

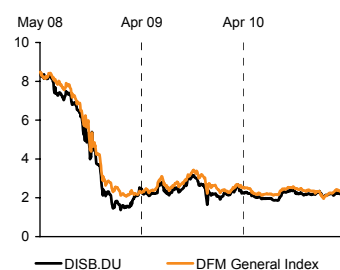
6 May 2011

Change of recommendation

Hold (from Sell)Target price
Dh2.28 (from Dh2.04)Price
Dh2.18Short term (0-60 days)
n/aMarket view
No Weighting

Price performance

	(1M)	(3M)	(12M)
Price (Dh)	2.21	2.23	2.28
Absolute (%)	-1.4	-2.2	-4.4
Rel market (%)	-5.6	-3.8	3.3
Rel sector (%)	-9.0	-8.2	-11.3

Market capitalisation
Dh8.28bn (€1.55bn)Average (12M) daily turnover
Dh8.92m (US\$2.43m)Sector: ADX Bank & Fin Index
RIC: DISB.DU, DIB UH
Priced Dh2.18 at close 5 May 2011.
Source: Bloomberg

Analyst

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Dubai Islamic Bank

Improving visibility

We downgrade our short-term earnings forecast on the basis of higher provisioning. However, we expect a slight overall improvement as improved visibility in Dubai drives down our discount rate and given the Tamweel consolidation looks to be earnings accretive in 2011. We upgrade to Hold.

Key forecasts

	FY09A	FY10A	FY11F	FY12F	FY13F
Reported PTP (Dhm)	1,130	127.9	1,050 ▼	1,644	2,101
Reported net profit (Dhm)	1,207	806.5	997.5 ▼	1,564	1,995
Reported EPS (Dh)	0.27	0.16	0.22 ▼	0.37	0.48
Normalised EPS (Dh)	0.26	-0.01	0.22 ▼	0.37	0.48
Dividend per share (Dh)	0.14	0.10	0.10 ▼	0.22	0.25
Normalised PE (x)	8.46	n/m	9.75	5.91	4.55
Price/book value (x)	0.98	0.90	0.91	0.86	0.79
Dividend yield (%)	6.50	4.59	4.69	10.30	11.50
Return on avg equity (%)	14.20	1.85	10.90 ▼	16.70 ▼	19.80

Use of ▲ ▼ indicates that the line item has changed by at least 5%.
Accounting standard: IFRS
Source: Company data, Rasmala forecasts

year to Dec, fully diluted

Our upgrade is primarily based on stabilising Dubai risk

We have not materially changed our long-term forecasts. However, we believe visibility has improved in the UAE, and particularly in Dubai, leading us to reduce our discount rate and raise our price target. In addition, disclosures from Tamweel suggest its consolidation is likely to be earnings accretive in 2011, limiting downside risk.

Short-term numbers revised downwards

There are two principle sources of negative revisions in 2011. The first is provisioning, which was highest in 1Q11 since the crisis as DIB sought to address its coverage ratio. DIB does not publish quarterly NPL numbers, but we expect them to rise modestly throughout 2011 to 13.25%. Nevertheless, for Islamic banks write-offs are more significant, in our view, and these remain immaterial at DIB. The second is IFRS9 MTM adjustments, the negative impact of which offsets the positive treatment of negative goodwill on the acquisition of Tamweel.

Progress on non-core operations

With Tamweel resolving its medium-term funding issues and seeming to have asset quality under control, one source of uncertainty has been addressed. Deyaar's balance sheet has also been cleaned up, and Jordan DIB has continued to open new branches. But international operations add little to earnings and the clean-up of Deyaar's balance sheet has had little positive impact on its share price. At Tamweel, an ROI of 9.6% in 1Q11 and prospects of rising asset yields may be a lone bright spark.

Valuation has improved but is not compelling considering the risk

We believe DIB's valuation remains on the rich side, given Deyaar-related risks, the Dh3bn land financing portfolio and the lack of visible signs of profitable growth. But we upgrade our rating to Hold on improving visibility, the successful completion of the Tamweel takeover and a modest decline in its share price in the absence of negative shocks. We note that DIB deducts zakat (Islamic tax) at source, making it a better choice for zakat-paying investors.

Important disclosures can be found in the Disclosures Appendix.

