

Commercial Bank International

Higher operating income & reversals of impairments boosted profitability

1Q23 Net Profit higher than our estimate

Commercial Bank International ("CBI"/ "The Bank") net profit grew significantly from AED 21 Mn in 1Q22 to AED 33 Mn in 1Q23, higher than our estimate of AED 28 Mn. The rise in net profit was primarily due to an increase in net funded and non-funded income and a reversal in provisioning expenses partially offset by a significant increase in operating expenses.

P&L highlights

CBI's funded income nearly doubled from AED 126 Mn in 1Q22 to AED 243 Mn in 1Q23 while income from Islamic financing and investment assets rose from AED 11 Mn in 1Q22 to AED 16 Mn in 1Q23. The increase is mainly attributable due to a rise in asset yield and increase in net advances. Net advances rose 2.9% YOY to AED 12.1 Bn in 1Q23. While asset yield rose 97 bps QOQ to 6.0% in 1Q23. Funded expenses rose significantly from AED 52 Mn in 1Q22 to AED 157 Mn in 1Q23 due to an increase in the cost of funds driven by higher benchmark rates. CBI's cost of funds increased 88 bps QOQ to 4.0% in 1Q23. Thus, net funded income rose 18.8% YOY to AED 102 Mn in 1Q23. NIMs rose 19 bps QOQ and 25 YOY to 2.3% in 1Q23. The Bank's fees and commission income rose from AED 21 Mn in 1Q22 to AED 31 Mn in 1Q23. Other operating income also rose significantly from AED 4 Mn in 1Q22 to AED 15 Mn in 1Q23 due to an increase in foreign exchange gain and net gain on financial assets at FVPTL. Thus, total operating income grew 33.3% YOY to AED 148 Mn in 1Q23. Operating expenses grew significantly from AED 70 Mn in 1Q22 to AED 117 Mn in 1Q23. Resultantly, the cost-to-income ratio rose from 63.6% in 1Q22 to 79.1% in 1Q23. The Bank recorded a reversal in impairments of AED 3 Mn in 1Q22 compared to impairments charge of AED 20 Mn in 1Q22. Share of profit attributable to noncontrolling interest holders also recorded a loss of AED 1 Mn compared to a profit of AED 1 Mn in 1Q22.

Balance sheet highlights

CBI's total assets fell 5.6% YOY and 7.0% QOQ to AED 19.7 Bn mainly due to decline in cash balance partially offset by an increase in net advances. Net advances grew 2.9% YOY to AED 12.1 Bn in 1Q23. The Bank's customer deposits declined 1.7% YOY to AED 12.4 Bn in 1Q23. Additionally, the Bank's CASA ratio as a percentage of total deposits rose from 21.9% in 4Q22 to 23.1% in 1Q23. Loan to deposit ratio declined from 114.6% in 4Q22 to 106.3% in 1Q23. While, the Bank's total equity rose 2.4% YOY to AED 2.6 Bn in 1Q23.

Target price and rating

We maintain our BUY rating on CBI with a target price of AED 0.80. The Bank witnessed a robust performance owing to a 33.3% YOY increase in total operating income supported by rising interest rates. CBI's asset yield improved 98 bps QOQ to 6.0% in 1Q23. Thus, NIMs rose 25 bps YOY and 19 bps QOQ to 2.4% in 1Q23. CASA deposits also grew from 21.9% in 4Q22 to 23.1% in 1Q23. While the Bank recorded a decline in net advances on QOQ basis due to a decline in wholesale funding and a marginal drop in retail funding. The Bank only recorded a fresh slippage of 0.5% of gross advances in 1Q23 as compared to 5.1% in 4Q22 indicating im-

Rating : BUY

First Look Note – 1Q23

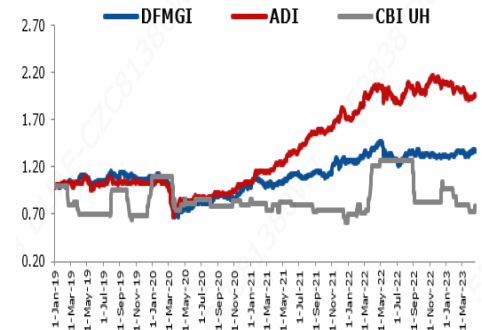
Sector: Banking

Recommendation

Current Price (12-May-23)	0.68
Target Price (AED)	0.80
Upside/Downside (%)	+17.6%

