

Commercial Bank of Dubai (CBD)

Healthy growth in funded and non-funded income coupled with lower impairments drove profitability

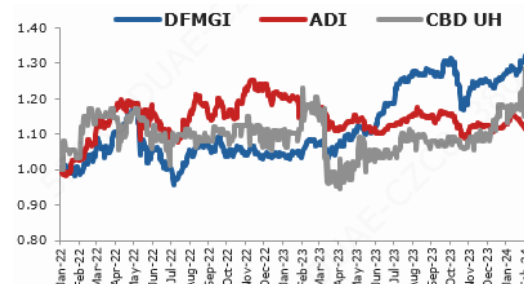
Current Price
AED 5.70

Target Price
AED 5.63

Upside/Downside (%)
-1.2%

Rating
HOLD

- CBD's 96.7% of investment portfolio is comprised of investments in fixed-rate securities. In addition, c. 47% of total investment in long-term securities will benefit NIMs.
- CBD's asset quality remains stable with a NPL ratio of 6.5% in 4Q23. The Bank maintained a healthy coverage of 83.3% in 4Q23 compared to 80.6% in 3Q23, while the coverage ratio, including stage 3 collaterals, remained unchanged at 121.0% in 4Q23 compared to 3Q23.
- CBD's CASA deposits as a percentage of total deposits declined from 50.9% in 3Q23 to 49.6% in 4Q23.
- CBD proposed a dividend of 44.38 fils per share for 2023, leading to an attractive dividend yield 7.8%.



Stock Information

Market Cap (AED, Mn)	17,911.15
Paid Up Capital (Mn)	2,985.19
52 Week High	6.00
52 Week Low	4.00
3M Avg. daily value (AED)	935,581

4Q23 Result Review (AED, Mn)

Total Assets	128,987
Total Liabilities	113,206
Total Equity	15,781
Total Deposits	88,287
Net Profit	714

Financial Ratios

Dividend Yield (12m)	4.29
Dividend Pay-out (%)	52.62
Price-Earnings Ratio (x)	6.75
Price-to-Book Ratio (x)	1.25
Book Value (AED)	4.55
Return-on Equity (%)	19.94

Stock Performance

5 Days	7.14%
1 Months	20.00%
3 Months	26.32%
6 Months	25.79%
1 Year	25.31%
Month to Date (MTD%)	20.00%
Quarter to Date (QTD%)	17.42%
Year to Date (YTD%)	17.42%
	4.29

4Q23 Net Profit lower than our estimate

Commercial Bank of Dubai ("CBD, "the Bank") recorded a substantial growth in net profit of 42.0% YOY to AED 714 Mn in 4Q23, lower than our estimate of AED 765 Mn. The increase in net profit is driven by a healthy growth in net funded and non-funded income coupled with higher recoveries and a decline in impairments partially offset by an increase in operating expenses.

P&L Highlights

CBD's funded income increased 40.2% YOY to AED 1,802 Mn in 4Q23, mainly due to expansion in asset yield and a rise in interest-earning assets. On the other hand, funded expenses almost doubled from AED 462 Mn in 4Q22 to AED 885 Mn in 4Q23 due to higher benchmark rates. Thus, net funded income rose 11.4% YOY to AED 916 Mn in 4Q23. CBD's non-funded income rose 11.4% YOY to AED 295 Mn in 4Q23 due to improvement in business activities. Fees and commission income grew 25.9% YOY to AED 214 Mn in 4Q23 mainly due to an increase in syndication and transaction activity. Trading income grew 2.8% YOY to AED 81 Mn in 4Q23, while other non-funded income declined significantly from AED 16 Mn in 4Q22 to AED 0.2 Mn in 4Q23. Moreover, CBD's total operating income rose 11.4% YOY to AED 1,211 Mn in 4Q23. Further, G&A expenses rose 29.6% YOY to AED 333 Mn in 4Q23 attributable to investments in regulatory compliance, risk management and technology and digitization. Additionally, impairments on loans, advances and Islamic financing declined 20.7% YOY to AED 266 Mn in 4Q23. The recoveries on loans and advances and Islamic financing more than doubled to AED 102 Mn in 4Q23 from to AED 38 Mn in 4Q22. In addition, the share of profit attributable to associates rose to AED 11 Mn in 4Q23 as compared to AED 5 Mn in 4Q22.

