

Sharjah Islamic Bank

Higher Profit supported by lower Provisions

4Q21 Net Profit lower than our estimate

Sharjah Islamic Bank (SIB) reported an increase by 7.7% YOY in Net Profit to AED56 Mn in 4Q21, as compared to AED52 Mn in 4Q20, missing our estimate of AED166 Mn. The increase in Net Profit was mainly due to lower Provisions.

P&L highlights

The Net Funded Income increased by 2.3% YOY to AED282 Mn in 4Q21, up from AED276 Mn in 4Q20, mainly due to significant reduction in Depositor's share of profits reaching a positive of AED47 Mn in 4Q21. Furthermore, the Profit on expense for Sukuks strongly increased to AED173 Mn in 4Q21, up from AED48 Mn in 4Q20. Moreover, the Income from investment has declined by 8.8% YOY to AED407 Mn in 4Q21, down from AED447 Mn in 4Q20. The Non-Funded income dropped significantly to a loss of AED5 Mn in 4Q21, down from AED40 Mn in 4Q20. It comprises of Fees, commission, and Other Income. Resultantly, the Operating income dropped by 12.3% YOY to AED277 Mn in 4Q21, down from AED315 Mn in 4Q20. General & admin expenses increased by 7.6% YOY to AED171 Mn in 4Q21, up from AED159 Mn in 4Q20. Thus, the Cost to income ratio has increased to 61.8%, up from 45.9% in 4Q20. The Provisions strongly declined by 52.4% YOY to AED50 Mn in 4Q21, as compared to AED105 Mn in 4Q20.

Balance sheet highlights

The Net Advances decreased slightly by 1% YOY to AED29 Bn in 4Q21, down from AED29.3 Bn in 4Q20. The Customer Deposits grew strongly by 14.5% YOY to AED38.5 Bn in 4Q21 as compared to AED33.6 Bn in 4Q20. Similarly, Total Assets has increased by 2.5% YOY to AED54.9 Bn in 4Q21. Whereas the Total equity increased by 0.6% YOY to AED7.7 Bn in 4Q21, up from AED7.6 Bn in 4Q20.

Target price and rating

We assign a HOLD rating with a target price of AED2.00. Sharjah Islamic Bank (SIB) is a financial institution that provides a wide variety of Sharia'a-compliant, retail, corporate and investment products, and services to its customers through an extensive UAE network. Despite the challenges posed by COVID-19, the Bank has reported a significant growth in the Net profit to AED 514 Mn in the year ended 31 December 2021, compared to AED 406 Mn in the same period last year. This increase was mainly supported by a decline in the Distribution to depositors and sukuk holders. SIB's Net Funded Income has increased by 12.4% YOY to AED 1 Bn in 2021, up from AED 974 Mn in 2020, and its mainly driven by a decline in both Depositors' share of profit and

Rating : HOLD

First Look Note – 4Q21

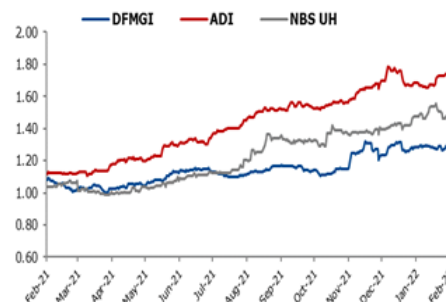
Sector: Banking

Recommendation

Current Price (8-Feb)	1.98
Target Price	2.00
Upside/Downside (%)	+1.0%

Stock Information

Market Cap (mm)	6,132.38
Paid Up Capital (mm)	3,081.60
52 Week High	2.05
52 Week Low	1.30
3M Avg. daily value (AED)	6,317,139



Financial Ratios

Dividend Yield (12m)	4.06
Dividend Pay-out (%)	47.96
Price-Earnings Ratio (x)	11.71
Price-to-Book Ratio (x)	1.04
Book Value (AED)	1.90
Return-on Equity (%)	8.81
Earning Per Share (AED)	0.17
Beta	0.59

Stock Performance

5 Days	2.05%
1 Months	3.11%
3 Months	9.94%
6 Months	20.61%
1 Year	45.26%
Month to Date (MTD)	1.53%
Quarter to Date (QTD)	2.05%
Year to Date (YTD)	2.05%

