

## Abu Dhabi Islamic Bank

Strong growth in Non-funded Income & Lower Provisions supported bottom-line

### 2Q21 Net profit lower than our estimate

Abu Dhabi Islamic Bank reported a Net profit of AED501 Mn in 2Q21 compared to a Net profit of AED318 Mn in 2Q20, missing our estimate by 11.4%. The increase in Net Profit is mainly due to reduction in Depositors' distribution, increase in Non-Funded Income, in addition to lower impairment charges.

### P&L highlights

The Net Funded Income stood stable with an increase by 0.1% YOY to AED803 Mn in 2Q21. It was mainly due to 34.9% YOY decline in Income from Institutions that resulted in 5% YOY decline in Funding Income. Furthermore, the Depositors distribution decreased by 36.7% YOY to AED82 Mn in 2Q21. The Non-Funded Income grew by 9.4% YOY to AED506 Mn in 2Q21, up from AED462 Mn in 2Q20. It was positively impacted by 6.9% YOY increase in Fees and Income and 11.4% increase in Other Non-Funded Income. The increase boosted the Operating Income which increased by 3.5% YOY to AED1,309 Mn in 2Q21. The Impairments reduced significantly by 27.4% YOY to AED233 Mn in 2Q21 as compared to AED322 Mn in 2Q20. The Net Profit improved by 57.7% YOY to AED501 Mn in 2Q21, up from AED318 Mn in 2Q20.

### Balance sheet highlights

The Net Customer Funding increased by 2.1% YOY to AED83.7 Bn in 2Q21 as compared to AED81.9 Bn in 2Q20. The Total Assets increased by 5% YOY to AED131 Bn in 2Q21, up from AED124.4 Bn in 2Q20. The Customer Deposits increased robustly by 6.6% YOY to AED105 Bn in 2Q21, up from AED98.6 Bn in 2Q20.

### Target price and rating

We maintain our HOLD rating on ADIB with a target price of AED5.65. Abu Dhabi Islamic Bank (ADIB) is a leading Islamic Bank in the region. The Bank has demonstrated a strong rebound in its profitability with a 57.7% YOY increase in Net Profit. The Funded Income declined by 5% YOY to AED884 Mn in 2Q21, down from AED931 Mn in 2Q20. It was mainly due to decline in Income from Financial Institutions and Islamic Financing by 35% YOY and 4.5% YOY in 2Q21. The Net Funding Income remained stable and increased slightly by 0.1% YOY to AED803 Mn in 2Q21. It was supported by strong decline in Depositors Distribution by 36.7% YOY to AED82 Mn in 2Q21, down from AED129 Mn in 2Q20. The Non-Funded Income increased by 9.4% YOY to AED506 Mn in 2Q21, up from AED462 Mn in 2Q20. The Income mainly included higher investments that increased by 24% YOY, cards and income from forex transactions that increased by 28% YOY in 2Q21. The Fees and Commissions was positively impacted by Cards Income that increased by 71% YOY in 2Q21. The Operating Income increased by 3.5% YOY to AED1,309 Mn in 2Q21, up from AED1,264 Mn in 2Q20. It was mainly due to the surge in Non-Funded Income as economic scenarios improved. The Operating

**Rating : HOLD**

### First Look Note – 2Q21

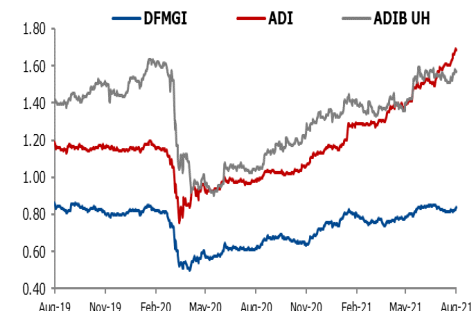
**Sector: Banking**

#### Recommendation

Current Price (04–Aug)	5.57
Target Price	5.65
Upside (%)	1.40%

#### Stock Information

Market Cap (mm)	20,230.24
Paid Up Capital (mm)	3,632.00
52 Week High	5.68
52 Week Low	3.59
3M Avg. daily value (AED)	15,342,250



