

Abu Dhabi Commercial Bank (ADCB)

Current Price

AED 8.56

Target Price

AED 11.00

Upside/Downside (%)

+28.50%

Rating

BUY

3Q24 Net Profit higher than our estimate

- Net funded income declined 1.1% YOY to AED 3.1 Bn owing to higher cost of funds & low asset yield.
- NIMs declined 43 bps YOY to 2.2% due to lower asset yield & higher cost of funds.
- Non-funded income grew strongly 48.9% YOY to AED 1.6 Bn attributed to growth in fee and commission income and higher net trading income.
- Fee and commission income is driven by higher income from loan processing fees, trade finance commission and others (includes earnings from asset management, investment services brokerage, fees from accounts-related activities, and other fees) partially offset by a decline in card-related fee income
- Operating expenses rose 7.3% YOY to AED 1.5 Bn due to the increase in staff cost and G&A expenses, investment in business growth including IT infrastructure, digitization, and sales initiatives. However, the cost-to-income ratio declined 119 bps YOY to 32.2% in 3Q24.
- Impairments sharply declined 35.9% YOY to AED 525 Mn in 3Q24.
- Net profit after tax increased 23.1% YOY to AED 2.4 Bn in 3Q24.
- Total assets grew 19.0% YOY and 4.3% QOQ to AED 638.8 Bn, driven by higher net advances and investment in securities.
- NPL ratio stood at 3.7% in 3Q24 including POCI (purchased or originated credit-impaired).
- Investment securities rose 8.7% YOY to AED 132 Bn.
- Deposits increased 23.5% YOY and 4.3% QOQ to AED 406.7 Bn in 3Q24.
- CASA deposits grew 8% YOY and accounted for 42% of deposits in 3Q24.

Earnings Call Summary

- A high interest rate environment resulted in a greater representation of time deposits in the funding profile.
- NIMs declined due to lower asset yield attributable to increased exposure to the lower-risk government and public sector enterprises coupled with a higher cost of funds due to greater representation of time deposits.
- Revised full-year guidance of NIMs to 2.55% from earlier 2.70%.
- Revised cost of Risks guidance for FY2024 to 55 bps from earlier guidance of 80 bps due to growing concentration of high credit GREs and healthy performance of the retail portfolio.
- Revised cost of risks guidance for a medium-term (FY2024-26) from 80 bps to lower than 60 bps.
- Revised medium-term guidance for loan growth from high-single-digit to low-double-digit growth.
- Advances guidance revised to 16-17% for 2024 compared to the previous 15%.
- Successfully issued a USD 500 Mn Tier-2 bond in 3Q24, which was 6.2x oversubscribed highlighting the strong demand from regional and international investors.
- The Bank issued more than 58,000 new credit cards in 3Q24 and also recorded 17% YOY growth in credit card acquisition during the same period.
- GREs accounted for 37% of YTD gross loan growth and represented 27% of gross loans, up from 25% in FY2023. Exposure to real estate investment reduced to 15% in 3Q24 from 17% in FY2023.
- Bank recorded 8% YOY growth in CASA deposits, despite the high interest rate environment.
- The mobile & internet subscription crossed the two million mark representing c. 90.0% of the customer base.
- Operating costs declined 1.2% QOQ driven by effective management of third-party costs.

- The Bank is expecting broad-based growth in corporate loans after FY2024. The loan growth split between UAE and international will be in the proportion of 80:20.
- Sensitivity of 25 bps cut will be around AED 150 Mn.

ADCB – P&L

AED Mn	3Q23	2Q24	3Q24	3Q24F	Var.	YOY Ch	QOQ Ch
Net funded income	3,179	3,276	3,144	3,265	-3.7%	-1.1%	-4.0%
Non-Funded Income	1,054	1,438	1,569	1,462	7.3%	48.9%	9.1%
Operating income	4,233	4,714	4,713	4,727	-0.3%	11.3%	0.0%
Pre-provisioning profit	2,822	3,180	3,197	3,167	1.0%	13.3%	0.6%
Impairment charges	-819	-588	-525	-633	-17.1%	-35.9%	-10.7%
Profit before tax	2,000	2,593	2,678	2,534	5.7%	33.9%	3.3%
Tax	-58	-276	-288	-291	-1.3%	NM	4.4%
Profit for the period	1,942	2,318	2,391	2,242	6.6%	23.1%	3.2%

FABS estimate & Co Data

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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