

Dubai Islamic Bank's (DIB) reported net profit of AED865mn, in-line with our expectations. Margins were up sequentially supported by an increase in the loan-deposit ratio. Asset quality surprised positively with a sharp drop in the NPL ratio. However, credit costs were high, as the bank improved its loan loss coverage ratio. Balance sheet growth continued to be strong. In particular, loan growth was strong at 31% YoY. DIB has proposed a dividend of AED0.45 per share translating into a dividend yield of 8% at current market price. Going forward, management expects loan growth to be in the low to mid-teens. Margins to come off from current levels due to rising interest rates and tightening of liquidity. We have lowered our target multiple to 1.5x from 1.75x due to weak macro environment. We maintain our Buy recommendation on DIB with a revised target price of AED6.51.

► **Margins were strong, fee income growth remained weak**

DIB's calculated margins (3.9%, up 8bps QoQ) was at the top-end of the guidance range as the bank gained from an improvement in their business mix. Loan-deposit ratio increased to 88% from 84% in 3Q15. CASA deposits were stable at 40%. However, fee income growth remained weak. Income from commission, fees and forex businesses were down 13% YoY.

► **Asset quality surprised positively**

Asset quality improved further with drop in NPL ratio to 5.0% from 5.9% in 3Q15. NPLs in absolute terms were down 11% QoQ to AED5.3bn. However, credit costs were higher at 60bps (29bps in 3Q15), as the bank improved its coverage ratio to 95% (84% in 3Q15). Management has guided for further improvement in asset quality with target NPL ratio of 4% in 2016. In this context, we would like to highlight, that the bank still has 200bps of legacy NPLs, which have been performing well for more than 365 days.

► **Strong balance sheet growth**

Loan growth was strong at 31.4% YoY (5.3% QoQ). In particular, growth was strong in the manufacturing (86% YoY), aviation (94% YoY), utilities (64% YoY) and financial institutions (50% YoY) sectors. Deposit growth remained strong for the year (19% YoY) but was almost flat for the quarter (0.6% QoQ).

► **Guidance for 2016**

Management has released their guidance for 2016. Loan growth is expected to slow down, but will continue to be higher than the system loan growth, at 10-15%. Margins to come off sharply from current levels and be in the range of 3.25-3.50%. Cost-income ratio to be in the range of low-mid 30s%.

Key Financials	2014	2015	2016E	2017E	2018E
Net interest income (AEDm)	3,645	4,463	4,890	5,471	6,161
Total income (AEDm)	5,434	6,212	6,749	7,545	8,477
EPS (AED)	0.6	0.8	0.8	0.9	1.0
EPS (% Change)	69.0	31.4	0.3	11.5	12.2
P/E (x)	9.0	6.8	6.8	6.1	5.4
P/B (tangible)	2.1	1.9	1.8	1.6	1.5
Net NPL (% of Loans and advances)	3.4	1.6	1.0	1.1	1.2
Dividend yield	7.2	8.1	9.0	9.9	11.8
ROAA (%)	2.1	2.3	2.0	2.1	2.1
ROAE (%)	21.6	25.6	23.4	23.8	24.4

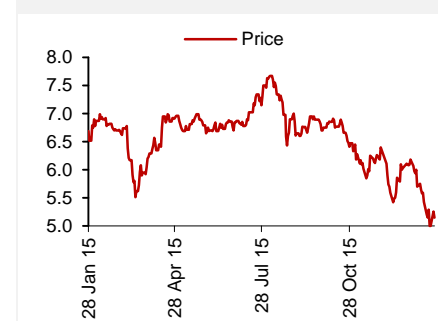
Source: ADCB Securities Equity Research

Fundamentals

Recommendation	Buy
Target Price	AED 6.51
Price	AED 5.15
Price 12m High/Low	AED 7.67/5.00
Market Cap.	AED 20,361
Bloomberg	DIB UH EQUITY

Bloomberg

Price Performance Chart



Source: Bloomberg

Financials

Income Statement (Dec) (AEDmn)	2015	2016E	2017E	2018E
Net interest income	4,463	4,890	5,471	6,161
Total non-interest income	1,750	1,859	2,074	2,316
Fee income	1,295	1,417	1,591	1,787
Trading income	37	84	94	105
Other income	418	358	390	425
Total income	6,212	6,749	7,545	8,477
Total operating expenses	2,223	2,391	2,653	2,981
Salaries and wages	1,480	1,598	1,790	2,005
Other operating expenses	744	793	864	976
Pre provision profit	3,989	4,359	4,892	5,496
Total provisions	410	661	826	989
Profit before tax and MI	3,579	3,697	4,066	4,508
Taxes	16	17	19	21
Minority interest	284	294	324	359
Reported net profit	3,556	3,689	4,058	4,496
Adjusted net profit	3,202	3,212	3,580	4,018