#### Financial Ratios

Dividend Yield (12month)	3.69
Dividend Payout	0.00
Price-Earning Ratio	10.90
Price-to-Book Ratio	1.37
Book Value	4.07
Return-on Equity	13.02
Earning Per Share	0.51
Beta	0.79

#### Stock Performance

5 Days	1.64%
1 Months	0.91%
3 Months	11.85%
6 Months	12.98%
1 Year	50.54%
Month to Date (MTD%)	0.72%
Quarter to Date (QTD%)	1.64%
Year to Date (YTD%)	18.51%

Expenses declined by 8.6% YOY to AED570 Mn in 2Q21, down from AED624 Mn in 2Q20. It was mainly due to effective cost control strategy and benefits derived from digitalization of several operations initiated by the Bank. The Bank reduced Infrastructure, staff costs and General Administrative costs and implemented plans to enhance its digital platform. The Cost to Income ratio improved by 576 bps to 43.6% in 2Q21, down from 49.3% in 2Q20. The Impairments declined by 27.4% YOY to AED233 Mn in 2Q21, down from AED322 Mn in 2Q20, that further supported the profitability. As a result, the cost to risk ratio declined to 0.9%. The Impairments mainly relate the the Bank's Wholesale Banking section, followed by Retail and Others. The Net Profit increased by 57.7% YOY to AED501 Mn in 2Q21, up from AED318 Mn in 2Q20. The NIM and NIS both declined by 44 bps and 46 bps to 3.2% in 2Q21 due to lower Interest margins. As of 2Q21, the Bank has up to 70% digitally active users and increased consistently. The NPA increased by 8.2% YOY to AED7,786 Mn in 2Q21 as compared to AED7,195 Mn in 2Q20. However, the NPA coverage ratio with collateral has improved to 115.2%. The Digital sales declined to 41% 2Q21 as compared to 54% in 2Q20. However, the digital program is highly ranked in UAE's customer ratings. The digital payments have consistently increased to 99.5% in 2Q21 from 99% in 2Q20. The Bank continues to maintain healthy Balance Sheet and with a steady increase in its Average Earning Assets. The Customer Financing has improved to AED83.7 Bn in 2Q21 as compared to AED82 Bn in 2Q20. The Customer Financing mostly comprises of Retail segment with 54.1% composition in 2Q21, followed by 37.9% in Wholesale segment. The Customer Deposits grew by 6.6% YOY demonstrating strong customer loyalty. Around 76.2% are CASA deposits in 2Q21 and 69.9% are Retail Deposits. The Bank's Capital Adequacy Ratio stood at 19.1% in 2Q21, above the minimum requirement level. The Bank currently trades at a PB multiple of 1.2X. Based on the above, we maintain a HOLD rating.

**ADIB - Relative Valuation**

(At CMP)	2017	2018	2019	2020	2021E
P/E	9.45	8.74	8.81	15.30	8.31
P/B	1.72	1.56	1.41	1.41	0.98
Dividend yield	5.2%	4.9%	4.9%	3.7%	4.7%

