

Abu Dhabi Commercial Bank (ADCB)

Robust asset quality and strong non-funded income boosted profitability

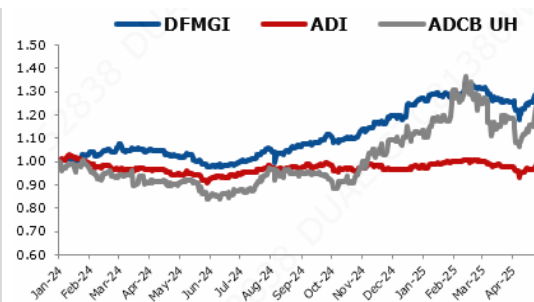
Current Price
AED 11.58

Target Price
AED 13.75

Upside/Downside (%)
+19%

Rating
BUY

- ADCB's net advances grew 13.0% YOY and 2.5% QOQ to AED 359.5 Bn in 1Q25 due to increased lending to GREs and other important sectors.
- The Bank expects a low double-digit growth in its loan portfolio in 2025, while it also expects retail lending to pick up in the coming quarters.
- The Bank's retail banking group added 89,000 new customers in 1Q25, with 71% being acquired through digital channels.
- Reported NPL declined from 3.0% in 4Q24 to 2.2% in 1Q25, while reported provision coverage grew from 110.0% in 4Q24 to 150.1% in 1Q25.
- Capitalization stood strong with a CET 1 ratio of 12.6% and CAR of 16.1% in 1Q25.



1Q25 Net Profit higher than our estimate

Abu Dhabi Commercial Bank's ("ADCB", "The Bank") net profit rose 14.3% YOY to AED 2,447 Mn in 1Q25, beating our estimate of AED 2,309 Mn. The strong growth in net profit is primarily driven by a rise in net funded and non-funded income, coupled with lower impairments, partially offset by a rise in operating expenses and higher tax charges.

P&L Highlights

ADCB's funded income, consisting of interest income and income from Islamic financing, marginally grew 0.6% YOY to AED 8,256 Mn in 1Q25, primarily due to growth in loans and advances and other interest-earning assets. The Bank's funded expenses declined from AED 4,908 Mn in 1Q24 to AED 4,863 Mn in 1Q25 owing to lower cost of funds. ADCB's cost of funds declined 61 bps YOY and 41 bps QOQ to 3.7% in 1Q25, owing to declining interest rates and rising CASA deposits. As a result, the net funded income grew 2.8% YOY to AED 3,394 Mn in 1Q25. ADCB's calculated NIMs declined 27 bps YOY and 15 bps QOQ to 2.3% in 1Q25, mainly due to the declining interest rates. Fee and commission income grew 16.6% YOY to AED 820 Mn in 1Q25 due to a rise in trade finance commission and fees associated with accounts, whereas the card-related fees stayed relatively unchanged. Furthermore, the other operating income surged 37.2% YOY to AED 799 Mn in 1Q25, owing to gains from the extinguishment of corporate loans as well as increased FX income and derivatives gains. Resultantly, the non-funded income experienced a healthy growth of 26.0% YOY to AED 1,619 Mn in 1Q25. Thus, total operating income rose 9.3% YOY to AED 5,013 Mn in 1Q25. The operating expenses increased 3.4% YOY to AED 1,465 Mn in 1Q25. However, the cost-to-income ratio improved 168 bps YOY to 29.2% in 1Q25,

Stock Information

Market Cap (AED, Mn)	84,764.99
Paid Up Capital (Mn)	7,319.95
52 Week High	12.60
52 Week Low	7.61
3M Avg. daily value(AED)	60,909,720

1Q25 Result Review (AED, Mn)

Total Assets	679,716
Total Liabilities	605,844
Total Equity	73,872
Total Deposits	441,691
Net Profit	2,447

Financial Ratios

Dividend Yield (12m)	5.09
Dividend Pay-out (%)	49.44
Price-Earnings Ratio(x)	9.29
Price-to-Book Ratio (x)	1.30
Book Value (AED)	8.90
Return-on Equity (%)	14.50

