

Commercial Bank of Dubai (CBD)

Healthy asset quality and increased lending supported profitability

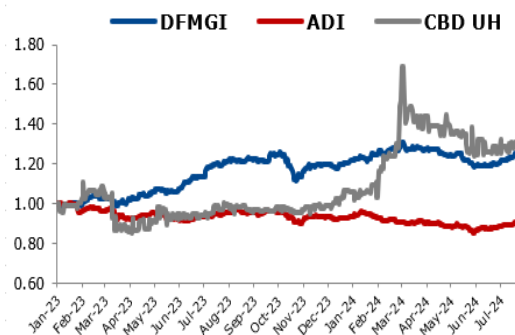
Current Price
AED 6.39

Target Price
AED 6.96

Upside/Downside (%)
+8.9%

Rating
HOLD

- Net advances grew strongly by 10.9% YOY and 3.2% QOQ to AED 90 Bn in 2Q24.
- Customer deposits grew strongly 16.5% YOY and 10.5% QOQ to AED 100 Bn in 2Q24, while CASA ratio declined from 52.5% in 1Q24 to 47.8% in 2Q24.
- NIMs declined 16 bps YOY and 19 bps QOQ to 3.1% in 2Q24.
- CBD's asset quality improved with a decline in NPL ratio from 5.9% in 1Q24 to 5.6% in 1Q24.
- Capitalization remained strong, with a CAR of 16.1% and CET 1 of 12.8% in 2Q24.



Stock Information

Market Cap (AED, mn)	19,075.38
Paid Up Capital (mn)	2,985.19
52 Week High	8.99
52 Week Low	4.52
3M Avg.daily value (AED)	169,321

2Q24 Result Review (AED, mn)

Total Assets	141,256
Total Liabilities	125,413
Total Equity	15,843
Total Deposits	99,831
Net Profit	751

Financial Ratios

Dividend Yield (12m)	6.95
Dividend Pay-out (%)	52.62
Price-Earnings Ratio(x)	6.99
Price-to-Book Ratio (x)	1.40
Book Value (AED)	4.57
Return-on Equity (%)	21.31

Stock Performance

5 Days	1.43%
1 Months	3.06%
3 Months	-5.19%
6 Months	19.66%
1 Year	32.57%
Month to Date (MTD%)	3.06%
Quarter to Date (QTD%)	3.06%
Year to Date (YTD%)	25.05%

2Q24 Net Profit slightly higher than our estimate

Commercial Bank of Dubai ("CBD, "the Bank") recorded a healthy growth in net profit of 15.6% YOY to AED 751 Mn in 2Q24, slightly higher than our estimate of AED 716 Mn. The increase in net profit is driven by a healthy growth in net funded and non-funded income coupled with lower impairments and strong growth in recoveries partially offset by an increase in operating expenses and income tax charges.

P&L Highlights

CBD's funded income grew 16.1% YOY to AED 1,888 Mn in 2Q24, mainly due to growth in loan book and other interest-earning assets. On the other hand, funded expenses grew 26.0% YOY to AED 942 Mn in 2Q24. Thus, net funded income rose 7.6% YOY to AED 947 Mn in 2Q24. CBD's total non-funded income rose 13.5% YOY to AED 391 Mn in 2Q24 due to improvement in business activities. Fees and commission income grew 22.0% YOY to AED 295 Mn in 2Q24. Trading income grew marginally 0.9% YOY to AED 85 Mn in 2Q24. Other non-funded income declined from AED 18 Mn in 2Q23 to AED 11 Mn in 2Q24. Moreover, CBD's total operating income rose 9.3% YOY to AED 1,338 Mn in 2Q24. Further, G&A expenses rose 13.2% YOY to AED 315 Mn in 2Q24 due to investment in digitalization, technology, regulatory compliance, and business growth initiatives. Additionally, impairments on loans, advances and Islamic financing declined 10.9% YOY to AED 238 Mn in 2Q24. The recoveries on loans and advances and Islamic financing grew significantly from AED 23 Mn in 2Q23 to AED 73 Mn in 2Q24. Furthermore, impairment allowance on AFS investments stood at AED 19 Mn in 2Q24 compared to AED 39 Mn in 2Q23. In addition, the Bank incurred a corporate tax expense of AED 74 Mn in 2Q24, owing to the introduction of UAE corporate tax.

Balance Sheet Highlights

CBD's net advances rose 10.9% YOY and 3.2% QOQ to AED 90 Bn in 2Q24. The Bank witnessed an increase in credit towards all sectors except real estate, financial and insurance activities, hospitality, construction, and individual business loans compared to 4Q23. Moreover, the Bank's total assets rose 14.7% YOY and 7.8% QOQ to AED 141 Bn in 2Q24. Customer deposits recorded a healthy growth of 16.5% YOY and 10.5% QOQ to AED 100 Bn in 2Q24. Loan to deposit ratio declined to 89.8% in 2Q24 compared to 96.1% in 1Q24. The Bank's CASA deposits decreased from 52.5% in 1Q24 to 47.8% in 2Q24. CBD's total equity rose 10.6% YOY and 4.7% QOQ to AED 16 Bn in 2Q24.

