

Abu Dhabi Commercial Bank (ADCB)

Strong growth in advances and higher asset yield drove the bottom-line

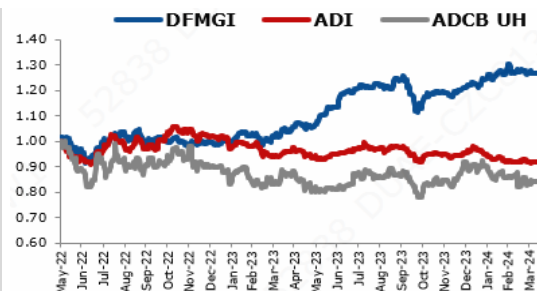
Current Price
AED 8.35

Target Price
AED 11.00

Upside/Downside (%)
+32%

Rating
BUY

- ADCB's net loans grew 20.7% YOY and 5.4% QOQ to AED 318.2 Bn in 1Q24, mainly driven by increased lending to GRE and other key sectors while real estate exposure declined from 17% in 2023 to 16% in 1Q24
- NPL ratio including POCI declined from 4.2% in 4Q23 to 3.8% in 1Q24. The provision coverage ratio rose, including collateral marginally fell from 168% in 4Q23 to 167% in 1Q24
- Capitalization stood strong with CET1 ratio of 13.0% and total CAR of 16.3% in 1Q24
- ADCB's customer deposits grew 23.5% YOY to AED 383.7 Bn in 1Q24



Stock Information

Market Cap (AED, mn)	61,487.55
Paid Up Capital (mn)	7,319.95
52 Week High	9.31
52 Week Low	7.73
3M Avg. daily value(AED)	40,853,550

1Q24 Net Profit in line with our estimate

Abu Dhabi Commercial Bank's ("ADCB", "The Bank") net profit grew 13.9% YOY to AED 2,140 Mn in 1Q24, in line with our estimate of AED 2,110 Mn. The growth in net profit is mainly driven by healthy growth recorded in net funded and non-funded income, which is partially offset by an increase in operating expenses and higher taxes.

P&L Highlights

ADCB's funded income including interest income and income from Islamic financing grew 34.7% YOY to AED 8,210 Mn in 1Q24 driven by strong growth in advances. On the other hand, funded expenses rose significantly from AED 3,245 Mn in 1Q23 to AED 4,908 Mn in 1Q24 due to an increase in the cost of funds. Thus, net funded income grew 15.8% YOY to AED 3,301 Mn in 1Q24. NIMs declined 3 bps YOY and 22 bps QOQ to 2.5% in 1Q24 due to higher representation of time deposits in the funding mix and increased exposure to lower-risk GREs. ADCB's fee and commission income rose strongly 32.0% YOY to AED 703 Mn in 1Q24. Likewise, other operating income grew 10.3% YOY to AED 582 Mn in 1Q24 mainly due to higher gains on financial assets at fair value through profit or loss (FVTPL). Thus, non-funded income grew 21.2% YOY to AED 1,285 Mn in 1Q24. As a result, total operating income increased 17.2% YOY to AED 4,586 Mn in 1Q24. Furthermore, operating expenses grew 15.1% YOY to AED 1,417 Mn in 1Q24 attributable to increased investment in regulatory requirements, digital technology and staff cost partially offset by a decline in depreciation and amortization expense. ADCB's cost to income ratio improved 60 bps YOY to 30.9% in 1Q24. The Bank's impairments marginally declined 1.0% YOY to AED 741 Mn in 1Q24. Furthermore, income tax expense rose significantly to AED 292 Mn in 1Q24 compared to AED 55 Mn in 1Q23 due to the introduction of corporate tax in UAE.

1Q24 Result Review (AED, mn)

Total Assets	594,405
Total Liabilities	525,724
Total Equity	68,681
Total Deposits	383,695
Net Profit	2,140

Financial Ratios

Dividend Yield (12m)	6.71
Dividend Pay-out (%)	52.46
Price-Earnings Ratio(x)	7.65
Price-to-Book Ratio (x)	1.02
Book Value (AED)	8.19
Return-on Equity (%)	13.84

Stock Performance

5 Days	1.33%
1 Months	0.60%
3 Months	-5.41%
6 Months	2.44%
1 Year	-3.89%
Month to Date (MTD%)	0.60%
Quarter to Date (QTD%)	0.96%
Year to Date (YTD%)	-8.50%

Balance Sheet Highlights

ADCB's total assets recorded a healthy growth of 18.5% YOY and 4.8% QOQ to AED 594.4 Bn in 1Q24 mainly due to growth in investment securities and an increase in the Bank's loan book. Net advances grew 20.7% YOY and 5.4% QOQ to AED 318.2 Bn in 1Q24. The Bank's investment securities rose 12% YOY to AED 132.4 Bn in 1Q24 with 71% accounted at amortized cost and 29% at FVTOCI and mark to market on a daily basis. Customer deposits rose 23.5% YOY and 5.7% QOQ to AED 383.7 Bn in 1Q24. CASA deposits grew 7.0% QOQ to AED 179.7 Bn in 1Q24 accounting for 47.0% of total deposits. In addition, ADCB's total equity rose 11.2% YOY but declined 3.6% QOQ to AED 68.7 Bn in 1Q24.

