

Abu Dhabi Commercial Bank

Strong financing growth & higher interest rates supported profitability

4Q22 Net Profit higher than our estimates

Abu Dhabi Commercial Bank's ("ADCB", "The Bank") net profit rose 23.8% YOY to AED 1,786 Mn in 4Q22, slightly higher than our estimate of AED 1,715 Mn. The increase in net profit is primarily driven by strong growth in funded and non-funded income partially offset by a rise in operating expenses and higher impairments.

P&L highlights

ADCB's funded income including interest income and income from Islamic financing more than doubled from AED 2,820 Mn in 4Q21 to AED 5,809 Mn in 4Q22. The increase was mainly driven by healthy growth in advances and an increase in asset yield. Funded expenses rose significantly from AED 570 Mn in 4Q21 to AED 2,891 Mn in 4Q22 due to higher benchmark rates. Thus, net funded income rose 29.7% YOY to AED 2,918 Mn in 4Q22. NIMs rose 38 bps YOY and 29 bps QOQ to 2.7% in 4Q22. The steep increase in NIM on YOY and QOQ basis is mainly due to a reversal of interest in suspense. Fees and commission income rose 19.5% YOY to AED 620 Mn in 4Q22 mainly due to a growth in card-related fees and loan processing fees. Other operating income rose significantly 70.4% YOY to AED 865 Mn in 4Q22 primarily due to profit from the sale of NPLs and growth in net trading income on account of higher FX and trading gains. As a result, total non-funded income grew 44.6% YOY to AED 1,486 Mn in 4Q22. Thus, total operating income rose 34.4% YOY to AED 4,403 Mn in 4Q22. On the other hand, the Bank's operating expenses rose 15.4% YOY to AED 1,302 Mn in 4Q22 mainly due to high marketing expenses, commission to agents for growth in sales volumes, and investments in digital technology. Consequently, the cost-to-income ratio declined 486 bps YOY to 29.6% in 4Q22 mainly due to an increase in top-line growth and one-off gains recorded by the Bank during the quarter. Impairments rose significantly from 669 Mn in 4Q21 to AED 1,193 Mn in 4Q22 owing to higher corporate accounts and rising global uncertainty.

Balance Sheet highlights

ADCB recorded strong growth in the balance sheet as total assets rose 13.1% to AED 497.8 Bn in 2022. Net advances grew 5.8% to AED 258.5 Bn due to diversified lending to energy, personal, financial institutions, manufacturing, and trading sectors in 2022. The Bank's investment securities rose 16.1% to AED 112.1 Bn in 2022 driven by an increase in investment in government bonds. Customer deposits witnessed a robust growth of 16.6% to AED 308.9 Bn in 2022 owing to a 39% growth in time deposits. The Bank's CASA deposits stood at AED 153 Bn in 2022 and now account for 50.0% of total deposits. In addition, ADCB's total equity rose 3.5% to AED 61.4 Bn in 2022.

Target price and rating

We maintain our BUY rating on Abu Dhabi Commercial Bank (ADCB) with a target price of AED 11.60. The Bank recorded a strong 22.8% growth in net profit to AED 6,435 Mn in 2022 owing to the rising interest rate scenario and increase in customer base. ADCB's NIMs rose 29 bps QOQ to AED 2.7% in 4Q22 due to a decline in interest in the suspense. The management further plans

Rating : BUY

First Look Note – 4Q22

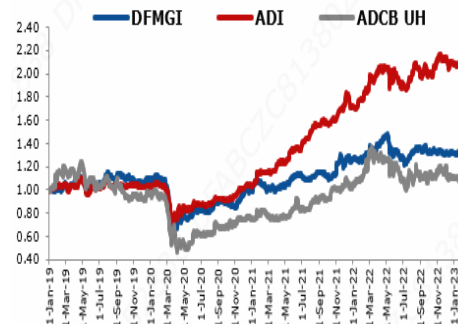
Sector: Banking

Recommendation

| | |
|---------------------------|-------|
| Current Price (14-Feb-23) | 8.94 |
| Target Price | 11.60 |
| Upside/Downside (%) | +30% |

Stock Information

| | |
|---------------------------|------------|
| Market Cap (mm) | 62,198.97 |
| Paid Up Capital (mm) | 6,957.38 |
| 52 Week High | 11.30 |
| 52 Week Low | 8.15 |
| 3M Avg. daily value (AED) | 28,778,810 |



