

Commercial Bank International (CBI)

Higher impairments to boost provision coverage impacted profitability

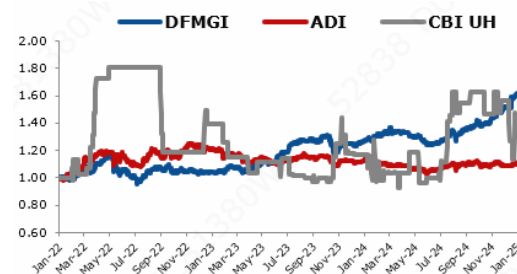
Current Price
AED 0.70

Target Price
AED 0.85

Upside/Downside (%)
21.4%

Rating
BUY

- CBI's net funded income rose 11.7% YOY to AED 91 Mn in 4Q24 owing to growth in funded income, partially offset by rise in funded expenses.
- The bank's cost-to-income ratio declined significantly from 63.1% in 4Q23 to 50.0% in 4Q24.
- Impairment charges increased substantially from AED 17 Mn in 4Q23 to AED 119 Mn in 4Q24 attributed to provisions created to boost coverage.
- CBI's calculated NPL ratio declined from 18.1% in 4Q23 to 15.9% in 4Q24. Provision coverage rose from 34.9% in 3Q24 to 41.7% in 4Q24.



4Q24 Net Profit lower than our estimates

Commercial Bank International ("CBI"/ "The Bank") recorded a net loss of AED 29 Mn in 4Q24 compared to a profit of AED 30 Mn in 4Q23, lower than our profit estimate of AED 38 Mn. The net loss recorded is mainly due to a significant increase in impairment charges owing to provisions created to boost coverage, partially offset by higher net funded and non-funded income.

P&L Highlights

CBI's funded income grew 1.4% YOY to AED 240 Mn in 4Q24 owing to a healthy growth in net advances and other interest-earning assets. Moreover, income from Islamic financing and investment assets rose substantially from AED 23 Mn in 4Q23 to AED 34 Mn in 4Q24 attributable to an increase in Islamic financing and investment assets. However, funded expenses grew 2.2% YOY to AED 182 Mn in 4Q24 owing to higher customer deposits. CBI's cost of funds declined 50 bps QOQ and 42 bps YOY to 4.31% in 4Q24 owing to a decline in benchmark rates. Thus, net funded income rose 11.7% YOY to AED 91 Mn in 4Q24. NIMs rose marginally 4 bps YOY and 9 bps QOQ to 2.0% in 4Q24. Net fees and commission income fell slightly 5.5% YOY to AED 33 Mn in 4Q24. CBI recorded a strong increase in other operating income from AED 10 Mn in 4Q23 to AED 49 Mn in 4Q24. Thus, non-funded income grew from AED 46 Mn in 4Q23 to AED 83 Mn in 4Q24. Resultantly, total operating income grew from AED 127 Mn in 4Q23 to AED 174 Mn in 4Q24. Operating expenses grew 8.4% YOY to AED 87 Mn in 4Q24. Impairment charges increased substantially from AED 17 Mn in 4Q23 to AED 119 Mn in 4Q24. The Bank incurred a corporate tax of AED 3 Mn in 4Q24, owing to the introduction of UAE corporate tax.

Stock Information

Market Cap (AED, mn)	1,216.17
Paid Up Capital (mn)	1,737.38
52 Week High	1.06
52 Week Low	0.55
3M Avg. daily value (AED)	12,697

4Q24 Result Review (AED, mn)

Total Assets	20,895
Total Liabilities	17,845
Total Equity	3,050
Total Deposits	15,430
Net Loss	29

Financial Ratios

Dividend Yield (12m)	#N/A N/A
Dividend Pay-out (%)	0.00
Price-Earnings Ratio(x)	4.91
Price-to-Book Ratio (x)	0.49
Book Value (AED)	1.42
Return-on Equity (%)	8.45

Stock Performance

5 Days	4.48%
1 Months	-9.09%
3 Months	-21.44%
6 Months	-6.54%
1 Year	11.11%
Month to Date (MTD%)	-13.58%
Quarter to Date (QTD%)	-13.58%
Year to Date (YTD%)	-13.58%

Balance Sheet Highlights

CBI's total assets grew 10.1% YOY but declined marginally 0.5% QOQ to AED 20.9 Bn in 4Q24. Net advances grew 7.7% YOY and 5.2% QOQ to AED 13.6 Bn in 4Q24. Customer deposits, including Islamic deposits, rose significantly from AED 12.6 Bn in 4Q23 to AED 15.4 Bn in 4Q24. Thus, the loan-to-deposit ratio declined from 100.0% in 4Q23 to 88.0% in 4Q24. Total equity grew 6.4% YOY but fell 1.4% QOQ to AED 2.9 Bn in 4Q24.

