

Beat on tighter cost control

4Q18 results review

Dubai Islamic Bank (DIB) reported 4Q18 net profit at AED1.3bn (+13% YoY), 8% above our estimates. Total revenue increased 6% YoY, slightly ahead of our estimate. Net interest income maintained strong growth while non-interest income declined at lower pace than anticipated. Operating expenses were kept in check, leading to cost-income ratio of 27% (well below management guidance of 30%). Loan loss provisions increased as cost of risk came in around normalized levels. Loan growth at 9% YoY failed to pick up meaningfully as indicated by management in 3Q18 results conference call. Asset quality remained broadly stable with NPLs at 3.4% (above guidance of 3%). BoD proposed 2018 dividend of AED0.35/share, below 2017 and consensus of AED0.45/share. Management remained conservative in dividend proposal in order to maintain sufficient capital cushion to grow and simultaneously meet regulatory requirements. For 2019, management is targeting 10-15% growth in loans/net profit. Despite factoring stable NIMs and cost to income ratio, we expect earnings growth at 7% YoY in 2019. We are more cautious owing to lower loan growth expectations (amid challenging operating environment) and factoring increase in cost of risk towards normalized levels. Despite cut in dividend, DIB still offers above sector dividend yield at 7.0%. Maintain Buy.

► Net interest income growth strong though margins fell sequentially

Net interest income gained 11% YoY supported by growth in loans and higher asset yield. However, margins fell sequentially due to higher increase in cost of funding. Total revenue growth was suppressed by decline in core fee based income by 4% YoY and other income by 7% YoY.

► Operating expenses were kept in tight control, boosting growth

Operating expenses fell 4% YoY (flat QoQ) leading to reduction in cost-income ratio to 27% i.e. below target of ~30%. This helped to boost pre-provisioning profit growth to 11% YoY. Going forward, management has guided for 30% cost-income ratio (versus 29% achieved in 2018) driven by need to invest in technology to improve efficiencies.

► Balance sheet growth slowed down, asset quality stable

Loan book grew 9% YoY (1.5% QoQ), below management guidance of 10-15%. After outperforming in last few years (16% YoY in 2017 and 13% YoY in 1H18), loan growth is slowing down and falling in line with peers level. Services and government sector lending was strong while retail, real estate/contracting slowed down. Deposits increased 6% YoY. CASA ratio declined to 34% in 4Q18 (versus 36% in 4Q17), but showed sequential improvement. NPLs ratio at 3.4% was broadly stable (3.3% in 3Q18), though absolute NPLs increased 8% YoY (5% QoQ). Capital buffers remain sufficient with CET1 of 12.4% and CAR of 17.5%.

Key Financials	2017	2018	2019E	2020E	2021E
Net interest income (AEDm)	5,283	5,953	6,569	7,125	7,664
Total income (AEDm)	7,565	8,064	8,850	9,582	10,316
EPS (AED)	0.7	0.7	0.7	0.7	0.8
EPS (% Change)	15.8	(0.7)	(5.3)	7.0	7.8
P/E (x)	7.3	7.3	7.7	7.2	6.7
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	6.9	6.9	7.5	7.9
ROAA (%)	1.9	1.9	1.9	1.9	1.9
RoAE (%)	19.9	19.4	17.8	17.4	17.2

Source: ADCB Securities Equity Research

Banks | UAE | 31 January 2019

Fundamentals

Recommendation	Buy
Target Price	AED 6.2
Price	AED 5.03
Price 12m High/Low	AED 5.60/4.67
Market Cap.	AED34,661mn
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	6,569	7,125	7,664
Total non-interest income	2,111	2,281	2,458	2,652
Fee income	1,476	1,616	1,769	1,938
Trading income	45	34	34	34
Other income	590	631	654	680
Total income	8,064	8,850	9,582	10,316
Total operating expenses	2,322	2,548	2,760	2,977
Salaries and wages	1,580	1,739	1,878	2,028
Other operating expenses	742	809	883	949
Pre provision profit	5,742	6,303	6,822	7,339
Total provisions	833	1,021	1,200	1,309
Profit before tax and MI	4,909	5,281	5,622	6,030
Taxes	42	49	56	65
Minority interest	88	94	100	107
Reported net profit	4,916	5,283	5,617	6,018
Adjusted net profit	4,134	4,478	4,791	5,167

Source: ADCB Securities Equity Research

Balance Sheet (AEDmn)	2018	2019E	2020E	2021E
Loans and advances	144,739	158,263	171,576	186,020
Investments	32,866	36,018	37,733	39,533
Fixed assets	1,314	1,446	1,590	1,749
Other assets	7,497	7,828	8,175	8,539
Total assets	223,682	242,380	260,008	279,942
Total equity	24,117	26,289	28,773	31,437
Sub/hybrid/other debt	7,346	7,346	7,346	7,346
Minority interests	2,663	2,757	2,857	2,965
Deposits	155,657	168,110	181,559	196,083
Total borrowings	25,574	28,730	29,421	31,065
Total liabilities	189,555	205,988	221,031	238,194

