

Dubai Islamic Bank

Delivering synergies ahead of schedule. Valuation vs. returns cannot be ignored

Reiterate Rating: BUY | PO: 5.30 AED | Price: 3.82 AED

Expedited cost synergy delivery drives EPS + PO upgrades

Dubai Islamic Bank's (DIB) acquisition of NOOR bank has started to create value. Specifically, the bank delivered visible cost synergies in 2Q20 despite the acquisition having only been completed in January 2020. The bank's cost to income ratio hit 27.6% in 2Q20 (31.1% in 1H20), down almost 700bps on the previous quarter. Looking forward, management indicated there are further synergies to extract and the bank is on course to lower its full year Cost to income ratio by at least 240bps vs. 1H20. On the back of the more favourable cost outlook, we increase our 2020-22 EPS forecasts by 6% on average and our PO to AED5.3/share (implying total shareholder return of 44%). We reiterate our Buy rating.

31% discount to EEMEA unreflective of superior ROEs

Although DIB faces a difficult economic backdrop in the near to medium term, we believe this has already been adequately reflected in the current share price, with the shares now trading at a 31% discount to peers on 2020 P/E and discounting a long term ROE of just 9.9% (vs. LT through cycle average of 17.2% and 2020-23E ave. of 14%). As such, we believe the shares fail to reflect a number of key positive factors including: (1) forthcoming increase in FOL to 40% (from 25%) (2) significant merger synergies from its recent acquisition of Noor, (3) an attractive 2020 dividend yield of 5% with room to grow, and (4) its ability to take market share in the high growth Islamic market

Delivering solid performance across the board

Performance in 2Q20 was encouraging, with most line items outperforming our expectations. Net income came in 38% ahead of our forecasts with margins, volumes, provisioning costs and operating costs all surprising positively. The bank's CET1 ratio of 12.3% also provided comfort on its ability to pay a material dividend while being able to withstand current asset quality issues.

Estimates (Dec)

(AED)	2018A	2019A	2020E	2021E	2022E
Net Profit (AEDm)	4,418	4,546	3,281	3,587	5,217
EPS (Reported Diluted)	0.72	0.69	0.46	0.50	0.73
Dividend / Share	0.35	0.35	0.20	0.25	0.30
Adjusted NAV PS	3.94	3.89	4.14	4.45	4.93

Valuation (Dec)

	2018A	2019A	2020E	2021E	2022E
Price/ Earnings Ratio	5.3x	5.5x	8.4x	7.6x	5.3x
EPS Change (YoY)	-6.89%	-4.28%	-33.9%	9.31%	45.5%
Price / BV	0.97x	0.98x	0.93x	0.86x	0.78x
Price / NAV	0.97x	0.98x	0.92x	0.86x	0.78x
Net Yield	9.16%	9.16%	5.24%	6.54%	7.85%
DPS Change (YoY)	-22.2%	0%	-42.9%	25.0%	20.0%
Price / GOP	4.07x	3.67x	4.18x	3.71x	3.20x

23 July 2020

Equity

Key Changes

(AED)	Previous	Current
Price Obj.	5.00	5.30
2020E EPS	0.42	0.46
2021E EPS	0.47	0.50
2022E EPS	0.70	0.73

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Stock Data

Price	3.82 AED
Price Objective	5.30 AED
Date Established	23-Jul-2020
Investment Opinion	C-1-8
52-Week Range	3.04 AED-5.86 AED
Mrkt Val / Shares Out (mn)	27,660 AED / 7,240.7
Average Daily Value (mn)	3.71 USD
Free Float	67.6%
BofA Ticker / Exchange	XUIBF / DFX
Bloomberg / Reuters	DIB UH / DISB.DU
ROE (2020E)	11.9%

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Refer to important disclosures on page 16 to 18. Analyst Certification on page 13. Price Objective Basis/Risk on page 13.

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iQprofileSM Dubai Islamic Bank

Key Income Statement Data (Dec)	2018A	2019A	2020E	2021E	2022E
(AED Millions)	IFRS	IFRS	IFRS	IFRS	IFRS
Net Interest Income	5,953	6,306	6,706	6,978	7,924
Net Fee Income	1,330	1,328	1,579	1,735	1,912
Securities Gains / (Losses)	146	155	184	202	223
Other Income	635	1,420	969	988	1,008
Total Non-Interest Income	2,111	2,903	2,731	2,925	3,142
Total Operating Income	8,064	9,208	9,437	9,903	11,066
Operating Expenses	(2,322)	(2,358)	(2,873)	(2,519)	(2,502)
Pre-Provision Profit	5,742	6,850	6,564	7,383	8,564
Provisions Expense	(833)	(1,764)	(2,645)	(3,105)	(2,587)
Operating Profit	4,909	5,087	3,919	4,278	5,978
Non-Operating Items	137	58.4	(10.6)	(10.9)	(11.1)
Pre-Tax Income	5,046	5,145	3,908	4,267	5,967
Net Income to sh/holders	4,418	4,546	3,281	3,587	5,217
Adjusted Cash Earnings	4,418	4,546	3,281	3,587	5,217
Key Balance Sheet Data					
Total Assets	223,682	231,796	306,639	320,200	342,429
Average Interest Earning Assets	196,804	207,548	242,646	283,229	301,381
Risk Weighted Assets	176,525	189,555	239,179	249,756	270,519
Total Gross Customer Loans	150,466	156,994	216,563	232,880	250,165
Total Customer Deposits	155,657	164,418	224,038	234,169	250,916
Tier 1 Capital	28,794	29,175	37,959	40,203	43,614
Tangible Equity	24,117	25,565	29,695	31,939	35,349
Common Shareholders' Equity	24,117	25,565	29,695	31,939	35,349
Key Metrics					
Net Interest Margin	3.02%	3.04%	2.76%	2.46%	2.63%
Tier 1 Ratio	16.3%	15.4%	15.9%	16.1%	16.1%
Effective Tax Rate	0.84%	0.82%	1.00%	1.00%	0.80%
Loan / Assets Ratio	64.7%	65.1%	67.9%	69.5%	69.6%
Loan / Deposit Ratio	93.0%	91.8%	93.0%	95.0%	95.0%
Oper Leverage (Inc Growth - Cost Growth)	7.18%	12.6%	-19.3%	17.2%	12.5%
Gearing (Assets / Equity)	9.27x	9.07x	10.3x	10.0x	9.69x
Tangible Equity / Assets	10.8%	11.0%	9.68%	9.97%	10.3%
Tangible Equity / RWAs	13.7%	13.5%	12.4%	12.8%	13.1%
Business Performance					
Revenue Growth	6.60%	14.2%	2.48%	4.94%	11.7%
Operating Expense Growth	-0.58%	1.57%	21.8%	-12.3%	-0.70%
Provisions Expense Growth	1.22%	112%	50.0%	17.4%	-16.7%
Operating Revenue / Average Assets	2.28%	2.23%	1.46%	1.36%	1.80%
Operating Expenses / Average Assets	-1.08%	-1.04%	-1.07%	-0.80%	-0.76%
Pre-Provision ROA	2.66%	3.01%	2.44%	2.36%	2.58%
ROA	2.05%	2.00%	1.22%	1.14%	1.57%
Pre-Provision ROE	26.9%	27.6%	23.8%	24.0%	25.5%
ROE	20.7%	18.3%	11.9%	11.6%	15.5%
RoTE	20.7%	18.3%	11.9%	11.6%	15.5%
RoRWAs	2.61%	2.48%	1.53%	1.47%	2.01%
Dividend Payout Ratio	48.5%	50.6%	44.1%	50.4%	41.6%
Efficiency Ratio (Cost / Income Ratio)	28.8%	25.6%	30.4%	25.4%	22.6%
Quality of Earnings					
Total Non-Interest Inc / Operating Inc	26.2%	31.5%	28.9%	29.5%	28.4%
Market-Related Revenue / Total Revenues	0%	0%	0%	0%	0%
Provisioning Burden as % of PPP	14.5%	25.7%	40.3%	42.1%	30.2%
NPLs plus Foreclosed Real Estate / Loans	3.48%	4.12%	4.70%	4.80%	4.66%
Loan Loss Reserves / NPLs	114%	97.7%	83.7%	97.5%	106%
Loan Loss Reserves / Total Loans	3.96%	4.03%	3.94%	4.68%	4.95%
Provisions Expense / Average Loans	0.60%	1.19%	1.47%	1.44%	1.12%

