

Dubai Islamic Bank (DIB)

Higher net funded and non-funded income, coupled with lower impairment, boosted profit

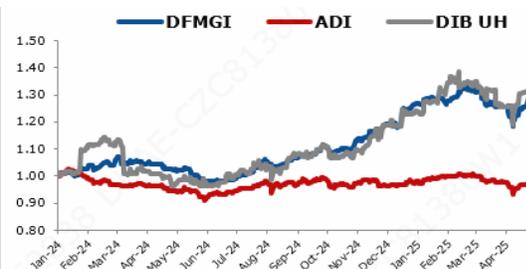
Current Price
AED 7.50

Target Price
AED 8.50

Upside/Downside (%)
+13.3%

Rating
ACCUMULATE

- Gross underwriting across financing and investments amounted to c. AED 26 Bn in 1Q25.
- Consumer business portfolio grew 7% YTD to AED 68 Bn in 1Q25 owing to strong growth in auto finance portfolio.
- NIMs soften 20 bps YOY to 2.6% in 1Q25.
- Non-funded income rose 13.2% YOY to AED 962 Mn driven by growth in fees & commissions and investment properties.
- Asset quality improved as the reported NPL ratio improved to 3.7% in 1Q25 from 4.0% in 4Q24 with a coverage ratio of 98%.
- While stage 2 loans rose from 7.8% in 4Q24 to 9.4% in 1Q25.
- Customer deposits expanded to AED 265 Bn, up 7% YTD, CASA Balances rose 4% YTD to AED 99 Bn in 1Q25.



1Q25 Net Profit lower than our estimate

Dubai Islamic Bank ("DIB", "the Bank") net profit grew 9.2% YOY to AED 1,740 Mn in 1Q25, lower than our estimate of AED 1,964 Mn. The growth in net profit was driven by an increase in funded and non-funded income, coupled with a decline in impairment charges, partially offset by a rise in operating expenses and tax charges.

P&L Highlights

Funded income fell 4.4% YOY to AED 4,550 Mn in 1Q25, mainly due to lower yields on assets owing to rate cuts, partially offset by strong growth in new gross underwriting of more than AED 26 bn. Funded expenses also declined from AED 2,609 Mn in 1Q24 to AED 2,358 Mn in 1Q25 due to lower cost of funds. As a result, net funded income grew 2.0% YOY to AED 2,192 Mn in 1Q25. However, the calculated NIM contracted by 20 bps YOY to 2.6% in 1Q25. Fee and commission income, a key revenue driver for the Bank rose 4.6% YOY to AED 505 Mn in 1Q25 driven by strong growth in Consumer Banking Segment. Fee, Commission and Others income earned from the Consumer banking segment rose from AED 176 Mn in 1Q24 to AED 288 Mn in 1Q25. Other non-funded income grew strongly from AED 367 Mn in 1Q24 to AED 457 Mn in 1Q25, driven by higher income from properties under construction and investment properties, despite a decline in share profit from associates. Thus, non-funded income saw strong growth of 13.2% YOY to AED 962 Mn in 1Q25 which supported to overall growth in total operating income. As a result, total operating income rose notably by 5.2% YOY to AED 3,154 Mn in 1Q25. Operating expenses increased 4.0% YOY to AED 883 Mn in 1Q25. Although expenses rose, the calculated cost-to-income ratio improved by 33 bps YOY to 28.0% in 1Q25. Furthermore, impairment charges dropped sharply 45.4% YOY to AED 163 Mn in 1Q25, supported by

Stock Information

Market Cap (AED, mn)	54,377.99
Paid Up Capital (mn)	7,240.74
52 Week High	7.93
52 Week Low	5.50
3M Avg. daily value(AED)	57,493,370

1Q25 Result Review (AED, mn)

Total Assets	355,269
Total Liabilities	306,743
Total Equity	45,430
Total Deposits	264,847
Net Profit	1,740

Financial Ratios

Dividend Yield (12m)	5.99
Dividend Pay-out (%)	45.23
Price-Earnings Ratio(x)	7.09
Price-to-Book Ratio (x)	1.43
Book Value (AED)	5.27
Return-on Equity (%)	21.10

Stock Performance

5 Days	-0.40%
1 Months	4.74%
3 Months	-2.47%
6 Months	20.16%
1 Year	35.07%
Month to Date (MTD%)	4.74%
Quarter to Date (QTD%)	4.74%
Year to Date (YTD%)	5.92%

strong asset quality and recoveries of legacy older non-performing loans. Tax expenses grew from AED 186 Mn in 1Q24 to AED 311 Mn in 1Q25 as the tax rate rose 9% in 1Q24 to 15% 1Q25. Lastly, the share of profit attributable to non-controlling interest holders declined 19.4% YOY to AED 58 Mn in 1Q25.