Target Price and Rating

We maintain our BUY rating on Abu Dhabi Commercial Bank (ADCB) with a target price of AED 11.00. ADCB recorded a strong growth in profitability driven by an increase in net funded and non-funded income. The rise in net funded income was primarily attributed to the strong growth recorded in net loans and advances and higher asset yield. Net advances grew 20.7% YOY to AED 318.2 Bn in 1Q24 due to an increase in lending to GRE's, transport, services, and financial institutions and a decline in real estate exposure. The Bank continued to reduce exposure to real estate sector from 17% in 2023 to 16% in 1Q24. ADCB deployed 66.3% of its loans to the corporate sector, 14.9% to private banking, and 18.7% to the retail sector. NIMs declined 3 bps YOY and 22 bps QOQ to 2.5% in 1Q24. ADCB added c. 205 thousand new retail customers during 1Q24, of which 84% were onboarded digitally 1Q24. ADCB's deposits grew 23.5% YOY to AED 383.7 Bn in 1Q24 resulting in a loan-to-deposit ratio of 82.9% in 1Q24 as compared to 83.2% in 4Q23. The Bank's liquidity marginally improved owing to a strong growth in deposits. The Bank added AED 12.3 Bn in CASA deposits in 1Q24 despite the rising interest rate, which was mainly due to the strong franchise. CASA deposits now account for 46.8% of total deposits as of 1Q24. Furthermore, the Bank's asset quality improved as the NPL ratio including POCI declined from 4.2% in 4Q23 to 3.8% in 1Q24. Provision coverage including collateral also marginally declined from 168% in 4Q23 to 167% in 1Q24. ADCB's capitalization stood strong with a CET 1 ratio of 13.0% and CAR of 16.3% in 1Q24. The Bank's shareholders approved a dividend of 56 fils per share for 2023 recording a strong dividend yield of 6.7%. Thus, based on our analysis, we assign a BUY rating on the stock.

ADCB - Relative valuation

(at CMP)	2019	2020	2021	2022	2023	2024F
PE	13.51	17.32	12.06	9.77	7.82	7.99
PB	1.23	1.21	1.15	1.10	0.98	0.92
Dividend yield	4.3%	3.1%	4.2%	2.0%	6.7%	6.5%

FABS Estimates & Co Data

ADCB – P&L

AED mn	1Q23	4Q23	1Q24	1Q24F	Var.	YOY Ch	QOQ Ch	2023	2024F	Change
Funded income	6,097	8,054	8,210	8,593	-4.5%	34.7%	1.9%	28,251	31,535	11.6%
Funded expense	-3,245	-4,641	-4,908	-5,047	-2.7%	51.2%	5.8%	-15,877	-17,669	11.3%
Net funded income	2,851	3,413	3,301	3,546	-6.9%	15.8%	-3.3%	12,374	13,866	12.1%
Fees & commissions	533	577	703	583	20.6%	32.0%	21.8%	2,444	2,576	5.4%
Other operating income	528	672	582	664	-12.3%	10.3%	-13.3%	2,048	2,031	-0.8%
Non funded income	1,061	1,249	1,285	1,247	3.1%	21.2%	2.9%	4,493	4,607	2.6%
Operating income	3,912	4,662	4,586	4,792	-4.3%	17.2%	-1.6%	16,866	18,473	9.5%
Operating expenses	-1,231	-1,491	-1,417	-1,572	-9.9%	15.1%	-4.9%	-5,453	-6,189	13.5%
Pre-provision profit	2,681	3,171	3,169	3,220	-1.6%	18.2%	-0.1%	11,414	12,285	7.6%
Impairments	-748	-1,162	-741	-862	-14.1%	-1.0%	-36.3%	-3,477	-3,404	-2.1%
Operating profit	1,933	2,009	2,429	2,358	3.0%	25.7%	20.9%	7,937	8,880	11.9%
Share of profit of assoc.	1	1	2	0	NM	NM	65.7%	0	0	0.0%
Net gain on disp of subsidiary	0	490	0	0	NM	NM	NM	490	0	NM
Profit before tax	1,934	2,500	2,431	2,358	3.1%	25.7%	-2.8%	8,427	8,880	5.4%
Overseas tax expense	-55	-47	-292	-59	NM	NM	NM	-221	-195	-11.5%
UAE Corporate Tax	0	0	0	-189	NM	NM	NM	0	-710	NM
Non- Controlling interest	1	-1	1	0	NM	61.5%	NM	1	1	0.0%
Profit for the period	1,879	2,453	2,140	2,110	1.4%	13.9%	-12.8%	8,207	7,975	-2.8%

