

## Commercial Bank of Dubai (CBD)

High fee income from the transactional activity and lower provisions boosted profit

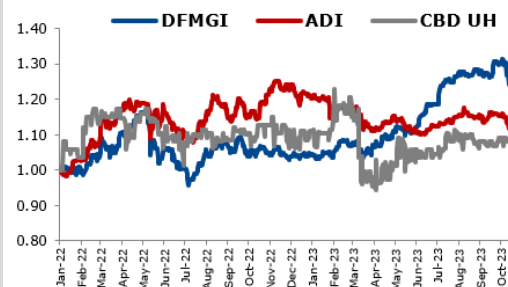
**Current Price (AED): 4.61**

**Target Price (AED): 5.63**

**Upside/Downside (%) +22%**

**Rating: BUY**

- CBD delivered a strong operational performance driven by strong loan growth, a rise in net funded and operating income backed by rising interest rates in 3Q23
- CBD's gross loans grew 4.7% YOY to AED 79.1 Bn in 3Q23. While its loan market share in UAE remains unchanged at c. 4.6%
- CBD maintained a well-diversified deposit base with a rise in CASA deposit from 49.7% in 2Q23 to 50.9% in 3Q23
- The Bank maintained strong asset quality with lower NPLs and strong provisional coverage in 3Q23



### Stock Information

Market Cap (AED, mm)	13,881.14
Paid Up Capital (mm)	2,985.19
52 Week High	5.02
52 Week Low	4.00
3M Avg. daily value(AED)	1,529,397

### 3Q23 Result Review (AED, mm)

Total Assets	126,024
Total Liabilities	111,074
Total Equity	14,951
Total Deposits	86,442
Net Profit	710

### Financial Ratios

Dividend Yield (12m)	5.26
Dividend Pay-out (%)	43.05
Price-Earnings Ratio (x)	6.01
Price-to-Book Ratio (x)	1.09
Book Value (AED)	4.27
Return-on Equity (%)	19.28

### Stock Performance

5 Days	0.43%
1 Months	-1.06%
3 Months	-2.92%
6 Months	6.90%
1 Year	1.08%
Month to Date (MTD%)	-2.11%
Quarter to Date (QTD%)	-2.11%
Year to Date (YTD%)	2.54%

### 3Q23 Net Profit in line with our estimate

Commercial Bank of Dubai ("CBD, "the Bank") recorded a substantial 55.8% YOY growth in net profit to AED 710 Mn in 3Q23, in line with our estimate of AED 695 Mn. The increase in net profit is primarily attributable to robust growth in net funded and non-funded income, driven by strong loan growth and a decline in provisions partially offset by an increase in operating expenses.

### P&L Highlights

CBD's funded income rose significantly from AED 1,003 Mn in 3Q22 to AED 1,751 Mn in 3Q23 mainly due to a rise in asset yield owing to an increase in interest rate and growth in interest-bearing assets. The Bank's asset yield improved 26 bps QOQ to 6.2% in 3Q23. On the other hand, funded expenses rose significantly from AED 283 Mn in 3Q22 to AED 866 Mn in 3Q23 due to higher benchmark rates. Thus, net funded income rose 22.9% YOY to AED 885 Mn in 3Q23. NIMs declined 8 bps QOQ to 3.2% in 3Q23 mainly due to rise in cost of funds. CBD's non-funded income rose 37.7% YOY to AED 366 Mn in 3Q23 due to improvement in business activities. Fees and commission income grew from AED 179 Mn in 3Q22 to AED 264 Mn in 3Q23 mainly due to syndication and transaction banking fees while trading income declined 2.9% YOY to AED 83 Mn in 3Q23. Other non-funded income grew substantially from AED 1 Mn in 3Q22 to AED 19 Mn in 3Q23 due to gain received from sale of investments. As a result, total operating income rose 26.9% YOY to AED 1,251 Mn in 3Q23. Furthermore, G&A expenses rose 17.2% YOY to AED 289 Mn in 3Q23 attributable to inflation and the Bank's investments in technology and digitization. Depreciation and amortization charges rose 41.2% YOY to AED 13 Mn in 3Q23. In addition, impairments on loans, advances and Islamic financing declined 20.1% YOY to AED 234 Mn in 3Q23. While recoveries on loans and advances and Islamic financing declined to AED 25 Mn 3Q23 compared to AED 30 Mn in 2Q23. In addition, impairment on other assets grew from AED 12 Mn in 2Q23 to AED 35 Mn in 3Q23.

## Balance Sheet Highlights

CBD's net advances rose 4.7% YOY and 2.6% QOQ to AED 82.9 Bn in 3Q23 owing to an increase in credit towards manufacturing, construction, trade, transport, hospitality sector, financial institutions, personal mortgage, and government entities. Moreover, the Bank's total assets rose 7.2% YOY to AED 126.0 Bn in 3Q23. Customer deposits also rose strongly 5.7% YOY to AED 86.4 Bn in 3Q23. The Bank's CASA deposits also rose from 49.7% in 2Q23 to 50.9% in 3Q23.