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Income statement

Dhm	FY09A	FY10A	FY11F	FY12F	FY13F
Net interest income	2339	2199	2662	2719	2917
Non-interest income	858.1	835.6	982.2	1284	1373
Total income	3197	3034	3645	4003	4289
Operating costs	-1343	-1366	-1457	-1767	-1893
Goodwill (amort/impaired)	n/a	n/a	n/a	n/a	n/a
Other costs	0.00	-17.3	0.00	0.00	0.00
<u>Pre-prov operating profit</u>	1854	1651	2187	2236	2396
Provisions charges	-741.0	-677.0	-1153	-626.8	-332.5
<u>Post-prov op prof</u>	1113	974.4	1034	1609	2063
Associates (pre-tax)	17.3	-846.5	15.5	35.0	37.4
Other pre-tax items	0.00	0.00	0.00	0.00	0.00
Reported PTP	1130	127.9	1050	1644	2101
Taxation	-146.3	-149.8	-148.4	-157.3	-171.4
Minority interests	-4.79	-6.11	-52.1	-86.0	-111.6
Preference dividends	0.00	0.00	0.00	0.00	0.00
Other post-tax items	228.2	834.5	148.4	163.1	177.6
Reported net profit	1207	806.5	997.5	1564	1995
Tot normalised items	38.7	643.5	0.00	0.00	0.00
Normalised PTP	1130	127.9	1050	1644	2101
Normalised net profit	1169	163.1	997.5	1564	1995

Source: Company data, Rasmala forecasts

year to Dec

Balance sheet

Dhm	FY09A	FY10A	FY11F	FY12F	FY13F
Net loans to customers	49925	57171	58612	61842	68871
Other int earn assets	11848	10557	12806	12768	13386
Goodwill	34.5	17.3	17.3	17.3	17.3
Oth non-int earn assets	8343	8153	10184	9638	10465
Total assets	84304	90138	97830	99784	109192
Total customer deposits	64196	63447	70334	71118	78512
Oth int-bearing liabs	7617	12338	12821	12875	13389
Non int-bearing liab	4050	4206	4630	5143	5684
Total liabilities	75862	79991	87785	89136	97585
Share capital	8437	9200	9108	9654	10523
Reserves	0.00	0.00	0.00	0.00	0.00
Total equity (excl min)	8437	9200	9108	9654	10523
Minority interests	4.91	947.0	937.5	993.8	1083
Total liab & sh equity	84304	90138	97830	99784	109192
Risk weighted assets	71556	79154	81149	85620	95352
Est non-perf loans	n/a	n/a	n/a	n/a	n/a
Specific provisions	-1948	-2957	-4070	-4656	-4942
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	71556	79154	81149	85620	95352
Reported net profit	1207	806.5	997.5	1564	1995
Opening risk assets	79872	71556	79154	81149	85620
Closing risk assets	71556	79154	81149	85620	95352
Change in risk assets	-8316	7598	1995	4472	9731
Capital required	-831.6	759.8	199.5	447.2	973.1
Free capital flow	2039	46.8	798.0	1117	1022
Ordinary dividend paid	-538.6	-379.7	-388.1	-854.3	-948.8
Share buy back/spec div	-67.6	0.00	0.00	0.00	0.00
Equity / preference issue	5.44	0.48	0.00	0.00	0.00
Cash flow from financing	-600.8	-379.2	-388.1	-854.3	-948.8
Net capital flow	1438	-332.5	409.8	262.4	73.4
Tier 1 capital	8900	10370	10266	10883	11864
Tier 1 capital ratio (%)	12.4	13.1	12.7	12.7	12.4

