

## Commercial Bank International (CBI)

Higher cost of funds and lower other income impacted profit

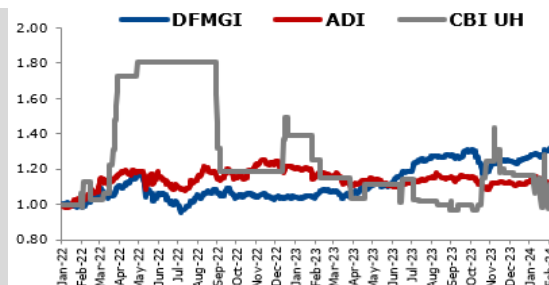
**Current Price**  
AED 0.678

**Target Price**  
AED 0.80

**Upside/Downside (%)**  
+18%

**Rating**  
BUY

- CBI's net advances declined 2.4% YOY but grew 5.8% QOQ to AED 12.6 Bn in 4Q23
- Customer deposits including Islamic deposits grew 3.3% YOY and 3.6% QOQ to AED 12.6 Bn in 4Q23. Islamic customer deposits grew from AED 1.2 Bn in 3Q23 to AED 1.4 Bn in 4Q23
- CBI's non-funded income declined 12.7% YOY to AED 46.0 Mn in 4Q23 primarily due to lower gains on non-financial assets and lower income from financial assets at FVTPL partially offset by an increase in foreign exchange gains
- CBI asset quality improved with a decline in the NPL ratio from 18.9% in 3Q23 to 18.0% in 4Q23. While, the Bank held collateral worth AED 2,095.8 Mn against the impaired loans in 4Q23 enough to cover nonperforming loans



### 4Q23 Net Profit lower than our estimate

Commercial Bank International's ("CBI"/ "The Bank") net profit decline from AED 50 Mn in 4Q22 to AED 30 Mn in 4Q23, lower than our estimate of AED 40 Mn. The decline in net profit was primarily attributable to lower net funded and non-funded income partially offset by a decline in impairment charges.

### P&L Highlights

CBI's funded income grew from AED 204 Mn in 4Q22 to AED 250 Mn in 4Q23 while income from Islamic financing and investment assets also rose from AED 13 Mn in 4Q22 to AED 23 Mn in 4Q23. However, funded expenses grew significantly from AED 123 Mn in 4Q22 to AED 192 Mn in 4Q23 due to an increase in the cost of funds driven by higher benchmark rates. CBI's cost of funds grew 193 bps YOY and declined 3 bps QOQ to 5.1% in 4Q23. Thus, net funded income fell 13.1% YOY to AED 81 Mn in 4Q23. NIMs declined 25 bps YOY and 11 bps QOQ to 1.9% in 4Q23. Fees and commission income rose 2.4% YOY to AED 35 Mn in 4Q23, while other operating income declined from AED 18 Mn in 4Q22 to AED 10 Mn in 4Q23 owing to a decline in gain on financial assets at FVTPL and lower gains on non-financial assets partially offset by a rise in foreign exchange gains. Thus, non-funded income declined 12.7% YOY to AED 46 Mn in 4Q23. Resultantly, total operating income declined 13.0% YOY to AED 127 Mn in 4Q23. Operating expenses rose 6.1% YOY to AED 80 Mn in 4Q23. Resultantly, the cost-to-income ratio grew from 51.8% in 4Q22 to 63.1% in 4Q23. Impairment charges declined from AED 20 Mn in 4Q22 to AED 17 Mn in 4Q23.

### Stock Information

Market Cap (AED, Mn)	1,177.95
Paid Up Capital (Mn)	1,737.38
52 Week High	0.87
52 Week Low	0.53
3M Avg. daily value (AED)	538,279

### 4Q23 Result Review (AED, Mn)

Total Assets	18,974
Total Liabilities	16,101
Total Equity	2,873
Total Deposits	12,608
Net Profit	30

### Financial Ratios

Dividend Yield (12m)	N/A
Dividend Pay-out (%)	0.00
Price-Earnings Ratio(x)	7.59
Price-to-Book Ratio (x)	0.51
Book Value (AED)	1.32
Return-on Equity (%)	6.95

5 Days	7.28%
1 Months	-4.51%
3 Months	-10.79%
6 Months	9.35%
1 Year	-11.37%
Month to Date (MTD%)	13.00%
Quarter to Date (QTD%)	-4.51%
Year to Date (YTD%)	-4.51%

### Balance Sheet Highlights

CBI's total assets declined 10.4% YOY to AED 19.0 Bn in 4Q23. Net advances also declined 2.4% YOY but grew 5.8% QOQ to AED 12.6 Bn in 4Q23. Wholesale and Retail lending accounts for 91.1% and 8.9% respectively of total loan book as of 2023. Customer deposits grew 3.3% YOY and 3.6% QOQ to AED 12.6 Bn in 4Q23. CASA deposits account for 20.6% of total deposits as of 2023. The loan-to-deposit ratio rose from 97.9% in 3Q23 to 100.0% in 4Q23.

