

# Dubai Islamic Bank – 3Q17 Review

TP: AED 7.60 / share

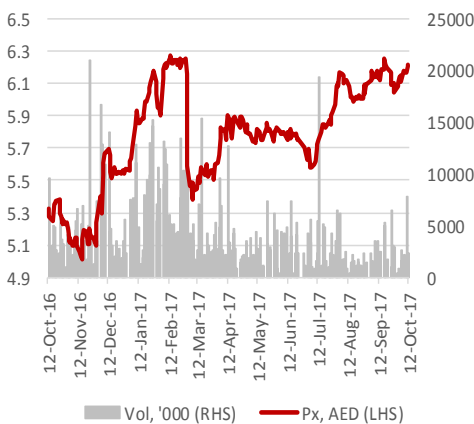
<b>Recommendation</b>	<b>BUY</b>
Bloomberg Ticker	DIB UH
Current Market Price (AED)	6.22
52wk High / Low (AED)	6.29/5.01
12m Average Vol. (000)	4,224
Mkt. Cap. (USD/AED mn)	8,369/30,740
Shares Outstanding (mn)	4,942.2
Free Float (%)	58%
3m Avg Daily Turnover (000)	16,068
6m Avg Daily Turnover (000)	16,495
PE 2017e (x)	8.4
PBv 2017e (x)	1.7
Dividend Yield (%)	7.4%

## Price Performance:

1 month (%)	1.30
3 month (%)	8.74
12 month (%)	16.92

Source: Bloomberg

## Price-Volume Performance



Source: Bloomberg

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Rating maintained at **BUY**, with Blended Target Price (TP) increased to AED 7.60 per share from the previous TP of AED 6.10, as growth story of the bank continues flouting sector-wide trends. Our blended price represents a 22% upside to the latest closing price, with an implied PE'17e of 10.3x and PB'17e of 2.0x.

## Impressive core 9M'17 performance amidst tight cost management

9M'17 operating income of AED 5.57bn was up by 14%YoY on account of a 14%YoY increase in total net Islamic finance income and a 12%YoY increase in other operating income. Operating profit of AED 3.83bn before impairment allowances was up 20%YoY, benefiting from a tightly managed cost base. 9M'17 operating expenses were AED 1.74bn, a slight increase of 1%YoY, which resulted in a further improved cost to income ratio of 30.7% in 9M'17 compared to 34.0% for FY16. We expect the bank to maintain cost-to-income at the current level for 2017 and marginally increase it over 2018-21e. Net profit attributable to shareholders of the bank was up by 18%YoY on account of a 61%YoY reduction in minority interest as the bank acquired part of non-controlling interest earlier in the year. Total net profit was up by 10% at AED 3.30bn.

AED '000	9m 2016	9m17	YoY 17/16
<b>Net Finance Income</b>	<b>3,404,179</b>	<b>3,893,160</b>	14%
Other operating income	1,501,061	1,674,901	12%
<b>Total income</b>	<b>4,905,240</b>	<b>5,568,061</b>	14%
Operating expense	1,719,127	1,741,439	1%
<b>Operating Profit</b>	<b>3,186,113</b>	<b>3,826,622</b>	20%
Provisions	304,024	618,731	104%
Associate income	145,419	113,337	-22%
<b>Profit before taxes</b>	<b>3,027,508</b>	<b>3,321,228</b>	10%
Taxes	16,882	19,845	18%
<b>Profit before minority interest</b>	<b>3,010,626</b>	<b>3,301,383</b>	10%
Minority interest	330,057	128,411	-61%
<b>Attributable net profit</b>	<b>2,680,569</b>	<b>3,172,972</b>	18%

Source: U Capital Research, Company Financials

## Balance sheet continues to grow; Surpassed the AED 2bn mark

The total assets of the bank grew by 17%YoY, and 15%YTD to AED 201.2bn, with net financing assets having increased by 18%YoY and 14%YTD to AED 131.3bn. Deposits from customers increased by 18%YoY and 17%YTD to AED 143.5bn. Low-cost CASA deposits comprised 35 % of total customer deposits as of 9M'17. We expect deposit growth to remain in double digit over the forecast period.

## Asset quality intact

NPL and provision coverage ratios were 3.4% and 121% respectively, compared to NPL ratio of 3.9% and provision coverage ratio of 117% as at Dec'16. Cost of risk for 9M'17 was 63bps down from 81bps for 2016. NPL ratio of the bank has consistently been declining over the last few years as legacy loans are re-classified and the bank adopts a more prudent approach to credit growth.

