

Commercial Bank of Dubai (CBD)

Healthy growth in funded and non-funded income drove profitability

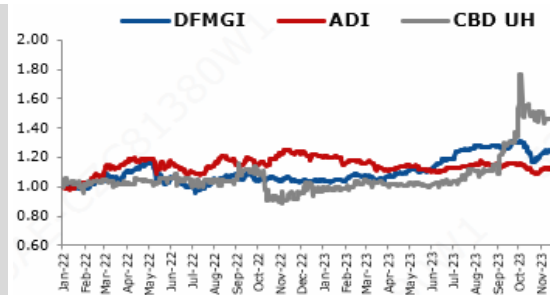
Current Price (AED):
6.59

Target Price (AED):
6.96

Upside/Downside (%)
+6%

Rating:
HOLD

- CBD's cost-to-income ratio stood at 23.0% in 1Q24, placing it in a market-leading position.
- CBD's asset quality improved with an NPL ratio of 7.1% in 1Q24 compared to 7.6% in 4Q23. The Bank maintained healthy coverage of 91.1% in 1Q24 compared to 83.3% in 4Q23.
- CBD's CASA deposits as a percentage of total deposits increased from 49.6% in 4Q23 to 52.5% in 1Q24.
- CBD's shareholders approved the distribution of a dividend of 44.38 fils per share for 2023, leading to an attractive dividend yield of 6.7%.



Stock Information

Market Cap (AED, mn)	19,672.41
Paid Up Capital (mn)	2,985.19
52 Week High	8.99
52 Week Low	4.30
3M Avg. daily value(AED)	12,920,750

1Q24 Result Review (AED, mn)

Total Assets	130,976
Total Liabilities	115,839
Total Equity	15,138
Total Deposits	90,342
Net Profit	701

Financial Ratios

Dividend Yield (12m)	6.73
Dividend Pay-out (%)	52.62
Price-Earnings Ratio (x)	7.45
Price-to-Book Ratio (x)	1.52
Book Value (AED)	4.33
Return-on Equity (%)	21.59

Stock Performance

5 Days	-2.37%
1 Months	-0.15%
3 Months	17.05%
6 Months	38.74%
1 Year	49.77%
Month to Date (MTD%)	0.61%
Quarter to Date (QTD%)	-5.18%
Year to Date (YTD%)	28.96%

1Q24 Net Profit in line with our estimate

Commercial Bank of Dubai ("CBD, "the Bank") recorded a healthy growth in net profit of 21.9% YOY to AED 701 Mn in 1Q24, in line with our estimate of AED 693 Mn. The increase in net profit is driven by a healthy growth in net funded and non-funded income coupled with a decline in impairments partially offset by an increase in operating expenses and newly introduced corporate tax.

P&L Highlights

CBD's funded income increased 24.0% YOY to AED 1,840 Mn in 1Q24 mainly due to expansion in asset yield and a rise in interest-earning assets. On the other hand, funded expenses increased substantially 48.0% YOY to AED 880 Mn in 1Q24 due to higher benchmark rates. Thus, net funded income rose 7.9% YOY to AED 959 Mn in 1Q24. CBD's non-funded income rose 18.4% YOY to AED 413 Mn in 1Q24 due to improvement in business activities. Fees and commission income grew 28.9% YOY to AED 277 Mn in 1Q24. Trading income grew 12.7% YOY to AED 84 Mn in 1Q24, while other non-funded income declined 12.5% YOY to AED 52 Mn in 1Q24. Moreover, CBD's total operating income rose 10.9% YOY to AED 1,372 Mn in 1Q24. Further, G&A expenses rose 8.7% YOY to AED 303 Mn in 1Q24 due to digital and growth initiatives, regulatory compliance, and inclinatory impact. Additionally, impairments on loans, advances and Islamic financing marginally grew 1.1% YOY to AED 330 Mn in 1Q24. The recoveries on loans and advances and Islamic financing increased 34.5% YOY to AED 43 Mn in 1Q24 while impairment allowance on AFS investments stood at AED 0.4 Mn in 1Q24 compared to AED 79 Mn in 1Q23.

Balance Sheet Highlights

CBD's net advances rose 16.2% YOY and 4.2% QOQ to AED 86.8 Bn in 1Q24. The Bank witnessed an increase in credit towards all sectors except real estate, hospitality, construction, and individual business loans. Moreover, the Bank's total assets rose 12.7% YOY and 1.5% QOQ to AED 131.0 Bn in 1Q24. Customer deposits recorded a healthy growth

of 11.4% YOY and 2.3% QIQ to AED 90.3 Bn in 1Q24. Loan to deposit ratio increased to 96.1% in 1Q24 compared to 94.4% in 4Q23. The Bank's CASA deposits increased from 49.6% in 4Q23 to 52.5% in 1Q24. CBD's total equity increased 9.0% YOY but declined 4.1% QOQ to AED 15.1 Bn in 1Q24.

