

Commercial Bank International (CBI)

Significant one-off gains from non-financial assets supported profitability

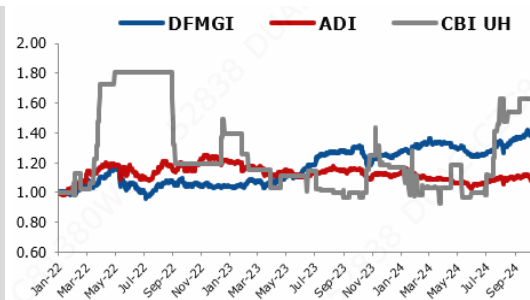
Current Price
AED 0.89

Target Price
AED 0.85

Upside/Downside (%)
-4.3%

Rating
HOLD

- CBI's non-funded income from AED 62 Mn in 3Q23 to AED 196 Mn in 3Q24, mainly due to the one-off gains from the sale of non-financial assets.
- The Bank's recorded gains from the sale of non-financial assets of AED 148 Mn, compared to AED 4 Mn in 3Q23.
- Net advances grew 8.4% YOY and 3.2% QOQ to AED 13 Bn in 3Q24 owing to an increase in Islamic financing and Investment products.
- Customer deposits, including Islamic deposits, rose from AED 14 Bn in 2Q24 to AED 15 Bn in 3Q24.
- NIMs declined 16 bps YOY and 13 bps QOQ to 1.9% in 3Q24, while the cost-to-income ratio grew from 50.4% in 3Q23 to 62.0% in 3Q24.



3Q24 Net Profit higher than our estimates

Commercial Bank International's ("CBI"/ "The Bank") net profit recorded a significant increase from AED 46 Mn in 3Q23 to AED 149 Mn in 3Q24, higher than our estimate of AED 39 Mn. The increase in net profit is mainly due to strong growth in non-funded income driven by one-off gains from the sale of non-financial assets and lower impairment charges.

P&L Highlights

CBI's funded income grew from AED 240 Mn in 3Q23 to AED 251 Mn in 3Q24, whereas income from Islamic financing and investment assets rose from AED 24 Mn in 3Q23 to AED 31 Mn in 3Q24. Total funded income rose from AED 264 Mn in 3Q23 to AED 282 Mn in 3Q24, owing to an expansion in asset yield and an increase in net advances. However, funded expenses grew significantly from AED 180 Mn in 3Q23 to AED 198 Mn in 3Q24 due to higher interest expenses. CBI's cost of funds declined 3 bps YOY but grew 19 bps QOQ to 4.80% in 3Q24. Thus, net funded income fell marginally 0.6% YOY to AED 84 Mn in 3Q24. NIMs declined 16 bps YOY and 13 bps QOQ to 1.9% in 3Q24. Net fees and commission income strongly grew from AED 21 Mn in 3Q23 to AED 41 Mn in 3Q24. CBI recorded a strong increase in other operating income from AED 41 Mn in 3Q23 to AED 155 Mn in 3Q24, mainly due to the one-off gains from the sale of non-financial assets coupled with higher foreign exchange gains. The Bank recorded gains on the sale of non-financial assets of AED 148 Mn, compared to AED 4 Mn in 3Q23. Thus, non-funded income grew from AED 62 Mn in 3Q23 to AED 196 Mn in 3Q24. Resultantly, total operating income grew from AED 147 Mn in 3Q23 to AED 280 Mn in 3Q24. Operating expenses grew 46.4% YOY to AED 108 Mn in 3Q24. Thus, the bank's cost-to-income ratio grew from 50.4% in 3Q23 to 62.0% in 3Q24. Impairment charges declined from AED 11 Mn in 3Q23 to AED 6 Mn

Stock Information

Market Cap (AED, mn)	1,548.01
Paid Up Capital (mn)	1,737.38
52 Week High	1.06
52 Week Low	0.55
3M Avg. daily value (AED)	14,052

3Q24 Result Review (AED, mn)

Total Assets	20,995
Total Liabilities	17,904
Total Equity	3,091
Total Deposits	15,191
Net Profit	149

Financial Ratios

Dividend Yield (12m)	N/A
Dividend Pay-out (%)	0.00
Price-Earnings Ratio(x)	5.05
Price-to-Book Ratio (x)	0.62
Book Value (AED)	1.45
Return-on Equity (%)	10.88

Stock Performance

5 Days	0.00%
1 Months	-10.00%
3 Months	-10.00%
6 Months	23.07%
1 Year	17.24%
Month to Date (MTD%)	-10.00%
Quarter to Date (QTD%)	-10.00%
Year to Date (YTD%)	25.49%

in 3Q24. The Bank incurred a corporate tax of AED 15 Mn in 3Q24, owing to the introduction of UAE corporate tax.

