COMPANY PROFILE

Dubai Islamic Bank P.J.S.C.

REFERENCE CODE: 286C6753-2C46-4855-8A57-267C0C34D07C
PUBLICATION DATE: 25 Jan 2021
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COMPANY OVERVIEW

Dubai Islamic Bank P.J.S.C. (DIB) is Islamic banking and related financial solutions provider. Its portfolio of products include a range of personal banking, private, johara, business, corporate, and investment banking solutions to individuals, SMEs, corporate and institutional customers. Its provides deposits and accounts which comprise current, savings, term deposits and investment accounts; lending solution s which consist of home, auto and personal finance; debit and credit cards; safe deposit boxes, wealth management, e-banking, letters of credit and letters of guarantee. The bank also provides cash management, trade finance, and treasury services. It has operations in Pakistan, Indonesia, Bahrain, Kenya, Egypt, Cayman Islands, Sudan, Bosnia, and the UAE. DIB is headquartered in Dubai, the UAE.

The bank reported interest income of (United Arab Dirham) AED10,723.2 million for the fiscal year ended December 2019 (FY2019), an increase of 13.1% over FY2018. The net interest income after loan loss provision of the bank was AED4,644.8 million in FY2019, compared to an operating profit of AED5,033.3 million in FY2018. In FY2019, the bank recorded a net margin of 36.5%, compared to a net margin of 41.7% in FY2018.

The bank reported interest income of AED2,436.5 million for the third quarter ended September 2020, a decrease of 7% over the previous quarter.

KEY FACTS

Head Office	Dubai Islamic Bank P.J.S.C. Head office Building 2 Al Maktoum Road, Opposite DNATA, Deira Deira DUBAI Dubai DUBAI Dubai ARE
Phone	971 4 2953000
Fax	971 4 2954111
Web Address	www.dib.ae/
Revenue / turnover (AED Mn)	13,684.5
Revenue (USD Mn)	3,726.2
Financial Year End	December
Employees	6,894
Dubai Stock Exchange Ticker	DIB

SWOT ANALYSIS

Dubai Islamic Bank P.J.S.C. (DIB) is a provider of Islamic banking and related financial solutions. Capital adequacy; and improved cost efficiency are a few of its key strengths, even as its decline in the asset quality could be a cause for concern. Emergence of FinTech companies, and growing card payments channel and short-term economic outlook in the UAE may provide ample growth opportunities to DIB. However, prolonged low-interest-rate environment, effects of pandemic Covid-19, and risk related to online identity theft and hacking may affect its growth.

Strength Capital Adequacy Cost Efficiency	**Weakness** Asset Quality
Opportunity Growing Cards and Payments Channel: the UAE Short-term Economic Outlook: the UAE Emergence of FinTech	**Threat** COVID-19 Pandemic Affecting Financial Stability Risk Related to Online Identity Theft and Hacking Prolonged Low-Interest-Rate Environment

Strength

Capital Adequacy

DIB has a sound capital base ensuring capital adequacy to facilitate its organic and inorganic growth with the secured and unsecured nature of its lending. Sound capital management and moderate risk weighted asset growth enabled the bank to strengthen its capital base. In FY2019, the bank reported capital ratio, tier 1 ratio and common equity tier 1 (CET1) ratio of 17.5%, 16.3%, and 12.4% as compared to of 17.2%, 16%, and 11.5% respectively in FY2018. The improvement in the ratios was due a greater change in the total capital, tier 1 capital and CET1 capital which grew by 10.9%, 10.9% and 17.1% respectively as compared to the total risk weighted assets which rose by 9% only. The ratio was well above the minimum requirement of 12.75% and 7% respectively, set by Central Bank of U.A.E in FY2019.

Cost Efficiency

DIB reported improvement in its cost efficiency in FY2019, which enhanced its profitability. During the year, the bank's cost efficiency improved to 27.51% from 30.49% in the previous year. The ratio indicates operating expenses as a percentage of net revenue. Its non-interest expenses declined 3.7% to AED2,256.4 million from AED2,343.7 million AED2,297.3 million, owing to decreased depreciation of property and equipment which fell by 17.5% and 23.1% decrease in depreciation of investment properties . The bank's net revenue improved 6.7% to AED 8,202 million from AED7,687.8 million owing to AED7,687.1 million higher net interest income which grew by 12.7% YoY.

Weakness

Asset Quality

DIB reported decline in its asset quality in FY2019, which restricted interest income from outstanding loans and leases. During the year, the bank's impaired loans increased by 15.5% to AED6,100 million from AED5,280.5 million in the previous year. Impaired loans as a percentage of gross loans deteriorated to 2.47% in FY2019, as compared to 2.29% in FY2018. Its provisions increased 13% to AED6,477.4 million from AED5,732.7 million in the previous year. As a result of the same, the company's provision coverage ratio stood at 106.18% as compared to 108.56% in the previous year.

