

Abu Dhabi Islamic Bank

Solid growth in non-funded income and decline in provisions drove net line

1Q22 Net Profit beats our estimate

Abu Dhabi Islamic Bank (ADIB) net profit rose 17.8% YoY in net profit to AED 715 Mn in 1Q22, missing our estimate of AED 669 Mn. This was primarily due to solid growth in non-funded income and significant decline in Impairment charges .

P&L highlights

Abu Dhabi Islamic Bank's funded income including income from Islamic financing grew marginally 0.2% YoY to AED 876 Mn in 1Q22. This was mainly due to 9.0% growth in interest-bearing assets, partially offset by a marginal decline in assets yield due to growth in financing to government, public sector enterprises, private banking and retail segment. Funded expenses fell by 3.2% YoY to AED 87 Mn in 1Q22 as the bank recorded growth CASA deposit in retail segment. Thus, net funded income grew marginally 0.6% YoY to AED 789 Mn in 1Q22. Net Fee and Commission income grew significantly 19.3% YoY to AED 288 Mn in 1Q22. Other non-funded income, including components such as investment income and foreign exchange, grew 7.2% YoY to AED 332 Mn in 1Q22. Resultantly, net operating Income grew 5.5% YOY to AED 1,409 Mn in 1Q22. Operating expenses fell 2.5% to AED 577 million in 1Q22. This was mainly driven by the efficacy of digital strategy and cost initiative taken by bank which included optimizing branch network, renegotiation of premises leases and natural staff attrition. Cost-to-Income ratio "C/I" declined to 40.9% in 1Q22, up from 44.3% in 1Q21 due to decline in operating expenses and rise in operating income. Impairment charges decline significantly 15.1% YOY to AED 113 Mn in 1Q22, supporting the increase in bottom-line.

Balance sheet highlights

ADIB continued to record solid growth in net Advances which grew 2.4% QoQ to AED 91 Bn in 1Q22. To fund this solid growth, customer deposits grew 1.1% QoQ to AED in 110 Bn in 1Q22. This was driven by addition of AED 2.2 Bn in CASA deposits on QoQ basis. CASA deposit made up 76.2% of total deposit during 1Q22. Therefore, total assets increased 1.3% QoQ to AED 138 Bn in 1Q22. Total Equity of bank stood at AED 15 billion declining by 4.3% QoQ basis .

Target price and rating

We Upgrade our rating to BUY on Abu Dhabi Islamic Bank with a revised target price of AED 9.85. The bank delivered a robust financial performance in 1Q22 supported by a rebound in UAE economic activity and improvement in business environment. Overall revenues of bank were supported by addition of new customers of approximately 30,000 during 1Q22, evidencing ADIB's emphasis on

Rating : BUY

First Look Note – 1Q22

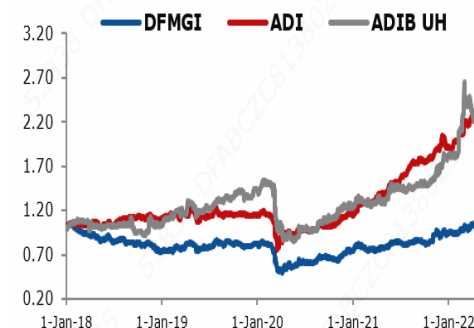
Sector: Banking

Recommendation

Current Price (10-May-22)	8.55
Target Price	9.85
Upside/Downside (%)	+15%

Stock Information

Market Cap (mm)	31,053.60
Paid Up Capital (mm)	3,632.00
52 Week High	10.46
52 Week Low	5.05
3M Avg. daily value (AED)	25,895,190



Financial Ratios

Dividend Yield (12m)	3.64
Dividend Pay-out (%)	54.49
Price-Earnings Ratio (x)	14.23
Price-to-Book Ratio (x)	2.05
Book Value (AED)	4.16
Return-on Equity (%)	14.46
Earning Per Share (AED)	0.60
Beta	0.86

Stock Performance

5 Days	-2.62%
1 Months	-1.72%
3 Months	9.34%
6 Months	41.09%
1 Year	68.97%
Month to Date (MTD)	-2.85%
Quarter to Date (QTD)	-2.51%
Year to Date (YTD)	24.16%

long-term customer relationships and the delivery of superior customer service. Non funded income is projected to maintain healthy growth rate with improving economic outlook. The rising interest rate scenario is expected to be drawback for bank due to negative interest rate gap. The bank's balance sheet is negatively geared in rising interest rate scenario. This means greater amount of liabilities priced at higher rate as compared to assets affects NIMs. However, increase in CASA deposits should somewhat offset the impact negative gearing. NPL ratio stood at of 8.8% with provision coverage ratio of 59.5%. While stage 2 loans rose from 8.3% in 4Q21 to 8.5% in 1Q22 might create pressure on profitability in case, loan turn non-performing. Considering aforementioned factors, we upgrade our BUY rating on the stock

