

Commercial Bank of Dubai (CBD)

Easing funding costs and lower impairments drove the bottom line

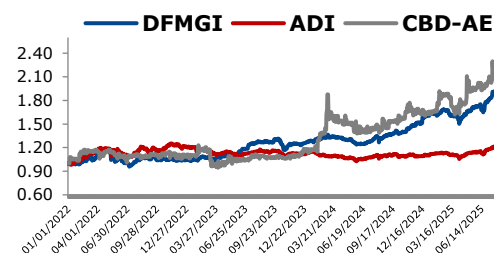
Current Price
AED 9.65

Target Price
AED 9.25

Upside/Downside (%)
-4.1%

Rating:
HOLD

- CBD's funded income marginally declined 0.7% YOY to AED 1,876 Mn in 2Q25 and funded expenses shrank 10.1% YOY to AED 847 Mn in 2Q25.
- The Bank revised its NIMs guidance from 2.9-3.1% to 3.0-3.1% for 2025.
- CASA deposits accounted for 52.4% of total deposits in 2Q25 compared to 51.9% in 1Q25.
- CBD capital position marginally improved, with CET 1 ratio and CAR ratio standing at 12.4% and 15.4% in 2Q25.
- Reported NPLs declined from 4.3% in 1Q25 to 4.1% in 2Q25.



Stock Information

Market Cap (AED, Mn)	28,807.10
Paid Up Capital (Mn)	2,985.19
52 Week High	10.00
52 Week Low	6.00
3M Avg. daily value(AED)	26,160.9

2Q25 Result Review (AED, Mn)

Total Assets	150,607
Total Liabilities	132,962
Total Equity	17,645
Total Deposits	107,047
Net Profit	867

Financial Ratios

Dividend Yield (12m)	5.3
Dividend Pay-out (%)	52.28
Price-Earnings Ratio (x)	7.40
Price-to-Book Ratio (x)	1.41
Book Value (AED)	5.10
Return on Equity (%)	20.12

Stock Performance

5 Days	0.21%
1 Months	12.34%
3 Months	26.97%
6 Months	32.19%
1 Year	55.39%
Month to Date (MTD%)	11.95%
Quarter to Date (QTD%)	11.95%
Year to Date (YTD%)	34.40%

2Q25 Net Profit higher than our estimate

Commercial Bank of Dubai ("CBD, "the Bank") net profit rose 15.4% YOY to AED 867 Mn in 2Q25, higher than our estimate of AED 836 Mn. The growth in net profit is primarily attributed to an increase in both net funded income and non-funded income, coupled with lower impairment charges, partially offset by higher operating expenses, taxes, and lower recoveries of loans and advances, as well as Islamic financing.

P&L Highlights

CBD's funded income marginally declined 0.7% YOY to AED 1,876 Mn in 2Q25, owing to a decline in asset yield, partially offset by a rise in the loan portfolio and other interest-earning assets. On the other hand, the funded expenses fell 10.1% YOY to AED 847 Mn in 2Q25, owing to lower cost of funds. Thus, the net funded income grew 8.7% YOY to AED 1.0 Bn in 2Q25. However, CBD's calculated NIMs declined 4 bps YOY and remained stable QOQ to 3.0% during 2Q25. The Bank's fees and commission income grew 9.7% YOY to AED 324 Mn in 2Q25. Trading income contracted 10.9% YOY to AED 75 Mn in 2Q25, while the other non-funded income grew from AED 11 Mn in 2Q24 to AED 24 Mn in 2Q25. As a result, the Bank's total non-funded income rose 8.3% YOY to AED 423 Mn in 2Q25. CBD's total operating income grew 8.6% YOY to AED 1,453 Mn in 2Q25. Furthermore, the G&A expenses increased 13.2% YOY to AED 357 Mn in 2Q25. Depreciation and amortization expenses also grew from AED 13 Mn in 2Q24 to AED 22 Mn in 2Q25. Thus, total operating expenses increased from AED 329 Mn in 2Q24 to AED 379 Mn in 2Q25, driven by the Bank's continued investments in digitalization, technology upgrades, business expansion, and enhancements in governance and regulatory. Resultantly, the cost-to-income ratio rose 153 bps YOY to 26.1% in 2Q25. Impairments on loans, advances and Islamic financing fell significantly 31.2% YOY to AED 164 Mn in 2Q25. However, the recoveries on loans & advances and Islamic financing declined from AED 73 Mn in 2Q24 to AED 42 Mn in 2Q25. CBD incurred a corporate tax charge of AED 85 Mn in 2Q25 compared to AED 74 Mn in 2Q24.

