

Commercial Bank International

Lower provision outweighed by negative interest rate sensitivity gap

4Q22 Net Profit higher than our estimate

Commercial Bank International's ("CBI"/ "The Bank") net profit declined significantly from AED 165 Mn in 4Q21 to AED 50 Mn in 4Q22, higher than our estimate of AED 28 Mn. CBI's net profit mainly declined due to a fall in funded and non-funded partially offset by a sharp decline in non-controlling interests. The decline in non-funded income is mainly due to a fall in other operating income.

P&L highlights

CBI's funded income rose 55.7% YOY to AED 204 Mn in 4Q22 while income from Islamic financing and investment assets increased 8.4% YOY to AED 13 Mn in 4Q22 due to an increase in asset yield. Similarly, funded expenses rose significantly from AED 47 Mn in 4Q21 to AED 123 Mn in 4Q22 due to an increase in the cost of funds driven by higher benchmark rates. CBI's cost of funds increased 101 bps QOQ to 3.15% in 4Q22 leading to a decline in NIMs. CBI's NIMs declined 11 bps QOQ to 2.16% in 4Q22. The bank's fees and commission income rose 12.2% YOY to AED 34 Mn in 4Q22. Whereas, other operating income declined to AED 18 Mn in 4Q22 from AED 84 Mn in 4Q21 mainly due to nil gain on sale of financial assets recorded in 4Q22 as compared to AED 59 Mn recorded in 4Q21. Thus, total non-funded income declined 54.5% YOY to AED 52 Mn in 4Q22. As a result, total operating income fell 30.8% YOY to AED 146 Mn in 4Q22. Operating expenses rose marginally 1.8% YOY to AED 75 Mn in 4Q22. Resultantly, the cost-to-income ratio rose from 35.2% in 4Q21 to 51.8% in 4Q22 attributable to a significant decline in operating income. CBI recorded impairments of AED 20 Mn in 4Q22 as compared to AED 39 Mn of impairment reversals in 4Q21. The Bank recorded an impairment expense of AED 46 Mn in 3Q22. Share of profit attributable to non-controlling interest holders witnessed a sharp decline from AED 11 Mn in 4Q21 to AED 0.3 Mn in 4Q22.

Balance sheet highlights

CBI's loans and advances increased 9.7% to AED 12.9 Bn in 2022 due to an increase in wholesale lending from AED 11.0 Bn in 2021 to AED 11.9 Bn in 2022. The Bank's customer deposits declined 3.0% YOY to AED 12.2 Bn in 2022 driven by a sharp decline in Islamic customer deposits. Additionally, the Bank's CASA ratio as a percentage of total deposits declined from 26.0% in 2021 to 22.7% in 2022 which led to a decline in NIMs. Loan to deposit ratio declined from 118.9% in 3Q22 to 114.6% in 4Q22. Total assets rose 1.9% to AED 21.2 Bn in 2022 whereas total equity increased 2.0% to AED 2.6 Bn.

Target price and rating

We maintain our HOLD rating on CBI with a target price of AED 0.91. The bank's asset quality moderated in 4Q22 with an NPL ratio of 16.0% as compared to 15.7% in 3Q22 while the bank's coverage ratio improved marginally from 28.2% in 3Q22 to 29.3% in 4Q22. CBI held collateral worth AED 1,989.0 Mn against the impaired loans of AED 2,239.2 Mn in FY2022. This is enough to cover non-performing loans. Stage 2 loans also declined from 17.0% in 2021 to 12.7% in 2022. CBI's capitalization also improved marginally from 12.37% in 3Q22 to 13.27% in 4Q22. However, CBI loan con-

