

## Sharjah Islamic Bank (SIB)

Lower opex and impairments boosted profit

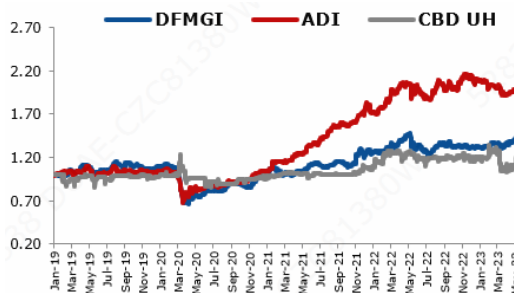
**Current Price**  
AED 2.34

**Target Price**  
AED 2.07

**Upside/Downside (%)**  
-12%

**Rating**  
**REDUCE**

- SIB's advances rose 4.1% YOY to AED 31.9 Bn in 3Q23 while deposits increased significantly 25.2% YOY to 45.2 Bn
- Loan to deposits ratio declined from 74.9% in 2Q23 to 70.4% in 3Q23
- The Bank's impairments declined significantly 30.5% YOY to AED 18 Mn, indicating an improved economic outlook, whereas the cost-to-income ratio improved 347 bps YOY to 35.1% in 3Q23
- SIB NPL ratio improved 27 bps QOQ to 5.5%, whereas provision coverage increased to 85.7% in 3Q23 from 84.7% in 2Q23
- SIB's capitalization remained strong with a CET1 ratio of 14.1% and CAR of 19.6% in 3Q23



### Stock Information

Market Cap (AED, mm)	7,571.49
Paid Up Capital (mm)	3,235.68
52 Week High	2.53
52 Week Low	1.81
3M Avg. daily value (AED)	2,797,778

### 3Q23 Result Review (AED, mm)

Total Assets	63,409
Total Liabilities	55,412
Total Equity	7,998
Total Deposits	45,241
Net Profit	273

### Financial Ratios

Dividend Yield (12m)	4.07
Return on Equity (%)	14.20
Price-Earnings Ratio(x)	9.53
Price-to-Book Ratio (x)	1.23
Book Value (AED)	1.90
Beta	0.54

### Stock Performance

5 Days	-0.43%
1 Months	-1.68%
3 Months	0.86%
6 Months	21.24%
1 Year	25.36%
Month to Date (MTD%)	-1.68%
Quarter to Date (QTD%)	-1.68%
Year to Date (YTD%)	26.01%

### 3Q23 Net Profit in line with our estimate

Sharjah Islamic Bank's (SIB/the Bank) net profit rose 31.9% YOY to AED 273 Mn in 3Q23, in line with our estimate of AED 273 Mn. The increase in net profit is mainly driven by strong growth in net funded income and a decline in provisions partially offset by a rise in G&A expenses.

### P&L Highlights

SIB's funded income rose 62.0% YOY to AED 794 Mn in 3Q23 mainly driven by a healthy growth in net advances and expansion in asset yield. On the other hand, funded expense increased significantly from AED 193 Mn in 3Q22 to AED 428 Mn in 3Q23 due to increase in benchmark rates. Thus, the Bank's net funded income rose 23.0% YOY to AED 366 Mn in 3Q23. The Bank's NIM's rose 21 bps YOY to 2.2% in 3Q23. SIB's net fee and commission income increased to AED 55 Mn in 3Q23 as compared to AED 28 Mn in 3Q22. However, the Bank's investment income turned negative to AED 1 Mn in 3Q23 as compared to income of AED 21 Mn in 3Q22. SIB incurred foreign exchange gain of AED 7 Mn in 3Q23 as compared to a loss of AED 3 Mn in 3Q22. Moreover, the Bank's other income declined 42.5% YOY to AED 21 Mn in 3Q23. Thus, the Bank's non-funded income rose marginally 0.6% YOY to AED 82 Mn in 3Q23. As a result, total operating income grew 18.2% YOY to AED 448 Mn in 3Q23. SIB's operating expenses increased 7.5% YOY to AED 157 Mn in 3Q23 while cost to income ratio declined 347 bps YOY to 35.1%. The Bank's provisions fell from AED 26 Mn in 3Q22 to AED 18 Mn in 3Q23.

## Balance Sheet Highlights

SIB's total assets grew 16.1% YOY and 3.8% QOQ to AED 63.4 Bn in 3Q23. Net advances rose 4.1% YOY and 0.9% QOQ to AED 31.9 Bn in 3Q23. While investment securities rose 73.2% YOY to AED 12.1 Bn in 3Q23. SIB's total liquid assets stood at AED 13.8 Bn representing 21.8% of total assets as of 3Q23. The Bank's customer deposits rose significantly 25.2% YOY and 7.4% QOQ to AED 45.2 Bn in 3Q23. CASA deposit declined from 43.4% in 2Q23 to 40.6% in 3Q23. Total equity grew 4.6% YOY and 2.9% QOQ to AED 8.0 Bn in 3Q23.