Company Sector

Banks-Multinational/Universal

Company Description

Dubai based DIB is largest Islamic bank and the fifth largest bank in the UAE, offering Islamic financial products to both the corporate and consumer sectors in the UAE. The banks operations are concentrated in the UAE with a small presence in Pakistan, Jordan and East Africa.

Investment Rationale

DIB is the largest Islamic bank in the UAE. We believe DIB is well placed to continue taking market share given its competitively advantaged position in the high growth Islamic banking market, well capitalised balance sheet and healthy liquidity. We expect this to culminate in sector leading earnings growth, top quartile ROEs and a top quartile dividend yield. Despite offering superior growth and profitability potential, DIB trades at a discount EEMEA peers.

Stock Data

Price to Book Value 0.9x



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Dubai Islamic Bank: Underappreciated upside

Risks elevated, but much already baked in to valuation

We reiterate our buy recommendation on DIB, and increase our PO on the shares to AED5.3 following a strong 2Q20 performance. While we expect DIB to face a difficult earnings landscape in the near to medium term, we believe this has already been adequately reflected in the current share price, with the shares now discounting a long term ROE of just 9.3% (relative to long term through cycle average of 17.2% and 2020-23E average of 12%). As such, we believe the share fail to reflect a number of key positive factors including: (1) forthcoming increase in FOL to 40% (from 25%) (2) The significant merger synergies from its recent acquisition of Noor Bank, which were already visible from 2Q20 (3) An attractive 2020 dividend yield of 5% with room for growth, (4) its ability to take market share in the high growth Islamic market and (5) an attractive valuation.

NOOR bank acquisition already showing strong promise

DIB's completion of its acquisition of Noor bank in 1Q20 harbours significant value creation potential. We expect integration to be relatively quick and could deliver deep cost synergies (with low integration costs) given the banks operate virtually identical IT systems, have significant overlap in retail & corporate operations (e.g. branch network, Sharia board), are both largely Dubai focused and fully Sharia compliant. We also see material revenue synergy potential including funding cost optimisation (with low asset attrition) given DIB management's strong track record. Our analysis indicates the deal to be accretive from day one, with potentially >16% EPS accretion once synergies are fully realised (although our estimates assume a significantly lower level of synergies, with c. 5% accretion).

FOL increase and updated guidance likely with 2Q

DIB has formally received approval from its shareholders and the Central Bank to increase its FOL to 40% (from 25%). With approval from the SCA (Securities and Commodities Authority) expected in the coming months, we believe DIB's FOL will likely be increased to 40% in the near term. We believe this will trigger an increased weighting in the respective EM indices (MSCI and FTSE) and potentially drive c. US\$150mn of passive inflows in to the name.

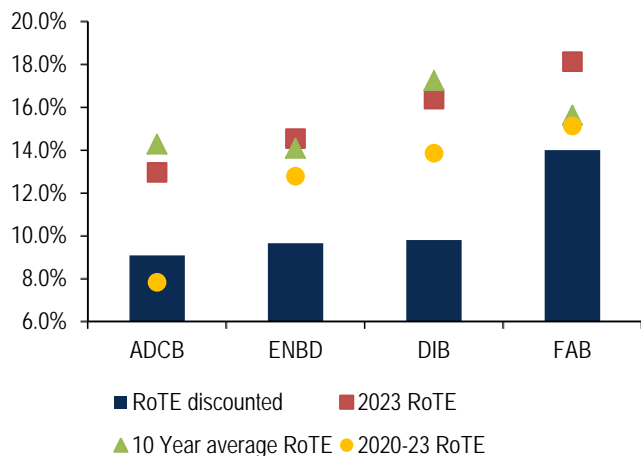
We also expect the company to provide updated guidance on its outlook for 2020 towards the end of 2Q20 given the outlook for the year was left unchanged despite significant changes since its initial 2020 guidance was provided (including 125bps of UAE CB rate cuts and the Covid-19 lock downs)

Valuation discounting highly negative scenario; Buy

DIB trades on 2020E of 0.9x, a 35% discount to EEMEA peers, implying a long term ROE of less than 10% (14% in 1Q20). On 2020 P/E, DIB trades at 8.4x, a 31% discount to EEMEA peers. Although DIB undoubtedly faces material risks ahead, we believe this to be too pessimistic given its ability to generate superior returns, potential to create value from its acquisition of NOOR bank, an attractive dividend yield and a well provisioned and well capitalised balance sheet (CET1 ratio of 12.3% at end of 2Q20). We reiterate our buy rating.

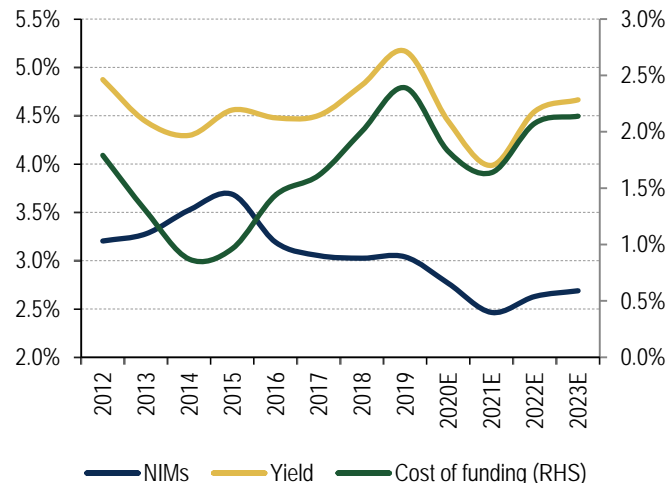
DIB in Charts

Chart 1: DIB is discounting RoTE's far below what we expect in coming years



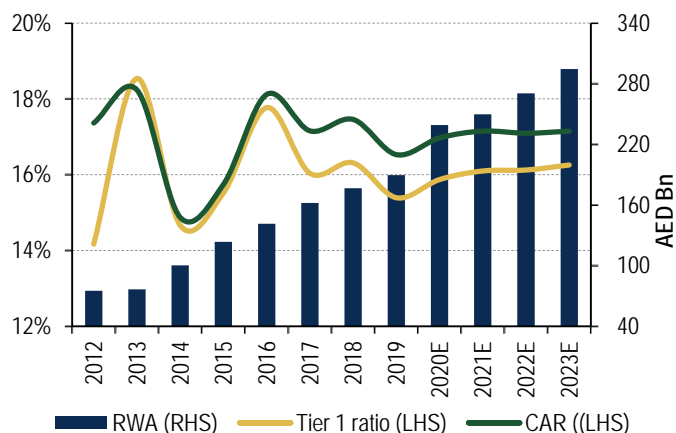
Source: BofA Global Research estimates, company data

