

Sharjah Islamic Bank (SIB)

Growth in non-funded income boosted profitability

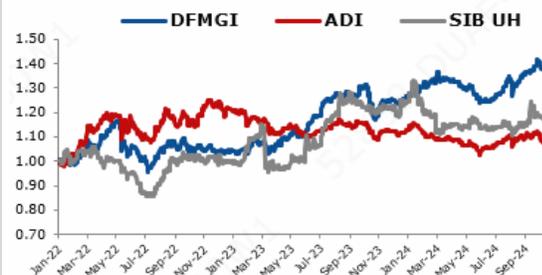
Current Price
AED 2.29

Target Price
AED 2.25

Upside/Downside (%)
-1.7%

Rating
HOLD

- SIB's non-funded income rose significantly from AED 82 Mn in 3Q23 to AED 212 Mn in 3Q24.
- Loan-to-Deposit ratio rose from 71.2% in 2Q24 to 76.2% in 3Q24.
- The bank's CASA deposits as a percentage of total customer deposits declined from 42.2% in 4Q23 to 40.1% in 3Q24.
- SIB's asset quality improved as the reported NPL declined from 5.5% in 2Q24 to 5.2% in 3Q24 owing to recoveries, and increase in the loan portfolio, reflecting the bank's ability to manage credit risks and mitigate potential losses.



Stock Information

Market Cap (AED, Mn)	7,409.70
Paid Up Capital (Mn)	3,235.68
52 Week High	2.65
52 Week Low	2.15
3M Avg. daily value (AED)	22,423,160

3Q24 Result Review (AED, Mn)

Total Assets	74,796
Total Liabilities	66,102
Total Equity	8,694
Total Deposits	47,995
Net Profit	336

3Q24 Net Profit higher than our estimate

Sharjah Islamic Bank's (SIB/the Bank) net profit grew 23.3% YOY to AED 336 Mn in 3Q24, higher than our estimate of AED 318 Mn. The growth in net profit is mainly driven by a significant increase in non-funded income owing to robust growth in fees and commission income, Investment income, foreign exchange income and other income partially offset by a rise in G&A expense, impairment charge, and addition of tax charge owing to the introduction of corporate tax in the UAE.

P&L Highlights

SIB's funded income grew 20.5% YOY to AED 957 Mn in 3Q24 mainly driven by a solid growth in net advances owing to strong consumer demand and economic expansion in the UAE. On the other hand, funded expenses grew 36.3% YOY to AED 584 Mn in 3Q24 due to higher cost of funds impacting margins. Thus, the Bank's net funded income increased 2.0% YOY to AED 373 Mn in 3Q24. As per our calculation, SIB's NIMs declined 37 bps YOY to 1.9% in 3Q24. The Bank's net fee and commission income increased from AED 55 Mn in 3Q23 to AED 111 Mn in 3Q24. Investment income amounted to AED 33 Mn in 3Q24 compared to a loss of AED 1 Mn in 3Q23. Foreign exchange income rose significantly from AED 7 Mn in 3Q23 to AED 23 Mn in 3Q24. The Bank's other income grew from AED 21 Mn in 3Q23 to AED 45 Mn in 3Q24. Thus, SIB's non-funded income rose significantly from AED 82 Mn in 3Q23 to AED 212 Mn in 3Q24. As a result, total operating income grew 30.5% YOY to AED 585 Mn in 3Q24. SIB's operating expenses rose 15.8% YOY to AED 182 Mn in 3Q24. The Bank's cost-to-income ratio improved from 35.1% in 3Q23 to 31.1% in 3Q24 owing to the effective cost-management measures taken by the management. Pre-provision profit of the bank grew 38.5% YOY to AED 403 Mn in 3Q24. Provisions increased significantly

Financial Ratios

Dividend Yield (12m)	4.37
Dividend Pay-out (%)	42.59
Price-Earnings Ratio(x)	8.30
Price-to-Book Ratio (x)	1.08
Book Value (AED)	2.12
Return-on Equity (%)	14.45

Stock Performance

5 Days	0.44%
1 Months	-2.14%
3 Months	2.23%
6 Months	3.15%
1 Year	-2.55%
Month to Date (MTD%)	-0.87%
Quarter to Date (QTD%)	-0.87%
Year to Date (YTD%)	-5.76%

from AED 18 Mn in 3Q23 to AED 33 Mn in 3Q24. The Bank recorded a tax expense of AED 33 Mn in 3Q24 compared to nil in 3Q23 owing to the introduction of the UAE corporate tax.

