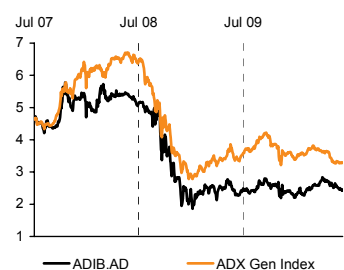


19 July 2010

**Hold**Target price  
Dh2.67Price  
Dh2.44Short term (0-60 days)  
n/aMarket view  
No Weighting**Price performance**

	(1M)	(3M)	(12M)
Price (Dh)	2.62	2.58	2.36
Absolute (%)	-6.9	-5.4	3.4
Rel market (%)	-7.4	7.0	8.0
Rel sector (%)	-9.8	6.7	4.5

Market capitalisation  
Dh4.81bn (€1.01bn)Average (12M) daily turnover  
Dh2.47m (US\$0.71m)Sector: ADX Bank & Fin Index  
RIC: ADIB.AD, ADIB UH  
Priced at close of business 15 Jul 2010.  
Source: Bloomberg**Analyst**Raj Madha  
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# Abu Dhabi Islamic Bank

## Core business shows improvement

**ADIB reported 2Q10 net profit of Dh302m, up 56% compared to last year and 3% sequentially, handily beating our estimate by 80%. The outperformance was attributable mainly to an improvement in provisions, which declined 21% yoy.**

**Key forecasts**

	FY08A	FY09A	FY10F	FY11F	FY12F
Reported PTP (Dhm)	851.1	75	741.5	1,273	1,992
Reported net profit (Dhm)	851.3	77.8	741.4	1,273	1,992
Reported EPS (Dh)	0.36	0.01	0.26	0.49	0.79
Normalised EPS (Dh)	0.36	0.01	0.26	0.49	0.79
Dividend per share (Dh)	0.18	0.17	0.12	0.2	0.5
Normalised PE (x)	6.79	419.6	9.3	5.01	3.09
Price/book value (x)	1.11	1.22	1.13	1	0.89
Dividend yield (%)	7.38	6.83	5	8.4	20.3
Return on avg equity (%)	16.6	1.56	15	23.3	32.4

Accounting standard: IFRS  
Source: Company data, Rasmala forecasts

year to Dec, fully diluted

**2Q10 net profit 80% ahead of our estimate**

ADIB reported headline net profit of Dh302m, up 56% yoy and 3% qoq, beating our estimate by 80%. This outperformance was even more pronounced on an attributable basis, after interest on tier 1 sukuk. The main reason for this strong performance was an improved provisioning number, which declined 21% yoy despite rising 28% qoq, and strong Islamic returns, which grew 26% yoy and 13% qoq.

**Provisions looking better**

The benign provisioning number was partially driven by a topping out of impaired loans, which rose only 3.0% qoq after rising 3.7% qoq in 1Q10. Loans past due were also largely stable, rising only 2.6% qoq, although this represented a strong improvement in ljara financing and deterioration elsewhere. The coverage ratio remained low in 2Q10 (we estimate 44%), although this is a reflection of the very low level of write-offs, amounting to an annualised rate of just 1bp of total financing. In particular, ADIB pointed to the two remedial management units as making a positive contribution.

**Net Islamic returns rebound**

Net Islamic returns beat our expectations by a healthy 11% in 2Q10. This was primarily driven by an increase in asset yields, from 5.82% in 1Q10 to 6.25%, resulting in a 45bp jump in net interest spreads. Although this may have been due partially to asset repricing, we believe the more important point is the reduction in the excess of liquid assets, as asset growth of 8% qoq was unmatched by deposit growth of just 4% qoq. The primary area of growth continued to be personal lending, although construction & real estate and other both bumped up as well.

**Important disclosures can be found in the Disclosures Appendix.**

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## Read-through across other banks is positive

The read-through across other banks is positive. However, we would be cautious about extrapolating too much to the rest of the sector, as ADIB maintains a specialised franchise with major exposure to the UAE national retail market and with most of its business in Abu Dhabi. In addition, ADIB has an aggressive branch opening strategy with significant new product design.

## Our forecasts now look conservative

We believe the implications for ADIB are positive, with our numbers now looking conservative. It may well prove hard to maintain this level of profitability. However, on current momentum, earnings would exceed our forecast for FY10.