Profit expense on sukuks to AED 391 Mn and AED 173 Mn, respectively in 2021. Furthermore, the Bank has reported an increase by 16.8% YOY in Investment, Fees, commission and Other income reaching AED 333 Mn for the year ended 31 December 2021 compared to AED 285 Mn in 2020. Resultantly, the Total Operating Income has increased to AED 1.33 Bn, up from AED 1.2 Bn in 2020. While the Bank has recorded an increase by 2.7% YOY in General & Admin expenses to AED 577 Mn, as compared to AED 561 Mn in 2020. Therefore, the Cost to income (C/I) ratio has significantly dropped to 43.2%, down from 46% in 2020. The Net Operating income, before impairments has increased by 21.9% YOY reaching AED 851 Mn in the year ended 2021, up from AED 698 Mn in similar period of 2020. Moreover, the Impairment on financial assets – net of recoveries dropped by 4.4% YOY to AED 245 Mn, compared to AED 256 Mn in 2020. On the other hand, the Bank has been successfully pursuing a strategy of stable growth in its financial position, with an increase by 2.5% YOY in the Total Assets reaching AED 55 Bn at the end of 2021. Liquid assets stood at 26.1% of the total assets at the end of year 2021 compared to 20.9% at the same period in 2020. Moreover, the Net Advances have slightly dropped by 0.9% YOY to AED 29 Bn in 2021. While the Customer Deposits have notably increased by 14.5% YOY reaching AED 38.5 Bn for the year ended 31 December 2021. Thus, the Advances to deposits (ADR) ratio stood strong at 75.4% and in line with the management's strategic objectives. According to the Group's liquidity management policies, the Balance due to banks declined by AED 1.7 Bn reaching AED 4.2 Bn at the end of year 2021. Moreover, the Sukuk payable declined by AED 1.8 Bn and stood at AED 3.7 Bn in 2021, due to the repayment of USD 500 Mn in the third quarter of 2021. Bank's Total Equity increased to AED 7.7 Bn in 2021, showing how the bank is strongly capitalized. As a result of prudent management overlays and strict risk management policies, the NPL ratio stood at 4.89% as at the end of year 2021. SIB's Coverage ratio has improved reaching 95.8% in the year ended 31 December 2021, driven by the Banks prudent approach to provisions and NPLs. The Revaluation loss on investment properties strongly increased to AED 92.1 Mn in 2021, up from AED 36 Mn in 2020, mainly due to the fair value policy adopted by the Bank. The Bank profitability ratios such as ROAA and ROAE have both increased to 0.95% and 6.7% in 2021, respectively. Based on our analysis we assign a HOLD rating on the stock.

SIB - Relative Valuation

(at CMP)	2017	2018	2019	2020	2021
P/E (x)	11.55	12.23	11.55	15.23	11.65
P/B (x)	1.11	1.13	1.07	1.05	1.04
Dividend Yield	3.8%	0.0%	2.4%	4.0%	4.0%

FABS estimate & Co Data
SIB - P&L

AED mm	4Q20	3Q21	4Q21	4Q21F	Var	YOY Ch	QOQ Ch	2020	2021	Change
Income from fin. & Leasing	447	414	407	443	-7.9%	-8.8%	-1.6%	1,728	1,658	-4.1%
Depositors' share of profit	-123	-140	47	-164	NM	NM	NM	-577	-391	-32.3%
Profit expense on Sukuks	-48	0	-173	0	NA	NM	NA	-177	-173	-2.3%
Net funded income	276	274	282	279	1.1%	2.3%	2.8%	974	1,094	12.4%
Fees and commissions	40	97	-5	73	NM	NM	NM	249	241	-3.2%
Total non-funded income	40	97	-5	73	NM	NM	NM	249	241	-3.2%
Total operating income	315	372	277	352	-21.3%	-12.3%	-25.6%	1,223	1,335	9.2%
General & admin. Expenses	-159	-136	-171	-141	21.1%	7.6%	25.5%	-561	-577	2.7%
Pre provision profit	157	236	106	210	-49.8%	-32.4%	-55.1%	662	759	14.7%
Provisions	-105	-67	-50	-45	11.3%	-52.4%	-25.9%	-256	-245	-4.4%
Net profit	52	169	56	166	-66.2%	7.7%	-66.7%	406	514	26.7%

FABS estimate & Co Data

SIB - KPI

	4Q20	3Q21	4Q21	YOY Ch	QOQ Ch	2020	2021	Change
AED mm								
Net FI/OI	79.6%	73.8%	102.0%	2,233	2,817	79.6%	81.9%	23
NIM	2.3%	2.5%	2.4%	10	-4	2.3%	2.4%	0.8
NIS	2.3%	2.5%	2.4%	11	-3	2.3%	2.4%	1.0
Fees & comms/OI	20.4%	26.2%	-2.0%	-2,233	-2,817	20.4%	18.1%	-23
Cost to income	45.9%	36.6%	61.8%	1,587	2,514	45.9%	43.2%	-27
Provisions/PPP	38.7%	28.5%	47.0%	834	1,854	38.7%	32.2%	-64
NP/OI	33.2%	45.3%	20.3%	-1,292	-2,508	33.2%	38.5%	53
ROAE	5.3%	2.2%	0.7%	-462	-146	5.3%	6.7%	14
ROAA	0.8%	0.3%	0.1%	-71	-21	0.8%	0.9%	1

FABS estimate & Co Data

SIB- Key BS Items

	4Q20	1Q21	2Q21	3Q21	4Q21	YOY Ch
AED mm						
Net Advances	29,269	29,327	29,292	29,551	29,009	-0.9%
QOQ change	-0.9%	0.2%	-0.1%	0.9%	-1.8%	
Total Assets	53,601	54,919	54,351	54,510	54,957	2.5%
QOQ change	0.5%	2.5%	-1.0%	0.3%	0.8%	
Customer deposits	33,608	35,476	34,992	36,735	38,494	14.5%
QOQ change	3.1%	5.6%	-1.4%	5.0%	4.8%	
Total Equity	7,645	7,492	7,615	7,708	7,695	0.6%
QOQ change	0.0%	-2.0%	1.6%	1.2%	-0.2%	

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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