Stock Information

Market Cap (mm)	1,181.42
Paid Up Capital (mm)	1,737.38
52 Week High	1.10
52 Week Low	0.57
3M Avg. daily value (AED)	770



Financial Ratios

Dividend Yield (12m)	0.00
Dividend Pay-out (%)	0.00
Price-Earnings Ratio (x)	10.18
Price-to-Book Ratio (x)	0.55
Book Value (AED)	1.23
Return-on Equity (%)	5.55
Earning Per Share (AED)	0.07
Beta	0.70

Stock Performance

5 Days	0.00%
1 Months	7.94%
3 Months	-2.86%
6 Months	-6.21%
1 Year	-38.18%
Month to Date (MTD)	0.00%
Quarter to Date (QTD)	7.94%
Year to Date (YTD)	-19.91%

provement in asset quality. As a result, CBI recorded a reversal in impairments charge of AED 3 Mn in 1Q23 compared to an impairment charge of AED 20 Mn in 1Q22 due to an improvement in asset quality. Customer deposits witnessed a decline of 1.7% YOY however, it improved by 2.1% on QOQ basis in 1Q23 mainly due to a growth in the Bank's Islamic customer deposits. Islamic customer deposits grew from AED 874 Mn in 1Q22 to AED 1,067 Mn in 1Q23. Furthermore, the bank's asset quality deteriorated in 1Q23 with an increase in NPL ratio from 16.0% in 1Q22 to 17.4% in 1Q23 mainly due to a decline in advances. However, the coverage ratio remained unchanged at 29.3% in 1Q23 as compared to 4Q22. CBI held collateral worth AED 1,989.0 Mn against the impaired loans in 4Q22 enough to cover nonperforming loans. Stage 2 loans as a percentage of total loans declined from 12.7% in 4Q22 to 11.3% in 1Q23 indicating improvement in credit quality. CBI also was able to maintain capitalization as its CET 1 ratio stood at 10.5% and total CAR ratio at 14.4% in 1Q23. Thus, considering the above-mentioned factors, we assign a BUY rating on the stock.

CBI- Relative valuation

(at CMP)	2018	2019	2020	2021	2022	2023F
P/E (x)	6.11	10.12	NM	9.70	10.08	7.11
P/B (x)	0.61	0.59	0.60	0.57	0.55	0.51

FABS Estimates & Co Data
CBI- P&L

AED mm	1Q22	4Q22	1Q23	1Q23F	Var	YOY Ch	QOQ Ch	2022	2023F	Change
Funded income	126	204	243	222	9.5%	92.8%	19.4%	654	953	45.6%
Income from Islamic Fin	11	13	16	11	36.0%	39.5%	18.6%	46	57	22.8%
Funded expense	-52	-123	-157	-137	14.7%	203.8%	27.6%	-262	-558	112.6%
Net funded income	86	94	102	97	5.2%	18.8%	8.6%	398	452	13.5%
Fees and commissions	21	34	31	28	9.8%	46.8%	-10.0%	101	147	45.0%
Other operating income	4	18	15	7	110.7%	271.1%	-15.7%	104	83	-20.0%
Total non-funded income	25	52	46	35	30.0%	82.6%	-11.9%	205	230	12.1%
Total operating income	111	146	148	132	11.8%	33.3%	1.3%	603	681	13.0%
Operating expenses	-70	-75	-117	-70	66.7%	65.6%	54.7%	-328	-375	14.4%
Pre provision profit	40	70	31	62	-50.2%	-23.3%	-56.0%	275	307	11.5%
Impairment	-20	-20	3	-33	NM	NM	NM	-125	-133	7.1%
Non-controlling interests	-1	0	1	1	21.5%	NM	NM	33	7	-78.9%
Profit for the period	21	50	33	28	15.7%	54.6%	-34.4%	117	166	41.8%

