

Commercial Bank International (CBI)

Declining net advances and asset yield coupled with lower deposits impacted the net profit

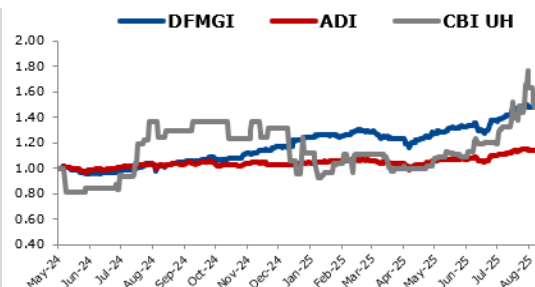
Current Price
AED 1.09

Target Price
AED 1.05

Upside/Downside (%)
-3.7%

Rating
HOLD

- Net funded income grew 9.3% YOY to AED 95 Mn in 2Q25, while the NIMs marginally grew 10 bps YOY and fell 3 bps QOQ to 2.1% in 2Q25.
- Total assets grew 3.0% YOY and remained flat on QOQ basis to AED 20.6 Bn in 2Q25, while the Customer deposits grew 6.7% YOY, but declined marginally 1.0% QOQ to AED 15.2 Bn in 2Q25.
- CBI's calculated NPL ratio rose 32 bps QoQ to 16.8%, reflecting a further increase in Stage 3 loans, though the coverage ratio improved slightly to 44.7%.
- In accordance with the dividend policy, the Bank does not distribute any dividends to its shareholders.



Stock Information

Market Cap (AED, Mn)	1,893.75
Paid Up Capital (Mn)	1,737.38
52 Week High	1.28
52 Week Low	0.67
3M Avg. daily value (AED)	323,570

2Q25 Result Review (AED, Mn)

Total Assets	20,579
Total Liabilities	17,457
Total Equity	3,001
Total Deposits	15,185
Net Profit	43

Financial Ratios

Dividend Yield (12m)	N/A
Dividend Pay-out (%)	0.00
Price-Earnings Ratio(x)	9.27
Price-to-Book Ratio (x)	0.74
Book Value (AED)	1.46
Return-on Equity (%)	8.36

Stock Performance

5 Days	-0.91%
1 Months	9.11%
3 Months	33.74%
6 Months	35.40%
1 Year	15.96%
Month to Date (MTD%)	-14.84%
Quarter to Date (QTD%)	25.72%
Year to Date (YTD%)	34.57%

2Q25 Net Profit higher than our estimates

Commercial Bank International ("CBI"/ "The Bank") net profit declined 4.4% YOY to AED 43 Mn in 2Q25, higher than our estimate of AED 36 Mn. The rise in net profit is mainly due to growth in both net funded and non-funded income, partially offset by rise in operating expenses and tax charges, coupled with a decline in impairment reversal.

P&L Highlights

CBI's funded income fell 16.3% YOY to AED 206 Mn in 2Q25 attributed to a consecutive decline in asset yield partially offset by increase in loans & advances. However, income from Islamic financing and investment assets surged 63.3% YOY to AED 34 Mn in 2Q25, driven by expansion in average Islamic financing partially offset by lower yield on Islamic assets. Funded expenses shrank 19.5% YOY to AED 146 Mn in 2Q25 owing to lower cost of funds, partially offset by rise in customer deposits. As a result, the net funded income grew 9.3% YOY to AED 95 Mn in 2Q25. NIMs marginally grew 10 bps YOY and fell 3 bps QOQ to 2.1% in 2Q25. Net fees and commission income reduced from AED 35 Mn in 2Q24 to AED 28 Mn in 2Q25, whereas the other operating income rose from AED 9 Mn in 2Q24 to AED 22 Mn in 2Q25. As a result, the non-funded income increased 14.7% YOY to AED 50 Mn in 2Q25. Thus, total operating income rose 11.1% YOY to AED 144 Mn in 2Q25. On the other hand, operating expenses increased 3.2% YOY to AED 100 Mn in 2Q25. Cost to income ratio also improved from 74.3% in 2Q24 to 69.1% in 2Q25. The Bank's impairment reversal declined from AED 16 Mn in 2Q24 to AED 3 Mn in 2Q25. CBI's corporate tax rose 10.0% YOY to AED 5 Mn in 2Q25.

Balance Sheet Highlights

CBI's total assets grew 3.0% YOY and remained flat on QOQ basis to AED 20.6 Bn in 2Q25. Net advances grew 3.5% YOY and declined 3.1% QOQ to AED 12.9 Bn in 2Q25. Customer deposits grew 6.7% YOY, but declined marginally 1.0% QOQ to AED 15.2 Bn in 2Q25. As a result, the loan-to-deposit ratio declined from 87.1% in 1Q25 to 85.3% in 2Q25. Additionally, the shareholders equity increased 7.6% YOY and 1.3% QOQ to AED 2.5 Bn in 2Q25.

