

Results update – 1Q2016

Banks | UAE | 28 April 2016

Dubai Islamic Bank (DIB) reported profit at AED875mn was in-line with our expectations. However, the quality of the revenue profile was subdued. Higher growth in fee income compensated for a sharp drop in margins. Asset quality was stable. Balance sheet growth continued to be strong with deposit growth at 11.4% QoQ and loan growth at 5.9% QoQ. DIB has initiated the process for the rights issues at AED3.2 per share (46% discount to the current market price) for 988 million shares. Successful completion of total issuance of AED3.2bn will increase the core Tier I ratio to 12.1% from 9.7%. Following the recent rally, DIB multiple has increased to 1.9x P/BV 2016E, closer to our target multiple. We believe the current multiple reflects its strong growth outlook. However, we believe the continuing economic uncertainty and announcement of rights issuance will cap further multiple expansion. Given limited upside from our target price, we downgrade our recommendation on DIB to Hold from Buy.

► **Strong fee income compensated for the drop in margins**

DIB's margins (3.26%, down ~50bps) were at the bottom end of the guided range (3.25%-3.50%) due to rise in cost of funds. Also, faster growth in deposits resulted in drop in loan-deposit ratio to 84% from 88% in 4Q15. However, total revenue growth was in-line with our estimate led by sharp increase in non-interest income (14% YoY). In particular, fee based income growth was strong at 20% YoY supported by higher business volumes.

► **Credit costs lower than expected; NPL formation subdued**

Credit costs (annualized) at 47bps was lower than our expectation despite improvement in loan loss coverage ratio to 97% (95% in 4Q15). Though NPLs in absolute terms were stable sequentially, the NPL ratio improved to 4.7% (5.0% in 4Q15) on account of increase in overall loan book. Management has guided for further improvement in asset quality with target NPL ratio at 4% in 2016.

► **Strong balance sheet growth**

Balance sheet growth continue to remain strong with deposits growth at 11.4% QoQ (17.7% YoY) and loan growth at 5.9% QoQ (25.7% YoY). ~75% of incremental deposits came from increase in bulk deposits, which we believe will continue to put pressure on margins. CASA ratio was marginally lower at 38.4% (39.9% in 4Q15). Loan growth was strong in the corporate banking segment at 11% QoQ (46% YoY). Going forward, we expect loan growth to moderate to low teens on account of economic slowdown.

Key Financials	2014	2015	2016E	2017E	2018E
Net interest income (AEDm)	3,645	4,463	4,890	5,471	6,161
Total income (AEDm)	5,434	6,212	6,749	7,545	8,477
EPS (AED)	0.6	0.8	0.8	0.9	1.0
EPS (% Change)	69.0	31.4	0.3	11.5	12.2
P/E (x)	9.7	7.4	7.4	6.6	5.9
P/B (tangible)	2.3	2.1	1.9	1.7	1.6
Gross NPL (% of Loans and advances)	8.3	5.2	4.4	4.3	4.5
Dividend yield	6.7	7.5	8.4	9.2	10.9
ROAA (%)	2.1	2.3	2.0	2.1	2.1
RoAE (%)	21.6	25.6	23.4	23.8	24.4

Source: ADCB Securities Equity Research

Fundamentals

Recommendation	Hold
Target Price	AED 6.51
Price	AED 6.20
Price 12m High/Low	AED 7.67/5.00
Market Cap.	AED 24,513.26
Bloomberg/Reuters	DIB UH / DISB.DU

Price Performance Chart



Source: Bloomberg

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Financials

Income Statement () (AEDmn)	2015	2016E	2017E	2018E
Net interest income	4,463	4,890	5,471	6,161
Total non interest income	1,750	1,859	2,074	2,316
Fee income	1,295	1,417	1,591	1,787
Trading income	37	84	94	105
Other income	418	358	390	425
Total income	6,212	6,749	7,545	8,477
Total operating expenses	2,223	2,391	2,653	2,981
Salaries and wages	1,480	1,598	1,790	2,005
Other operating expenses	744	793	864	976
Pre provision profit	3,989	4,359	4,892	5,496
Total provisions	410	661	826	989
Profit before tax and MI	3,579	3,697	4,066	4,508
Taxes	16	17	19	21
Minority interest	284	294	324	359
Reported net profit	3,556	3,689	4,058	4,496
Adjusted net profit	3,202	3,212	3,580	4,018

Source: ADCB Securities Equity Research

Balance Sheet (AEDmn)	2015	2016E	2017E	2018E
Loans and advances	97,220	107,942	120,958	136,708
Investments	21,897	24,050	26,857	29,994
Fixed assets	795	891	1,016	1,137
Other assets	6,658	7,559	8,466	9,280
Total assets	149,898	165,421	182,794	204,556
Total equity	13,123	14,358	15,763	17,212
Sub/hybrid/other debt	7,346	7,346	7,346	7,346
Minority interests	2,325	2,619	2,943	3,302
Deposits	109,981	122,079	135,508	153,124
Total borrowings	10,315	11,262	12,466	13,923
Total liabilities	127,104	141,098	156,742	176,697

Source: ADCB Securities Equity Research

Valuation and leverage metrics	2015	2016E	2017E	2018E
P/E (x)	7.4	7.4	6.6	5.9
P/PPE (x)	5.9	5.4	4.8	4.3
P/B (tangible)	2.1	1.9	1.7	1.6
Dividend yield (%)	7.5	8.4	9.2	10.9
Tier I ratio	15.8	14.3	13.8	12.9
Core tier I ratio	9.7	8.8	8.8	8.5
CAR (%)	16.0	14.6	14.1	13.4
Average assets/Equity (x)	11.0	11.5	11.6	11.7
Loan to deposit ratio (%)	88.4	88.4	89.3	89.3