## Robust Capitalization

Capital adequacy ratio remained robust at 16.9% as of September 30, 2017, whilst T1 ratio stood at 16.3%; both ratios are well above regulatory requirement (Min CAR at 12% and Tier 1 at 8%) in the current Basel II regime.

## Key Revisions to Estimates

We have adjusted our estimates for FY17 net loans & deposits, as the recent performance of the bank indicates better-than-expected growth rates. Net financing assets grew to AED 131.3bn for 9M17, a growth of 14%YTD driven primarily by the continued growth of core businesses. Customer deposits increased by 17%YTD to AED 143.5bn. UAE's system wide credit growth has slowed to 0.91%YoY as of August'17 vs. 5.35%YoY as of Dec'16.

AED mn	Earlier FY'17e	Current FY17e	Var, %
Gross Loans & Financings	136,076	145,877	7%
Loan Loss Reserve & Reserve Interest	9,083	10,790	19%
Net Loans & Financings	126,993	135,087	6%
Deposits from Customers	136,551	150,097	10%
LTD	93%	90%	-3%
Total Operating Income	7,533	7,342	-3%
Provisions expense	(614)	(875)	43%
Operating Expenses	(2,561)	(2,276)	-11%
<b>Attributable Net Profit</b>	<b>3,222</b>	<b>4,135</b>	<b>28%</b>

Source: U Capital Research

We are also expecting cost-to-income ratio to be maintained between 31% +/- 1%, resulting in net profit improvement on the back of consistently improving total income due to credit growth and improving NIMs.

## TP offers an upside of 22% to CMP; Implies PE'17e of 10.3x and PB'17e of 2.0x

Our target price offers an upside of 22% compared to the current market price. The bank is trading at 1.7x book value, but we believe that given its quality of earnings, as indicated by its superior RoE, and indomitable growth story, it can easily command a higher price. The bank's valuation is primarily driven by its strong core operating performance which warrants sustained dividend payouts over the forecast period. Additionally, market conditions are expected to improve as macroeconomic environment eases with fiscal consolidation, stronger global trade and higher Dubai Expo 2020 investment. The UAE will see non-oil GDP growth hitting 3.3%<sup>1</sup> this year. Real GDP growth is expected to be 1.34% in 2017 and 3.36% in 2018<sup>2</sup>.

## Future Plans

The bank is looking to continue to expand its technological capabilities to ensure that it can benefit from the FINTECH revolution, and to provide the best customer experience with convenient product and services. With an 8% market share of the UAE credit, DIB stands to benefit from the scale, positioning and the financial strength of its operations. The bank aims to bolster its international presence further in its focus geographies to now include South East Asia, East Africa and Far East Asia.

