

## Commercial Bank International (CBI)

Lower operating expenses and reversal of impaired loans support profitability

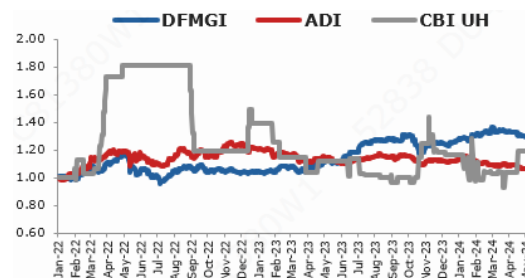
**Current Price**  
AED 0.72

**Target Price**  
AED 0.80

**Upside/Downside (%)**  
+11%

**Rating**  
**ACCUMULATE**

- NIMs declined 45 bps YOY and 2 bps QOQ to 1.9% in 1Q24.
- Net advances declined 3.3% QOQ to AED 12.2 Bn in 1Q24 owing to a decline in Islamic Financing and Investment Products.
- Gross loans & advances remained flat at AED 12.3 Bn in 1Q24
- Investment in financial assets rose from AED 2.7 Bn in 4Q23 to AED 3.3 Bn in 1Q24.
- Customer deposits including current, and savings accounts (CASA) rose from AED 12.5 Bn in 1Q23 to AED 12.7 Bn in 1Q24
- The cost-to-income ratio declined from 79.1% in 1Q23 to 71.5% in 1Q24.



### 1Q24 Net Profit in line with estimates

Commercial Bank International's ("CBI"/ "The Bank") net profit recorded 9.4% YOY growth from AED 33 Mn in 1Q23 to AED 36 Mn in 1Q24, in line with our estimate of AED 37 Mn. The rise in net profit was primarily attributable to a decline in operating expenses and a reversal in the provision of financial assets partially offset by a decline in net funded and non-funded income.

### P&L Highlights

CBI's funded income declined marginally from AED 243 Mn in 1Q23 to AED 241 Mn in 1Q24, whereas income from Islamic financing and investment assets rose from AED 16 Mn in 1Q23 to AED 19 Mn in 1Q24. Total funded income rose marginally from AED 259 Mn in 1Q23 to AED 260 Mn in 1Q24 owing to a marginal increase in asset yield and interest-earning assets. However, funded expenses grew significantly from AED 157 Mn in 1Q23 to AED 178 Mn in 1Q24 due to higher interest expense owing to increase in benchmark rates. CBI's cost of funds grew 61 bps YOY and declined 43 bps QOQ to 4.65% in 1Q24. Thus, net funded income fell 19.0% YOY to AED 82 Mn in 1Q24. NIMs declined 45 bps YOY and 2 bps QOQ to 1.9% in 1Q24. Net fees and commission income declined 5.7% YOY to AED 29 Mn in 1Q24, while other operating income declined from AED 15 Mn in 1Q23 to AED 9 Mn in 1Q24 owing to a foreign exchange loss and nil dividend income partially offset by an increase in net gain on financial assets at FVTPL. Thus, non-funded income declined 17.2% YOY to AED 38 Mn in 1Q24. Resultantly, total operating income declined 18.4% YOY to AED 120 Mn in 1Q24. Operating expenses declined 26.3% YOY to AED 86 Mn in 1Q24 due to lower general and administrative expenses. As a result, the cost-to-income ratio declined from 79.1% in 1Q23 to 71.5% in 1Q24. Impairment reversal increased from AED 3 Mn in 1Q23 to AED 6 Mn in 1Q24. The Bank incurred a corporate tax of AED 4 Mn in 1Q24 impacting profit.

### Stock Information

Market Cap (AED, mn)	1,257.87
Paid Up Capital (mn)	1,737.38
52 Week High	0.87
52 Week Low	0.53
3M Avg. daily value (AED)	95,903

### 1Q24 Result Review (AED, mn)

Total Assets	19,003
Total Liabilities	16,093
Total Equity	2,789
Total Deposits	12,687
Net Profit	36

### Financial Ratios

Dividend Yield (12m)	N/A
Dividend Pay-out (%)	0.00
Price-Earnings Ratio(x)	7.93
Price-to-Book Ratio (x)	N/A
Book Value (AED)	N/A
Return-on Equity (%)	6.98

### Stock Performance

5 Days	0.00%
1 Months	14.92%
3 Months	20.67%
6 Months	-9.50%
1 Year	6.47%
Month to Date (MTD%)	0.00%
Quarter to Date (QTD%)	14.92%
Year to Date (YTD%)	1.97%

## Balance Sheet Highlights

CBI's total assets declined 3.4% YOY to AED 19.0 Bn in 1Q24. Net advances marginally rose 0.3% YOY but declined 3.3% QOQ to AED 12.2 Bn in 1Q24. Customer deposits, including current, and savings accounts (CASA) rose from AED 12.6 Bn in 4Q23 to AED 12.7 Bn in 1Q24. The loan-to-deposit ratio declined from 100.0% in 4Q23 to 96.1% in 1Q24.