Source: ADCB Securities Equity Research

Key Ratios (%)	2015	2016E	2017E	2018E
ROAA	2.3	2.0	2.1	2.1
RoAE	25.6	23.4	23.8	24.4
Net interest margin	3.8	3.5	3.6	3.6
Cost-income	35.8	35.4	35.2	35.2
CASA	39.9	39.2	40.3	40.6
Gross NPL (% of Loans and advances)	5.2	4.4	4.3	4.5
Loan loss coverage	95.4	108.1	107.4	105.1
Credit costs (% of avg loans)	0.6	0.5	0.6	0.7

Source: ADCB Securities Equity Research

Per-share data (AED)	2015	2016E	2017E	2018E
EPS	0.8	0.8	0.9	1.0
DPS	0.5	0.5	0.6	0.7
BVPS	2.9	3.1	3.4	3.7
Total no. of outstanding shares (mn)	3,954	3,954	3,954	3,954

Source: ADCB Securities Equity Research

Investment case

We recommend Hold 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. Well positioned to capitalize on Dubai's vision of future global capital of Islamic economy. We believe its current valuation multiple reflects its strong growth outlook and find limited upside from current levels.

Upside case

AED7.5

Higher than expected loan book growth (with credit costs maintained at current levels). Sustained asset quality improvements. In such a scenario, DIB can trade at one standard deviation above its historical average at 2.4x P/BV 2016E.

Downside case

AED4.4

Risk of prolonged 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 1.4x 2016E P/BV.

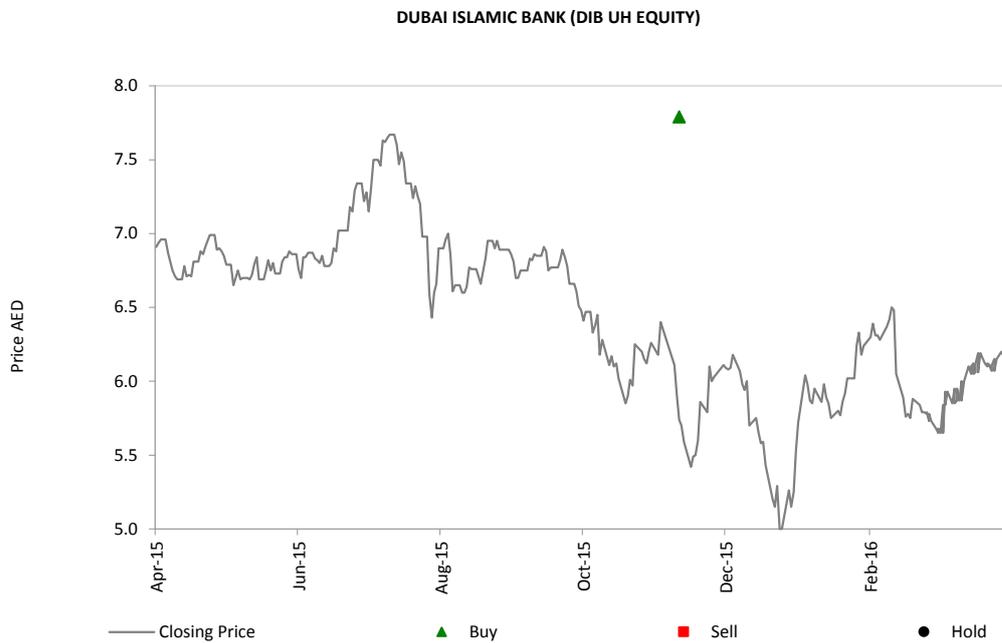
Results summary

Fig. 1. Results review - 1Q2016

Income statement (AEDmn)	1Q15	4Q15	1Q16	% YoY	% QoQ
Interest income	1,259	1,477	1,527	21.3	3.4
Interest expense	209	320	412	97.2	28.9
Net Interest Income	1,050	1,158	1,115	6.2	(3.7)
Non-interest Income	423	374	483	14.2	29.2
- Fee based income	348	275	418	20.0	52.1
- Trading revenue	12	1	15	26.2	1164.4
Total income	1,472	1,531	1,597	8.5	4.3
Operating expenses	571	544	571	(0.1)	4.9
- Employee Exp	375	364	387	3.2	6.3
- Other expenses	197	180	184	(6.5)	2.1
Pre-provision profit	901	987	1,027	14.0	4.0
Loan loss provisions	136	70	118	(13.3)	69.2
Profit before tax	765	918	909	18.8	(0.9)
Associate, taxes and minorities	-52	53	34	(165.6)	(36.3)
Net Income	817	865	875	7.2	1.2
Balance sheet (AEDbn)					
Loans	82	97	103	25.7	5.9
Deposits	104	110	122	17.7	11.4
- CASA ratio	49.3	39.9	38.4		
Ratios					
Cost/income ratio (%)	38.8	35.5	35.7		
NIM (%)	3.7	3.8	3.3		
RoAA (%)	2.5	2.3	2.2		
Tier I (%)	16.7	15.5	15.4		
CAR (%)	17.0	15.7	15.6		
Asset quality (AEDmn)					
Gross NPA	6,267	5,289	5,264	(16.0)	(0.5)
Gross NPA (%)	6.9	5.0	4.7		
Coverage (%)	81.0	95.4	97.0		

Source: Company, ADCB Securities Equity Research.

Recommendation history



Date	Recommendation	Target Price (AED)	Closing Price (AED)
08-Dec-2015	Buy	7.79	5.74
28-Jan-2016	Buy	6.51	5.72

Rating Distribution

Rating	Coverage Universe %
Buy	75%
Hold	25%
Sell	0%

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