

Abu Dhabi Commercial Bank (ADCB)

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

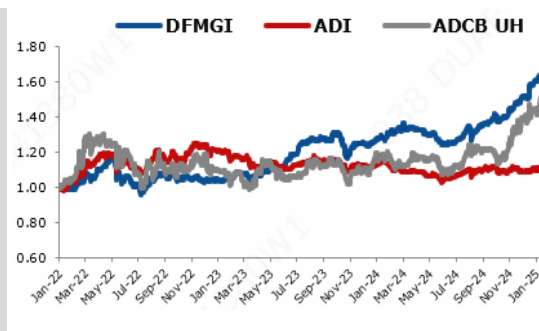
Current Price
AED 11.88

Target Price
AED 13.75

Upside/Downside (%)
+16%

Rating
BUY

- ADCB's net loans grew 16.1% YOY and 1.9% QOQ to AED 350.6 Bn in 4Q24, mainly driven by increased lending to GRE and other key sectors, while real estate exposure declined in 4Q24.
- The Bank plans to double its net profit to AED 20 Bn over the next five years, targeting a CAGR of c.20% by focusing on fees and other operating income.
- Non-funded income rose sharply by 57.1% YOY to AED 2.0 Bn in 4Q24 due to growth in loan processing fees, trading, and other income.
- The board recommended a dividend of AED 0.59 per share for 2024, amounting to AED 4,319 Mn, which represents 46% of the net profit. ADCB also targets dividend payout of exceeding AED 25.0 Bn in the next five years.



4Q24 Net Profit higher than our estimate

Abu Dhabi Commercial Bank's ("ADCB", "The Bank") net profit grew 4.9% YOY to AED 2,572 Mn in 4Q24, higher than our estimate of AED 2,345 Mn. The growth in net profit is mainly driven by a rise in net funded and non-funded income coupled with lower impairments partially offset by an increase in operating expenses and the implementation of tax charges owing to the introduction of corporate tax in the UAE from 2024.

P&L Highlights

ADCB's funded income, including interest income and income from Islamic financing, grew 8.3% YOY to AED 8,723 Mn in 4Q24, driven by a strong growth in advances. However, funded expenses also rose 12.4% YOY to AED 5,218 Mn in 4Q24 due to an increase in the total deposits and cost of funds. Thus, net funded income grew 2.7% YOY to AED 3,505 Mn in 4Q24. NIMs declined 33 bps YOY due to higher interest in suspense release during 4Q23, however, increased 16 bps QOQ to 2.4% in 4Q24 due to a significant inflow of low-cost CASA deposits during 4Q24 and a decline in policy rates resulted in a lower cost of funds compared to 3Q24. ADCB's fee and commission income rose 25.1% YOY to AED 722 Mn in 4Q24 due to increase in card related fees, loan processing fees, asset management & investment services, trade finance commission, and account related fees. Likewise, other operating income grew 84.5% YOY from AED 672 Mn in 4Q23 to AED 1,240 Mn in 4Q24, mainly due to gains on the extinguishment of corporate loans. Thus, non-funded income grew 57.1% YOY to AED 1,962 Mn in 4Q24. As a result, total operating income increased 17.3% YOY to AED 5,467 Mn in 4Q24. Furthermore, operating expenses rose 5.0% YOY to AED 1,565 Mn in 4Q24 mainly due to continued broad based investment in the growth of the business in initiatives such as IT infrastructure, digitisation and sales.

Stock Information

Market Cap (AED, Mn)	87,253.77
Paid Up Capital (Mn)	7,319.95
52 Week High	12.10
52 Week Low	7.61
3M Avg. daily value(AED)	57,690,800

4Q24 Result Review (AED, Mn)

Total Assets	652,814
Total Liabilities	577,247
Total Equity	75,567
Total Deposits	421,060
Net Profit	2,572

Financial Ratios

Dividend Yield (12m)	4.71
Dividend Pay-out (%)	49.44
Price-Earnings Ratio(x)	9.93
Price-to-Book Ratio (x)	1.30
Book Value (AED)	9.13
Return-on Equity (%)	13.51

Stock Performance

5 Days	10.37%
1 Months	14.40%
3 Months	33.33%
6 Months	34.08%
1 Year	32.44%
Month to Date (MTD%)	14.40%
Quarter to Date (QTD%)	14.40%
Year to Date (YTD%)	14.40%

ADCB's cost-to-income ratio improved 336 bps YOY to 28.6% in 4Q24, driven by effective cost management and strong operating income. The Bank's impairments declined 12.2% YOY to AED 1,020 Mn in 4Q24. Furthermore, corporate tax expense rose significantly to AED 311 Mn in 4Q24 compared to AED 47 Mn in 4Q23 due to the introduction of corporate tax in the UAE in 2024.