Source: Company data, Rasmala forecasts

year to Dec

Standard ratios

	DIB					Emirates NBD			First Gulf Bank		
	FY09A	FY10A	FY11F	FY12F	FY13F	FY11F	FY12F	FY13F	FY11F	FY12F	FY13F
Performance											
Non-int inc/gr op inc (%)	26.8	27.5	26.9	32.1	32.0	27.4	28.7	29.5	25.7	26.3	27.2
Cost/income (%)	42.0	45.6	40.0	44.1	44.1	35.4	33.1	32.5	19.0	19.3	21.3
Costs/average assets (%)	1.59	1.59	1.55	1.79	1.81	1.20	1.16	1.14	0.84	0.83	0.94
Net income growth (%)	-35.7	-39.2	45.0	65.0	29.8	78.6	32.7	19.0	6.83	30.2	17.9
Net cust loan growth (%)	-5.19	14.5	2.52	5.51	11.4	2.29	8.89	10.6	6.92	11.5	12.2
Cust deposit growth (%)	-3.36	-1.17	10.9	1.11	10.4	4.85	8.89	10.6	6.92	11.5	12.2
Net interest margin (%)	3.53	3.27	3.64	3.51	3.50	2.88	2.89	2.86	3.69	3.58	3.62
Return on avg assets (%)	1.39	0.19	1.12	1.67	2.02	0.90	1.90	2.05	2.76	3.22	3.37
Return on avg equity (%)	14.2	1.85	10.9	16.7	19.8	7.68	16.7	18.1	18.3	20.4	21.6
RORWA (%)	1.54	0.22	1.24	1.88	2.21	1.05	2.38	2.57	2.87	3.41	3.59
				year to Dec			year to Dec			year to Dec	
Valuation											
Normalised EPS growth (%)	-38.4	-17.6	36.0	65.0	29.8	-0.55	155.7	20.0	14.0	35.6	18.8
Reported PE (x)	8.13	13.6	9.75	5.91	4.55	5.73	4.25	3.54	8.09	5.97	5.02
Normalised PE (x)	8.46	n/m	9.75	5.91	4.55	10.9	4.25	3.54	8.09	5.97	5.02
Price/book value (x)	0.98	0.90	0.91	0.86	0.79	0.71	0.64	0.59	1.24	1.05	1.00
Price/adjusted BVPS (x)	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Dividend yield (%)	6.50	4.59	4.69	10.3	11.5	4.62	9.40	12.7	2.06	2.30	15.2
				year to Dec			year to Dec			year to Dec	
Per share data	FY09A	FY10A	FY11F	FY12F	FY13F	Solvency	FY09A	FY10A	FY11F	FY12F	FY13F
Tot adj dil sh, ave (m)	3799	3842	3797	3797	3797	Tier 1 capital ratio (%)	12.4	13.1	12.7	12.7	12.4
Pre-prov prof/share (AED)	0.49	0.43	0.58	0.59	0.63	Total CAR (%)	17.5	17.8	17.1	17.2	16.9
Reported EPS (AED)	0.27	0.16	0.22	0.37	0.48	Equity/assets (%)	10.0	10.2	9.31	9.68	9.64
Normalised EPS (AED)	0.26	-0.01	0.22	0.37	0.48	Net cust loans/dep (%)	77.8	90.1	83.3	87.0	87.7
Book value per sh (AED)	2.22	2.42	2.40	2.54	2.77	Rep NPL/gr cus adv (%)	0.00	0.00	0.00	0.00	0.00
Dividend per share (AED)	0.14	0.10	0.10	0.22	0.25	Tot prov/rep NPLs (%)	0.00	0.00	0.00	0.00	0.00
Dividend cover (x)	2.17	0.43	2.57	1.83	2.10	Bad debts/advances (%)	1.38	1.09	1.82	0.94	0.45
				year to Dec						year to Dec	

Priced as follows: DISB.DU - Dh2.18; ENDB.DU - Dh4.00; FGB.AD - Dh18.35
Source: Company data, Rasmala forecasts

Valuation methodology

Stage 1 (2010-2013)			2010	2011	2012	2013
Explicit Dividends	Forecast CF to shareholders		380	388	854	949
	NPV Stage 1	1,843	1,978	1,843	1,677	949
Stage 2 (2014-23)			Model Numbers			
Modelled Dividends	Excess Capital	1,924	ROE1	Growth	Capital Req'd	RWA
	Modelled Dividends	4,252	17%	10%	8,582	95,352
	NPV Stage 2	4,645				
Stage 3 (2024+)			Model Numbers			
Terminal Value	2023	11,954	ROE1	Growth	Capital Req'd	
	NPV Stage 3	2,163	11%	6%	22,259	
Total NPV			COE			
	Stage 1 (2010-2013)	1,843	US RFR			3.31%
	Stage 2 (2014-23)	4,645	Country Risk Spread			5.00%
	Stage 3 (2024+)	2,163	Sector Risk Spread			3.00%
	NPV	8,651	Stock Spread			4.00%
	Shares	3,797	Discount Rate			15.31%
	Price Target	2.28				
	Price	2.18				
	Upside/(Downside)	5%				

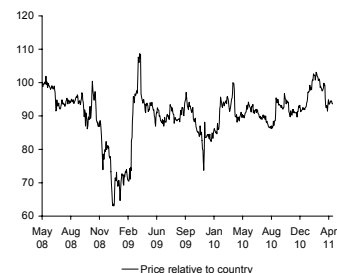
Source: Rasmala forecasts

Company description

Hold

Price relative to country

DIB is the largest and oldest Islamic bank in the UAE, and one of the top four Islamic institutions globally. Domestically it has one of the larger branch networks with 62 outlets as of December 2009, serving a total of 900,000 customers, equivalent to nearly 20% of the UAE population. Following a 1Q10 reorganisation, DIB now operates through four main divisions, retail & business, corporate & investment banking, treasury and the loss-making real estate division. The ICD holds a 30.49% stake in DIB, while founding shareholder Saeed Lootah owns a further 7.19%. The stock is open to foreign and GCC ownership, up to a maximum of 15%.