Balance Sheet Highlights

CBI's total assets grew 12.0% YOY and 5.1% QOQ to AED 21 Bn in 3Q24. Net advances grew 8.4% YOY and 3.2% QOQ to AED 13 Bn in 3Q24. Customer deposits, including Islamic deposits, rose significantly from AED 14 Bn in 2Q24 to AED 15 Bn in 3Q24. Thus, the loan-to-deposit ratio declined from 87.9% in 2Q24 to 85.0% in 3Q24. Total equity grew 9.1% YOY and 5.3% QOQ to AED 3 Bn in 3Q24.

Target Price and Rating

We revise our rating from REDUCE to HOLD on CBI with an unchanged target price of AED 0.85. The Bank's share price declined 11.2% since our last rating. CBI demonstrated solid profitability growth in 3Q24, primarily supported by higher non-funded income, driven by one-off gains from the sale of non-financial assets and lower impairment charges. The Bank's net advances showed positive momentum, growing 1.3% YOY and 2.9% QOQ to AED 11 Bn in 3Q24 due to increased wholesale lending. Net advances, including Islamic financing and investment assets, also grew strongly from AED 905 Mn in 3Q23 to AED 1,754 Mn in 3Q24. The Bank's total customer deposits grew 24.8% YOY and 6.8% QOQ to AED 15 Bn in 3Q24, mainly due to a solid rise in Islamic deposits. NIMs contracted 16 bps YOY and 13 bps QOQ to 1.9% in 3Q24 due to higher cost of funds. Furthermore, CBI's calculated NPL ratio declined from 18.4% in 2Q24 to 17.7% in 3Q24, although the Bank recorded a fresh slippage of AED 398 Mn in wholesale lending during 2Q24. Provision coverage rose from 33.4% in 2Q24 to 34.0% in 3Q24. CBI should focus on increasing its coverage to provide a cushion against bad loans going forward. The Bank's stage 2 loans as a percentage of gross loans also declined marginally from 12.6% in 2Q24 to 12.2% in 3Q24. CBI maintained a healthy capitalization with a CET 1 ratio of 12.0% and a total CAR of 15.8% in 2Q24. Hence, based on the above-mentioned factors, we revise our rating to HOLD on the stock.

CBI - Relative valuation

(at CMP)	2019	2020	2021	2022	2023	2024F
PE	13.24	NM	12.70	13.19	10.05	5.33
PB	0.77	0.78	0.74	0.72	0.67	0.60

FABS Estimates & Co Data

CBI - P&L

AED mn	3Q23	2Q24	3Q24	3Q24F	VAR	YOY Ch	QOQ Ch	2023	2024F	Change
Funded income	240	247	251	248	1.1%	4.4%	1.7%	984	1,005	2.1%
Income from Islamic fin & invt assets	24	21	31	25	23.5%	28.9%	50.7%	83	112	34.9%
Funded expenses	-180	-181	-198	-185	6.9%	10.1%	9.4%	-600	-734	22.4%
Net funded income	85	87	84	88	-4.6%	-0.6%	-2.7%	355	383	7.9%
Fees and commissions	21	35	41	35	16.4%	93.6%	18.7%	113	152	35.0%
Other operating income, net	41	9	155	34	NM	NM	NM	76	182	140.0%
Total non-funded income	62	43	196	70	181.2%	215.5%	353.2%	188	334	77.2%
Total operating income	147	130	280	158	77.4%	90.8%	115.8%	544	717	31.9%
Operating expenses	-74	-96	-108	-98	10.7%	46.4%	12.4%	-349	-404	15.8%
Pre provision profit	73	33	172	60	186.1%	135.9%	414.9%	194	313	60.8%
Impairment	-11	16	-6	-6	2.9%	-45.4%	NM	-24	10	NM
UAE Corporate Tax		-5	-15	-5	NM	NM	NM		-29	NM
Non-controlling interests	15	0	0	10	NM	NM	NM	17	2	-88.0%
Net Profit	46	45	149	39	NM	221.0%	235.0%	154	290	88.5%

