

Commercial Bank of Dubai (CBD)

Growth in advances and non-funded income supported profitability

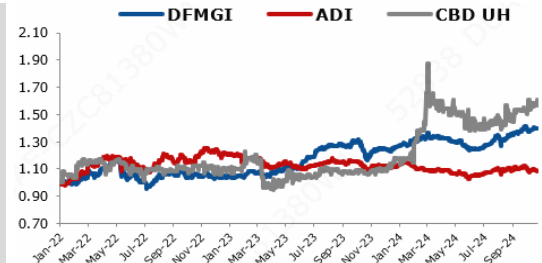
Current Price (AED):
7.20

Target Price (AED):
7.75

Upside/Downside (%)
+8%

Rating:
HOLD

- Net advances grew strongly 10.7% YOY and 2.4% QOQ to AED 91.7 Bn in 3Q24.
- Customer deposits grew strongly 14.2% YOY, however declined 1.2% QOQ to AED 98.7 Bn in 3Q24, also CASA ratio increased from 47.8% in 2Q24 to 49.1% in 3Q24.
- NIMs declined 19 bps YOY and 11 bps QOQ to 3.0% in 3Q24.
- CBD's asset quality improved with a decline in NPL ratio from 5.6% in 2Q24 to 5.0% in 3Q24.
- Capitalization remained strong with a CAR of 16.6% and CET 1 of 13.4% in 3Q24.
- Other non-funded grew from AED 22 Mn in 3Q23 to AED 150 Mn in 3Q24 due to one-off gain on property sales and funds.



Stock Information

Market Cap (AED, mn)	21,493.38
Paid Up Capital (mn)	2,985.19
52 Week High	8.99
52 Week Low	4.60
3M Avg.daily value (AED)	197,981

3Q24 Result Review (AED, mn)

Total Assets	140,217
Total Liabilities	123,445
Total Equity	16,772
Total Deposits	98,682
Net Profit	779

Financial Ratios

Dividend Yield (12m)	6.16
Dividend Pay-out (%)	52.62
Price-Earnings Ratio (x)	7.69
Price-to-Book Ratio (x)	1.48
Book Value (AED)	4.88
Return-on Equity (%)	20.60

Stock Performance

5 Days	5.57%
1 Months	8.11%
3 Months	10.77%
6 Months	6.82%
1 Year	55.51%
Month to Date (MTD%)	8.11%
Quarter to Date (QTD%)	8.11%
Year to Date (YTD%)	40.90%

3Q24 Net Profit higher than our estimate

Commercial Bank of Dubai ("CBD, "the Bank") recorded a growth in net profit of 9.7% YOY to AED 779 Mn in 3Q24, higher than our estimate of AED 737 Mn. The increase in net profit is driven by a healthy growth in net funded and non-funded income coupled with strong growth in recoveries partially offset by an increase in operating expenses, impairments, and income tax charges.

P&L Highlights

CBD's funded income grew 10.4% YOY to AED 1,934 Mn in 3Q24, mainly due to growth in loan books and other interest-earning assets. On the other hand, funded expenses grew 14.3% YOY to AED 990 Mn in 3Q24. Thus, net funded income rose 6.6% YOY to AED 943 Mn in 3Q24. CBD's total non-funded income rose 38.4% YOY to AED 511 Mn in 3Q24 due to improvement in credit card growth, syndication fees, transaction banking fees, and one-off gains on property sales & funds. Fees and commission income grew 5.0% YOY to AED 277 Mn in 3Q24. Trading income grew marginally 0.6% YOY to AED 84 Mn in 3Q24. Other non-funded income inclined from AED 22 Mn in 3Q23 to AED 150 Mn in 3Q24. Thus, CBD's total operating income rose 15.9% YOY to AED 1,454 Mn in 3Q24. Further, G&A expenses grew 24.1% YOY to AED 358 Mn in 3Q24 due to a rise in staff cost caused by increased regulatory control and governance coupled with higher other operating expenditures attributable to business growth & digital initiatives, inflationary impacts, and regulatory compliance. As a result, total operating expenses rose 24.0% YOY to AED 374 Mn in 3Q24. Additionally, impairments on loans, advances and Islamic financing grew 34.4% YOY to AED 314 Mn in 3Q24. The recoveries on loans and advances and Islamic financing grew significantly from AED 25 Mn in 3Q23 to AED 98 Mn in 3Q24. Furthermore, impairment allowance on AFS investments stood at AED 9 Mn in 3Q24 compared to AED 35 Mn in 3Q23. In addition, the Bank incurred a corporate tax expense of AED 76 Mn in 3Q24, owing to the introduction of UAE corporate tax.

