

1Q19 results review

Banks | UAE | 24 April 2019

Dubai Islamic Bank (DIB) reported 1Q19 net profit at AED1.3bn, growth of 14% y-o-y and 6% above our/consensus estimates. Total revenue rose 21% y-o-y, driven by sustained momentum in net interest income as well as robust non-interest income growth. Operating expenses were kept in check, leading to cost-income ratio of 26% (well below management guidance of 30%). Loan loss provisions jumped as cost of risk normalized, accompanied by additional impairment charge on other financial assets. Loan growth at 8% y-o-y remained healthy but came below management guidance. Asset quality remained broadly stable with NPLs at 3.4% (above guidance of 3%). DIB's BoD has authorized management to evaluate acquisition of Noor Bank and due diligence report is expected to be submitted in 3 weeks. Management sees significant synergy potential from the transaction and is expected to divulge more details post due diligence. Based on conservative cost synergy benefits, we expect acquisition to be earnings accretive for DIB, though it would dilute its RoE slightly. Given superior growth profile, its high RoE and above sector dividend yield, we view DIB's current valuation as attractive. Maintain Buy.

► **Margins improve on higher asset yield**

Net interest income grew 16% y-o-y on higher asset yield and well supported by loan growth. Subsequently, NIMs improved 16bps y-o-y and 8bps q-o-q to 3.19%. Total revenue was further boosted by robust non-interest income performance, which saw other income growing 2.7x y-o-y and 21% sequentially. Core fee based income increased at modest pace of 6% y-o-y.

► **Operating expenses remained flat, thereby lifting growth further**

Operating expenses increased 1.5% y-o-y leading to reduction in cost-income ratio to 26% i.e. below target of ~30%. This helped to boost pre-provisioning profit growth to 30% y-o-y. Improved cost to income ratio should provide management room to invest in technology to improve efficiencies.

► **Credit cost normalized on lower recoveries and other impairments**

Credit cost increased to 78bps in 1Q19 after 66bps in 2018 as rate of recoveries declined. Management expects FY2019 credit cost to normalize between 70-80bps as more recoveries are timed to conclude in coming quarters. One time impairment on other financing assets also drove higher loan loss provisions in the quarter. NPLs ratio at 3.4% was broadly stable.

► **Balance sheet growth healthy but below guidance**

Loan book grew 8% y-o-y (1.4% q-o-q), below management guidance of 10-15%. Management reiterated FY2019 targets expecting pick up going forward. Deposits increased at slower pace of 5% y-o-y and CASA mix declined to 32.9% (versus 34.3% in 4Q18).

Key Financials	2017	2018	2019E	2020E	2021E
Net interest income (AEDm)	5,283	5,953	6,571	7,052	7,526
Total income (AEDm)	7,565	8,064	8,916	9,642	10,312
EPS (AED)	0.7	0.7	0.7	0.7	0.8
EPS (% Change)	15.8	(0.7)	(5.4)	9.1	7.2
P/E (x)	7.1	7.1	7.6	6.9	6.5
P/B (tangible)	1.4	1.4	1.3	1.2	1.1
Gross NPL (% of Loans and advances)	3.5	3.5	3.5	3.5	3.5
Dividend yield	8.5	6.6	6.6	7.2	7.6
ROAA (%)	1.9	1.9	1.9	2.0	1.9
RoAE (%)	19.9	19.4	17.8	17.7	17.3

Source: ADCB Securities Equity Research

Fundamentals

Recommendation	Buy
Target Price	AED 6.2
Price	AED 5.21
Price 12m High/Low	AED 5.35/4.66
Market Cap.	AED33,804mn
Bloomberg/Reuters	DIB UH / DISB.DU

