

## Abu Dhabi Commercial Bank (ADCB)

Improvement in asset quality and healthy loan growth drove profitability

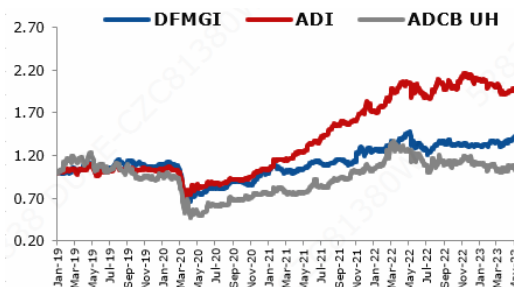
**Current Price**  
AED 8.75

**Target Price**  
AED 11.00

**Upside/Downside (%)**  
+26%

**Rating**  
BUY

- ADCB's net loans rose 5% on a YTD basis, mainly driven by increased lending to GRE and retail customers, whereas real estate exposure declined from 22% in 4Q22 to 20% in 2Q23.
- ADCB recorded robust growth in non-interest income driven by a solid increase in card and loan-related fees. Card-related fees grew 124.1% YOY and 95.5% QOQ due to strong card business while the Bank issued more than 50 thousand cards during 2Q23.
- The Bank's NPL ratio stood at the lowest rate since December 2020 to 5.1% in 2Q23. The provision coverage ratio improved to 98.5% in 2Q23 from 92.4% in 1Q23, whereas provision including collateral stood at 150% in 2Q23 as compared to 143% in 1Q23.



### Stock Information

Market Cap (AED, mm)	64,049.54
Paid Up Capital (mm)	7,319.95
52 Week High	9.40
52 Week Low	7.63
3M Avg. daily value(AED)	24,209,220

### 2Q23 Net Profit higher than our estimate

Abu Dhabi Commercial Bank's ("ADCB", "The Bank") net profit grew 22.7% YOY to AED 1,933 Mn in 2Q23, higher than our estimate of AED 1,762 Mn. The growth in net profit is mainly attributable to a healthy growth in net funded and non-funded income partially offset by an increase in operating expenses and higher impairments.

### P&L Highlights

ADCB's funded income including interest income and income from Islamic financing almost doubled to AED 6,715 Mn in 2Q23 as compared to AED 3,519 Mn in 2Q22 mainly due to strong growth in net advances and increase in asset yield. On the other hand, funded expenses rose significantly from AED 948 Mn in 2Q22 to AED 3,784 Mn in 2Q23 owing to a rise in the cost of funds driven by higher benchmark rates. Resultantly, net funded income rose 14.0% YOY to AED 2,930 Mn in 2Q23. NIMs stood flat at 2.57% in 2Q23 on a sequential basis. ADCB's fee and commission income rose 43.4% YOY to AED 724 Mn in 2Q23 mainly due to strong growth in card-related fees, loan-related fees, and trade finance commissions. Moreover, other operating income declined 3.4% YOY to AED 405 Mn in 2Q23 driven by one-off gains on hedges recorded in 2Q22 partially offset by a strong growth in trading income owing to gain over derivatives, exchange income, and financial assets at fair value to profit or loss in 2Q23. Thus, non-funded income rose 22.2% YOY to AED 1,129 Mn in 2Q23. As a result, total operating income grew 16.1% YOY to AED 4,059 Mn in 2Q23. Operating expenses rose 7.5% YOY to AED 1,319 Mn in 2Q23 due to a hike in staff cost and G&A expenses partially offset by a reduction in depreciation and amortization expenses. The Bank witnessed improvement in the cost-to-income ratio from 35.1% in 2Q22 to 32.5% in 2Q23. Furthermore, impairments rose 14.1% YOY to AED 748 Mn in 2Q23 due to provisioning on corporate

### 2Q23 Result Review (AED, mm)

Total Assets	521,301
Total Liabilities	457,589
Total Equity	63,712
Total Deposits	315,908
Net Profit	1,933