Source: ADCB Securities Equity Research

Balance Sheet (AEDmn)	2015	2016E	2017E	2018E
Loans and advances	97,220	107,942	120,958	136,708
Investments	21,897	24,050	26,857	29,994
Fixed assets	795	891	1,016	1,137
Other assets	6,658	7,559	8,466	9,280
Total assets	149,898	165,421	182,794	204,556
Total equity	13,123	14,358	15,763	17,212
Sub/hybrid/other debt	7,346	7,346	7,346	7,346
Minority interests	2,325	2,619	2,943	3,302
Deposits	109,981	122,079	135,508	153,124
Total borrowings	10,315	11,262	12,466	13,923
Total liabilities	127,104	141,098	156,742	176,697

Source: ADCB Securities Equity Research

Valuation and leverage metrics	2015	2016E	2017E	2018E
P/E (x)	6.8	6.8	6.1	5.4
P/PPE (x)	5.5	5.0	4.5	4.0
P/B (tangible)	1.9	1.8	1.6	1.5
Dividend yield (%)	8.1	9.0	9.9	11.8
Tier I ratio	15.8	14.3	13.8	12.9
Core tier I ratio	9.7	8.8	8.8	8.5
CAR (%)	16.0	14.6	14.1	13.4
Average assets/Equity (x)	11.0	11.5	11.6	11.7
Loan to deposit ratio (%)	88.4	88.4	89.3	89.3

Source: ADCB Securities Equity Research

Key Ratios (%)	2015	2016E	2017E	2018E
ROAA	2.3	2.0	2.1	2.1
RoAE	25.6	23.4	23.8	24.4
Net interest margin	3.8	3.5	3.6	3.6
Cost-income	35.8	35.4	35.2	35.2
CASA	39.9	39.2	40.3	40.6
Gross NPL (% of Loans and advances)	5.2	4.4	4.3	4.5
Loan loss coverage	95.4	108.1	107.4	105.1
Credit costs (% of avg loans)	0.6	0.5	0.6	0.7

Source: ADCB Securities Equity Research

Per-share data (AED)	2015	2016E	2017E	2018E
EPS	0.8	0.8	0.9	1.0
DPS	0.5	0.5	0.6	0.7
BVPS	2.9	3.1	3.4	3.7
Total no. of outstanding shares (mn)	3,954	3,954	3,954	3,954

Source: ADCB Securities Equity Research

Investment case

We recommend buy on DIB. It has a unique business model, with a balanced mix of corporate and high yield retail book. It has relatively stronger growth outlook. Well positioned to capitalize on Dubai's vision of future global capital of Islamic economy.

Upside case

AED7.5

Higher than expected loan book growth (with credit costs maintained at current levels). Sustained asset quality improvements. In such a scenario, DIB can trade at one standard deviation above its historical average at 2.4x P/BV 2016E.

Downside case

AED4.4

Risk of prolonged oil price decline may dampen the bank's growth objective. Margin compression due to intensified competition, particularly in retail loans, which is one of its key focus area. Multiple could drop to 1.4x 2016E P/BV.

Results summary

Fig. 1. Results review - 4Q2015

Income statement (AEDmn)	4Q14	3Q15	4Q15	% YoY	% QoQ
Interest income	1,207	1,429	1,477	22.4	3.4
Interest expense	195	279	320	64.1	14.5
Net Interest Income	1,012	1,149	1,158	14.4	0.7
Non-interest Income	368	451	374	1.5	(17.2)
- Fee based income	315	346	275	(12.9)	(20.6)
- Trading revenue	9	7	1	(85.9)	(82.9)
Total income	1,380	1,600	1,531	11.0	(4.3)
Operating expenses	555	556	544	(2.0)	(2.2)
- Employee expense	379	372	364	(3.9)	(2.2)
- Other expenses	177	184	180	2.1	(2.3)
Pre-provision profit	825	1,044	987	19.7	(5.4)
Loan loss provisions	165	65	70	(57.8)	7.1
Profit before tax	660	979	918	39.1	(6.3)
Associate, taxes and minorities	-46	7	53	(214.3)	642.7
Net Income	706	972	865	22.4	(11.0)
Balance sheet (AEDbn)					
Loans	74	92	97	31.4	5.3
Deposits	92	109	110	19.1	0.6
- CASA ratio	44.8	39.8	39.9		
Ratios					
Cost/income ratio (%)	40.2	34.8	35.5		
NIM (%)	4.1	3.7	3.9		
RoAA (%)	2.3	2.6	2.3		
Tier I (%)	14.7	16.2	15.5		
CAR (%)	14.9	16.5	15.7		
Asset quality					
Gross NPA (AEDmn)	6,593	5,909	5,289	(19.8)	(10.5)
Gross NPA (%)	8.0	5.9	5.0		
Coverage (%)	78.0	84.0	95.4		

Source: Company, ADCB Securities Equity Research.

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