

## Abu Dhabi Islamic Bank

Strong increase in asset yield supported profitability

### 1Q23 Net Profit higher than our estimates

Abu Dhabi Islamic Bank's (ADIB or the Bank) net profit rose 48.0% YOY to AED 1,059 Mn in 1Q23, higher than our estimate of AED 969 Mn. The increase in net profit is primarily attributable due to strong increase in net funded income partially offset by an increase in operating expenses and impairments.

### P&L highlights

ADIB's funded income including income from Islamic financing increased significantly from AED 876 Mn in 1Q22 to AED 2,014 Mn in 1Q23 driven by an increase in net financing and other interest-earnings assets of the Bank. Net advances recorded the strong growth of 21.4% YOY to AED 110.4 Bn in 1Q23. Funded expense rose significantly from AED 87 Mn in 1Q22 to AED 589 Mn in 1Q23 due to the ongoing higher interest rates scenario. Resultantly, net funded income grew 80.6% YOY to AED 1,425 Mn in 1Q23. NIMs also rose 111 bps YOY to 3.5% in 1Q23. Fees and commission income rose 4.0% YOY to AED 300 Mn in 1Q23, mainly due to the growth in income from trade finance and card related fees. Other non-funded income declined 6.3% YOY to AED 311 Mn in 1Q23 due to decline in investment income partially offset by increase in foreign exchange and other income. Thus, non-funded income declined marginally 1.4% YOY to AED 611 Mn in 1Q23. Total operating income increased 44.5% YOY to AED 2,037 Mn in 1Q23. Furthermore, operating expenses rose 25.9% YOY to AED 726 Mn in 1Q23 owing to the Bank's strategic and transformation investments and volume related expenses. Impairments rose from AED 113 Mn in 1Q22 to AED 146 Mn in 1Q23. Zakat expenses rose from AED 4 Mn in 1Q22 to AED 62 Mn in 1Q23 whereas share of profit attributable to non-controlling interest increased from nil in 1Q22 to AED 43 Mn in 1Q23.

### Balance Sheet highlights

ADIB's total assets increased 24.2% to AED 172.1 Bn in 1Q23 mainly due to a strong rise in cash balance and increase in net financing assets. ADIB's net advances rose 21.4% to AED 110.6 Bn in 1Q23. Net financing grew mainly due to the 15% YOY growth in wholesale financing across government, public, corporates, and financial institutions and also due to the 11% rise in retail loan book. ADIB's customer deposits rose 27.9% to AED 141.8 Bn in 1Q23. The CASA deposit of the Bank rose 15.0% to AED 97 Bn and comprise 68.0% of total customer deposits in 1Q23. Furthermore, total equity rose 10.2% to AED 16.7 Bn in 1Q23.

### Target price and rating

We revise our rating from ACCUMULATE to HOLD on Abu Dhabi Islamic Bank with an unchanged target price of AED 12.00. The Bank share price moved up 3.7% since our last rating on 17 April 2023. It reported profit above AED 1 Bn for the third consecutive quarter in a row supported by higher net funded and non-funded income. ADIB reported marginal increase in advances on QOQ basis however it expects gross financing to grow between 5-8% during FY2023. It recorded a marginal decline in NIMs on QOQ basis in 1Q23, while revised its NIMs guidance from 3.8-4.1% to 4.5% for FY2023. It is further supported by a strong growth in deposits and CASA deposit

**Rating : HOLD**

### First Look Note – 1Q23

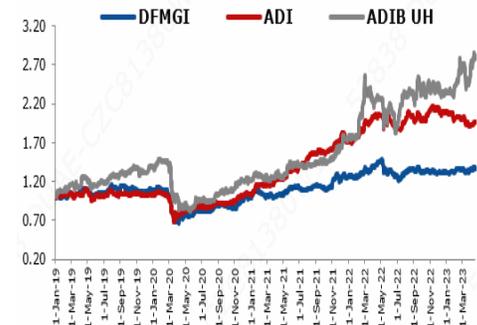
**Sector: Banking**

#### Recommendation

Current Price (28-Apr-23)	11.36
Target Price (AED)	12.00
Upside/Downside (%)	+5.6%

#### Stock Information

Market Cap (mm)	41,259.52
Paid Up Capital (mm)	3,632.00
52 Week High	11.90
52 Week Low	7.03
3M Avg. daily value (AED)	22,563,210



#### Financial Ratios

Dividend Yield (12m)	4.31
Dividend Pay-out (%)	53.57
Price-Earnings Ratio (x)	11.26
Price-to-Book Ratio (x)	2.48
Book Value (AED)	4.59
Return-on Equity (%)	23.08
Earning Per Share (AED)	1.01
Beta	1.07