Strategic analysis

Average SWOT company score:

2

Loan split, 2010

Strengths

3

Being one of the oldest Islamic banks in the region, the bank has built itself a substantial client base of 0.9m (primarily Islamic) and serves them with a branch network of 62 outlets. Within the UAE, DIB has 5% market share in loans and 6% in deposits.

Weaknesses

1

A Dubai concentrated risky loan book (40% property-related loans), high NPL (8.7%) and low coverage (43%) are main weaknesses. Another concern is property exposure through associate Deyaar, which trades at a 65% discount to BV, implying a writedown of DIB's stake by Dh1.5bn, or 18% of DIB's equity.

Opportunities

2

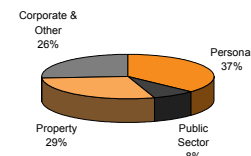
Increased contribution from international operations - primarily Pakistan, Bosnia and Sudan. International operations currently account for less than 10% of gross income, but nearly 30% of capital expenditure.

Threats

2

Significant decline in oil prices (thus limiting country growth rates) or geo-political instability remain top threats for UAE banks.

Scoring range is 1-5 (high score is good)



Source: Company report

Market data

Headquarters

Dubai Islamic Bank Building, Port Saeed Road, P.O. Box 1080, Dubai, United Arab Emirates

Website

www.dib.ae

Shares in issue

3797.1m

Freefloat

62%

Majority shareholders

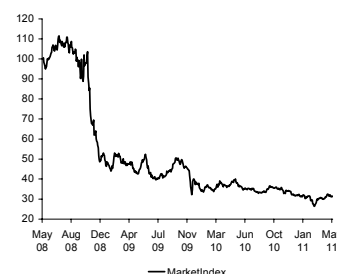
Investment Corporation of Dubai (31%), Saeed Lootah (7%)

Country view: United Arab Emirates

Country rel to M East & Africa

MENA markets are showing characteristics of a text book case of loss aversion. This is expected given the magnitude of losses investors experienced since 2008, with 2009 lagging emerging markets by a fairly wide margin. Rising oil prices and budget surpluses drove asset prices across the region higher resulting in a real-estate bubble that has negatively impacted speculators and the banking system. Bubbles do pop and recover over time if there is a legal system in place that enables the transfer of assets. The bad news is such a mechanism did not exist. The good news is that with the creation of RERA and the possibility of Strata Law, this could change and facilitate the transfer of properties from speculators to real investors.

The country view is set in consultation with the relevant company analyst but is the ultimate responsibility of the Strategy Team.



Competitive position

Average competitive score:

4+

Broker recommendations

Supplier power

3+

The lack of significant regulator control allows the banks to change contract arrangements (such as the base rate). This substantially increases the supplier power for all banks in the UAE.

Barriers to entry

4+

Strong local government ownership in most banks coupled with branch limits for foreign banks keeps barriers to entry high for this sector.

Customer power

5+

Customer power is extremely low in the UAE, as any change in bank policies has to be accepted by clients. Points of contact at institutions remain limited, thus raising customer redressal issues.

Substitute products

4+

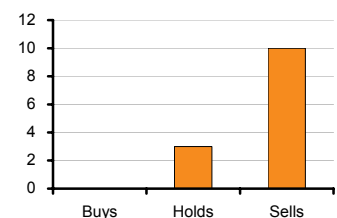
We believe the availability of substitute products (capital markets and syndicate loans) has diminished in recent times, thus improving margin capabilities for banks in the core interest business.

Rivalry

4+

Competition (and price war) among local banks is low. However, recent low growth has forced a few newer institutions to lower product prices, indicating a trend towards more competition long term.

Scoring range 1-5 (high score is good) Plus = getting better Minus = getting worse



Source: Bloomberg

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

Dubai Islamic Bank (RIC: DISB.DU, Rec: Hold, CP: Dh2.18, TP: Dh2.28): 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. Upside risks to our GGM-derived valuation and target price include substantial improvement in performance of Dubai-based companies and a stabilisation of property prices in the Emirate. Downside risks, on the other hand, would be continuous deterioration in contribution from associates (primarily Deyaar) and subsidiaries.

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