

Abu Dhabi Commercial Bank (ADCB)

Strong growth in non-funded income and lower impairments boosted profit

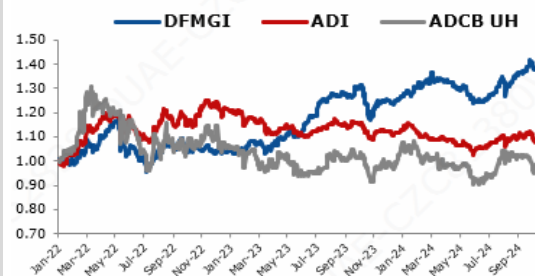
Current Price
AED 8.81

Target Price
AED 11.00

Upside/Downside (%)
+25%

Rating
BUY

- ADCB's net loans grew 21.0% YOY and 3.6% QOQ to AED 344.0 Bn in 2Q24 mainly driven by increased lending to GRE and other key sectors while real estate exposure declined in 3Q24.
- As a result, ADCB revised the net loan growth guidance to 16-17% in 2024 compared to the earlier 15% and to lower double-digit for the medium term from earlier guidance of high single digit.
- Non-funded income rose sharply by 48.9% YOY to AED 1.6 Bn in 3Q24 due to growth in loan processing fees, trading, and other income.
- Guidance for Cost of Risk was revised to lower than 55 bps compared to earlier less than 80 bps.



3Q24 Net Profit higher than our estimate

Abu Dhabi Commercial Bank's ("ADCB", "The Bank") net profit grew 23.1% YOY to AED 2,391 Mn in 3Q24, higher than our estimate of AED 2,242 Mn. The growth in net profit is mainly driven by a healthy growth recorded in non-funded income coupled with lower impairments partially offset by a decline in net funded income, an increase in operating expenses, and the introduction of corporate tax in the UAE 2024.

P&L Highlights

ADCB's funded income including interest income and income from Islamic financing grew 14.8% YOY to AED 8,476 Mn in 3Q24 driven by a strong growth in advances. However, funded expenses also rose 26.8% YOY to AED 5,332 Mn in 3Q24 due to an increase in the total deposits and cost of funds. Thus, net funded income declined 1.1% YOY to AED 3,144 Mn in 3Q24. NIMs declined 43 bps YOY and 18 bps QOQ to 2.2% in 3Q24 due to a focus on high-quality, low-risk credit counterparties including GREs to enhance the resistance of loan portfolio and expansion in the representation of time deposits in the funding mix owing to the high-rate environment. ADCB's fee and commission income rose 41.9% YOY to AED 867 Mn in 3Q24 owing to the strong growth in loan-related fees, account-related fees, trade finance commission, and other income (POS/acquiring related fees, bonds arrangement fees, insurance commission). In addition, the Corporate & Investment Banking Group's (CIBG) strong advisory offering and product suite also drove fee income. Likewise, other operating income grew 58.4% YOY from AED 443 Mn in 3Q23 to AED 702 Mn in 3Q24 mainly due to an increase in net trading income attributed to increased FX and derivative income, and higher gains on financial assets at fair value through profit or loss (FVTPL).

Stock Information

Market Cap (AED, Mn)	64,488.73
Paid Up Capital (Mn)	7,319.95
52 Week High	9.31
52 Week Low	7.61
3M Avg. daily value(AED)	38,621,310

3Q24 Result Review (AED, Mn)

Total Assets	638,754
Total Liabilities	565,062
Total Equity	73,792
Total Deposits	406,742
Net Profit	2,391

Financial Ratios

Dividend Yield (12m)	6.36
Dividend Pay-out (%)	52.46
Price-Earnings Ratio(x)	7.38
Price-to-Book Ratio (x)	0.99
Book Value (AED)	8.87
Return-on Equity (%)	14.05

Stock Performance

5 Days	4.88%
1 Months	3.40%
3 Months	-0.23%
6 Months	6.79%
1 Year	12.80%
Month to Date (MTD%)	4.63%
Quarter to Date (QTD%)	4.63%
Year to Date (YTD%)	-4.03%