FABS Estimates & Co Data
CBI- Margins

	1Q22	4Q22	1Q23	YOY Ch	QOQ Ch	2022	2023F	Change
Net FI/OI	77.3%	64.2%	68.9%	-839	466	66.0%	66.3%	28
NIM	2.1%	2.2%	2.3%	25	19	2.3%	2.4%	13
NIS	2.0%	1.8%	1.9%	-4	9	2.1%	2.1%	-1
Fees & comms/OI	19.1%	23.6%	21.0%	193	-263	16.8%	21.5%	475
Trading/OI	3.6%	12.1%	10.1%	646	-203	17.2%	12.2%	-503
Cost to income	63.6%	51.8%	79.1%	1543	2,729	54.4%	55.0%	63
Impairment/PPP	48.8%	28.4%	-10.1%	-5891	-3,850	45.3%	43.5%	-178
NP/OI	19.2%	34.3%	22.2%	306	-1,209	19.4%	24.4%	494
ROAE	11.9%	7.1%	7.6%	-424	48	5.6%	7.5%	194
ROAA	1.2%	0.7%	0.8%	-39	8	0.6%	0.8%	21

FABS estimate & Co Data

CBI- B/S Key items

AED mm	1Q22	2Q22	3Q22	4Q22	1Q23	YOY Ch
Net advances	11,806	12,024	13,034	12,924	12,150	2.9%
QOQ change	0.2%	1.8%	8.4%	-0.8%	-6.0%	
Total assets	20,858	19,088	20,622	21,167	19,681	-5.6%
QOQ change	0.4%	-8.5%	8.0%	2.6%	-7.0%	
Customer deposits	12,675	11,268	12,216	12,200	12,457	-1.7%
QOQ change	0.8%	-11.1%	8.4%	-0.1%	2.1%	
Total equity	2,567	2,532	2,543	2,595	2,628	2.4%
QOQ change	0.9%	-1.4%	0.4%	2.1%	1.3%	

FABS estimate & Co Data

Valuation:

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

Valuation Method	Target	Weight	Weighted Value
Residual Income	0.66	70.0%	0.46
Relative	1.12	30.0%	0.34
Weighted Average Valuation (AED)			0.80
Current market price (AED)			0.68
Upside/Downside (%)			17.6%

1) Residual Income Method:

We have discounted the economic profit/excess equity using the cost of equity of 7.8%. Cost of equity is calculated by using 10-year government bond yield of 4.3%, beta of 0.9 and equity risk premium of 3.9%. Government bond yield is calculated after adding Abu Dhabi 10-year spread over 10-year US risk free rate. Also, assumed a terminal growth rate of 2.0%.

Sum of PV (AED, Mn)	-187
Terminal value (AED, Mn)	-832
Book Value of equity (as of March 2023)	2,169
FV to Common shareholders (AED, Mn)	1,150
No. of share (Mn)	1,737
Current Market Price (AED)	0.68
Fair Value per share (AED)	0.66

Residual Income Method

(All Figures in AED Mn)	FY 2023E	FY 2024E	FY 2025E	FY 2026E	FY 2027E
Net Profit	166	157	148	148	160
(-) Equity charge	-180	-192	-203	-215	-227
Excess Equity	-13	-35	-56	-66	-67
Discounting Factor	0.95	0.88	0.82	0.76	0.71
Present Value of Excess Equity	-13	-31	-46	-51	-47

2) Relative Valuation:

We have used local peers to value CBI and it is valued using the PB multiple. We have applied a discount to the peer's valuation multiple since it has always traded at discount due to lower return on assets as compared to peers. It is valued at PB multiple of 0.8x as compared to peer valuation of 0.9x.

Company	Market (USD Mn)	P/B (x)		PE (x)		Dividend Yield (%)	
		2023	2024	2023	2024	2023	2024
Commercial Bank of Dubai	3,576	0.9	0.9	6.6	6.6	8.2%	8.1%
Mashreq Bank	6,554	1.1	1.0	7.3	7.8	4.2%	5.0%
Rakbank	2,282	0.9	0.9	7.8	7.6	6.3%	6.5%
Emirates NBD	22,788	0.8	0.8	5.3	5.7	5.2%	5.2%
Dubai Islamic Bank	10,547	1.1	1.0	7.4	7.6	6.1%	6.2%
Average		1.0x	0.9x	6.9x	7.1x	6.0%	6.2%
Median		0.9x	0.9x	7.3x	7.6x	6.1%	6.2%
Max		1.1x	1.0x	7.4x	7.6x	6.3%	6.5%
Min		0.9x	0.9x	6.6x	6.6x	5.2%	5.2%

FAB Securities Awards



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in UAE 2016
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in UAE 2016
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