Chart 2: Margins are expected to decline in 2020 and 2021



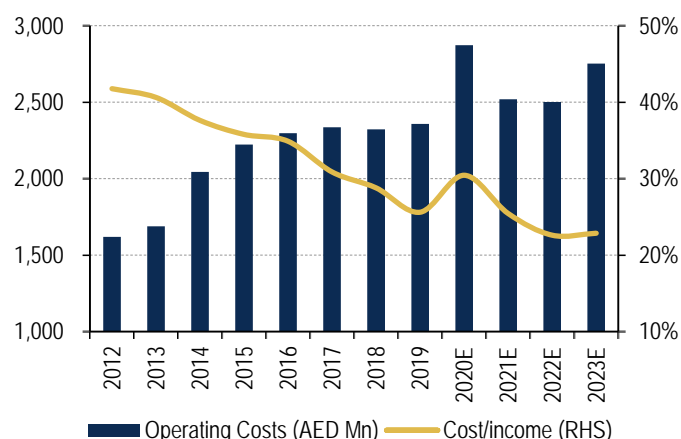
Source: BofA Global Research estimates, company data

Chart 3: Capital ratios to remain healthy and well above requirements



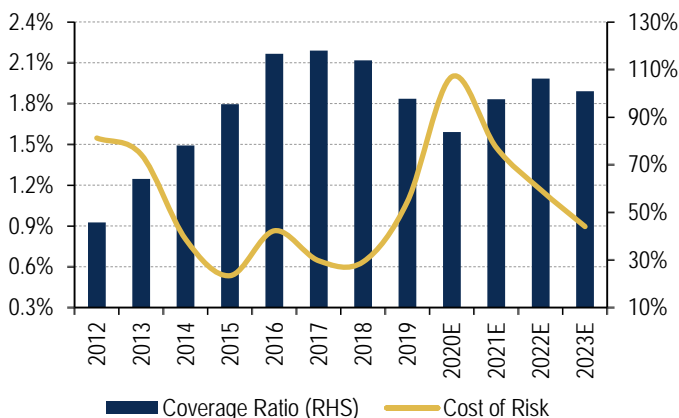
Source: BofA Global Research estimates, company data

Chart 4: C/I is expected to fall following NOOR bank acquisition in 1Q20



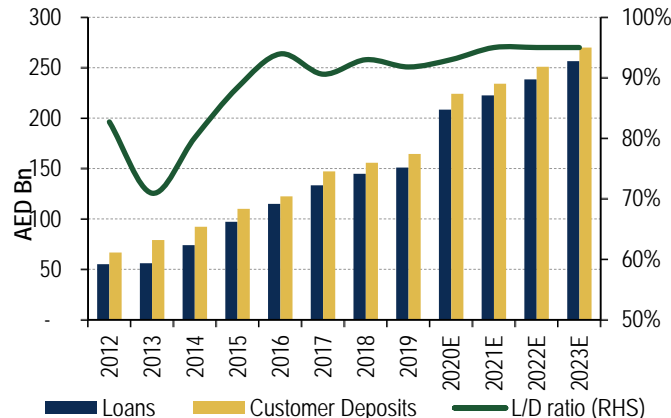
Source: BofA Global Research estimates, company data

Chart 5: CoR is expected to increase sharply in 2020 and 2021



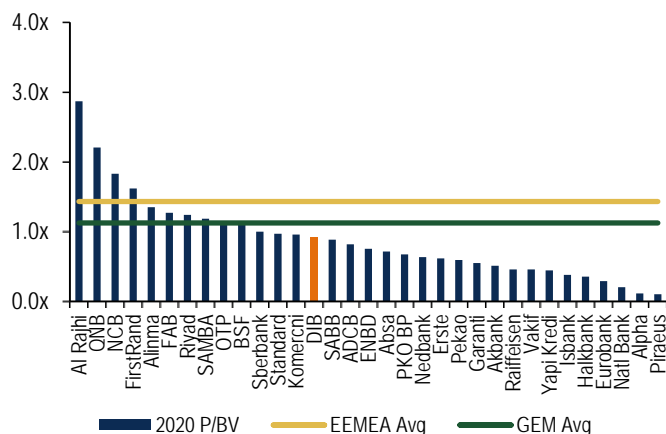
Source: BofA Global Research estimates, company data

