

Commercial Bank International (CBI)

Strong non-core income and reversal of impaired loans support profitability

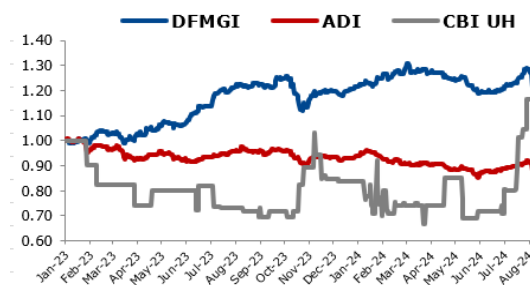
Current Price
AED 0.90

Target Price
AED 0.85

Upside/Downside (%)
-5.6%

Rating
REDUCE

- Net advances grew 1.9% YOY and 2.6% QOQ to AED 13 Bn in 2Q24 owing to an increase in Islamic financing and Investment products.
- Gross loans & advances, excluding Islamic financing and Investment products, declined from AED 12 Bn in 1Q24 to AED 11 Bn in 2Q24.
- Customer deposits, including Islamic deposits, rose from AED 13 Bn in 1Q24 to AED 14 Bn in 2Q24.
- NIMs declined 14 bps YOY and grew 7 bps QOQ to 2.0% in 2Q24, while the cost-to-income ratio grew from 64.0% in 2Q23 to 74.3% in 2Q24.
- CBI recorded a fresh slippage of AED 398 Mn in wholesale lending during 2Q24.



Stock Information

Market Cap (AED, mn)	1,563.64
Paid Up Capital (mn)	1,737.38
52 Week High	0.99
52 Week Low	0.53
3M Avg. daily value (AED)	373,545

2Q24 Result Review (AED, mn)

Total Assets	19,972
Total Liabilities	17,031
Total Equity	2,821
Total Deposits	14,225
Net Profit	45

Financial Ratios

Dividend Yield (12m)	N/A
Dividend Pay-out (%)	0.00
Price-Earnings Ratio(x)	7.67
Price-to-Book Ratio (x)	0.66
Book Value (AED)	1.36
Return-on Equity (%)	6.86

Stock Performance

5 Days	0.00%
1 Months	32.35%
3 Months	53.32%
6 Months	50.00%
1 Year	47.54%
Month to Date (MTD%)	-9.09%
Quarter to Date (QTD%)	50.00%
Year to Date (YTD%)	26.76%

2Q24 Net Profit higher than our estimates

Commercial Bank International's ("CBI"/ "The Bank") net profit recorded a marginal 0.1% YOY decline to AED 45 Mn in 2Q24, higher than our estimate of AED 36 Mn. The decrease in net profit is primarily attributable to a decline in net funded income, higher operating expenses and income tax expenses partially offset by a strong growth in non-funded income and a reversal in the provision of financial assets.

P&L Highlights

CBI's funded income grew from AED 232 Mn in 2Q23 to AED 247 Mn in 2Q24, whereas income from Islamic financing and investment assets rose from AED 20 Mn in 2Q23 to AED 21 Mn in 2Q24. Total funded income rose from AED 253 Mn in 2Q23 to AED 267 Mn in 2Q24, owing to an expansion in asset yield and an increase in net advances. However, funded expenses grew significantly from AED 165 Mn in 2Q23 to AED 181 Mn in 2Q24 due to higher interest expenses. CBI's cost of funds grew 21 bps YOY and declined 64 bps QOQ to 4.65% in 2Q24. Thus, net funded income fell 1.0% YOY to AED 87 Mn in 2Q24. NIMs declined 14 bps YOY and rose 7 bps QOQ to 2.0% in 2Q24. Net fees and commission income grew 38.4% YOY to AED 35 Mn in 2Q24. Other operating income declined from AED 10 Mn in 2Q23 to AED 9 Mn in 2Q24 owing to lower gains from foreign exchange and lower dividend income partially offset by an increase in net gain on financial assets at FVTPL. Thus, non-funded income grew 24.2% YOY to AED 43 Mn in 2Q24. Resultantly, total operating income grew 6.1% YOY to AED 130 Mn in 2Q24. Operating expenses grew 23.2% YOY to AED 96 Mn in 2Q24. The cost-to-income ratio grew from 64.0% in 2Q23 to 74.3% in 2Q24. Impairment reversal increased from AED 1 Mn in 2Q23 to AED 16 Mn in 2Q24. The Bank incurred a corporate tax of AED 5 Mn in 2Q24, impacting profit.

