

Earnings Call Insight 4Q24

UAE Equity Research

Sector: Banking

Market: ADX

Abu Dhabi Commercial Bank (ADCB)

Current Price Target Price Upside/Downside (%) Rating
AED 11.46 AED 12.50 +9.1% HOLD

4Q24 Net Profit higher than our estimate

- Net funded income grew 2.7% YOY to AED 3.5 Bn in 4Q24 owing to decline in cost of funds attributable
 to higher proportion of CASA deposits coupled with a fall in benchmark rates, partially offset by a lower
 asset yield
- NIMs declined 33 bps YOY to 2.4% in 4Q24 mainly due to the one-off effect of higher interest in suspense releases in 4Q23.
- Non-funded income grew from AED 1.2 Bn in 4Q23 to AED 1.9 Bn in 4Q24 attributed to growth in fee
 and commission income, net trading income & other operating income, partially offset by higher losses
 from investment properties. The increase in other operating income is attributed to gains realized on the
 extinguishment of corporate loans.
- Operating expenses rose 5.0% YOY to AED 1.6 Bn due to the increase in staff cost and G&A expenses
 owing to the Bank's investment in talent and technology to accelerate growth across its businesses,
 partially offset by a decline in depreciation and amortization expenses.
- Impairments sharply declined 12.2% YOY to AED 1,020 Mn in 4Q24.
- Net profit after tax increased 3.8% YOY to AED 2.5 Bn in 4Q24 driven by a rise in net funded and non-funded income coupled with lower impairments partially offset by an increase in operating expenses, and implementation of tax charge owing to the introduction of corporate tax in the UAE from 2024.
- Total assets grew 15.1% YOY and 2.2% QOQ to AED 652.8 Bn, driven by increase in net advances, derivative financial instruments, investment properties and investment in securities.
- NPL ratio stood at 3.0% in 4Q24 compared to 3.5% in 3Q24.
- Deposits increased 16.0% YOY and 3.5% QOQ to AED 421.1 Bn in 4Q24.
- CASA deposits grew 9.7% YOY and accounted for 44.2% of deposits in 4Q24.

Earnings Call Summary

- The bank plans to double its net profit to AED 20 Bn over the next five years, targeting a CAGR of c.20%.
- It aims to maintain the cost of risk below 60 basis points and the CET1 ratio above 12%.
- The bank also intends to gradually increase its dividend payouts each year, with a total payout target exceeding AED 25 Bn over the five-year period.
- The bank increased its exposure to GREs, which contributed to 42% of gross loan growth in 2024. GREs account for 27% of total loans, compared to 25% in 2023. The loan book consists of 14% exposure to real estate investments, 9% financial institutions, and 8% trading, while personal loans represent the remaining portion.
- The loan portfolio is well-diversified geographically, with Abu Dhabi accounting for 51%, Dubai accounting
 for 22%, and other Emirates contributing 6% to the loan portfolio. The bank's exposure outside the UAE
 stood at 21%, as the Corporate and Investment Banking Group (CIBG) continued to support clients both
 regionally and internationally.
- The board recommended a dividend of AED 0.59 per share for 2024, amounting to AED 4.319 Bn, which represents 46% of the net profit.
- In 2024, the bank transitioned all customers to a cloud-based platform. This move has established a strong foundation for future growth and improvements in the customer experience. The new platform is helping the bank grow its customer base, with an average of over 14,000 new customers being onboarded each month.



- By the end of 2024, c. 50% of the bank's IT workload was hosted in the cloud. This platform enables the bank to efficiently scale its digital and AI-powered customer services. In 2024, the bank also fast-tracked the integration of AI into its operations, launching over 20 high-value use cases, such as process automation and risk management, with more applications expected in 2025.
- International loans make up 21% of the bank's loan book, with the UAE remaining central to its strategy. The bank plans to continue expanding internationally to support clients. It expects the share of international loans to rise to 20-30% over the next five years.
- The overall NPL ratios are among the lowest recorded in the last five years. It expects continued recovery in 2025 and beyond.
- The bank does not plan to expand inorganically in the next five years.
- The bank expects credit growth, to stand at mid-double-digit over the next few years, following the momentum witnessed in 2023 and 2024.
- It aims to maintain stable margins in the coming years, despite declining interest rates. It expects a reduction in its cost of funds, supported by a higher proportion of CASA in its deposit mix.
- The bank projects cost of risk to remain below 60 bps.
- ADCB is focusing on growing its low-cost CASA deposits, which is expected to remain a key priority over the next five years to support margin stability.
- The bank has set a goal to achieve a return on equity (ROE) of 15-25%% in 2025 and beyond.
- ADCB expects an increase in trading income and fee income, with plans to further expand product lines in the coming years.
- The bank expects continued growth in GREs due to strong investments in the country. However, it emphasizes that growth in other corporate loans will also remain a priority.
- ADCB bank expects to benefit from its operations in Saudi Arabia, which will commence in 2025, contributing to the growth of its loan portfolio outside the UAE.
- The proportion of real estate loans within the total loan book has declined. However, the bank expects to continue growing its real estate portfolio, targeting a share of approximately 14-18% of the total loan book
- Over the next five years, the bank plans to be more active in international wholesale funding markets to attract longer-duration liabilities, which will support its growth strategy.
- It aims to reduce the cost to income to below 30.0% over the next five years.
- ADCB expects NIMs to remain stable going into 2025.
- The bank's expansion strategy in Saudi Arabia will focus on top-tier corporate and government-related entities, with no plans to participate in the retail or SME markets.

ADCB - P&L

AED Mn	4Q23	3Q24	4Q24	4Q24F	Var	YOY Ch	QOQ Ch
Net funded income	3,413	3,144	3,505	3,126	12.1%	2.7%	11.5%
Non-Funded Income	1,249	1,569	1,935	1,637	18.2%	54.9%	23.3%
Operating income	4,662	4,713	5,440	4,763	14.2%	16.7%	15.4%
Pre-provisioning profit	3,171	3,197	3,875	3,323	16.6%	22.2%	21.2%
Impairment charges	-1,162	-525	-1,020	-642	58.9%	-12.2%	94.2%
Profit before tax	2,500	2,678	2,857	2,681	6.5%	14.3%	6.7%
Tax	-47	-288	-311	-339	-8.2%	NM	8.0%
Profit for the period	2,453	2,391	2,545	2,345	8.5%	3.8%	6.4%

FABS estimate & Co Data



Research Rating Methodology:

Rating Upside/Downside potential

BUY
ACCUMULATE
HOLD
REDUCE
Between +10% to +15%
Lower than +10% to -5%
Between -5% to -15%
Lower than -15%

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