<sup>1</sup> IMF estimates

<sup>2</sup> IMF estimates

## Key Financials

(AED mn)	2015	2016	2017e	2018e	2019e	2020e
<b>Income Statement</b>						
Financing Income	5,520	6,521	7,614	8,339	9,560	10,720
Interest Expense/Payment to Depositors	1,057	1,875	2,479	3,021	3,536	4,054
<b>Net Interest/Financing Income</b>	<b>4,463</b>	<b>4,646</b>	<b>5,135</b>	<b>5,319</b>	<b>6,024</b>	<b>6,666</b>
Fee & Commission Income	1,295	1,425	1,623	1,681	1,904	2,107
Other Income	455	513	585	606	686	759
<b>Total Non-Interest/Financing Income</b>	<b>1,750</b>	<b>1,939</b>	<b>2,208</b>	<b>2,287</b>	<b>2,590</b>	<b>2,867</b>
<b>Total Operating Income</b>	<b>6,212</b>	<b>6,584</b>	<b>7,342</b>	<b>7,605</b>	<b>8,614</b>	<b>9,533</b>
Provisions expense	410	392	875	1,019	1,184	1,344
Operating Expenses	2,223	2,297	2,276	2,358	2,713	3,051
<b>Profit Before Taxation</b>	<b>3,855</b>	<b>4,072</b>	<b>4,358</b>	<b>4,420</b>	<b>4,932</b>	<b>5,376</b>
Taxation, Minority Interest & Profit on Sukuk	889	954	705	708	734	758
<b>Attributable Net Profit</b>	<b>2,966</b>	<b>3,118</b>	<b>3,654</b>	<b>3,713</b>	<b>4,198</b>	<b>4,618</b>
<b>Balance Sheet</b>						
Cash Balances	13,415	16,655	28,285	28,735	30,503	32,001
Deposits with Banks & FIs	5,085	4,546	4,546	5,433	6,165	6,897
Investment Securities	21,897	25,126	25,126	30,029	34,072	38,119
Gross Loans & Financings	105,179	124,150	145,877	167,029	187,908	206,698
Loan Loss Reserve	7,960	9,183	10,790	12,354	13,899	15,289
Net Loans & Financings	97,220	114,968	135,087	154,675	174,009	191,410
Other Assets	12,282	13,676	16,069	18,399	20,699	22,769
<b>Total Assets</b>	<b>149,898</b>	<b>174,971</b>	<b>209,113</b>	<b>237,271</b>	<b>265,449</b>	<b>291,196</b>
Deposits from Banks & FIs	4,713	10,418	12,778	14,630	16,459	18,105
Deposits from Customers	109,981	122,377	150,097	171,861	193,343	212,678
Other Borrowings	12,948	15,041	17,673	20,236	22,765	25,042
Other Liabilities	6,808	7,211	7,211	7,211	7,211	7,211
Paid-up Capital	3,954	4,942	4,942	4,942	4,942	4,942
Retained Earnings	4,564	5,641	7,072	8,511	10,402	12,446
Other Reserves	6,930	9,340	9,340	9,880	10,326	10,772
Shareholders' Equity	15,448	19,923	21,354	23,333	25,670	28,160
<b>Total Equity &amp; Liability</b>	<b>149,898</b>	<b>174,971</b>	<b>209,113</b>	<b>237,271</b>	<b>265,449</b>	<b>291,196</b>
<b>Cash Flow Statement</b>						
Cash from operations	(2,437.8)	3,847.7	12,991.4	6,261.5	6,864.4	6,993.2
Cash from investing activities	4,751.4	3,580.1	1,289.5	6,158.4	5,282.7	5,161.6
Cash from financing	4,286.6	2,972.2	(71.7)	347.2	186.4	(333.7)
Net changes in cash	(2,902.5)	3,239.8	11,630.2	450.3	1,768.1	1,497.9
Cash at the end of period	13,415	16,655	28,285	28,735	30,503	32,001
<b>Key Ratios</b>						
Return on Average Assets	2.2%	1.9%	1.9%	1.7%	1.7%	1.7%
Return on Average Equity	20.1%	17.6%	17.7%	16.6%	17.1%	17.2%
Recurring Income/Operating Income	92.7%	92.2%	92.0%	92.0%	92.0%	92.0%
Interest Earning/Financing Assets Yield	4.5%	4.4%	4.7%	4.8%	4.8%	4.8%
Cost of Funds	0.9%	1.4%	1.5%	1.6%	1.6%	1.7%
Net Spread	3.6%	3.1%	3.2%	3.2%	3.2%	3.2%
Cost to Income Ratio	35.8%	34.9%	31.0%	31.0%	31.5%	32.0%
Net Loans to Customer Deposits	88.4%	93.9%	90.0%	90.5%	90.3%	91.0%
NPLs to Gross Loans	4.1%	3.8%	4.0%	4.1%	4.2%	4.2%
NPL Coverage	117.3%	117.8%	111.9%	109.2%	107.9%	106.6%
Cost of Risk (bps)	33.3	26.5	54.3	58.0	59.2	60.3
Equity to Gross Loans	12.5%	13.8%	12.7%	12.0%	11.7%	11.6%
Dividend Payout Ratio	60.0%	71.3%	62.3%	62.2%	61.3%	60.8%
Adjusted EPS (AED)	0.75	0.63	0.74	0.75	0.85	0.93
Adjusted BVPS (AED)	3.32	3.47	3.76	4.05	4.43	4.85
Market Price (AED) *	5.6	6.2	6.2	6.2	6.2	6.2
Dividend Yield, %	8.0%	7.2%	7.4%	7.5%	8.4%	9.1%
P/E Ratio (x)	7.5	9.8	8.4	8.3	7.3	6.6
P/BV Ratio (x)	1.7	1.8	1.7	1.5	1.4	1.3

Source: U Capital Research, Company Financials

\* Market price for 2017 and subsequent years based on closing price of Oct 12, 2017

## Recommendation

BUY	Greater than 20%
ACCUMULATE	Between +10% and +20%
HOLD	Between +10% and -10%
REDUCE	Between -10% and -20%
SELL	Lower than -20%