Balance Sheet Highlights

CBD's net advances rose 11.5% to AED 83.3 Bn in 2023 owing to an increase in credit towards all sectors except real estate and hospitality. Moreover, the Bank's total assets rose 11.0% to AED 129.0 Bn in 2023.

Customer deposits recorded a healthy growth of 8.9% to AED 88.3 Bn in 2023. The loan-to-deposit ratio increased to 94.4% in 2023 compared to 92.2% in 2022. The Bank's CASA deposits increased from 47% in 2022 to 50% in 2023. CBD's total equity recorded a 13.7% increase to AED 15.8 Bn in 2023.

Target Price and Rating

We revise our rating on CBD from ACCUMULATE to HOLD with an unchanged target price of AED 5.63. The Bank's share price rose 12.9% since our previous rating (12 January 2024). CBD witnessed healthy growth in loans and advances to all segments except for real estate and hospitality. CBD's 96.7% of investment portfolio comprises of investments in fixed-rate securities. In addition, c. 47% of total investment is in long-term securities will be beneficial to NIMs. The Bank witnessed a healthy advances growth of 11.5% in 2023 and further expects its loan book to grow by a mid-single digit in 2024. CBD's NIM marginally increased 2 bps QOQ to 3.2% in 4Q23. The Bank's deposits recorded a healthy growth of 8.9% to AED 88.3 Bn in 2023. Thus, CBD's regulatory loan-to-deposit ratio stood at 94.4% in 4Q23 as compared to 95.9% in 3Q23. CBD continuously invests in technology and digitization to improve its operating efficiency, boosting the Bank's margins. The Bank's CASA deposits as a percentage of total deposits declined from 50.9% in 3Q23 to 49.6% in 4Q23. CBD's asset quality remains stable with a NPL ratio of 6.5% in 4Q23. The Bank maintained healthy coverage of 83.3% in 4Q23 compared to 80.6% in 3Q23, while the coverage ratio including stage 3 collaterals remained unchanged at 121.0% in 4Q23 compared to 3Q23. 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 16.0% and Tier 1 ratio of 12.5% well above the regulatory limits in 2023. The company proposed a cash dividend of 44.38 fils per share for 2023, leading to an attractive dividend yield of 7.8%. Thus, based on our analysis, we revised our rating to HOLD on the stock.

CBD - Relative valuation

(at CMP)	2018	2019	2020	2021	2022	2023	2024F
P/E	14.64	12.15	15.30	12.92	10.05	6.76	6.18
P/B	1.95	1.77	1.67	1.50	1.46	1.25	1.13
Dividend yield	3.4%	3.4%	3.3%	4.3%	4.3%	7.6%	7.6%

FABS Estimates & Co Data

CBD - P&L

AED Mn	4Q22	3Q23	4Q23	4Q23F	Var.	YOY Ch	QOQ Ch	2022	2023	Change
Funded income	1,285	1,751	1,802	1,832	-1.7%	40.2%	2.9%	3,783	6,664	76.1%
Funded expense	-462	-866	-885	-942	-6.0%	91.7%	2.2%	-1,107	-3,094	179.4%
Net funded income	823	885	916	890	2.9%	11.4%	3.5%	2,676	3,570	33.4%
Fees and commissions	170	264	214	276	-22.7%	25.9%	-19.1%	756	935	23.7%
Trading income	79	83	81	87	-6.7%	2.8%	-2.5%	322	323	0.3%
Other non-funded income	16	19	0.2	16	-98.8%	NM	NM	50	94	87.4%
Total non-funded income	265	366	295	380	-22.3%	11.4%	-19.4%	1,128	1,351	19.8%
Total operating income	1,088	1,251	1,211	1,270	-4.6%	11.4%	-3.2%	3,804	4,921	29.4%
G&A Expenses	-257	-289	-333	-293	13.6%	29.6%	15.3%	-961	-1,178	22.6%
Depreciation & amortization	-10	-13	-14	-14	-4.6%	41.1%	7.4%	-36	-49	38.1%
Operating Expenses	-267	-302	-347	-307	12.7%	30.0%	14.9%	-997	-1,228	23.2%
Pre provision profit	821	950	865	963	-10.2%	5.3%	-9.0%	2,807	3,693	31.6%
Impairments	-336	-234	-266	-200	32.8%	-20.7%	14.0%	-1,076	-1,094	1.7%
Net Profit	503	710	714	765	-6.5%	42.0%	0.6%	1,825	2,650	45.2%