Balance Sheet Highlights

ADCB's total assets recorded a healthy growth of 15.1% YOY and 2.2% QOQ to AED 652.8 Bn in 4Q24, mainly due to growth in investment securities due from banks and an increase in the Bank's loan book. Net advances grew 16.1% YOY and 1.9% QOQ to AED 350.6 Bn in 4Q24. The Bank's investment securities rose 11.5% YOY to AED 143.0 Bn in 4Q24, with 64% of securities accounted for amortized cost and the remaining 36% at fair value through other comprehensive income (FVTOCI). The bonds represent 99% of the investment securities portfolio. Customer deposits rose 16.0% YOY and 3.5% QOQ to AED 421.1 Bn in 4Q24. CASA deposits grew 11% YOY to AED 186 Bn in 4Q24, accounting for 44% of total deposits. In addition, ADCB's total equity rose 6.1% YOY and 2.5% QOQ to AED 75.6 Bn in 4Q24.

Target Price and Rating

We maintain our BUY rating on Abu Dhabi Commercial Bank (ADCB) with a revised target price of AED 13.75. ADCB recorded a strong growth in profitability driven by an increase in non-funded income. Non-funded income grew 39.2% YOY to AED 6.3 Bn in FY2024 compared to AED 4.5 Bn in FY2023. Net advances expanded 16.1% YOY to AED 350.6 Bn in FY2024 due to increased lending to GREs and other important sectors coupled with a decline in exposure to the real estate sector. The GRE loans contributed c. 42% of gross loans issued by the Bank in FY2024. ADCB increased exposure to low-risk credit counterparties, including GREs, which now account for 27% of the gross loan portfolio compared to 25% in FY2023. Exposure to the real estate sector declined to 14% of gross loans in FY2024 compared to 17% during FY2023. The loan portfolio is well-diversified geographically, with Abu Dhabi accounting for 51%, Dubai accounting for 22%, and other Emirates contributing 6% to the loan portfolio. The bank's exposure outside the UAE stood at 21%, as the Corporate and Investment Banking Group (CIBG) continued to support clients both regionally and internationally. International loans make up 21% of the bank's loan book, with the UAE remaining central to its strategy. As for the international expansion, ADCB expects to benefit from its operations in Saudi Arabia, which will commence in 2025, contributing to the growth of its loan portfolio outside the UAE. The bank's expansion strategy in Saudi Arabia will focus on top-tier corporate and government-related entities, with no plans to participate in the retail or SME markets. Over the next five years, ADCB plans to be more active in international wholesale funding markets to attract longer-duration liabilities, which will support its growth strategy. The Bank plans to continue expanding internationally to support clients. It expects the share of international loans to rise to 20-30% over the next five years. ADCB expects credit growth to stand at mid-double-digit over the medium term, following the momentum witnessed in 2023 and 2024. The Bank expects continued growth in GREs due to strong investments in the country. However, also plans to prioritize growth in other corporate loans. ADCB is focusing on rigorous cost discipline and efficiencies. As a result, the cost-to-income ratio improved by 137 bps YOY to 31.0% in FY2024 and by 336 bps YOY and 354 bps QOQ to 28.6% in 4Q24. Additionally, the Bank aims to reduce the cost to income to below 30.0% over the next five years. ADCB deployed 67% of its loans to the corporate sector and 13% to retail, which includes personal, auto, and other loans as of 4Q24. Calculated NIMs declined 18 bps YOY to 2.4% in FY2024 due to increased exposure to GREs and growth in high-cost time deposits. ADCB aims to maintain stable margins in the coming years despite declining interest rates. It expects a reduction in its cost of funds, supported by a higher proportion of CASA in its deposit mix. ADCB is focusing on growing its low-cost CASA deposits, which is expected to remain a key priority over the next five years to support margin stability. The Bank projects the cost of risk to remain below 60 bps. The Egypt operations of the Bank also experienced strong growth in net profit, increasing by 99% YOY to EGP 3.6 Bn during FY2024. ADCB's deposits grew 16.0% YOY to AED 421.1 Bn in FY2024, resulting in a loan-to-deposit ratio of 84.9% in FY2024. The Bank also announced to double its net profit to AED 20 Bn in the next five years, targeting a CAGR of c.20% by focusing on trading income and fees income, with plans to further expand product lines in the coming years. It also aims to maintain the CET1 ratio above 12% during the medium term. The overall NPL ratios are among the lowest recorded in the last five years. It expects a continued recovery in 2025 and beyond.