**Table 1 : 2Q10 results**

(Dhm)	2Q09A	1Q10A	2Q10A	2Q10F	yoy	qoq	vs est
<b>Balance Sheet</b>							
Loans & Islamic Financing	37,447	41,960	45,201	42,925	21%	8%	5%
Financial instruments	1,126	1,181	1,342	1,057			
<b>Total Assets</b>	<b>58,104</b>	<b>66,041</b>	<b>68,332</b>	<b>68,333</b>	<b>18%</b>	<b>3%</b>	<b>0%</b>
Customer deposits & Islamic Funding	43,566	52,142	54,090	54,870	24%	4%	-1%
Capital Market Liabilities	2,938	2,938	2,938	2,938	0%	0%	0%
<b>Total Liabilities</b>	<b>50,440</b>	<b>58,950</b>	<b>61,024</b>	<b>61,135</b>	<b>21%</b>	<b>4%</b>	<b>0%</b>
Net Liquid Assets	13,128	17,326	15,894	17,693			
<b>Shareholders' Equity</b>	<b>7,664</b>	<b>7,091</b>	<b>7,307</b>	<b>7,198</b>	<b>-5%</b>	<b>3%</b>	<b>2%</b>
<b>Income Statement</b>							
Net Interest & Islamic Returns	515	572	648	585	26%	13%	11%
Core non-interest	44	68	89	71	103%	31%	25%
Non-core non-interest	40	33	7	6	-83%	-79%	15%
Total Non-Interest Income	84	102	96	77	14%	-5%	25%
<b>Total Banking Income</b>	<b>599</b>	<b>673</b>	<b>744</b>	<b>662</b>	<b>24%</b>	<b>10%</b>	<b>12%</b>
Total Operating Expenses	(235)	(282)	(311)	(286)	33%	10%	9%
Provisioning	(171)	(105)	(135)	(210)	-21%	28%	-36%
<b>Profit before tax</b>	<b>193</b>	<b>293</b>	<b>299</b>	<b>168</b>	<b>54%</b>	<b>2%</b>	<b>78%</b>
Tax, Minorities & Appropriations	(0)	(0)	(60)	(60)			0%
<b>Attributable Income</b>	<b>193</b>	<b>293</b>	<b>239</b>	<b>108</b>	<b>24%</b>	<b>-19%</b>	<b>121%</b>
<b>Headline Net Income</b>	<b>193</b>	<b>293</b>	<b>302</b>	<b>168</b>	<b>56%</b>	<b>3%</b>	<b>80%</b>
<b>Comprehensive Income</b>	<b>219</b>	<b>341</b>	<b>217</b>	<b>108</b>	<b>-1%</b>	<b>-37%</b>	<b>101%</b>

Source: ADIB reports, Rasmala estimates

## Income statement

Dhm	FY08A	FY09A	FY10F	FY11F	FY12F
Net interest income	1728	2109	2365	2750	3089
Non-interest income	357.3	357.3	363.8	423.6	531.7
<b>Total income</b>	<b>2086</b>	<b>2466</b>	<b>2729</b>	<b>3173</b>	<b>3621</b>
Operating costs	-887.8	-996.4	-1149	-1238	-1340
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>	1198	1469	1580	1936	2281
Provisions charges	-346.9	-1391	-848.5	-679.3	-325.4
<u>Post-prov op prof</u>	851.1	78.2	731.1	1256	1956
Associates (pre-tax)	0.00	-3.22	10.4	16.2	35.7
Other pre-tax items	0.00	0.00	0.00	0.00	0.00
<b>Reported PTP</b>	<b>851.1</b>	<b>75.0</b>	<b>741.5</b>	<b>1273</b>	<b>1992</b>
Taxation	-1.03	-1.03	-1.00	-1.72	-2.69
Minority interests	0.21	-0.25	-0.07	-0.07	-0.07
Preference dividends	0.00	-60.0	-120.0	-120.0	-120.0
Other post-tax items	1.03	64.0	121.0	121.7	122.7
<b>Reported net profit</b>	<b>851.3</b>	<b>77.8</b>	<b>741.4</b>	<b>1273</b>	<b>1992</b>
Tot normalised items	0.00	0.00	0.00	0.00	0.00
Normalised PTP	851.1	75.0	741.5	1273	1992
Normalised net profit	851.3	77.8	741.4	1273	1992

Source: Company data, Rasmala forecasts

year to Dec

## Balance sheet

Dhm	FY08A	FY09A	FY10F	FY11F	FY12F
Net loans to customers	34179	40474	46533	53456	61879
Other int earn assets	8897	14658	15703	18039	20881
Goodwill	0.00	0.00	0.00	0.00	0.00
Oth non-int earn assets	3442	3194	4885	5639	6743
<b>Total assets</b>	<b>51210</b>	<b>64084</b>	<b>74444</b>	<b>85416</b>	<b>98833</b>
Total customer deposits	37486	50427	59728	69150	79898
Oth int-bearing liabs	6514	4217	4909	5220	6075
Non int-bearing liab	2000	2691	2678	3250	4370
<b>Total liabilities</b>	<b>46000</b>	<b>57335</b>	<b>67315</b>	<b>77621</b>	<b>90343</b>
Share capital	5207	4747	5126	5793	6488
Reserves	0.00	0.00	0.00	0.00	0.00
<b>Total equity (excl min)</b>	<b>5207</b>	<b>6747</b>	<b>7126</b>	<b>7793</b>	<b>8488</b>
Minority interests	2.60	2.86	2.93	2.93	2.93
<b>Total liab &amp; sh equity</b>	<b>51210</b>	<b>64084</b>	<b>74444</b>	<b>85416</b>	<b>98833</b>
Risk weighted assets	39619	49516	57451	65998	76397
Est non-perf loans	n/a	n/a	n/a	n/a	n/a
Specific provisions	-589.3	-1751	-2488	-2918	-2952
General provisions	n/a	n/a	n/a	n/a	n/a

Source: Company data, Rasmala forecasts

year ended Dec

## Capital

Dhm	FY08A	FY09A	FY10F	FY11F	FY12F
Risk weighted assets	39619	49516	57451	65998	76397
Reported net profit	851.3	77.8	741.4	1273	1992
Opening risk assets	29142	39619	49516	57451	65998
Closing risk assets	39619	49516	57451	65998	76397
Change in risk assets	10477	9897	7935	8547	10399
Capital required	1048	989.7	952.2	1026	1248
Free capital flow	-196.5	-851.9	-90.8	366.9	863.7
Ordinary dividend paid	-425.6	-394.1	-288.5	-484.4	-1174
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	-425.6	-394.1	-288.5	-484.4	-1174
Net capital flow	-622.1	-1246	-379.3	-117.5	-310.0
Tier 1 capital	5581	7169	7504	8219	8965
Tier 1 capital ratio (%)	14.1	14.5	13.1	12.5	11.7

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: Hold, CP: Dh2.44, TP: Dh2.67):** Downside risks to our GGM-based valuation 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%.

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