FABS estimate & Co Data

CBI – P&L KPI

	3Q23	2Q24	3Q24	YOY Ch	QOQ Ch	2023	2024F	Change
Net FI/OI	57.7%	66.7%	55.9%	-182	-1,081	65.4%	53.4%	-1191
NIM	2.0%	2.0%	1.9%	-16	-13	2.0%	2.1%	13
NIS	1.5%	1.5%	1.4%	-5	-9	1.5%	1.7%	19
Fees & comms/OI	14.5%	26.7%	22.4%	791	-432	20.7%	21.2%	49
Trading/OI	27.8%	6.6%	21.7%	-609	1,513	13.9%	25.4%	1142
Cost to income	50.4%	74.3%	62.0%	1,156	-1,231	64.2%	56.4%	-784
Impairment/PPP	15.1%	-48.5%	9.7%	-538	NM	12.2%	-3.1%	NM
NP/OI	31.7%	34.3%	24.8%	-690	-956	28.3%	40.5%	1215
Cost of risk	0.4%	-0.6%	0.3%	-12	NM	0.2%	-0.1%	NM
Loan-to-Deposit	97.9%	87.9%	85.0%	-1,287	-296	100.0%	86.7%	-1334
NPL - Calculated	18.9%	18.4%	17.7%	-122	-72	18.0%	17.5%	-50
Coverage - Calculated	31.2%	33.4%	34.0%	275	60	33.4%	35.0%	158
CET1	10.9%	11.4%	12.0%	112	58	11.3%	11.6%	34
Capital adequacy	14.7%	15.3%	15.8%	111	49	15.1%	15.1%	-1
ROAE	8.0%	6.9%	10.9%	288	402	6.9%	11.9%	495
ROAA	0.9%	0.8%	1.3%	42	51	0.8%	1.4%	66

FABS estimate & Co Data

CBI – Key BS Items

AED mn	3Q23	4Q23	1Q24	2Q24	3Q24	YOY Ch
Net advances	11,914	12,608	12,192	12,510	12,911	8.4%
QOQ Change	-2.9%	5.8%	-3.3%	2.6%	3.2%	
Total assets	18,738	18,974	19,003	19,972	20,995	12.0%
QOQ Change	-3.7%	1.3%	0.2%	5.1%	5.1%	
Customer deposits	12,174	12,608	12,687	14,225	15,191	24.8%
QOQ Change	6.6%	3.6%	0.6%	12.1%	6.8%	
Total equity	2,723	2,753	2,789	2,821	2,970	9.1%
QOQ Change	1.9%	1.1%	1.3%	1.1%	5.3%	

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	0.79	70.0%	0.55
Relative Valuation (RV)	0.99	30.0%	0.30
Weighted Average Valuation (AED)			0.85
Current market price (AED)			0.89
Upside/Downside (%)			-4%

1) Residual Income Method:

We have discounted the economic profit/excess equity using the cost of equity of 8.7%. Cost of equity is calculated by using 10-year government bond yield of 4.8%, beta of 0.8 and equity risk premium of 4.8%. 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)	-192
Terminal value (AED, Mn)	-942
Book value of equity (as of Sept 2024)	2,511
FV to Common shareholders (AED, Mn)	1,377
No. of share (Mn)	1,737
Current Market Price (AED)	0.89
Fair Value per share (AED)	0.79

Residual Income Method

(All Figures in AED Mn)	FY 2024E	FY 2025E	FY 2026E	FY 2027E	FY 2028E
Net Income	290	195	198	203	207
(-) Equity Charge	-224	-241	-258	-275	-293
Excess Equity	66	-46	-60	-73	-86
Discounting Factor	0.99	0.91	0.83	0.77	0.71
Present Value of Excess Equity	16¹	-42	-50	-56	-61

Source: FAB Securities, ¹Adjusted for partial year

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 0.7x as compared to a peer valuation of 1.1x.

Company	Market (USD Mn)	P/E (x)		P/B (x)	
		2024F	2025F	2024F	2025F
CBD	5,543	7.5	7.9	1.4	1.3
Mashreq Bank (MASQ)	13,490	7.7	8.1	1.5	1.4
Rakbank	2,930	5.4	5.8	0.9	0.9
Emirates NBD	34,200	5.5	6.2	1.1	1.0
Dubai Islamic Bank (DIB)	12,258	7.5	8.0	1.2	1.1
Abu Dhabi Commercial Bank (ADCB)	16,735	7.7	8.0	0.9	0.9
Average		6.9x	7.3x	1.2x	1.1x
Median		7.5x	7.9x	1.1x	1.0x
Max		7.6x	8.0x	1.3x	1.2x
Min		6.0x	6.6x	1.0x	0.9x

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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