Target Price and Rating

We maintain our BUY rating on CBI with an unchanged target price of AED 0.85. CBI demonstrated solid growth in the net funded income as well as non-funded income in 4Q24, reflecting its ability to generate solid returns from its core as well as non-core business. The Bank's net advances showed positive momentum, while the Loan to deposit ratio also improved from 85.0% in 3Q24 to 88.0% in 4Q24. The bank's Islamic financing and investment products witnessed a significant increase in 4Q24, resulting in a higher income from Islamic and financing assets. CBI's NIMs improved by 9 bps QOQ to 2.0% despite a decline in the benchmark rates. Going forward, the Bank's NIM is expected to benefit in a declining interest rate scenario due to negative interest rate sensitivity. CBI has efficiently controlled operating expenses despite a significant increase in operating income. Furthermore, CBI's calculated NPL ratio declined from 18.1% in 4Q23 to 15.9% in 4Q24. Provision coverage rose from 34.9% in 3Q24 to 41.7% in 4Q24. Moreover, the Bank held collateral worth AED 10.4 Bn which will help CBI in mitigating credit risk. CBI maintained a healthy capitalization with a CET 1 ratio of 13.8% and a total CAR of 17.7% in 4Q24. Hence, based on the above-mentioned factors, we assign a BUY rating on the stock.

CBI - Relative valuation

(at CMP)	2020	2021	2022	2023	2024	2025F
PE	NM	9.99	10.37	7.90	7.00	8.1
PB	0.62	0.58	0.57	0.53	0.49	0.5

FABS Estimates & Co Data

CBI - P&L

AED mn	4Q23	3Q24	4Q24	4Q24F	Var.	YOY Ch	QOQ Ch	2023	2024	Change
Funded income	237	251	240	266	-9.9%	1.4%	-4.3%	952	978	2.8%
Income from Islamic fin & invt assets	23	31	34	42	-19.2%	43.7%	7.4%	83	105	25.3%
Funded expenses	-179	-198	-182	-202	-9.8%	2.2%	-7.8%	-568	-614	8.0%
Net funded income	81	84	91	105	-13.6%	11.7%	8.1%	355	344	-3.2%
Fees and commissions	35	41	33	47	-29.0%	-5.5%	-18.9%	113	138	22.9%
Other operating income, net	10	155	49	10	NM	NM	-68.2%	76	221	NM
Total non-funded income	46	196	83	57	45.6%	81.4%	-57.8%	188	360	91.0%
Total operating income	127	280	174	162	7.1%	36.7%	-38.0%	544	704	29.5%
Operating expenses	-80	-108	-87	-110	-20.9%	8.4%	-19.9%	-349	-378	8.2%
Pre provision profit	47	172	87	52	66.1%	85.1%	-49.5%	194	326	67.6%
Impairment	-17	-6	-119	-6	NM	NM	NM	-24	-103	NM
UAE Corporate Tax	0	-15	3	-7	NM	NM	NM	0	-21	NM
Non-controlling interests	0	0	0	1	NM	NM	NM	17	1	-96.0%
Net Profit	30	149	-29	38	NM	NM	NM	154	201	30.7%

