

Commercial Bank of Dubai (CBD)

Strong growth non-funded income and lower impairments boosted profitability

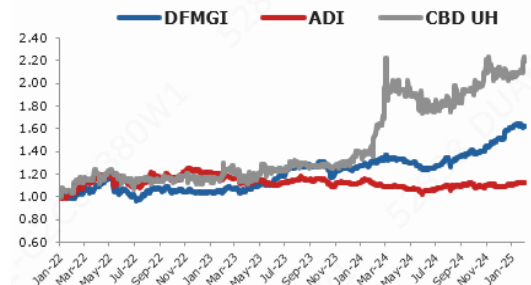
Current Price (AED):
7.66

Target Price (AED):
8.55

Upside/Downside (%)
+12%

Rating:
ACCUMULATE

- Net advances grew 11.7% YOY and 1.4% QOQ to AED 93.1 Bn in 4Q24
- Customer deposits increased 10.5% YOY but declined 1.1% QOQ to AED 97.6 Bn in 4Q24, also CASA ratio stood at 49% in 4Q24.
- Calculated NIMs declined 21 bps YOY and remained unchanged on QOQ basis to 3.0% in 4Q24.
- CBD's asset quality improved with a decline in NPL ratio from 5.0% in 3Q24 to 4.4% in 4Q24.
- Capitalization remained strong with a CAR of 15.6% and CET 1 of 12.4% in 4Q24.
- Board of directors proposed a dividend of AED 0.5074 per share for 2024 amounting to AED 1,515 Mn with a strong dividend yield of 6.6%.



Stock Information

Market Cap (AED, mn)	22,866.57
Paid Up Capital (mn)	2,985.19
52 Week High	8.99
52 Week Low	5.60
3M Avg. daily value (AED)	276,293

4Q24 Result Review (AED, mn)

Total Assets	140,175
Total Liabilities	122,751
Total Equity	17,425
Total Deposits	97,563
Net Profit	799

Financial Ratios

Dividend Yield (12m)	5.79
Dividend Pay-out (%)	52.27
Price-Earnings Ratio (x)	7.94
Price-to-Book Ratio (x)	1.50
Book Value (AED)	5.10
Return on Equity (%)	20.12

Stock Performance

5 Days	6.09%
1 Months	6.39%
3 Months	6.24%
6 Months	20.25%
1 Year	36.06%
Month to Date (MTD%)	-0.52%
Quarter to Date (QTD%)	6.69%
Year to Date (YTD%)	6.69%

4Q24 Net Profit in line with our estimate

Commercial Bank of Dubai ("CBD, "the Bank") recorded a growth in net profit of 11.9% YOY to AED 799 Mn in 4Q24, in line with our estimate of AED 807 Mn. The increase in net profit is driven by growth in net funded income and non-funded income along with a decline in impairments partially offset by an increase in operating expenses and income tax charges.

P&L Highlights

CBD's funded income grew 4.5% YOY to AED 1,882 Mn in 4Q24, mainly due to growth in loan book and other interest-earning assets partially offset by a decline in asset yield. On the other hand, funded expenses grew 5.3% YOY to AED 933 Mn in 4Q24 owing to an increase in interest-bearing liabilities. Thus, net funded income rose 3.7% YOY to AED 950 Mn in 4Q24. CBD's fees and commission income grew 24.3% YOY to AED 265 Mn in 4Q24 owing to an increase in fees from syndication and higher transaction banking activity. Trading income grew marginally 3.2% YOY to AED 84 Mn in 4Q24. Other non-funded income grew from AED 11 Mn in 4Q23 to AED 28 Mn in 4Q24. Thus, CBD's total non-funded income rose 23.2% YOY to AED 377 Mn in 4Q24. Thus, CBD's total operating income rose 8.6% YOY to AED 1,326 Mn in 4Q24. Further, G&A expenses grew 10.0% YOY to AED 366 Mn in 4Q24 due to a rise in staff cost caused by increased regulatory control and governance coupled with higher other operating expenditures attributable to investments in technology, digitisation, inflationary, and regulatory compliance. As a result, total operating expenses rose 11.4% YOY to AED 386 Mn in 4Q24. Additionally, impairments on loans, advances and Islamic financing declined 59.9% YOY to AED 107 Mn in 4Q24. The recoveries on loans and advances and Islamic financing declined significantly from AED 102 Mn in 4Q23 to AED 44 Mn in 4Q24. In addition, the Bank incurred a corporate tax expense of AED 76 Mn in 4Q24, owing to the introduction of UAE corporate tax.