Chart 6: We expect DIB's loan to deposit ratios to remain stable

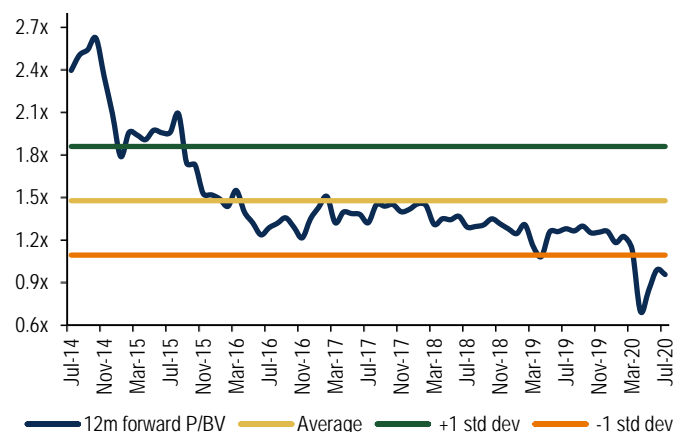


Source: BofA Global Research estimates, company data

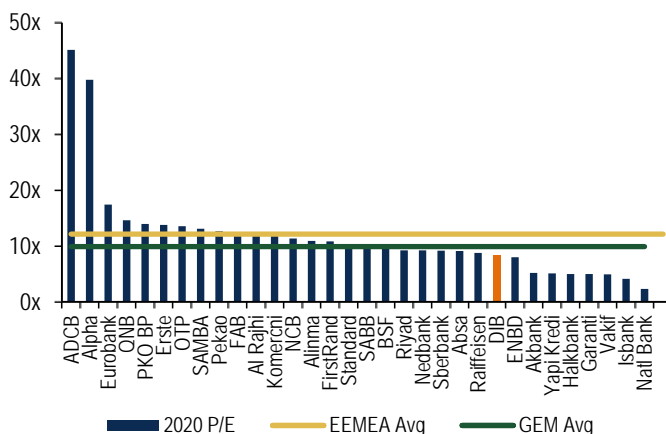
Valuation in Charts

Chart 7: DIB trades at a 35% discount to EEMEA peers on 2020 P/B


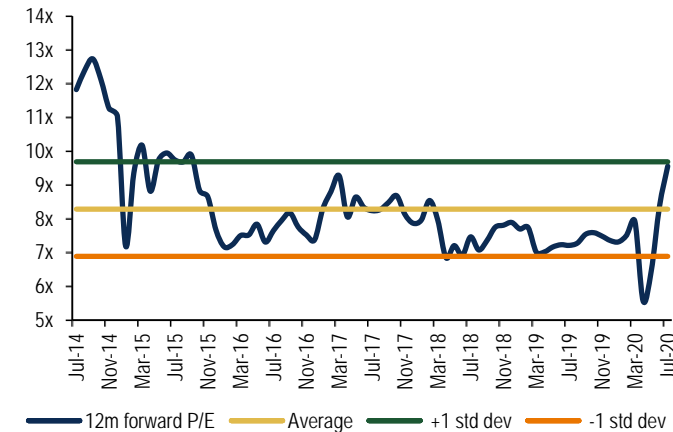
Source: BofA Global Research Estimates

Chart 8: 12mth FWD P/B is near 7 year lows for DIB


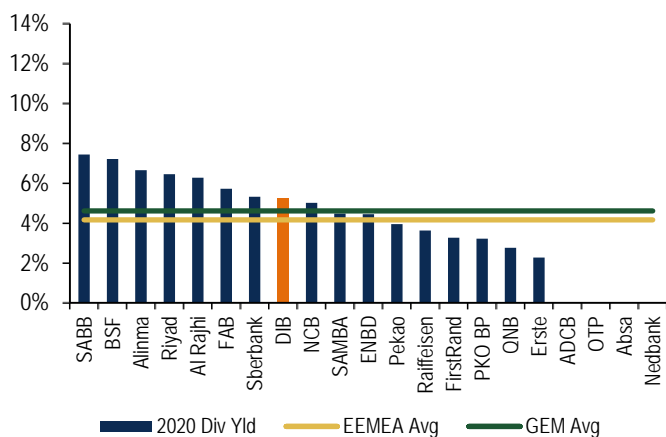
Source: Refinitiv

Chart 9: DIB trades at a 31% discount to EEMEA peers on 2020 P/E


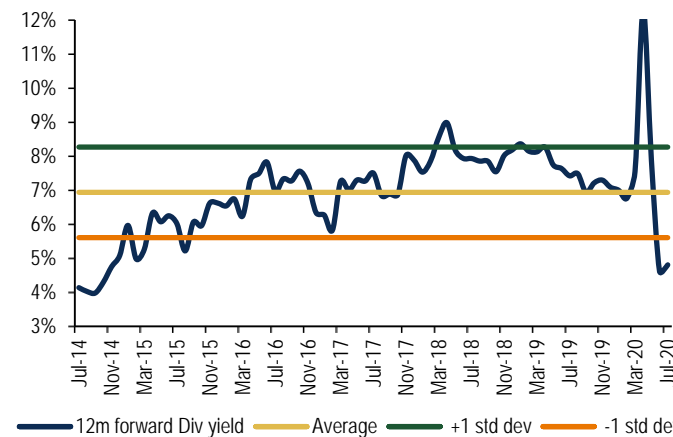
Source: BofA Global Research Estimates

Chart 10: 12mth FWD consensus P/E is above 7 year averages


Source: Refinitiv

Chart 11: DIB's 2020 Dividend yield of 5.2% is 100bps above EEMEA average


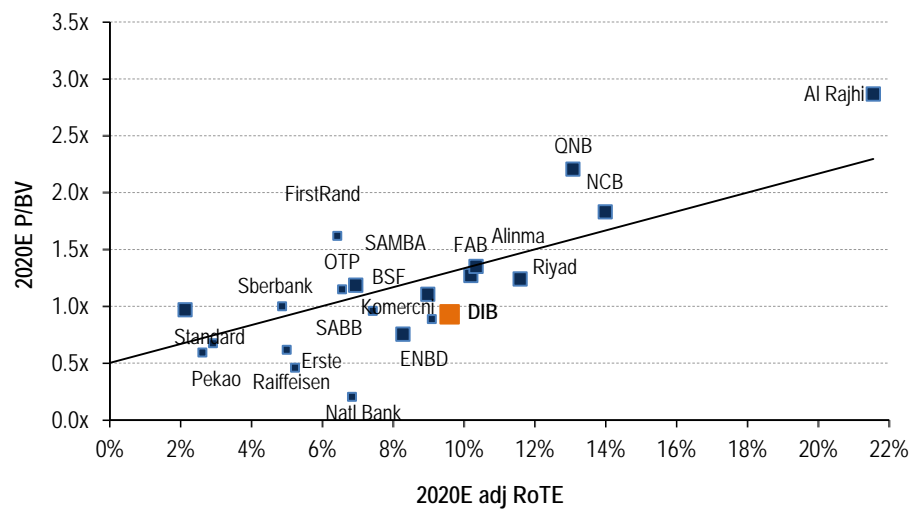
Source: BofA Global Research Estimates

Chart 12: Although offering a dividend yield above peers, DIB's 12mth FWD consensus dividend yield is now below long term averages


Source: Refinitiv



Chart 13: Valuations fail to reflect superior adjusted RoTE generation (RoTE in excess of local risk free rate)



