

## Sharjah Islamic Bank

Rise in NIMs weighed by higher provision

### 1Q23 Net Profit lower than our estimate

Sharjah Islamic Bank's (SIB/the Bank) net profit rose 24.6% YOY to AED 233 Mn in 1Q23, higher than our estimate of AED 192 Mn. The increase in net profit is mainly driven by strong growth in net funded income and non-funded income partially offset by a rise in G&A expenses and an increase in provisions.

### P&L highlights

SIB's funded income rose 59.6% YOY to AED 695 Mn in 1Q23 mainly due to strong growth in asset yield and an increase in interest-earning assets. SIB's asset yield rose 71 bps QOQ to 5.14% in 1Q23. On the other hand, funded expense increased significantly from AED 142 Mn in 1Q22 to AED 324 Mn in 1Q23 owing to rising benchmark rates. The Bank's cost of funds rose 55 bps QOQ to 2.56% in 1Q23. Thus, net funded income rose 26.1% YOY to AED 370 Mn in 1Q23. Thus, NIMs also grew 30 bps YOY and 11 QOQ to 2.3% in 1Q23. Net Fees and commission income declined marginally from AED 59 Mn in 1Q22 to AED 58 Mn in 1Q23. Investment income rose from AED 8 Mn in 1Q22 to AED 12 Mn in 1Q23, other income increased 29.0% YOY to AED 27 Mn, and foreign exchange income rose significantly from AED 3 Mn in 1Q22 to AED 17 Mn in 1Q23. Thus, the bank's non-funded income rose 25.3% to AED 113 Mn in 1Q23. As a result, total operating income rose 25.9% YOY to AED 484 Mn in 1Q23. SIB's general and administrative expenses rose 15.0% YOY to AED 156 Mn in 1Q23. Thus, the cost-to-income ratio declined 307 bps YOY to 32.3% in 1Q23 due to a rise in operating income. Provisions rose sharply from AED 61 Mn in 1Q22 to AED 95 Mn in 1Q23.

### Balance sheet highlights

SIB's total assets grew 10.1% YOY to AED 60.2 Bn in 1Q23 driven by a rise in net advances and an increase in investment securities. Net advances rose 1.7% YOY to AED 30.4 Bn in 1Q23. While investment securities rose 45.0% YOY to AED 10.1 Bn in 1Q23. SIB's total liquid assets stood at AED 14.1 Bn representing 23.9% of total assets as of 1Q23. The Bank's customer deposits rose 9.0% YOY to AED 41.9 Bn in 1Q23. CASA deposit rose from 36.2% in 4Q22 to 36.8% in 1Q23. Total equity declined marginally 0.4% YOY to AED 7.5 Bn in 1Q23.

### Target price and rating

We maintain our "HOLD" rating on SIB with an unchanged target price of AED 1.90. Net advances of the Bank declined 0.9% QOQ to AED 30.4 Bn in 1Q23. The Bank's loan to the construction and contracting and real estate sector rose from 24.0% in 4Q22 to 25.2% in 1Q23. In addition, the asset quality of the Bank also marginally deteriorated as its NPL ratio increased from 6.0% in 4Q22 to 6.2% in 1Q23. However, the Bank's stage 2 loans as a percentage of total loans declined from 7.8% in 4Q22 to 7.5% in 1Q23. While SIB's provision coverage rose from 79.1% in 4Q22 to 82.3% in 1Q23 owing to Bank's prudent management overlays and stringent risk management policies. The Bank's customer deposits witnessed a healthy growth of 9.0% YOY and 5.9% QOQ to AED 41.9 Bn, while CASA deposits declined from 41.9% in 4Q22 to 38.8% in 1Q23. NIMs rose 30 bps YOY and 11 bps QOQ to 2.6% in 1Q23. The

**Rating : HOLD**

### First Look Note – 1Q23

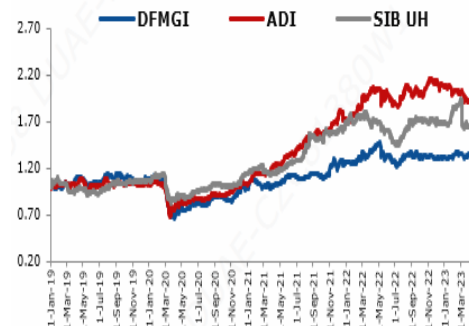
**Sector: Banking**

#### Recommendation

Current Price (24-Apr-23)	1.90
Target Price (AED)	1.90
Upside/Downside (%)	-0.5%

#### Stock Information

Market Cap (mm)	6,147.79
Paid Up Capital (mm)	3,235.68
52 Week High	2.15
52 Week Low	1.57
3M Avg. daily value (AED)	2,820,772



#### Financial Ratios

Dividend Yield (12m)	5.01
Dividend Pay-out (%)	0.00
Price-Earnings Ratio (x)	8.67
Price-to-Book Ratio (x)	1.09
Book Value (AED)	1.75
Return-on Equity (%)	12.31
Earning Per Share (AED)	0.22
Beta	0.57