Financial Ratios

| | |
|--------------------------|-------|
| Dividend Yield (12m) | 4.14 |
| Dividend Pay-out (%) | 60.23 |
| Price-Earnings Ratio (x) | 9.78 |
| Price-to-Book Ratio (x) | 1.12 |
| Book Value (AED) | 7.97 |
| Return-on Equity (%) | 11.50 |
| Earning Per Share (AED) | 0.91 |
| Beta | 1.00 |

Stock Performance

| | |
|-----------------------|--------|
| 5 Days | 1.59% |
| 1 Months | -1.22% |
| 3 Months | -7.36% |
| 6 Months | -3.14% |
| 1 Year | -6.58% |
| Month to Date (MTD) | 6.30% |
| Quarter to Date (QTD) | -0.67% |
| Year to Date (YTD) | -0.67% |

to boost NIM by 10-15 bps during next year by controlling the cost of funds and the excess liquidity is expected to be deployed in form of loans. ADCB's net advances also rose 5.8% YOY to AED 258.5 Bn in 4Q22 mainly due to growth in lending across wholesale and retail banking portfolios. The Bank further expects its credit growth to remain solid in 2023 underpinned by its strong credit pipeline. Moreover, ADCB's customer deposits rose 16.6% to AED 308.8 Mn in 2022 primarily due to growth in wholesale and private banking deposits. CASA deposits of the Bank rose to AED 153 Bn and now account for 50% of the Bank's total deposits. The cost-to-income ratio declined 579 bps QOQ to 29.6% in 4Q22 driven by an increase in top-line growth and continued cost discipline followed by the Bank. Furthermore, ADCB's asset quality improved to 5.8% in 4Q22 as compared to 6.1% in 3Q22 supported by an increase in coverage ratio to 75.4% in 4Q22. In addition, ADCB concluded the sale of non-performing loans worth AED 5.5 Bn during 2022 and realized gain from this sale. The Bank's capitalization stood healthy with a CET 1 ratio of 13.0% and CAR of 15.8% in 4Q22, above the regulatory limits. Furthermore, ADCB's board of directors proposed a cash and stock dividend of AED 0.55 per share (*AED 0.18 Per share as cash dividend and 5.211% as Bonus Share*) the highest in the near term. Thus, based on our analysis, we assign a BUY rat-

ADCB- Relative valuation

| (at CMP) | 2018 | 2019 | 2020 | 2021 | 2022 | 2023F |
|----------------|------|-------|-------|-------|------|-------|
| PE | 9.93 | 12.54 | 17.57 | 12.23 | 9.91 | 9.45 |
| PB | 1.87 | 1.25 | 1.23 | 1.16 | 1.12 | 1.13 |
| Dividend Yield | 5.2% | 4.3% | 3.0% | 4.2% | 2.0% | 5.1% |

FABS Estimates & Co Data
ADCB - P&L

| AED mm | 4Q21 | 3Q22 | 4Q22 | 4Q22F | Var. | YOY Ch | QOQ Ch | 2021 | 2022 | Change |
|-----------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|---------------|---------------|--------------|
| Funded income | 2,820 | 4,338 | 5,809 | 4,474 | 29.8% | 106.0% | 33.9% | 11,121 | 16,417 | 47.6% |
| Funded expense | -570 | -1,780 | -2,891 | -1,874 | 54.3% | 407.6% | 62.4% | -2,258 | -6,223 | 175.6% |
| Net funded income | 2,250 | 2,558 | 2,918 | 2,601 | 12.2% | 29.7% | 14.1% | 8,864 | 10,194 | 15.0% |
| Fees & commissions | 519 | 499 | 620 | 503 | 23.2% | 19.5% | 24.4% | 1,899 | 2,110 | 11.1% |
| Other operating income | 508 | 453 | 865 | 459 | 88.7% | 70.4% | 91.0% | 1,496 | 2,040 | 36.3% |
| Non-funded income | 1,027 | 952 | 1,486 | 962 | 54.4% | 44.6% | 56.1% | 3,396 | 4,151 | 22.2% |
| Operating income | 3,277 | 3,510 | 4,403 | 3,563 | 23.6% | 34.4% | 25.5% | 12,259 | 14,344 | 17.0% |
| Operating expenses | 1,128 | -1,241 | -1,302 | -1,261 | 3.3% | 15.4% | 4.9% | -4,257 | -4,888 | 14.8% |
| Pre-provision profit | 2,149 | 2,269 | 3,101 | 2,302 | 34.7% | 44.3% | 36.7% | 8,002 | 9,456 | 18.2% |
| Impairments | -669 | -636 | -1,193 | -550 | 116.9% | 78.4% | 87.5% | -2,646 | -2,779 | 5.0% |
| Operating profit | 1,480 | 1,632 | 1,908 | 1,752 | 8.9% | 28.9% | 16.9% | 5,356 | 6,677 | 24.7% |
| Share of profit of assoc. | 1 | -1 | -4 | -1 | 187.8% | NM | 187.8% | 8 | -8 | NM |
| Profit before tax | 1,481 | 1,631 | 1,904 | 1,750 | 8.8% | 28.6% | 16.7% | 5,363 | 6,669 | 24.3% |
| Overseas tax expense | -29 | -41 | -29 | -35 | -16.0% | 1.9% | -29.1% | -100 | -135 | 35.6% |
| Loss from discount oper | -4 | 2 | -90 | 0 | NM | NM | NM | -16 | -100 | 507.8% |
| NCI | -5 | 0 | 2 | 0 | NM | NM | NM | -6 | 2 | NM |
| Net Profit | 1,443 | 1,591 | 1,786 | 1,715 | 4.2% | 23.8% | 12.3% | 5,241 | 6,435 | 22.8% |