Source: BofA Global Research Estimates

Table 1: EEMEA Valuation Sheet

Bank	Country	M Cap (USD Mn)	P/BV			P/E			RoTE			Dividend Yield		
			2019	2020	2021	2019	2020	2021	2019	2020	2021	2019	2020	2021
Erste Bank	Austria	10,820	0.6x	0.6x	0.6x	6.8x	13.8x	9.2x	10.6%	5.0%	7.2%	2.3%	2.3%	4.5%
Raiffeisen Bank	Austria	6,218	0.5x	0.5x	0.4x	4.7x	8.8x	5.9x	10.3%	5.2%	7.5%	3.6%	3.6%	4.8%
Komerční Banka	Czech Republic	4,693	1.0x	1.0x	0.9x	7.3x	11.9x	9.2x	15.1%	8.7%	10.2%	0.0%	0.0%	7.0%
OTP Bank	Hungary	9,743	1.2x	1.1x	1.0x	6.7x	13.6x	8.2x	20.4%	8.8%	13.4%	2.3%	0.0%	2.9%
Pekao S.A.	Poland	3,744	0.6x	0.6x	0.6x	6.8x	12.7x	8.4x	9.4%	4.8%	6.9%	0.0%	3.9%	6.0%
PKO BP	Poland	7,592	0.7x	0.7x	0.6x	7.4x	14.0x	11.0x	10.3%	5.1%	6.2%	0.0%	3.2%	4.1%
Sberbank	Russia	63,726	1.0x	1.0x	0.9x	5.1x	9.2x	6.6x	21.5%	11.0%	14.5%	8.9%	5.3%	7.4%
Absa	South Africa	4,618	0.7x	0.7x	0.7x	4.7x	9.1x	6.1x	16.7%	8.3%	12.0%	12.4%	0.0%	9.6%
Capitec	South Africa	5,995	4.0x	3.6x	3.3x	16.4x	30.7x	20.5x	27.5%	14.5%	19.0%	1.1%	1.1%	2.0%
FirstRand	South Africa	14,187	1.8x	1.6x	1.4x	9.7x	10.8x	9.4x	19.0%	15.6%	16.2%	5.3%	3.3%	5.0%
Nedbank	South Africa	3,563	0.7x	0.6x	0.6x	4.6x	9.2x	6.7x	15.5%	7.5%	9.8%	11.9%	0.0%	8.2%
Standard Bank	South Africa	11,082	1.1x	1.0x	0.9x	6.5x	10.3x	8.4x	19.3%	11.3%	12.7%	8.7%	0.0%	6.7%
Akbank	Turkey	4,404	0.6x	0.5x	0.5x	5.6x	5.2x	4.1x	10.9%	10.3%	11.7%	0.0%	0.0%	6.1%
Garanti Bank	Turkey	4,836	0.6x	0.5x	0.5x	5.4x	5.0x	4.1x	12.2%	11.6%	12.6%	0.0%	0.0%	6.1%
Halkbank	Turkey	2,174	0.5x	0.4x	0.3x	8.7x	5.0x	4.5x	5.6%	8.0%	7.5%	0.0%	0.0%	0.0%
Isbank	Turkey	3,737	0.4x	0.4x	0.3x	3.9x	4.1x	3.6x	11.2%	9.5%	10.0%	0.0%	0.0%	5.6%
Vakif Bank	Turkey	2,858	0.6x	0.5x	0.4x	7.0x	4.9x	4.9x	9.1%	10.5%	9.0%	0.0%	0.0%	3.1%
Yapi Kredi Bank	Turkey	2,893	0.5x	0.4x	0.4x	5.5x	5.1x	3.9x	9.2%	9.3%	11.0%	0.0%	0.0%	3.8%
Alpha Bank	Greece	1,090	0.1x	0.1x	0.2x	9.8x	39.8x	17.7x	1.2%	0.3%	0.7%	0.0%	0.0%	0.0%
Eurobank	Greece	1,730	0.2x	0.3x	0.3x	5.9x	17.4x	6.2x	2.2%	1.5%	4.6%	0.0%	0.0%	0.0%
Natl Bank Greece	Greece	1,337	0.2x	0.2x	0.2x	2.5x	2.3x	9.8x	-5.0%	9.2%	2.3%	0.0%	0.0%	0.0%
Piraeus Bank	Greece	643	0.1x	0.1x	0.1x	2.1x	90.9x	24.0x	5.1%	0.1%	0.5%	0.0%	0.0%	0.0%
MENA														
ADCB	UAE	9,641	0.7x	0.8x	0.8x	7.1x	45.1x	12.9x	11.6%	1.7%	6.2%	7.5%	0.0%	0.0%
DIB	UAE	7,530	1.0x	0.9x	0.9x	5.5x	8.4x	7.6x	18.3%	11.9%	11.6%	9.2%	5.2%	6.5%
FAB	UAE	31,156	1.2x	1.3x	1.2x	9.6x	12.4x	11.2x	16.1%	12.5%	14.1%	7.1%	5.7%	5.7%
ENBD	UAE	14,841	0.8x	0.8x	0.7x	6.0x	8.0x	6.1x	16.5%	10.6%	12.8%	4.4%	4.4%	4.4%
Al Rajhi	KSA	38,262	3.0x	2.9x	2.7x	13.3x	12.4x	11.5x	23.4%	23.8%	24.2%	5.7%	6.3%	7.0%
Alinma	KSA	7,818	1.4x	1.4x	1.3x	10.7x	10.9x	10.6x	13.4%	12.6%	12.6%	6.1%	6.7%	7.2%
NCB	KSA	28,716	1.8x	1.8x	1.7x	9.8x	11.3x	10.3x	19.5%	16.2%	17.0%	6.4%	5.0%	5.6%
SABB	KSA	13,259	0.9x	0.9x	0.9x	14.1x	10.3x	8.3x	8.5%	11.3%	13.6%	5.4%	7.4%	9.1%
SAMBA	KSA	14,291	1.2x	1.2x	1.1x	13.5x	13.1x	11.4x	9.5%	9.2%	10.3%	5.3%	4.5%	6.0%
BSF	KSA	9,802	1.1x	1.1x	1.1x	10.2x	10.0x	9.2x	11.6%	11.2%	11.9%	6.9%	7.2%	7.9%
Riyad Bank	KSA	13,646	1.3x	1.2x	1.2x	8.9x	9.2x	8.7x	15.5%	13.8%	13.8%	6.0%	6.4%	7.0%
QNB	Qatar	45,577	2.3x	2.2x	2.0x	12.5x	14.6x	13.7x	19.0%	15.3%	15.4%	3.3%	2.8%	3.0%
EEMEA			1.5x	1.4x	1.3x	9.2x	12.1x	9.6x	17.5%	12.9%	14.5%	5.7%	4.2%	4.9%
MENA			1.4x	1.4x	1.3x	10.1x	13.8x	10.1x	15.2%	12.5%	13.6%	6.1%	5.1%	5.8%
Saudi			1.5x	1.5x	1.4x	11.5x	11.0x	10.0x	14.5%	14.0%	14.8%	6.0%	6.2%	7.1%
UAE			0.9x	0.9x	0.9x	7.1x	18.5x	9.5x	15.6%	9.1%	11.2%	7.0%	3.9%	4.2%
GEM			1.2x	1.1x	1.0x	8.7x	9.9x	8.7x	14.0%	11.6%	11.6%	5.5%	4.6%	5.2%

Source: BofA Global Research Estimates



2Q20 Review

2Q20 net income 46% ahead of our forecasts

DIB has announced a healthy set of 2Q20 results, with a strong showing across most operating lines. Net income of AED1.01bn (-27% YoY, -9.2% QoQ) was 45.9% ahead of BofA Forecasts while Net income post Tier one payments was 38% ahead of our forecasts. Pre-provision profit of AED1.66bn (-4.4% YoY, +4.3 QoQ) was 6.8% ahead of our forecast.

Strength in 2Q20 was broad based

Relative to our forecasts the strength was broad based, with DIB benefitting from:

1. Stronger core income than we had forecasted, with net interest income coming in 8% ahead of our forecasts on higher than expected margins (+7bps vs BofAe) and significantly higher loan volumes (10 %ahead of our forecasts)
2. Lower operating costs, with cost to income ratio coming in at just 27.6%. This was largely down to a significant reduction in staff costs, on the back of the cost synergies achieved from the NOOR acquisition. We see scope for further synergies to be delivered in 2H20.
3. Significantly lower Impairment costs following DIB's significant provisioning taken in 1Q20. Cost of risk came in at 1.3% vs. our 2.0% forecast. We continue to expect higher than normal CoR to persist for the balance of 2020 and through 2021

