

Sharjah Islamic Bank

Downgraded to SELL

4Q22 Net Profit lower than our estimate

Sharjah Islamic Bank's (SIB/the Bank) net profit more than doubled to AED 116 Mn in 4Q22 as compared to AED 56 Mn in 4Q21, lower than our estimate of AED 186 Mn. The increase in net profit is mainly driven by strong growth in operating income partially offset by a significant rise in impairments and higher operating expenses.

P&L highlights

SIB's funded income rose 39.6% YOY to AED 569 Mn in 4Q22 due to strong growth in asset yield and an increase in interest-earning assets. SIB's asset yield rose 51 bps QOQ to 4.4% in 4Q22. On the other hand, the Bank's funded expense also increased from AED 125 Mn in 4Q21 to AED 241 Mn in 4Q22 mainly due to higher benchmark rates. The Bank's cost of funds rose 35 bps QOQ to 2.0% in 4Q22. However, the Bank's profit expenses on sukuk declined 22.4% YOY to AED 134 Mn in 4Q22. Thus, the bank's net funded income rose 16.4% YOY to AED 328 Mn in 4Q22. The Bank's NIMs increased 15 bps QOQ to 2.2% in 4Q22. Furthermore, SIB's non-funded income rose from AED 87 Mn in 4Q21 to AED 130 Mn in 4Q22. The improvement in non-funded income was primarily due to an increase in fees and commission income, which climbed from AED 44 Mn in 3Q22 to AED 90 Mn in 4Q22, as well as an increase in foreign exchange income which rose from a loss of AED 3 Mn in 3Q22 to a profit of AED 27 Mn in 4Q22. As a result, total operating income rose 24.3% YOY to AED 458 Mn in 4Q22. SIB's general and administrative expenses rose 11.4% YOY to AED 190 Mn in 4Q22. However, the cost-to-income ratio improved 483 bps YOY to 41.5% due to a rise in operating income. In addition, provisions witnessed a sharp increase from AED 50 Mn in 4Q21 to AED 152 Mn in 4Q22.

Balance sheet highlights

SIB's total assets grew 7.6% to AED 59.1 Bn in 2022. While net advances rose 5.7% to AED 30.7 Bn in 2022. The Bank's liquid assets amounted to AED 14.1 Bn, representing 23.9% of total assets in 2022. The Bank's customer deposits rose marginally 2.7% to AED 39.5 Bn in 4Q22. However, total equity declined 0.8% to AED 7.6 Bn in 2022.

Target price and rating

We revise our rating from HOLD to SELL on SIB with a target price of AED 1.90. SIB net profit missed our estimate due to increase in provisions. The Bank only recorded a marginal increase in NPLs from 6.1% in 3Q22 to 6.0% in 4Q22 and stage 2 assets also rose 6.6% in 3Q22 to 7.8% in 4Q22. It might need to create additional provisioning to cover these losses. NIMs expanded by 15 bps QOQ to 2.16% in 4Q22, however increase in cost of funding could pressurize it going forward. CASA ratio declined from 43.4% in 3Q22 to 41.9% in 4Q22. In addition, the Bank resorted to high cost of funding such as due to banks to refinance the credit demand. SIB's CET1 and Total capital ratios stood strong at 13.4% and 19.0%, respectively. The Bank declared a dividend of 10 fils amounting to a dividend yield of 4.4%. In addition, SIB also declared 5% bonus shares against outstanding shares. We believe the recent up move in the share price is as a result of this dividend announcement and may return to back to previous level. Thus, based on our analysis, we revised our rating to SELL on the stock.

Rating : SELL

First Look Note – 4Q22

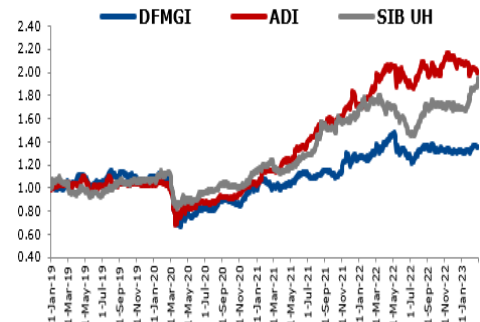
Sector: Banking

Recommendation

Current Price (28-Feb-23)	2.25
Target Price (AED)	1.90
Upside/Downside (%)	-15.6%

Stock Information

Market Cap (mm)	6,933.59
Paid Up Capital (mm)	3,081.60
52 Week High	2.25
52 Week Low	1.65
3M Avg. daily value (AED)	3,053,896