Target Price and Rating

We maintain our HOLD rating on CBD with a target price of AED 6.96. The Bank witnessed healthy growth in loans and advances to all segments except for real estate, hospitality, construction, and individual loans for business. CBD's 97.0% of investment portfolio comprises of investments in fixed-rate securities. The Bank witnessed a healthy advances growth of 16.2% YOY in 1Q24 and further expects its loan book to grow by a mid-high single digit in 2024. CBD's NIM decreased 13 bps YOY but increased 8 bps QOQ to 3.2% in 1Q24. The Bank's deposits recorded a healthy growth of 11.4% YOY to AED 90.3 Bn in 1Q24. Thus, CBD's regulatory loan-to-deposit ratio stood at 96.1% in 1Q24 as compared to 94.4% in 4Q23. CBD is continuously investing in technology and digitization to improve its operating efficiency to boost the Bank's margins. The Bank's CASA deposits as a percentage of total deposits increased from 49.6% in 4Q23 to 52.5% in 1Q24. CBD's asset quality improved in 1Q24 with calculated NPL ratio of 7.1% compared to 7.6% in 4Q23. The Bank maintained healthy coverage of 91.1% in 1Q24 compared to 83.3% in 4Q23 while the coverage ratio including stage 3 collaterals increased from 121.0% in 4Q23 to 125.6% in 1Q24. Provisioning a buffer will reduce the impact on the bottom line in the case of worsening asset quality. In addition, the Bank maintained a healthy capitalization with a CAR of 15.7% and Tier 1 ratio of 12.4% well above the regulatory limits in 1Q24. The shareholders of the Bank approved the distribution of a cash dividend of 44.38 fils per share for 2023, which is equivalent to 50% of the net profit for 2023, leading to an attractive dividend yield of 6.7%. Thus, based on our analysis, we maintain our HOLD rating on the stock.

CBD - Relative valuation

(at CMP)	2019	2020	2021	2022	2023	2024F
P/E	14.05	17.69	14.94	11.62	7.81	7.57
P/B	2.04	1.93	1.73	1.68	1.45	1.31
Dividend yield	2.9%	2.8%	3.7%	3.7%	6.7%	7.3%

FABS Estimates & Co Data

CBD - P&L

AED mn	1Q23	4Q23	1Q24	1Q24F	Var.	YOY Ch	QOQ Ch	2023	2024F	Change
Funded income	1,484	1,802	1,840	1,866	-1.4%	24.0%	2.1%	6,664	6,856	2.9%
Funded expense	-595	-885	-880	-915	-3.7%	48.0%	-0.6%	-3,094	-3,201	3.5%
Net funded income	889	916	959	951	0.8%	7.9%	4.7%	3,570	3,655	2.4%
Fees and commissions	215	214	277	224	23.5%	28.9%	29.7%	935	1,047	12.0%
Trading income	75	81	84	80	4.9%	12.7%	3.6%	323	323	-0.1%
Other non-funded income	59	0	52	10	401.7%	-12.5%	NM	94	84	-10.0%
Total non-funded income	349	295	413	315	31.1%	18.4%	40.0%	1,351	1,454	7.6%
Total operating income	1,237	1,211	1,372	1,266	8.4%	10.9%	13.3%	4,921	5,109	3.8%
G&A Expenses	-279	-333	-303	-356	-15.0%	8.7%	-9.0%	-1,178	-1,261	7.0%
Depreciation & amortization	-11	-14	-12	-10	17.4%	14.0%	-10.9%	-49	-42	-15.0%
Operating Expenses	-289	-347	-315	-367	-14.0%	8.9%	-9.1%	-1,228	-1,303	6.1%
Pre provision profit	948	865	1,057	900	17.5%	11.5%	22.3%	3,693	3,806	3.0%
Impairments	-326	-266	-330	-180	83.6%	1.1%	23.8%	-1,094	-842	-23.0%
Profit before tax	575	714	770	761	1.2%	33.9%	7.8%	2,650	2,999	13.2%
Corporate tax	0	0	-69	-68	0.9%	NM	NM	0	-270	NM
Net Profit	575	714	701	693	1.2%	21.9%	-1.9%	2,650	2,729	3.0%