## Target Price and Rating

We revise our rating on CBI from BUY to ACCUMULATE with a target price of AED 0.80. The Bank's share price rose 14.3% since our last rating. CBI's profitability grew YOY in 1Q24 owing to a decline in operating expenses and a higher reversal in financial assets. The Bank recorded a decline in advances which fell 3.3% QOQ to AED 12.2 Bn in 1Q24 owing to a decline in Islamic Financing and Investment Products. Further, it recorded an increase in allocation to Financial Assets to benefit from higher interest rates. CBI's NPL ratio rose from 18.0% in 4Q23 to 20.9% in 1Q24. The Bank recorded a fresh slippage of AED 396 Mn in wholesale lending during 1Q24. However, Stage 2 loans as a percentage of gross loans declined from 14.1% in 4Q23 to 10.6% in 1Q24. Provision coverage fell from 33.4% in 4Q23 to 29.0% in 1Q24. CBI held collateral worth AED 2,095.8 Mn against the impaired loans in 4Q23 enough to cover nonperforming loans. The Bank also maintained a healthy capitalization with a Tier 1 ratio of 13.6% and a total CAR of 14.8% in 1Q24. Furthermore, CBI's 63% of the advances and investments will be priced within a year will pressure margins in a declining interest rate scenario, while the remaining 37% of advances and investments will be repriced after a year expected to benefit the Bank in the declining interest rates scenario. The stock is also trading at an inexpensive PB multiple of 0.5x compared to the peer average of 0.9x in FY2024. Hence, based on the above-mentioned factors, we assign an ACCUMULATE rating to the stock.

### CBI - Relative valuation

(at CMP)	2019	2020	2021	2022	2023	2024F
PE	10.71	NM	10.27	10.67	8.13	7.85
PB	0.62	0.63	0.60	0.59	0.55	0.51

FABS Estimates & Co Data

### CBI - P&L

AED mn	1Q23	4Q23	1Q24	1Q24F	Var.	YOY Ch	QOQ Ch	2023	2024F	Change
Funded income	243	250	241	253	4.8%	-0.7%	-3.4%	984	990	0.6%
Income from Islamic fin & invt assets	16	23	19	25	33.9%	21.8%	-18.7%	83	90	8.2%
Funded expenses	-157	-192	-178	-193	8.3%	13.4%	-7.2%	-600	-658	9.7%
<b>Net funded income</b>	<b>102</b>	<b>81</b>	<b>82</b>	<b>86</b>	3.9%	-19.0%	1.2%	<b>355</b>	<b>422</b>	<b>18.7%</b>
Fees and commissions	31	35	29	36	22.9%	-5.7%	-17.0%	113	117	4.0%
Other operating income, net	15	10	9	20	132.1%	-41.3%	-14.7%	76	78	3.0%
<b>Total non-funded income</b>	<b>46</b>	<b>46</b>	<b>38</b>	<b>56</b>	48.1%	-17.2%	-16.5%	<b>188</b>	<b>195</b>	<b>3.6%</b>
<b>Total operating income</b>	<b>148</b>	<b>127</b>	<b>120</b>	<b>142</b>	17.8%	-18.4%	-5.1%	<b>544</b>	<b>617</b>	<b>13.5%</b>
Operating expenses	-117	-80	-86	-82	-4.4%	-26.3%	7.5%	-349	-361	3.4%
<b>Pre provision profit</b>	<b>31</b>	<b>47</b>	<b>34</b>	<b>60</b>	73.5%	11.1%	-26.7%	<b>194</b>	<b>256</b>	<b>31.6%</b>
Impairment	3	-17	6	-18	NM	95.2%	-136.1%	-24	-61	NM
UAE Corporate Tax			-4	-4	-2.7%	NM	NM		-18	NM
Non-controlling interests	1	0	1	1	50.8%	-45.4%	NM	17	18	7.7%
<b>Net Profit</b>	<b>33</b>	<b>30</b>	<b>36</b>	<b>37</b>	<b>2.7%</b>	<b>9.4%</b>	<b>19.7%</b>	<b>154</b>	<b>159</b>	<b>3.6%</b>