## Target Price and Rating

We maintain our REDUCE rating on SIB with an unchanged target price of AED 2.07. The Bank advances rose 4.1% YOY and 0.9% QOQ to AED 31.9 Bn in 3Q23 while the growth remained slower as compared to industry average. The growth in customer deposits remained healthy and rose 16.1% YOY and 3.8% QOQ to AED 63.4 Bn in 3Q23. As a result, the loan-to-deposit ratio fell from 74.9% in 2Q23 to 70.4% in 3Q23. Moreover, SIB's asset quality also improved as NPLs declined 27 bps QOQ to 5.5% in 3Q23 while the coverage ratio marginally improved to 85.7% in 3Q23 from 84.7% in 2Q23. Similarly, the Bank's stage 2 loans as a percentage of total loans declined to 6.8% in 3Q23 from 7.6% in 2Q23. Furthermore, the Bank's CASA ratio moderated from 43.4% in 2Q23 to 40.6% in 3Q23. SIB's capitalization improved with a CET 1 ratio of 14.1%, Tier 1 ratio of 18.4% and CAR of 19.6% in 3Q23. However, SIB's loan book remains concentrated to government, real estate and personal loans. Loans to the government sector account for 34.4% of its financing portfolio while 29.3% of loans are allotted to the real estate and construction sector. High loan concentration to a single sector might impact the credit profile in a downturn. SIB also trades at a 2023 PB multiple of 1.2x as compared to the sector average of 1.0x rendering 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	14.90	13.93	18.74	14.79	11.68	7.71
PB	1.41	1.34	1.31	1.30	1.31	1.19
Dividend yield	3.1%	1.9%	3.2%	3.2%	4.1%	5.2%

FABS Estimates & Co Data

### SIB - P&L

AED mm	3Q22	2Q23	3Q23	3Q23F	Var.	YOY Ch	QOQ Ch	2022	2023F	Change
Income from fin. & leasing	490	743	794	782	1.6%	62.0%	6.9%	1,939	3,039	56.8%
Depositors' share of profit	-193	-396	-428	-411	4.2%	122.2%	8.1%	-725	-1,577	117.4%
<b>Net funded income</b>	<b>298</b>	<b>347</b>	<b>366</b>	<b>371</b>	<b>-1.3%</b>	<b>23.0%</b>	<b>5.6%</b>	<b>1,213</b>	<b>1,463</b>	<b>20.6%</b>
Fees and commissions	44	83	75	87	-13.3%	70.7%	-8.9%	288	322	12.0%
Fee and commission Exp	-16	-19	-20	-17	17.7%	24.6%	7.9%	-64	-71	12.0%
Investment Income	21	25	-1	31	NM	NM	NM	67	70	5.0%
Foreign Exchange income	-3	18	7	17	-56.3%	NM	-60.7%	23	70	200.0%
Other Income	36	27	21	27	-23.6%	-42.5%	-22.9%	81	97	20.0%
<b>Total non-funded income</b>	<b>82</b>	<b>134</b>	<b>82</b>	<b>144</b>	<b>-43.1%</b>	<b>0.6%</b>	<b>-38.7%</b>	<b>396</b>	<b>489</b>	<b>23.5%</b>
<b>Total operating income</b>	<b>379</b>	<b>481</b>	<b>448</b>	<b>515</b>	<b>-13.0%</b>	<b>18.2%</b>	<b>-6.7%</b>	<b>1,609</b>	<b>1,952</b>	<b>21.3%</b>
General & admin. Expenses	-146	-160	-157	-168	-6.1%	7.5%	-1.5%	-611	-669	9.6%
<b>Pre provision profit</b>	<b>233</b>	<b>321</b>	<b>291</b>	<b>348</b>	<b>-16.3%</b>	<b>24.9%</b>	<b>-9.3%</b>	<b>998</b>	<b>1,282</b>	<b>28.4%</b>
Provisions	-26	-60	-18	-75	-75.7%	-30.5%	-69.2%	-314	-295	-5.8%
<b>Net Profit attributable</b>	<b>207</b>	<b>262</b>	<b>273</b>	<b>273</b>	<b>0.1%</b>	<b>31.9%</b>	<b>4.3%</b>	<b>651</b>	<b>987</b>	<b>51.6%</b>