Price Performance Chart



Source: Bloomberg

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Financials

Income Statement () (AEDmn)	2018	2019E	2020E	2021E
Net interest income	5,953	6,571	7,052	7,526
Total non-interest income	2,111	2,345	2,591	2,786
Fee income	1,476	1,611	1,760	1,923
Trading income	45	46	46	46
Other income	590	688	784	817
Total income	8,064	8,916	9,642	10,312
Total operating expenses	2,322	2,475	2,652	2,842
Salaries and wages	1,580	1,691	1,810	1,936
Other operating expenses	742	784	843	906
Pre provision profit	5,742	6,440	6,990	7,470
Total provisions	833	1,171	1,284	1,392
Profit before tax and MI	4,909	5,270	5,706	6,078
Taxes	42	49	56	65
Minority interest	88	94	102	108
Reported net profit	4,916	5,278	5,714	6,088
Adjusted net profit	4,134	4,473	4,882	5,233

Source: ADCB Securities Equity Research

Balance Sheet (AEDmn)	2018	2019E	2020E	2021E
Loans and advances	144,739	157,967	171,250	185,661
Investments	32,866	35,394	37,078	38,846
Fixed assets	1,314	1,446	1,590	1,749
Other assets	7,497	7,828	8,048	8,275
Total assets	223,682	241,394	259,317	279,539
Total equity	24,117	26,284	28,860	31,589
Sub/hybrid/other debt	7,346	7,346	7,346	7,346
Minority interests	2,663	2,757	2,859	2,967
Deposits	155,657	166,865	180,214	194,631
Total borrowings	25,574	28,994	29,981	31,955
Total liabilities	189,555	205,007	220,252	237,636

Source: ADCB Securities Equity Research

Valuation and leverage metrics	2018	2019E	2020E	2021E
P/E (x)	7.1	7.6	6.9	6.5
P/PPE (x)	5.9	5.2	4.8	4.5
P/B (tangible)	1.4	1.3	1.2	1.1
Dividend yield (%)	6.6	6.6	7.2	7.6
Tier 1 ratio	16.3	16.0	15.9	15.7
Core tier 1 ratio	12.4	12.4	12.5	12.5
CAR (%)	17.5	17.2	17.0	16.8
Average assets/Equity (x)	10.1	9.2	9.1	8.9
Loan to deposit ratio (%)	93.0	94.7	95.0	95.4

Source: ADCB Securities Equity Research

Key Ratios (%)	2018	2019E	2020E	2021E
ROAA	1.9	1.9	2.0	1.9
RoAE	19.4	17.8	17.7	17.3
Net interest margin	3.0	3.1	3.0	3.0
Cost-income	28.8	27.8	27.5	27.6
CASA	34.3	33.5	33.3	33.1
Gross NPL (% of Loans and advances)	3.5	3.5	3.5	3.5
Loan loss coverage	109.1	103.8	104.6	108.4
Credit costs (% of avg loans)	0.7	0.7	0.8	0.8

Source: ADCB Securities Equity Research

Per-share data (AED)	2018	2019E	2020E	2021E
EPS	0.7	0.7	0.7	0.8
DPS	0.4	0.4	0.4	0.4
BVPS	3.7	4.0	4.4	4.8
Total no. of outstanding shares (mn)	6,590	6,590	6,590	6,590

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 and is well positioned to capitalize on Dubai's vision of future global capital of Islamic economy. Last year's capital raise will provide further support to realize high growth, while its dividend yield looks compelling.

Upside case **AED6.8**

Higher than expected loan book growth (with credit costs maintained at current levels) and sustained asset quality improvement. In such a scenario, DIB can trade at 1.7x 1 Yr Fwd BV.

Downside case **AED4.4**

Risk of 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 1.1x 1 Yr Fwd BV.

