

Abu Dhabi Commercial Bank (ADCB)

Improvement in loan and deposit mix drove profitability

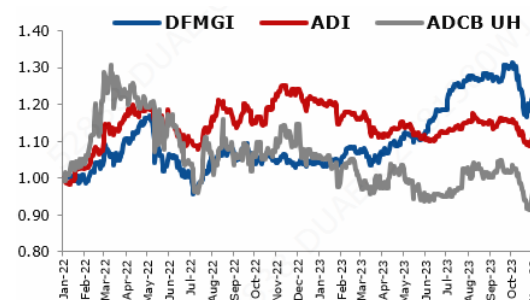
Current Price
AED 8.60

Target Price
AED 11.00

Upside/Downside (%)
+28%

Rating
BUY

- ADCB's net loans rose 13.2% YOY in 3Q23 mainly driven by increased lending to GRE and other key sectors while real estate exposure declined 6.8% YTD in 3Q23
- ADCB revised its loan book guidance upward from mid-single digit growth to 10-12% growth in 2023 and targets a 50% cash dividend payout ratio
- ADCB's cost of funds rose 240 bps YOY in 9M23 at a lower rate compared to 3M average EIBOR (+346 bps) and 3M average LIBOR (+383 bps) which indicates a solid funding mix
- The Bank's NPL ratio stood at 5.3% in 3Q23 as compared to 5.6% in 2Q23. The provision coverage ratio moderated to 75.4% in 3Q23 from 82.1% in 2Q23 whereas provision including collateral stood at 148% in 3Q23 as compared to 150% in 2Q23



3Q23 Net Profit in line with our estimate

Abu Dhabi Commercial Bank's ("ADCB", "The Bank") net profit grew 22.1% YOY to AED 1,942 Mn in 3Q23, in line with our estimate of AED 1,999 Mn. The growth in net profit is mainly attributable to a healthy growth in net funded and non-funded income partially offset by an increase in operating expenses and higher impairments.

P&L Highlights

ADCB's funded income including interest income and income from Islamic financing rose 70.3% YOY to AED 7,386 Mn in 3Q23 driven by strong growth in advances and expansion in asset yield. On the other hand, funded expenses rose significantly from AED 1,780 Mn in 3Q22 to AED 4,206 Mn in 3Q23 due to increase in cost of funds. However, the cost of funds in 9M23 rose at a lower rate compared to 3M average EIBOR and LIBOR, indicating a solid funding mix. Thus, net funded income grew 24.3% YOY to AED 3,179 Mn in 3Q23. The Bank's NIMs rose 32 bps YOY and 11 bps QOQ to 2.7% in 3Q23. Moreover, ADCB's fee and commission income rose 22.5% YOY to AED 611 Mn in 3Q23, mainly driven by increased gross cards and related loan fees. Gross card related fees rose 27% YOY in 3Q23 while gross loan processing fees grew 35% YOY. Whereas, other operating income marginally declined 2.2% YOY to AED 443 Mn in 3Q23 owing to lower gains on investment sales and retirement of hedges. Thus, net funded income rose 10.7% YOY to AED 1,054 Mn in 3Q23. As a result, total operating income witnessed 20.6% YOY rise to AED 4,233 Mn in 3Q23. Furthermore, operating expenses rose 13.7% YOY to AED 1,412 Mn in 3Q23 attributable to increase in staff cost and G&A expenses partially offset by decline in amortization expense. However, ADCB's cost to income ratio declined 202 bps YOY to 33.3% in 3Q23 mainly due to increase in income base. The Bank's impairments rose 28.8% YOY to AED 819 Mn in 3Q23 due to lower recoveries in 3Q23.

Stock Information

Market Cap (AED, mm)	61,414.36
Paid Up Capital (mm)	7,319.95
52 Week High	9.31
52 Week Low	7.63
3M Avg. daily value(AED)	27,333,000

3Q23 Result Review (AED, mm)

Total Assets	536,889
Total Liabilities	471,583
Total Equity	65,306
Total Deposits	329,276
Net Profit	1,942

Financial Ratios

Dividend Yield (12m)	2.04
Dividend Pay-out (%)	60.23
Price-Earnings Ratio(x)	8.54
Price-to-Book Ratio (x)	1.04
Book Value (AED)	8.10
Return-on Equity (%)	12.74

Stock Performance

5 Days	1.57%
1 Months	4.74%
3 Months	-2.89%
6 Months	0.60%
1 Year	-7.18%
Month to Date (MTD%)	4.48%
Quarter to Date (QTD%)	-3.01%
Year to Date (YTD%)	-1.92%

In addition, overseas tax expense rose 40.6% YOY to AED 58 Mn in 3Q23 due to solid performance in overseas business.

