

Dubai Islamic Bank (DIB)

Higher asset yield weighed by cost of funds

1Q23 Net Profit in line with our estimate

Dubai Islamic Bank ("DIB", "The Bank") net profit increased 11.1% YOY to AED 1,478 Mn in 1Q23, slightly lower than our estimate of AED 1,517 Mn. The increase in net profit is primarily driven by strong growth in net funded income partially offset by a decline in non-funded income, an increase in operating expenses and impairment charges.

P&L highlights

Funded income rose significantly from AED 2,304 Mn in 1Q22 to AED 3,839 Mn in 1Q23 mainly due to an increase in asset yield and interest earnings assets of the Bank. Asset yield rose 12 bps QOQ to 5.63% in 1Q23. Funded expenses also rose significantly from AED 549 Mn in 1Q22 to AED 1,676 Mn in 1Q23 due to the rise in benchmark rates. As a result, net funded income recorded a 23.2% YOY increase to AED 2,163 Mn in 1Q23. Thus, NIMs rose 51 bps YOY to 3.17% in 1Q23. Fees & commissions income declined 15.2% YOY to AED 417 Mn in 1Q23. While other non-funded income declined from AED 220 Mn in 1Q22 to AED 175 Mn in 1Q23. Thus, non-funded income recorded a decline of 16.9% YOY to AED 592 Mn in 1Q23. Resultantly, total operating income rose 11.7% YOY to AED 2,755 Mn in 1Q23. General expenses rose 6.3% YOY to AED 742 Mn in 1Q23, owing to the Bank's continued investments on digital and transactional banking. However, the cost-to-income ratio declined 136 bps YOY to 26.9% in 1Q23 mainly due to higher revenue growth and controlled cost growth. Impairments charges increased from AED 417 Mn in 1Q22 to AED 496 Mn in 1Q23. Tax expenses rose from AED 7 Mn in 1Q22 to AED 11 Mn in 1Q23. Share to NCI increased from AED 15 Mn in 1Q22 to AED 28 Mn in 1Q23.

Balance Sheet highlights

The Bank's net financing declined marginally 0.6% QOQ and 3.0% YOY to AED 185 Bn in 1Q23 mainly due to routine prepayments of corporate financing of AED 9 Bn and early settlements of AED 4 Bn as a result of excess liquidity and higher interest rate scenario partially offset by an increase in the consumer financing of AED 5.0 Bn. While gross corporate financing rose 41.0% YOY to AED 11 Bn primarily by government related entities and large corporates. Total assets rose 1.7% YOY to AED 289 Bn in 1Q23 majorly due to an increasing cash balance and a rise in the Sukuk investments. Customer deposits declined 3.0% YOY to AED 198.6 Bn in 1Q23. CASA deposits decreased from AED 93 Bn in 1Q22 to AED 79 Bn in 1Q23 and now account for 40.0% of total deposits in 1Q23. Furthermore, the total equity of the Bank rose 7.1% YOY to AED 32 Bn in 2023.

Target price and rating

We maintain a BUY rating on DIB with a target price of AED 7.00. The Bank's net financing and sukuk rose 0.8% QOQ to AED 240.1 Bn in 1Q23 mainly due to a growth in consumer loans and investment in sukuk partially offset by a decline in corporate repayments. Corporate segment added AED 11 Bn in new financing more than offset by repayments. While the consumer segment provided AED 5.2 Bn in new financing resulting in a total consumer outstanding portfolio growth from AED 52 Bn in 4Q22 to AED 53 Bn in 1Q23. It

Rating : BUY

First Look Note – 1Q23

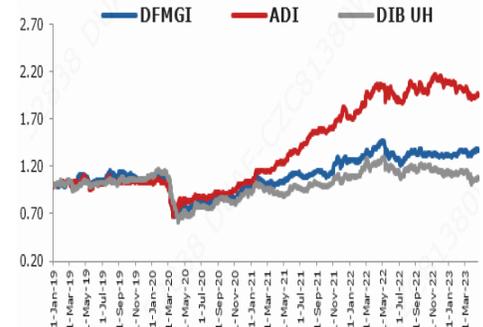
Sector: Banking

Recommendation

Current Price (24-Apr-23)	5.33
Target Price (AED)	7.00
Upside/Downside (%)	+31%

Stock Information

Market Cap (mm)	38,737.98
Paid Up Capital (mm)	7,240.74
52 Week High	6.57
52 Week Low	5.10
3M Avg. daily value (AED)	24,596,030



