

Abu Dhabi Islamic Bank (ADIB)

Higher non-funded income has strengthened the Bank's operating performance

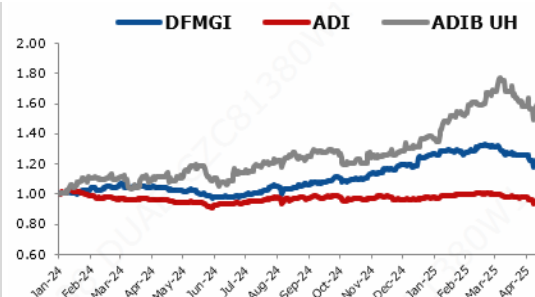
Current Price
AED 17.64

Target Price
AED 18.50

Upside/Downside (%)
+5%

Rating
HOLD

- Net profit increased 19.1% YOY in 1Q25 driven by strong growth in funded and non-funded income.
- The Bank anticipates its NIMs to stay stable and shall experience a gradual decline after the interest rate cut.
- NPL ratio declined from 4.0% in 4Q24 to 3.7% in 1Q25, at its lowest levels since FY2017.
- Net advances recorded a significant growth of 28.4% YOY and 5.3% QOQ to AED 150.1 Bn in 1Q25 attributable to growth in retail and wholesale financing across government & public sector enterprises.
- Operating income grew 14.1% YOY and 8.9% QOQ in 1Q25.
- Non-Funded Income grew significantly 35.4% YOY due to increase in fees and other income.



Stock Information

Market Cap (AED, Mn)	61,380.80
Paid Up Capital (Mn)	3,632.00
52 Week High	18.08
52 Week Low	10.58
3M Avg. daily value (AED)	53,657,870

1Q25 Result Review (AED, Mn)

Total Assets	243,528
Total Liabilities	216,601
Total Equity	26,927
Total Deposits	200,095
Net Profit	1,616

Financial Ratios

Dividend Yield (12m)	4.94
Dividend Pay-out (%)	55.87
Price-Earnings Ratio(x)	11.32
Price-to-Book Ratio (x)	2.72
Book Value (AED)	6.22
Return-on Equity (%)	28.73

Stock Performance

5 Days	3.05%
1 Months	9.98%
3 Months	14.10%
6 Months	36.96%
1 Year	57.50%
Month to Date (MTD%)	9.98%
Quarter to Date (QTD%)	9.98%
Year to Date (YTD%)	27.64%

1Q25 Net Profit higher than our estimate

Abu Dhabi Islamic Bank's (ADIB/ the Bank) net profit rose 13.3% YOY to AED 1,616 Mn in 1Q25, higher than our estimate of AED 1,428 Mn. The increase in net profit is primarily attributed to an increase in net funded and non-funded income coupled with a decline in impairment partially offset by an increase in operating and tax expenses.

P&L Highlights

ADIB's Islamic financing income grew 18.4% YOY to AED 2,464 Mn in 1Q25. Income from financial institutions fell 8.8% YOY to AED 533 Mn. Thus, total funded income rose 12.4% YOY to AED 2,997 Mn in 1Q25, driven by growth in interest-earning assets due to robust business volumes and an improved revenue mix, coupled with the Bank's ability to generate sustainable returns despite the lower rate environment. Funded expenses rose 27.7% YOY to AED 1,245 Mn in 1Q25, mainly due to the significant rise in the cost of funds and interest-bearing liabilities. Thus, net funded income grew 3.6% YOY to AED 1,752 Mn in 1Q25. However, calculated NIMs fell 54 bps YOY but rose 2 bps QOQ to 3.1% in 1Q25. Fees and commission income rose 30.1% YOY to AED 544 Mn in 1Q25 from various product sales across retail and corporates, reflecting increased customer activity and successful cross-sell efforts, while other non-funded income rose 40.8% YOY to AED 576 Mn. Thus, total non-funded income rose 35.4% YOY to AED 1,120 Mn in 1Q25. As a result, total operating income rose 14.1% YOY to AED 2,872 Mn in 1Q25. Furthermore, operating expenses rose 8.4% YOY to AED 830 Mn in 1Q25 owing to an increase in G&A expenses and employee costs due to ongoing investments in people, digital initiatives, and new technology. ADIB's impairments fell 3.3% YOY to AED 106 Mn in 1Q25. Additionally, zakat and NCI expenses increased significantly from AED 286 Mn in 1Q24

to AED 320 Mn in 1Q25.

Balance Sheet Highlights

ADIB's total assets grew 25.1% YOY and 7.8% QOQ to AED 243.5 Bn in 1Q25 mainly driven by increased net financing, cash, and investments portfolio. ADIB's net advances recorded a significant growth of 28.4% YOY and 5.3% QOQ to AED 150.1 Bn in 1Q25 attributable to strong growth in financing across the retail, GRE & public sector. ADIB's customer deposits grew 24.9% YOY and 9.5% QOQ to AED 200.1 Bn in 1Q25, while CASA deposits accounted for 69.3% of total customer deposits.