Balance Sheet Highlights

CBI's total assets grew 2.6% YOY and 5.1% QOQ to AED 20 Bn in 2Q24. Net advances rose 1.9% YOY and 2.6% QOQ to AED 13 Bn in 2Q24. Customer deposits including Islamic deposits rose significantly from AED 13 Bn in 1Q24 to AED 14 Bn in 2Q24. The loan-to-deposit ratio declined from 96.1% in 1Q24 to 87.9% in 2Q24. Total Equity rose 5.5% YOY and 1.1% QOQ to AED 3 Bn in 2Q24.

Target Price and Rating

We revise our rating on CBI to REDUCE with a revised target price of AED 0.85. The Bank's share price grew 29.4% since our last rating. CBI profitability decline in 2Q24 primarily due to a lower net funded income and higher operating expenses. The Bank's gross advances declined 4.8% YOY and 6.3% QOQ to AED 11 Bn in 2Q24, while net advances including Islamic financing and investment assets, grew strongly from AED 885 Mn in 2Q23 to AED 1,670 Mn in 2Q24. The Bank's total customer deposits grew 24.6% YOY and 12.1% QOQ to AED 14 Bn in 2Q24, mainly due to solid rise in Islamic deposits. NIMs declined 14 bps YOY and grew 7 bps QOQ to 2.0% in 2Q24 due to higher cost of funds. The Bank's cost of funds grew 21 bps YOY to 4.6% in 2Q24. CBI's cost-to-income grew 1,028 bps YOY to 74.3% in 2Q24, primarily due to increased operating expenses. Furthermore, CBI's NPL ratio declined from 20.9% in 1Q24 to 18.4% in 2Q24. Provision coverage rose from 29.0% in 1Q24 to 33.4% in 2Q24. However, the Bank recorded a fresh slippage of AED 398 Mn in wholesale lending during 2Q24. Stage 2 loans as a percentage of gross loans also grew from 10.6% in 1Q24 to 12.6% in 2Q24. Stage 2 loan coverage declined from 13.5% in 1Q24 to 12.9% in 2Q24. The Bank should focus on increasing its coverage to provide a cushion against bad loans going forward. CBI maintained a healthy capitalisation with a CET 1 ratio of 11.4% and a total CAR of 15.3% in 2Q24. Hence, based on the above-mentioned factors, we assign a REDUCE rating to the stock.

CBI - Relative valuation

(at CMP)	2019	2020	2021	2022	2023	2024F
PE	13.10	NM	12.55	13.04	9.93	9.19
PB	0.76	0.78	0.73	0.72	0.67	0.62

FABS Estimates & Co Data

CBI - P&L

AED mn	2Q23	1Q24	2Q24	2Q24F	VAR	YOY Ch	QOQ Ch	2023	2024F	Change
Funded income	232	241	247	249	-0.8%	6.1%	2.1%	984	951	-3.3%
Income from Islamic fin & invt assets	20	19	21	16	30.0%	2.7%	9.3%	83	130	56.2%
Funded expenses	-165	-178	-181	-174	4.0%	9.4%	1.6%	-600	-649	8.2%
Net funded income	87	82	87	91	-4.6%	-1.0%	5.0%	355	386	8.5%
Fees and commissions	25	29	35	30	14.9%	38.4%	18.3%	113	117	4.0%
Other operating income, net	10	9	9	16	-45.5%	-12.3%	-1.9%	76	78	3.0%
Total non-funded income	35	38	43	46	-5.8%	24.2%	13.7%	188	195	3.6%
Total operating income	122	120	130	137	-5.0%	6.1%	7.7%	544	581	6.8%
Operating expenses	-78	-86	-96	-88	9.4%	23.2%	12.0%	-349	-340	-2.7%
Pre provision profit	44	34	33	48	-31.3%	-24.2%	-3.0%	194	241	23.9%
Impairment	1	6	16	-6	NM	NM	165.8%	-24	-43	79.3%
UAE Corporate Tax		-4	-5	-4	14.1%	NM	19.5%		-19	NM
Non-controlling interests	0	1	0	2	NM	29.6%	-50.5%	17	13	-22.2%
Net Profit	45	36	45	36	22.7%	-0.1%	24.0%	154	166	8.1%