NPL ratio stood at 3.3% during FY2024 compared to 4.1% in FY2023 and 3.7% in 3Q24. In FY2024, the Bank transitioned all customers to a cloud-based platform. This move has established a strong foundation for future growth and improvements in the customer experience. The new platform is helping the bank grow its customer base, with an average of over 14,000 new customers being onboarded each month. By the end of FY2024, c. 50% of the bank's IT workload was hosted in the cloud. This platform enables the bank to scale its digital and AI-powered customer services efficiently. In 2024, the Bank also fast-tracked the integration of AI into its operations, launching over 20 high-value use cases, such as process automation and risk management, with more applications expected in 2025. ADCB's capitalization stood strong with a CET 1 ratio of 12.6% and CAR of 16.1% in FY2024. The board of the Bank recommended a dividend of AED 0.59 per share, equivalent to AED 4.3 Bn, leading to a dividend yield of 5.0%. ADCB also intends to gradually increase its dividend payouts each year, with a total payout target exceeding AED 25 Bn over the five years. Thus, based on our analysis, we continue our BUY rating on the stock.

ADCB - Relative valuation

(at CMP)	2020	2021	2022	2023	2024	2025F
PE	24.64	17.16	13.91	11.13	9.96	9.64
PB	1.72	1.63	1.57	1.39	1.30	1.28
Dividend yield	2.2%	3.0%	1.4%	4.7%	5.0%	5.0%

FABS Estimates & Co Data

ADCB - P&L

AED Mn	4Q23	3Q24	4Q24	4Q24F	Var	YOY Ch	QOQ Ch	2023	2024	Change
Funded income	8,054	8,476	8,723	8,500	2.6%	8.3%	2.9%	28,251	33,734	19.4%
Funded expense	-4,641	-5,332	-5,218	-5,374	-2.9%	12.4%	-2.1%	-15,877	-20,508	29.2%
Net funded income	3,413	3,144	3,505	3,126	12.1%	2.7%	11.5%	12,374	13,226	6.9%
Fees & commissions	577	867	722	872	-17.2%	25.1%	-16.6%	2,444	3,101	26.9%
Other operating income	672	702	1,240	765	62.1%	84.5%	76.5%	2,048	3,153	53.9%
Non funded income	1,249	1,569	1,962	1,637	19.8%	57.1%	25.0%	4,493	6,254	39.2%
Operating income	4,662	4,713	5,467	4,763	14.8%	17.3%	16.0%	16,866	19,480	15.5%
Operating expenses	-1,491	-1,515	-1,565	-1,440	8.6%	5.0%	3.2%	-5,453	-6,031	10.6%
Pre-provision profit	3,171	3,197	3,902	3,323	17.4%	23.1%	22.1%	11,414	13,448	17.8%
Impairments	-1,162	-525	-1,020	-642	58.9%	-12.2%	94.2%	-3,477	-2,874	-17.3%
Operating profit	2,009	2,672	2,882	2,681	7.5%	43.5%	7.9%	7,937	10,574	33.2%
Share of profit of assoc.	1	6	1	0	NM	8.5%	NM	0	11	NM
Net gain on disposal of sub.	490	0	0	0	NM	NM	NM	490	0	NM
Profit before tax	2,500	2,678	2,884	2,681	7.6%	15.3%	7.7%	8,427	10,585	25.6%
Tax expense	-47	-288	-311	-339	-8.2%	NM	8.0%	-221	-1,166	NM
Non- Controlling interest	-1	1	-1	2	NM	-3.4%	NM	1	1	NM
Profit for the period	2,453	2,391	2,572	2,345	9.7%	4.9%	7.6%	8,207	9,421	14.8%