## Target Price and Rating

We maintain our BUY rating on CBD with a target price of AED 5.63. CBD delivered robust growth in profitability owing to a rise in net funded and non-funded income backed by rising interest rates and improvement in business activity. Net advances rose 4.7% YOY in 3Q23. The Bank reduced its exposure in wholesale loan segment from 71.2% in FY2022 to 63.0% in 3Q23. It increased its loan exposure to government and personal mortgages which will benefit the bank in the volatile economic scenario. It expects its loan book to grow by a high single digit in 2023 due to its ongoing diversification. NIMs declined 8 bps QOQ to 3.2% in 3Q23 mainly due to an increase in cost of funds. However, the Bank maintained a strong diversified low-cost deposit with a rise in CASA. CASA deposits accounted for 50.9% of total deposits as of 3Q23, compared to 49.7% in 2Q23. Moreover, CBD's cost-to-income ratio rose slightly 32 bps YOY to 24.1% in 3Q23 digitization, technology, business growth, governance and regulatory compliance. Furthermore, the Bank's asset quality improved in 3Q23 with a decline in NPL ratio from 7.7% in 2Q23 to 7.6% in 3Q23. Whereas the coverage ratio slightly declined from 84.5% in 2Q23 to 83.5% in 3Q23, coverage including collateral stood at 120.84% in 3Q23. Provisioning buffer will reduce the impact on the bottom line in the case of worsening asset quality. In addition, the Bank maintained a healthy capitalization with a CAR of 16.8% and Tier 1 ratio of 15.6% well above the regulatory limits. Thus, based on our analysis, we maintain our BUY rating on the stock.

### CBD - Relative valuation

(at CMP)	2018	2019	2020	2021	2022	2023F
P/E	11.84	9.83	12.37	10.45	8.14	5.51
P/B	1.58	1.43	1.35	1.21	1.18	1.00
Dividend yield	4.2%	4.2%	4.1%	5.3%	5.3%	6.3%

FABS Estimates & Co Data

### CBD - P&L

AED mm	3Q22	2Q23	3Q23A	3Q23F	VAR	YOY Ch	QOQ Ch	2022	2023F	Change
Funded income	1,003	1,627	1,751	1,651	6.1%	74.6%	7.6%	3,783	6,710	77.4%
Funded expense	-283	-747	-866	-786	10.1%	206.1%	15.9%	-1,107	-3,134	183.0%
<b>Net funded income</b>	<b>720</b>	<b>880</b>	<b>885</b>	<b>864</b>	<b>2.4%</b>	<b>22.9%</b>	<b>0.6%</b>	<b>2,676</b>	<b>3,577</b>	<b>33.7%</b>
Fees and commissions	179	242	264	245	7.9%	47.4%	9.0%	756	997	32.0%
Trading income	86	84	83	85	-1.6%	-2.9%	-0.6%	322	321	-0.4%
Other non-funded income	1	16	19	19	-3.9%	NM	20.1%	50	110	120.0%
<b>Total non-funded income</b>	<b>266</b>	<b>342</b>	<b>366</b>	<b>349</b>	<b>5.0%</b>	<b>37.7%</b>	<b>7.1%</b>	<b>1,128</b>	<b>1,428</b>	<b>26.6%</b>
<b>Total operating income</b>	<b>986</b>	<b>1,221</b>	<b>1,251</b>	<b>1,213</b>	<b>3.2%</b>	<b>26.9%</b>	<b>2.5%</b>	<b>3,804</b>	<b>5,005</b>	<b>31.6%</b>
G&A Expenses	-246	-279	-289	-281	2.6%	17.2%	3.6%	-961	-1,129	17.5%
Depreciation & amortization	-9	-12	-13	-8	61.0%	41.2%	8.5%	-36	-50	40.0%
<b>Operating Expenses</b>	<b>-255</b>	<b>-290</b>	<b>-302</b>	<b>-289</b>	<b>4.2%</b>	<b>18.0%</b>	<b>3.8%</b>	<b>-997</b>	<b>-1,179</b>	<b>18.3%</b>
<b>Pre provision profit</b>	<b>730</b>	<b>931</b>	<b>950</b>	<b>924</b>	<b>2.8%</b>	<b>30.0%</b>	<b>2.0%</b>	<b>2,807</b>	<b>3,826</b>	<b>36.3%</b>
Impairments	-292	-267	-234	-262	-10.9%	-20.1%	-12.6%	-1,076	-1,160	7.8%
<b>Net Profit</b>	<b>456</b>	<b>650</b>	<b>710</b>	<b>695</b>	<b>2.2%</b>	<b>55.8%</b>	<b>9.2%</b>	<b>1,825</b>	<b>2,629</b>	<b>44.0%</b>