Financial Ratios

Dividend Yield (12m)	5.63
Dividend Pay-out (%)	42.94
Price-Earnings Ratio (x)	7.42
Price-to-Book Ratio (x)	1.20
Book Value (AED)	4.44
Return-on Equity (%)	16.75
Earning Per Share (AED)	0.72
Beta	0.88

Stock Performance

5 Days	0.75%
1 Months	2.69%
3 Months	-5.48%
6 Months	-10.08%
1 Year	-14.26%
Month to Date (MTD)	2.29%
Quarter to Date (QTD)	2.29%
Year to Date (YTD)	-6.14%

further expects net financing and sukuk to grow by 5% during FY2023. NIMs declined 19 QOQ to 3.4% in 1Q23 due to an increase in the cost of funds as the CASA ratio fell from 44% in 4Q22 to 40% in 4Q21. Loan-to-deposit ratio fell marginally from 93.7% in 4Q22 to 93.3% in 1Q23. The cost of funds will moderate going forward as the Fed is not expected to aggressively hike rates and DIB also raised additional funding worth USD 1 Bn from sustainable sukuk in 1Q23. The Bank expects the NIMs to remain flat at 3.0% in 2023. Furthermore, the NPL ratio remained stable at 6.18% in 1Q23 owing to the continued recoveries. While the coverage ratio rose from 73.0% in 4Q22 to 74.0% in 1Q23 indicating the bank's modest approach to risk management. Stage 2 loans also declined from AED 15.6 Bn in 4Q22 to AED 15.4 Bn in 1Q23 indicating the Bank's healthy asset quality trend. The Bank also managed to maintain at 20% in 1Q23 as per its guidance. The capitalization also remained strong with a capital adequacy ratio of 17.9% and CET 1 ratio stood at 13.3% in 1Q23. Considering all these factors, we maintain our BUY rating on the stock. Considering all these factors, we maintain our BUY rating on the stock.

DIB - Relative valuation

(at CMP)	2018	2019	2020	2021	2022	2023F
P/E (x)	7.46	7.80	14.25	10.24	7.73	7.44
P/B (x)	1.47	1.39	1.36	1.28	1.18	1.08
Dividend Yield (%)	6.5%	6.5%	3.7%	4.6%	5.6%	6.5%

FABS Estimates & Co Data
DIB - P&L

AED mm	1Q22	4Q22	1Q23	1Q23F	Var.	YOY Ch	QOQ Ch	2022	2023F	Change
Funded income	2,304	3,635	3,839	3,731	2.9%	66.6%	5.6%	11,739	14,924	27.1%
Funded expense	-549	-1,414	-1,676	-1,421	17.9%	205.2%	18.5%	-3,634	-5,914	62.7%
Net funded income	1755	2,220	2,163	2,310	-6.4%	23.2%	-2.6%	8,105	9,010	11.2%
Fees & commissions	492	365	417	409	2.1%	-15.2%	14.3%	1,601	1,657	3.5%
Other non-funded income	220	229	175	61	185.7%	-20.6%	-23.6%	762	304	-60.1%
Non Funded Income	712	594	592	470	26.0%	-16.9%	-0.3%	2,363	1,960	-17.0%
Operating income	2,467	2,814	2,755	2,780	-0.9%	11.7%	-2.1%	10,467	10,971	4.8%
General expenses	-698	-693	-742	-679	9.2%	6.3%	7.1%	-2,733	-2,884	5.5%
Pre-provisioning profit	1,770	2,121	2,013	2,100	-4.2%	13.8%	-5.1%	7,734	8,087	4.6%
Impairment charges	-417	-653	-496	-536	-7.4%	19.0%	-24.0%	-2,103	-2,244	6.7%
Profit before tax	1,352	1,469	1,517	1,565	-3.0%	12.2%	3.3%	5,631	5,843	3.8%
Tax	-7	-18	-11	-9	33.1%	54.0%	-35.4%	-79	-93	18.0%
Profit before NCI	1,345	1,451	1,506	1,556	-3.2%	11.9%	3.8%	5,552	5,749	3.6%
Non-controlling interests	-15	-39	-28	-39	-28.6%	90.9%	-28.6%	-77	-77	0.0%
Profit for the period	1,330	1,412	1,478	1,517	-2.6%	11.1%	4.7%	5,474	5,672	3.6%

