

## Dubai Islamic Bank

Declined in Funded Income impacted the profitability

### 1Q21 Net profit misses our estimate

Dubai Islamic Bank (DIB) recorded a drop in Net profit by ~24% YOY to AED846 mm in 1Q21 from AED1,112 mm in 1Q20, missing our estimate by 30%. This decrease was primarily due to a drop in Funded income by 24.2% YoY in 1Q21.

### P&L highlights

DIB's Operating income decreased by 8.5% YOY in 1Q21 to AED2,226 mm, missing our forecast by 6.7%. This was due to a decline in Net Funded income which decreased by 11.4% YOY to AED1,604 mm in 1Q21 from AED1,810 mm in 1Q20. Moreover, the Funded income reduced by 24.2% YOY to AED2,226 mm in 1Q21, and Funded expenses decreased by 45% YOY to AED621 mm in 1Q21. At the same time, Non-funded income remains stable at AED621 mm in 1Q21. General expenses decreased by 27.1% YOY to AED612 mm in 1Q21, while the Cost/Income "C/I" deteriorated by 702 bps to 27.5% from 34.5% in 1Q20. Impairment charges decreased by 49.3% to AED751 mm in 1Q21 as compared to AED1,483 mm in 1Q20.

### Balance sheet highlights

DIB's Net financing increased by 8.9% YOY to AED196.18 bn in 1Q21 from AED180.19 bn in 1Q20. Customer deposits climbed by 7.1% YOY to AED214 bn in 1Q21 from AED199.86 bn in 1Q20. Total assets increased by 5.5% YOY to AED291.71 bn in 1Q21, and Shareholders' fund climbed by 2.5% YOY to AED27.89 bn in 1Q21 from AED27.22 bn in 1Q20.

### Target price and rating

We assign a BUY rating on Dubai Islamic Bank (DIB) with a target price of AED5.65. Dubai Islamic Bank continues to support itself through the digital transformation during the current economic crisis. Compared to the previous period, the Bank witnessed a 43% increase in mobile banking transactions in the first quarter of 2021. Similarly, internet banking transactions have surged by 57% in the same period. Profit for the period decreased by 24% YOY to AED846 mm. This was mainly due to a decrease in Net funded income and stationary Non funded income recorded by the Bank. The Net profit margin declined to 2.53% in 1Q21. The Bank improved its Cost-to-income ratio at 27.5%, which supported the Net profit. The Cost of risk declined to 1.01% in the 1Q21. The Balance sheet continued to grow, with Total assets amounting to AED292 bn. The Bank has maintained robust capitalization with Capital Adequacy Ratio (CAR) at 17.1%, well above the minimum required level. Furthermore, CET1 ratio improved to 12.3% in the 1Q21. The Return on Equity (ROE) decreased in 1Q21 to 9.6%. However, the Return on assets (ROA) remained stable at 1.2% in 1Q21. The Customer Deposits increased by 4% to AED214 bn in 1Q21 from the previous quarter. The CASA stood at AED85 bn and form 40% of overall deposits. The Wholesale portfolio drives the Customer Deposit portfolio.

**Rating : BUY**

### First Look Note – 1Q21

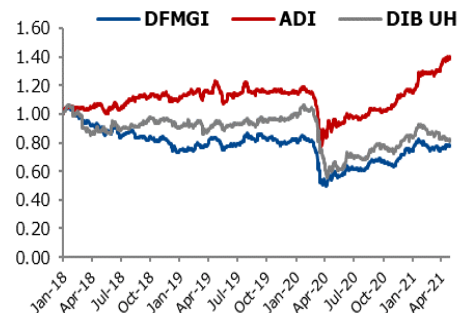
**Sector: Banking**

#### Recommendation

Current Price (29-Apr)	4.45
Target Price	5.65
Upside (%)	27.0%

#### Stock Information

Market Cap (AED/mm)	32,221.31
Paid Up Capital (USD)	7,240.74
52 Week High	5.15
52 Week Low	3.25
3M Avg. daily value	24,746,320



