

10 August 2011

Buy

Target price
Dh3.83

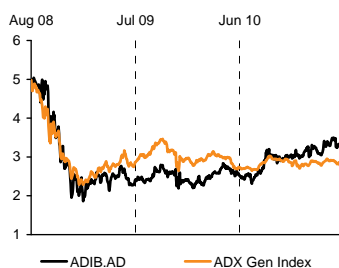
Price
Dh3.27

Short term (0-60 days)
n/a

Market view
No Weighting

Price performance

	(1M)	(3M)	(12M)
Price (Dh)	3.46	3.24	2.56
Absolute (%)	-5.5	0.9	27.7
Rel market (%)	-1.8	4.2	23.7
Rel sector (%)	-2.1	3.6	10.4



Market capitalisation
Dh7.73bn (€1.48bn)

Average (12M) daily turnover
Dh2.35m (US\$0.64m)

Sector: ADX Bank & Fin Index
RIC: ADIB.AD, ADIB.UH
Priced at close of business 8 Aug 2011.
Source: Bloomberg

Analyst

Raj Madha
United Arab Emirates
+971 55 224 8032
raj.madha@rasmala.com

Dubai International Financial Centre,
The Gate Village, Building 10, Level 1,
P.O. Box 31145, Dubai, United Arab
Emirates

www.rasmala.com

Abu Dhabi Islamic Bank

Strong revenues, weak growth

ADIB produced a credible set of 2Q11 income numbers - strong Islamic returns and fee & commission income outweighed impairments at Burooj and in the loan portfolio. Nevertheless, given an absence of growth, we would rather temper our enthusiasm and wait for further management clarification.

Key forecasts

	FY09A	FY10A	FY11F	FY12F	FY13F
Reported PTP (Dhm)	75.00	1,071	1,200	1,747	2,218
Reported net profit (Dhm)	77.80	1,023	1,200	1,747	2,218
Reported EPS (Dh)	0.01	0.40	0.45	0.68	0.88
Normalised EPS (Dh)	0.01	0.40	0.45	0.68	0.88
Dividend per share (Dh)	0.00	0.22	0.09	0.27	0.41
Normalised PE (x)	562.4	8.19	7.24	4.80	3.72
Price/book value (x)	1.50	1.38	1.20	1.05	0.91
Dividend yield (%)	0.00	6.62	2.75	8.35	12.50
Return on avg equity (%)	1.50	19.10	20.00	25.30	27.90

Accounting standard: IFRS
Source: Company data, Rasmala forecasts

year to Dec, fully diluted

Is Headline earnings rose 4% qoq, shrugging off impact of retail regulations

2Q11 headline net income of Dh317m rose 5% yoy and 4% qoq, beating our conservative expectations by 14%. The primary area of outperformance was core revenue. Islamic returns benefited from falling liability yields and effective deposit management, with ADIB building the contribution of retail funding and cutting that of time deposits (53.8% of deposit base, down from 61.8% at 4Q10). Fees and commissions also held up well, in spite of ADIB's exposure to the retail banking regulations, with less impact than expected and trade and DCM fees being notably strong.

A question mark on asset quality

These strong core revenue numbers were partially offset by asset quality issues. The first was a well-flagged impairment of Burooj Properties' property portfolio, although the number at Dh87m for 2Q11 was bigger than the Dh60m we pencilled in. In addition, there were hints of further impairments of the Dh2.5bn portfolio beyond the Dh169m booked to date. Loan provisioning was also down just 1% qoq, suggesting little improvement, with most of this Dh149m charge being allocation to specific Ijara provisions. Impaired loans were also higher, rising to an adjusted 12.5% on worsening Murabaha quality.

Missing loan growth is the major negative surprise

Apart from 3Q10, there has been minimal loan growth at ADIB, rising just 2% over the past nine months. What growth there has been was in personal banking, offset by shrinkage in private banking. Furthermore, in spite of the technical reasons for the decline in loan commitments, this still doesn't bode well.