Target Price and Rating

We revise our rating from ACCUMULATE to HOLD on CBD with an unchanged target price of AED 6.96. CBD's stock price grew 5% since our last rating. CBD recorded strong growth in profitability driven by a solid increase in net funded and non-funded income along with lower impairments and growth in recoveries in 2Q24. The Bank's net loan book grew 10.9% YOY and 3.2% QOQ owing to increased credit towards the government, transportation, trade, manufacturing, personal and individual loans compared to 4Q23. The Bank further revised its loan guidance from mid-high single digit to high single digit for 2024. CBD's NIM declined 16 bps YOY and 19 bps QOQ to 3.1% in 2Q24. The Bank's deposits recorded a healthy growth of 16.5% YOY and 10.5% QOQ to AED 100 Bn in 2Q24. CASA deposits as a percentage of total deposits declined to 47.8% in 2Q24 from 52.5% in 1Q24. The cost-to-income ratio grew by 84 bps YOY and 160 bps QOQ to 24.6% in 2Q24. CBD continuously invests in technology and digitization to improve its operating efficiency and boost margins. It expects the cost-to-income to be below 25.0% in 2024. The Bank's cost of risk declined 44 bps YOY and 54 bps QOQ to 0.7%, indicating bank's ability to manage risk effectively. Furthermore, CBD's asset quality improved in 2Q24 with reported NPL ratio of 5.6% compared to 5.9% in 1Q24. However, the Bank reported coverage declined from 93.4% in 1Q24 to 89.6% in 2Q24. The Bank should further focus on increasing its coverage to create a buffer against bad loans going forward. In addition, the Bank maintained a healthy capitalization with a CAR of 16.1% and CET 1 ratio of 12.8% well above the regulatory limits in 2Q24. Thus, based on our analysis, we assign an HOLD rating on the stock.

CBD - Relative valuation

(at CMP)	2019	2020	2021	2022	2023	2024F
P/E	13.64	17.18	14.51	11.29	7.59	6.97
P/B	1.98	1.88	1.68	1.64	1.41	1.26
Dividend yield	3.0%	2.9%	3.8%	3.8%	6.9%	7.5%

CBD - P&L

AED mn	2Q23	1Q24	2Q24	2Q24F	Var.	YOY Ch	QOQ Ch	2023	2024F	Change
Funded income	1,627	1,840	1,888	1,865	1.2%	16.1%	2.6%	6,664	7,421	11.4%
Funded expense	-747	-880	-942	-871	8.1%	26.0%	7.0%	-3,094	-3,626	17.2%
Net funded income	880	959	947	994	-4.8%	7.6%	-1.3%	3,570	3,795	6.3%
Fees and commissions	242	277	295	291	1.6%	22.0%	6.7%	935	1,122	20.0%
Trading income	84	84	85	87	-2.2%	0.9%	0.6%	323	363	12.3%
Other non-funded income	18	52	11	26	-57.7%	-40.5%	-78.8%	94	101	8.0%
Total non-funded income	344	413	391	403	-3.0%	13.5%	-5.3%	1,351	1,586	17.3%
Total operating income	1,224	1,372	1,338	1,397	-4.3%	9.3%	-2.5%	4,921	5,380	9.3%
G&A Expenses	-279	-303	-315	-312	1.1%	13.2%	4.2%	-1,178	-1,261	7.0%
Depreciation & amortization	-12	-12	-13	-10	25.3%	10.7%	6.7%	-49	-57	15.0%
Operating Expenses	-290	-315	-329	-322	1.9%	13.1%	4.3%	-1,228	-1,318	7.3%
Pre provision profit	934	1,057	1,009	1,075	-6.1%	8.1%	-4.5%	3,693	4,063	10.0%
Impairments	-267	-330	-238	-301	-21.0%	-10.9%	-27.8%	-1,094	-954	-12.8%
Recoveries	23	43	73	38	90.7%	NM	70.0%	182	185	1.4%
Impairment allowances on AFS investment	-39	0	-19	-26	-25.9%	-51.5%	NM	-148	-152	3.0%
Profit before tax	650	770	825	786	4.9%	26.9%	7.1%	2,650	3,158	19.2%
Corporate tax		-69	-74	-71	4.0%	NM	6.4%	0	-284	NM
Net Profit	650	701	751	716	5.0%	15.6%	7.2%	2,650	2,874	8.4%