Table 2: DIB 2Q20 Result Summary

Income Statement (AED mn)	Q2 20A	Q2 20E	Q2 19A	Q1 20A	Consensus	YoY	QoQ	vs BofA expectations	VS Consensus expectations
Income from Islamic financing and investing transactions	2,620	2,178	2,731	2,917		-4.1%	-10.2%	20.3%	
Less: depositors' and sukuk holders' share of profit	(973)	(656)	(1,182)	(1,128)		-17.7%	-13.8%	48.3%	
Total net interest income and Islamic financing income	1,647	1,522	1,548	1,789		6.4%	-7.9%	8.2%	
Total Non - Interest Income	646	775	790	643		-18.3%	0.5%	-16.7%	
Total income from operations (Revenues)	2,293	2,297	2,339	2,431	2,300	-2.0%	-5.7%	-0.2%	0%
Total general and administrative expenses	(632)	(742)	(602)	(839)		5.0%	-24.7%	-14.8%	
Pre provisioning profit	1,661	1,556	1,737	1,593		-4.4%	4.3%	6.8%	
Net impairment loss on financial assets	(637)	(901)	(378)	(1,483)		68.5%	-57.1%	-29.3%	
Share of profit from associates and other income	(1)	57	54	1,014					
Profit before tax	1,024	712	1,413	1,124		-27.5%	-8.9%	43.8%	
Income Tax	(16)	(6)	(15)	(13)					
Profit after tax	1,007	706	1,398	1,111		-27.9%	-9.3%	42.7%	
Minority interest	2	(14)	(15)	1					
Net Income	1,009	692	1,383	1,112		-27.0%	-9.2%	45.9%	
Profit attributable to tier 1 sukuk holders	(57)	-	-	(210)					
Board of Directors' remuneration paid	-	-	-	-					
Net attributable diluted profit	952	692	1,383	902		-31.2%	5.6%	37.6%	
Memo Items									
Loans	200,298	182,919	150,230	180,197		33%	11%	10%	
Deposits	206,521	198,825	156,897	199,867		32%	3%	4%	
CAR	16.72%	16.34%	17.53%	16.46%		-5%	2%	2%	
NIM	2.52%	2.45%	3.00%	3.10%					
Cost to income	27.6%	32.3%	25.7%	34.5%					
Cost of Risk	1.34%	1.98%	1.02%	3.58%					
ROA	1.41%	0.99%	2.43%	1.75%					
ROE	13.73%	10.03%	23.53%	13.66%					
LDR	97.0%	92.0%	95.8%	90.2%					

Source: BofA Global Research estimates, Bloomberg and company data

Capital and returns also highly encouraging

DIB was able to deliver ROEs (post tier one payments) of 13.7% one fo the strongest showing among MENA banks in 2Q20 and the highest adjusted ROE (ROE less country risk free rate) among any bank in EEMEA. The bank also saw a rebound in capital, with

CET1 reaching 12.3%. This gives the bank approximately AED5.5bn of excess capital relative to its long term minimum CET1 ratio of 10%. This number increases to AED10bn if one takes in to consideration current temporary minimum CET1 ratio of 8%. We believe this makes th bank well placed to pay its AED0.20/share dividend in 2020 (equating to c.AED2.5bn total payment).

DIB Financial Statements

Table 3: DIB Summary Balance Sheet

12m to Dec (AED m)	2014	2015	2016	2017	2018	2019	2020E	2021E	2022E	2023E
Cash and deposits with Central Bank	16,317	13,415	16,655	27,885	22,546	21,268	29,186	27,425	32,938	38,327
Due from banks and financial institutions	4,316	5,085	4,546	4,677	8,297	6,248	6,721	7,025	6,273	6,749
Islamic financing and investing assets, net	73,977	97,220	114,968	133,334	144,739	150,913	208,355	222,461	238,370	256,478
Investments in Islamic sukuk measured at amortised cost	16,119	20,066	23,409	24,023	31,179	33,244	40,048	40,609	41,857	43,209
Total assets	123,887	149,898	174,971	207,337	223,682	231,796	306,639	320,200	342,429	368,086
Customer's deposits	92,345	109,981	122,377	147,181	155,657	164,418	224,038	234,169	250,916	269,976
Due to banks and financial institutions	3,940	4,713	10,418	14,878	13,203	9,147	20,163	21,075	22,582	24,298
Sukuku issued	2,847	5,602	7,695	8,659	12,371	14,852	13,349	13,536	13,952	14,403
Payables and other liabilities	6,854	6,590	6,969	7,739	8,019	8,320	8,368	8,368	8,368	8,368
Total liabilities	106,181	127,104	147,701	178,456	189,555	197,064	265,919	277,149	295,819	317,046
Share Capital	3,954	3,954	4,942	4,942	6,590	6,590	7,241	7,241	7,241	7,241
Other reserves and treasury shares	5,494	5,618	7,786	7,786	10,861	11,113	13,785	13,785	13,785	13,785
Retained Earnings	3,252	4,564	5,641	6,964	8,569	10,132	11,162	13,406	16,817	21,069
Tier 1 Sukuku	3,673	7,346	7,346	7,346	7,346	6,428	8,264	8,264	8,264	8,264
Total liabilities and equity	123,887	149,898	174,971	207,337	223,682	231,796	306,639	320,200	342,429	368,086

Balance sheet growth metrics (YoY)

Growth (%YoY)	2014	2015	2016	2017	2018	2019	2020E	2021E	2022E	2023E
Loan growth	31.9%	31.4%	18.3%	16.0%	8.6%	4.3%	38.1%	6.8%	7.2%	7.6%
Asset Growth	9.4%	21.0%	16.7%	18.5%	7.9%	3.6%	32.3%	4.4%	6.9%	7.5%
RWA Growth	31.1%	23.1%	14.4%	14.6%	9.0%	7.4%	26.2%	4.4%	8.3%	8.9%
Deposit Growth	16.8%	19.1%	11.3%	20.3%	5.8%	5.6%	36.3%	4.5%	7.2%	7.6%
IBL growth	17.3%	21.3%	16.8%	21.5%	6.2%	4.0%	36.7%	4.4%	6.9%	7.4%
Liabilities growth	9.5%	19.7%	16.2%	20.8%	6.2%	4.0%	34.9%	4.2%	6.7%	7.2%

Source: BofA Global Research estimates, company data

Table 4: DIB Summary Income Statement

12m to Dec (AED m)	2014	2015	2016	2017	2018	2019	2020E	2021E	2022E	2023E
Income from Islamic financing and investing transactions	4,444	5,520	6,521	7,795	9,481	10,723	10,773	11,288	13,696	15,042
Less: depositors' and sukuk holders' share of profit	(799)	(1,057)	(1,875)	(2,512)	(3,528)	(4,418)	(4,067)	(4,310)	(5,773)	(6,373)
Net Financing Income	3,645	4,463	4,646	5,283	5,953	6,306	6,706	6,978	7,924	8,669
Growth	22%	22%	4%	14%	13%	6%	6%	4%	14%	9%
Total Non - Interest Income	1,789	1,750	1,939	2,282	2,111	2,903	2,731	2,925	3,142	3,367
Growth	52%	-2%	11%	18%	-7%	38%	-6%	7%	7%	7%
Total income from operations (Revenues)	5,434	6,212	6,584	7,565	8,064	9,208	9,437	9,903	11,066	12,036
Growth	31%	14%	6%	15%	7%	14%	2%	5%	12%	9%
Total operating expenses	(2,044)	(2,223)	(2,297)	(2,336)	(2,322)	(2,358)	(2,873)	(2,519)	(2,502)	(2,752)
Pre provisioning profit	3,390	3,989	4,287	5,229	5,742	6,850	6,564	7,383	8,564	9,284
Impairment charges, net	(703)	(410)	(392)	(823)	(833)	(1,764)	(3,659)	(3,105)	(2,587)	(2,075)
Share of profit from associates and joint ventures	135	276	177	122	137	58	(11)	(11)	(11)	(11)
Profit before tax	2,822	3,855	4,072	4,528	5,046	5,145	3,908	4,267	5,967	7,198
Income tax expense	(18)	(16)	(22)	(24)	(42)	(42)	(39)	(43)	(48)	(43)
Profit after tax	2,804	3,839	4,050	4,504	5,004	5,103	3,869	4,224	5,919	7,155
Non-controlling interests	143	284	453	181	88	88	33	87	148	179
Net Income to shareholders	2,661	3,556	3,597	4,322	4,916	5,014	3,836	4,138	5,771	6,976
Profit attributable to tier 1 sukuk holders	(230)	(354)	(477)	(477)	(477)	(449)	(532)	(529)	(529)	(529)
Board of Directors' remuneration paid	(17)	(20)	(23)	(19)	(21)	(20)	(23)	(22)	(25)	(27)
Net attributable diluted profit	2,414	3,183	3,097	3,825	4,418	4,546	3,281	3,587	5,217	6,420
Growth	62%	32%	-3%	24%	16%	3%	-28%	9%	45%	23%
Per share metrics										
Basic EPS	0.61	0.74	0.67	0.78	0.72	0.69	0.45	0.50	0.72	0.89
Diluted EPS	0.61	0.74	0.67	0.78	0.72	0.69	0.46	0.50	0.73	0.89
Dividend per share	0.40	0.45	0.45	0.45	0.35	0.35	0.20	0.25	0.30	0.35

