

## Commercial Bank International (CBI)

Declining loan portfolio and rising cost of funds impacted profitability

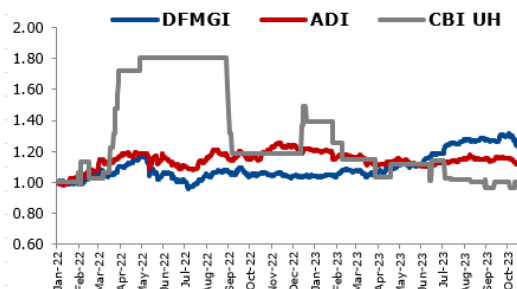
**Current Price**  
AED 0.76

**Target Price**  
AED 0.80

**Upside/Downside (%)**  
**+5.4%**

**Rating**  
**HOLD**

- CBI's net advances declined 8.6% YOY and 2.9% QOQ to AED 11.9 Bn in 3Q23
- Customer deposits declined 0.3% YOY in 3Q23, while Islamic customer deposits grew from AED 839 Mn in 3Q22 to AED 1,175 Mn in 3Q23
- CBI's non-funded income declined 36.8% YOY in 3Q23 primarily due to lower gains on financial assets at FVTPL and lower dividends partially offset by an increase in foreign exchange gains
- CBI asset quality continued to worsen from the previous four quarters as NPLs grew from 17.6% in 2Q23 to 18.9% in 3Q23



### 3Q23 Net Profit in line with our estimate

Commercial Bank International's ("CBI"/ "The Bank") net profit grew from AED 11 Mn in 3Q22 to AED 46 Mn in 3Q23, in line with our estimate of AED 49 Mn. The rise in net profit was driven by a decline in operating expenses, lower impairments partially offset by a decline in net funded and non-funded income.

### P&L Highlights

CBI's funded income increased from AED 156 Mn in 3Q22 to AED 251 Mn in 3Q23 while income from Islamic financing and investment assets also rose from AED 11 Mn in 3Q22 to AED 24 Mn in 3Q23. The growth is mainly driven by higher asset yield and a rise in interest earning assets. Asset yield rose 237 bps YOY and 32 bps QOQ to 6.3% in 3Q23. Funded expenses rose significantly from AED 77 Mn in 3Q22 to AED 190 Mn in 3Q23 due to an increase in the cost of funds driven by higher benchmark rates. CBI's cost of funds grew 297 bps YOY and 47 bps QOQ to 5.1% in 3Q23. Thus, net funded income declined 6.3% YOY to AED 85 Mn in 3Q23. NIMs declined 25 bps YOY and 8 bps QOQ to 2.0% in 3Q23. Fees and commission income rose 4.9% YOY to AED 21 Mn in 3Q23. While, other operating income declined from AED 78 Mn in 3Q22 to AED 41 Mn in 3Q23 owing to decline in gain on financial assets at FVTPL and lower dividends partially offset by an rise in foreign exchange gains. Thus, non-funded income declined 36.8% YOY to AED 62 Mn in 3Q23. Resultantly, total operating income declined 22.2% YOY to AED 147 Mn in 3Q23. Operating expenses declined 24.0% YOY to AED 74 Mn in 3Q23. Resultantly, the cost-to-income ratio improved from 64.0% in 2Q23 to 50.4% in 3Q23. Impairments charges declined from AED 46 Mn in 3Q22 to AED 11 Mn in 3Q23. Share of profit attributable to non-controlling interest holders declined to AED 15 Mn in 3Q23 compared to AED 34 Mn in 3Q22.

### Stock Information

Market Cap (AED, mm)	1,320.41
Paid Up Capital (mm)	1,737.38
52 Week High	0.91
52 Week Low	0.53
3M Avg. daily value (AED)	3,886

### 3Q23 Result Review (AED, mm)

Total Assets	18,738
Net advances	11,914
Total Equity	2,723
Total Deposits	12,174
Net Profit	46

### Financial Ratios

Dividend Yield (12m)	NA
Dividend Pay-out (%)	NA
Price-Earnings Ratio(x)	9.52
Price-to-Book Ratio (x)	0.60
Book Value (AED)	1.27
Return-on Equity (%)	6.46

5 Days	0.00%
1 Months	24.59%
3 Months	22.58%
6 Months	11.76%
1 Year	4.83%
Month to Date (MTD%)	0.00%
Quarter to Date (QTD%)	24.59%
Year to Date (YTD%)	-10.48%

### Balance Sheet Highlights

CBI's total assets declined 9.1% YOY to AED 18.7 Bn in 3Q23. Net advances also declined 8.6% YOY to AED 11.9 Bn in 3Q23. Customer deposits declined marginally 0.3% YOY to AED 12.2 Bn in 3Q23. The loan-to-deposit ratio declined from 107.5% in 2Q23 to 97.9% in 3Q23. While the Bank's total equity rose 7.1% YOY to AED 2.7 Bn in 3Q23.