Balance Sheet Highlights

CBD's net advances grew 11.4% YOY and 3.0% QOQ to AED 99.8 Bn in 2Q25. The Bank experienced growth in its loan portfolio across the majority of the sectors, with a substantial rise in contributions from Financial and insurance activities, along with Government entities, partially offset by a significant decline in the Transportation and storage sector in 2Q25. Further, the Bank's total assets rose 6.6% YOY and 6.7% QOQ to AED 150.6 Bn in 2Q25. Customer deposits experienced a healthy growth of 7.2% YOY and 7.5% QOQ to AED 107.0 Bn in 2Q25. The loan-to-deposit ratio reached 93.2% in 2Q25, down from 97.3% in 1Q25. The Bank's CASA deposits accounted for 52.4% of total deposits in 2Q25, compared to 51.9% in 1Q25.

Target Price and Rating

We maintain our HOLD rating on CBD with a revised target price of AED 9.25. CBD's share price has appreciated 8.6% since our last rating (June 2025). CBD recorded strong growth in profitability, driven by an increase in both core and non-core income, along with lower impairments during 2Q25. CBD further anticipates sustaining growth in non-funded income across multiple business lines, with strong ongoing contributions from syndication, transactional banking, account fees, and other related streams, which are anticipated to drive growth in non-core income. The Bank's loan portfolio grew 11.4% YOY and 3.0% QOQ to AED 99.8 Bn during 2Q25. The Bank anticipates continued loan growth, particularly in mortgages, while also expecting seasonal softness during the summer months. CBD projects the loan growth to grow in the mid-to-high single-digit range in 2025. Customer deposits grew 7.2% YOY and 7.5% QOQ to AED 107.0 Bn, with CASA deposits accounting for 52.4% of the total deposits in 2Q25. Despite slight pressure on gross yields, a decline in funding costs helped the Bank maintain stable NIMs on a sequential basis. However, NIMs moderated 4 bps YOY to 3.0% in 2Q25. The Bank now expects NIMs to remain stable, revising its guidance upward from a 2.9%-3.1% range to a 3.0%-3.1% range going forward. The Bank's cost-to-income ratio rose 153 bps YOY but improved 91 bps QOQ to 26.1% in 2Q25, primarily driven by higher staff costs, volume growth, and continued investments in digital initiatives. However, it has guided the cost-to-income ratio below 28% for 2025. Asset quality also continued to improve with reported NPL declining from 4.3% in 1Q25 to 4.1% in 2Q25. Despite this, the reported provision coverage declined 101.6% in 1Q25 to 96.9% in 2Q25. However, the Bank is comfortable with its current coverage and believes it is appropriate given its larger corporate loan book. CBD's capital position marginally improved, with CET1 ratio and CAR ratio standing at 12.4% and 15.4% in 2Q25, well above the regulatory requirements. The Bank's shareholders return also improved with a reported ROA of 2.4% and ROE of 23.7% in 2Q25, compared to ROA of 2.4% and ROE of 22.7% in 2Q24. Thus, based on our analysis, we maintain our HOLD rating on stock.