Target Price and Rating

We maintain our HOLD rating on Abu Dhabi Islamic Bank with a revised target price of AED 18.50. ADIB record incremental rise in profitability by 19.1% YOY and 16.4% QOQ to AED 1,616 Mn due to revenue growth fueled by strong customer momentum and expanding business volumes, supported by strong credit quality and cost discipline. The launch of fractional sukuk highlights the organization's commitment to digital innovation and Sharia-compliant finance, enabling smarter, inclusive solutions and greater opportunities for customers. As a result, the Bank onboarded 67,000 new clients in 1Q25, bringing its total client base to around 2 million, demonstrating its strong capability to draw in new clients. Strong growth in the customer base is expected to drive the Bank's core and non-core income in the upcoming period. The Bank witnessed a solid growth in investments and net advances which drove ADIB's core income. CASA ratio stands at a high of 69.3% and retail CASA around 90% as of 1Q25. ADIB's calculated NIMs fell 54 bps YOY but grew 2 bps QOQ to 3.1% in 1Q25. The Bank anticipates NIMs to stay stable and shall experience a gradual decline after the interest rate cut. Moreover, ADIB expects the non-funded income to play a crucial role in the Bank's growth in the declining rate scenario. The Bank's total deposits grew 24.9% YOY to AED 200.1 Bn in 1Q25. ADIB witnessed a strong improvement in asset quality as the NPL ratio declined from 4.0% in 4Q24 to 3.7% in 1Q25, at its lowest levels since 1Q16, driven by legacy portfolio management and better underwriting standards. As per our calculation, the cost of risk declined 9 bps YOY and 19 bps QOQ to 0.3% in 1Q25. ADIB expects to record a cost of risk of 0.4-0.6% for 2025. ADIB maintained healthy capitalization with a reported CET 1 ratio of 12.2% and a total capital adequacy ratio of 16.2% in 1Q25. Hence based on our analysis, we assign a HOLD rating on the stock.

ADIB - Relative valuation

(at CMP)	2020	2021	2022	2023	2024	2025F
PE	49.60	31.58	19.72	14.05	12.08	11.78
PB	4.55	4.15	3.70	3.22	2.90	2.58
DPS (AED)	0.21	0.31	0.49	0.71	0.83	0.85
Dividend yield	1.2%	1.8%	2.8%	4.1%	4.7%	4.8%

FABS Estimates & Co Data

ADIB – P&L

AED Mn	1Q24	4Q24	1Q25	1Q25F	Var.	YOY Ch	QOQ Ch	2024	2025F	Change
Funded income	2,666	2,890	2,997	2,942	1.88%	12.4%	3.7%	11,107	11,739	5.7%
Funded expense	-975	-1,227	-1,245	-1,253	-0.61%	27.7%	1.5%	-4,541	-5,078	11.8%
Net funded income	1,690	1,663	1,752	1,689	3.73%	3.6%	5.3%	6,566	6,661	1.5%
Fees and commission	418	422	544	456	19.39%	30.1%	28.9%	1,807	2,051	13.5%
Other non-funded income	409	552	576	580	-0.63%	40.8%	4.3%	2,259	2,484	10.0%
Non-Funded Income	827	974	1,120	1,035	8.18%	35.4%	15.0%	4,066	4,536	11.6%
Operating income	2,517	2,637	2,872	2,724	5.43%	14.1%	8.9%	10,632	11,197	5.3%
Operating expenses	-765	-821	-830	-818	1.37%	8.4%	1.1%	-3,145	-3,242	3.1%
Pre-provision inc.	1,752	1,817	2,042	1,905	7.17%	16.5%	12.4%	7,487	7,955	6.3%
Financing impairment	-109	-172	-106	-198	46.64%	-3.3%	-38.5%	-620	-760	22.7%
Profit before NCI	1,643	1,645	1,936	1,707	13.4%	17.9%	17.7%	6,868	7,195	4.8%
NIC. & zakat	-286	-256	-320	-279	14.7%	12.0%	25.0%	-1,091	-1,280	17.3%
Net Profit	1,357	1,389	1,616	1,428	13.1%	19.1%	16.4%	5,777	5,915	2.4%