#### Stock Performance

5 Days	4.41%
1 Months	13.83%
3 Months	20.34%
6 Months	20.85%
1 Year	29.38%
Month to Date (MTD)	0.00%
Quarter to Date (QTD)	13.83%
Year to Date (YTD)	24.70%

constituted 68.4% of total deposit in 1Q23. Loan-to-deposit ratio also improved from 78.0% in 4Q22 to 75.7% in 1Q23. Non-funded income is expected to record a healthy growth rate supported by fees and commission income and addition of new customers. In addition, the NPL ratio remained unchanged at 7.7% in 1Q23, with provision coverage of 64.4% in 1Q23. Stage 2 loans as a percentage of total gross loans decreased from 6.6% in 4Q22 to 5.5% in 1Q23, reflecting asset quality improvement. The CET 1 ratio of 12.5%, a tier 1 ratio of 16.4%, and a capital adequacy ratio of 17.2% in 2022, capitalization remained robust. While the operating expenses significantly 26.0% YOY due to increase in employee, G&A and other cost. ADIB maintained its overall cost-to-income ratio guidance despite this steep increase in operating expenses. Hence based on our analysis we assign a HOLD rating on the stock.

**ADIB- Relative valuation**

(at CMP)	2018	2019	2020	2021	2022	2023F
PE	17.8	18.0	31.2	19.9	12.4	11.8
PB	3.2	2.9	2.9	2.6	2.3	2.1
Dividend Yield	2.4%	2.4%	1.8%	2.7%	4.3%	4.3%

*FABS Estimates & Co Data*
**ADIB - P&L**

AED mm	1Q22	4Q22	1Q23	1Q23F	Var.	YOY Ch	QOQ Ch	2022	2023F	Change
<b>Funded income</b>	<b>876</b>	<b>1,922</b>	<b>2,014</b>	<b>1,807</b>	<b>11.4%</b>	<b>129.9%</b>	<b>4.8%</b>	<b>5,042</b>	<b>7,465</b>	<b>48.1%</b>
Funded expense	-87	-573	-589	-685	-14.1%	577.7%	2.8%	-891	-2,646	196.9%
<b>Net funded income</b>	<b>789</b>	<b>1,349</b>	<b>1,425</b>	<b>1,122</b>	<b>27.0%</b>	<b>80.6%</b>	<b>5.6%</b>	<b>4,151</b>	<b>4,819</b>	<b>16.1%</b>
Fees and commission	288	529	300	265	13.3%	4.0%	-43.4%	1,368	1,095	-20.0%
Other non-funded inc.	332	440	311	308	1.0%	-6.2%	-29.3%	1,316	1,184	-10.0%
<b>Non Funded Inc</b>	<b>620</b>	<b>970</b>	<b>611</b>	<b>573</b>	<b>6.7%</b>	<b>-1.4%</b>	<b>-37.0%</b>	<b>2,684</b>	<b>2,279</b>	<b>-15.1%</b>
<b>Operating income</b>	<b>1,409</b>	<b>2,319</b>	<b>2,037</b>	<b>1,695</b>	<b>20.1%</b>	<b>44.5%</b>	<b>-12.2%</b>	<b>6,835</b>	<b>7,098</b>	<b>3.8%</b>
Operating expenses	-577	-688	-726	-572	26.9%	25.9%	5.6%	-2,387	-2,514	5.3%
<b>Pre-provision inc.</b>	<b>832</b>	<b>1,631</b>	<b>1,310</b>	<b>1,123</b>	<b>16.7%</b>	<b>57.4%</b>	<b>-19.7%</b>	<b>4,448</b>	<b>4,584</b>	<b>3.0%</b>
Financing impairment	-113	-416	-146	-149	-1.5%	29.2%	-64.9%	-769	-721	-6.3%
<b>Profit before NCI</b>	<b>719</b>	<b>1,215</b>	<b>1,164</b>	<b>974</b>	<b>19.5%</b>	<b>61.9%</b>	<b>-4.2%</b>	<b>3,680</b>	<b>3,863</b>	<b>5.0%</b>
NIC. & zakat	-4	-78	-105	-5	NM	NM	34.2%	-92	-90	-2.7%
<b>Net profit</b>	<b>715</b>	<b>1,136</b>	<b>1,059</b>	<b>969</b>	<b>9.2%</b>	<b>48.0%</b>	<b>-6.8%</b>	<b>3,587</b>	<b>3,773</b>	<b>5.2%</b>

*FABS Estimates & Co Data*
**ADIB - P&L KPI**

	1Q22	4Q22	1Q23	YOY Ch	QOQ Ch	2022	2023	Change
Net FI/OI	56.0%	58.2%	70.0%	1,398	1,180	60.7%	67.9%	716
NIM	2.4%	3.6%	3.5%	111	-7	2.9%	3.0%	8
Fees & commissions/OI	20.4%	22.8%	14.7%	-571	-808	20.0%	15.4%	-460
Other non-funded/OI	23.6%	19.0%	15.3%	-828	-372	19.3%	16.7%	-257
Cost to income	40.9%	29.7%	35.7%	-528	600	34.9%	35.4%	50
Impairment/PPP	13.6%	25.5%	11.1%	-247	-1,438	17.3%	15.7%	-156
NP/OI	50.8%	49.0%	52.0%	126	301	52.5%	53.2%	68
ROAE	15.8%	21.0%	22.9%	710	185	19.8%	18.7%	-109
ROAA	1.8%	2.3%	2.3%	54	4	2.3%	2.2%	-16

