

Abu Dhabi Commercial Bank (ADCB)

Strong growth in non-funded income and lower impairments boosted profit

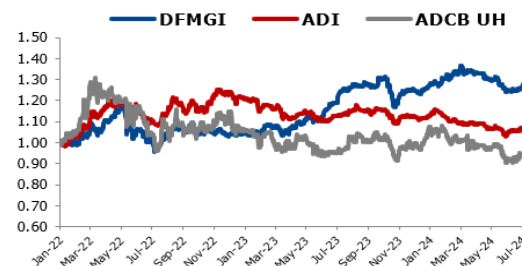
Current Price
AED 8.55

Target Price
AED 11.00

Upside/Downside (%)
+29%

Rating
BUY

- ADCB's net loans grew 22.1% YOY and 4.4% QOQ to AED 332.2 Bn in 2Q24, mainly driven by increased lending to GRE and other key sectors, while real estate exposure declined in 2Q24.
- As a result, ADCB revised the net loan growth guidance to 15% in 2024.
- Non-funded income rose sharply by 27.4% YOY to AED 1.4 Bn in 2Q24 due to growth in loan processing fees, trading, and other income.
- Capitalization stood strong with a CET1 ratio of 13.2% and total CAR of 16.4% in 2Q24.
- ADCB's customer deposits grew 23.4% YOY to AED 390.0 Bn in 2Q24.



2Q24 Net Profit higher than our estimate

Abu Dhabi Commercial Bank's ("ADCB", "The Bank") net profit grew 19.9% YOY to AED 2,318 Mn in 2Q24, higher than our estimate of AED 2,046 Mn. The growth in net profit is mainly driven by healthy growth recorded in net funded and non-funded income coupled with lower impairments, which are partially offset by an increase in operating expenses and the introduction of corporate tax in UAE from 2024.

P&L Highlights

ADCB's funded income including interest income and income from Islamic financing grew 24.0% YOY to AED 8,326 Mn in 2Q24 driven by a strong growth in advances and asset yield. On the other hand, funded expenses rose 33.4% YOY to AED 5,049 Mn in 2Q24 due to an increase in the cost of funds. Thus, net funded income grew 11.8% YOY to AED 3,276 Mn in 2Q24. NIMs declined 14 bps YOY and 10 bps QOQ to 2.4% in 2Q24 due to higher representation of time deposits in the funding mix and increased exposure to lower-risk GREs. ADCB's fee and commission income rose 11.8% YOY to AED 809 Mn in 2Q24 owing to the strong growth in loan-related fees and trade finance commission. In addition, Corporate & Investment Banking Group (CIBG) strong advisory offering and product suite also drove fee income. Likewise, other operating income grew from AED 405 Mn in 2Q23 to AED 629 Mn in 2Q24 mainly due to an increase in net trading income and higher gains on non-trading securities. Thus, non-funded income grew 27.4% YOY to AED 1,438 Mn in 2Q24. As a result, total operating income increased 16.1% YOY to AED 4,714 Mn in 2Q24. Furthermore, operating expenses inflated 16.3% YOY to AED 1,534 Mn in 2Q24 attributable to opening a new branch in KSA, investment in growth opportunities, and timing of variable pay accruals and

Stock Information

Market Cap (AED, Mn)	62,585.55
Paid Up Capital (Mn)	7,319.95
52 Week High	9.31
52 Week Low	7.61
3M Avg. daily value(AED)	44,562,260

2Q24 Result Review (AED, Mn)

Total Assets	612,242
Total Liabilities	541,535
Total Equity	70,707
Total Deposits	389,961
Net Profit	2,318

Financial Ratios

Dividend Yield (12m)	6.55
Dividend Pay-out (%)	52.46
Price-Earnings Ratio(x)	7.54
Price-to-Book Ratio (x)	1.01
Book Value (AED)	8.46
Return-on Equity (%)	13.84

Stock Performance

5 Days	3.89%
1 Months	8.92%
3 Months	3.64%
6 Months	-5.00%
1 Year	3.01%
Month to Date (MTD%)	6.61%
Quarter to Date (QTD%)	6.61%
Year to Date (YTD%)	-6.86%

payments. ADCB's cost-to-income ratio increased 6 bps YOY to 32.6% in 2Q24. The Bank's impairments sharply declined 21.3% YOY to AED 588 Mn in 2Q24. Furthermore, income tax expense rose significantly to AED 276 Mn in 2Q24 compared to AED 60 Mn in 2Q23 due to the introduction of corporate tax in UAE from 2024.