Rating : HOLD

First Look Note – 4Q22

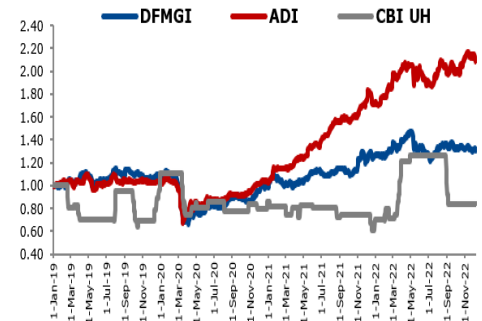
Sector: Banking

Recommendation

Current Price (26-Jan-23)	0.849
Target Price (AED)	0.91
Upside/Downside (%)	+7.2%

Stock Information

Market Cap (mm)	1,475.04
Paid Up Capital (mm)	1,737.38
52 Week High	1.10
52 Week Low	0.60
3M Avg. daily value (AED)	1,963



Financial Ratios

Dividend Yield (12m)	NA
Dividend Pay-out (%)	NA
Price-Earnings Ratio (x)	12.71
Price-to-Book Ratio (x)	0.71
Book Value (AED)	1.20
Return-on Equity (%)	11.57
Earning Per Share (AED)	0.07
Beta	0.61

Stock Performance

5 Days	0.00%
1 Months	0.00%
3 Months	17.10%
6 Months	-22.82%
1 Year	39.41%
Month to Date (MTD)	0.00%
Quarter to Date (QTD)	0.00%
Year to Date (YTD)	0.00%

centration to real estate and construction remained high with a total loan exposure of 30.3% in 2022 compared to 27.9% in 2021. Furthermore, NIMs declined 11 bps QOQ to 2.16% in 4Q22 due to high benchmark rates and a decline in CASA deposits. The Bank interest rate sensitivity in a rising rate scenario remains negative which will further impact NIMs. Thus, considering the above-mentioned factors, we assign a HOLD rating on the stock.

CBI- Relative valuation

(at CMP)	2018	2019	2020	2021	2022	2023F
P/E (x)	7.64	12.65	NM	12.13	12.60	11.43
P/B (x)	0.76	0.73	0.75	0.71	0.69	0.65

FABS Estimates & Co Data
CBI- P&L

AED mm	4Q21	3Q22	4Q22	4Q22F	Var.	YOY Ch	QOQ Ch	2021	2022	Change
Funded income	131	156	204	169	20.3%	55.7%	30.5%	513	654	27.6%
Income from Islamic Finance	12	11	13	13	3.9%	8.4%	15.8%	50	46	-7.2%
Funded expense	-47	-77	-123	-91	34.6%	163.9%	59.8%	-178	-262	47.6%
Net funded income	96	90	94	90	3.6%	-2.6%	3.6%	376	398	5.8%
Fees and commissions	31	20	34	21	62.2%	12.2%	70.3%	121	101	-16.4%
Other operating income, net	84	78	18	39	-54.7%	-78.9%	-77.4%	133	104	-22.2%
Total non-funded income	115	98	52	60	-13.5%	-54.5%	-46.9%	255	205	-19.5%
Total operating income	211	189	146	151	-3.2%	-30.8%	-22.7%	631	603	-4.4%
Operating expenses	-74	-97	-75	-75	0.2%	1.8%	-22.5%	-303	-328	8.3%
Pre provision profit	137	91	70	75	-6.6%	-48.5%	-22.9%	328	275	-16.1%
Impairment	39	-46	-20	-50	-59.8%	NM	-56.7%	-197	-125	-36.9%
Non-controlling interests	11	34	0	-2	NM	-97.3%	-99.1%	9	33	278.6%
Profit for the period	165	11	50	28	81.2%	-69.6%	357.8%	122	117	-3.7%