### Target Price and Rating

We revised our rating from BUY to HOLD on CBI with an unchanged target price of AED 0.80. CBI's stock price grew 28.8% since our last rating (October 2023). The Bank reported growth in profitability in 3Q23 primarily due to a decline in operating expenses owing to strong cost control measures and lower impairments partially offset by a decline in net funded and non-funded income. CBI's non-funded income declined 36.8% YOY in 3Q23 primarily due to lower gains on financial assets at FVTPL and lower dividends partially offset by an increase in foreign exchange gains. While, the Bank's net funded income witnessed a decline of 6.3% YOY in 3Q23 primarily due to a higher growth in funded expenses. CBI's cost of funds grew 297 bps YOY to 5.1% in 3Q23 impacting margins. The Bank's NIMs declined 25 bps YOY and 8 bps QOQ to 2.0% in 3Q23 owing to a substantial rise in the cost of funds. Furthermore, net advances declined 8.6% YOY and 2.9% QOQ in 3Q23 mainly due to a decline in Wholesale and Retail lending. Customer deposits also witnessed a decline of 0.3% YOY in 3Q23. The Bank's CASA deposits declined from 23.5% in 2Q23 to 20.2% in 3Q23. CBI's operating expenses declined 24.0% YOY and 5.4% QOQ resulting in an improvement in the cost-to-income ratio. Cost-to-income ratio improved 119 bps YOY to 50.4% in 3Q23. Furthermore, the Bank's asset quality continued to worsen from the previous four quarters owing to an increase in NPLs. CBI's NPL ratio rose from 17.6% in 2Q23 to 18.9% in 3Q23. However, Stage 2 loans as a percentage of gross loans declined from 11.7% in 2Q23 to 11.3% in 3Q23. However, provision coverage improved from 30.2% in 2Q23 to 31.2% in 3Q23. CBI held collateral worth AED 1,989.0 Mn against the impaired loans in 4Q22 enough to cover nonperforming loans. CBI also maintained a healthy capitalization with a Tier 1 ratio of 13.5% and total CAR of 14.7% in 3Q23. Hence based on above-mentioned factors, we assign a HOLD rating on the stock.

#### CBI - Relative valuation

(at CMP)	2018	2019	2020	2021	2022	2023F
PE	6.83	11.31	NM	10.84	11.26	7.53
PB	0.68	0.66	0.67	0.63	0.62	0.58

FABS Estimates & Co Data

**CBI – P&L**

AED mm	3Q22	2Q23	3Q23A	3Q23F	Var.	YOY Ch	QOQ Ch	2022	2023F	Change
Funded income	156	240	251	248	1.3%	60.7%	4.4%	654	995	52.0%
Income from Islamic fin & invt assets	11	20	24	24	2.8%	113.8%	20.0%	46	86	86.3%
Funded expenses	-77	-173	-190	-175	8.9%	147.1%	10.0%	-262	-618	135.6%
<b>Net funded income</b>	<b>90</b>	<b>87</b>	<b>85</b>	<b>96</b>	<b>-12.1%</b>	<b>-6.3%</b>	<b>-3.1%</b>	<b>398</b>	<b>379</b>	<b>-4.8%</b>
Fees and commissions	20	25	21	27	-21.4%	4.9%	-15.2%	101	96	-5.0%
Other operating income, net	78	10	41	12	NM	-47.6%	NM	104	93	-10.0%
<b>Total non-funded income</b>	<b>98</b>	<b>35</b>	<b>62</b>	<b>39</b>	<b>60.1%</b>	<b>-36.8%</b>	<b>78.4%</b>	<b>205</b>	<b>190</b>	<b>-7.5%</b>
<b>Total operating income</b>	<b>189</b>	<b>122</b>	<b>147</b>	<b>135</b>	<b>8.6%</b>	<b>-22.2%</b>	<b>20.1%</b>	<b>603</b>	<b>568</b>	<b>-5.8%</b>
Operating expenses	-97	-78	-74	-78	-5.6%	-24.0%	-5.4%	-328	-341	4.0%
<b>Pre provision profit</b>	<b>91</b>	<b>44</b>	<b>73</b>	<b>57</b>	<b>28.2%</b>	<b>-20.3%</b>	<b>65.4%</b>	<b>275</b>	<b>227</b>	<b>-17.4%</b>
Impairment	-46	1	-11	-5	NM	NM	NM	-125	-27	-78.4%
Non-controlling interests	34	0	15	2	NM	-55.4%	NM	33	25	-24.8%
<b>Net Profit</b>	<b>11</b>	<b>45</b>	<b>46</b>	<b>49</b>	<b>-5.7%</b>	<b>325.5%</b>	<b>4.3%</b>	<b>117</b>	<b>175</b>	<b>49.6%</b>