FABS estimate & Co Data

CBD - KPI

	2Q23	1Q24	2Q24	YOY Ch	QOQ Ch	2023	2024F	Change
Net FI/OI	71.9%	69.9%	70.8%	-110	85	72.5%	70.5%	-201
NIM	3.2%	3.2%	3.1%	-16	-19	3.24%	3.09%	-15
NIS	2.9%	2.8%	2.6%	-23	-17	2.8%	2.7%	-19
Fees & comms/OI	19.8%	20.2%	22.1%	230	190	19.0%	20.8%	185
Trading/OI	6.9%	6.1%	6.3%	-52	20	6.6%	6.8%	18
Cost to income	23.7%	23.0%	24.6%	84	160	24.9%	24.4%	-45
Impairment/PPP	30.4%	27.2%	18.2%	-1211	-891	28.7%	22.7%	-602
NP/OI	53.1%	51.1%	56.2%	306	509	53.9%	53.4%	-44
Cost of Risk	1.1%	1.2%	0.7%	-44	-54	1.02%	0.98%	-4
Loan-to-deposit	94.2%	96.1%	89.8%	-446	-631	94.4%	91.5%	-293
NPL – Reported	6.6%	5.9%	5.6%	-107	-32	6.5%	7.6%	113
Coverage – Reported	81.7%	93.4%	89.6%	789	-378	83.3%	94.0%	1074
CET1	12.9%	12.4%	12.8%	-8	42	12.5%	12.3%	-19
Capital adequacy	16.4%	15.7%	16.1%	-37	38	16.0%	15.4%	-58
ROAE	17.3%	19.9%	20.7%	332	72	19.9%	19.1%	-84
ROAA	1.7%	2.0%	2.0%	32	-2	2.1%	2.2%	14

FABS estimate & Co Data

CBD - Key B/S items

	2Q23	3Q23	4Q23	1Q24	2Q24	YOY Ch
AED mn						
Net advances	80,766	82,889	83,313	86,791	89,608	10.9%
QOQ ch	5.5%	2.6%	0.5%	4.2%	3.2%	
Total assets	123,129	126,024	128,987	130,976	141,256	14.7%
QOQ ch	3.2%	2.4%	2.4%	1.5%	7.8%	
Customer deposits	85,720	86,442	88,287	90,342	99,831	16.5%
QOQ ch	-0.5%	0.8%	2.1%	2.3%	10.5%	
Total equity	14,319	14,951	15,781	15,138	15,843	10.6%
QOQ ch	4.1%	4.4%	5.6%	-4.1%	4.7%	

FABS estimate & Co Data

Valuation:

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

Valuation Method	Target	Weight	Weighted Value
Residual Income	7.16	70.0%	5.01
Relative Valuation (RV)	6.49	30.0%	1.95
Weighted Average Valuation (AED)			6.96
Current market price (AED)			6.39
Upside/Downside (%)			+8.9%

1) Residual Income Method:

We have discounted the economic profit/excess equity using the cost of equity of 8.6%. Cost of equity is calculated by using 10-year government bond yield of 5.4%, beta of 0.8 and equity risk premium of 4.2%. Government bond yield is calculated after adding Dubai 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)	3,176
Terminal value (AED, Mn)	4,559
FV to Common shareholders (AED, Mn)	21,374
No. of share (Mn)	2,985
Current Market Price (AED)	6.39
Fair Value per share (AED)	7.16

(All Figures in AED Mn)	FY 2024E	FY 2025E	FY 2026E	FY 2027E	FY 2028E
Net Profit	2,741	2,541	2,367	2,219	2,110
(-) Equity charge	(1,294)	(1,401)	(1,497)	(1,591)	(1,686)
Excess Equity	1,447	1,140	870	628	424
Discounting Factor	0.96	0.88	0.81	0.75	0.69
Present Value of Excess Equity	694	1,008	709	471	293

Source: FAB Securities

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 2024 PB multiple of 1.3x in line with peers.

Company	Market (USD Mn)	P/B(x)		PE (x)		Yield (%)	
		2024F	2025F	2024F	2025F	2024F	2025F
Dubai Islamic Bank	11,570	1.1	1.0	7.3	7.4	7.3	7.4
RAK Bank	2,900	0.9	0.9	5.6	6.1	6.9	7.5
Emirates NBD	29,580	1.0	0.9	5.2	5.8	6.3	6.2
ADCB	16,480	0.9	0.9	8.0	8.1	6.4	6.5
MASQ	11,420	1.3	1.2	6.5	6.8	7.2	7.2
ADIB	11,970	2.0	1.8	8.9	9.1	6.0	5.9
Alinma	21,610	2.5	2.2	15.2	13.5	2.9	3.1
Al Bilad	11,500	2.4	2.2	15.9	14.2	1.5	1.9
SNB	59,800	1.3	1.3	11.4	10.5	4.8	5.1
Average		1.5x	1.4x	9.3x	9.1x	5.5%	5.6%
Median		1.3x	1.2x	8.0x	8.1x	6.3%	6.2%
Max		2.0x	1.8x	11.4x	10.5x	6.9%	7.2%
Min		1.0x	0.9x	6.5x	6.8x	4.8%	5.1%

Source: FAB Securities