Balance Sheet Highlights

CBD's net advances rose 11.7% YOY and 1.4% QOQ to AED 93.1 Bn in 4Q24. The Bank witnessed an increase in credit towards all sectors except hospitality, real estate, financial, construction, and individual loans compared to 4Q23. Moreover, the Bank's total assets rose 8.7% YOY to 140.2 Bn in 4Q24 but remained unchanged on QOQ basis. Customer deposits recorded a healthy growth of 10.5% YOY but declined 1.1% QOQ to AED 97.6 Bn in 4Q24. The headline loan-to-deposit ratio increased to 95.4% in 4Q24 compared to 93.0% in 3Q24. Additionally, the Bank's CASA deposits stood at 49% of total deposits in 4Q24. CBD's total equity rose 10.4% YOY and 3.9% QOQ to AED 17.4 Bn in 4Q24.

Target Price and Rating

We revise our rating on CBD from HOLD to ACCUMULATE with a revised target price of AED 8.55. CBD recorded healthy growth in profitability, surpassing AED 3 Bn in net profit for the first time on the back of a solid increase in net funded and non-funded income along with growth in recoveries in 2024. The Bank's net advances grew 11.7% YOY to AED 93.04 Bn in 4Q24 and further provided loan guidance of mid to high single-digit percentage growth for FY2025. CBD's calculated NIM declined 21 bps YOY to 3.0% in 4Q24 and remained unchanged on QOQ basis. The Bank's deposits recorded a healthy growth of 10.5% YOY but declined 1.1% QOQ to AED 97.6 Bn in 4Q24 resulting in the headline loan-to-deposit ratio of 95.4%. Low-cost CASA deposits constituted 49% of the total customer deposit base, while the balance is made up of time deposits. Cost-to-income ratio grew 73 bps YOY and 339 bps QOQ to 29.1% in 4Q24 due to investment in business growth and digitization coupled with higher staff costs due to regulation. It expects the cost-to-income to be below 28.0% in 2025. Furthermore, the Bank's cost of risk marginally declined 48 bps YOY and 63 bps QOQ to 0.3% in 4Q24, while CBD estimates its cost of risk to remain less than 65 bps in 2025. Additionally, CBD's asset quality improved significantly in 4Q24 with a reported NPL ratio of 4.4% compared to 5.0% in 3Q24. Moreover, the Bank reported coverage increased to 104.2% in 4Q24 from 96.6% in 3Q24. In addition, the Bank maintained a healthy capitalization with a CAR of 15.6% and CET 1 ratio of 12.4% well above the regulatory limits in 4Q24. The board of directors proposed a dividend of AED 0.5074 per share for 2024 amounting to AED 1,515 Mn with a strong 2024 dividend yield of 6.6%. Thus, based on our analysis, we assign an ACCUMULATE rating on the stock.

CBD - Relative valuation

(at CMP)	2020	2021	2022	2023	2024	2025F
P/E	20.35	17.18	13.37	8.99	7.81	7.9
P/B	2.23	1.99	1.94	1.67	1.49	1.4
Dividend yield	2.5%	3.2%	3.2%	5.9%	6.6%	6.6%

FABS Estimates & Co Data

CBD – P&L

AED mn	4Q23	3Q24	4Q24	4Q24F	Var.	YOY Ch	QOQ Ch	2023	2024	Change
Funded income	1,802	1,934	1,882	2,015	-6.6%	4.5%	-2.7%	6,664	7,544	13.2%
Funded expense	-885	-990	-933	-946	-1.4%	5.3%	-5.8%	-3,094	-3,745	21.0%
Net funded income	916	943	950	1,069	-11.2%	3.7%	0.7%	3,570	3,799	6.4%
Fees and commissions	214	277	265	272	-2.5%	24.3%	-4.2%	935	1,115	19.3%
Trading income	81	84	84	83	0.9%	3.2%	0.0%	323	337	4.1%
Other non-funded income	11	150	28	54	-48.7%	NM	-81.6%	110	240	117.9%
Total non-funded income	306	511	377	409	-7.8%	23.2%	-26.3%	1,368	1,692	23.7%
Total operating income	1,222	1,454	1,326	1,478	-10.3%	8.6%	-8.8%	4,938	5,491	11.2%
G&A Expenses	-333	-358	-366	-343	6.6%	10.0%	2.2%	-1,178	-1,342	13.9%
Depreciation & amortization	-14	-16	-20	-17	17.9%	43.4%	26.3%	-49	-61	23.5%
Operating Expenses	-347	-374	-386	-360	7.1%	11.4%	3.2%	-1,228	-1,403	14.3%
Pre provision profit	875	1,081	941	1,118	-15.9%	7.5%	-13.0%	3,710	4,087	10.2%
Impairments	-266	-314	-107	-309	-65.5%	-59.9%	-66.0%	-1,094	-990	-9.6%
Recoveries	102	98	44	90	-51.2%	-57.2%	-55.3%	182	257	41.3%
Impairment on AFS invest.	3	-9	-2	-9	-83.3%	NM	-83.1%	-148	-30	-79.9%
Profit before tax	714	855	876	889	-1.4%	22.6%	2.4%	2,650	3,325	25.5%
Corporate tax	0	-76	-76	-82	-6.3%	NM	0.4%	0	-295	NM
Net Profit	714	779	799	807	-0.9%	11.9%	2.6%	2,650	3,030	14.3%