Balance Sheet Highlights

ADCB's total assets recorded a healthy growth of 17.4% YOY and 3.0% QOQ to AED 612.2 Bn in 2Q24 mainly due to growth in investment securities and an increase in the Bank's loan book. Net advances grew 22.1% YOY and 4.4% QOQ to AED 332.2 Bn in 2Q24. The Bank's investment securities rose 8.7% YOY to AED 132.6 Bn in 2Q24 with 74% of securities accounted at amortized cost and the remaining 26% at fair value through other comprehensive income (FVTOCI) and mark-to-market daily. Customer deposits rose 23.4% YOY and 1.6% QOQ to AED 390.0 Bn in 2Q24. CASA deposits grew 14% YOY but declined 4.5% QOQ to AED 172.7 Bn in 2Q24 accounting for 44.0% of total deposits. In addition, ADCB's total equity rose 11.0% YOY and 3.0% QOQ to AED 70.7 Bn in 2Q24.

Target Price and Rating

We maintain our BUY rating on Abu Dhabi Commercial Bank (ADCB) with a target price of AED 11.00. ADCB recorded a strong growth in profitability driven by an increase in net funded and non-funded income. The rise in net funded income was primarily attributed to the strong growth in net loans and advances. Net advances expanded 22.1% YOY to AED 332.2 Bn in 2Q24 due to an increase in lending to GREs and other important sectors coupled with a decline in exposure to the real estate sector. The GRE loans contributed c. 51% of all loans issued by the Bank in 1H24. The Bank also raised 2024 guidance for loan growth to 15% from 8-10% earlier due to robust growth in 1H24. The fee income is expected to maintain strong momentum in the second half of the year. The Bank issued 64,000 new credit cards in 2Q24 and recorded 23% YOY growth in credit card acquisition during the period. Also, ADCB opened a new branch in Saudi Arabia to increase international lending and business expansion. The Saudi unit is expected to start contributing to growth from 4Q24/1Q25. The Bank will continue to invest in growth opportunities to generate higher earnings. ADCB continued to reduce exposure to the real estate sector from 17% in 2023 to 15% in 2Q24. However, the exposure to government entities grew from 25% in 2023 to 27% in 2Q24 due to the financing of major infrastructure projects. ADCB deployed 67.6% of its loans to the corporate sector, 13.7% to private banking, and 18.6% to the retail sector as of 2Q24. NIMs declined 14 bps YOY and 10 bps QOQ to 2.4% in 2Q24 due to increased exposure to GREs and growth in high-cost time deposits. The management expects NIMs to improve in the second half owing to change in mix of deposits. ADCB's UAE operations including Al Hilal Bank added c. 192 thousand new retail customers during 2Q24, of which 85% were onboarded digitally in 2Q24. ADCB's deposits grew 23.4% YOY to AED 390.0 Bn in 2Q24 resulting in a loan-to-deposit ratio of 85.2% in 2Q24 compared to 82.9% in 1Q24. The Bank added AED 4.3 Bn in CASA deposits in 1H24 despite rising interest rates mainly due to the strong franchise. CASA deposits now account for 44.0% of total deposits in 2Q24. ADCB's capitalization stood strong with a CET 1 ratio of 13.2% and CAR of 16.4% in 2Q24. The Bank also plans to maintain a dividend payout ratio of 40-50% in the medium term. Thus, based on our analysis, we assign a BUY rating on the stock.

