

Sharjah Islamic Bank (SIB)

Higher revaluation loss on properties impacted profitability

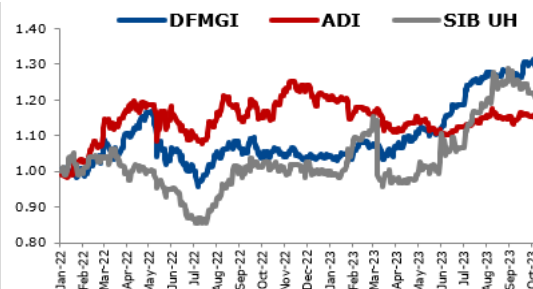
Current Price
AED 2.35

Target Price
AED 2.20

Upside/Downside (%)
-6.4%

Rating
REDUCE

- SIB's advances grew 7.7% YOY to AED 33.0 Bn in 4Q23, while deposits grew strongly 14.4% YOY to 45.2 Bn.
- NIMs declined 2 bps YOY and 8 bps QOQ to 2.1% in 4Q23 primarily due to higher cost of funds.
- The Bank recorded a revaluation loss on properties of AED 218 Mn in 4Q23, compared to AED 34 Mn in 4Q22.
- Impairments declined 68.4% YOY to AED 48 Mn in 4Q23 indicating improved economic outlook whereas cost to income ratio improved 391 bps YOY to 37.6% in 4Q23.
- Stage 2 loans as a percentage of total loans declined to 6.0% in 4Q23 from 6.8% in 3Q23.



4Q23 Net Profit lower than our estimate

Sharjah Islamic Bank's (SIB/the Bank) net profit grew 2.3% YOY to AED 84 Mn in 4Q23, lower than our estimate of AED 207 Mn. The growth in net profit is mainly driven by strong growth recorded in net funded and non-funded income along with lower provisions partially offset by a revaluation loss on properties.

P&L Highlights

SIB's funded income grew 50.6% YOY to AED 857 Mn in 4Q23 mainly driven by a healthy growth in net advances and expansion in asset yield. Net advances grew 7.7% YOY to AED 33 Bn in 4Q23. The Bank's asset yield rose 138 bps YOY and 19 bps QOQ to 5.8% in 4Q23. On the other hand, funded expense grew significantly from AED 241 Mn in 4Q22 to AED 487 Mn in 4Q23 impacting margins. Thus, the Bank's net funded income rose 12.6% YOY to AED 370 Mn in 4Q23. NIM's declined 2 bps YOY and 8 bps QOQ to 2.1% in 4Q23. SIB's net fee and commission income increased from AED 72 Mn in 4Q22 to AED 99 Mn in 4Q23. The Bank's investment income also grew from AED 21 Mn in 4Q22 to AED 40 Mn in 4Q23. While foreign exchange income declined from AED 27 Mn in 4Q22 to AED 21 Mn in 4Q23. Moreover, the Bank's other income grew significantly from AED 10 Mn in 4Q22 to AED 32 Mn in 4Q23. Thus, the Bank's non-funded income grew from AED 130 Mn in 4Q22 to AED 192 Mn in 4Q23. As a result, total operating income grew 22.7% YOY to AED 562 Mn in 4Q23. SIB's operating expenses rose 11.1% YOY to AED 211 Mn in 4Q23. However, the Bank's cost to income ratio declined 391 bps YOY to 37.6% in 4Q23. Provisions fell from AED 152 Mn in 4Q22 to AED 48 Mn in 4Q23. SIB revaluation loss on properties grew significantly from AED 34 Mn in 4Q22 to AED 218 Mn in 4Q23.

4Q23 Result Review (AED, Mn)

Total Assets	65,879
Total Liabilities	57,752
Total Equity	8,127
Total Deposits	45,207
Net Profit	84

Financial Ratios

Dividend Yield (12m)	4.05
Dividend Pay-out (%)	42.59
Price-Earnings Ratio(x)	9.55
Price-to-Book Ratio (x)	1.21
Book Value (AED)	1.94
Return-on Equity (%)	14.09

Stock Performance

5 Days	-4.08%
1 Months	-5.62%
3 Months	-1.26%
6 Months	0.43%
1 Year	16.39%
Month to Date (MTD%)	0.00%
Quarter to Date (QTD%)	-3.29%
Year to Date (YTD%)	-3.29%