FABS estimate & Co Data

CBI – P&L KPI

	2Q23	1Q24	2Q24	YOY Ch	QOQ Ch	2023	2024F	Change
Net FI/OI	71.5%	68.4%	66.7%	-484	-175	65.4%	66.4%	105
NIM	2.1%	1.9%	2.0%	-14	7	2.0%	2.1%	11
NIS	1.6%	1.3%	1.4%	-18	11	1.5%	1.9%	39
Fees & comms/OI	20.5%	24.3%	26.7%	623	240	20.7%	20.2%	-55
Trading/OI	8.0%	7.3%	6.6%	-139	-65	13.9%	13.4%	-50
Cost to income	64.0%	71.5%	74.3%	1,028	284	64.2%	58.5%	-572
Impairment/PPP	-2.0%	-17.7%	-48.5%	NM	NM	12.2%	17.7%	547
NP/OI	36.5%	29.8%	34.3%	-214	452	28.3%	28.7%	35
Cost of risk	0.0%	-0.2%	-0.6%	NM	NM	0.2%	0.4%	16
Loan-to-Deposit	107.5%	96.1%	87.9%	-1,954	-814	100.0%	89.8%	-1019
NPL - Calculated	17.6%	20.9%	18.4%	81	-255	18.0%	22.8%	480
Coverage - Calculated	30.2%	29.0%	33.4%	322	437	33.4%	35.5%	208
CET1	10.8%	11.0%	11.4%	60	42	11.3%	10.9%	-36
Capital adequacy	14.7%	14.8%	15.3%	66	53	15.1%	14.4%	-75
ROAE	6.3%	6.8%	6.7%	38	-10	6.9%	7.0%	5
ROAA	0.7%	0.8%	0.8%	10	-2	0.8%	0.8%	6

FABS estimate & Co Data

CBI – Key BS Items

AED mn	2Q23	3Q23	4Q23	1Q24	2Q24	YOY Ch
Net advances	12,273	11,914	12,608	12,192	12,510	1.9%
QOQ Change	1.0%	-2.9%	5.8%	-3.3%	2.6%	
Total assets	19,460	18,738	18,974	19,003	19,972	2.6%
QOQ Change	-1.1%	-3.7%	1.3%	0.2%	5.1%	
Customer deposits	11,418	12,174	12,608	12,687	14,225	24.6%
QOQ Change	-8.3%	6.6%	3.6%	0.6%	12.1%	
Total equity	2,673	2,723	2,753	2,789	2,821	5.5%
QOQ Change	1.7%	1.9%	1.1%	1.3%	1.1%	

FABS estimate & Co Data

Valuation:

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

Valuation Method	Target	Weight	Weighted Value
Residual Income	0.85	70.0%	0.60
Relative Valuation (RV)	0.82	30.0%	0.25
Weighted Average Valuation (AED)			0.85
Current market price (AED)			0.90
Upside/Downside (%)			-5.6%

1) Residual Income Method:

We have discounted the economic profit/excess equity using the cost of equity of 8.3%. Cost of equity is calculated by using 10-year government bond yield of 4.9%, beta of 0.8 and equity risk premium of 4.2%. 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)	-179
Terminal value (AED, Mn)	-698
Book value of equity (as of June 2024)	2,362
FV to Common shareholders (AED, Mn)	1,485
No. of share (Mn)	1,737
Current Market Price (AED)	0.90
Fair Value per share (AED)	0.85

Residual Income Method

(All Figures in AED Mn)	FY 2024E	FY 2025E	FY 2026E	FY 2027E	FY 2028E
Net Income	166	179	184	193	206
(-) Equity Charge	-203	-218	-233	-249	-266
Excess Equity	-37	-39	-49	-56	-60
Discounting Factor	0.97	0.89	0.83	0.76	0.70
Present Value of Excess Equity	-18	-35	-41	-43	-42

Source: FAB Securities

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 a discount due to lower return on assets as compared to peers. It is valued at 2024 PB multiple of 0.6x as compared to a peer valuation of 1.0x.

Company	Market (USD Mn)	P/E (x)		P/B (x)	
		2024F	2025F	2024F	2025F
Mashreq Bank (MASQ)	11,420	6.5	6.8	1.3	1.2
Rakbank	2,900	5.6	6.1	0.9	0.9
Emirates NBD	29,580	5.2	5.8	1.0	0.9
Dubai Islamic Bank (DIB)	11,570	7.3	7.4	1.1	1.0
Abu Dhabi Commercial Bank (ADCB)	16,480	8.0	8.1	0.9	0.9
Average		6.5x	6.9x	1.0x	1.0x
Median		6.5x	6.8x	1.0x	0.9x
Max		7.3x	7.4x	1.1x	1.0x
Min		5.6x	6.1x	0.9x	0.9x

Source: FAB Securities