Thus, non-funded income grew 48.9% YOY to AED 1,569 Mn in 3Q24. As a result, total operating income increased 11.3% YOY to AED 4,713 Mn in 3Q24. Furthermore, operating expenses rose 7.3% YOY to AED 1,515 Mn in 3Q24 attributable to the increase in staff cost and G&A expenses, investment in business growth including IT infrastructure, digitization, and sales initiatives. ADCB's cost-to-income ratio declined 119 bps YOY to 32.2% in 3Q24 driven by effective cost management. The Bank's impairments sharply declined 35.9% YOY to AED 525 Mn in 3Q24. Furthermore, income tax expense rose significantly to AED 288 Mn in 3Q24 compared to AED 58 Mn in 3Q23 due to the introduction of corporate tax in the UAE in 2024.

Balance Sheet Highlights

ADCB's total assets recorded a healthy growth of 19.0% YOY and 4.3% QOQ to AED 638.8 Bn in 3Q24 mainly due to growth in investment securities and an increase in the Bank's loan book. Net advances grew 21.0% YOY and 3.6% QOQ to AED 344.0 Bn in 3Q24. The Bank's investment securities rose 10.3% YTD to AED 141.4 Bn in 3Q24 with 70% of securities accounted at amortized cost and the remaining 30% at fair value through other comprehensive income (FVTOCI). Customer deposits rose 23.5% YOY and 4.3% QOQ to AED 406.7 Bn in 3Q24. CASA deposits grew 8% YOY but declined 1% QOQ to AED 169.4 Bn in 3Q24 accounting for 42% of total deposits. In addition, ADCB's total equity rose 12.8% YOY and 4.2% QOQ to AED 73.7 Bn in 3Q24.

Target Price and Rating

We maintain our BUY rating on Abu Dhabi Commercial Bank (ADCB) with a target price of AED 11.00. ADCB recorded a strong growth in profitability driven by an increase in non-funded income. Non-funded income grew 48.9% YOY to AED 1.6 Bn in 3Q24 compared to AED 1.1 Bn in 3Q23. Net advances expanded 21.0% YOY and 3.6% QOQ to AED 344.0 Bn in 3Q24 due to increased lending to GREs and other important sectors coupled with a decline in exposure to the real estate sector. The GRE loans contributed c. 37% of all loans issued by the Bank in 9M24. As a result, the Bank revised its FY2024 net loan guidance from c. 15% to 16–17% in addition, it also revised the medium-term guidance to a low-double-digit YOY growth from previous high-single-digit, attributable to strong loan growth in 9M24. Also, the reported NPL ratio declined to 3.45% in 3Q24 from 4.82% in 3Q23 due to improvements in the asset quality. The Bank issued more than 58,000 new credit cards in 3Q24 and recorded 17% YOY growth in credit card acquisition. ADCB continued to reduce exposure to the real estate sector from 17% in 2023 to 15% in 9M24. However, the exposure to government entities grew from 25% in 2023 to 27% in 3Q24 due to the financing of major infrastructure projects. The Bank is focusing on rigorous cost discipline and efficiencies, as a result, the calculated cost-to-income ratio improved by 119 bps YOY and 40 bps QOQ to 32.2% in 3Q24. Additionally, ADCB Egypt delivered strong performance despite the adverse macroeconomic situation and reported growth of 168% YOY to EGP 1.1 Bn in net profit in 3Q24. Additionally, the cost of risk guidance for FY2024 and medium-term is revised to less than 55 bps and less than 60 bps, respectively from less than 80 bps, resulting in reduced impairment charges and the improved risk profile of the loan portfolio. ADCB deployed 67.3% of its loans to the corporate sector, 13.7% to private banking, and 19.0% to the retail sector as of 3Q24. Calculated NIMs declined 43 bps YOY and 18 bps QOQ to 2.2% in 3Q24 due to increased exposure to GREs and growth in high-cost time deposits. ADCB's UAE operations including Al Hilal Bank added c. 210 thousand new retail customers during 3Q24 out of which 84% were onboarded digitally in 3Q24. ADCB's internet and mobile banking subscribers increased 34% YOY and crossed the 2 million mark, representing 90% of the customer base. ADCB's deposits grew 23.5% YOY to AED 406.7 Bn in 3Q24 resulting in a loan-to-deposit ratio of 84.6% in 3Q24. ADCB's capitalization stood strong with a CET 1 ratio of 13.1% and CAR of 16.7% in 2Q24. The Bank also plans to maintain a dividend payout ratio of 40–50% in the medium term leading to a dividend yield of 6.6%. Thus, based on our analysis, we continue our BUY rating on the stock.