### Financial Ratios

Dividend Yield (12m)	1.96
Dividend Pay-out (%)	60.23
Price-Earnings Ratio(x)	9.20
Price-to-Book Ratio (x)	1.11
Book Value (AED)	7.88
Return-on Equity (%)	12.63

### Stock Performance

5 Days	6.06%
1 Months	7.37%
3 Months	1.39%
6 Months	3.67%
1 Year	-1.12%
Month to Date (MTD%)	7.77%
Quarter to Date (QTD%)	7.77%
Year to Date (YTD%)	2.17%

accounts. In addition, overseas tax expenses rose 70.3% YOY to AED 60 Mn in 2Q23 due to strong performance in overseas business.

### Balance Sheet Highlights

ADCB's total assets recorded a healthy growth of 9.5% YOY and 4.0% QOQ to AED 521.3 Bn in 2Q23. Net advances rose 12.0% YOY and 3.2% QOQ to AED 272.0 Bn in 2Q23 due to an increase in corporate and retail banking loans partially offset by a decline in private sector loans. The Bank's investment securities rose 12.1% YOY to AED 122.0 Bn in 2Q23 with 63.0% accounted at amortized cost and 37.0% at FVTOCI mark to market on a daily basis. Customer deposits rose 8.1% YOY and 1.7% QOQ to AED 315.9 Bn in 2Q23. CASA deposits declined to AED 150.4 Bn in 2Q23 from AED 153.0 Bn in 4Q22 while CASA deposits account for 48% of total deposits in 2Q23. In addition, ADCB's total equity rose 10.1% YOY and 3.1% QOQ to AED 63.7 Bn in 2Q23.

### Target Price and Rating

We maintain our BUY rating on Abu Dhabi Commercial Bank (ADCB) with a target price of AED 11.00. ADCB witnessed a strong growth in net advances which rose 12.0% YOY and 3.2% QOQ to AED 272.0 Bn in 2Q23 due to an increase in leading to GRE's and retail sector. Corporate and retail sector advances increased while private sector advances declined in 2Q23. ADCB's 61.4% of net loans belong to the corporate sector while 74% of total loans are issued at floating rates which enables loan repricing without any lag in a rising interest rate scenario. The bank expects its loan book to grow by mid-single digit in 2023. The Bank's issued more than 50 thousand cards during 2Q23 while ADCB welcomed more than 147 thousand retail banking customers supported by investments in digitization. These digital platforms run by ADCB allow continuous diversification of revenue across multiple business segments. The Bank's NIMs stood flat at 2.73% in 2Q23 on a sequential basis. The Bank's deposits rose 8.1% YOY and 1.7% QOQ to AED 315.9 Bn in 2Q23 due to an increase in time deposits owing to higher interest rates. Time deposits rose 8.2% QOQ to AED 165.5 Bn in 2Q23 while CASA deposits stood at AED 150.4 Bn in 2Q23 forming 48% of total deposits. Moreover, the Bank's asset quality improved with an NPL ratio of 5.1% in 2Q23 as compared to 5.4% in 1Q23. The provision coverage ratio improved to 98.5% in 2Q23 from 92.4% in 1Q23 whereas provision including collateral stood at 150% in 2Q23 as compared to 143% in 1Q23. The Bank's capitalization stood strong with a CET 1 ratio of 13.4% and CAR of 16.1% in 2Q23 well above the regulatory limits. ADCB Egypt recorded strong growth in net profit by 93% YOY to EGP 414 Mn in 2Q23. ADCB Egypt's net loans rose 4% YOY to EGP 31 Bn while total deposits rose 2% to EGP 74 Bn in 2Q23. Thus, based on our analysis, we assign a BUY rating on the stock.