Target Price and Rating

We maintain our HOLD rating on CBI with a revised target price of AED 1.05. The downgrade reflects ongoing weaknesses in both top-line and bottom-line performance, as observed in CBI's 2Q25 results, coupled with structural challenges in asset quality, profitability, and market positioning. In 2Q25, the Bank reported a decline in both revenue and net profit, underlining subdued core banking activity. CBI continues to hold a modest market share within the UAE's banking sector, with total assets remaining broadly flat on a QOQ basis. However, net advances declined for the second consecutive quarter, reaching AED 12.9 Bn, primarily due to reduced exposure in high-risk sectors. While net interest margins were stable QOQ, the high concentration of Stage 2 and Stage 3 loans highlights persistent asset quality concerns. Customer deposits declined again to AED 15.2 Bn. Additionally, high-cost term deposit constitutes the majority of total deposits. Although the cost-to-income ratio improved from 74.3% in 2Q24 to 69.1% in 2Q25, it remains elevated and, along with lower NIMs, could weigh on the bank's operating profitability relative to risk-weighted assets. Additionally, the NPL ratio rose 32 bps QoQ to 16.8%, reflecting a further increase in Stage 3 loans, though the coverage ratio improved slightly to 44.7%. Capitalisation ratios stayed flat on QOQ, showing marginal improvement on a YOY basis, but remain below industry peers. Moreover, in accordance with the dividend policy, the Bank does not distribute any dividends to its shareholders. Hence, considering the above-mentioned factors, we assign a HOLD rating on the stock.

CBI - Relative valuation

(at CMP)	2020	2021	2022	2023	2024	2025F
PE	NM	15.55	16.15	12.30	9.41	11.00
PB	0.96	0.91	0.89	0.83	0.77	0.72
BVPS	1.134	1.200	1.230	1.320	1.422	1.521
EPS	NM	0.070	0.067	0.089	0.116	0.099

FABS Estimates & Co Data

CBI - P&L

AED mn	2Q24	1Q25	2Q25	2Q25F	VAR	YOY Ch	QOQ Ch	2024	2025F	Change
Funded income	247	226	206	220	-6.3%	-16.3%	-8.6%	978	857	-12.4%
Income from Islamic fin & invt assets	21	33	34	35	-2.7%	63.3%	1.2%	105	139	33.5%
Funded expenses	-181	-162	-146	-157	-7.1%	-19.5%	-10.1%	-614	-610	-0.6%
Net funded income	87	97	95	98	-3.6%	9.3%	-2.7%	344	386	12.3%
Fees and commissions	35	46	28	46	-39.7%	-19.6%	-39.1%	138	180	30.0%
Other operating income, net	9	65	22	13	67.7%	153.2%	-66.5%	221	122	-45.0%
Total non-funded income	43	110	50	59	-16.1%	NM	-55.1%	360	302	-16.2%
Total operating income	130	208	144	157	-8.3%	11.1%	-30.6%	704	688	-2.2%
Operating expenses	-96	-94	-100	-101	-1.0%	3.2%	6.1%	-378	-378	0.2%
Pre provision profit	33	114	45	57	-21.2%	NM	-60.9%	326	310	-5.0%
Impairment	16	-68	3	-17	-117.2%	NM	-104.4%	-103	-119	15.5%
UAE Corporate Tax	-5	-4	-5	-4	43.4%	10.0%	26.5%	-21	-18	-14.4%
Non-controlling interests	0	0	0	0	#DIV/0!	NM	NM	1	1	NM
Net Profit	45	42	43	36	19.5%	-4.4%	2.1%	201	172	-14.4%