Stock Performance

5 Days	4.32%
1 Months	7.42%
3 Months	-3.34%
6 Months	25.87%
1 Year	38.68%
Month to Date (MTD%)	-0.52%
Quarter to Date (QTD%)	6.24%
Year to Date (YTD%)	11.13%

mainly as a result of the Bank's effective cost management measures and higher operating income. The Bank's impairments shrank 12.7% YOY to AED 646 Mn in 1Q25, owing to higher recoveries. Furthermore, corporate tax expense rose significantly from AED 292 Mn in 1Q24 to AED 461 Mn in 1Q25 as the Bank's tax rate rose to 15% due to the introduction of the domestic minimum top-up tax by the UAE.

Balance Sheet Highlights

ADCB's total assets witnessed a solid growth of 14.4% YOY and 4.1% QOQ to AED 679.7 Bn in 1Q25, mainly due to an increase in cash and bank balance with the central bank, investment portfolio, derivative financial instruments, and net advances. Net advances rose 13.0% YOY and 2.5% QOQ to AED 359.5 Bn in 1Q25. The Bank's investment securities rose 13.0% YOY and 4.6% QOQ to AED 149.6 Bn in 1Q25. Customer deposits rose 15.1% YOY and 4.9% QOQ to AED 441.7 Bn in 1Q25. CASA deposits grew 9.9% YOY and 6.3% QOQ to AED 197.7 Bn in 1Q25, attributing to 44.8% of total deposits. In addition, ADCB's total equity increased 7.6% YOY and declined 2.2% on a QOQ basis to AED 73.9 Bn in 1Q25.

Target Price and Rating

We maintain our BUY rating on Abu Dhabi Commercial Bank (ADCB) with a target price of AED 13.75. ADCB recorded strong growth in profitability, driven by higher net funded and non-funded income, coupled with lower impairments during 1Q25. ADCB is further actively expanding its trading and product offering, moving beyond FX into more diverse areas like derivatives and capital markets, which is expected to boost its non-funded income growth. ADCB's net advances expanded 13.0% YOY and 2.5% QOQ to AED 359.5 Bn in 1Q25 due to increased lending to GREs and other important sectors, coupled with a decline in exposure to the real estate sector. The Bank maintains a robust loan pipeline and expects this growth momentum to continue, with the GRE segment projected to be the primary driver. ADCB expects a low double-digit growth in its loan portfolio in 2025. The Bank also expects retail lending to pick up in the coming quarters. Most of the repricing following last year's rate cuts is now reflected in the Bank's loan book. ADCB also 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 Bank's International lending was strong in 1Q25 and is expected to stay within a 20–25% share of the loan book in the medium term. Moreover, the Bank has rebalanced its loan book towards GRE and the government sector, which naturally carries a lower yield but also lower risk, which is expected to result in lower cost of risk. The Bank's reported cost of risk stood at 0.49% in 1Q25, in line with its full year guidance of 0.60% for 2025. The Bank's retail banking group added 89,000 new customers in 1Q25, with 71% being acquired through digital channels. ADCB's customer deposits grew 15.1% YOY and 4.9% QOQ to AED 441.7 Bn in 1Q25, owing to strong growth in time and CASA deposits. ADCB further continues to grow the liability base, especially through CASA, to support its overall NIMs resilience. The Bank's reported NIMs declined from 2.7% in 1Q24 to 2.5% in 1Q25. However, the Bank's reported risk-adjusted NIMs decreased from 2.1% in 1Q24 to 2.0% in 1Q25, mainly driven by a shift in the loan portfolio towards higher-quality, lower-risk exposures over the past year. ADCB is focusing on rigorous cost discipline and efficiencies. As a result, the cost-to-income ratio improved by 168 bps YOY to 29.2% in 1Q25. Additionally, the Bank aims to reduce the cost-to-income to below 30.0% over the next five years. Furthermore, the Bank's reported NPL declined from 3.0% in 4Q24 to 2.2% in 1Q25, mainly due to the sale of assets in 1Q25, healthy recoveries, and reclassifications between Stage 2 and Stage 3 loans. The reported provisional coverage also grew from 110.0% in 4Q24 to 150.1% in 1Q25, providing a strong buffer against bad loans going forward. ADCB's capitalization stood strong with a CET 1 ratio of 12.6% and CAR of 16.1% in 1Q25. The Bank also remained committed for the next five years, wherein it expects net profit to double within five years to AED 20 Bn, growing at an annual growth rate of 20%. ADCB is also targeting a total dividend of AED 25 Bn over the next five years. Thus, based on our analysis, we maintain our BUY rating on the stock.

