

Sharjah Islamic Bank (SIB)

Higher net funded & non-funded income boosted profit

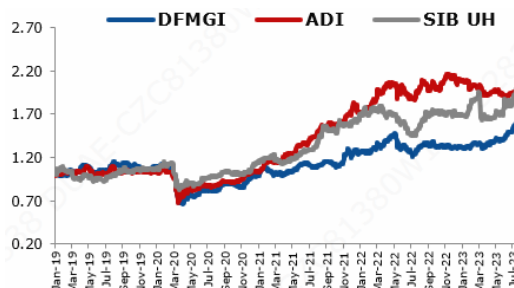
Current Price
AED 2.34

Target Price
AED 2.07

Upside/Downside (%)
-11.5%

Rating
REDUCE

- The Bank repaid the outstanding Sukuk of USD 500 Mn in 2Q23 from its own sources resulting in a Sukuk balance of AED 1.8 Bn in 2Q23 indicating healthy liquidity
- Bank recorded strong growth in advances which rose 3.9% QOQ in 2Q23 while customer deposits grew 0.6% QOQ
- SIB NPL ratio declined 36 bps QOQ to 5.8%, whereas provision coverage increased to 84.7% in 2Q23 from 82.3% in 1Q23
- SIB's capitalization remained strong with a CET1 ratio of 13.8% and CAR of 19.4% in 2Q23



Stock Information

Market Cap (AED, mm)	7,571.49
Paid Up Capital (mm)	3,235.68
52 Week High	2.38
52 Week Low	1.73
3M Avg. daily value (AED)	3,548,331

2Q23 Result Review (AED, mm)

Total Assets	61,061
Total Liabilities	53,288
Total Equity	7,774
Total Deposits	42,135
Net Profit	262

Financial Ratios

Dividend Yield (12m)	4.07
Dividend Pay-out (%)	0.00
Price-Earnings Ratio(x)	9.67
Price-to-Book Ratio (x)	1.35
Book Value (AED)	1.75
Return-on Equity (%)	12.31

Stock Performance

5 Days	1.73%
1 Months	5.88%
3 Months	19.39%
6 Months	15.35%
1 Year	35.00%
Month to Date (MTD%)	0.86%
Quarter to Date (QTD%)	12.50%
Year to Date (YTD%)	26.01%

2Q23 Net Profit higher than our estimate

Sharjah Islamic Bank's (SIB/the Bank) net profit rose 49.6% YOY to AED 262 Mn in 2Q23, higher than our estimate of AED 223 Mn. The increase in net profit is mainly driven by strong growth in net funded income and non-funded income along with a decline in provisions partially offset by a rise in G&A expenses.

P&L Highlights

SIB's funded income rose 67.3% YOY to AED 743 Mn in 2Q23 mainly due to growth in asset yield and an increase in interest-earning assets. SIB's asset yield rose 26 bps QOQ to 5.4% in 2Q23. On the other hand, funded expense increased significantly from AED 150 Mn in 2Q22 to AED 396 Mn in 2Q23 owing to higher benchmark rates. The Bank's cost of funds rose 51 bps QOQ to 3.1% in 2Q23. Thus, net funded income rose 18.1% YOY to AED 347 Mn in 2Q23. NIMs also grew 16 bps YOY and declined 14 QOQ to 2.1% in 2Q23. Net Fees and commission income declined marginally from AED 66 Mn in 2Q22 to AED 64 Mn in 1Q23. Moreover, investment income rose from AED 17 Mn in 2Q22 to AED 25 Mn in 2Q23, while other income increased to AED 27 Mn in 2Q23 as compared to AED 14 Mn in 2Q22. In addition, foreign exchange income rose significantly to AED 18 Mn in 2Q23 from a loss of AED 4 Mn in 2Q22. Thus, the bank's non-funded income rose 43.2% YOY to AED 134 Mn in 2Q23. As a result, total operating income rose 24.1% YOY to AED 481 Mn in 2Q23. SIB's G&A expenses rose 15.3% YOY to AED 160 Mn in 2Q23. Thus, the cost-to-income ratio declined 256 bps YOY to 33.2% in 2Q23 due to a rise in operating income. The Bank's provisions declined 19.4% YOY to AED 60 Mn in 2Q23.