FABS estimate & Co Data

ADCB - KPI

	4Q23	3Q24	4Q24	YOY Ch	QOQ Ch	2023	2024	Change
Net FI/OI	73.2%	66.7%	64.1%	-909	-259	73.4%	67.9%	-547
NIM calculated	2.7%	2.2%	2.4%	-33	16	2.6%	2.4%	-18
NIS	2.2%	1.7%	1.9%	-28	19	2.1%	1.9%	-22
Fees & comms/OI	12.4%	18.4%	13.2%	83	-518	14.5%	15.9%	143
Other non-funded/OI	14.4%	14.9%	22.7%	826	777	12.1%	16.2%	404
Cost to income	32.0%	32.2%	28.6%	-336	-354	32.3%	31.0%	-137
Impairment/PPP	36.6%	16.4%	26.1%	-1,051	971	30.5%	21.4%	-909
Tax/PBT	1.9%	10.7%	10.8%	892	4	2.6%	11.0%	840
NP/OI	52.6%	50.7%	47.1%	-557	-369	48.7%	48.4%	-30
Cost of risk (reported)	1.02%	0.4%	0.7%	-30	30	0.79%	0.6%	-21
Loan-to-deposit	85.3%	86.2%	84.9%	-41	-130	85.3%	84.9%	-41
NPL calculated	2.7%	3.7%	3.3%	55	-43	4.1%	3.3%	-79
Coverage excluding collateral	102.5%	95.0%	110.0%	750	1,500	102.5%	110.0%	750
CET 1	12.9%	13.1%	12.6%	-31	-55	12.9%	12.6%	-31
Capital adequacy	16.2%	16.7%	16.1%	-10	-55	16.2%	16.1%	-10
ROAE	13.3%	14.0%	13.5%	26	-54	13.9%	14.6%	65
ROAA	1.5%	1.6%	1.5%	0	-4	1.5%	1.5%	0

FABS estimate & Co Data

ADCB - Key B/S items

	4Q23	1Q24	2Q24	3Q24	4Q24	YOY Ch
AED Mn						
Net advances	301,995	318,159	332,158	344,014	350,638	16.1%
QOQ change	6.2%	5.4%	4.4%	3.6%	1.9%	
Total assets	567,194	594,405	612,242	638,754	652,814	15.1%
QOQ change	5.6%	4.8%	3.0%	4.3%	2.2%	
Customer deposits	362,905	383,695	389,961	406,742	421,060	16.0%
QOQ change	10.2%	5.7%	1.6%	4.3%	3.5%	
Total equity	71,253	68,681	70,707	73,692	75,567	6.1%
QOQ change	9.1%	-3.6%	3.0%	4.2%	2.5%	

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	13.96	70.0%	9.77
Relative Valuation (RV)	13.24	30.0%	3.97
Weighted Average Valuation (AED)			13.75
Current market price (AED)			11.88
Upside/Downside (%)			+16%

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 5.2%, 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)	10,666
Terminal value (AED, Mn)	24,731
Book Value of Equity (as of Sep 2024)	66,807
FV to Common shareholders (AED, Mn)	102,204
No. of share (Mn)	7,320
Current Market Price (AED)	11.88
Fair Value per share (AED)	13.96

Residual Income Method

(All Figures in AED Mn)	FY 2025E	FY 2026E	FY 2027E	FY 2028E	FY 2029E
Net Profit	9,019	9,450	9,659	10,064	10,567
(-) Equity Charge	-6,095	-6,589	-7,038	-7,514	-8,019
Excess Equity	2,924	2,861	2,621	2,551	2,549
Discounting Factor	0.92	0.85	0.78	0.71	0.66
Present Value of Excess Equity	2,703	2,427	2,041	1,823	1,672

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 1.4x in line with peers.

Company	Market (USD Mn)	P/E (x)		P/B (x)		Dividend Yield (%)	
		2025F	2026F	2025F	2026F	2025F	2026F
Abu Dhabi Islamic Bank	15,290	10.7	11.1	2.5	2.3	4.9	5.0
Dubai Islamic Bank	14,933	8.6	9.5	1.4	1.3	6.1	5.9
Emirates NBD	38,605	6.1	6.8	1.2	1.1	5.1	5.2
Banque Saudi Fransi	10,633	9.0	8.5	1.0	0.9	6.3	6.6
Riyad Bank	23,414	9.8	9.4	1.5	1.4	5.4	5.6
Average		8.8x	9.1x	1.5x	1.4x	5.5%	5.6%
Median		9.0x	9.4x	1.4x	1.3x	5.4%	5.6%
Max		9.8x	9.5x	1.5x	1.4x	6.1%	5.9%
Min		8.6x	8.5x	1.2x	1.1x	5.1%	5.2%

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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