FABS Estimates & Co Data

ADCB - P&L KPI

| | 4Q21 | 3Q22 | 4Q22 | YOY Ch | QOQ Ch | 2021 | 2022 | Change |
|---------------------|-------|-------|-------|--------|--------|-------|-------|--------|
| Net FI/OI | 68.7% | 72.9% | 66.3% | -239 | -662 | 72.3% | 71.1% | -124 |
| NIM | 2.3% | 2.4% | 2.7% | 38 | 29 | 2.3% | 2.4% | 13 |
| NIS | 2.2% | 2.1% | 2.3% | 12 | 15 | 2.2% | 2.2% | 0 |
| Fees & comms/OI | 15.8% | 14.2% | 14.1% | -176 | -12 | 15.5% | 14.7% | -78 |
| Other non-funded/OI | 15.5% | 12.9% | 19.7% | 415 | 674 | 12.2% | 14.2% | 202 |
| Cost to income | 34.4% | 35.4% | 29.6% | -486 | -579 | 34.7% | 34.1% | -65 |
| Impairment/PPP | 31.1% | 28.0% | 38.5% | 735 | 1043 | 33.1% | 29.4% | -368 |
| Tax/PBT | 1.9% | 2.5% | 1.5% | -40 | -100 | 1.9% | 2.0% | 17 |
| NP/OI | 44.0% | 45.3% | 40.6% | -346 | -476 | 42.8% | 44.9% | 211 |
| ROAE | 9.9% | 11.6% | 11.9% | 195 | 25 | 10.1% | 11.8% | 175 |
| ROAA | 1.2% | 1.3% | 2.0% | 76 | 70 | 1.2% | 1.4% | 14 |

FABS Estimates & Co Data

ADCB- Key BS Items

| AED mm | 4Q21 | 1Q22 | 2Q22 | 3Q22 | 4Q22 | YOY Ch |
|--------------------------|---------|---------|---------|---------|---------|--------|
| Net advances | 244,282 | 245,797 | 242,913 | 251,202 | 258,493 | 5.8% |
| QOQ Change | 1.0% | 0.6% | -1.2% | 3.4% | 2.9% | |
| Total assets | 440,278 | 445,677 | 476,093 | 486,365 | 497,842 | 13.1% |
| QOQ Change | 1.9% | 1.2% | 6.8% | 2.2% | 2.4% | |
| Customer deposits | 265,052 | 261,891 | 292,262 | 302,262 | 308,931 | 16.6% |
| QOQ Change | 3.6% | -1.2% | 11.6% | 3.4% | 2.2% | |
| Total equity | 59,360 | 57,352 | 57,866 | 58,869 | 61,426 | 3.5% |
| QOQ Change | 2.1% | -3.4% | 0.9% | 1.7% | 4.3% | |

FABS estimate & Co Data

FAB Securities Awards



Best Brokerage House in UAE 2016 & 2017 by "Banker Middle East"



Best Brokerage House in UAE 2016, 2017, 2019 and 2020 by "IFA"



Best Brokerage in the UAE 2016 By "Global Investor/ ISF ME Awards"



Best Research House in UAE 2016 and 2020 by "IFA"



Best New Mobile Application in UAE 2016 by "IFA"



Best Equity Finance Company in UAE 2016 by "IFA"