Balance Sheet Highlights

The Bank's total asset expanded to AED 355.3 Bn in 1Q25, reflecting a growth of 8.5% YOY and 3.1% QOQ. This growth is driven by a growth in net financing and sukuk investments. Net advances rose 10.8% YOY and 4.8% QOQ to AED 222.6 Bn in 1Q25 supported by growth in corporate and retail loans. In addition, net financing & sukuk investments grew 10.9% YOY and 4.1% QOQ to reach AED 306.7 Bn in 1Q25. Customer deposits grew 12.3% YOY and 6.6% QOQ to AED 264.8 Bn in 1Q25 attributed to growth in corporate banking business, with CASA representing 37% of the total deposits in 1Q25.

Target Price and Rating

We revise our rating on DIB from BUY to ACCUMULATE with an unchanged target price of AED 8.50. The Bank's share price rose 4.4% since our last rating. DIB recorded strong growth in financing and investments in 1Q25 and further expects financing to grow by 15% in 2025. The financing growth is driven by growth in corporate and retail financing. The Bank foresees a strong pipeline of financing deals in 2Q25 compared to 1Q25. It also expects a strong and ongoing strategic focus on the KSA driven by sector lending across utilities, manufacturing, aviation, and healthcare. DIB expects NIMs to soften in 2025 to 2.8-3.0% compared to 3.0% in 2024. It plans to offset NIM pressure through higher lending volume coupled with the repricing of fixed deposits, which make up 63% of total deposits in 2025. The Bank expects strong growth in non-funded income, as the growth in property income expected to remain strong due to market strength and strategic divestments. Furthermore, the Bank's asset quality improved as the reported NPL ratio improved to 3.7% in 1Q25 compared to 4.0% in 4Q24, mainly due to the ongoing recoveries. The Bank expects recoveries in 2025, but not the extent expected in 2024. Thus, it expects improvement in asset quality to 3.5% in 2025. The coverage ratio remained steady at 98% in 1Q25 on QOQ basis and the Bank is comfortable with the coverage of stage 1 and stage 2 loans. Stage 2 loans rose from 7.8% in 4Q24 to 9.4% in 1Q25 raising concern on asset quality. DIB's capital ratios remained healthy, with a capital adequacy ratio of 17.3% and a CET 1 ratio of 13.4% in 1Q25. Considering all these factors, we revise our rating to ACCUMULATE on the stock.

DIB - Relative valuation

(at CMP)	2020	2021	2022	2023	2024	2025F
PE	19.91	14.30	10.80	8.55	7.26	8.32
PB	1.91	1.78	1.65	1.50	1.37	1.26
DPS	0.20	0.25	0.30	0.45	0.45	0.45
Dividend yield	2.7%	3.3%	4.0%	6.0%	6.0%	6.0%

FABS Estimates & Co Data

DIB – P&L

AED mm	1Q24	4Q24	1Q25	1Q25F	Var.	YOY Ch	QOQ Ch	2024	2025F	Change
Funded income	4,757	5,116	4,550	5,107	-10.9%	-4.4%	-11.1%	19,454	18,307	-5.9%
Funded expense	-2,609	-2,595	-2,358	-2,537	-7.1%	-9.6%	-9.1%	-10,505	-8,852	-15.7%
Net funded income	2,148	2,522	2,192	2,570	-14.7%	2.0%	-13.1%	8,949	9,455	5.7%
Fees & commissions	483	506	505	405	24.8%	4.6%	-0.2%	1,748	1,853	6.0%
Other non-funded income	367	723	457	549	-16.8%	24.6%	-36.9%	2,139	2,221	3.8%
Non-Funded Income	850	1,230	962	954	0.9%	13.2%	-21.7%	3,887	4,074	4.8%
Operating income	2,998	3,751	3,154	3,524	-10.5%	5.2%	-15.9%	12,837	13,529	5.4%
General expenses	-849	-871	-883	-878	0.5%	4.0%	1.4%	-3,425	-3,542	3.4%
Pre-provisioning profit	2,149	2,880	2,271	2,646	-14.2%	5.7%	-21.1%	9,412	9,987	6.1%
Impairment charges	-299	123	-163	-414	-60.6%	-45.4%	NM	-407	-1,642	NM
Profit before tax	1,850	3,003	2,108	2,232	-5.5%	13.9%	-29.8%	9,005	8,345	-7.3%
Tax	-186	-287	-311	-208	49.7%	67.0%	8.4%	-840	-1,227	46.1%
Profit before NCI	1,664	2,717	1,797	2,024	-11.2%	8.0%	-33.8%	8,165	7,118	-12.8%
Non-controlling interests	-72	-82	-58	-61	-4.9%	-19.4%	-29.9%	-231	-217	-6.0%
Profit for the period	1,593	2,634	1,740	1,964	-11.4%	9.2%	-34.0%	7,934	6,901	-13.0%