Source: ADCB Securities Equity Research

Valuation and leverage metrics	2018	2019E	2020E	2021E
P/E (x)	7.3	7.7	7.2	6.7
P/PPE (x)	6.0	5.5	5.1	4.7
P/B (tangible)	1.4	1.3	1.2	1.1
Dividend yield (%)	6.9	6.9	7.5	7.9
Tier 1 ratio	16.3	16.0	15.8	15.6
Core tier 1 ratio	12.4	12.3	12.4	12.4
CAR (%)	17.5	17.1	17.0	16.7
Average assets/Equity (x)	10.1	9.2	9.1	9.0
Loan to deposit ratio (%)	93.0	94.1	94.5	94.9

Source: ADCB Securities Equity Research

Key Ratios (%)	2018	2019E	2020E	2021E
ROAA	1.9	1.9	1.9	1.9
RoAE	19.4	17.8	17.4	17.2
Net interest margin	3.0	3.0	3.0	3.0
Cost-income	28.8	28.8	28.8	28.9
CASA	34.3	33.3	33.3	33.3
Gross NPL (% of Loans and advances)	3.5	3.5	3.5	3.5
Loan loss coverage	109.1	103.8	104.6	108.5
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	0.72	0.68	0.73	0.79
DPS	0.35	0.35	0.38	0.40
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 – 4Q2018

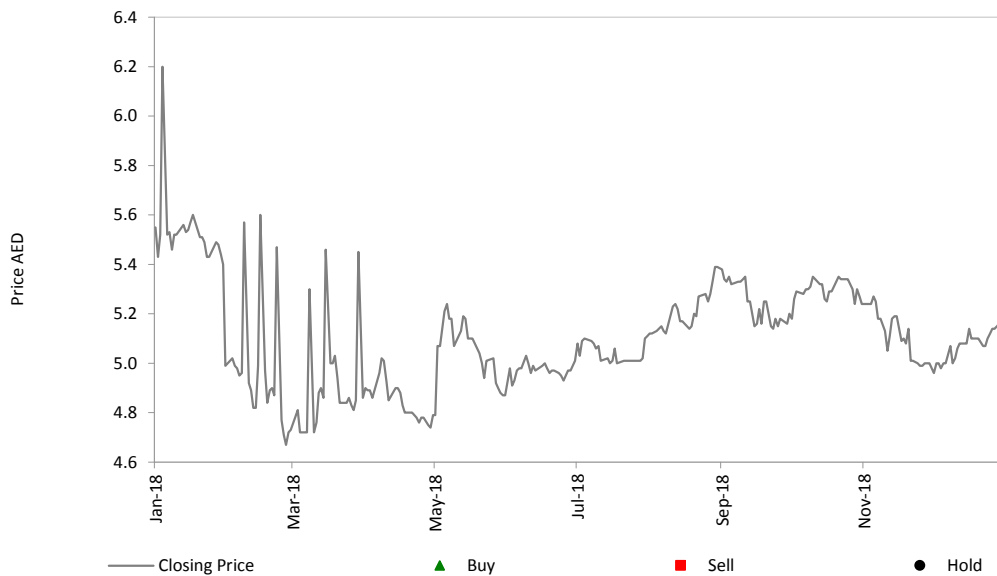
Fig. 1. 4Q18 results review

Income statement (AEDmn)	4Q17	3Q18	4Q18	% YoY	% QoQ
Interest income	2,073	2,479	2,587	24.8	4.4
Interest expense	683	936	1,051	53.9	12.3
Net Interest Income	1,390	1,543	1,536	10.5	(0.4)
Non-interest Income	607	464	590	(2.8)	27.1
- Fee based income	380	331	364	(4.2)	10.1
- Trading revenue	0	1	15	NM	NM
Total income	1,997	2,007	2,126	6.5	5.9
Operating expenses	594	567	568	(4.4)	0.2
- Employee Exp	394	398	379	(3.7)	(4.7)
- Other expenses	200	169	189	(5.9)	11.8
Pre-provision profit	1,403	1,440	1,558	11.1	8.2
Loan loss provisions	205	178	264	28.8	48.3
Profit before tax	1,198	1,262	1,294	8.0	2.5
Associate, taxes and minorities	49	28	-3	NM	NM
Net Income	1,149	1,234	1,297	12.9	5.1
Balance sheet (AEDbn)				% YoY	% QoQ
Loans	133	143	145	8.6	1.5
Deposits	147	161	156	5.8	(3.1)
- CASA ratio	36.0	32.0	34.3		
Ratios (%)				YoY (bps)	QoQ (bps)
Cost/income ratio	29.8	28.2	26.7	(304)	(153)
NIM	3.1	3.2	3.1	6	(4)
Credit costs	0.62	0.50	0.73	12	23
Loan-deposit ratio	90.6	88.8	93.0	239	420
RoAA	2.3	2.3	2.3	7	7
Tier I	15.5	17.2	16.3	80	(90)
- CET I	11.5	13.3	12.4	90	(90)
CAR	17.2	18.6	17.5	30	(110)
Asset quality				% YoY	% QoQ
Gross NPA (AEDmn)	4,861	4,997	5,251	8.0	5.1
Gross NPA (%)	3.4	3.3	3.4		
Coverage (%)	118.0	121.0	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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