FABS estimate & Co Data

CBI – P&L KPI

	2Q24	1Q25	2Q25	YOY Ch	QOQ Ch	2024	2025F	Change
Net FI/OI	66.7%	46.8%	65.6%	NM	1,880	48.9%	56.2%	NM
NIM	2.0%	2.1%	2.1%	10	-3	1.9%	2.0%	6
NIS	1.5%	1.8%	1.8%	26	0	1.5%	1.6%	16
Fees & comms/OI	26.7%	22.0%	19.3%	-738	-268	19.7%	26.1%	648
Trading/OI	6.6%	31.2%	15.1%	NM	-1,612	31.5%	17.7%	NM
Cost to income	74.3%	45.2%	69.1%	NM	2,391	53.7%	55.0%	133
Impairment/PPP	-48.5%	59.9%	-6.7%	NM	NM	31.6%	38.4%	NM
NP/OI	34.3%	20.1%	29.6%	-478	948	28.6%	25.0%	-356
Cost of risk	-0.6%	2.4%	-0.1%	46	-248	0.9%	1.0%	14
Loan-to-Deposit	87.9%	87.1%	85.3%	-269	-185	88.0%	88.0%	-3
NPL - Calculated	17.7%	16.5%	16.8%	NM	NM	15.9%	15.0%	-93
Coverage - Calculated	33.4%	43.9%	44.7%	NM	NM	41.7%	46.2%	441
CET1	11.4%	13.7%	13.7%	233	6	13.8%	13.3%	-50
Capital adequacy	15.3%	17.6%	17.6%	229	3	17.7%	16.8%	-88
ROAE	6.9%	8.6%	8.4%	150	-19	8.4%	6.7%	-171
ROAA	0.8%	1.0%	1.0%	22	-3	1.0%	0.8%	-23

FABS estimate & Co Data

CBI – Key BS Items

AED mn	2Q24	3Q24	4Q24	1Q25	2Q25	YOY Ch
Net advances	12,510	12,911	13,583	13,362	12,946	3.5%
QOQ Change	2.6%	3.2%	5.2%	-1.6%	-3.1%	
Total assets	19,972	20,995	20,895	20,577	20,579	3.0%
QOQ Change	5.1%	5.1%	-0.5%	-1.5%	0.0%	
Customer deposits	14,225	15,191	15,430	15,339	15,185	6.7%
QOQ Change	12.1%	6.8%	1.6%	-0.6%	-1.0%	
Total equity	2,821	2,970	2,929	2,969	3,001	6.4%
QOQ Change	1.1%	5.3%	-1.4%	1.4%	1.1%	

FABS estimate & Co Data

Valuation:

We have used the Residual Income and Relative Valuation (RV) method to value CBI. We assigned 70% weight to Residual Income and 30% to RV method.

Valuation Method	Target	Weight	Weighted Value
Residual Income	0.96	70.0%	0.67
Relative Valuation (RV)	1.26	30.0%	0.38
Weighted Average Valuation (AED)			1.05
Current market price (AED)			1.09
Upside/Downside (%)			-3.7%

1) Residual Income Method:

We have discounted the economic profit/excess equity using the cost of equity of 8.7%. Cost of equity is calculated by using 10-year government bond yield of 5.1%, beta of 0.9 and equity risk premium of 4.1%. Government bond yield is calculated after adding Abu Dhabi 10-year spread over 10-year US risk free rate. Also, assumed a terminal growth rate of 2.0%.

Sum of PV (AED, Mn)	-215
Terminal value (AED, Mn)	-657
Book value of equity (as of June 2025)	2,542
FV to Common shareholders (AED, Mn)	1,670
No. of share (Mn)	1,737
Current Market Price (AED)	1.09
Fair Value per share (AED)	0.96

Residual Income Method

(All Figures in AED Mn)	FY 2025E	FY 2026E	FY 2027E	FY 2028E	FY 2029E
Net Income	172	194	209	223	244
(-) Equity Charge	-231	-248	-266	-286	-307
Excess Equity	-59	-54	-57	-63	-63
Discounting Factor	0.97	0.89	0.82	0.75	0.69
Present Value of Excess Equity	-29	-48	-47	-47	-43

Source: FAB Securities

2) Relative Valuation:

We have used local peers to value CBI, and it is valued using the PB multiple. We have applied a discount to the peer's valuation multiple since it has always traded at a discount due to lower return on assets as compared to its peers. It is valued at a 2025 PB multiple of 0.8x as compared to a peer valuation of 1.7x.

Company	Market (USD Mn)	P/E (x)		P/B (x)	
		2025F	2026F	2025F	2026F
Commercial Bank of Dubai (CBD)	8,370	9.1	11.2	1.8	1.7
Mashreq Bank (MASQ)	14,472	7.6	7.5	1.4	1.3
RAK Bank	4,293	7.2	8.0	1.3	1.2
Emirates NBD	46,256	8.0	8.2	1.3	1.1
Dubai Islamic Bank (DIB)	19,320	10.7	10.8	1.7	1.5
Abu Dhabi Commercial Bank (ADCB)	32,712	12.0	11.3	1.7	1.5
Abu Dhabi Islamic Bank (ADIB)	23,987	14.5	13.8	3.4	3.1
Average		9.9x	10.1x	1.8x	1.6x
Median		9.1x	10.8x	1.7x	1.5x
Max		11.4x	11.3x	1.7x	1.6x
Min		7.8x	8.1x	1.4x	1.2x

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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