Balance Sheet Highlights

SIB's total assets grew 11.4% YOY and 3.9% QOQ to AED 65.9 Bn in 4Q23 mainly due to net advances and investment securities growth. Net advances grew 7.7% YOY and 3.7% QOQ to AED 33.0 Bn in 4Q23. Meanwhile, investment securities grew 58.5% YOY and 12.4% QOQ to AED 13.5 Bn in 4Q23. SIB's total liquid assets stood at AED 13.7 Bn representing 20.8% of total assets as of 4Q23. The Bank's customer deposits grew significantly 14.4% YOY and declined 0.1% QOQ to AED 45.2 Bn in 4Q23. CASA deposit grew from 33.0% in 3Q23 to 35.2% in 4Q23. Total equity grew 6.5% YOY and 1.6% QOQ to AED 8.1 Bn in 4Q23.

Target Price and Rating

We maintain our REDUCE rating on SIB with a target price of AED 2.20. SIB's net advances grew 7.7% to AED 33.0 Bn in 2023 mainly driven by growth in advances across real estate, construction and personal finance. NIMs declined 2 bps YOY and 8 bps QOQ to 2.1% in 4Q23 primarily due to an increase in cost of funds. The Bank's cost of funds grew 153 bps YOY and 30 bps QOQ to 3.6% in 4Q23. Customer deposits rose 14.4% to AED 45.2 Bn in 4Q23. The increase in customer deposits is primarily attributable due to growth in current and escrow accounts which grew 8.5% QOQ and 21.5% QOQ respectively in 4Q23. The Bank's CASA deposits as a percentage of total deposits grew from 33.0% in 3Q23 to 35.2% in 4Q23. SIB's loan-to-deposit declined from 77.6% in 4Q22 to 73.1% in 4Q23. On the contrary, the asset quality of the Bank improved marginally as the NPL ratio stood at 5.46% in 4Q23 as compared to 5.53% in 3Q23 while provision coverage against NPLs slightly declined from 85.7% in 3Q23 to 85.0% in 4Q23. Similarly, the Bank's stage 2 loans as a percentage of total loans declined to 6.0% in 4Q23 from 6.8% in 3Q23. The Bank's capitalization stood strong with a CET 1 ratio of 13.6% and CAR of 18.9% in 4Q23. However, SIB's loan book continued to remain concentrated to government, real estate, personal and construction sectors. Loans to the government sector account for 34.3% of its financing portfolio while 30.7% of loans are allotted to the real estate and construction sector as of 4Q23. The Bank should diversify its financing to other sector as high loan concentration to a single sector might impact the credit profile in a downturn. SIB also trades at a 2024 PB multiple of 1.14x compared to sector average of 1.04x rendering it slightly expensive. Thus, based on our analysis, we maintain our REDUCE rating on the stock.

SIB - Relative valuation

(at CMP)	2019	2020	2021	2022	2023	2024F
PE	13.9	18.7	14.8	11.7	8.9	8.9
PB	1.3	1.3	1.3	1.3	1.2	1.1
Dividend yield	1.9%	3.2%	3.2%	4.1%	4.2%	4.2%

FABS Estimates & Co Data

SIB – P&L

AED Mn	4Q22	3Q23	4Q23	4Q23F	VAR	YOY Ch	QOQ Ch	2022	2023	Change
Income from fin. & leasing	569	794	857	850	0.8%	50.6%	7.9%	1,939	3,089	59.3%
Depositors' share of profit	-241	-428	-487	-464	5.1%	102.5%	13.8%	-725	-1,636	125.6%
Net funded income	328	366	370	386	-4.3%	12.6%	1.0%	1,213	1,453	19.7%
Fees and commissions	90	75	121	84	43.2%	34.2%	60.6%	288	353	22.7%
Fee and commission Exp	-18	-20	-22	-20	7.7%	21.8%	7.4%	-64	-78	21.9%
Investment Income	21	-1	40	25	59.6%	88.9%	NM	67	75	12.1%
Foreign Exchange income	27	7	21	20	4.1%	-21.6%	NM	23	64	173.6%
Other Income	10	21	32	22	45.8%	NM	55.5%	81	108	32.5%
Total non-funded income	130	82	192	132	46.2%	48.1%	134.2%	396	522	31.9%
Total operating income	458	448	562	518	8.5%	22.7%	25.4%	1,609	1,975	22.7%
General & admin. Expenses	-190	-157	-211	-184	15.2%	11.1%	34.4%	-611	-684	12.1%
Pre provision profit	268	291	351	335	4.8%	30.9%	20.5%	998	1,291	29.3%
Provisions	-152	-18	-48	-127	-62.2%	-68.4%	162.1%	-314	-221	-29.7%
Revaluation loss on prop	-34	0	-218	0	NM	NM	NM	-34	-218	NM
Net Profit attributable	82	273	84	207	-59.4%	2.3%	-69.1%	651	852	30.8%