Financial Ratios

Dividend Yield (12m)	3.56
Dividend Pay-out (%)	0.00
Price-Earnings Ratio (x)	10.38
Price-to-Book Ratio (x)	1.20
Book Value (AED)	1.88
Return-on Equity (%)	11.17
Earning Per Share (AED)	0.22
Beta	0.55

Stock Performance

5 Days	4.17%
1 Months	8.70%
3 Months	12.50%
6 Months	15.98%
1 Year	10.84%
Month to Date (MTD)	0.00%
Quarter to Date (QTD)	15.38%
Year to Date (YTD)	15.38%

SIB - Relative valuation

(At CMP)	2018	2019	2020	2021	2022	2023F
PE (x)	13.59	12.70	17.08	13.49	10.65	11.57
PB (x)	1.29	1.22	1.19	1.18	1.20	1.13
Dividend Yield	3.4%	2.2%	3.6%	3.6%	4.4%	3.6%

FABS estimate & Co Data

SIB - P&L

AED mm	4Q21	3Q22	4Q22	4Q22F	Var.	YOY Ch	QOQ Ch	2021	2022	Change
Inc from fin. & leasing	407	490	569	515	10.5%	39.6%	16.0%	1,658	1,939	17.0%
Depositors' share of profit	-125	-193	-241	-200	20.2%	91.8%	24.9%	-563	-725	28.8%
Profit expense on Sukuk	-173	0	-134	0	NM	-22.4%	NM	-173	-134	NM
Net funded income	282	298	328	315	4.4%	16.4%	10.3%	1,094	1,213	10.9%
Non-funded income	87	82	130	81	60.5%	50.0%	59.1%	333	396	18.8%
Total operating inc.	369	379	458	395	15.9%	24.3%	20.8%	1,427	1,609	12.7%
General & admin. Exp	-171	-146	-190	-157	20.9%	11.4%	30.1%	-577	-611	5.9%
Pre provision profit	198	233	268	238	12.6%	35.5%	15.0%	851	998	17.4%
Provisions	-50	-26	-152	-52	189.8%	205.9%	475.8%	-245	-314	28.3%
Net profit attributable	56	207	116	186	-37.5%	106.8%	-43.9%	514	651	26.6%

FABS estimate & Co Data

SIB - KPI

	4Q21	3Q22	4Q22	YOY Ch	QOQ Ch	2021	2022	Change
Net FI/OI	76.5%	78.5%	71.6%	-485	-682	76.7%	75.4%	-125
NIM	1.9%	2.0%	2.2%	26	15	1.9%	1.9%	7
NIS	3.7%	2.3%	3.5%	-17	127	2.5%	2.5%	0
Fees & comms/OI	0.0%	11.6%	19.7%	1967	803	19.0%	17.9%	-111
Cost to income	46.3%	38.6%	41.5%	-483	297	40.4%	38.0%	-245
Provisions/PPP	25.1%	11.3%	56.7%	3161	4542	28.7%	31.4%	268
NP/OI	15.2%	54.5%	25.3%	1009	-2919	36.0%	40.5%	444
ROAE	8.8%	10.8%	11.2%	245	44	8.8%	11.2%	236
ROAA	0.9%	1.1%	1.1%	21	2	0.9%	1.1%	19

FABS estimate & Co Data

SIB- Key BS Items

AED mm	4Q21	1Q22	2Q22	3Q22	4Q22	YOY Ch
Net advances	29,009	29,906	28,830	30,612	30,672	5.7%
<i>QOQ Change</i>	-1.8%	3.1%	-3.6%	6.2%	0.2%	
Total assets	54,957	54,711	56,068	54,595	59,123	7.6%
<i>QOQ Change</i>	0.8%	-0.4%	2.5%	-2.6%	8.3%	
Customer deposits	38,494	38,409	37,364	36,140	39,529	2.7%
<i>QOQ Change</i>	4.8%	-0.2%	-2.7%	-3.3%	9.4%	
Total equity	7,695	7,513	7,619	7,644	7,632	-0.8%
<i>QOQ Change</i>	-0.2%	-2.4%	1.4%	0.3%	-0.2%	

FABS estimate & Co Data

FAB Securities Awards



Best Brokerage House in UAE 2016 & 2017 by "Banker Middle East"



Best Brokerage House in UAE 2016, 2017, 2019 and 2020 by "IFA"



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



Best Research House in UAE 2016 and 2020 by "IFA"



Best New Mobile Application in UAE 2016 by "IFA"



Best Equity Finance Company in UAE 2016 by "IFA"