#### ADCB - Relative valuation

(at CMP)	2018	2019	2020	2021	2022	2023F
PE	24.2	18.5	22.0	17.2	14.93	12.0
PB	2.9	2.7	2.3	2.3	1.95	2.0

FABS Estimates & Co Data

**ADCB – P&L**

AED mm	2Q22	1Q23	2Q23	2Q23F	Var.	YOY Ch	QOQ Ch	2022	2023F	Change
Funded income	3,519	6,097	6,715	6,225	7.9%	90.8%	10.1%	16,417	24,377	48.5%
Funded expense	-948	-3,245	-3,784	-3,426	10.5%	NM	16.6%	-6,223	-13,046	109.6%
<b>Net funded income</b>	<b>2,571</b>	<b>2,851</b>	<b>2,930</b>	<b>2,800</b>	<b>4.7%</b>	<b>14.0%</b>	<b>2.8%</b>	<b>10,194</b>	<b>11,332</b>	<b>11.2%</b>
Fees & commissions	505	533	724	543	33.2%	43.4%	35.9%	2,110	2,195	4.0%
Other operating income	419	528	405	550	-26.3%	-3.4%	-23.3%	2,040	2,074	1.7%
<b>Non funded income</b>	<b>924</b>	<b>1,061</b>	<b>1,129</b>	<b>1,093</b>	<b>3.3%</b>	<b>22.2%</b>	<b>6.4%</b>	<b>4,151</b>	<b>4,269</b>	<b>2.9%</b>
<b>Operating income</b>	<b>3,495</b>	<b>3,912</b>	<b>4,059</b>	<b>3,893</b>	<b>4.3%</b>	<b>16.1%</b>	<b>3.8%</b>	<b>14,344</b>	<b>15,601</b>	<b>8.8%</b>
Operating expenses	-1,227	-1,231	-1,319	-1,265	4.3%	7.5%	7.1%	-4,888	-4,992	2.1%
<b>Pre-provision profit</b>	<b>2,268</b>	<b>2,681</b>	<b>2,740</b>	<b>2,628</b>	<b>4.3%</b>	<b>20.8%</b>	<b>2.2%</b>	<b>9,456</b>	<b>10,608</b>	<b>12.2%</b>
Impairments	-655	-748	-748	-824	-9.3%	14.1%	0.0%	-2,779	-2,896	4.2%
<b>Operating profit</b>	<b>1,613</b>	<b>1,933</b>	<b>1,993</b>	<b>1,804</b>	<b>10.5%</b>	<b>23.5%</b>	<b>3.1%</b>	<b>6,677</b>	<b>7,712</b>	<b>15.5%</b>
Share of profit of assoc.	-5	1	0	1	-75.9%	NM	NM	-8	-8	0.0%
<b>Profit before tax</b>	<b>1,608</b>	<b>1,934</b>	<b>1,993</b>	<b>1,804</b>	<b>10.4%</b>	<b>23.9%</b>	<b>3.1%</b>	<b>6,669</b>	<b>7,704</b>	<b>15.5%</b>
Overseas tax expense	-35	-55	-60	-43	39.6%	70.3%	9.1%	-135	-146	8.4%
<b>Profit for the period</b>	<b>1,575</b>	<b>1,879</b>	<b>1,933</b>	<b>1,762</b>	<b>9.7%</b>	<b>22.7%</b>	<b>2.9%</b>	<b>6,435</b>	<b>7,459</b>	<b>15.9%</b>

FABS estimate & Co Data

**ADCB - KPI**

	2Q22	1Q23	2Q23	YOY Ch	QOQ Ch	2022	2023F	Change
Net FI/OI	73.6%	72.9%	72.2%	-137	-69	71.1%	72.6%	157
NIM	2.5%	2.6%	2.6%	10	1	2.4%	2.5%	9
NIS	2.3%	2.1%	2.1%	-23	-4	2.2%	2.1%	-9
Fees & comms/OI	14.4%	13.6%	17.8%	339	422	14.7%	14.1%	-64
Other non-funded/OI	12.0%	13.5%	10.0%	-202	-352	14.2%	13.3%	-93
Cost to income	35.1%	31.5%	32.5%	-261	102	34.1%	32.0%	-208
Impairment/PPP	28.9%	27.9%	27.3%	-161	-61	29.4%	27.3%	-209
Tax/PBT	2.2%	2.9%	3.0%	83	17	2.0%	1.9%	-13
NP/OI	45.1%	48.0%	47.6%	255	-42	44.9%	47.8%	295
ROAE	11.2%	12.3%	12.7%	148	38	11.8%	12.7%	87