Opportunity

Growing Cards and Payments Channel: the UAE

The growing market for payment channels in the UAE could provide growth opportunities to the bank. According to in-house report, the number of payment cards in circulation in the country is projected to reach 18.2 million in 2021, including 13 million debit cards, 5.1 million credit cards, and 0.1 million charge cards. The transaction value of the channels is forecast to grow to AED765.7 trillion in 2021, including AED510 trillion for debit cards, AED247.3 trillion for credit cards, and AED8.3 trillion for charge cards. The growth is expected to be due to increasing immigrant population, growing e-commerce payments, and financial inclusions.

Short-term Economic Outlook: the UAE

The bank could benefit from positive economic outlook, in the UAE, which is likely to enable favorable market conditions and enhance performance of the banking, financial services and insurance sector in the country. According to the International Monetary Fund, the real GDP growth rate of the UAE stood at 1.7% in 2018. It is expected to be 2.8%, 3.3%, and 3% in 2019, 2020, and 2021, respectively. The growth will be primarily driven by improved growth prospects of its key trading partners, continued efforts towards structural reform by the government, and increasing construction activities ahead of hosting the Expo 2020.

Emergence of FinTech

The bank could benefit by venturing into the FinTech arena, which is essentially changing the way banking is carried out and challenging the regulatory structure. FinTech innovations such as crowd-funding, mobile payments, distributed ledgers, peer-to-peer lending, and online marketplace lending are cost-effective and they have been giving tough competition to banking institutions. In response, banks are increasingly pursuing opportunities to establish FinTech capabilities through partnerships or strategic collaborations, venture funding, developing in-house capabilities, setting up business accelerators, and/or acquisitions. FinTech could result in cost savings for banks facing margin pressures from low interest rates. They also have the potential to help expand intermediation services to the underserved.

Threat

COVID-19 Pandemic Affecting Financial Stability

The emergence of the Covid-19 virus had a devastating effect on global economies. It also affected the banking sector in large measure. Supervisory authorities have been advised to monitor the development in the market given the temporary nature of the outbreak. However, in certain regions, which were subject to economic downturn prior to the Covid-19 outbreak, the decline could be more acute. To ease the disruption in the financial markets and stimulate the economy, the Bank of England reduced its base rate by 50 basis points from 0.75% to 0.25%. The US Federal Reserve and Bank of Canada reduced their policy rates to nearly 0% and 1.25%, respectively, to counter the global economic downturn and sharp decline in stock markets, which hit the emerging markets hard and affected high yield bonds. As a result of the uncertainty following the COVID-19 outbreak, banks are expected to consider a temporary restructuring of loan terms for the most affected borrowers.

Risk Related to Online Identity Theft and Hacking

The bank's IT-enabled business operations are prone to various security threats, which could affect its financials. In its business transactions, the bank depends on information technology enabled services (ITES) such as online banking, card payments and phone transactions. This exposes the bank to online identity theft and hacking. Although the bank's online portal operations contain diverse security mechanisms, they are still vulnerable to unauthorized attacks (break-ins or denial-of-service attacks), zero-day security holes and similar disruptions caused by hackers. The extent of internet security is dependent on the quality of hardware and software used, which may not protect the bank's portal from unauthorized attacks, resulting in break-ins and other disruptive system failures.

Prolonged Low-Interest-Rate Environment

A prolonged low-interest-rate environment could pose significant challenges to financial institutions such as banks and insurance companies. It could result in significant changes to their business models. The low interest rate environment is likely to entail flattened yield curves, which lowers the banks' earnings and presents long-term challenges for insurers and pension funds. In such an environment, if bank deposit rates cannot fall significantly (likely below zero), it would squeeze the earnings even further. Regional and deposit-funded banks are likely to be the most affected. In order to enhance yield, larger banks would increase their risk exposure in other countries that offer higher returns and rely more on wholesale funding, whereas their smaller counterparts would take more interest rate risk by increasing the duration of bond portfolios.

The insurance sector's investment income suffers due to its high exposure to long-term fixed income assets as it has to gradually re-invest net cash flow from paid premiums and maturing investments at lower rates. Lower yields tend to create a mismatch between assets and liabilities as a market-consistent valuation of assets and liabilities likely results in greater increase in liabilities than in assets as the magnitude of the assets invested in fixed-term instruments is a fraction of the total liabilities. Hence, the impact on the sector's profitability through investment income is more gradual, while the impact of low-yield environment on the solvency of the insurers is more direct and immediate through asset-liability mismatch.