Balance Sheet Highlights

CBD's net advances rose 10.7% YOY and 2.4% QOQ to AED 91.7 Bn in 3Q24. The Bank witnessed an increase in credit towards all sectors except real estate, financial and insurance activities, construction, and individual business loans compared to 4Q23. Moreover, the Bank's total assets rose 11.3% YOY, however declined 0.7% QOQ to AED 140.2 Bn in 3Q24. Customer deposits recorded a healthy growth of 14.2% YOY but declined 1.2% QOQ to AED 98.7 Bn in 3Q24. Loan to deposit ratio increased to 93.0% in 3Q24 compared to 89.8% in 2Q24. The Bank's CASA deposits increased from 47.8% in 2Q24 to 49.1% of total deposits in 3Q24. CBD's total equity rose 12.2% YOY and 5.9% QOQ to AED 16.7 Bn in 3Q24.

Target Price and Rating

We continue to maintain our HOLD rating on CBD with a revised target price of AED 7.75. CBD recorded strong growth in profitability driven by a solid increase in net funded and non-funded income along with growth in recoveries in 3Q24. The Bank's net advances grew 10.7% YOY and 2.4% QOQ to AED 91.7 Bn in 3Q24 owing to an increase in credit towards GREs, transportation & storage, trade, manufacturing, personal mortgage, and individual loans compared to 4Q23. The Bank further revised its loan guidance from high single-digit to more than 10% YOY growth for FY2024. CBD's calculated NIM declined 19 bps YOY and 11 bps QOQ to 3.0% in 3Q24 due to higher cost of funds and lower asset yield owing to change in asset mix. The Bank's deposits recorded a healthy growth of 14.2% YOY, however declined 1.2% QOQ to AED 98.7 Bn in 3Q24 resulting in the loan-to-deposit ratio of 93.0%. Low-cost CASA deposits constituted 49.1% of the total customer deposit base while the balance is made up of time deposits. Cost-to-income ratio grew 167 bps YOY and 114 bps QOQ to 25.7% in 3Q24 due to investment in business growth and digitization coupled with higher staff costs due to regulation. CBD is continuously investing in technology and digitization to improve its operating efficiency to boost its margins. It expects the cost-to-income to be below 25.0% in 2024. The Bank's cost of risk marginally declined 5 bps YOY however increased 20 bps QOQ to 0.9% in 3Q24. Thus, CBD revised the FY2024 guidance for cost of risk to less than 92 bps from the previous 98 bps. Furthermore, CBD's asset quality improved in 3Q24 with a reported NPL ratio of 5.0% compared to 5.6% in 2Q24. Moreover, the Bank reported coverage increased to 96.6% in 3Q24 from 89.6% in 2Q24. In addition, the Bank maintained a healthy capitalization with a CAR of 16.6% and CET 1 ratio of 13.4% well above the regulatory limits in 3Q24. Thus, based on our analysis, we assign a HOLD rating on the stock.

CBD - Relative valuation

(at CMP)	2019	2020	2021	2022	2023	2024F
P/E	15.35	19.33	16.32	12.70	8.54	7.63
P/B	2.23	2.11	1.89	1.84	1.58	1.41
Dividend yield	2.7%	2.6%	3.4%	3.4%	6.2%	6.9%

FABS Estimates & Co Data

CBD – P&L

AED mn	3Q23	2Q24	3Q24	3Q24F	Var.	YOY Ch	QOQ Ch	2023	2024F	Change
Funded income	1,751	1,888	1,934	1,913	1.1%	10.4%	2.4%	6,664	7,605	14.1%
Funded expense	-866	-942	-990	-1,003	-1.2%	14.3%	5.1%	-3,094	-3,799	22.8%
Net funded income	885	947	943	910	3.6%	6.6%	-0.3%	3,570	3,806	6.6%
Fees and commissions	264	295	277	301	-8.1%	5.0%	-6.2%	935	1,140	22.0%
Trading income	83	85	84	89	-5.3%	0.6%	-1.0%	323	348	7.7%
Other non-funded income	22	11	150	15	NM	NM	NM	94	234	150.0%
Total non-funded income	369	391	511	405	26.3%	38.4%	30.7%	1,351	1,722	27.4%
Total operating income	1,255	1,338	1,454	1,315	10.6%	15.9%	8.7%	4,921	5,528	12.3%
G&A Expenses	-289	-315	-358	-328	9.2%	24.1%	13.6%	-1,178	-1,343	14.0%
Depreciation & amortization	-13	-13	-16	-13	25.6%	21.9%	19.4%	-49	-55	11.3%
Operating Expenses	-302	-329	-374	-341	9.8%	24.0%	13.8%	-1,228	-1,398	13.9%
Pre provision profit	953	1,009	1,081	975	10.9%	13.4%	7.1%	3,693	4,130	11.8%
Impairments	-234	-238	-314	-217	44.4%	34.4%	32.0%	-1,094	-1,104	0.9%
Recoveries	25	73	98	73	34.3%	284.2%	34.1%	182	265	45.7%
Impairment allowances on AFS investment	-35	-19	-9	-20	-54.2%	-73.3%	-51.0%	-148	-57	-61.4%
Share of profit of associates	0	0	0	0	NM	NM	NM	17	17	0.0%
Profit before tax	710	825	855	810	5.6%	20.4%	3.6%	2,650	3,251	22.7%
Corporate tax	0	-74	-76	-73	4.6%	NM	3.6%	0	-293	NM
Net Profit	710	751	779	737	5.7%	9.7%	3.6%	2,650	2,958	11.6%