Source: BofA Global Research estimates, company data

DIB Key Ratios

Table 5: DIB Key Ratios

	2014	2015	2016	2017	2018	2019E	2020E	2021E	2022E	2023E
Liquidity										
Loans / Deposits	80.1%	88.4%	93.9%	90.6%	93.0%	91.8%	93.0%	95.0%	95.0%	95.0%
Loans/Assets	59.7%	64.9%	65.7%	64.3%	64.7%	65.1%	67.9%	69.5%	69.6%	69.7%
Loans / Interest Earning Assets	68.1%	72.8%	72.9%	70.7%	70.6%	71.9%	75.7%	76.4%	76.5%	76.9%
Asset Quality										
NPL Ratio	8.3%	5.2%	4.0%	3.5%	3.3%	4.0%	4.5%	4.6%	4.4%	4.4%
Coverage Ratio	78.1%	95.4%	116.6%	117.9%	113.9%	97.7%	83.7%	97.5%	106.2%	100.9%
Cost of risk	1.1%	0.5%	0.4%	0.7%	0.6%	1.2%	2.0%	1.4%	1.1%	0.8%
Efficiency										
Cost/Income	37.6%	35.8%	34.9%	30.9%	28.8%	25.6%	30.4%	25.4%	22.6%	22.9%
JAWS	9.7%	5.6%	2.7%	13.2%	7.2%	12.6%	-19.3%	17.2%	12.5%	-1.2%
Margins										
Yield on av. IEA	4.3%	4.6%	4.5%	4.5%	4.8%	5.2%	4.4%	4.0%	4.5%	4.7%
Cost on av. IBL	0.9%	1.0%	1.4%	1.6%	2.0%	2.4%	1.8%	1.6%	2.1%	2.1%
Net interest Margin	3.5%	3.7%	3.2%	3.1%	3.0%	3.0%	2.8%	2.5%	2.6%	2.7%
Earnings										
RoAE	21.5%	25.5%	20.5%	21.4%	20.7%	18.3%	11.9%	11.6%	15.5%	17.1%
RoAA	2.0%	2.3%	1.9%	2.0%	2.1%	2.0%	1.2%	1.1%	1.6%	1.8%
RoARWA	2.7%	2.8%	2.3%	2.5%	2.6%	2.5%	1.5%	1.5%	2.0%	2.3%
Non Int. Income/Total operating Income	32.9%	28.2%	29.4%	30.2%	26.2%	31.5%	28.9%	29.5%	28.4%	28.0%
Capital Ratios										
Total capital ratio	14.9%	15.7%	18.1%	17.2%	17.5%	16.5%	17.0%	17.1%	17.1%	17.1%
Leverage ratio	14.4%	14.8%	15.4%	14.7%	14.6%	15.1%	14.0%	13.4%	13.5%	13.7%
Tier 1 capital ratio	14.7%	15.5%	17.8%	16.0%	16.3%	15.4%	15.9%	16.1%	16.1%	16.3%
CET1 Ratio	11.0%	9.6%	12.6%	11.5%	12.4%	12.0%	12.4%	12.8%	13.1%	13.4%

Source: BofA Global Research estimates, company data



Price objective basis & risk

Dubai Islamic Bank (XUIBF)

Our AED5.3/share price objective for Dubai Islamic Bank is derived using a combination of the Dividend Discount Model (DDM) and Gordon's Growth Model. We assign a 50% weight to each of these methodologies, effectively taking the average valuation derived from the two methods. Our valuation derived from the dividend discount model values DIB at AED4.4/share, whilst the Gordon's growth model values the bank at AED6.5/share assuming a cost of equity of 11% and long term growth rate of 3%.

Downside risks to our PO are: (1) A weaker oil price environment than we assume, which could ultimately impact liquidity in the UAE, (2) A weaker rate environment, which could weigh on NIMs, (3) Introduction of more extreme regulatory measures than we assume,

(4) Any potential differences in shareholder interests between the majority owner (the Government) and minorities, and (5) A deterioration in real estate values, given its exposure to the sector through the loan book and property developer subsidiary, Deeyar. (6) A more pronounced asset quality issue in the core portfolio and that of recently acquired NOOR bank than we are currently assuming, necessitating a higher cost of risk charge.