FABS estimate & Co Data

ADIB - KPI

	1Q24	4Q24	1Q25	YOY Ch	QOQ Ch	2024	2025F	Change
Net FI/OI	67.1%	63.1%	61.0%	-614	-207	61.8%	59.5%	-227
NIM	3.7%	3.1%	3.1%	-54	2	3.3%	2.9%	-41
NIS	3.4%	2.8%	2.8%	-55	4	3.0%	2.6%	-40
Fees & comms/OI	16.6%	16.0%	18.9%	233	295	17.0%	18.3%	132
Other non-funded/OI	16.2%	20.9%	20.1%	381	-87	21.2%	22.2%	95
Cost to income ratio (calculated)	30.4%	31.1%	28.9%	-151	-222	29.6%	29.0%	-63
Provisions/PPP	6.2%	9.5%	5.2%	-106	-428	8.3%	9.6%	128
NP/OI	53.9%	52.7%	56.3%	237	362	54.3%	52.8%	-150
Cost of risk	0.4%	0.5%	0.3%	-9	-19	0.4%	0.5%	8
Loan-to-deposit	73.0%	78.1%	75.0%	206	-304	78.1%	76.6%	-142
NPL – (reported)	5.5%	4.0%	3.7%	-178	-28	4.0%	3.8%	-27
Coverage excluding collateral (reported)	73.0%	81.5%	76.0%	296	-554	81.5%	79.1%	-242
CET1	12.6%	12.1%	12.2%	-38	17	12.1%	12.1%	-2
Capital adequacy	17.2%	16.2%	16.2%	-93	2	16.2%	15.7%	-47
ROAE	28.3%	25.2%	28.7%	48	348	25.2%	23.2%	-207
ROAA	2.9%	2.8%	2.8%	-13	0	2.8%	2.4%	-32

FABS estimate & Co Data

ADIB - Key B/S items

AED mn	1Q24	2Q24	3Q24	4Q24	1Q25	YOY Ch
Net advances	1,16,943	1,32,066	1,35,132	1,42,611	1,50,133	28.4%
QOQ ch	1.7%	12.9%	2.3%	5.5%	5.3%	
Total assets	1,94,647	2,13,403	2,22,567	2,25,910	2,43,528	25.1%
QOQ ch	0.9%	9.6%	4.3%	1.5%	7.8%	
Customer deposits	1,60,262	1,72,244	1,79,744	1,82,675	2,00,095	24.9%
QOQ ch	2.0%	7.5%	4.4%	1.6%	9.5%	
Total equity (excluding Tier 1 & NCI)	18,458	19,855	21,378	22,591	21,102	14.3%
QOQ ch	-9.4%	7.6%	7.7%	5.7%	-6.6%	

FABS estimate & Co Data

Valuation:

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

Valuation Method	Target	Weight	Weighted Value
Residual Income	18.63	70.0%	13.04
Relative Valuation (RV)	18.20	30.0%	5.46
Weighted Average Valuation (AED)			18.50
Current market price (AED)			17.64
Upside/Downside (%)			+5

1) Residual Income Method:

We have discounted the economic profit/excess equity using the cost of equity of 9.0%. Cost of equity is calculated by using 10-year government bond yield of 5.1%, beta of 0.92 and equity risk premium of 4.2%. Government bond yield is calculated after adding Abu Dhabi 10-year CDS spread over 10-year US risk free rate. Also, assumed a terminal growth rate of 2.0%.

Sum of PV (AED, Mn)	12,951
Terminal value (AED, Mn)	33,599
Book Value of Equity (as of Mar 2025)	21,102
FV to Common shareholders (AED, Mn)	67,652
No. of share (Mn)	3,632
Current Market Price (AED)	17.64
Fair Value per share (AED)	18.63

Residual Income Method

(All Figures in AED Mn)	FY 2025E	FY 2026E	FY 2027E	FY 2028E	FY 2029E
Net Profit	5,562	5,994	6,466	6,685	6,998
(-) Equity Charge	-2,278	-2,569	-2,884	-3,220	-3,566
Excess Equity	3,283	3,425	3,581	3,465	3,432
Discounting Factor	0.94	0.87	0.79	0.73	0.67
Present Value of Excess Equity	2,322¹	2,964	2,844	2,525	2,295

Source: FAB Securities, ¹Adjusted for partial year

2) Relative Valuation:

We have used local and international peers to value ADIB and it is valued using the PB multiple. We have applied a premium as ADIB trades at a premium to its peers and is valued at a 2025 PB multiple of 2.6x. The premium in valuation stems for high composition of retail loan book and it generates superior return on assets as compared to its peers.

Company	Market (USD Mn)	P/B (x)		P/E (x)		Dividend Yield (x)	
		2024F	2025F	2024F	2025F	2024F	2025F
Commercial Bank of Dubai (CBD)	6,258	1.4	1.3	7.5	7.9	6.2%	5.8%
Abu Dhabi Commercial Bank (ADCB)	21,119	1.1	1.0	8.8	8.2	5.7%	5.9%
Dubai Islamic Bank (DIB)	14,737	1.3	1.2	8.7	8.8	6.1%	6.1%
Alinma	19,637	2.0	1.8	12.1	11.1	3.7%	3.9%
Al Rajhi Bank	104,233	3.5	3.2	17.7	15.8	3.2%	3.5%
Bank Albilad	11,642	2.7	2.3	17.7	15.5	1.5%	1.7%
Average		2.0x	1.8x	12.1x	11.2x	4.4%	4.5%
Median		1.7x	1.6x	10.4x	9.9x	4.7%	4.9%
Max		2.6x	2.2x	16.3x	14.4x	6.0%	5.9%
Min		1.3x	1.2x	8.7x	8.4x	3.3%	3.6%

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%

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