FABS estimate & Co Data

CBD - KPI

	1Q23	4Q23	1Q24	YOY Ch	QOQ Ch	2023	2024F	Change
Net FI/OI	71.8%	75.6%	69.9%	-191	-573	72.5%	71.5%	-100
NIM	3.4%	3.2%	3.2%	-13	8	3.24%	3.05%	-19
NIS	3.1%	2.7%	2.8%	-27	10	2.8%	2.7%	-18
Fees & comms/OI	17.4%	17.6%	20.2%	282	255	19.0%	20.5%	150
Trading/OI	6.0%	6.7%	6.1%	10	-57	6.6%	6.3%	-25
Cost to income	23.4%	28.4%	23.0%	-42	-540	24.9%	25.4%	56
Impairment/PPP	39.3%	18.6%	27.2%	-1217	855	28.7%	21.6%	-707
NP/OI	46.5%	59.0%	51.1%	460	-791	53.9%	53.4%	-43
Cost of Risk	1.4%	0.7%	1.2%	-20	50	1.02%	0.90%	-12
Loan-to-deposit	88.8%	94.4%	96.1%	729	167	94.4%	93.9%	-53
NPL calculated	7.7%	7.6%	7.1%	-66	-49	7.6%	7.6%	3
Coverage excluding collateral	80.7%	83.3%	91.1%	1044	787	83.3%	84.5%	124
CET1	12.7%	12.5%	12.4%	-33	-13	12.5%	13.3%	73
Capital adequacy	16.3%	15.9%	15.7%	-66	-28	16.0%	16.6%	60
ROAE	16.9%	20.1%	20.9%	399	81	21.0%	19.1%	-187
ROAA	1.7%	2.1%	2.1%	46	6	2.5%	2.4%	-14

FABS estimate & Co Data

CBD - Key B/S items

	1Q23	2Q23	3Q23	4Q23	1Q24	YOY Ch
AED mn						
Net advances	76,522	80,766	82,889	83,313	86,791	16.2%
QOQ ch	2.4%	5.5%	2.6%	0.5%	4.2%	
Total assets	119,315	123,129	126,024	128,987	130,976	12.7%
QOQ ch	2.7%	3.2%	2.4%	2.4%	1.5%	
Customer deposits	86,193	85,720	86,442	88,287	90,342	11.4%
QOQ ch	6.3%	-0.5%	0.8%	2.1%	2.3%	
Total equity	13,761	14,319	14,951	15,781	15,138	9.0%
QOQ ch	-0.9%	4.1%	4.4%	5.6%	-4.1%	

FABS estimate & Co Data

Valuation:

We use Residual Income and Relative Valuation (RV) method to value CBD. We have assigned 70% weight to Residual Income, and 30% to RV method.

Valuation Method	Target	Weight	Weighted Value
Residual Income	7.38	70.0%	5.16
Relative Valuation (RV)	6.00	30.0%	1.80
Weighted Average Valuation (AED)			6.96
Current market price (AED)			5.59
Upside/Downside (%)			+6%

1) Residual Income Method:

We have discounted the economic profit/excess equity using the cost of equity of 8.4%. Cost of equity is calculated by using 10-year government bond yield of 5.9%, beta of 0.8 and equity risk premium of 3.3%. Government bond yield is calculated after adding Dubai 10-year CDS spread over 10-year US risk-free rate. Also, assumed a terminal growth rate of 2.0%.

Sum of PV (AED, Mn)	3,481
Terminal value (AED, Mn)	5,606
FV to Common shareholders (AED, Mn)	12,934
No. of share (Mn)	2,985
Current Market Price (AED)	5.59
Fair Value per share (AED)	7.38

(All Figures in AED Mn)	FY 2024E	FY 2025E	FY 2026E	FY 2027E	FY 2028E
Net Profit	2,597	2,377	2,158	1,989	2,100
(-) Equity charge	(1,257)	(1,347)	(1,424)	(1,497)	(1,589)
Excess Equity	1,340	1,030	734	492	511
Discounting Factor	0.95	0.87	0.81	0.74	0.69
Present Value of Excess Equity	1,270	901	592	367	351

Source: FAB Securities

2) Relative Valuation:

We have used local peers to value CBD and it is valued using the PB multiple. It is valued at a PB multiple of 1.0x in line with peers.

Company	Market (USD Mn)	P/B(x)		PE (x)		Yield (%)	
		2024F	2025F	2024F	2025F	2024F	2025F
Dubai Islamic Bank	11,374	1.1	1.0	8.0	7.3	5.9	6.1
RAK Bank	2,875	1.0	0.9	7.4	5.5	7.2	9.1
Emirates NBD	30,184	1.0	0.9	6.1	6.0	4.9	4.9
ADCB	17,714	1.0	0.9	8.6	8.4	5.8	5.9
MASQ	8,303	1.0	0.9	5.2	5.7	8.2	7.2
Average		1.0x	0.9x	7.1x	6.6x	6.4%	6.7%
Median		1.0x	0.9x	7.4x	6.0x	5.9%	6.1%
Max		1.0x	0.9x	8.0x	7.3x	7.2%	7.2%
Min		1.0x	0.9x	6.1x	5.7x	5.8%	5.9%

Source: FAB Securities

Research Rating Methodology:

Rating	Upside/Downside potential
BUY	Higher than +15%
ACCUMULATE	Between +10% to +15%
HOLD	Lower than +10% to -5%
REDUCE	Between -5% to -15%
SELL	Lower than -15%

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