#### Stock Performance

5 Days	0.00%
1 Months	0.53%
3 Months	-0.25%
6 Months	2.31%
1 Year	1.27%
Month to Date (MTD)	0.00%
Quarter to Date (QTD)	0.00%
Year to Date (YTD)	2.32%

Bank's capitalization stood strong at CET 1 ratio of 13.8% and CAR of 18.3% in 1Q23. Furthermore, SIB also launched flexi long-term deposits available for the term of two or three years with attractive features including financing facility on term deposits and a periodic profit-paying facility further enhancing the bank's liquidity position. Also, as a part of digital transformation SIB launched Emirates Digital Wallet's enables digital payments, which is also supported and led by the UAE banks federation which will increase the online transaction of the bank. Thus, based on our analysis, we maintain our HOLD rating on the stock.

**SIB - Relative valuation**

(At CMP)	2018	2019	2020	2021	2022	2023F
PE (x)	11.53	10.78	14.50	11.45	9.04	8.81
PB (x)	1.09	1.03	1.01	1.00	1.02	0.95
Dividend Yield	4.0%	2.6%	4.2%	4.2%	5.1%	4.5%

*FABS estimate & Co Data*
**SIB - P&L**

AED mm	1Q22	4Q22	1Q23	1Q23F	Var.	YOY Ch	QOQ Ch	2022	2023F	Change
Inc from fin. & leasing	435	569	695	604	14.9%	59.6%	22.1%	1,939	2,497	28.8%
Depositors' share of profit	-142	-241	-324	-273	18.8%	129.0%	34.7%	-725	-1,208	66.5%
Profit expense on Sukuk	0	-134	0	0	NM	NM	NM	-134	-138	2.9%
<b>Net funded income</b>	<b>294</b>	<b>328</b>	<b>370</b>	<b>331</b>	<b>11.8%</b>	<b>26.1%</b>	<b>12.8%</b>	<b>1,213</b>	<b>1,289</b>	<b>6.2%</b>
Fees and commissions	74	90	74	72	2.7%	-0.4%	-17.9%	288	305	6.0%
Fee and commission Exp	-16	-18	-16	-14	12.3%	3.2%	-10.2%	-64	-67	5.5%
Investment Income	8	21	12	12	-0.3%	47.5%	-45.2%	67	67	0.0%
Foreign Exchange income	3	27	17	0	NM	484.4%	-38.5%	23	23	0.0%
Other Income	21	10	27	17	57.4%	29.0%	183.3%	81	86	6.0%
<b>Total non-funded inc.</b>	<b>91</b>	<b>130</b>	<b>113</b>	<b>87</b>	<b>30.9%</b>	<b>25.3%</b>	<b>-12.7%</b>	<b>396</b>	<b>414</b>	<b>4.7%</b>
<b>Total operating inc.</b>	<b>384</b>	<b>458</b>	<b>484</b>	<b>418</b>	<b>15.8%</b>	<b>25.9%</b>	<b>5.6%</b>	<b>1,609</b>	<b>1,703</b>	<b>5.9%</b>
General & admin. Exp	-136	-190	-156	-150	3.8%	15.0%	-18.0%	-611	-644	5.4%
<b>Pre provision profit</b>	<b>248</b>	<b>268</b>	<b>328</b>	<b>268</b>	<b>22.5%</b>	<b>31.9%</b>	<b>22.3%</b>	<b>998</b>	<b>1,060</b>	<b>6.2%</b>
Provisions	-61	-152	-95	-77	23.2%	54.0%	-37.8%	-314	-373	18.9%
<b>Net profit attributable</b>	<b>187</b>	<b>116</b>	<b>233</b>	<b>192</b>	<b>21.6%</b>	<b>24.6%</b>	<b>101.0%</b>	<b>651</b>	<b>687</b>	<b>5.5%</b>

*FABS estimate & Co Data*
**SIB - KPI**

	1Q22	4Q22	1Q23	YOY Ch	QOQ Ch	2022	2023F	Change
Net FI/OI	76.4%	71.6%	76.5%	11	490	75.4%	75.7%	27
NIM	2.0%	2.2%	2.3%	30	11	1.9%	2.0%	6
NIS	2.3%	2.4%	2.6%	29	16	2.5%	2.5%	-1
Fees & comms/OI	19.3%	19.7%	15.3%	-403	-437	17.9%	17.9%	2
Cost to income	35.3%	41.5%	32.3%	-307	-925	38.0%	37.8%	-18
Provisions/PPP	24.7%	56.7%	28.9%	414	-2786	31.4%	35.2%	378
NP/OI	48.7%	25.3%	48.2%	-50	2287	40.5%	40.3%	-14
ROAE	9.3%	11.2%	12.2%	287	96	11.2%	11.1%	-3
ROAA	1.0%	1.1%	1.2%	19	2	1.1%	1.1%	-1

