

## Sharjah Islamic Bank

Benefit to NIMs offset by rise in provisioning

### 1Q22 Net Profit marginally higher than our estimate

Sharjah Islamic Bank (SIB) reported 13.9% YOY in net profit to AED 187 Mn in 1Q22 from AED164 Mn in 1Q21, marginally exceeding our estimate of AED 183. The increase in Net Profit was primarily due to increase in funded and non-funded income, partially offset by a increase in provisions.

### P&L highlights

Funded income grew 4.0% YOY to AED 435 Mn in 1Q22 due to 0.9% QOQ growth in interest earning asset, partially offset by a marginal decline in yield. Funded expense fell 9% YOY to AED 142 Mn in 1Q22 as cost of funds declined due to change in borrowing mix. Therefore, net funded income rose 11.6% YOY to AED 294 Mn and NIM rose 18 basis point YOY (bps) to 2.38% in 1Q22. Non-funded income grew 12.5% YOY to AED 91 Mn in 1Q22 due to increase in investment income and other income somewhat offset by a decline in fee and commission income and foreign exchange income. As a result, total operating income grew 11.8% YOY to AED 384 Mn in 1Q22. Furthermore, operating expenses remained under control and rose by 3.3% YOY to AED 136 Mn in 1Q22. Thus, cost-to-income ratio declined from 38.2% in 1Q21 to 35.3% in 1Q22. Impairment charges rose by 28.0% YOY to AED 61 Mn in 1Q22 impacting net profit.

### Balance sheet highlights

Net Advances increased by 2.0% YOY to AED 29.9 Bn in 1Q22 due to increase in demand of credit from government and corporate sector as economy opens post pandemic. Customer Deposits grew by 8.3% YOY to AED 38.4 Bn in 1Q22. While, total assets fell 0.4% YOY to AED 54.7 Bn in 1Q22. Whereas, total equity increased by 0.3% YOY to AED 7.51 Bn in 1Q22.

### Target price and rating

We assign our HOLD rating with a target price of AED2.00. We expect NIMs to improve going forward as high-cost funding declined and the bank relied more on low-cost deposits to fund its assets. SIB enjoyed steady access to deposits from the government of Sharjah and cash rich related public enterprises due to strong relationship with them. Top 20 depositors (government and public sector enterprises) amounted to 36% of total deposits in FY2021. Steady flow of low-cost customer deposit will continue to rise due to increase in oil prices and rise in economic activity. Further, the bank NPL ratio remain steady at 5.0% on sequential basis and coverage of the bad loans stood at 90.9% in 1Q22 almost flat on sequential basis. It also held collateral against bad loans of AED 630.5 Mn in FY2021 provides some comfort. However, stage 2 loans stood at 7.3% in 1Q22 make us wary about in increase in bad loans in the forecasted period.

**Rating : HOLD**

### First Look Note – 1Q22

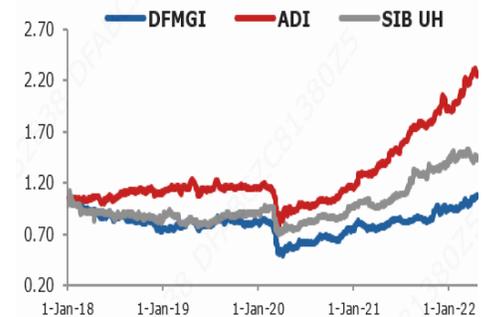
Sector: Banking

#### Recommendation

Current Price (21-Apr-22)	1.96
Target Price	2.00
Upside/Downside (%)	+2%

#### Stock Information

Market Cap (mm)	6,039.93
Paid Up Capital (mm)	3,081.60
52 Week High	2.12
52 Week Low	1.32
3M Avg. daily value (AED)	5,376,437



#### Financial Ratios

Dividend Yield (12m)	4.08
Dividend Pay-out (%)	47.96
Price-Earnings Ratio (x)	11.00
Price-to-Book Ratio (x)	1.06
Book Value (AED)	1.84
Return-on Equity (%)	9.48
Earning Per Share (AED)	0.18
Beta	0.54

#### Stock Performance

5 Days	0.51%
1 Months	-1.01%
3 Months	1.55%
6 Months	7.10%
1 Year	47.37%
Month to Date (MTD)	0.51%
Quarter to Date (QTD)	0.51%
Year to Date (YTD)	0.51%

In absence of any major provisioning buffer against stage 2 loans might impact SIB's bottom line in the forecasted period leading us to assign a HOLD rating on the stock.