Delivering half the promise

Our positive rating on ADIB is based on two things, a strong long-term ROE and above-market growth. On the basis of these results, ADIB is delivering a good 18.9% adjusted ROE for 1H11 even with the elevated provisioning. However, the 23% ROE we forecast for 2012 is predicated on stabilising asset quality and delivering above-market growth – both challenges for the second half of the year.

Important disclosures can be found in the Disclosures Appendix.

Distributed outside MENA by The Royal Bank of Scotland N.V. and its affiliates under a strategic alliance with Rasmala Investment Bank Ltd.

Strong revenues, weak growth

Table 1 compares 2Q results to historicals and our forecasts.

Table 1 : 2Q11 results vs historicals and Rasmala forecasts							
Dh m	2Q10A	1Q11A	2Q11A	2Q11F	yoy	qoq	Vs Rasmala est
Balance sheet							
Loans & Islamic financing	45,201	48,134	48,128	49,320	6%	0%	-2%
Interbank assets	12,670	11,203	10,123	11,590	-20%	-10%	-13%
Financial instruments	1,342	1,373	1,271	1,504	-5%	-7%	-15%
Cash & CB deposits	4,291	5,995	7,950	4,439	85%	33%	79%
Other assets	4,829	4,743	4,854	5,275	1%	2%	-8%
Total assets	68,332	71,449	72,327	72,129	6%	1%	0%
Customer deposits & Islamic funding	51,883	51,912	53,192	52,773	3%	2%	1%
Dues to banks	1,067	1,129	1,116	1,319	5%	-1%	-15%
Capital market liabilities	5,145	7,814	7,877	7,982	53%	1%	-1%
Other operating items	2,536	2,715	1,982	1,959	-22%	-27%	1%
Total liabilities	60,630	63,571	64,167	64,033	6%	1%	0%
Net liquid assets	15,894	16,069	16,957	14,710			
Shareholders' equity	7,701	7,878	8,159	8,096	6%	4%	1%
NPL ratio – adjusted	9.25%	11.98%	12.51%	11.00%			
Income statement							
Net interest & Islamic returns	648	665	723	670	12%	9%	8%
Fees & commissions	79	111	105	90	33%	-5%	17%
FX & derivative	10	0	13	0	32%	6211%	6113%
Core non-interest	89	111	118	90	33%	6%	32%
Trading & investments	11	24	56	17	403%	135%	n.a.
Property	(4)	(5)	(81)	(64)	1867%	1487%	n.a.
Other operating income	0	2	1	2	169%	-52%	-52%
Non-core non-interest	7	21	(24)	(44)	-432%	-217%	-45%
Total non-interest income	96	132	94	45	-2%	-29%	107%
Total banking income	744	797	817	715	10%	2%	14%
Total operating expenses	(311)	(345)	(361)	(346)	16%	5%	4%
Provisioning	(135)	(151)	(149)	(97)	11%	-1%	53%
Other adjustments	0	2	6	6			
Profit before tax	299	303	312	278	5%	3%	13%
Tax, minorities & appropriations	(60)	(0)	(60)	(60)	0%	93709%	0%
Attributable income	239	303	252	218	6%	-17%	16%
Headline net income	302	303	317	278	5%	4%	14%
Comprehensive income	217	286	249	218	15%	-13%	15%