DIB - Margins

	1Q22	4Q22	1Q23	YOY Ch	QOQ Ch	2022	2023F	Change
Net FI/OI	71.1%	78.9%	78.5%	737	-39	77.4%	82.1%	470
NIM	2.7%	3.4%	3.2%	51	-19	3.0%	3.3%	28
NIS	2.5%	3.0%	2.8%	23	-26	2.8%	2.9%	9
Fees & commissions/OI	19.9%	13.0%	15.1%	-480	217	15.3%	15.1%	-19
Other non-funded/OI	8.9%	8.1%	6.3%	-258	-178	7.3%	2.8%	-451
Cost to income	28.3%	24.6%	26.9%	-136	231	26.1%	26.3%	17
Impairment/PPP	23.6%	30.8%	24.6%	107	-613	27.2%	27.7%	56
NCI/PBT	1.1%	2.7%	1.8%	76	-84	1.4%	1.3%	-5
NP/OI	53.9%	50.2%	53.6%	-28	347	52.3%	51.7%	-60
ROAA	1.7%	1.9%	1.9%	22	-1	1.9%	2.0%	3
ROAE	16.1%	16.8%	17.3%	121	49	17.2%	16.4%	-81

FABS estimate & Co Data

DIB- Key B/S Items

AED mm	1Q22	2Q22	3Q22	4Q22	1Q23	YOY Ch
Net advances	190,715	194,359	187,231	186,043	185,016	-3.0%
QOQ change	2.2%	1.9%	-3.7%	-0.6%	-0.6%	
Total assets	287,226	282,218	274,856	288,238	291,984	1.7%
QOQ change	2.9%	-1.7%	-2.6%	4.9%	1.3%	
Customer deposits	204,476	202,214	186,512	198,637	198,302	-3.0%
QOQ change	-0.7%	-1.1%	-7.8%	6.5%	-0.2%	
Total equity	29,958	31,024	32,230	33,039	32,078	7.1%
QOQ change	-2.1%	3.6%	3.9%	2.5%	-2.9%	

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	7.73	70.0%	5.41
Relative Valuation	5.30	30.0%	1.59
Weighted Average Valuation (AED)			7.00
Current market price (AED)			5.32
Upside/Downside (%)			31.6%

1) Residual Income Method:

We have discounted the economic profit/excess equity using the cost of equity of 7.9%. Cost of equity is calculated by using 10-year government bond yield of 4.8%, beta of 0.90 and equity risk premium of 3.4%. Government bond yield is calculated after adding Dubai 10-year spread over 10-year US risk free rate. Also, assumed a terminal growth rate of 2.0%.

Sum of PV (AED, Mn)	9,100
Terminal value (AED, Mn)	23,065
Book Value of equity (as of March 2023)	23,814
FV to Common shareholders (AED, Mn)	55,979
No. of share (Mn)	7,241
Current Market Price (AED)	5.32
Fair Value per share (AED)	7.73

Residual Income Method

(All Figures in AED Mn)	FY 2023E	FY 2024E	FY 2025E	FY 2026E	FY 2027E
Net Profit	5,268	4,583	4,567	4,442	4,797
(-) Equity charge	-2,192	-2,385	-2,576	-2,729	-2,910
Excess Equity	3,076	2,198	1,991	1,713	1,887
Discounting Factor	0.95	0.88	0.82	0.76	0.70
Present Value of Excess Equity	2,920	1,935	1,625	1,296	1,324

2) Relative Valuation:

We have used local peers to value DIB and it is valued using the PB multiple. We have not applied any discount to the peer's valuation multiple. It is valued at PB multiple of 1.06x in line with peers.

Company	Market	P/B (x)		PE (x)		Dividend Yield (%)	
	(USD Mn)	2023	2024	2023	2024	2023	2024
Commercial Bank of Dubai	3,525	0.9	0.9	6.6	6.6	8.2%	8.1%
Abu Dhabi Islamic Bank	11,005	2.0	1.9	10.6	11.1	5.1%	4.9%
Emirates NBD	22,440	0.8	0.8	5.3	5.7	5.2%	5.2%
Abu Dhabi Commercial Bank	17,452	1.1	1.0	8.9	9.5	4.8%	4.6%
First Abu Dhabi Bank	40,337	1.3	1.2	11.2	11.3	4.2%	4.3%
Average		1.2x	1.1x	8.5x	8.8x	5.5%	5.4%
Median		1.1x	1.0x	8.9x	9.5x	5.1%	4.9%
Max		1.3x	1.2x	10.6x	11.1x	5.2%	5.2%
Min		0.9x	0.9x	6.6x	6.6x	4.8%	4.6%

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"