**SIB - Relative valuation**

(at CMP)	2018	2019	2020	2021	2022F
P/E (x)	10.0	10.6	15.0	11.9	10.7
P/B (x)	1.1	0.8	0.8	0.8	0.7
Dividend Yield (%)	4.0%	4.0%	2.4%	4.0%	4.0%

FABS Estimates & Co Data

**SIB - P&L**

AED mm	1Q21	4Q21	1Q22A	1Q22F	Var.	YOY Ch	QOQ Ch	2021	2022F	Change
AED mm										
Income from fin. & leasing	419	407	435	438	-0.6%	4.0%	6.8%	1,658	1,828	10.3%
Depositors' share of profit	-156	-125	-142	-140	1.2%	-9.0%	12.8%	-563	-685	21.6%
Profit expense on Sukuks	0	0	0	0	NM	NM	NM	0	0	NM
<b>Net funded income</b>	<b>263</b>	<b>282</b>	<b>294</b>	<b>298</b>	-1.4%	11.6%	4.2%	<b>1,094</b>	<b>1,143</b>	4.5%
<b>Total non-funded income</b>	<b>80</b>	<b>87</b>	<b>91</b>	<b>95</b>	-5.0%	12.5%	4.5%	<b>333</b>	301	-9.7%
<b>Total operating income</b>	<b>344</b>	<b>369</b>	<b>384</b>	<b>393</b>	-2.3%	11.8%	4.2%	<b>1,427</b>	<b>1,444</b>	1.2%
General & admin. Expenses	-131	-171	-136	-138	-1.4%	3.3%	-20.5%	-577	-592	2.6%
<b>Pre provision profit</b>	<b>212</b>	<b>198</b>	<b>248</b>	<b>256</b>	-2.8%	17.1%	25.6%	<b>851</b>	<b>852</b>	0.2%
Provisions	-48	-50	-61	-73	-15.6%	28.0%	23.7%	-245	-265	8.4%
Income from subsidiary cos.	0	0	0	0	NM	NM	NM	0	0	NM
Revaluation loss on properties		-92	0	0	NM	NM	NM	-92	0	NM
<b>Net profit attributable</b>	<b>164</b>	<b>56</b>	<b>187</b>	<b>183</b>	<b>2.3%</b>	<b>13.9%</b>	<b>234%</b>	<b>514</b>	<b>587</b>	<b>14.2%</b>

**SIB - P&L KPI**

AED mm	1Q21	4Q21	1Q22A	QOQ Ch	YOY Ch	2021	2022F	Change
Net FI/OI	76.6%	76.5%	76.4%	-15	-6	76.7%	79.2%	249
NIM	2.2%	2.3%	2.4%	18	5	2.4%	2.4%	1
NIS	2.5%	2.3%	2.4%	-10	5	2.3%	2.4%	6
Cost to income	38.2%	46.3%	35.3%	-291	-1101	40.4%	41.0%	59
Provisions/PPP	22.6%	25.1%	24.7%	211	-39	28.7%	31.1%	236
NP/OI	47.8%	15.2%	48.7%	89	3346	36.0%	40.7%	464
ROAE	5.5%	6.7%	7.1%	156	39	6.7%	7.5%	76
ROAA	0.8%	0.9%	1.0%	21	4	0.9%	1.1%	11

FABS estimate & Co Data

**SIB- Key BS Items**

AED mm	1Q21	2Q21	3Q21	4Q21	1Q22A	YOY Ch
<b>Net advances</b>	29,327	29,292	29,551	29,009	29,906	<b>2.0%</b>
<i>QOQ Change</i>	0.2%	-0.1%	0.9%	-1.8%	3.1%	
<b>Total assets</b>	54,919	54,351	54,510	54,957	54,711	<b>-0.4%</b>
<i>QOQ Change</i>	2.5%	-1.0%	0.3%	0.8%	-0.4%	
<b>Customer deposits</b>	35,476	34,992	36,735	38,494	38,409	<b>8.3%</b>
<i>QOQ Change</i>	5.6%	-1.4%	5.0%	4.8%	-0.2%	
<b>Total equity</b>	7,492	7,615	7,708	7,695	7,513	<b>0.3%</b>
<i>QOQ Change</i>	-2.0%	1.6%	1.2%	-0.2%	-2.4%	

FABS estimate & Co Data



**FAB Securities Awards**



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Best Brokerage House in UAE  
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Best Brokerage in the UAE  
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ISF ME Awards"



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in UAE 2016 and 2020  
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