ADCB - Relative valuation

(at CMP)	2020	2021	2022	2023	2024	2025F
PE	24.15	16.81	13.63	10.91	9.75	9.26
PB	1.68	1.60	1.54	1.36	1.28	1.23
DPS	0.26	0.35	0.17	0.56	0.59	0.63
Dividend Yield	2.2%	3.0%	1.5%	4.8%	5.1%	5.4%

FABS Estimates & Co Data
ADCB - P&L

AED Mn	1Q24	4Q24	1Q25	1Q25F	Var.	YOY Ch	QOQ Ch	2024	2025F	Change
Funded income	8,210	8,723	8,256	8,840	-6.6%	0.6%	-5.3%	33,734	32,909	-2.4%
Funded expense	-4,908	-5,218	-4,863	-5,285	-8.0%	-0.9%	-6.8%	-20,508	-18,771	-8.5%
Net funded income	3,301	3,505	3,394	3,555	-4.5%	2.8%	-3.2%	13,226	14,137	6.9%
Fees & commissions	703	722	820	780	5.1%	16.6%	13.5%	3,101	3,566	15.0%
Other operating income	582	1,240	799	578	38.2%	37.2%	-35.5%	3,153	3,339	5.9%
Non funded income	1,285	1,962	1,619	1,358	19.2%	26.0%	-17.5%	6,254	6,905	10.4%
Operating income	4,586	5,467	5,013	4,913	2.0%	9.3%	-8.3%	19,480	21,042	8.0%
Operating expenses	-1,417	-1,565	-1,465	-1,621	-9.7%	3.4%	-6.4%	-6,031	-6,418	6.4%
Pre-provision profit	3,169	3,902	3,548	3,292	7.8%	11.9%	-9.1%	13,448	14,624	8.7%
Impairments	-741	-1,020	-646	-696	-7.1%	-12.7%	-36.6%	-2,874	-3,062	6.5%
Operating profit	2,429	2,882	2,901	2,596	11.8%	19.5%	0.7%	10,574	11,563	9.3%
Share of profit of assoc.	2	1	5	0	NM	NM	NM	11	0	NM
Profit before tax	2,431	2,884	2,907	2,596	12.0%	19.6%	0.8%	10,585	11,563	9.2%
Tax expense	-292	-311	-461	-286	61.3%	57.7%	48.2%	-1,166	-1,734	48.7%
Non- Controlling interest	1	-1	0	-1	NM	NM	NM	1	-5	NM
Profit for the period	2,140	2,572	2,447	2,309	5.9%	14.3%	-4.9%	9,421	9,823	4.3%

FABS estimate & Co Data

ADCB - KPI

	1Q24	4Q24	1Q25	YOY Ch	QOQ Ch	2024	2025F	Change
Net FI/OI	72.0%	64.1%	67.7%	-427	359	67.9%	67.2%	-71
NIM	2.5%	2.4%	2.3%	-27	-15	2.4%	2.3%	-11
NIS	2.0%	1.9%	1.8%	-19	-10	1.9%	1.9%	-2
Fees & comms/OI	15.3%	13.2%	16.4%	103	314	15.9%	16.9%	103
Other non-funded/OI	12.7%	22.7%	15.9%	325	-673	16.2%	15.9%	-32
Cost to income	30.9%	28.6%	29.2%	-168	60	31.0%	30.5%	-46
Impairment/PPP	23.4%	26.1%	18.2%	-515	-792	21.4%	20.9%	-44
Tax/PBT	12.0%	10.8%	15.8%	383	507	11.0%	15.0%	398
NP/OI	46.7%	47.1%	48.8%	215	176	48.4%	46.7%	-168
Cost of risk (reported)	0.7%	0.7%	0.5%	-18	-23	0.6%	0.6%	0
Loan-to-deposit (calculated)	84.9%	84.9%	83.0%	-196	-186	84.9%	86.0%	115
NPL (calculated)	3.7%	3.3%	3.3%	-44	1	3.3%	3.2%	-13
Coverage excluding collateral	108.5%	103.4%	103.4%	-517	-5	103.4%	105.0%	160
CET 1	13.0%	12.6%	12.6%	-36	4	12.6%	11.9%	-65
Capital adequacy	16.3%	16.1%	16.1%	-19	-5	16.1%	15.2%	-89
ROAE	13.8%	13.5%	14.5%	66	99	14.6%	14.5%	-11
ROAA	1.5%	1.5%	1.5%	-2	-2	1.5%	1.4%	-11