#### Financial Ratios

Dividend Yield (12month)	4.49
Dividend Payout	52.77
Price-Earning Ratio	12.99
Price-to-Book Ratio	1.15
Book Value	3.86
Return-on Equity	8.97
Earning Per Share	0.34
Beta	0.88

#### Stock Performance

5 Days	-1.55%
1 Months	-2.20%
3 Months	-11.18%
6 Months	8.27%
1 Year	21.25%
Month to Date (MTD%)	0.00%
Quarter to Date (QTD%)	-2.20%
Year to Date (YTD%)	-3.47%

lio by the business. Similarly, the Investment deposits drive the Deposit portfolio by type. The Net Financing to Deposit ratio, which signifies the liquidity levels of a bank, stood at 92% in the first quarter, a decline from the FY20. Net financing assets amount to 67% of the Total deployed funds. The LCR ratio stands at a healthy level of 127% and NSFR at 107%. The Financing portfolio continues to be dominated by the Corporate sector, followed by Consumer and Real Estate. The Corporate financing sector increased to AED137 bn due to a decline in risk levels of sovereign financing. This impacted the yield on the funding, which was reduced to 2.77%. The Consumer portfolio continues to be driven by personal, auto, and home finance. The credit card total spends demonstrated healthy growth signifying consumer sentiment. Lastly, the real estate portfolio has remained within the guidance levels. The Non-Performing Financing increased by 50 bps mainly due to a big corporate and POCI. The Bank continues to maintain a conservative approach for provisioning with a provision level at AED8.7 bn. The Overall coverage ratio has remained well above 100% in 1Q21. The Provision coverage ratio reduced slightly by 2% to 74% in the first quarter. Total Equity has reduced by 2.5% to AED39 bn mainly due to a decrease in Tier 1 Sukuk. The Total Liabilities increased by 3% to AED252 bn, driven by growth in Customer Deposits. The Bank distributed a cash dividend of 20% after regulatory and shareholder approval in the first quarter and is expected to distribute 30% in 2021F. Additionally, DIB has demonstrated a healthy level of dividend history compared to its peers. The stock is currently trading at a PB multiple of 1.05x. Based on the above, we assign a BUY rating.

**DIB - Relative Valuation**

(At CMP)	2016	2017	2018	2019	2020
P/E	6.41	6.18	6.45	11.71	6.01
P/B	1.33	1.21	1.14	1.12	1.05
Dividend yield	10.1%	7.9%	7.9%	4.5%	6.7%