Analyst Certification

I, Hootan Yazhari, CFA, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

EEMEA - Financials Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	Absa Group Ltd	AGRPF	ABG SJ	Bankole Ubogu, CFA
	Akbank	XHRAF	AKBNK TI	David Taranto
	Al Rajhi Bank	XRHJF	RJHI AB	Hootan Yazhari, CFA
	Alpha Bank	ALBKF	ALPHA GA	Alberto Cordara
	Capitec Bank	CKHGF	CPI SJ	Bankole Ubogu, CFA
	Dubai Islamic Bank	XUIBF	DIB UH	Hootan Yazhari, CFA
	Emirates NBD	XHGGF	EMIRATES UH	Hootan Yazhari, CFA
	Eurobank	EGFEF	EUROB GA	Alberto Cordara
	First Abu Dhabi Bank	XNBUF	FAB UH	Hootan Yazhari, CFA
	FirstRand	FANDF	FSR SJ	Bankole Ubogu, CFA
	Garanti Bank	TKGBF	GARAN TI	David Taranto
	Investec	XBZGF	INVLP LN	Bankole Ubogu, CFA
	Investec	IVTJF	INP SJ	Bankole Ubogu, CFA
	National Commercial Bank	XBYNF	NCB AB	Hootan Yazhari, CFA
	Pekao S.A.	BKPKF	PEO PW	Olga Veselova
	Samba Financial Group	XMABF	SAMBA AB	Hootan Yazhari, CFA
	Saudi British Bank	XBUAF	SABB AB	Hootan Yazhari, CFA
	TCS Group	XCIXF	TCS LI	Olga Veselova
	Yapi Kredi Bank	YKBF	YKBNK TI	David Taranto
NEUTRAL				
	ADCB	XBUDF	ADCB UH	Hootan Yazhari, CFA
	Banque Saudi Fransi	XRDCF	BSFR AB	Hootan Yazhari, CFA
	Isbank	TYIBF	ISCTR TI	David Taranto
	OTP Bank	OTPF	OTP HB	Olga Veselova
	PKO BP	PSZKF	PKO PW	Olga Veselova
	Riyad Bank	XYRDF	RIBL AB	Hootan Yazhari, CFA
	Sberbank	AKSJF	SBER RM	Olga Veselova
	Sberbank preferred shares	AGNYF	SBERP RM	Olga Veselova
	Transaction Capital	XTLTF	TCP SJ	Bankole Ubogu, CFA
UNDERPERFORM				
	Alinma Bank	XALBF	ALINMA AB	Hootan Yazhari, CFA
	Halkbank	THBIF	HALKB TI	David Taranto
	Komerční Banka	KMERF	KOMB CP	Olga Veselova
	Natl Bank Greece	NBGF	ETE GA	Alberto Cordara
	Nedbank	NDBKF	NED SJ	Bankole Ubogu, CFA
	Piraeus Bank	BPIRF	TPEIR GA	Alberto Cordara
	Qatar National Bank	XQTNF	QNBK QD	Hootan Yazhari, CFA
	Standard Bank	SBGOF	SBK SJ	Bankole Ubogu, CFA
	Vakif Bank	TKYVF	VAKBN TI	David Taranto



iQ^{method} SM Measures Definitions

Business Performance		
Return On Capital Employed	Numerator NOPAT = (EBIT + Interest Income) * (1 - Tax Rate) + Goodwill Amortization	Denominator Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill Amortization
Return On Equity	Net Income	Shareholders' Equity
Operating Margin	Operating Profit	Sales
Earnings Growth	Expected 5-Year CAGR From Latest Actual	N/A
Free Cash Flow	Cash Flow From Operations – Total Capex	N/A
Quality of Earnings		
Cash Realization Ratio	Cash Flow From Operations	Net Income
Asset Replacement Ratio	Capex	Depreciation
Tax Rate	Tax Charge	Pre-Tax Income
Net Debt-To-Equity Ratio	Net Debt = Total Debt, Less Cash & Equivalents	Total Equity
Interest Cover	EBIT	Interest Expense
Valuation Toolkit		
Price / Earnings Ratio	Current Share Price	Diluted Earnings Per Share (Basis As Specified)
Price / Book Value	Current Share Price	Shareholders' Equity / Current Basic Shares
Dividend Yield	Annualised Declared Cash Dividend	Current Share Price
Free Cash Flow Yield	Cash Flow From Operations – Total Capex	Market Cap. = Current Share Price * Current Basic Shares
Enterprise Value / Sales	EV = Current Share Price * Current Shares + Minority Equity + Net Debt + Other LT Liabilities	Sales
EV / EBITDA	Enterprise Value	Basic EBIT + Depreciation + Amortization

iQ^{method} SM is the set of BofA Global Research standard measures that serve to maintain global consistency under three broad headings: Business Performance, Quality of Earnings, and validations. The key features of iQ^{method} are: A consistently structured, detailed, and transparent methodology. Guidelines to maximize the effectiveness of the comparative valuation process, and to identify some common pitfalls.

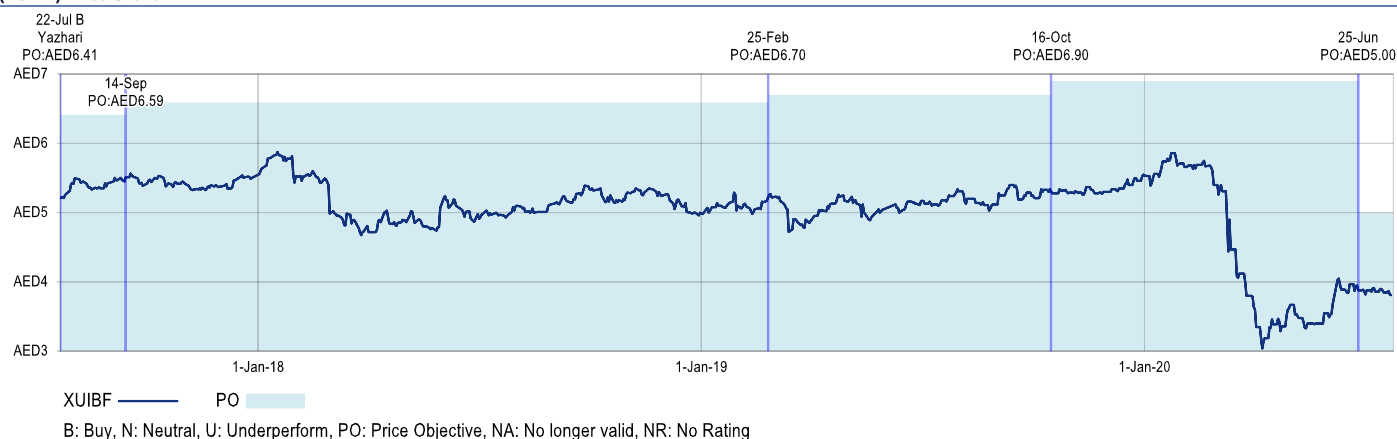
iQ^{database}® is our real-time global research database that is sourced directly from our equity analysts' earnings models and includes forecasted as well as historical data for income statements, balance sheets, and cash flow statements for companies covered by BofA Global Research.

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Disclosures

Important Disclosures

DIB (XUIBF) Price Chart



The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

Equity Investment Rating Distribution: Banks Group (as of 30 Jun 2020)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	74	39.57%	Buy	62	83.78%
Hold	50	26.74%	Hold	41	82.00%
Sell	63	33.69%	Sell	52	82.54%

Equity Investment Rating Distribution: Global Group (as of 30 Jun 2020)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	1632	52.21%	Buy	1031	63.17%
Hold	711	22.74%	Hold	444	62.45%
Sell	783	25.05%	Sell	407	51.98%

* Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

FUNDAMENTAL EQUITY OPINION KEY: Opinions include a Volatility Risk Rating, an Investment Rating and an Income Rating. **VOLATILITY RISK RATINGS**, indicators of potential price fluctuation, are: **A - Low**, **B - Medium** and **C - High**. **INVESTMENT RATINGS** reflect the analyst's assessment of a stock's: (i) absolute total return potential and (ii) attractiveness for investment relative to other stocks within its **Coverage Cluster** (defined below). There are three investment ratings: **1 - Buy** stocks are expected to have a total return of at least 10% and are the most attractive stocks in the coverage cluster; **2 - Neutral** stocks are expected to remain flat or increase in value and are less attractive than Buy rated stocks and **3 - Underperform** stocks are the least attractive stocks in a coverage cluster. Analysts assign investment ratings considering, among other things, the 0-12 month total return expectation for a stock and the firm's guidelines for ratings dispersions (shown in the table below). The current price objective for a stock should be referenced to better understand the total return expectation at any given time. The price objective reflects the analyst's view of the potential price appreciation (depreciation).

Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster*
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

* Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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