### Target Price and Rating

We maintain our BUY rating on CBI with a target price of AED 0.80. CBI's profitability declined in 4Q23 primarily due to lower net funded and non-funded income along with an increase in operating expenses. The decline in net funded income was mainly due to the rise in the cost of funds. While the decline in non-funded income was due to lower gains on non-financial assets and lower income from financial assets at FVTPL partially offset by an increase in foreign exchange gains. The Bank's cost of funds grew 193 bps YOY but declined 3 bps QOQ to 5.1% in 4Q23 impacting margins. Thus, NIMs declined 25 bps YOY and 11 bps QOQ to 1.9% in 4Q23 owing to a substantial rise in the cost of funds. However, net advances grew 5.8% QOQ in 4Q23 mainly due to a growth in Wholesale and Retail lending. Customer deposits also grew 3.3% YOY and 3.6% QOQ in 4Q23. CBI's CASA deposits remained stable at 20.6% in 4Q23. CBI increased its investments in Islamic financing and investment products in high-tenured investment over the previous year to benefit from the high-interest rate scenario. The Bank's asset quality also improved over the previous four quarters due to a decline in NPLs. CBI's NPL ratio declined from 18.9% in 3Q23 to 18.0% in 4Q23. However, Stage 2 loans as a percentage of gross loans grew from 11.3% in 3Q23 to 14.1% in 4Q23. Provision coverage improved from 31.2% in 3Q23 to 33.4% in 4Q23. CBI held collateral worth AED 2,095.8 Mn against the impaired loans 4Q23, which is enough to cover nonperforming loans. The Bank maintained a healthy capitalisation with a Tier 1 ratio of 14.0% and a total CAR of 15.2% in 4Q23. Furthermore, CBI's 63% of the advances and investment will be priced within a year, which will pressurize margins in a declining interest rate scenario. Meanwhile, the remaining 37% of advances and investments will be repriced after a year, which is expected to benefit the bank in the declining interest rates scenario. The stock is also trading at an inexpensive PB multiple of 0.37x compared to peer average of 1.13x in FY2024. Hence based on above mentioned factors, we assign a BUY rating on the stock.

#### CBI - Relative valuation

(at CMP)	2019	2020	2021	2022	2023	2024F
PE	9.38	NM	8.99	9.34	7.11	6.34
PB	0.54	0.56	0.52	0.51	0.48	0.44

FABS Estimates & Co Data

**CBI – P&L**

AED Mn	4Q22	3Q23	4Q23A	4Q23F	VAR	YOY Ch	QOQ Ch	2022	2023	Change
Funded income	204	251	250	268	-6.9%	22.8%	-0.3%	654	984	50.5%
Income from Islamic fin & invt assets	13	24	23	25	-6.9%	77.7%	-3.7%	46	83	80.4%
Funded expenses	-123	-190	-192	-202	-5.2%	56.0%	0.8%	-262	-600	129.0%
<b>Net funded income</b>	<b>94</b>	<b>85</b>	<b>81</b>	<b>91</b>	<b>-10.6%</b>	<b>-13.1%</b>	<b>-3.9%</b>	<b>398</b>	<b>355</b>	<b>-10.8%</b>
Fees and commissions	34	21	35	25	41.0%	2.4%	66.1%	101	113	11.9%
Other operating income, net	18	41	10	24	-56.8%	-42.0%	-74.9%	104	76	-26.9%
<b>Total non-funded income</b>	<b>52</b>	<b>62</b>	<b>46</b>	<b>49</b>	<b>-6.5%</b>	<b>-12.7%</b>	<b>-26.7%</b>	<b>205</b>	<b>188</b>	<b>-8.3%</b>
<b>Total operating income</b>	<b>146</b>	<b>147</b>	<b>127</b>	<b>140</b>	<b>-9.2%</b>	<b>-13.0%</b>	<b>-13.5%</b>	<b>603</b>	<b>544</b>	<b>-9.8%</b>
Operating expenses	-75	-74	-80	-76	5.5%	6.1%	8.2%	-328	-349	6.4%
<b>Pre provision profit</b>	<b>70</b>	<b>73</b>	<b>47</b>	<b>64</b>	<b>-26.6%</b>	<b>-33.4%</b>	<b>-35.6%</b>	<b>275</b>	<b>194</b>	<b>-29.5%</b>
Impairment	-20	-11	-17	-18	-7.5%	-15.9%	53.1%	-125	-24	-80.8%
Non-controlling interests	0.3	15	0.0	5	NM	NM	NM	33	17	-48.5%
<b>Net Profit</b>	<b>50</b>	<b>46</b>	<b>30</b>	<b>40</b>	<b>-25.6%</b>	<b>-40.0%</b>	<b>-35.5%</b>	<b>117</b>	<b>154</b>	<b>31.6%</b>