FABS estimate & Co Data

SIB - KPI

	4Q22	3Q23	4Q23	YOY Ch	QOQ Ch	2022	2023	Change
Net FI/OI	71.6%	81.7%	65.8%	-587	-1,590	75.4%	73.6%	-184
NIM	2.2%	2.2%	2.1%	-2	-8	1.9%	2.2%	21
NIS	2.4%	2.4%	2.3%	-16	-11	2.5%	2.5%	-4
Fees & comms/OI	19.7%	16.8%	21.5%	185	472	17.9%	17.9%	-1
Cost to income	41.5%	35.1%	37.6%	-391	253	38.0%	34.7%	-330
Provisions/PPP	56.7%	6.3%	13.7%	-4,303	741	31.4%	17.1%	-1,434
NP/OI	18.0%	60.8%	15.0%	-298	-4,585	40.5%	43.1%	266
ROAE	11.2%	14.0%	13.7%	246	-37	11.2%	14.1%	292
ROAA	1.1%	1.4%	1.3%	17	-5	1.1%	1.4%	22

FABS estimate & Co Data

SIB - Key B/S items

AED Mn	4Q22	1Q23	2Q23	3Q23	4Q23	YOY Ch
Net advances	30,672	30,402	31,578	31,865	33,030	7.7%
QOQ ch	0.2%	-0.9%	3.9%	0.9%	3.7%	
Total assets	59,123	60,246	61,061	63,409	65,879	11.4%
QOQ ch	8.3%	1.9%	1.4%	3.8%	3.9%	
Customer deposits	39,529	41,879	42,135	45,241	45,207	14.4%
QOQ ch	9.4%	5.9%	0.6%	7.4%	-0.1%	
Total equity	7,632	7,483	7,774	7,998	8,127	6.5%
QOQ ch	-0.2%	-2.0%	3.9%	2.9%	1.6%	

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	2.28	70.0%	1.60
Relative Valuation (RV)	1.99	30.0%	0.60
Weighted Average Valuation (AED)			2.20
Current market price (AED)			2.35
Upside/Downside (%)			-6.4%

1) Residual Income Method:

We have discounted the economic profit/excess equity using the cost of equity of 8.1%. Cost of equity is calculated by using 10-year government bond yield of 4.5%, beta of 0.90 and equity risk premium of 4.0%. 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)	668
Terminal value (AED, Mn)	448
Book Value of Equity (as of Dec 2023)	6,290
FV to Common shareholders (AED, Mn)	7,405
No. of share (Mn)	3,236
Current Market Price (AED)	2.35
Fair Value per share (AED)	2.29

Residual Income Method

(All Figures in AED Mn)	FY 2024E	FY 2025E	FY 2026E	FY 2027E	FY 2028E
Net Profit	854	798	773	760	763
(-) Equity Charge	-555	-593	-630	-662	-724
Excess Equity	299	205	143	97	39
Discounting Factor	0.93	0.86	0.80	0.74	0.68
Present Value of Excess Equity	278	177	114	72	27

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 2024 PB multiple of 1.0x in line with peers.

Company	Market (USD Mn)	P/B (x)		P/E (x)		Dividend Yield (%)	
		2024F	2025F	2024F	2025F	2024F	2025F
Mashreq Bank	8,303	1.0	0.9	5.2	5.7	8.2	7.2
RAKBank	2,875	1.0	0.9	7.4	5.5	7.2	9.1
Emirates NBD	30,184	1.0	0.9	6.1	6.0	4.9	4.9
Abu Dhabi Commercial Bank	17,714	1.0	0.9	8.6	8.4	5.8	5.9
Dubai Islamic Bank	11,374	1.1	1.0	8.0	7.3	5.9	6.1
Commercial Bank of Dubai	4,064	1.1	NA	NA	NA	5.5	6.0
Average		1.0x	0.9x	7.1x	6.6x	6.3%	6.5%
Median		1.0x	0.9x	7.4x	6.0x	5.9%	6.1%
Max		1.1x	0.9x	8.0x	7.3x	6.9%	7.0%
Min		1.0x	0.9x	6.1x	5.7x	5.6%	5.9%

Source: FAB Securities