ADIB- Relative valuation

(at CMP)	2018	2019	2020	2021	2022F
PE	13.5	13.7	23.7	15.1	11.9
PB	2.4	2.2	2.2	2.0	1.8
Dividend Yield	3.2%	3.2%	2.4%	3.6%	3.6%

FABS Estimates & Co Data

ADIB - P&L

AED mm	1Q21	4Q21	1Q22A	1Q22F	Var.	YOY Ch	QOQ Ch	2021	2022F	Change
Funded income	874	882	876	792	10.6%	0.2%	-0.7%	3,675	3,836	4.4%
Depositors distribution	-90	-82	-87	-101	-14.3%	-3.2%	5.6%	-330	-456	38.2%
Net funded income	784	800	789	691	14.2%	0.6%	-1.3%	3,345	3,380	1.1%
Fees and commissions	241	269	288	273	5.6%	19.3%	7.2%	958	1,032	7.7%
Other non-funded income	310	398	332	399	-16.8%	7.2%	-16.7%	1,257	1,332	6.0%
Non Funded Income	551	667	620	672	-7.7%	12.5%	-7.1%	2,215	2,364	6.7%
Operating income	1,336	1,467	1,409	1,363	3.4%	5.5%	-3.9%	5,560	5,744	3.3%
Operating expenses	-592	-531	-577	-510	13.1%	-2.5%	8.7%	-2,260	-2,362	4.5%
Pre-provisioning income	744	936	832	853	-2.4%	11.9%	-11.1%	3,300	3,382	2.5%
Financing impairment	-134	-231	-113	-179	-36.8%	-15.1%	-50.9%	-954	-783	-18.0%
Profit before NCI	610	705	719	673	6.8%	17.8%	1.9%	2,345	2,599	10.8%
NIC. & zakat	-3	-5	-4	-5	-18.2%	26.4%	-18.2%	-1	-1	-21.4%
Net profit	607	701	715	669	7.0%	17.8%	2.1%	2,344	2,598	10.8%

FABS Estimates & Co Data

ADIB - P&L KPI

	1Q21	4Q21	1Q22A	YOY Bps	QOQ Bps	2021	2022F	Change
Net FI/OI	58.7%	54.5%	56.0%	-272	148	60.2%	58.8%	-132
NIM	2.8%	2.8%	2.7%	-19	-12	3.0%	2.3%	-68
NIS	2.8%	2.8%	2.6%	-19	-13	2.9%	10.2%	728
Fees & commissions/OI	18.1%	18.3%	20.4%	236	212	17.2%	18.0%	73
Other non-funded/OI	23.2%	27.2%	23.6%	36	-360	22.6%	23.2%	58
Cost to income	44.3%	36.2%	40.9%	-336	474	40.7%	41.1%	47
Impairment/PPP	17.9%	24.6%	13.6%	-434	-1,102	28.9%	23.2%	-577
NP/OI	45.5%	47.8%	50.8%	528	298	42.2%	45.2%	307
ROAE	16.5%	18.1%	18.5%	202	40	11.8%	12.1%	34
ROAA	1.9%	2.1%	2.1%	20	0	1.8%	1.8%	5

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ADIB- Key BS Items

AED mm	1Q21	2Q21	3Q21	4Q21	1Q22A	YOY Ch
Net advances	84,162	84,559	85,403	89,043	91,169	8.3%
QOQ Change	0.9%	0.5%	1.0%	4.3%	2.4%	
Total assets	1,30,694	1,30,608	1,33,382	1,36,868	1,38,583	6.0%
QOQ Change	2.4%	-0.1%	2.1%	2.6%	1.3%	
Customer deposits	1,03,069	1,05,159	1,07,005	1,09,611	1,10,808	7.5%
QOQ Change	1.8%	2.0%	1.8%	2.4%	1.1%	
Total equity	15,069	14,773	15,163	15,793	15,119	0.3%
QOQ Change	4.7%	-2.0%	2.6%	4.2%	-4.3%	

FABS estimate & Co Data

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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