Balance Sheet Highlights

SIB's total assets grew by 18.0% YOY and 0.8% QOQ to AED 74.8 Bn in 3Q24 mainly due to the growth in all business units of the bank including net advances, liquid assets and investment securities. Investment securities grew 38.3% YOY and 3.4% QOQ to AED 16.7 Bn in 3Q24 attributable to rebound of sukuk market amid high benchmark rates. Investment securities measured at amortized cost witnessed a significant growth of 47.3% YOY while it remained at similar levels compared to 2Q24 at AED 12.4 Bn owing to increased liquidity, growing investor demand, and government support for infrastructure as well as economic development projects. Net advances grew 14.7% YOY and 3.8% QOQ to AED 36.6 Bn in 3Q24. SIB's total liquid assets stood at AED 15.6 Bn, representing 20.8% of total assets as of 3Q24 indicating a healthy liquidity level. The Bank's customer deposits grew 6.1% YOY while it fell 3.0% QOQ to AED 48.0 Bn in 3Q24. The growth on annual basis was a result of introduction of retail products and customer service. Total equity grew 8.7% YOY and 4.3% QOQ to AED 8.7 Bn in 3Q24.

Target Price and Rating

We maintain our HOLD rating on SIB with a revised target price of AED 2.25. SIB's net loan book grew 14.7% YOY and 3.8% QOQ to AED 36.6 Bn in 3Q24. Moreover, Loan-to-Deposit ratio rose from 71.2% in 2Q24 to 76.2% in 3Q24. Customer Deposits rose 6.1% YOY to AED 48.0 Bn in 3Q24. The bank's CASA deposits as a percentage of total deposits declined from 31.9% in 2Q24 to 31.0% in 3Q24. This is likely to affect the Bank's margins as a result of a higher share of time deposits. Furthermore, SIB's asset quality improved as the reported NPL declined from 5.5% in 2Q24 to 5.2% in 3Q24 owing to solid recoveries, and increase in the loan portfolio, reflecting the bank's ability to manage credit risks and mitigate potential losses. The reported Provision coverage ratio stood at 95.7% in 3Q24, well above the regulatory levels providing an adequate cushion against bad loans. Furthermore, SIB's calculated cost-to-income ratio improved from 35.1% in 3Q23 to 31.1% in 3Q24 owing to the effective cost-control measures implemented by the group. The bank also maintained a healthy capital adequacy ratio of 17.7% and CET 1 ratio of 12.9% in 3Q24 indicating a strong financial position and adherence to regulatory requirements. Thus, based on our analysis, we maintain our HOLD rating on the stock.

SIB - Relative valuation

(at CMP)	2019	2020	2021	2022	2023	2024F
PE	13.58	18.26	14.41	13.25	9.75	7.13
PB	1.30	1.28	1.26	1.28	1.18	1.02
Dividend yield	2.0%	3.3%	3.3%	4.2%	4.4%	4.4%

FABS Estimates & Co Data

SIB – P&L

AED Mn	3Q23	2Q24	3Q24	3Q24F	Var.	YOY Ch	QOQ Ch	2023	2024F	Change
Income from fin. & leasing	794	906	957	936	2.2%	20.5%	5.6%	3,089	3,699	19.7%
Depositors' share of profit	-428	-544	-584	-569	2.5%	36.3%	7.3%	-1,636	-2,246	37.3%
Net funded income	366	362	373	367	1.8%	2.0%	3.0%	1,453	1,453	0.0%
Fees and commissions	75	125	136	144	-5.3%	80.8%	8.9%	353	519	47.0%
Fee and commission Exp	-20	-26	-25	-26	-3.5%	23.9%	-1.1%	-78	-104	33.9%
Investment income	-1	22	33	22	52.5%	NM	49.5%	75	74	-2.0%
Foreign exchange income	7	14	23	14	60.3%	NM	63.5%	64	70	10.0%
Other income	21	26	45	27	69.0%	NM	70.7%	108	135	25.0%
Total non-funded income	82	162	212	180	17.6%	NM	30.8%	522	694	32.8%
Total operating income	448	524	585	547	7.0%	30.5%	11.6%	1,975	2,147	8.7%
General & admin. expenses	-157	-165	-182	-175	4.1%	15.8%	10.3%	-684	-751	9.8%
Pre provision profit	291	359	403	372	8.4%	38.5%	12.2%	1,291	1,395	8.1%
Provisions	-18	-22	-33	-23	47.9%	81.8%	49.7%	-221	-152	-30.9%
Profit before tax	273	337	370	349	5.9%	35.6%	9.7%	852	1,243	46.0%
Corporate tax	0	-30	-33	-31	6.2%	NM	9.6%	0	-112	NM
Net Profit attributable	273	307	336	318	5.8%	23.3%	9.7%	852	1,131	32.8%

