Change
Funded income	2,226	3,112	3,635	3,344	8.7%	63.3%	16.8%	9,013	11,739	30.2%
Funded expense	-577	-994	-1,414	-1,138	24.3%	145.2%	42.3%	-2,373	-3,634	53.1%
Net funded income	1649	2,119	2,220	2,206	0.7%	34.6%	4.8%	6,639	8,105	22.1%
Fees & commissions	404	330	365	340	7.3%	-9.8%	10.5%	1,655	1,601	-3.3%
Other non-funded income	219	165	229	158	45.0%	4.5%	39.0%	1,127	762	-32.4%
Non Funded Income	623	495	594	498	19.2%	-4.8%	20.0%	2,782	2,363	-15.1%
Operating income	2,273	2,613	2,814	2,704	4.1%	23.8%	7.7%	9,422	10,467	11.1%
General expenses	-656	-685	-693	-708	-2.1%	5.7%	1.1%	-2,529	-2,733	8.1%
Pre-provisioning profit	1,617	1,928	2,121	1,996	6.3%	31.2%	10.0%	6,892	7,734	12.2%
Impairment charges	-274	-502	-653	-550	18.7%	137.9%	29.9%	-2,448	-2,103	-14.1%
Profit before tax	1,343	1,426	1,469	1,446	1.6%	9.4%	3.0%	4,444	5,631	26.7%
Tax	-6	-25	-18	-29	-38.5%	204.5%	-29.4%	-38	-79	107.9%
Profit before NCI	1,337	1,401	1,451	1,417	2.4%	8.5%	3.6%	4,406	5,552	26.0%
Non-controlling interests	-25	-24	-39	-24	62.5%	53.6%	62.5%	-15	-77	415.2%
Profit for the period	1,311	1,377	1,412	1,393	1.4%	7.7%	2.6%	4,391	5,474	24.7%

FABS estimate & Co Data

**DIB - Margins** 

	4Q21	3Q22	4Q22	YOY Ch	QOQ Ch	2021	2022	Change
Net FI/OI	72.6%	81.1%	78.9%	634	-217	70.5%	77.4%	696
NIM	2.5%	3.2%	3.4%	89	12	2.5%	3.0%	54
NIS	2.4%	3.0%	3.0%	67	2	2.4%	2.8%	47
Fees & commissions/OI	17.8%	12.6%	13.0%	-483	33	17.6%	15.3%	-227
Other non-funded/OI	9.6%	6.3%	8.1%	-151	183	12.0%	7.3%	-469
Cost to income	28.8%	26.2%	24.6%	-423	-160	26.8%	26.1%	-73
Impairment/PPP	17.0%	26.1%	30.8%	1380	472	35.5%	27.2%	-833
NCI/PBT	1.9%	1.7%	2.7%	79	97	0.3%	1.4%	105
NP/OI	57.7%	52.7%	50.2%	-754	-251	46.6%	52.3%	570
ROAA	1.5%	1.9%	1.9%	40	2	1.5%	1.9%	39
ROAE	14.5%	17.0%	16.8%	224	-22	14.8%	17.2%	237

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### DIB- Key B/S Items

AED mm	4Q21	1Q22	2Q22	3Q22	4Q22	YOY Ch
Net advances	186,691	190,715	194,359	187,231	186,043	-0.3%
QOQ change	-3.1%	2.2%	1.9%	-3.7%	-0.6%	
Total assets	279,082	287,226	282,218	274,856	288,238	3.3%
QOQ change	-3.6%	2.9%	-1.7%	-2.6%	4.9%	
Customer deposits	205,845	204,476	202,214	186,512	198,637	-3.5%
QOQ change	-3.9%	-0.7%	-1.1%	-7.8%	6.5%	
Total equity	30,602	29,958	31,024	32,230	33,039	8.0%
QOQ change	2.6%	-2.1%	3.6%	3.9%	2.5%	

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#### **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%

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Best Brokerage in the UAE 2016 By "Global Investor/ ISF ME Awards"



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