*FABS Estimates & Co Data*
**ADIB- Key BS Items**

AED mm	1Q22	2Q22	3Q22	4Q22	1Q23	YOY Ch
<b>Net advances</b>	90,224	92,190	98,240	107,717	107,274	18.9%
QOQ Change	2.2%	2.2%	6.6%	9.6%	-0.4%	
<b>Total assets</b>	138,583	141,944	147,209	168,517	172,147	24.2%
QOQ Change	1.3%	2.4%	3.7%	14.5%	2.2%	
<b>Customer deposits</b>	110,808	115,188	118,823	138,137	141,756	27.9%
QOQ Change	1.1%	4.0%	3.2%	16.3%	2.6%	
<b>Total equity</b>	15,119	15,638	16,407	17,726	16,654	10.2%
QOQ Change	-4.3%	3.4%	4.9%	8.0%	-6.1%	

*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	13.44	70.0%	9.41
Relative Valuation	8.63	30.0%	2.59
<b>Weighted Average Valuation (AED)</b>			<b>12.00</b>
<b>Current market price (AED)</b>			<b>11.36</b>
<b>Upside/Downside (%)</b>			<b>5.63%</b>

### 1) Residual Income Method:

We have discounted the economic profit/excess equity using the cost of equity of 8.8%. Cost of equity is calculated by using 10-year government bond yield of 4.3%, beta of 1.05 and equity risk premium of 4.3%. 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)	7,616
Terminal value (AED, Mn)	24,554
Book Value of equity (as of March 2023)	16,654
<b>FV to Common shareholders (AED, Mn)</b>	<b>48,824</b>
No. of share (Mn)	3,632
Current Market Price (AED)	11.36
<b>Fair Value per share (AED)</b>	<b>13.44</b>

### Residual Income Method

(All Figures in AED Mn)	FY 2023E	FY 2024E	FY 2025E	FY 2026E	FY 2027E
Net Profit	3,507	3,501	3,655	4,059	4,784
(-) Equity charge	-1,742	-1,917	-2,081	-2,277	-2,524
<b>Excess Equity</b>	<b>1,765</b>	<b>1,584</b>	<b>1,575</b>	<b>1,783</b>	<b>2,260</b>
Discounting Factor	0.97	0.94	0.86	0.79	0.73
<b>Present Value of Excess Equity</b>	<b>1,718</b>	<b>1,485</b>	<b>1,357</b>	<b>1,412</b>	<b>1,645</b>

## 2) Relative Valuation:

We have used local to value ADIB and it is valued using the PB multiple. We applied premium to peer valuation since it generates superior return on assets as compared to its peers also, expect this premium to be maintained. It is valued at PB multiple of 1.6x as compared to peer valuation of 1.1x.

Company	Market (USD Mn)	P/B (x)		PE (x)		Dividend Yield (%)	
		2023	2024	2023	2024	2023	2024
Commercial Bank of Dubai (CBD)	3,576	0.9	0.9	6.6	6.6	8.2%	8.1%
Abu Dhabi Commercial Bank (ADCB)	17,060	1.1	1.0	8.9	9.5	4.8%	4.6%
Emirates NBD	22,788	0.8	0.8	5.3	5.7	5.2%	5.2%
Dubai Islamic Bank (DIB)	10,547	1.1	1.0	7.4	7.6	6.1%	6.2%
First Abu Dhabi Bank (FAB)	40,186	1.3	1.2	11.2	11.3	4.2%	4.3%
<b>Average</b>		<b>1.0x</b>	<b>0.9x</b>	<b>7.9x</b>	<b>8.2x</b>	<b>6.1%</b>	<b>6.0%</b>
<b>Median</b>		<b>1.1x</b>	<b>1.0x</b>	<b>7.4x</b>	<b>7.6x</b>	<b>5.2%</b>	<b>5.2%</b>
<b>Max</b>		<b>1.1x</b>	<b>1.0x</b>	<b>8.9x</b>	<b>9.5x</b>	<b>6.1%</b>	<b>6.2%</b>
<b>Min</b>		<b>0.9x</b>	<b>0.9x</b>	<b>6.6x</b>	<b>6.6x</b>	<b>4.8%</b>	<b>4.6%</b>



**FAB Securities Awards**



Best Brokerage House in UAE 2016 & 2017 by "Banker Middle East"



Best Brokerage House in UAE 2016, 2017, 2019 and 2020 by "IFA"



Best Brokerage in the UAE 2016 By "Global Investor/ ISF ME Awards"



Best Research House in UAE 2016 and 2020 by "IFA"



Best New Mobile Application in UAE 2016 by "IFA"



Best Equity Finance Company in UAE 2016 by "IFA"