FABS estimate & Co Data

SIB - KPI

	3Q23	2Q24	3Q24	YOY Ch	QOQ Ch	2023	2024F	Change
Net FI/OI	81.7%	69.1%	63.8%	-1,786	-532	73.6%	67.7%	-587
NIM	2.2%	1.9%	1.9%	-37	1	2.2%	1.8%	-33
NIS	2.4%	2.0%	1.9%	-45	-3	2.5%	2.1%	-42
Fees & comms/OI	16.8%	23.8%	23.3%	647	-57	17.9%	24.2%	630
Cost to income	35.1%	31.5%	31.1%	-396	-36	34.7%	35.0%	34
Provisions/PPP	6.3%	6.2%	8.3%	197	207	17.1%	10.9%	-617
NP/OI	60.8%	58.5%	57.5%	-335	-98	43.1%	52.7%	957
Cost of risk (calculated)	0.2%	0.2%	0.4%	14	11	0.7%	0.4%	-23
Loan-to-deposit	70.4%	71.2%	76.2%	572	499	73.1%	73.2%	10
NPL (Calculated)	5.5%	5.4%	5.2%	-39	-29	5.6%	5.8%	20
NPL Coverage calculated	85.7%	82.4%	85.0%	-71	258	85.0%	85.8%	78
CET 1	14.1%	12.4%	12.9%	-123	51	13.6%	12.9%	-74
Capital adequacy	19.6%	17.2%	17.7%	-193	46	18.9%	17.2%	-166
ROAE	12.7%	13.4%	13.7%	109	38	12.6%	15.4%	280
ROAA	1.4%	1.4%	1.4%	-1	6	1.4%	1.5%	19

FABS estimate & Co Data

SIB - Key B/S items

AED Mn	3Q23	4Q23	1Q24	2Q24	3Q24	YOY Ch
Net advances	31,865	33,030	33,364	35,199	36,551	14.7%
QOQ ch	0.9%	3.7%	1.0%	5.5%	3.8%	
Total assets	63,409	65,879	70,116	74,237	74,796	18.0%
QOQ ch	3.8%	3.9%	6.4%	5.9%	0.8%	
Customer deposits	45,241	45,207	45,079	49,462	47,995	6.1%
QOQ ch	7.4%	-0.1%	-0.3%	9.7%	-3.0%	
Total equity	7,998	8,127	8,056	8,333	8,694	8.7%
QOQ ch	2.9%	1.6%	-0.9%	3.4%	4.3%	

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	2.26	70.0%	1.58
Relative Valuation (RV)	2.23	30.0%	0.67
Weighted Average Valuation (AED)			2.25
Current market price (AED)			2.29
Upside/Downside (%)			-1.7%

1) Residual Income Method:

We have discounted the economic profit/excess equity using the cost of equity of 9.3%. Cost of equity is calculated by using 10-year government bond yield of 4.1%, beta of 0.90 and equity risk premium of 5.0%. 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)	342
Terminal value (AED, Mn)	125
Book Value of Equity (as of June 2024)	6,858
FV to Common shareholders (AED, Mn)	7,325
No. of share (Mn)	3,236
Current Market Price (AED)	2.29
Fair Value per share (AED)	2.26

Residual Income Method

(All Figures in AED Mn)	FY 2024E	FY 2025E	FY 2026E	FY 2027E	FY 2028E
Net Profit	1131	878	833	848	878
(-) Equity Charge	-669	-721	-768	-816	-865
Excess Equity	462	158	65	31	13
Discounting Factor	0.98	0.90	0.82	0.75	0.69
Present Value of Excess Equity	114	142	54	24	9

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 1.1x in line with peers.

Company	Market (USD Mn)	P/B (x)		P/E (x)		Dividend Yield (%)	
		2024F	2025F	2024F	2025F	2024F	2025F
Mashreq Bank	13,490	1.5	1.4	7.7	8.1	7.2	7.2
RAKBank	2,930	0.9	0.9	5.4	5.8	6.9	7.5
Emirates NBD	34,200	1.1	0.97	5.5	6.2	5.9	6.1
Abu Dhabi Commercial Bank	16,735	0.9	0.9	7.7	8.0	6.4	6.5
Dubai Islamic Bank	12,258	1.2	1.1	7.5	8.0	7.3	7.4
Commercial Bank of Dubai	5,543	1.4	1.3	7.5	7.9	7.1	6.5
Average		1.2x	1.1x	6.9x	7.3x	6.8%	6.9%
Median		1.1x	1.0x	7.5x	7.9x	7.0%	6.9%
Max		1.3x	1.2x	7.6x	8.0x	7.2%	7.3%
Min		1.0x	0.9x	6.0x	6.6x	6.5%	6.5%

Source: FAB Securities