FABS estimate & Co Data

**CBI – P&L KPI**

	4Q22	3Q23	4Q23	YOY Ch	QOQ Ch	2022	2023	Change
Net FI/OI	64.2%	57.7%	64.1%	-12	643	66.0%	65.4%	-64
NIM	2.2%	2.0%	1.9%	-25	-11	2.3%	2.0%	-30
NIS	1.8%	1.5%	1.3%	-50	-12	2.1%	1.5%	-59
Fees & comms/OI	23.6%	14.5%	27.8%	416	1,333	16.8%	20.7%	391
Trading/OI	12.1%	27.8%	8.1%	-404	-1,975	17.2%	13.9%	-327
Cost to income	51.8%	50.4%	63.1%	1134	1,266	54.4%	64.2%	986
Impairment/PPP	28.4%	15.1%	35.9%	749	2,081	45.3%	12.2%	NM
NP/OI	34.3%	31.7%	23.6%	-1067	-804	19.4%	28.3%	887
ROAE	7.1%	8.5%	7.5%	36	-104	5.6%	6.9%	140
ROAA	0.7%	1.0%	0.9%	18	-9	0.6%	0.8%	21

FABS estimate & Co Data

**CBI – Key BS Items**

AED Mn	4Q22	1Q23	2Q23	3Q23	4Q23	YOY Ch
Net advances	12,924	12,150	12,273	11,914	12,608	-2.4%
QOQ Change	-0.8%	-6.0%	1.0%	-2.9%	5.8%	
Total assets	21,167	19,681	19,460	18,738	18,974	-10.4%
QOQ Change	2.6%	-7.0%	-1.1%	-3.7%	1.3%	
Customer deposits	12,200	12,457	11,418	12,174	12,608	3.3%
QOQ Change	-0.1%	2.1%	-8.3%	6.6%	3.6%	
Total equity	2,595	2,628	2,673	2,723	2,753	6.1%
QOQ Change	2.1%	1.3%	1.7%	1.9%	1.1%	

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	0.83	70.0%	0.58
Relative Valuation (RV)	0.73	30.0%	0.22
<b>Weighted Average Valuation (AED)</b>			<b>0.80</b>
Current market price (AED)			0.63
Upside/Downside (%)			+27.01%

### 1) Residual Income Method:

We have discounted the economic profit/excess equity using the cost of equity of 8.1%. Cost of equity is calculated by using 10-year government bond yield of 4.5%, beta of 0.9 and equity risk premium of 4.0%. 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)	-179
Terminal value (AED, Mn)	-674
Book value of equity (as of Dec 2023)	2,294
<b>FV to Common shareholders (AED, Mn)</b>	<b>1,442</b>
No. of share (Mn)	1,737
Current Market Price (AED)	0.63
<b>Fair Value per share (AED)</b>	<b>0.83</b>

### Residual Income Method

(All Figures in AED Mn)	FY 2024E	FY 2025E	FY 2026E	FY 2027E	FY 2028E
Net Income	173	177	184	182	201
(-) Equity Charge	-200	-214	-229	-244	-260
<b>Excess Equity</b>	<b>-27</b>	<b>-38</b>	<b>-45</b>	<b>-62</b>	<b>-59</b>
Discounting Factor	0.93	0.86	0.79	0.74	0.68
<b>Present Value of Excess Equity</b>	<b>-25</b>	<b>-32</b>	<b>-35</b>	<b>-45</b>	<b>-40</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 0.5x as compared to a peer valuation of 1.0x.

Company	Market (USD Mn)	P/B (x)		P/E (x)		Dividend Yield (%)	
		2024F	2025F	2024F	2025F	2024F	2025F
Commercial Bank of Dubai (CBD)	3,747	1.1	NA	NA	NA	5.5	6.0
Mashreq Bank (MASQ)	8,302	1.0	0.9	5.2	5.7	8.2	7.2
Rakbank	2,908	1.0	0.9	7.4	5.5	7.2	9.1
Emirates NBD	27,520	1.0	0.9	6.1	6.0	4.9	4.9
Dubai Islamic Bank (DIB)	10,450	1.1	1.0	8.0	7.3	5.9	6.1
Abu Dhabi Commercial Bank (ADCB)	15,540	1.0	0.9	8.6	8.4	5.8	5.9
Abu Dhabi Islamic Bank (ADIB)	9,928	1.7	1.6	8.9	8.3	5.9	6.2
<b>Average</b>		<b>1.1x</b>	<b>1.0x</b>	<b>7.4x</b>	<b>6.9x</b>	<b>6.2%</b>	<b>6.5%</b>
<b>Median</b>		<b>1.0x</b>	<b>0.9x</b>	<b>7.7x</b>	<b>6.6x</b>	<b>5.9%</b>	<b>6.1%</b>
<b>Max</b>		<b>1.1x</b>	<b>1.0x</b>	<b>8.4x</b>	<b>8.0x</b>	<b>6.6%</b>	<b>6.7%</b>
<b>Min</b>		<b>1.0x</b>	<b>0.9x</b>	<b>6.4x</b>	<b>5.8x</b>	<b>5.7%</b>	<b>5.9%</b>

Source: FAB Securities

## Research Rating Methodology:

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<b>Rating</b>	<b>Upside/Downside potential</b>
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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