CBD - Relative valuation

(at CMP)	2020	2021	2022	2023	2024	2025F
P/E	25.50	21.54	16.75	11.26	9.79	8.43
P/B	2.79	2.50	2.43	2.09	1.86	1.64
BVPS	3.407	3.807	3.912	4.548	5.099	5.798
EPS	0.373	0.441	0.567	0.843	0.971	1.127
DPS	0.188	0.243	0.245	0.444	0.507	0.550
Dividend yield	1.9%	2.5%	2.5%	4.6%	5.3%	5.7%

FABS Estimates & Co Data

CBD – P&L

AED Mn	2Q24	1Q25	2Q25A	2Q25F	Var.	YOY Ch	QOQ Ch	2024	2025F	Change
Funded income	1,888	1,831	1,876	1,858	0.9%	-0.7%	2.5%	7,544	7,595	0.7%
Funded expense	-942	-845	-847	-863	-1.9%	-10.1%	0.2%	-3,745	-3,409	-9.0%
Net funded income	947	985	1,029	995	3.4%	8.7%	4.5%	3,799	4,186	10.2%
Fees and commissions	295	274	324	279	16.1%	9.7%	18.4%	1,115	1,293	16.0%
Trading income	85	75	75	77	-2.0%	-10.9%	0.4%	337	305	-9.5%
Other non-funded income	11	37	24	41	-41.1%	NM	-35.3%	240	123	-49.0%
Total non-funded income	391	386	423	397	6.7%	8.3%	9.8%	1,692	1,721	1.7%
Total operating income	1,338	1,371	1,453	1,392	4.3%	8.6%	6.0%	5,491	5,906	7.6%
G&A Expenses	-315	-351	-357	-361	-1.2%	13.2%	1.8%	-1,342	-1,450	8.0%
Depreciation & amortization	-13	-20	-22	-20	10.8%	67.8%	12.6%	-61	-95	55.0%
Operating Expenses	-329	-370	-379	-381	-0.5%	15.4%	2.4%	-1,403	-1,544	10.0%
Pre provision profit	1,009	1,001	1,074	1,011	6.2%	6.4%	7.3%	4,087	4,362	6.7%
Impairments	-238	-116	-164	-122	34.6%	-31.2%	40.9%	-990	-679	-31.4%
Recoveries	73	31	42	33	26.0%	-42.9%	34.2%	257	165	-36.0%
Impairment on AFS invest.	-19	-5	1	-3	NM	NM	NM	-30	-5	NM
Profit before tax	825	910	952	919	3.6%	15.4%	4.6%	3,325	3,843	15.6%
Corporate tax	-74	-82	-85	-83	2.5%	15.2%	3.5%	-295	-346	17.1%
Net Profit	751	828	867	836	3.7%	15.4%	4.7%	3,030	3,497	15.4%

FABS estimate & Co Data

CBD – KPI

	2Q24	1Q25	2Q25	YOY Ch	QOQ Ch	2024	2025F	Change
Net FI/OI	70.8%	71.9%	70.9%	9	-102	69.2%	70.9%	168
NIMs	3.1%	3.0%	3.0%	-4	0	3.1%	3.0%	-4
NIS	2.6%	2.6%	2.7%	3	4	2.6%	2.6%	4
Fees & comms/OI	22.1%	20.0%	22.3%	22	235	20.3%	21.9%	159
Trading/OI	6.3%	5.5%	5.2%	-114	-29	6.1%	5.2%	-97
Cost to income	24.6%	27.0%	26.1%	153	-91	25.6%	26.1%	59
Impairment/PPP	18.2%	9.1%	11.3%	-692	226	18.6%	11.9%	-675
NP/OI	56.2%	60.4%	59.7%	352	-70	55.2%	59.2%	403
Cost of Risk	0.7%	0.3%	0.5%	-23	13	0.7%	0.48%	-26
Loan-to-deposit	89.8%	97.3%	93.2%	348	-405	95.4%	93.4%	-198
NPL – Calculated	6.7%	5.3%	5.0%	-165	-25	5.4%	4.8%	-62
Coverage – Calculated	88.1%	96.4%	92.6%	445	-384	98.5%	98.0%	-49
CET1	12.8%	12.3%	12.4%	-42	13	12.4%	12.3%	-9
Capital adequacy	16.1%	15.3%	15.4%	-69	6	15.6%	15.2%	-35
ROAE	21.3%	22.0%	21.6%	29	-37	20.1%	20.7%	56
ROAA	2.2%	2.3%	2.2%	7	-8	2.5%	2.7%	22