ADCB - Relative valuation

(at CMP)	2019	2020	2021	2022	2023	2024F
PE	13.85	17.76	12.37	10.02	8.02	7.37
PB	1.26	1.24	1.17	1.13	1.00	0.93
Dividend yield	4.2%	3.0%	4.1%	2.0%	6.4%	6.5%

FABS Estimates & Co Data

ADCB – P&L

AED Mn	3Q23	2Q24	3Q24	3Q24F	Var.	YOY Ch	QOQ Ch	2023	2024F	Change
Funded income	7,386	8,326	8,476	8,357	1.4%	14.8%	1.8%	28,251	33,525	18.7%
Funded expense	-4,206	-5,049	-5,332	-5,092	4.7%	26.8%	5.6%	-15,877	-20,364	28.3%
Net funded income	3,179	3,276	3,144	3,265	-3.7%	-1.1%	-4.0%	12,374	13,162	6.4%
Fees & commissions	611	809	867	849	2.0%	41.9%	7.1%	2,444	3,226	32.0%
Other operating income	443	629	702	612	14.7%	58.4%	11.7%	2,048	2,563	25.1%
Non funded income	1,054	1,438	1,569	1,462	7.3%	48.9%	9.1%	4,493	5,789	28.9%
Operating income	4,233	4,714	4,713	4,727	-0.3%	11.3%	0.0%	16,866	18,951	12.4%
Operating expenses	-1,412	-1,534	-1,515	-1,560	-2.9%	7.3%	-1.2%	-5,453	-6,134	12.5%
Pre-provision profit	2,822	3,180	3,197	3,167	1.0%	13.3%	0.6%	11,414	12,817	12.3%
Impairments	-819	-588	-525	-633	-17.1%	-35.9%	-10.7%	-3,477	-2,482	-28.6%
Operating profit	2,002	2,591	2,672	2,534	5.5%	33.4%	3.1%	7,937	10,334	30.2%
Share of profit of assoc.	-2	1	6	0	NM	NM	NM	0	10	NM
Net gain on disposal of sub.	0	0	0	0	NM	NM	NM	490	0	NM
Profit before tax	2,000	2,593	2,678	2,534	5.7%	33.9%	3.3%	8,427	10,344	22.8%
Tax expense	-58	-276	-288	-291	-1.3%	NM	4.4%	-221	-1,190	NM
Non- Controlling interest	0	0	1	0	240.7%	NM	NM	1	5	NM
Profit for the period	1,942	2,318	2,391	2,242	6.6%	23.1%	3.2%	8,207	9,159	11.6%

FABS estimate & Co Data
ADCB - KPI

	3Q23	2Q24	3Q24	YOY Ch	QOQ Ch	2023	2024F	Change
Net FI/OI	75.1%	69.5%	66.7%	-840	-279	73.4%	69.5%	-391
NIM	2.7%	2.4%	2.2%	-43	-18	2.6%	2.4%	-17
NIS	2.2%	1.9%	1.7%	-44	-21	2.1%	1.9%	-23
Fees & comms/OI	14.4%	17.2%	18.4%	397	123	14.5%	17.0%	253
Other non-funded/OI	10.5%	13.3%	14.9%	443	156	12.1%	13.5%	138
Cost to income	33.3%	32.6%	32.2%	-119	-40	32.3%	32.4%	4
Impairment/PPP	29.0%	18.5%	16.4%	-1,261	-207	30.5%	19.4%	-1,110
Tax/PBT	2.9%	10.6%	10.7%	783	11	2.6%	11.5%	888
NP/OI	45.9%	49.2%	50.7%	487	158	48.7%	48.3%	-33
Cost of risk (reported)	0.7%	0.5%	0.4%	-31	-6	0.79%	0.5%	-26
Loan-to-deposit	86.3%	85.2%	84.6%	-175	-60	83.2%	85.1%	185
NPL calculated	2.7%	3.9%	3.7%	104	-18	4.1%	4.2%	3
Coverage excluding collateral	91.4%	95.0%	96.4%	502	140	102.5%	96.0%	-646
CET 1	13.5%	13.2%	13.1%	-36	-7	12.9%	12.9%	3
Capital adequacy	16.2%	16.4%	16.7%	52	25	16.2%	16.4%	22
ROAE	12.7%	13.8%	14.0%	130	21	13.9%	14.1%	17
ROAA	1.5%	1.6%	1.6%	11	2	1.5%	1.5%	-3