Balance Sheet Highlights

ADCB's total assets recorded a healthy growth of 10.4% YOY and 3.0% QOQ to AED 536.9 Bn in 3Q23. Net advances rose 13.2% YOY and 4.5% QOQ to AED 284.3 Bn in 3Q23 due to an increase in corporate, retail, and private banking loans. The Bank's investment securities rose 12.5% YOY but declined 0.2% QOQ to AED 121.8 Bn in 3Q23 with 67.0% accounted at amortized cost and 33.0% at FVTOCI mark to market on a daily basis. Customer deposits rose 8.9% YOY and 4.2% QOQ to AED 329.3 Bn in 3Q23. CASA deposits declined to AED 157.5 Bn in 3Q23 from AED 160.3 Bn in 3Q22 while CASA deposits account for 47.8% of total deposits in 3Q23. In addition, ADCB's total equity rose 10.9% YOY and 2.5% QOQ to AED 65.3 Bn in 3Q23.

Target Price and Rating

We maintain our BUY rating on Abu Dhabi Commercial Bank (ADCB) with an unchanged target price of AED 11.00. ADCB recorded a strong growth in advances which rose 13.2% YOY and 4.5% QOQ to AED 284.3 Bn in 3Q23 with improved loan mix as the Bank increased its lending's to GRE's, energy, financial and trading companies with a decline in exposure to real estate sector. ADCB has deployed 67% of its loans to the corporate sector and 13% to the retail sector. Whereas 75% of the total loans are issued at floating rates which enable quick repricing in a rising interest rate scenario. The Bank revised its guidance upward and expects advances to grow by 10-12% in 2023. ADCB issued more than 67 thousand cards during 3Q23 and welcomed around 167 thousand new retail banking customers out of which 81% were onboarded digitally. The Bank's NIMs rose 32 bps YOY and 11 bps QOQ to 2.7% in 3Q23. ADCB's deposits rose 8.9% YOY and 4.2% QOQ to AED 329.3 Bn in 3Q23 resulting in a loan to deposit ratio of 86.3% in 3Q23 as compared to 86.1% in 2Q23. CASA deposits stood at 47.8% of total deposits in 3Q23 as compared to 47.7% in 2Q23. Furthermore, the Bank's asset quality improved as the NPL ratio declined to 5.3% in 3Q23 as compared to 5.6% in 2Q23. However, the provision coverage declined to 75.4% in 3Q23 from 82.1% in 2Q23. Provisions including collaterals stood at 148% in 3Q23 as compared to 150% in 2Q23. ADCB's capitalization stood strong with a CET 1 ratio of 13.1% and CAR of 15.8% in 3Q23. Supported by robust capitalization, ADCB targets a cash dividend payout ratio of 50% for 2023. In addition, ADCB's Al Hilal super app serves as virtual marketplace and continues to increase digital engagement with a new feature allowing customers to book across more than 400 thousand hotels using credit card. Increasing digital services of the Bank along with strong cards business growth will further increase the Bank's income from the non-core business. Thus, based on our analysis, we assign a BUY rating on the stock.

ADCB - Relative valuation

(at CMP)	2018	2019	2020	2021	2022	2023F
PE	12.98	13.38	17.15	11.95	9.68	8.30
PB	1.73	1.22	1.20	1.13	1.09	0.97
Dividend yield	5.6%	4.4%	3.1%	4.3%	2.1%	6.4%

FABS Estimates & Co Data

ADCB – P&L

AED mm	3Q22	2Q23	3Q23	3Q23F	Var.	YOY Ch	QOQ Ch	2022	2023F	Change
Funded income	4,338	6,715	7,386	6,946	6.3%	70.3%	10.0%	16,417	28,313	72.5%
Funded expense	-1,780	-3,784	-4,206	-3,944	6.7%	136.4%	11.2%	-6,223	-15,984	156.9%
Net funded income	2,558	2,930	3,179	3,003	5.9%	24.3%	8.5%	10,194	12,329	20.9%
Fees & commissions	499	724	611	707	-13.7%	22.5%	-15.6%	2,110	2,511	19.0%
Other operating income	453	405	443	408	8.7%	-2.2%	9.5%	2,040	1,737	-14.9%
Non funded income	952	1,129	1,054	1,115	-5.5%	10.7%	-6.6%	4,151	4,248	2.4%
Operating income	3,510	4,059	4,233	4,118	2.8%	20.6%	4.3%	14,344	16,577	15.6%
Operating expenses	-1,241	-1,319	-1,412	-1,318	7.1%	13.7%	7.0%	-4,888	-5,421	10.9%
Pre-provision profit	2,269	2,740	2,822	2,800	0.8%	24.4%	3.0%	9,456	11,156	18.0%
Impairments	-636	-748	-819	-751	9.2%	28.8%	9.6%	-2,779	-3,206	15.4%
Operating profit	1,632	1,993	2,002	2,050	-2.3%	22.7%	0.5%	6,677	7,950	19.1%
Share of profit of assoc.	-1	0	-2	0	NM	NM	NM	-8	-1	-83.0%
Profit before tax	1,631	1,993	2,000	2,050	-2.4%	22.6%	0.4%	6,669	7,949	19.2%
Overseas tax expense	-41	-60	-58	-51	13.7%	40.6%	-3.6%	-135	-238	76.5%
Profit for the period	1,591	1,933	1,942	1,999	-2.9%	22.1%	0.5%	6,435	7,712	19.8%