FABS estimate & Co Data

**CBI – P&L KPI**

	1Q23	4Q23	1Q24	YOY Ch	QOQ Ch	2023	2024F	Change
Net FI/OI	68.9%	64.1%	68.4%	-47	431	65.4%	68.4%	302
NIM	2.3%	1.9%	1.9%	-45	-2	2.0%	2.5%	46
NIS	1.9%	1.3%	1.3%	-59	0	1.5%	2.0%	50
Fees & comms/OI	21.0%	27.8%	24.3%	330	-349	20.7%	19.0%	-173
Trading/OI	10.1%	8.1%	7.3%	-282	-82	13.9%	12.7%	-129
Cost to income	79.1%	63.1%	71.5%	-758	837	64.2%	58.5%	-572
Impairment/PPP	-10.1%	35.9%	-17.7%	-763	-5,361	12.2%	23.8%	1158
NP/OI	22.2%	23.6%	29.8%	760	618	28.3%	25.8%	-247
Cost of risk	-0.1%	0.5%	-0.2%	-9	-74	0.2%	0.5%	31
Loan-to-Deposit	97.5%	100.0%	96.1%	-144	-391	100.0%	99.9%	-9
NPL - Calculated	17.4%	18.0%	20.9%	358	293	18.0%	17.8%	-20
Coverage excluding collateral	29.3%	33.4%	29.0%	-32	-440	33.4%	35.5%	208
CET1	10.5%	11.3%	11.0%	45	-31	11.3%	12.3%	104
Capital adequacy	14.4%	15.1%	14.8%	39	-35	15.1%	16.3%	110
ROAE	7.6%	7.5%	7.7%	4	17	6.9%	6.7%	-23
ROAA	0.8%	0.9%	0.9%	13	3	0.8%	0.8%	8

FABS estimate & Co Data

**CBI – Key BS Items**

	1Q23	2Q23	3Q23	4Q23	1Q24	YOY Ch
AED mm						
Net advances	12,150	12,273	11,914	12,608	12,192	0.3%
QOQ Change	-6.0%	1.0%	-2.9%	5.8%	-3.3%	
Total assets	19,681	19,460	18,738	18,974	19,003	-3.4%
QOQ Change	-7.0%	-1.1%	-3.7%	1.3%	0.2%	
Customer deposits	12,457	11,418	12,174	12,608	12,687	1.8%
QOQ Change	2.1%	-8.3%	6.6%	3.6%	0.6%	
Total equity	2,628	2,673	2,723	2,753	2,789	6.1%
QOQ Change	1.3%	1.7%	1.9%	1.1%	1.3%	

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	0.80	70.0%	0.56
Relative Valuation (RV)	0.78	30.0%	0.23
<b>Weighted Average Valuation (AED)</b>			<b>0.80</b>
Current market price (AED)			0.72
Upside/Downside (%)			+11%

### 1) Residual Income Method:

We have discounted the economic profit/excess equity using the cost of equity of 7.9%. Cost of equity is calculated by using 10-year government bond yield of 5.2%, beta of 0.8 and equity risk premium of 3.6%. 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)	-201
Terminal value (AED, Mn)	-732
Book value of equity (as of March 2024)	2,330
<b>FV to Common shareholders (AED, Mn)</b>	<b>1,397</b>
No. of share (Mn)	1,737
Current Market Price (AED)	0.72
<b>Fair Value per share (AED)</b>	<b>0.80</b>

### Residual Income Method

(All Figures in AED Mn)	FY 2024E	FY 2025E	FY 2026E	FY 2027E	FY 2028E
Net Income	159	163	171	169	189
(-) Equity Charge	-194	-206	-220	-233	-248
<b>Excess Equity</b>	<b>-34</b>	<b>-43</b>	<b>-49</b>	<b>-64</b>	<b>-60</b>
Discounting Factor	0.95	0.88	0.82	0.76	0.70
<b>Present Value of Excess Equity</b>	<b>-33</b>	<b>-38</b>	<b>-40</b>	<b>-48</b>	<b>-42</b>

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 peers. It is valued at 2024 PB multiple of 0.6x as compared to a peer valuation of 0.9x.

Company	Market (USD Mn)	P/E (x)		P/B (x)	
		2024F	2025F	2024F	2025F
Mashreq Bank (MASQ)	9,830	5.6	5.9	1.1	1.0
Rakbank	2,820	6.1	5.9	0.9	0.8
Emirates NBD	26,920	5.3	5.6	0.9	0.8
Dubai Islamic Bank (DIB)	10,820	6.9	7.1	1.0	1.0
Abu Dhabi Commercial Bank (ADCB)	18,060	8.0	8.2	0.9	0.9
<b>Average</b>		<b>6.4x</b>	<b>6.5x</b>	<b>1.0x</b>	<b>0.9x</b>
<b>Median</b>		<b>6.1x</b>	<b>5.9x</b>	<b>0.9x</b>	<b>0.9x</b>
<b>Max</b>		<b>6.9x</b>	<b>7.1x</b>	<b>1.0x</b>	<b>1.0x</b>
<b>Min</b>		<b>5.6x</b>	<b>5.9x</b>	<b>0.9x</b>	<b>0.8x</b>

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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