FABS estimate & Co Data

CBD – Key B/S items

AED Mn	2Q24	3Q24	4Q24	1Q25	2Q25	YOY Ch
Net advances	89,608	91,746	93,049	96,932	99,816	11.4%
QOQ change	3.2%	2.4%	1.4%	4.2%	3.0%	
Total assets	141,256	140,217	140,175	141,129	150,607	6.6%
QOQ change	7.8%	-0.7%	0.0%	0.7%	6.7%	
Customer deposits	99,831	98,682	97,563	99,624	107,047	7.2%
QOQ change	10.5%	-1.2%	-1.1%	2.1%	7.5%	
Total equity	15,843	16,772	17,425	16,813	17,645	11.4%
QOQ change	4.7%	5.9%	3.9%	-3.5%	4.9%	

FABS estimate & Co Data

Valuation:

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

Valuation Method	Target	Weight	Weighted Value
Residual Income	9.47	70.0%	6.63
Relative Valuation (RV)	8.72	30.0%	2.62
Weighted Average Valuation (AED)			9.25
Current market price (AED)			9.65
Upside/Downside (%)			-4.1%

1) Residual Income Method:

We have discounted the economic profit/excess equity using the cost of equity of 9.6%. The cost of equity is calculated using a 10-year government bond yield of 5.6%, a beta of 0.9, and an equity risk premium of 4.2%. The government bond yield is calculated by adding the Dubai 10-year CDS spread to the 10-year US risk-free rate. Also, assumed a terminal growth rate of 2.0%.

Sum of PV (AED, Mn)	4,373
Terminal value (AED, Mn)	8,456
Book value of equity (as of June 2025)	15,441
FV to Common shareholders (AED, Mn)	28,270
No. of share (Mn)	2,985
Current Market Price (AED)	9.65
Fair Value per share (AED)	9.47

(All Figures in AED Mn)	FY 2025E	FY 2026E	FY 2027E	FY 2028E	FY 2029E
Net Profit	3,365	3,271	3,294	3,314	3,356
(-) Equity charge	-1,653	-1,821	-2,006	-2,192	-2,369
Excess Equity	1,712	1,449	1,288	1,122	988
Discounting Factor	0.91	0.83	0.76	0.69	0.63
Present Value of Excess Equity	781¹	1,208	980	779	626

Source: FAB Securities, ¹Adjusted for partial year

2) Relative Valuation:

We have used local and international peers to value CBD, and it is valued using the PB multiple. It is valued at a 2025 PB multiple of 1.5x in line with peers.

Company	Market (USD Mn)	P/B (x)		PE (x)		Yield (%)	
		2025F	2026F	2025F	2026F	2025F	2026F
Dubai Islamic Bank	18,082	1.5	1.4	10.0	10.1	4.9	5.0
Emirates NBD	41,615	1.2	1.0	7.1	7.4	4.3	4.5
ADCB	28,251	1.5	1.3	11.3	10.4	4.3	4.6
MASQ	13,214	1.3	1.2	7.0	6.8	7.2	8.3
ADIB	21,773	3.2	2.8	13.6	12.7	3.8	4.2
Alinma Bank	17,652	1.8	1.6	11.0	10.3	4.3	4.6
Average		1.7x	1.6x	10.0x	9.6x	4.8%	5.2%
Median		1.5x	1.4x	10.5x	10.2x	4.3%	4.6%
Max		1.8x	1.6x	11.2x	10.4x	4.7%	4.9%
Min		1.3x	1.2x	7.8x	8.0x	4.3%	4.5%

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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