ADCB - Relative valuation

(at CMP)	2019	2020	2021	2022	2023	2024F
PE	13.83	17.74	12.35	10.01	8.01	8.12
PB	1.26	1.24	1.17	1.13	1.00	0.94
Dividend yield	4.2%	3.0%	4.1%	2.0%	6.5%	6.5%

FABS Estimates & Co Data

ADCB – P&L

AED Mn	2Q23	1Q24	2Q24	2Q24F	Var.	YOY Ch	QOQ Ch	2023	2024F	Change
Funded income	6,715	8,210	8,326	8,316	0.1%	24.0%	1.4%	28,251	33,462	18.4%
Funded expense	-3,784	-4,908	-5,049	-4,957	1.9%	33.4%	2.9%	-15,877	-19,943	25.6%
Net funded income	2,930	3,301	3,276	3,360	-2.5%	11.8%	-0.8%	12,374	13,518	9.3%
Fees & commissions	724	703	809	724	11.7%	11.8%	15.1%	2,444	2,933	20.0%
Other operating income	405	582	629	522	20.4%	55.3%	8.0%	2,048	2,462	20.2%
Non funded income	1,129	1,285	1,438	1,246	15.4%	27.4%	11.9%	4,493	5,395	20.1%
Operating income	4,059	4,586	4,714	4,606	2.3%	16.1%	2.8%	16,866	18,913	12.1%
Operating expenses	-1,319	-1,417	-1,534	-1,474	4.1%	16.3%	8.3%	-5,453	-6,298	15.5%
Pre-provision profit	2,740	3,169	3,180	3,132	1.5%	16.0%	0.3%	11,414	12,615	10.5%
Impairments	-748	-741	-588	-810	-27.4%	-21.3%	-20.6%	-3,477	-3,169	-8.9%
Operating profit	1,993	2,429	2,591	2,322	11.6%	30.1%	6.7%	7,937	9,446	19.0%
Share of profit of assoc.	0	2	1	2	-47.3%	NM	-47.3%	0	3	NM
Net gain on disp of subsi	0	0	0	0	NM	NM	NM	490	0	NM
Profit before tax	1,993	2,431	2,593	2,324	11.5%	30.1%	6.7%	8,427	9,449	12.1%
Tax expense	-60	-292	-276	-279	-1.2%	355.9%	-5.7%	-221	-1,087	392.5%
Non- Controlling interest	1	1	0	1	-54.4%	NM	-54.4%	1	1	NM
Profit for the period	1,933	2,140	2,318	2,046	13.3%	19.9%	8.3%	8,207	8,363	1.9%

FABS estimate & Co Data
ADCB - KPI

	2Q23	1Q24	2Q24	YOY Ch	QOQ Ch	2023	2024F	Change
Net FI/OI	72.2%	72.0%	69.5%	-269	-248	73.4%	71.5%	-189
NIM	2.6%	2.5%	2.4%	-14	-10	2.6%	2.5%	-9
NIS	2.1%	2.0%	1.9%	-15	-7	2.1%	2.0%	-13
Fees & comms/OI	17.8%	15.3%	17.2%	-67	183	14.5%	15.5%	102
Other non-funded/OI	10.0%	12.7%	13.3%	336	65	12.1%	13.0%	87
Cost to income	32.5%	30.9%	32.6%	6	165	32.3%	33.3%	97
Impairment/PPP	27.3%	23.4%	18.5%	-879	-487	30.5%	25.1%	-534
Tax/PBT	3.0%	12.0%	10.6%	760	-139	2.6%	11.5%	888
NP/OI	47.6%	46.7%	49.2%	155	250	48.7%	44.2%	-444
Cost of risk (reported)	0.7%	0.67%	0.48%	-23	-19	0.79%	0.7%	-11
Loan-to-deposit	86.1%	82.9%	85.2%	-91	226	83.2%	83.1%	-7
NPL calculated	2.6%	3.7%	3.9%	134	16	4.1%	4.2%	3
Coverage excluding collateral	98.5%	108.5%	95.0%	-350	-1,350	102.5%	96.0%	-650
CET 1	13.4%	13.0%	13.2%	-22	21	12.9%	12.7%	-13
Capital adequacy	16.1%	16.3%	16.4%	31	16	16.2%	15.8%	-45
ROAE	12.7%	13.8%	14.5%	186	69	13.9%	12.9%	-98
ROAA	1.4%	1.5%	1.5%	6	1	1.5%	1.4%	-15