FABS estimate & Co Data

**ADCB - Key B/S items**

AED mm	2Q22	3Q22	4Q22	1Q23	2Q23	YOY Ch
Net advances	242,913	251,202	258,493	263,533	271,960	12.0%
QOQ ch	-1.2%	3.4%	2.9%	1.9%	3.2%	
Total assets	476,093	486,365	497,842	501,423	521,301	9.5%
QOQ ch	6.8%	2.2%	2.4%	0.7%	4.0%	
Customer deposits	292,262	302,262	308,931	310,587	315,908	8.1%
QOQ ch	11.6%	3.4%	2.2%	0.5%	1.7%	
Total equity	57,866	58,869	61,426	61,767	63,712	10.1%
QOQ ch	0.9%	1.7%	4.3%	0.6%	3.1%	

FABS estimate & Co Data

## Valuation:

We use 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	11.54	70.0%	8.08
Relative Valuation (RV)	9.75	30.0%	2.92
<b>Weighted Average Valuation (AED)</b>			<b>11.00</b>
Current market price (AED)			8.75
Upside/Downside (%)			+25.7%

### 1) Residual Income Method:

We have discounted the economic profit/excess equity using the cost of equity of 8.5%. Cost of equity is calculated by using 10-year government bond yield of 4.5%, beta of 1.02 and equity risk premium of 3.9%. 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)	6,362
Terminal value (AED, Mn)	20,416
Book Value of Equity (as of June 2023)	57,705
<b>FV to Common shareholders (AED, Mn)</b>	<b>84,483</b>
No. of share (Mn)	7,320
Current Market Price (AED)	8.75
<b>Fair Value per share (AED)</b>	<b>11.54</b>

### Residual Income Method

(All Figures in AED Mn)	FY 2023E	FY 2024E	FY 2025E	FY 2026E	FY 2027E
Net Profit	7,039	6,568	6,641	7,659	8,070
(-) Equity Charge	(5,269)	(5,082)	(5,409)	(6,302)	(6,200)
<b>Excess Equity</b>	<b>1,771</b>	<b>1,485</b>	<b>1,231</b>	<b>1,357</b>	<b>1,869</b>
Discounting Factor	0.96	0.89	0.82	0.76	0.70
<b>Present Value of Excess Equity</b>	<b>1,708</b>	<b>1,320</b>	<b>1,009</b>	<b>1,025</b>	<b>1,301</b>

Source: FAB Securities

## 2) Relative Valuation:

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

Company	Market (USD Mn)	P/B (x)		P/E (x)		Dividend Yield (x)	
		2023F	2024F	2023F	2024F	2023F	2024F
Dubai Islamic Bank	11,167	1.1	1.1	7.3	8.2	5.9	5.8
First Abu Dhabi Bank	41,361	1.3	1.2	10.8	11.3	4.2	4.3
Abu Dhabi Islamic Bank	11,025	2.0	1.8	9.9	10.2	5.4	5.3
Emirates NBD	27,969	1.1	1.0	5.8	6.9	4.5	4.5
Mashreq Bank	7,926	1.2	1.1	5.4	6.5	8.6	8.6
<b>Average</b>		<b>1.3x</b>	<b>1.2x</b>	<b>7.8x</b>	<b>8.6x</b>	<b>5.7%</b>	<b>5.7%</b>
<b>Median</b>		<b>1.2x</b>	<b>1.1x</b>	<b>7.3x</b>	<b>8.2x</b>	<b>5.4%</b>	<b>5.3%</b>
<b>Max</b>		<b>1.3x</b>	<b>1.2x</b>	<b>9.9x</b>	<b>10.2x</b>	<b>5.9%</b>	<b>5.8%</b>
<b>Min</b>		<b>1.1x</b>	<b>1.1x</b>	<b>5.8x</b>	<b>6.9x</b>	<b>4.5%</b>	<b>4.5%</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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