FABS estimate & Co Data
CBD - KPI

	4Q23	3Q24	4Q24	YOY Ch	QOQ Ch	2023	2024	Change
Net FI/OI	75.0%	64.9%	71.6%	-338	673	72.3%	69.2%	-310
NIM	3.2%	3.0%	3.0%	-21	0	3.24%	3.08%	-16
NIS	2.7%	2.5%	2.5%	-21	0	2.8%	2.6%	-23
Fees & comms/OI	17.5%	19.0%	20.0%	253	96	18.9%	20.3%	138
Trading/OI	6.7%	5.8%	6.3%	-33	55	6.5%	6.1%	-42
Cost to income	28.4%	25.7%	29.1%	73	339	24.9%	25.6%	69
Impairment/PPP	18.4%	20.9%	6.9%	-1,149	-1,399	28.6%	18.6%	-992
NP/OI	58.5%	53.5%	60.3%	179	671	53.7%	55.2%	151
Cost of Risk	0.7%	0.9%	0.3%	-48	-63	1.02%	0.74%	-28
Loan-to-deposit	94.4%	93.0%	95.4%	101	240	94.4%	95.4%	101
NPL – Reported	6.5%	5.0%	4.4%	-211	-61	6.5%	4.4%	-211
Coverage – Reported	83.3%	96.6%	104.2%	2,097	762	83.3%	104.2%	2,097
CET1	12.5%	13.4%	12.4%	-14	-97	12.5%	12.4%	-14
Capital adequacy	15.9%	16.6%	15.6%	-38	-99	16.0%	15.6%	-38
ROAE	19.9%	20.6%	20.1%	19	-47	19.9%	20.1%	18
ROAA	2.2%	2.2%	2.3%	9	4	2.2%	2.5%	27

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

AED mn	4Q23	1Q24	2Q24	3Q24	4Q24	YOY Ch
Net advances	83,313	86,791	89,608	91,746	93,049	11.7%
QOQ ch	0.5%	4.2%	3.2%	2.4%	1.4%	
Total assets	128,987	130,976	141,256	140,217	140,175	8.7%
QOQ ch	2.4%	1.5%	7.8%	-0.7%	0.0%	
Customer deposits	88,287	90,342	99,831	98,682	97,563	10.5%
QOQ ch	2.1%	2.3%	10.5%	-1.2%	-1.1%	
Total equity	15,781	15,138	15,843	16,772	17,425	10.4%
QOQ ch	5.6%	-4.1%	4.7%	5.9%	3.9%	

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	8.91	70.0%	6.24
Relative Valuation (RV)	7.72	30.0%	2.32
Weighted Average Valuation (AED)			8.55
Current market price (AED)			7.66
Upside/Downside (%)			+12%

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 5.5%, beta of 0.9 and equity risk premium of 4.3%. 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)	3,860
Terminal value (AED, Mn)	7,523
Book value of equity (as of Dec 2024)	15,221
FV to Common shareholders (AED, Mn)	26,604
No. of share (Mn)	2,985
Current Market Price (AED)	7.66
Fair Value per share (AED)	8.91

(All Figures in AED Mn)	FY 2024E	FY 2025E	FY 2026E	FY 2027E	FY 2028E
Net Profit	2,856	2,680	2,687	2,946	2,981
(-) Equity charge	(1,586)	(1,705)	(1,826)	(1,971)	(2,111)
Excess Equity	1,270	975	861	975	871
Discounting Factor	0.91	0.83	0.76	0.70	0.64
Present Value of Excess Equity	1,160	813	656	678	553

Source: FAB Securities

2) Relative Valuation:

We have used local and international peers to value CBD and it is valued using the PB multiple. It is valued at a 2025 PB multiple of 1.4x in line with peers.

Company	Market (USD Mn)	P/B(x)		PE (x)		Yield (%)	
		2024F	2025F	2024F	2025F	2024F	2025F
Dubai Islamic Bank	14,933	1.4	1.3	8.6	9.5	6.1	5.9
Emirates NBD	38,605	1.2	1.1	6.1	6.8	5.1	5.2
ADCB	21,596	1.2	1.1	9.3	9.6	5.0	5.1
MASQ	11,889	1.3	1.2	6.8	7.1	6.9	6.9
ADIB	15,464	2.5	2.3	10.7	11.1	4.9	5.0
Alinma Bank	19,817	2.1	1.8	12.7	11.5	3.6	3.9
Average		1.6x	1.5x	9.0x	9.3x	5.3%	5.3%
Median		1.4x	1.3x	9.0x	9.6x	5.1%	5.1%
Max		1.9x	1.7x	10.3x	10.7x	5.8%	5.7%
Min		1.3x	1.1x	7.2x	7.7x	4.9%	5.0%

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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