FABS estimate & Co Data
ADCB - Key B/S items

AED Mn	2Q23	3Q23	4Q23	1Q24	2Q24	YOY Ch
Net advances	271,960	284,257	301,995	318,159	332,158	22.1%
QOQ change	3.2%	4.5%	6.2%	5.4%	4.4%	
Total assets	521,301	536,889	567,194	594,405	612,242	17.4%
QOQ change	4.0%	3.0%	5.6%	4.8%	3.0%	
Customer deposits	315,908	329,276	362,905	383,695	389,961	23.4%
QOQ change	1.7%	4.2%	10.2%	5.7%	1.6%	
Total equity	63,712	65,306	71,253	68,681	70,707	11.0%
QOQ change	3.1%	2.5%	9.1%	-3.6%	3.0%	

FABS estimate & Co Data

Valuation:

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

Valuation Method	Target	Weight	Weighted Value
Residual Income	11.18	70.0%	7.83
Relative Valuation (RV)	10.58	30.0%	3.17
Weighted Average Valuation (AED)			11.00
Current market price (AED)			8.55
Upside/Downside (%)			+29%

1) Residual Income Method:

We have discounted the economic profit/excess equity using the cost of equity of 9.1%. Cost of equity is calculated by using 10-year government bond yield of 4.9%, beta of 1.0 and equity risk premium of 3.8%. Government bond yield is calculated after adding Abu Dhabi 10-year CDS spread over 10-year US risk-free rate. Also, assumed a terminal growth rate of 2.0%.

Sum of PV (AED, Mn)	5,530
Terminal value (AED, Mn)	14,370
Book Value of Equity (as of June 2024)	61,948
FV to Common shareholders (AED, Mn)	81,848
No. of share (Mn)	7,320
Current Market Price (AED)	8.55
Fair Value per share (AED)	11.18

Residual Income Method

(All Figures in AED Mn)	FY 2024E	FY 2025E	FY 2026E	FY 2027E	FY 2028E
Net Profit	7,705	8,172	8,737	8,713	9,465
(-) Equity Charge	-6,078	-6,530	-7,029	-7,475	-7,991
Excess Equity	814	1,641	1,709	1,238	1,474
Discounting Factor	0.96	0.88	0.81	0.74	0.68
Present Value of Excess Equity	783	1,447	1,381	918	1,001

Source: FAB Securities

2) Relative Valuation:

We have used local and regional peers to value ADCB and valued using the PB multiple. It is valued at a 2024 PB multiple of 1.2x in line with peers.

Company	Market (USD Mn)	P/E (x)		P/B (x)		Dividend Yield (%)	
		2024F	2025F	2024F	2025F	2024F	2025F
Abu Dhabi Islamic Bank	11,970	8.9	9.1	2.0	1.8	6.0	5.9
Dubai Islamic Bank	11,570	7.3	7.4	1.1	1.0	7.3	7.4
Emirates NBD	29,580	5.2	5.8	1.0	0.9	6.3	6.2
Banque Saudi Fransi	11,640	9.8	9.0	1.2	1.1	5.6	6.0
Riyad Bank	21,660	10.1	9.4	1.4	1.3	5.2	5.5
Average		8.3x	8.1x	1.3x	1.2x	6.1x	6.2x
Median		8.9x	9.0x	1.2x	1.1x	6.0x	6.0x
Max		9.8x	9.1x	1.4x	1.3x	6.3x	6.2x
Min		7.3x	7.4x	1.1x	1.0x	5.6x	5.9x

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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