FABS estimate & Co Data

**CBI – P&L KPI**

	3Q22	2Q23	3Q23	YOY Ch	QOQ Ch	2022	2023F	Change
Net FI/OI	47.9%	71.5%	57.7%	978	-1,382	66.0%	66.6%	64
NIM	2.3%	2.1%	2.0%	-25	-8	2.3%	2.0%	-28
NIS	2.1%	1.6%	1.5%	-60	-15	2.1%	1.8%	-27
Fees & comms/OI	10.7%	20.5%	14.5%	374	-601	16.8%	16.9%	13
Trading/OI	41.4%	8.0%	27.8%	-1352	1,983	17.2%	16.4%	-78
Cost to income	51.6%	64.0%	50.4%	-119	-1,359	54.4%	60.0%	563
Impairment/PPP	50.6%	-2.0%	15.1%	-3547	1,710	45.3%	11.8%	-3348
NP/OI	5.8%	36.5%	31.7%	2589	-480	19.4%	30.9%	1142
ROAE	13.3%	8.0%	8.5%	-475	58	5.6%	7.9%	239
ROAA	1.4%	0.9%	1.0%	-39	11	0.6%	0.8%	24

FABS estimate & Co Data

**CBI – Key BS Items**

AED mm	3Q22	4Q22	1Q23	2Q23	3Q23	YOY Ch
<b>Net advances</b>	<b>13,034</b>	<b>12,924</b>	<b>12,150</b>	<b>12,273</b>	<b>11,914</b>	<b>-8.6%</b>
QOQ Change	8.4%	-0.8%	-6.0%	1.0%	-2.9%	
<b>Total assets</b>	<b>20,622</b>	<b>21,167</b>	<b>19,681</b>	<b>19,460</b>	<b>18,738</b>	<b>-9.1%</b>
QOQ Change	8.0%	2.6%	-7.0%	-1.1%	-3.7%	
<b>Customer deposits</b>	<b>12,216</b>	<b>12,200</b>	<b>12,457</b>	<b>11,418</b>	<b>12,174</b>	<b>-0.3%</b>
QOQ Change	8.4%	-0.1%	2.1%	-8.3%	6.6%	
<b>Total equity</b>	<b>2,543</b>	<b>2,595</b>	<b>2,628</b>	<b>2,673</b>	<b>2,723</b>	<b>7.1%</b>
QOQ Change	0.4%	2.1%	1.3%	1.7%	1.9%	

FABS estimate & Co Data

## Valuation:

We have used 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	0.85	70.0%	0.59
Relative Valuation (RV)	0.69	30.0%	0.21
<b>Weighted Average Valuation (AED)</b>			<b>0.80</b>
Current market price (AED)			0.76
Upside/Downside (%)			+5.4%

### 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 4.5%, beta of 0.9 and equity risk premium of 4.7%. 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)	-128
Terminal value (AED, Mn)	-660
Book value of equity (as of June 2023)	2,264
<b>FV to Common shareholders (AED, Mn)</b>	<b>1,476</b>
No. of share (Mn)	1,737
Current Market Price (AED)	0.76
<b>Fair Value per share (AED)</b>	<b>0.85</b>

### Residual Income Method

(All Figures in AED Mn)	FY 2023E	FY 2024E	FY 2025E	FY 2026E	FY 2027E
Net Income	175	188	210	203	208
(-) Equity Charge	-199	-215	-233	-251	-269
<b>Excess Equity</b>	<b>-4</b>	<b>-27</b>	<b>-23</b>	<b>-48</b>	<b>-62</b>
Discounting Factor	0.99	0.91	0.83	0.77	0.71
<b>Present Value of Excess Equity</b>	<b>-4</b>	<b>-25</b>	<b>-19</b>	<b>-37</b>	<b>-43</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 PB multiple of 0.5x as compared to a peer valuation of 1.1x.

Company	Market (USD Mn)	P/B (x)		P/E (x)		Dividend Yield (%)	
		2023F	2024F	2023F	2024F	2023F	2024F
Commercial Bank of Dubai (CBD)	3,747	1.0	1.0	NA	NA	5.6	6.0
Mashreq Bank (MASQ)	8,302	1.2	NA	5.3	5.6	8.2	8.2
Rakbank	2,908	1.1	1.1	6.1	7.4	8.3	7.0
Emirates NBD	27,520	1.0	0.9	4.7	5.6	5.2	5.2
Dubai Islamic Bank (DIB)	10,450	1.1	1.0	7.1	7.6	6.2	6.2
Abu Dhabi Commercial Bank (ADCB)	15,540	0.9	0.9	7.8	8.1	6.6	6.4
Abu Dhabi Islamic Bank (ADIB)	9,928	1.9	1.7	8.8	9.1	6.5	5.8
<b>Average</b>		<b>1.1x</b>	<b>1.1x</b>	<b>6.6x</b>	<b>7.2x</b>	<b>6.7%</b>	<b>6.4%</b>
<b>Median</b>		<b>1.1x</b>	<b>1.0x</b>	<b>6.6x</b>	<b>7.5x</b>	<b>6.5%</b>	<b>6.2%</b>
<b>Max</b>		<b>1.1x</b>	<b>1.1x</b>	<b>7.6x</b>	<b>8.0x</b>	<b>7.4%</b>	<b>6.7%</b>
<b>Min</b>		<b>1.0x</b>	<b>0.9x</b>	<b>5.5x</b>	<b>6.1x</b>	<b>5.9%</b>	<b>5.9%</b>

Source: FAB Securities

## Research Rating Methodology:

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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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