FABS estimate & Co Data

ADCB - KPI

	3Q22	2Q23	3Q23	YOY Ch	QOQ Ch	2022	2023F	Change
Net FI/OI	72.9%	72.2%	75.1%	222	291	71.1%	74.4%	331
NIM	2.4%	2.6%	2.7%	32	11	2.4%	2.6%	23
NIS	2.1%	2.1%	2.2%	5	9	2.2%	2.1%	-5
Fees & comms/OI	14.2%	17.8%	14.4%	22	-341	14.7%	15.1%	44
Other non-funded/OI	12.9%	10.0%	10.5%	-244	50	14.2%	10.5%	-374
Cost to income	35.4%	32.5%	33.3%	-202	85	34.1%	32.7%	-138
Impairment/PPP	28.0%	27.3%	29.0%	100	175	29.4%	28.7%	-65
Tax/PBT	2.5%	3.0%	2.9%	37	-12	2.0%	3.0%	97
NP/OI	45.3%	47.6%	45.9%	56	-174	44.9%	46.5%	166
ROAE	11.6%	12.7%	12.9%	125	22	11.8%	13.1%	128
ROAA	1.3%	1.4%	1.4%	16	2	1.4%	1.5%	11

FABS estimate & Co Data

ADCB - Key B/S items

AED mm	3Q22	4Q22	1Q23	2Q23	3Q23	YOY Ch
Net advances	251,202	258,493	263,533	271,960	284,257	13.2%
QOQ ch	3.4%	2.9%	1.9%	3.2%	4.5%	
Total assets	486,365	497,842	501,423	521,301	536,889	10.4%
QOQ ch	2.2%	2.4%	0.7%	4.0%	3.0%	
Customer deposits	302,262	308,931	310,587	315,908	329,276	8.9%
QOQ ch	3.4%	2.2%	0.5%	1.7%	4.2%	
Total equity	58,869	61,426	61,767	63,712	65,306	10.9%
QOQ ch	1.7%	4.3%	0.6%	3.1%	2.5%	

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	11.78	70.0%	8.25
Relative Valuation (RV)	9.18	30.0%	2.75
Weighted Average Valuation (AED)			11.00
Current market price (AED)			8.60
Upside/Downside (%)			+28%

1) Residual Income Method:

We have discounted the economic profit/excess equity using the cost of equity of 9.0%. Cost of equity is calculated by using 10-year government bond yield of 4.5%, beta of 1.00 and equity risk premium of 4.4%. 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)	5,934
Terminal value (AED, Mn)	21,015
Book Value of Equity (as of Sept 2023)	59,300
FV to Common shareholders (AED, Mn)	86,249
No. of share (Mn)	7,320
Current Market Price (AED)	8.60
Fair Value per share (AED)	11.78

Residual Income Method

(All Figures in AED Mn)	FY 2023E	FY 2024E	FY 2025E	FY 2026E	FY 2027E
Net Profit	7,292	7,228	7,529	8,190	8,666
(-) Equity Charge	(5,602)	(5,399)	(5,764)	(6,718)	(6,604)
Excess Equity	249	1,829	1,764	1,473	2,062
Discounting Factor	0.99	0.91	0.83	0.76	0.70
Present Value of Excess Equity	246	1,657	1,466	1,123	1,442

Source: FAB Securities

2) Relative Valuation:

We have used local peers to value ADCB and it is valued using the PB multiple. It is valued at a PB multiple of 1.1x in line with peers.

Company	Market (USD Mn)	P/B (x)		P/E (x)		Dividend Yield (%)	
		2023F	2024F	2023F	2024F	2023F	2024F
Commercial Bank of Dubai	3,747	1.0	1.0	NA	NA	5.6	6.0
Mashreq Bank	8,302	1.2	NA	5.3	5.6	8.2	8.2
Abu Dhabi Islamic Bank	9,928	1.9	1.7	8.8	9.1	6.5	5.8
Dubai Islamic Bank	10,450	1.1	1.0	7.1	7.6	6.2	6.2
Emirates NBD	27,520	1.0	0.9	4.7	5.6	5.2	5.2
Average		1.2x	1.2x	6.5x	7.0x	6.4%	6.3%
Median		1.1x	1.0x	6.2x	6.6x	6.2%	6.0%
Max		1.2x	1.2x	7.6x	8.0x	6.5%	6.2%
Min		1.0x	1.0x	5.2x	5.6x	5.6%	5.8%

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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