Source: Company data, Rasmala forecasts

Income statement

Dhm	FY09A	FY10A	FY11F	FY12F	FY13F
Net interest income	2109	2596	2720	2917	3245
Non-interest income	357.3	371.5	351.0	568.4	763.9
Total income	2466	2967	3071	3486	4009
Operating costs	-996.4	-1304	-1393	-1394	-1563
Goodwill (amort/impaired)	n/a	n/a	n/a	n/a	n/a
Other costs	0.00	-0.00	0.00	0.00	-0.00
<u>Pre-prov operating profit</u>	1469	1663	1678	2091	2445
Provisions charges	-1391	-606.6	-499.5	-378.6	-301.6
<u>Post-prov op prof</u>	78.2	1056	1179	1713	2144
Associates (pre-tax)	-3.22	14.8	21.0	33.8	74.3
Other pre-tax items	-0.00	0.00	0.00	-0.00	0.00
Reported PTP	75.0	1071	1200	1747	2218
Taxation	-1.03	-6.82	-11.6	-16.9	-21.4
Minority interests	-0.25	-0.22	-0.06	-0.06	-0.06
Preference dividends	-60.0	-120.0	-120.0	-120.0	-120.0
Other post-tax items	64.0	79.2	131.6	136.9	141.4
Reported net profit	77.8	1023	1200	1747	2218
Tot normalised items	0.00	0.00	0.00	0.00	0.00
Normalised PTP	75.0	1071	1200	1747	2218
Normalised net profit	77.8	1023	1200	1747	2218

Source: Company data, Rasmala forecasts

year to Dec

Balance sheet

Dhm	FY09A	FY10A	FY11F	FY12F	FY13F
Net loans to customers	40474	47953	51346	57257	64986
Other int earn assets	14658	15730	11810	14028	15922
Goodwill	0.00	0.00	0.00	0.00	0.00
Oth non-int earn assets	3194	3685	4969	5592	6315
Total assets	64084	75258	75186	84069	94565
Total customer deposits	48220	56517	54941	61265	68885
Oth int-bearing liabs	6424	8538	9562	10489	11651
Non int-bearing liab	2297	2610	2253	2920	3525
Total liabilities	56940	67665	66756	74674	84062
Share capital	5141	5589	6427	7391	8500
Reserves	0.00	0.00	0.00	-0.00	0.00
Total equity (excl min)	7141	7589	8427	9391	10500
Minority interests	2.86	3.08	3.08	3.08	3.08
Total liab & sh equity	64084	75258	75186	84069	94565
Risk weighted assets	53011	61894	66275	73904	83880
Est non-perf loans	n/a	n/a	n/a	n/a	n/a
Specific provisions	-1751	-2277	-2733	-3057	-3298
General provisions	n/a	n/a	n/a	n/a	n/a

Source: Company data, Rasmala forecasts

year ended Dec

Capital

Dhm	FY09A	FY10A	FY11F	FY12F	FY13F
Risk weighted assets	53011	61894	66275	73904	83880
Reported net profit	77.8	1023	1200	1747	2218
Opening risk assets	41472	53011	61894	66275	73904
Closing risk assets	53011	61894	66275	73904	83880
Change in risk assets	11538	8884	4380	7630	9976
Capital required	1154	888.4	438.0	763.0	997.6
Free capital flow	-1016	255.0	881.8	1104	1341
Ordinary dividend paid	0.00	-511.8	-212.8	-645.5	-967.9
Share buy back/spec div	0.00	0.00	0.00	0.00	0.00
Equity / preference issue	0.00	0.00	0.00	0.00	0.00
Cash flow from financing	0.00	-511.8	-212.8	-645.5	-967.9
Net capital flow	-1016	-256.8	669.0	458.0	372.6
Tier 1 capital	7169	8069	8978	10025	11228
Tier 1 capital ratio (%)	13.5	13.0	13.5	13.6	13.4

Source: Company data, Rasmala forecasts

year to Dec

Recommendation structure

Absolute performance, long term (fundamental) recommendation: The recommendation is based on implied upside/downside for the stock from the target price and only reflects capital appreciation. A Buy/Sell implies upside/downside of 10% or more and a Hold less than 10%.

Performance parameters and horizon: Given the volatility of share prices and our pre-disposition not to change recommendations frequently, these performance parameters should be interpreted flexibly. Performance in this context only reflects capital appreciation and the horizon is 12 months.