FABS estimate & Co Data
ADCB - KPI

	1Q23	4Q23	1Q24	YOY Ch	QOQ Ch	2023	2024F	Change
Net FI/OI	72.9%	73.2%	72.0%	-91	-123	73.4%	75.1%	170
NIM	2.6%	2.7%	2.5%	-3	-22	2.6%	2.6%	5
NIS	2.1%	2.2%	2.0%	-12	-19	2.1%	2.1%	5
Fees & comms/OI	13.6%	12.4%	15.3%	171	294	14.5%	13.9%	-55
Other non-funded/OI	13.5%	14.4%	12.7%	-80	-172	12.1%	11.0%	-115
Cost to income	31.5%	32.0%	30.9%	-60	-108	32.3%	33.5%	117
Impairment/PPP	27.9%	36.6%	23.4%	-453	-1,328	30.5%	27.7%	-275
Tax/PBT	2.9%	1.9%	12.0%	915	1,015	2.6%	2.2%	-42
NP/OI	48.0%	52.6%	46.7%	-137	-596	48.7%	43.2%	-549
Cost of risk	0.75%	1.02%	0.7%	-9	-36	0.79%	2.15%	136
Loan-to-deposit	84.9%	83.2%	82.9%	-193	-30	83.2%	83.0%	-25
NPL calculated	2.6%	2.7%	3.8%	122	104	4.1%	4.2%	3
Coverage excluding collateral	92.4%	102.5%	108.5%	1,610	600	102.5%	85.0%	-1,750
CET 1	12.9%	12.9%	13.0%	2	10	12.9%	13.3%	44
Capital adequacy	15.7%	16.2%	16.3%	59	4	16.2%	16.5%	30
ROAE	12.3%	13.5%	13.8%	155	36	13.9%	12.4%	-154
ROAA	1.3%	1.5%	1.5%	11	-3	1.5%	1.4%	-17

FABS estimate & Co Data
ADCB - Key B/S items

AED mn	1Q23	2Q23	3Q23	4Q23	1Q24	YOY Ch
Net advances	263,533	271,960	284,257	301,995	318,159	20.7%
QOQ change	1.9%	3.2%	4.5%	6.2%	5.4%	
Total assets	501,423	521,301	536,889	567,194	594,405	18.5%
QOQ change	0.7%	4.0%	3.0%	5.6%	4.8%	
Customer deposits	310,587	315,908	329,276	362,905	383,695	23.5%
QOQ change	0.5%	1.7%	4.2%	10.2%	5.7%	
Total equity	61,767	63,712	65,306	71,253	68,681	11.2%
QOQ change	0.6%	3.1%	2.5%	9.1%	-3.6%	

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	10.90	70.0%	7.63
Relative Valuation (RV)	11.24	30.0%	3.37
Weighted Average Valuation (AED)			11.00
Current market price (AED)			8.35
Upside/Downside (%)			+32%

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 1.00 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)	5,202
Terminal value (AED, Mn)	14,630
Book Value of Equity (as of Mar 2024)	59,920
FV to Common shareholders (AED, Mn)	79,752
No. of share (Mn)	7,320
Current Market Price (AED)	8.35
Fair Value per share (AED)	10.90

Residual Income Method

(All Figures in AED Mn)	FY 2024E	FY 2025E	FY 2026E	FY 2027E	FY 2028E
Net Profit	7,647	7,810	8,059	8,455	9,060
(-) Equity Charge	(6,028)	(6,399)	(6,788)	(7,164)	(7,536)
Excess Equity	1,080	1,411	1,271	1,291	1,524
Discounting Factor	0.94	0.87	0.79	0.73	0.67
Present Value of Excess Equity	1,019	1,221	1,008	938	1,016

Source: FAB Securities

2) Relative Valuation:

We have used local and international peers to value ADCB and it is valued using the PB multiple. It is valued at a 2024 PB multiple of 1.2x in line with peers.

Company	Market (USD Mn)	P/B (x)		P/E (x)		Dividend Yield (%)	
		2024F	2025F	2024F	2025F	2024F	2025F
Commercial Bank of Dubai	5490	1.3	1.3	NM	NM	6.5	6.0
Abu Dhabi Islamic Bank	39,950	1.8	1.6	8.6	8.5	6.3	6.3
Dubai Islamic Bank	10,820	1.0	1.0	6.9	7.1	7.8	7.9
Emirates NBD	26,920	0.9	0.8	5.3	5.6	6.4	6.4
Banque Saudi Fransi	11,500	1.1	1.1	10.2	8.9	5.7	5.9
Riyad Bank	22,360	1.5	1.4	10.3	9.6	5.2	5.4
Average		1.3x	1.2x	8.3x	7.9x	6.3x	6.3x
Median		1.2x	1.2x	8.6x	8.5x	6.3x	6.1x
Max		1.4x	1.3x	10.2x	8.9x	6.5x	6.4x
Min		1.0x	1.0x	6.9x	7.1x	5.8x	5.9x

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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