FABS estimate & Co Data
CBD - KPI

	3Q23	2Q24	3Q24	YOY Ch	QOQ Ch	2023	2024F	Change
Net FI/OI	70.6%	70.8%	64.9%	-569	-590	72.5%	68.8%	-369
NIM	3.1%	3.1%	3.0%	-19	-11	3.2%	3.1%	-14
NIS	2.7%	2.6%	2.5%	-21	-13	2.8%	2.7%	-11
Fees & comms/OI	21.0%	22.1%	19.0%	-199	-304	19.0%	20.6%	163
Trading/OI	6.6%	6.3%	5.8%	-88	-57	6.6%	6.3%	-27
Cost to income	24.0%	24.6%	25.7%	167	114	24.9%	25.2%	35
Impairment/PPP	25.5%	18.2%	20.9%	-462	263	28.7%	21.7%	-700
NP/OI	56.6%	56.2%	53.5%	-306	-263	53.9%	53.5%	-34
Cost of Risk	0.9%	0.7%	0.9%	-5	20	1.0%	0.9%	-17
Loan-to-deposit	95.9%	89.8%	93.0%	-292	321	94.4%	89.3%	-508
NPL – Reported	6.5%	5.6%	5.0%	-153	-60	6.5%	6.4%	-6
Coverage – Reported	80.6%	89.6%	96.6%	1601	700	83.3%	94.0%	1074
CET1	13.3%	12.8%	13.4%	4	54	12.5%	12.4%	-10
Capital adequacy	16.8%	16.1%	16.6%	-24	50	16.0%	15.5%	-48
ROAE	19.3%	21.3%	20.6%	132	-71	19.9%	19.6%	-31
ROAA	2.0%	2.2%	2.2%	21	4	2.2%	2.4%	21

FABS estimate & Co Data
CBD - Key B/S items

AED mn	3Q23	4Q23	1Q24	2Q24	3Q24	YOY Ch
Net advances	82,889	83,313	86,791	89,608	91,746	10.7%
QOQ ch	2.6%	0.5%	4.2%	3.2%	2.4%	
Total assets	126,024	128,987	130,976	141,256	140,217	11.3%
QOQ ch	2.4%	2.4%	1.5%	7.8%	-0.7%	
Customer deposits	86,442	88,287	90,342	99,831	98,682	14.2%
QOQ ch	0.8%	2.1%	2.3%	10.5%	-1.2%	
Total equity	14,951	15,781	15,138	15,843	16,772	12.2%
QOQ ch	4.4%	5.6%	-4.1%	4.7%	5.9%	

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	8.15	70.0%	5.70
Relative Valuation (RV)	6.82	30.0%	2.05
Weighted Average Valuation (AED)			7.75
Current market price (AED)			7.20
Upside/Downside (%)			+8%

1) Residual Income Method:

We have discounted the economic profit/excess equity using the cost of equity of 8.8%. Cost of equity is calculated by using 10-year government bond yield of 5.4%, beta of 0.8 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)	3,524
Terminal value (AED, Mn)	7,161
Book value of equity (as of Sept 2024)	13,640
FV to Common shareholders (AED, Mn)	24,324
No. of share (Mn)	2,985
Current Market Price (AED)	7.20
Fair Value per share (AED)	8.15

(All Figures in AED Mn)	FY 2024E	FY 2025E	FY 2026E	FY 2027E	FY 2028E
Net Profit	2,826	2,755	2,688	2,609	2,551
(-) Equity charge	(1,335)	(1,463)	(1,590)	(1,720)	(1,856)
Excess Equity	1,491	1,292	1,098	889	695
Discounting Factor	0.96	0.88	0.81	0.75	0.69
Present Value of Excess Equity	357¹	1,139	890	662	476

Source: FAB Securities, ¹Adjusted for partial year

2) Relative Valuation:

We have used local and international peers to value CBD and it is valued using the PB multiple. It is valued at a 2024 PB multiple of 1.3x in line with peers.

Company	Market (USD Mn)	P/B(x)		PE (x)		Yield (%)	
		2024F	2025F	2024F	2025F	2024F	2025F
Dubai Islamic Bank	11,570	1.1	1.0	7.3	7.4	7.3	7.4
Emirates NBD	29,580	1.0	0.9	5.2	5.8	6.3	6.2
ADCB	16,480	0.9	0.9	8.0	8.1	6.4	6.5
MASQ	11,420	1.3	1.2	6.5	6.8	7.2	7.2
ADIB	11,970	2.0	1.8	8.9	9.1	6.0	5.9
Alinma	18,800	2.1	1.9	12.9	11.8	3.0	3.5
Average		1.5x	1.3x	8.3x	8.5x	5.8x	5.9x
Median		1.3x	1.2x	7.7x	8.1x	6.1x	6.1x
Max		1.9x	1.7x	8.4x	8.7x	6.5x	6.4x
Min		1.1x	1.0x	7.5x	8.0x	5.9x	5.8x

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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