*FABS estimate & Co Data*

**SIB- Key BS Items**

AED mm	1Q22	2Q22	3Q22	4Q22	1Q23	YOY Ch
Net advances	29,906	28,830	30,612	30,672	30,402	1.7%
QOQ Change	3.1%	-3.6%	6.2%	0.2%	-0.9%	
Total assets	54,711	56,068	54,595	59,123	60,246	10.1%
QOQ Change	-0.4%	2.5%	-2.6%	8.3%	1.9%	
Customer deposits	38,409	37,364	36,140	39,529	41,879	9.0%
QOQ Change	-0.2%	-2.7%	-3.3%	9.4%	5.9%	
Total equity	7,513	7,619	7,644	7,632	7,483	-0.4%
QOQ Change	-2.4%	1.4%	0.3%	-0.2%	-2.0%	

FABS estimate & Co Data

## Valuation:

We use Residual Income and Relative Valuation (RV) method to value SIB. We have assigned 70% weight to Residual Income, and 30% to RV method.

Valuation Method	Target	Weight	Weighted Value
Residual Income	1.90	70.0%	1.33
Relative Valuation	1.92	30.0%	0.58
<b>Weighted Average Valuation (AED)</b>			<b>1.90</b>
<b>Current market price (AED)</b>			<b>1.90</b>
<b>Upside/Downside (%)</b>			<b>0.0%</b>

### 1) Residual Income Method:

We have discounted the economic profit/excess equity using the cost of equity of 7.0%. Cost of equity is calculated by using 10-year government bond yield of 4.3%, beta of 0.68 and equity risk premium of 3.8%. Government bond yield is calculated after adding Abu Dhabi 10-year spread over 10-year US risk free rate. Also, assumed a terminal growth rate of 2.0%.

Sum of PV (AED, Mn)	454
Terminal value (AED, Mn)	-254
Book Value of equity (as of March 2023)	5,647
<b>FV to Common shareholders (AED, Mn)</b>	<b>5,847</b>
No. of share (Mn)	3,082
Current Market Price (AED)	1.90
<b>Fair Value per share (AED)</b>	<b>1.90</b>

### Residual Income Method

(All Figures in AED Mn)	FY 2023E	FY 2024E	FY 2025E	FY 2026E	FY 2027E
Net Profit	668	583	582	525	475
(-) Equity charge	-431	-453	-472	-485	-492
<b>Excess Equity</b>	<b>237</b>	<b>131</b>	<b>110</b>	<b>41</b>	<b>-17</b>
Discounting Factor	0.95	0.89	0.83	0.78	0.73
<b>Present Value of Excess Equity</b>	<b>226</b>	<b>117</b>	<b>92</b>	<b>32</b>	<b>-12</b>

## 2) Relative Valuation:

We have used local peers to value SIB and it is valued using the PB multiple. We have applied a discount to the peer's valuation multiple since it has always traded at discount to peers. We expect this discount in valuation to maintain due to lower return on assets. It is valued at PB multiple of 1.0x as compared to peer valuation of 1.1x.

Company	Market (USD Mn)	P/B (x)		PE (x)		Dividend Yield (%)	
		2023	2024	2023	2024	2023	2024
RAKBANK	2,100	0.8	0.8	6.6	7.3	6.3%	6.5%
Commercial Bank of Dubai (CBD)	3,602	1.1	1.0	-	-	8.2%	8.1%
Abu Dhabi Islamic Bank (ADIB)	8,960	1.8	1.7	9.7	9.3	5.1%	4.9%
Emirates NBD	22,445	0.9	0.8	6.4	6.0	5.2%	5.2%
Abu Dhabi Commercial Bank (ADCB)	17,197	1.1	1.0	9.0	9.0	4.8%	4.6%
Dubai Islamic Bank (DIB)	11,059	1.2	1.1	7.1	7.3	6.1%	6.2%
Mashreq Bank	5,326	0.8	0.8	6.1	6.5	4.2%	5.0%
<b>Average</b>		<b>1.1x</b>	<b>1.0x</b>	<b>7.5x</b>	<b>7.6x</b>	<b>5.7%</b>	<b>5.8%</b>
<b>Median</b>		<b>1.1x</b>	<b>1.0x</b>	<b>6.9x</b>	<b>7.3x</b>	<b>5.2%</b>	<b>5.2%</b>
<b>Max</b>		<b>1.1x</b>	<b>1.0x</b>	<b>8.5x</b>	<b>8.6x</b>	<b>6.2%</b>	<b>6.4%</b>
<b>Min</b>		<b>0.9x</b>	<b>0.8x</b>	<b>6.4x</b>	<b>6.7x</b>	<b>5.0%</b>	<b>4.9%</b>

**Research Rating Methodology:**

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

**FAB Securities Contacts:**

**Research Analysts**

Ahmad Banihani +971-2-6161629 [ahmad.banihani@Bankfab.com](mailto:ahmad.banihani@Bankfab.com)

**Sales & Execution**

Abu Dhabi Head Office

Trading Desk +971-2-6161700/1 [Online Trading Link](#)  
+971-2-6161777

Institutional Desk +971-4-4245765

Sales and Marketing +971-2-6161703

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