FABS estimate & Co Data

DIB - KPI

	1Q24	4Q24	1Q25	YOY Ch	QOQ Ch	2024	2025F	Change
Net FI/OI	71.7%	67.2%	69.5%	-216	227	69.7%	69.9%	17
NIM	2.8%	3.2%	2.6%	-20	-52	2.9%	2.7%	-16
NIS	2.3%	2.6%	2.2%	-13	-43	2.3%	2.2%	-10
Fees & commissions/OI	16.1%	13.5%	16.0%	-9	253	13.6%	13.7%	8
Other non-funded/OI	12.2%	19.3%	14.5%	226	-480	16.7%	16.4%	-25
Cost to income	28.3%	23.2%	28.0%	-33	477	26.7%	26.2%	-50
Impairment/PPP	13.9%	-4.3%	7.2%	-672	1,144	4.3%	16.4%	1,211
NCI/PBT	4.3%	3.0%	3.2%	-109	18	2.8%	3.1%	22
NP/OI	53.1%	70.2%	55.2%	203	-1,507	61.8%	51.0%	-1,080
Cost of risk - Reported	0.4%	-0.2%	0.3%	-11	52	0.2%	0.7%	51
Loan-to-deposit (calculated)	85.2%	85.5%	84.0%	-119	-144	85.5%	88.5%	303
NPL - Reported	5.0%	4.0%	3.7%	-127	-30	3.9%	3.5%	-43
Coverage - Reported	93.0%	97.0%	98.0%	500	100	78.6%	80.0%	145
CET 1	13.1%	13.2%	13.4%	30	14	13.2%	12.8%	-39
Capital adequacy	17.5%	18.3%	17.3%	-23	-104	18.3%	17.3%	-96
ROAA	2.2%	2.4%	2.4%	14	-4	2.4%	1.9%	-52
ROAE	19.5%	19.8%	21.1%	161	134	19.8%	15.8%	-399

FABS estimate & Co Data

DIB - Key B/S items

AED mm	1Q24	2Q24	3Q24	4Q24	1Q25	YOY Ch
Net financings	200,927	199,251	206,790	212,427	222,553	10.8%
QOQ change	0.7%	-0.8%	3.8%	2.7%	4.8%	
Total assets	327,314	322,651	329,169	344,687	355,269	8.5%
QOQ change	4.1%	-1.4%	2.0%	4.7%	3.1%	
Customer deposits	235,783	234,018	236,868	248,546	264,847	12.3%
QOQ change	6.2%	-0.7%	1.2%	4.9%	6.6%	
Shareholders' fund	34,494	36,011	37,755	39,724	38,084	10.4%
QOQ change	-5.0%	4.4%	4.8%	5.2%	-4.1%	

FABS estimate & Co Data

Valuation:

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

Valuation Method	Target	Weight	Weighted Value
Residual Income	8.85	70.0%	6.20
Relative Valuation (RV)	7.67	30.0%	2.30
Weighted Average Valuation (AED)			8.50
Current market price (AED)			7.50
Upside/Downside (%)			+13.3%

1) Residual Income Method:

We have discounted the economic profit/excess equity using the cost of equity of 9.1%. Cost of equity is calculated by using 10-year government bond yield of 5.8%, beta of 0.87 and equity risk premium of 3.8%. Government bond yield is calculated after adding Dubai's 10-year CDS spread over a 10-year US risk-free rate. Also, assumed a terminal growth rate of 2.0%.

Sum of PV (AED, Mn)	8,753
Terminal value (AED, Mn)	17,272
Book Value of Equity (as of March 2025)	38,084
FV to Common shareholders (AED, Mn)	64,109
No. of share (Mn)	7,241
Current Market Price (AED)	7.50
Fair Value per share (AED)	8.85

Residual Income Method

(All Figures in AED Mn)	FY 2025E	FY 2026E	FY 2027E	FY 2028E	FY 2029E
Net Profit	6,573	7,034	6,984	7,087	7,226
(-) Equity Charge	(3,929)	(4,300)	(4,668)	(5,044)	(5,434)
Excess Equity	2,644	2,733	2,317	2,042	1,792
Discounting Factor	0.94	0.87	0.79	0.73	0.67
Present Value of Excess Equity	1,871	2,364	1,837	1,485	1,195

Source: FAB Securities

2) Relative Valuation:

We have used local and regional peers to value DIB, which is valued using the PB multiple. It is valued at a 2025 PB multiple of 1.3x, in line with peers.

Company	Market Cap (USD Mn)	P/B (x)		P/E (x)		Dividend Yield (x)	
		2025F	2026F	2025F	2026F	2025F	2026F
Commercial Bank of Dubai	6,640	1.4	1.3	7.5	7.9	6.3	5.8
Abu Dhabi Islamic Bank	15,208	2.2	2.0	10.7	10.3	5.3	5.3
Emirates NBD	35,597	1.0	0.9	6.3	6.1	5.3	6.1
Abu Dhabi Commercial Bank	23,669	0.9	0.9	7.7	8.0	6.6	6.4
Alinma Bank	20,571	2.1	1.9	13.1	11.9	3.9	3.8
First Abu Dhabi Bank	40,039	1.2	1.2	9.1	9.6	5.7	5.4
Average		1.5x	1.4x	9.1x	9.0x	5.5%	5.5%
Median		1.3x	1.2x	8.4x	8.8x	5.5%	5.6%
Max		1.9x	1.7x	10.3x	10.2x	6.1%	6.0%
Min		1.1x	1.0x	7.5x	7.9x	5.3%	5.3%

Source: FAB Securities