FABS Estimates & Co Data
CBI- Margins

	4Q21	3Q22	4Q22	YOY Ch	QOQ Ch	2021	2022	Change
Net FI/OI	45.6%	47.9%	64.2%	1,861	1,633	59.6%	66.0%	636
NIM	2.6%	2.3%	2.2%	-41	-11	2.5%	2.3%	-22
NIS	2.4%	2.1%	1.8%	-59	-22	2.4%	2.1%	-26
Fees & comms/OI	14.6%	10.7%	23.6%	906	1,291	19.2%	16.8%	-241
Trading/OI	39.8%	41.4%	12.1%	-2767	-2,924	21.2%	17.2%	-395
Cost to income	35.2%	51.6%	51.8%	1659	14	48.0%	54.4%	638
Impairment/PPP	-28.8%	50.6%	28.4%	5719	-2,215	60.2%	45.3%	-1490
NP/OI	78.2%	5.8%	34.3%	-4385	2,852	19.3%	19.4%	14
ROAE	4.9%	9.1%	4.6%	-38	-458	4.9%	4.6%	-33
ROAA	0.6%	1.2%	0.6%	-8	-61	0.6%	0.6%	-8

FABS estimate & Co Data

CBI- B/S Key items

AED mm	4Q21	1Q22	2Q22	3Q22	4Q22	YOY Ch
Net advances	11,779	11,806	12,024	13,034	12,924	9.7%
QOQ change	11.1%	0.2%	1.8%	8.4%	-0.8%	
Total assets	20,774	20,858	19,088	20,622	21,167	1.9%
QOQ change	18.7%	0.4%	-8.5%	8.0%	2.6%	
Customer deposits	12,574	12,675	11,268	12,216	12,200	-3.0%
QOQ change	22.8%	0.8%	-11.1%	8.4%	-0.1%	
Total equity	2,545	2,567	2,532	2,543	2,595	2.0%
QOQ change	6.6%	0.9%	-1.4%	0.4%	2.1%	

FABS estimate & Co Data

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%

FAB Securities Contacts:

Research Analysts

Ahmad Banihani +971-2-6161629 ahmad.banihani@Bankfab.com

Sales & Execution

Abu Dhabi Head Office

Trading Desk +971-2-6161700/1 [Online Trading Link](#)
+971-2-6161777

Institutional Desk +971-4-4245765

Sales and Marketing +971-2-6161703

DISCLAIMER

This report has been prepared by FAB Securities (FABS), which is authorised by the UAE Securities and Commodities Authority, licensing registration number 604002, and is a member of the Abu Dhabi Securities Exchange and Dubai Financial Market. The information, opinions and materials contained in this report are provided for information purposes only and are not to be used, construed, or considered as an offer or the solicitation of an offer or recommendation to sell or to buy or to subscribe for any investment security or other financial instrument. The information, opinions and material in this report have been obtained and derived from publicly available information and other sources considered reliable without being independently verified for their accuracy or completeness. FABS gives no representation or warranty, express or implied, as to the accuracy and completeness of information and opinions expressed in this report. Opinions expressed are current as of the original publication date appearing on the report only and the information, including the opinions contained herein, are subject to change without notice. FABS is under no obligation to update this report. The investments referred to in this report might not be suitable for all recipients. Recipients should not base their investment decisions on this report and should make their own investigations, and obtain independent advice, as appropriate. Any loss or other consequences arising from the uses of material contained in this report shall be the sole and exclusive responsibility of the recipient and FABS accepts no liability for any such loss or consequence. The value of any investment could fall as well as rise and the investor may receive less than the original amount invested. Some investments mentioned in this report might not be liquid investments, which could be difficult to realise in cash. Some investments discussed in this report could be characterised by high level of volatility, which might result in loss. FABS owns the intellectual property rights and any other material contained in this report. No part of this report may be reproduced, utilised or modified in any form either in whole or in part or by any electronic, mechanical or other means, now known or hereafter invented, including photocopying and recording, or stored in any retrieval system without the prior consent of FABS in writing. While utmost care has been taken to ensure that the information provided is accurate and correct, neither FABS, nor its employees shall, in any way, be responsible for the contents. By accepting this document, the recipient agrees he/she has read the above disclaimer and to be bound by the foregoing limitations/restrictions.

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"