Balance Sheet Highlights

SIB's total assets grew 8.9% YOY and 1.4% QOQ to AED 61.1 Bn in 2Q23 driven by a rise in net advances and an increase in investment securities. Net advances rose 9.5% YOY and 3.9% QOQ to AED 31.6 Bn in 2Q23. While investment securities rose 58.1% YOY to AED 11.5 Bn in 2Q23. SIB's total liquid assets stood at AED 12.2 Bn representing 20.0% of total assets as of 2Q23. The Bank's customer deposits rose 12.8% YOY and 0.6% QOQ to AED 42.1 Bn in 2Q23. CASA deposit rose from 42.8% in 1Q23 to 43.4% in 2Q23. Total equity grew 2.0% YOY and 3.9% QOQ to AED 7.8 Bn in 2Q23. In addition, the Bank repaid USD 500 Mn of Sukuk in 2Q23.

Target Price and Rating

We maintain our REDUCE rating on SIB with a revised target price of AED 2.07. SIB's NIMs declined 14 bps QOQ to 2.1% in 2Q23 due to pressure from the cost of funds. The Bank's net advances rose 9.5% YOY to AED 31.6 Bn in 2Q23 while deposits rose 12.8% YOY to AED 42.1 Bn. Thus, SIB's loan-to-deposit rose 72.6% in 1Q23 to 74.9% in 2Q23 pressurizing funding. The Bank's loan to the construction and contracting and real estate sector out of total Islamic financing rose from 27.7% in 1Q23 to 28.6% in 2Q23. Moreover, the asset quality of the Bank improved as the NPL ratio stood at 5.8% in 2Q23 as compared to 6.2% in 1Q23 while provision coverage against NPLs rose from 82.3% in 1Q23 to 84.7% in 2Q23 as result of Bank's prudent management overlays and stringent risk management policies. However, the Bank's stage 2 loans as a percentage of gross loans increased from 7.5% in 1Q23 to 7.6% in 2Q23 while the provision coverage for the stage 2 loans declined from 12.3% in 1Q23 to 10.8% in 2Q23. The Bank's CASA deposits as a percentage of total deposits improved slightly from 42.8% in 1Q23 to 43.4% in 2Q23. The Bank's capitalization stood strong with a CET 1 ratio of 13.8% and CAR of 19.4% in 2Q23. SIB is trading at 2023 PB multiple of 1.2x as compared to the peer multiple average of 1.1x renders it expensive. Thus, based on our analysis, we maintain our REDUCE rating on the stock.

SIB - Relative valuation

(at CMP)	2018	2019	2020	2021	2022	2023F
PE	14.84	13.87	18.66	14.73	11.63	8.83
PB	1.41	1.33	1.30	1.29	1.31	1.20
Dividend yield	3.1%	1.9%	3.3%	3.3%	4.1%	4.5%

FABS Estimates & Co Data

SIB - P&L

AED mm	2Q22	1Q23	2Q23	2Q23F	Var.	YOY Ch	QOQ Ch	2022	2023F	Change
Income from fin. & leasing	444	695	743	704	5.6%	67.3%	6.9%	1,939	2,926	50.9%
Depositors' share of profit	-150	-324	-396	-330	20.1%	163.5%	22.2%	-725	-1,458	101.0%
Net funded income	294	370	347	374	-7.3%	18.1%	-6.4%	1,213	1,468	21.0%
Fees and commissions	79	74	83	76	8.5%	4.4%	11.8%	288	305	6.0%
Fee and commission Exp	-14	-16	-19	-15	24.3%	40.4%	17.1%	-64	-67	6.0%
Investment Income	17	12	25	14	78.8%	41.8%	114.6%	67	77	NA
Foreign Exchange income	-4	17	18	13	47.6%	NA	NA	23	58	NA
Other Income	14	27	27	22	23.1%	92.2%	-1.5%	81	97	20.0%
Total non-funded income	94	113	134	109	22.6%	43.2%	18.1%	396	470	18.9%
Total operating income	387	484	481	483	-0.5%	24.1%	-0.7%	1,609	1,939	20.5%
General & admin. Expenses	-138	-156	-160	-169	-5.6%	15.3%	2.2%	-611	-708	15.8%
Pre provision profit	249	328	321	314	2.2%	29.1%	-2.0%	998	1,231	23.3%
Provisions	-74	-95	-60	-92	-35.0%	-19.4%	-37.1%	-314	-373	18.9%
Net Profit attributable	175	233	262	223	17.0%	49.6%	12.2%	651	858	31.8%

