Dubai Islamic Bank – Key Conference Call Takeaways

Date: April 18, 2018

- ✓ **Robust Profitability (RoA and RoE improving)**
- ✓ **Sustained Strengthening of the Balance Sheet (Loan growth 3.5%YTD and Deposit growth 3.0%YTD)**
- ✓ **Capital adequacy ratios remained robust**
- ✓ **Upcoming Rights Issue for organic growth & capital adequacy for regulatory purposes**
- ✓ **DIB has been assigned DSIB (Domestic Systemically Important Bank) status; DIB requires additional 0.50bps by the end of the year to the already existing CET1 and capital buffers**

Robust Profitability

- Total income up by 13% YoY to AED 2.7 billion in Q1'18
- Net profit increased by 16% YoY to AED 1.2 billion.
- Robust RoA (2.35%) and improving RoE (FY16: 17.8%; FY17: 18.7% and Mar'18: 19.2%)
- Cost to Income ratio declined from 34% in FY16 and 30.4% in FY17 to 29.9% in Mar'18.
- Tight cost control; operating expenses flat YoY (one of the lowest in the local peer group)
- Full adoption of IFRS 9; provision expense in control (declined YoY)

Income statement AED '000	Q1 2017	Q417	Fy 2017	Q1 2018	QoQ	YoY
Operating Income	**1,804,319**	**1,970,863**	**7,565,064**	**1,971,000**	0%	9%
Operating expense	*592,112*	*594,203*	*2,335,642*	*590,000*	-1%	0%
Operating Profit	**1,212,207**	**1,376,660**	**5,229,422**	**1,381,000**	0%	14%
Provisions	*169,126*	*204,722*	*823,453*	*168,000*	-18%	-1%
Profit before taxes	**1,043,081**	**1,206,791**	**4,528,019**	**1,213,000**	1%	16%
Taxes	981	4,594	24,439	2,000	-56%	104%
Profit before minority interest	**1,042,100**	**1,202,197**	**4,503,580**	**1,211,000**	1%	16%

Source: Company, U Capital Research

Sustained Strengthening of the Balance Sheet

- Net financing assets and sukuk investments helped earning assets grow to AED 162.7 billion from AED 157.3 billion as of end of 2017, an increase of nearly 3.5% as the bank continued to use its inherent capacity to further penetrate and increase its market share. The bank has grown financing at 20% CAGR over the last 4 years.
- Asset quality is preserved; NPL ratio at 3.4%; Cash Provision coverage 122%, overall coverage at 158%, improving from previous quarters.
- Solid deposit growth of 3% YTD, thus reaching AED 151.7 billion. 44% are consumer and 56% are corporate; 34% CASA
- Net financing to Deposit Ratio at 90% (dropped slightly from 91% in Dec'18). Bank is looking to deploy more funds into financing in order to preserver or enhance Net Profit Margin (i.e. Net Interest Margin)
- Real estate financing at 19% is still below target of 20%

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Capital adequacy ratios remained robust

- Robust capitalization with overall CAR at 15.0% as of March 31, 2018 and CET1 ratio at 9.5%. DIB has been designated a Domestic Systemically Important Bank (D-SIB) – additional capital buffer of 0.5% by January 1st 2019.
- The announced capital raising plan will be a key factor to ensure compliance under the new Basel III regime while simultaneously allowing the bank to continue its strong growth agenda focused on enhancing profitability and in turn shareholder returns.

2018 – Target Metrics							
Growth	10% - 15% 3.5%	NPF	3.0% 3.4%	Real Estate Concentration	~ 20% 19%	Return on Assets	2.20% - 2.35% 2.35%
Net Funded Margin	3% - 3.15% 3.03%	Cash Coverage	125% 122%	Cost Income Ratio	Low to mid 30's% 29.9%	Return on Equity	17% - 18% 19.2%

Source: Company Presentation; Green denoted accomplished in Q1'18

Why the Capital Increase (Recent AED 5.12bn upcoming Rights Issue)?

- Required to sustain **<u>organic growth</u>**
  - Not to support acquisitions or erosion, instead to deploy in a growing business
- Track record of quality growth leading to growing profitability
  - Shareholders returns closely linked to profitability
- Compliance with new regulatory capital requirements
  - Basel 3 focuses on CET1
  - DIB a DSIB bank *(Domestic Systemically Important Banks)*
    - amongst the 4 largest banks designated
    - higher minimum capital required
- It might seem that the bank is tapping capital one year ahead, but capital needs to be adequate and to be of the right size. The goal of the management is to have the optimum level of capitalization, in compliance with the regulatory framework.

Share Price on 17th April 2018, AED	5.65
Rights Share Price (45% discount to yesterday's closing price), AED	3.11
New capital Issued	AED 5.12bn
Incremental shares, '000	1,647,396
New total shares outstanding, '000	6,589,585
TTM earnings, AED mn	4.67
New TTM EPS, AED	0.71
P/E, x	**8.0**
New BV, AED bn	31.27
New BVPS, AED	4.74
P/B, x	**1.2**

Source: Company, U Capital Research

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Rights Issue Timeline

Event	Date
DIB Rights Issue announcement	19th April 2018
Eligibility Date of Rights **Note: last trade should happen on T-2 (9th May 2018)**	13th May 2018
First day of trading in Rights on the DFM	16th May 2018
Last day of trading in Rights on the DFM	30th May 2018
Subscription Opening Date	23rd May 2018
Subscription Closing Date	6th June 2018
Date of Allocation	by 13th Jun 2018
Refund	by 21st Jun 2018

Source: Company

Our Target Price if AED 5.12bn new capital is successfully raised

- After adjusting our model to the new capital and new shares issued, the 12M target price for the stock is AED 7.1 per share *(slightly reduced from AED 7.6 per share dated: 16th Oct 2017*), implying a P/E'18 of 9.6x and a P/B'18 of 1.36, offering an upside of 27% to the CMP. We maintain our **BUY** rating on the bank, based on its key performance metrics outlined above, in addition to expectation of the bank's growth story to continue.

Q&A

1. **Question from U Capital: Why is the Net profit margin already on the lower end of the guidance provided in spite of a rising interest rate environment?**

   Answer: Already the bank is not on the lower side of the peer group in terms of Net Profit Margin. The bank aims to improve its CASA mix in order to bring more low-cost funding. Over the last 3 years, LDR has been 90%, compromised a little on deposit mobilization. Adequate balance sheet optimization is important for the bank. Any bank should make sure that both sides of the balance sheet grow in tandem. The bank stands in a good state as both sides of the BS increase. It is still too early to revise 2018 target metrics.

2. **Question from Argaam: Growth in net financing is 3% in Q1'18. Is there any need to change guidance?**

   Answer: Annualized growth is 12%, because growth quoted is YTD basis. From Q1'17 to Q1'18, growth is 12%.

3. **Question from SICO: Why such a large Sukuk on liabilities' side?**

   Answer: Fixed income (USD 6bn) as interest earning asset. Liabilities side is for funding: one is on liabilities side and second is for capital.

Present for Discussion:

Dr. Adnan Chilwan	**Salman Liaqat**	**Kashif Moosa**
Group Chief Executive Officer	Chief of Strategy and Investor Relations	Head of Investor Relations

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