FABS estimate & Co Data

CBI – P&L KPI

	4Q23	3Q24	4Q24	YOY Ch	QOQ Ch	2023	2024	Change
Net FI/OI	64.1%	30.1%	52.4%	-1,172	2,236	65.4%	48.9%	-1,647
NIM	1.9%	1.9%	2.0%	4	9	2.0%	1.9%	-9
NIS	1.4%	1.4%	1.6%	20	13	1.5%	1.5%	-9
Fees & comms/OI	27.8%	14.7%	19.2%	-858	453	20.7%	19.7%	-105
Trading/OI	8.1%	55.3%	28.4%	2,030	-2,689	13.9%	31.5%	1,751
Cost to income	63.1%	38.7%	50.0%	-1,306	1,133	64.2%	53.7%	-1,055
Impairment/PPP	35.9%	3.5%	137.4%	10,152	13,394	12.2%	31.6%	NM
NP/OI	23.6%	53.3%	-16.4%	-4,008	-6,974	28.3%	28.6%	27
Cost of risk	0.5%	0.3%	4.0%	348	377	0.2%	0.9%	NM
Loan-to-Deposit	100.0%	85.0%	88.0%	-1,198	304	100.0%	88.0%	-1,198
NPL - Calculated	18.1%	17.1%	15.9%	-220	-129	18.0%	15.9%	-211
Coverage - Calculated	32.5%	34.9%	41.7%	923	688	32.5%	41.7%	923
CET1	11.3%	12.0%	13.8%	255	187	11.3%	13.8%	255
Capital adequacy	15.1%	15.8%	17.7%	257	190	15.1%	17.7%	257
ROAE	6.9%	10.9%	8.4%	150	-243	6.9%	8.4%	150
ROAA	0.8%	1.3%	1.0%	24	-30	0.8%	1.0%	24

FABS estimate & Co Data

CBI – Key BS Items

AED mn	4Q23	1Q24	2Q24	3Q24	4Q24	YOY Ch
Net advances	12,608	12,192	12,510	12,911	13,583	7.7%
QOQ Change	5.8%	-3.3%	2.6%	3.2%	5.2%	
Total assets	18,974	19,003	19,972	20,995	20,895	10.1%
QOQ Change	1.3%	0.2%	5.1%	5.1%	-0.5%	
Customer deposits	12,608	12,687	14,225	15,191	15,430	22.4%
QOQ Change	3.6%	0.6%	12.1%	6.8%	1.6%	
Total equity	2,753	2,789	2,821	2,970	2,929	6.4%
QOQ Change	1.1%	1.3%	1.1%	5.3%	-1.4%	

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	0.73	70.0%	0.51
Relative Valuation (RV)	1.15	30.0%	0.35
Weighted Average Valuation (AED)			0.85
Current market price (AED)			0.70
Upside/Downside (%)			+21%

1) Residual Income Method:

We have discounted the economic profit/excess equity using the cost of equity of 8.4%. Cost of equity is calculated by using 10-year government bond yield of 4.8%, beta of 0.8 and equity risk premium of 4.5%. 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)	-302
Terminal value (AED, Mn)	-905
Book value of equity (as of Dec 2024)	2,470
FV to Common shareholders (AED, Mn)	1,262
No. of share (Mn)	1,737
Current Market Price (AED)	0.70
Fair Value per share (AED)	0.73

Residual Income Method

(All Figures in AED Mn)	FY 2025E	FY 2026E	FY 2027E	FY 2028E	FY 2029E
Net Income	150	156	166	194	196
(-) Equity Charge	-220	-233	-247	-263	-280
Excess Equity	-70	-77	-81	-70	-84
Discounting Factor	0.93	0.85	0.79	0.73	0.67
Present Value of Excess Equity	-65	-66	-64	-51	-56

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 2025 PB multiple of 0.5x as compared to a peer valuation of 1.3x.

Company	Market (USD Mn)	P/E (x)		P/B (x)	
		2025F	2026F	2025F	2026F
Commercial Bank of Dubai (CBD)	5,811	7.3	7.0	1.5	1.3
Mashreq Bank (MASQ)	11,906	6.8	7.1	1.3	1.2
RAK Bank	3,297	5.7	6.0	1.0	0.9
Emirates NBD	37,659	6.0	6.8	1.2	1.1
Dubai Islamic Bank (DIB)	14,323	8.2	9.2	1.4	1.3
Abu Dhabi Commercial Bank (ADCB)	21,835	9.5	9.8	1.2	1.1
Abu Dhabi Islamic Bank (ADIB)	11,970	8.9	9.1	2.0	1.8
Average		7.2x	7.7x	1.3x	1.2x
Median		7.1x	7.1x	1.3x	1.2x
Max		8.0x	8.7x	1.4x	1.3x
Min		6.2x	6.9x	1.2x	1.1x

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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