FABS estimate & Co Data

CBD - KPI

	4Q22	3Q23	4Q23	YOY Ch	QQQ Ch	2022	2023	Change
Net FI/OI	75.6%	70.7%	75.6%	0	489	70.4%	72.5%	219
NIM	3.2%	3.1%	3.2%	-2	2	2.59%	3.24%	65
NIS	3.0%	2.7%	2.7%	-25	0	2.5%	2.8%	39
Fees & comms/OI	15.6%	21.1%	17.6%	204	-346	19.9%	19.0%	-87
Trading/OI	7.3%	6.7%	6.7%	-56	5	8.5%	6.6%	-190
Cost to income	24.4%	24.0%	28.4%	396	433	26.1%	24.9%	-128
Impairment/PPP	39.3%	25.6%	18.6%	-2070	-697	35.3%	28.7%	-659
NP/OI	46.2%	56.8%	59.0%	1275	224	48.0%	53.9%	587
Cost of Risk	1.5%	0.9%	0.7%	-75	-20	1.17%	1.02%	-15
Loan-to-deposit	92.2%	95.9%	94.4%	220	-150	92.2%	94.4%	220
NPL	6.7%	6.5%	6.5%	-27	-3	6.7%	6.5%	-27
Coverage excluding collateral	79.9%	80.6%	83.3%	337	266	79.9%	83.3%	337
CET1	12.4%	13.3%	12.5%	15	-79	12.4%	12.5%	15
Capital adequacy	16.0%	16.8%	15.9%	-9	-85	16.0%	16.0%	-9
ROAE	16.0%	19.6%	20.1%	417	52	15.8%	21.0%	514
ROAA	1.6%	2.0%	2.1%	52	12	2.0%	2.5%	54

FABS estimate & Co Data

CBD - Key B/S items

AED Mn	4Q22	1Q23	2Q23	3Q23	4Q23	YOY Ch
Net advances	74,720	76,522	80,766	82,889	83,313	11.5%
QOQ ch	-5.6%	2.4%	5.5%	2.6%	0.5%	
Total assets	116,187	119,315	123,129	126,024	128,987	11.0%
QOQ ch	-1.1%	2.7%	3.2%	2.4%	2.4%	
Customer deposits	81,074	86,193	85,720	86,442	88,287	8.9%
QOQ ch	-0.9%	6.3%	-0.5%	0.8%	2.1%	
Total equity	13,882	13,761	14,319	14,951	15,781	13.7%
QOQ ch	3.7%	-0.9%	4.1%	4.4%	5.6%	

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	5.84	70.0%	4.09
Relative Valuation (RV)	5.14	30.0%	1.54
Weighted Average Valuation (AED)			5.63
Current market price (AED)			5.70
Upside/Downside (%)			-1.2%

1) Residual Income Method:

We have discounted the economic profit/excess equity using the cost of equity of 9.6%. Cost of equity is calculated by using 10-year government bond yield of 5.2%, beta of 1.00 and equity risk premium of 4.4%. 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)	2,403
Terminal value (AED, Mn)	1,454
FV to Common shareholders (AED, Mn)	17,435
No. of share (Mn)	2,985
Current Market Price (AED)	5.70
Fair Value per share (AED)	5.84

(All Figures in AED Mn)	FY 2024E	FY 2025E	FY 2026E	FY 2027E	FY 2028E
Net Profit	2,620	2,417	2,169	1,977	2,092
(-) Equity charge	(1,444)	(1,570)	(1,683)	(1,790)	(1,922)
Excess Equity	1,176	847	486	188	170
Discounting Factor	0.92	0.84	0.77	0.70	0.64
Present Value of Excess Equity	1,081	711	372	131	108

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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