Results summary – 1Q2019

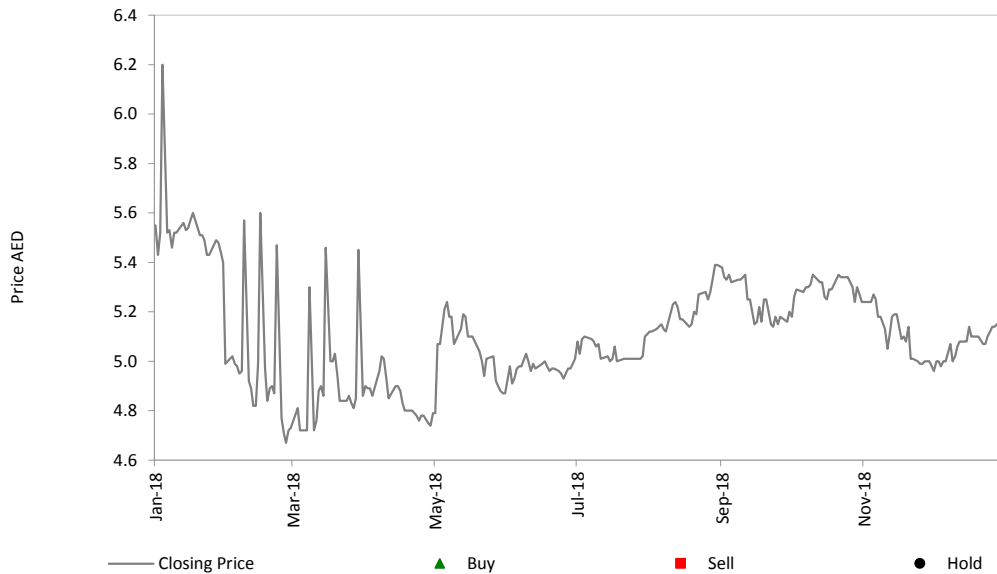
Fig. 1. 1Q19 results review

Income statement (AEDmn)	1Q18	4Q18	1Q19	% y-o-y	% q-o-q
Interest income	2,094	2,587	2,683	28.1	3.7
Interest expense	726	1,051	1,100	51.5	4.6
Net Interest Income	1,369	1,536	1,583	15.6	3.0
Non-interest Income	526	590	711	35.1	20.4
- Fee based income	411	364	435	5.8	19.4
- Trading revenue	21	15	20	(3.3)	31.4
Total income	1,895	2,126	2,293	21.0	7.9
Operating expenses	590	568	599	1.5	5.5
- Employee Exp.	404	379	404	0.1	6.6
- Other expenses	186	189	195	4.6	3.3
Pre-provision profit	1,304	1,558	1,694	29.9	8.7
Loan loss provisions	168	264	347	106.6	31.5
Profit before tax	1,137	1,294	1,347	18.5	4.1
Associate, taxes and minorities	-37	-3	11	NM	NM
Net Income	1,173	1,297	1,336	13.9	3.0
Balance sheet (AEDbn)				% y-o-y	% q-o-q
Loans	136	145	147	7.8	1.4
Deposits	152	156	159	5.0	2.3
- CASA ratio	33.6	34.3	32.9		
Ratios (%)				y-o-y (bps)	q-o-q (bps)
Cost/income ratio	31.1	26.7	26.1	(502)	(58)
NIM	3.0	3.1	3.2	16	8
Credit costs (incl. provisions on other assets)	0.50	0.73	0.95	45	22
Loan-deposit ratio	89.8	93.0	92.2	242	(80)
RoAA	2.2	2.3	2.4	13	6
Tier I	13.6	16.3	16.3	270	0
- CET I	9.5	12.4	12.8	330	40
CAR	15.0	17.5	17.5	250	0
Asset quality				% y-o-y	% q-o-q
Gross NPA (AEDmn)	4,990	5,251	5,290	6.0	0.8
Gross NPA (%)	3.4	3.4	3.4		
Coverage (%)	122.0	112.0	112.0		

Source: Company, ADCB Securities Equity Research

Recommendation history

DUBAI ISLAMIC BANK (DIB UH EQUITY)



Date	Recommendation	Target Price (AED)	Closing Price (AED)
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Rating Distribution

Rating	Coverage Universe %
Buy	75%
Hold	25%
Sell	0%

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