FABS estimate & Co Data

ADCB - Key B/S items

AED Mn	1Q24	2Q24	3Q24	4Q24	1Q25	YOY Ch
Net advances	318,159	332,158	344,014	350,638	359,489	13.0%
QOQ change	5.4%	4.4%	3.6%	1.9%	2.5%	
Total assets	594,405	612,242	638,754	652,814	679,716	14.4%
QOQ change	4.8%	3.0%	4.3%	2.2%	4.1%	
Customer deposits	383,695	389,961	406,742	421,060	441,691	15.1%
QOQ change	5.7%	1.6%	4.3%	3.5%	4.9%	
Total equity	68,681	70,707	73,692	75,567	73,872	7.6%
QOQ change	-3.6%	3.0%	4.2%	2.5%	-2.2%	

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	14.48	70.0%	10.14
Relative Valuation (RV)	12.04	30.0%	3.61
Weighted Average Valuation (AED)			13.75
Current market price (AED)			11.58
Upside/Downside (%)			+19%

1) Residual Income Method:

We have discounted the economic profit/excess equity using the cost of equity of 9.0%. Cost of equity is calculated by using 10-year government bond yield of 5.1%, beta of 1.0 and equity risk premium of 3.9%. 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)	11,127
Terminal value (AED, Mn)	29,756
Book Value of Equity (as of Mar 2025)	65,113
FV to Common shareholders (AED, Mn)	105,996
No. of share (Mn)	7,320
Current Market Price (AED)	11.58
Fair Value per share (AED)	14.48

Residual Income Method

(All Figures in AED Mn)	FY 2025E	FY 2026E	FY 2027E	FY 2028E	FY 2029E
Net Profit	9,205	9,781	10,037	10,539	11,347
(-) Equity Charge	-6,178	-6,693	-7,204	-7,749	-8,343
Excess Equity	2,270	3,088	2,833	2,790	3,004
Discounting Factor	0.94	0.87	0.80	0.73	0.67
Present Value of Excess Equity	2,144	2,677	2,254	2,038	2,014

Source: FAB Securities

2) Relative Valuation:

We have used local and regional peers to value ADCB and valued using the PB multiple. It is valued at a 2025 PB multiple of 1.3x in line with peers.

Company	Market (USD Mn)	P/E (x)		P/B (x)		Dividend Yield (%)	
		2025F	2026F	2025F	2026F	2025F	2026F
Abu Dhabi Islamic Bank	16,157	11.3	10.6	2.4	2.2	4.9	5.2
Dubai Islamic Bank	14,737	8.7	8.8	1.3	1.2	6.1	6.1
Emirates NBD	33,448	5.9	5.6	0.9	0.8	5.4	5.9
Banque Saudi Fransi	11,476	9.4	8.8	1.1	1.0	6.0	6.2
Riyad Bank	24,284	9.2	9.0	1.4	1.3	5.6	5.6
Average		8.9x	8.6x	1.4x	1.3x	5.6%	5.8%
Median		9.2x	8.8x	1.3x	1.2x	5.6%	5.9%
Max		9.4x	9.0x	1.4x	1.3x	6.0%	6.1%
Min		8.7x	8.8x	1.1x	1.0x	5.4%	5.6%

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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