FABS estimate & Co Data

**DIB - P&L**

(in AED mm)	1Q20	4Q20	1Q21	1Q21F	Var.	YOY	QOQ	2020	2021F	Change
Funded income	2,938	2,403	2,226	2,537	-12.3%	-24.2%	-7.4%	10,421	11,063	6.2%
Funded expense	-1,128	-715	-621	-840	-26.0%	-44.9%	-13.1%	-3,672	-3,622	-1.3%
<b>Net funded income</b>	<b>1,810</b>	<b>1,687</b>	<b>1,604</b>	<b>1,697</b>	<b>-5.5%</b>	<b>-11.4%</b>	<b>-4.9%</b>	<b>6,749</b>	<b>7,440</b>	10.2%
Fees & commissions	413	328	425	450	-5.5%	2.8%	29.7%	1,646	1,842	12.0%
Other non-funded income	208	520	196	239	-18.1%	-5.6%	-62.3%	1,076	1,282	19.2%
<b>Non Funded Income</b>	<b>621</b>	<b>848</b>	<b>621</b>	<b>689</b>	<b>-9.9%</b>	<b>0.0%</b>	<b>-26.7%</b>	<b>2,721</b>	<b>3,124</b>	<b>14.8%</b>
<b>Operating income</b>	<b>2,431</b>	<b>2,535</b>	<b>2,226</b>	<b>2,386</b>	<b>-6.7%</b>	<b>-8.5%</b>	<b>-12.2%</b>	<b>9,471</b>	<b>10,565</b>	<b>11.5%</b>
General expenses	-839	-594	-612	-641	-4.6%	-27.1%	3.0%	-2,728	-2,870	5.2%
<b>Pre-provisioning profit</b>	<b>1,592</b>	<b>1,942</b>	<b>1,614</b>	<b>1,745</b>	<b>-7.5%</b>	<b>1.4%</b>	<b>-16.9%</b>	<b>6,743</b>	<b>7,694</b>	<b>14.1%</b>
Impairment charges	-1,483	-1,902	-751	-530	41.7%	-49.3%	-60.5%	-4,552	-2,320	-49.0%
Gain on bargain purchase	1,015	0	0	0	NA	-100.0%	NA	1,015	0	NM
<b>Profit before tax</b>	<b>1,124</b>	<b>40</b>	<b>863</b>	<b>1,215</b>	<b>-29.0%</b>	<b>-23.3%</b>	<b>NM</b>	<b>3,206</b>	<b>5,374</b>	<b>67.6%</b>
Tax	-13	-5	-10	-11	-12.8%	-28.9%	NM	-46	-47	2.0%
Profit before NCI	1,111	35	853	1,204	-29.2%	-23.2%	NM	3,160	5,327	68.6%
Non-controlling interests	1	133	-7	2	NM	NM	NM	134	11	-91.8%
<b>Profit for the period</b>	<b>1,112</b>	<b>168</b>	<b>846</b>	<b>1,206</b>	<b>-29.9%</b>	<b>-23.9%</b>	<b>NM</b>	<b>3,294</b>	<b>5,338</b>	<b>62.1%</b>

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**DIB - P&L KPI**

	1Q20	4Q20	1Q21	YOY	QOQ	2020	2021F	Change
Net FI/OI	74.5%	66.6%	72.1%	-236	553	71.3%	70.4%	-84
NIM	0.9%	0.7%	0.7%	-19	-3	3.1%	3.0%	-10
NIS	0.9%	0.7%	0.7%	-18	-3	3.1%	3.0%	-9
Fees & commissions/OI	17.0%	12.9%	19.1%	210	618	17.4%	17.4%	6
Other non-funded/OI	8.5%	20.5%	8.8%	27	-1171	11.4%	12.1%	78
Cost to income	34.5%	23.4%	27.5%	-702	406	28.8%	27.2%	-163
Impairment/PPP	93.1%	97.9%	46.6%	-4658	-5139	67.5%	30.2%	-3735
Tax/PBT	-0.1%	-378.3%	0.8%	92	37910	-4.2%	-0.2%	404
NP/OI	45.7%	6.6%	38.0%	-771	3137	34.8%	50.5%	1575
ROAA	0.4%	0.1%	0.3%	-14	23	1.3%	1.8%	54
ROAE	4.4%	0.6%	2.2%	-224	158	12.2%	18.0%	583

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**DIB key B/S items**

	1Q20	2Q20	3Q20	4Q20	1Q21	YOY CH
AED MM						
Net financings	180,197	200,298	197,436	196,689	196,181	8.9%
QOQ change	19.4%	11.2%	-1.4%	-0.4%	-0.3%	
Total assets	276,421	294,797	299,303	289,556	291,711	5.5%
QOQ change	19.3%	6.6%	1.5%	-3.3%	0.7%	
Customer deposits	199,867	206,521	214,642	205,925	214,001	7.1%
QOQ change	21.6%	3.3%	3.9%	-4.1%	3.9%	
Shareholders' fund	27,225	28,240	29,043	28,606	27,898	2.5%
QOQ change	6.5%	3.7%	2.8%	-1.5%	-2.5%	

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**Research Rating Methodology:**

Rating	Upside/Downside potential
BUY	Higher than +15%
ACCUMULATE	Above +10% to +15%
HOLD	Between +10% to -5%
REDUCE	Below -5% to -15%
SELL	Lower than -15%

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