FABS estimate & Co Data

**CBD - KPI**

	3Q22	2Q23	3Q23	YOY Ch	QQQ Ch	2022	2023F	Change
Net FI/OI	73.0%	72.0%	70.7%	-229	-128	70.4%	71.5%	111
NIM	2.8%	3.2%	3.1%	37	-8	2.60%	3.30%	70
NIS	2.6%	2.9%	2.7%	7	-15	2.5%	2.9%	48
Fees & comms/OI	18.2%	19.8%	21.1%	293	127	19.9%	19.9%	6
Trading/OI	8.7%	6.9%	6.7%	-205	-21	8.5%	6.4%	-206
Cost to income	25.9%	23.8%	24.1%	-181	32	26.2%	23.6%	-264
Impairment/PPP	37.6%	30.4%	25.6%	-1205	-487	35.3%	31.5%	-383
NP/OI	46.2%	53.2%	56.8%	1054	351	48.0%	52.5%	454
ROAE	15.3%	18.5%	19.6%	427	116	15.8%	20.7%	483
ROAA	1.4%	1.8%	2.0%	51	16	2.0%	2.5%	52

FABS estimate & Co Data

**CBD - Key B/S items**

AED mm	3Q22	4Q22	1Q23	2Q23	3Q23	YOY Ch
Net advances	79,138	74,608	76,522	80,766	82,889	4.7%
QOQ ch	0.4%	-5.7%	2.6%	5.5%	2.6%	
Total assets	117,531	116,074	119,315	123,129	126,024	7.2%
QOQ ch	0.0%	-1.2%	2.8%	3.2%	2.4%	
Customer deposits	81,778	81,074	86,193	85,720	86,442	5.7%
QOQ ch	-3.6%	-0.9%	6.3%	-0.5%	0.8%	
Total equity	13,387	13,882	13,761	14,319	14,951	11.7%
QOQ ch	2.0%	3.7%	-0.9%	4.1%	4.4%	

FABS estimate & Co Data

## Valuation:

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

Valuation Method	Target	Weight	Weighted Value
Residual Income	5.93	70.0%	4.15
Relative Valuation (RV)	4.93	30.0%	1.48
<b>Weighted Average Valuation (AED)</b>			<b>5.63</b>
Current market price (AED)			4.61
Upside/Downside (%)			+22%

### 1) Residual Income Method:

We have discounted the economic profit/excess equity using the cost of equity of 9.5%. Cost of equity is calculated by using 10-year government bond yield of 5.0%, beta of 1.00 and equity risk premium of 4.5%. Government bond yield is calculated after adding Dubai 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)	2,706
Terminal value (AED, Mn)	2,255
FV to Common shareholders (AED, Mn)	17,708
No. of share (Mn)	2,985
Current Market Price (AED)	4.61
<b>Fair Value per share (AED)</b>	<b>5.93</b>

(All Figures in AED Mn)	FY 2023E	FY 2024E	FY 2025E	FY 2026E	FY 2027E
Net Profit	2,364	2,146	2,254	2,163	2,068
(-) Equity charge	-1,313	-1,452	-1,592	-1,715	-1,824
<b>Excess Equity</b>	<b>1,051</b>	<b>695</b>	<b>662</b>	<b>448</b>	<b>244</b>
Discounting Factor	0.98	0.90	0.82	0.75	0.68
<b>Present Value of Excess Equity</b>	<b>1,036</b>	<b>625</b>	<b>543</b>	<b>336</b>	<b>167</b>

Source: FAB Securities

## 2) Relative Valuation:

We have used local peers to value CBD 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)		PE (x)		Yield (%)	
		2023F	2024F	2023F	2024F	2023F	2024F
Dubai Islamic Bank	10,610	1.1	1.0	7.1	7.6	6.30	6.30
Abu Dhabi Islamic Bank	9,741	1.8	1.7	8.5	8.9	6.09	6.00
Emirates NBD	27,520	1.0	0.9	4.7	5.6	5.21	5.17
FAB	39,020	1.2	1.2	9.5	9.9	4.60	4.53
ADCB	15,570	0.9	0.9	7.8	8.3	6.42	6.32
<b>Average</b>		<b>1.2x</b>	<b>1.1x</b>	<b>7.5x</b>	<b>8.1x</b>	<b>5.7%</b>	<b>5.7%</b>
<b>Median</b>		<b>1.1x</b>	<b>1.0x</b>	<b>7.8x</b>	<b>8.3x</b>	<b>6.1%</b>	<b>6.0%</b>
<b>Max</b>		<b>1.2x</b>	<b>1.2x</b>	<b>8.5x</b>	<b>8.9x</b>	<b>6.3%</b>	<b>6.3%</b>
<b>Min</b>		<b>1.0x</b>	<b>0.9x</b>	<b>7.1x</b>	<b>7.6x</b>	<b>5.2%</b>	<b>5.2%</b>

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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