

## Dubai Islamic Bank (DISB.DU): 4Q20 results first take

Net income for the quarter came in at AED 168mn, down 83% qoq and 82% yoy. This is c.80% below GSe and Thomson Reuters consensus expectations, with the miss driven by higher-than-expected credit costs. Reported ROE for the year came in at 10.4%, below the initial guidance of 17-18%. Management also shared 2021 guidance, including ROE target of 11%.

The bank completed integration with Noor Bank in October.

**We expect the headline miss to weigh on share price performance.**

### 2021 guidance:

- **Returns:** management is guiding for ROA of 1.4% and ROE of 11% for 2021. This is up from 1.2% ROA and 10.4% ROE in 2020.
- **Net profit margin:** the bank targets a margin of 2.5-2.6% vs 2.6% in 2020.
- **Asset quality:** management guides for non-performing financing of 5.5% (down yoy from 5.7%), with coverage of 110%.
- **Cost-to-income ratio:** the bank guides for c.28% C/I ratio, down yoy from 29.4%.
- **Growth:** management targets 5% loan growth (vs c.8% in 2020 on pro-forma basis), with c.20% real estate concentration for the book.

### 4Q20 trends:

- **Net interest income** up 6% qoq but down 9% yoy, 4% above GSe. We calculate NII/assets of 2.3% for the quarter, up c.15bp sequentially but down c.40bp yoy.
- **Fee income** down 26% qoq and 23% yoy, 29% below GSe.
- **Other NIR** up 182% qoq but down 19% yoy, 50% above GSe.
- **Total revenues** up 15% qoq but down 14% yoy, 4% above GSe.
- **Operating costs** down 10% qoq and 23% yoy, 14% below GSe. Cost-to-income ratio improved 6.6pp/3.0pp qoq/yoy to 23.4%.
- **Provisions** up c.260% qoq and 65% yoy, c.155% above GSe. GS-calculated cost of risk came in at 370bp for the quarter, up 270bp and 130bp qoq and yoy.

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- **NPL ratio** up 90bp sequentially to 5.7%, while coverage declined 5pp qoq to 76%. We note that NMC coverage stands at 52%, while DIB standalone NPL coverage stands at 91%, with Noor POCI exposure coverage at 1%.
- **Loans** flat qoq while **Deposits** declined 4% qoq with **LDR** up 5pp sequentially to 100%.
- **CET-1 ratio** down 90bp qoq to 12%.
- In November 2020, DIB issued a US\$1bn perpetual non-call 5.5 yrs **Additional Tier 1 Sukuk**, priced at 4.625%.