Market or sector view: This view is the responsibility of the strategy team and a relative call on the performance of the market/sector relative to the region. Overweight/Underweight implies upside/downside of 10% or more and Neutral implies less than 10% upside/downside.

Target price: The target price is the level the stock should currently trade at if the market were to accept the analyst's view of the stock and if the necessary catalysts were in place to effect this change in perception within the performance horizon. In this way, therefore, the target price abstracts from the need to take a view on the market or sector. If it is felt that the catalysts are not fully in place to effect a re-rating of the stock to its warranted value, the target price will differ from 'fair' value.

Valuation and risks to target price

Abu Dhabi Islamic Bank (RIC: ADIB.AD, Rec: Buy, CP: Dh3.27, TP: Dh3.83): We base our valuation on a 3-stage DDM: a 3-yr stage of explicit forecasts, a ten year stage of trend forecasts and a terminal stage based on a GGM. Downside risks to our GGM-based valuation and target price include a severe decline in Abu Dhabi real estate prices and management not being able to achieve its core business targets of 25% ROE, a cost-to-income ratio of 33% and annual growth of 20%.

Disclaimer

This report is prepared by Rasmala Investment Bank Limited ("RIB"). RIB is regulated by the Dubai Financial Services Authority ("DFSA"). RIB products or services are only made available to customers who RIB is satisfied meet the regulatory criteria to be a "Professional Client", as defined under the Rules and Regulations of the Dubai International Financial Centre ("DIFC").

Our investment recommendations take into account both risk and expected return. We base our long-term fair value estimates on a fundamental analysis of a company's future prospects, after having taken perceived risks into consideration. We have conducted reasonable research to arrive at our investment recommendations and fair value estimates for the company or companies mentioned in this report. Although the information in this report has been obtained from sources that RIB believes to be reliable, we have not independently verified such information thus it may not be accurate or complete. RIB does not represent or warrant, either expressly or impliedly, the accuracy or completeness of the information or opinions contained within this report and no liability whatsoever is accepted by RIB or any other person for any loss howsoever arising, directly or indirectly, from any use of such information or opinions or otherwise arising in connection therewith.

Readers should understand that financial projections, fair value estimates and statements regarding future prospects may not be realized. All opinions and estimates included in this report constitute our judgment as of this date and are subject to change without notice. This research report is prepared for general circulation and is intended for general information purposes only. It is not intended as an offer or solicitation or advice with respect to the purchase or sale of any securities referred to in the report. It is not tailored to the specific investment objectives, financial situation or needs of any specific person that may receive this report. We strongly advise potential investors to seek financial guidance when determining whether an investment is appropriate to their needs.

RIB is not registered with the U.S. Securities and Exchange Commission, or any U.S. state authority, as a broker-dealer or investment advisor. This report has not been approved, disapproved or recommended by the U.S. Securities and Exchange Commission, any state securities commission in the United States, the securities commission of any non-U.S. jurisdiction or any other U.S. or non-U.S. regulatory authority. None of these authorities has passed on or endorsed the merits or the accuracy or adequacy of this report.

RIB and its group entities (together and separately, "Rasmala") does and may seek to do business with companies covered in its reports. As a result, users should be aware that the firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision. Rasmala and its respective employees, directors and officers shall not be responsible or liable for any liabilities, damages, losses, claims, causes of action, or proceedings (including without limitation indirect, consequential, special, incidental, or punitive damages) arising out of or in connection with the use of this report or any errors or omissions in its content.

The research analyst or analysts responsible for the content of this research report certify that: (1) the views expressed and attributed to the research analyst or analysts in the research report accurately reflect their personal opinion(s) about the subject securities and issuers and/or other subject matter as appropriate; and, (2) no part of his or her compensation was, is or will be directly or indirectly related to the specific recommendations or views contained in this research report. On a general basis, the efficacy of recommendations is a factor in the performance appraisals of analysts.