FABS estimate & Co Data

**SIB - KPI**

	3Q22	2Q23	3Q23	YOY Ch	QOQ Ch	2022	2023F	Change
Net FI/OI	78.5%	72.1%	81.7%	321	956	75.4%	75.0%	-45
NIM	2.0%	2.1%	2.2%	21	10	1.9%	2.2%	28
NIS	2.3%	2.3%	2.4%	10	5	2.5%	2.7%	19
Fees & comms/OI	11.6%	17.2%	16.8%	517	-41	17.9%	16.5%	-137
Cost to income	38.6%	33.2%	35.1%	-347	187	38.0%	34.3%	-366
Provisions/PPP	11.3%	18.5%	6.3%	-502	-1224	31.4%	23.0%	-839
NP/OI	54.5%	54.4%	60.8%	634	642	40.5%	50.6%	1011
ROAE	10.8%	13.5%	14.0%	327	52	11.2%	16.2%	503
ROAA	1.1%	1.3%	1.4%	24	7	1.1%	1.6%	47

FABS estimate & Co Data

**SIB - Key B/S items**

	3Q22	4Q22	1Q23	2Q23	3Q23	YOY Ch
<b>AED mm</b>						
Net advances	30,612	30,672	30,402	31,578	31,865	4.1%
QOQ ch	6.2%	0.2%	-0.9%	3.9%	0.9%	
Total assets	54,595	59,123	60,246	61,061	63,409	16.1%
QOQ ch	-2.6%	8.3%	1.9%	1.4%	3.8%	
Customer deposits	36,140	39,529	41,879	42,135	45,241	25.2%
QOQ ch	-3.3%	9.4%	5.9%	0.6%	7.4%	
Total equity	7,644	7,632	7,483	7,774	7,998	4.6%
QOQ ch	0.3%	-0.2%	-2.0%	3.9%	2.9%	

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	2.10	70.0%	1.47
Relative Valuation (RV)	2.00	30.0%	0.60
<b>Weighted Average Valuation (AED)</b>			<b>2.07</b>
Current market price (AED)			2.34
Upside/Downside (%)			-12%

### 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 0.90 and equity risk premium of 4.4%. 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)	370
Terminal value (AED, Mn)	261
Book Value of Equity (as of Sept 2023)	6,161
<b>FV to Common shareholders (AED, Mn)</b>	<b>6,792</b>
No. of share (Mn)	3,236
Current Market Price (AED)	2.34
<b>Fair Value per share (AED)</b>	<b>2.10</b>

### Residual Income Method

(All Figures in AED Mn)	FY 2023E	FY 2024E	FY 2025E	FY 2026E	FY 2027E
Net Profit	987	728	723	723	698
(-) Equity Charge	-545	-582	-616	-648	-674
<b>Excess Equity</b>	<b>74</b>	<b>146</b>	<b>107</b>	<b>76</b>	<b>24</b>
Discounting Factor	0.99	0.91	0.84	0.77	0.71
<b>Present Value of Excess Equity</b>	<b>73</b>	<b>133</b>	<b>90</b>	<b>58</b>	<b>17</b>

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 1.0x in line with peers.

Company	Market (USD Mn)	P/B (x)		P/E (x)		Dividend Yield (%)	
		2023F	2024F	2023F	2024F	2023F	2024F
Mashreq Bank	8,302	1.2	NA	5.3	5.6	8.2	8.2
RAKBank	2,908	1.1	1.1	6.1	7.4	8.3	7.0
Emirates NBD	27,520	1.0	0.9	4.7	5.6	5.2	5.2
Abu Dhabi Commercial Bank	15,540	0.9	0.9	7.8	8.1	6.6	6.4
Dubai Islamic Bank	10,450	1.1	1.0	7.1	7.6	6.2	6.2
Commercial Bank of Dubai	3,747	1.0	1.0	NA	NA	5.6	6.0
<b>Average</b>		<b>1.0x</b>	<b>1.0x</b>	<b>6.2x</b>	<b>6.9x</b>	<b>6.7%</b>	<b>6.5%</b>
<b>Median</b>		<b>1.0x</b>	<b>1.0x</b>	<b>6.1x</b>	<b>7.4x</b>	<b>6.4%</b>	<b>6.3%</b>
<b>Max</b>		<b>1.1x</b>	<b>1.0x</b>	<b>7.1x</b>	<b>7.6x</b>	<b>7.8%</b>	<b>6.9%</b>
<b>Min</b>		<b>1.0x</b>	<b>0.9x</b>	<b>5.3x</b>	<b>5.6x</b>	<b>5.8%</b>	<b>6.0%</b>

Source: FAB Securities