### Exhibit 1: 4Q20/FY20 results summary

AED mn.	Actual			Est.	Overview			Actual		Est.	Overview		
	4Q19	3Q20	4Q20	4Q20E	q/q	y/y	act/GS	2019	2020	2020E	y/y	act/GS	
NII	1,856	1,581	1,682	1,618	6%	-9%	4%	7,506	6,699	6,634	-11%	1%	
Fees	424	445	328	459	-26%	-23%	-29%	2,122	1,646	1,777	-22%	-7%	
Core	2,280	2,025	2,010	2,077	-1%	-12%	-3%	9,628	8,344	8,411	-13%	-1%	
Other	652	187	526	351	182%	-19%	50%	1,787	1,126	952	-37%	18%	
Revenues	2,932	2,212	2,535	2,428	15%	-14%	4%	11,415	9,471	9,363	-17%	1%	
Expenses	-776	-664	-594	-692	-10%	-23%	-14%	-3,076	-2,728	-2,826	-11%	-3%	
Gross operating profit	2,156	1,548	1,942	1,736	25%	-10%	12%	8,340	6,743	6,537	-19%	3%	
Provisions / credit costs	-1,151	-530	-1,902	-744	258%	65%	156%	-2,686	-4,552	-3,394	69%	34%	
Net operating profit	1,005	1,018	40	992	-96%	-96%	-96%	5,654	2,191	3,143	-61%	-30%	
Tax, minorities, and other	-52	-13	128	-38	-1082%	-347%	-441%	-139	1,103	979	-891%	13%	
Net profit to equity holders	953	1,005	168	954	-83%	-82%	-82%	5,515	3,294	4,122	-40%	-20%	
Consensus estimate			729						3,855				
vs. consensus			-77%						-15%				
<b>Capital and leverage</b>													
CET 1 ratio	9.9%	12.9%	12.0%	13.0%	-0.9 ppt	2.1 ppt	-1.0 ppt	9.9%	12.0%	13.0%	2.1 ppt	-1.0 ppt	
LDR	95%	95%	100%	95%	4.2 ppt	4.2 ppt	4.5 ppt	95%	100%	95%	4.2 ppt	4.5 ppt	
<b>Returns and efficiency</b>													
ROE	14.6%	14.0%	2.3%	13.1%	-11.7 ppt	-12.3 ppt	-10.7 ppt	21.8%	12.0%	14.8%	-9.8 ppt	-2.8 ppt	
NII to assets	2.71%	2.13%	2.29%	2.16%	0.2 ppt	-0.4 ppt	0.1 ppt	2.75%	2.37%	2.30%	-0.4 ppt	0.1 ppt	
C/I	26.5%	30.0%	23.4%	28.5%	-6.6 ppt	-3.0 ppt	-5.1 ppt	26.9%	28.8%	30.2%	1.9 ppt	-1.4 ppt	
Credit costs	2.41%	1.03%	3.71%	1.45%	2.7 ppt	1.3 ppt	2.3 ppt	1.43%	2.30%	1.71%	0.9 ppt	0.6 ppt	
NPL ratio	3.8%	4.8%	5.7%	5.7%	0.9 ppt	1.9 ppt	0.0 ppt	3.8%	5.7%	5.7%	1.9 ppt	0.0 ppt	
NPL coverage	120%	81%	76%	84%	-5.0 ppt	-44.5 ppt	-7.9 ppt	120%	76%	84%	-44.5 ppt	-7.9 ppt	
<b>Key balances</b>													
Total assets (bn)	275.2	299.3	289.6	301.0	-3%	5%	-4%	275.2	289.6	301.0	5%	-4%	
Total equity (bn)	26.2	29.0	28.6	29.4	-2%	9%	-3%	26.2	28.6	29.4	9%	-3%	
Gross customer loans (bn)	190.4	204.8	205.1	205.8	0%	8%	0%	190.4	205.1	205.8	8%	0%	
Deposits (bn)	199.7	214.6	205.9	216.4	-4%	3%	-5%	199.7	205.9	216.4	3%	-5%	

Source: Company data, Goldman Sachs Global Investment Research, Thomson Reuters Eikon

We are Neutral rated on DIB. Our 12-month ROTE/COE-based price target is AED 4.5. Key upside/downside risks are: (1) shorter/longer-than-expected slowdown due to COVID-19 pandemic, (2) better/weaker-than-expected asset quality, (3) better/weaker-than-expected capital generation and capital buffers, and (4) higher/lower-than-expected synergies from the Noor Bank merger.

Source: Company data, Goldman Sachs Research estimates, FactSet. Price as of 15 Feb 2021 close.

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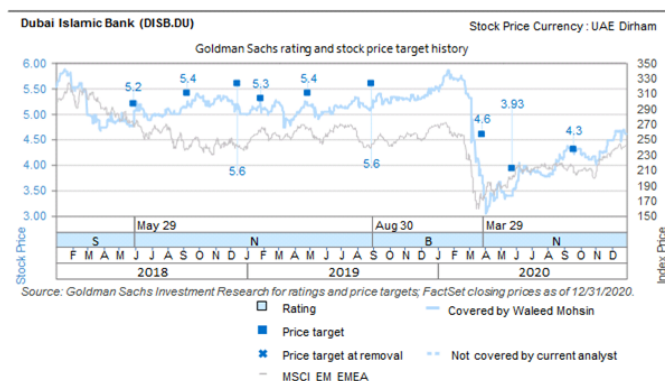
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