FABS estimate & Co Data

SIB - KPI

	2Q22	1Q23	2Q23	YOY Ch	QOQ Ch	2022	2023F	Change
Net FI/OI	75.8%	76.5%	72.1%	-371	-443	75.4%	75.7%	33
NIM	2.0%	2.3%	2.1%	16	-14	1.9%	2.3%	34
NIS	2.3%	2.6%	2.3%	7	-25	2.5%	2.8%	30
Fees & comms/OI	20.5%	15.3%	17.2%	-325	191	17.9%	15.7%	-215
Cost to income	35.8%	32.3%	33.2%	-256	94	38.0%	36.5%	-146
Provisions/PPP	29.7%	28.9%	18.5%	-1114	-1034	31.4%	30.3%	-111
NP/OI	45.2%	48.2%	54.4%	924	624	40.5%	44.2%	380
ROAE	10.2%	12.2%	13.5%	329	135	11.2%	14.2%	300
ROAA	1.1%	1.2%	1.3%	23	12	1.1%	1.5%	32

FABS estimate & Co Data

SIB - Key B/S items

AED mm	2Q22	3Q22	4Q22	1Q23	2Q23	YOY Ch
Net advances	28,830	30,612	30,672	30,402	31,578	9.5%
QOQ ch	-3.6%	6.2%	0.2%	-0.9%	3.9%	
Total assets	56,068	54,595	59,123	60,246	61,061	8.9%
QOQ ch	2.5%	-2.6%	8.3%	1.9%	1.4%	
Customer deposits	37,364	36,140	39,529	41,879	42,135	12.8%
QOQ ch	-2.7%	-3.3%	9.4%	5.9%	0.6%	
Total equity	7,619	7,644	7,632	7,483	7,774	2.0%
QOQ ch	1.4%	0.3%	-0.2%	-2.0%	3.9%	

FABS estimate & Co Data

Valuation:

We use Residual Income and Relative Valuation (RV) method to value SIB. We have assigned 70% weight to Residual Income, and 30% to RV method.

Valuation Method	Target	Weight	Weighted Value
Residual Income	2.03	70.0%	1.42
Relative Valuation (RV)	2.16	30.0%	0.65
Weighted Average Valuation (AED)			2.07
Current market price (AED)			2.34
Upside/Downside (%)			-11.5%

1) Residual Income Method:

We have discounted the economic profit/excess equity using the cost of equity of 7.5%. Cost of equity is calculated by using 10-year government bond yield of 4.5%, beta of 0.80 and equity risk premium of 3.7%. Government bond yield is calculated after adding Abu Dhabi 10-year spread over 10-year US risk-free rate. Also, assumed a terminal growth rate of 2.0%.

Sum of PV (AED, Mn)	769
Terminal value (AED, Mn)	-75
Book Value of Equity (as of June 2023)	5,937
FV to Common shareholders (AED, Mn)	6,576
No. of share (Mn)	3,236
Current Market Price (AED)	2.34
Fair Value per share (AED)	2.03

Residual Income Method

(All Figures in AED Mn)	FY 2023E	FY 2024E	FY 2025E	FY 2026E	FY 2027E
Net Profit	858	691	689	588	552
(-) Equity Charge	-471	-500	-528	-545	-557
Excess Equity	387	191	161	43	-6
Discounting Factor	0.97	0.91	0.84	0.79	0.73
Present Value of Excess Equity	376	173	136	34	-4

Source: FAB Securities

2) Relative Valuation:

We have used local peers to value SIB and it is valued using the PB multiple. It is valued with PB multiple of 1.1x in line with peers.

Company	Market (USD Mn)	P/B (x)		P/E (x)		Dividend Yield (%)	
		2023F	2024F	2023F	2024F	2023F	2024F
Rakbank	2,494	1.0	0.9	6.2	6.8	8.1	7.5
Commercial Bank of Dubai	3,823	1.1	1.0	6.4	6.9	6.7	6.5
Abu Dhabi Islamic Bank (ADIB)	11,025	2.0	1.9	9.9	10.2	5.4	5.3
Emirates NBD	27,969	1.1	1.0	5.8	6.9	4.5	4.5
Abu Dhabi Commercial Bank (ADCB)	16,395	1.0	0.9	8.3	9.1	6.1	5.2
Dubai Islamic Bank	11,167	1.1	1.1	7.3	8.2	5.9	5.8
Mashreq Bank	7,926	1.2	1.1	5.5	6.5	8.6	8.6
Average		1.2x	1.1x	7.0x	7.8x	6.5%	6.2%
Median		1.1x	1.0x	6.4x	6.9x	6.1%	5.8%
Max		1.1x	1.1x	7.8x	8.6x	7.4%	7.0%
Min		1.0x	0.9x	6.0x	6.8x	5.7%	5.2%

Source: FAB Securities

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 Analyst

Ahmad Banihani +971-2-6161629 ahmad.banihani@Bankfab.com

Sales & Execution

Abu Dhabi Head Office

Trading Desk +971-2-6161700/1 Online Trading Link
 +971-2-6161777

Institutional Desk +971-4-4245765

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.