FABS estimate & Co Data
ADCB - Key B/S items

AED Mn	3Q23	4Q23	1Q24	2Q24	3Q24	YOY Ch
Net advances	284,257	301,995	318,159	332,158	344,014	21.0%
QOQ change	4.5%	6.2%	5.4%	4.4%	3.6%	
Total assets	536,889	567,194	594,405	612,242	638,754	19.0%
QOQ change	3.0%	5.6%	4.8%	3.0%	4.3%	
Customer deposits	329,276	362,905	383,695	389,961	406,742	23.5%
QOQ change	4.2%	10.2%	5.7%	1.6%	4.3%	
Total equity	65,306	71,253	68,681	70,707	73,692	12.8%
QOQ change	2.5%	9.1%	-3.6%	3.0%	4.2%	

FABS estimate & Co Data

Valuation:

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

Valuation Method	Target	Weight	Weighted Value
Residual Income	11.12	70.0%	7.78
Relative Valuation (RV)	10.72	30.0%	3.22
Weighted Average Valuation (AED)			11.00
Current market price (AED)			8.81
Upside/Downside (%)			+25%

1) Residual Income Method:

We have discounted the economic profit/excess equity using the cost of equity of 9.1%. Cost of equity is calculated by using 10-year government bond yield of 4.8%, beta of 1.0 and equity risk premium of 4.2%. Government bond yield is calculated after adding Abu Dhabi 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)	5,341
Terminal value (AED, Mn)	14,088
Book Value of Equity (as of Sep 2024)	61,948
FV to Common shareholders (AED, Mn)	81,375
No. of share (Mn)	7,320
Current Market Price (AED)	8.81
Fair Value per share (AED)	11.12

Residual Income Method

(All Figures in AED Mn)	FY 2024E	FY 2025E	FY 2026E	FY 2027E	FY 2028E
Net Profit	8,500	8,417	8,678	8,618	9,464
(-) Equity Charge	-6,155	-6,598	-7,088	-7,529	-8,050
Excess Equity	2,346	1,819	1,590	1,089	1,415
Discounting Factor	0.98	0.90	0.83	0.76	0.69
Present Value of Excess Equity	577¹	1,641	1,314	825	982

Source: FAB Securities, ¹Adjusted for partial year

2) Relative Valuation:

We have used local and regional peers to value ADCB and valued using the PB multiple. It is valued at a 2024 PB multiple of 1.2x in line with peers.

Company	Market (USD Mn)	P/E (x)		P/B (x)		Dividend Yield (%)	
		2024F	2025F	2024F	2025F	2024F	2025F
Abu Dhabi Islamic Bank	12,100	8.5	8.7	2.0	1.8	6.2	6.2
Dubai Islamic Bank	12,258	7.5	8.0	1.2	1.1	7.3	7.4
Emirates NBD	34,200	5.5	6.2	1.1	1.0	5.9	6.1
Banque Saudi Fransi	9,873	8.6	7.9	1.0	0.9	6.6	6.8
Riyad Bank	20,100	9.1	8.7	1.3	1.2	6.1	6.3
Average		7.8x	7.9x	1.3x	1.2x	6.4x	6.6x
Median		8.5x	8.0x	1.2x	1.1x	6.2x	6.3x
Max		8.6x	8.7x	1.3x	1.2x	6.6x	6.8x
Min		7.5x	7.9x	1.1x	1.0x	6.1x	6.2x

Source: FAB Securities