FABS estimate & Co Data

**ADIB - P&L**

(AED MM)	2Q20	1Q21	2Q21	2Q21F	Var	YOY ch	QOQ ch	2020	2021F	YOY ch
Institutions	14	9	9	13	-28%	-34.9%	2.3%	61	50	-18.3%
Islamic financings	916	865	875	905	-3%	-4.5%	1.2%	3,766	3,604	-4.3%
Funded income	<b>931</b>	<b>874</b>	<b>884</b>	<b>918</b>	<b>-4%</b>	<b>-5.0%</b>	<b>1.2%</b>	<b>3,827</b>	<b>3,654</b>	<b>-4.5%</b>
Depositors' distribution	-129	-90	-82	-92	-11%	-36.7%	-9.1%	-502	-381	-24.1%
<b>Net funded income</b>	<b>802</b>	<b>784</b>	<b>803</b>	<b>826</b>	<b>-3%</b>	<b>0.1%</b>	<b>2.4%</b>	<b>3,324</b>	<b>3,273</b>	<b>-1.5%</b>
Fees and commissions	206	241	220	244	-10%	6.9%	-8.9%	992	995	0.3%
Other non-funded income	257	310	286	316	-10%	11.4%	-7.7%	1,042	1,277	22.6%
<b>Non-Funded Income</b>	<b>462</b>	<b>551</b>	<b>506</b>	<b>560</b>	<b>-10%</b>	<b>9.4%</b>	<b>-8.2%</b>	<b>2,034</b>	<b>2,272</b>	<b>11.7%</b>
<b>Operating income</b>	<b>1,264</b>	<b>1,336</b>	<b>1,309</b>	<b>1,386</b>	<b>-6%</b>	<b>3.5%</b>	<b>-2.0%</b>	<b>5,358</b>	<b>5,545</b>	<b>3.5%</b>
Operating expenses	-624	-578	-570	-661	-14%	-8.6%	-1.4%	-2,450	-2,504	2.2%
<b>Pre-provisioning income</b>	<b>641</b>	<b>757</b>	<b>739</b>	<b>725</b>	<b>2%</b>	<b>15.3%</b>	<b>-2.5%</b>	<b>2,908</b>	<b>3,041</b>	<b>4.6%</b>
Financing impairment	-322	-147	-233	-159	47%	-27.4%	58.7%	-1,314	-603	-54.1%
<b>Profit before NCI</b>	<b>319</b>	<b>610</b>	<b>505</b>	<b>566</b>	<b>-11%</b>	<b>58.3%</b>	<b>-17.2%</b>	<b>1,594</b>	<b>2,438</b>	<b>53.0%</b>
NIC. & zakat	-2	-3	-4	-1	344%	NM	51.4%	9	-7	NM
<b>Net profit for period</b>	<b>318</b>	<b>607</b>	<b>501</b>	<b>565</b>	<b>-11.4%</b>	<b>57.7%</b>	<b>-17.5%</b>	<b>1,603</b>	<b>2,431</b>	<b>51.7%</b>

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**ADIB - P&L KPI**

	2Q20	1Q21	2Q21	YOY Ch	QOQ Ch	2020	2021F	Change
AED mm								
Net FI/OI	63.4%	58.7%	61.4%	-207	262	62.0%	59.0%	-302
NIM	3.6%	3.2%	3.2%	-44	-3	3.3%	3.2%	-13
NIS	3.7%	3.2%	3.2%	-46	-3	3.4%	3.2%	-14
Fees & commissions/OI	16.3%	18.1%	16.8%	53	-127	18.5%	18.0%	-57
Other non-funded/OI	20.3%	23.2%	21.8%	154	-135	19.4%	23.0%	358
Cost to income	49.3%	43.3%	43.6%	-576	26	45.7%	45.2%	-57
Impairment/PPP	50.2%	19.4%	31.6%	-1860	1217	45.2%	19.8%	-2536
NP/OI	25.1%	45.5%	38.3%	1316	-720	29.9%	43.8%	1393
ROAE	1.7%	3.2%	2.6%	89	-56	8.4%	12.2%	380
ROAA	0.3%	0.5%	0.4%	14	-9	1.3%	1.9%	62

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**ADIB key B/S items**

(AED MM)	2Q20	3Q20	4Q20	1Q21	2Q21	YOY CH
Net customer financing	81,978	83,205	83,409	83,082	83,700	2.1%
QOQ change	3.3%	1.5%	0.2%	-0.4%	0.7%	
Total assets	124,418	127,116	127,816	130,694	130,608	5.0%
QOQ change	1.4%	2.2%	0.6%	2.3%	-0.1%	
Customer deposits	98,631	100,722	101,276	103,069	105,159	6.6%
QOQ change	-0.2%	2.1%	0.6%	1.8%	2.0%	
Shareholders' funds (ex Tier 1)	13,748	14,205	14,396	15,069	14,773	7.5%
QOQ change	3%	3%	1%	4.7%	-2.0%	

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**Research Rating Methodology:**

Rating	Upside/Downside potential
BUY	>15%
ACCUMULATE	>10% to 15%
HOLD	10% to -5%
REDUCE	<-5%

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