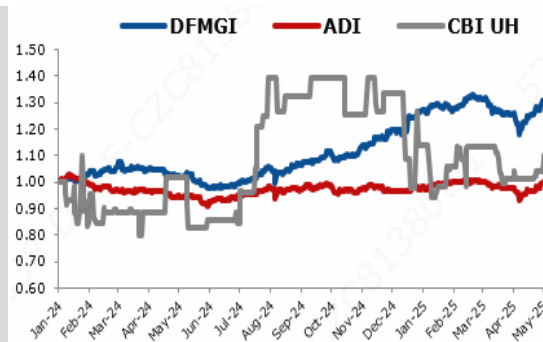


Commercial Bank International (CBI)

Strong funded and non-funded income drove profit growth, mitigated in part by higher provisions

Current Price	Target Price	Upside/Downside (%)	Rating
AED 0.787	AED 0.85	+8%	HOLD

- Net funded income rose 18.0% YOY to AED 97 Mn due to lower cost of funds; thus, NIMs improved 20 bps YOY and 16 QOQ to 2.1%.
- CBI's non-funded income increased significantly from AED 38 Mn in 1Q24 to AED 110 Mn in 1Q25 due to higher fees & commission income and a one-time gain from the sale of properties.
- CBI witnessed an impairment charge of AED 68 Mn in 1Q25 compared to an impairment reversal of AED 6 Mn in 1Q24.
- CBI's calculated NPL ratio grew from 15.9% in 4Q24 to 16.5% in 1Q25, with a coverage ratio of 43.9% in 1Q25 compared to 41.7% in 4Q24.
- Net advances declined 1.6% QOQ to AED 13.4 Bn in 1Q25 due to lower wholesale loans, partially offset by higher Islamic financing.



1Q25 Net Profit higher than our estimates

Commercial Bank International ("CBI"/ "The Bank") net profit increased 16.1% YOY to AED 42 Mn in 1Q25, higher than our profit estimate of AED 37 Mn. The rise in net profit is mainly due to a significant increase in net funded and non-funded income, partially offset by impairment charges in 1Q25 compared to a reversal in 1Q24.

P&L Highlights

CBI's funded income declined 6.5% YOY to AED 226 Mn in 1Q25 owing to a decline in loans & advances and lower yield on assets. Moreover, income from Islamic financing and investment assets rose substantially from AED 19 Mn in 1Q24 to AED 33 Mn in 1Q25, attributable to a healthy growth in Islamic financing and investment assets, partially mitigated by lower yield. Funded expenses fell 9.0% YOY to AED 162 Mn in 1Q25 owing to lower cost of funds despite an increase in customer deposits. CBI's cost of funds declined 46 bps QOQ and 80 bps YOY to 3.85% in 1Q25. Thus, net funded income rose 18.0% YOY to AED 97 Mn in 1Q25. NIMs rose 20 bps YOY and 16 bps QOQ to 2.1% in 1Q25. Net fees and commission income increased substantially from AED 29 Mn in 1Q24 to AED 46 Mn in 1Q25. CBI recorded a strong expansion in other operating income from AED 9 Mn in 1Q24 to AED 65 Mn in 1Q25 due to gains on the sale of properties. Thus, non-funded income grew from AED 38 Mn in 1Q24 to AED 110 Mn in 1Q25. Resultantly, total operating income grew from AED 120 Mn in 1Q24 to AED 208 Mn in 1Q25. Operating expenses grew 9.0% YOY to AED 94 Mn in 1Q25. The bank witnessed an impairment charge of AED 68 Mn in 1Q25 compared to a reversal of AED 6 Mn in 1Q24. The Bank's corporate tax increased 3.9% YOY to AED 4 Mn in 1Q25.

Stock Information

Market Cap (AED, Mn)	1,367.32
Paid Up Capital (Mn)	1,737.38
52 Week High	1.06
52 Week Low	0.59
3M Avg. daily value (AED)	41,770

1Q25 Result Review (AED, Mn)

Total Assets	20,577
Total Liabilities	17,488
Total Equity	2,969
Total Deposits	15,339
Net Profit	42

Financial Ratios

Dividend Yield (12m)	N/A
Dividend Pay-out (%)	0.00
Price-Earnings Ratio(x)	5.41
Price-to-Book Ratio (x)	0.54
Book Value (AED)	1.44
Return-on Equity (%)	8.55

Stock Performance

5 Days	6.35%
1 Months	9.46%
3 Months	2.21%
6 Months	-20.42%
1 Year	8.70%
Month to Date (MTD%)	6.35%
Quarter to Date (QTD%)	9.31%
Year to Date (YTD%)	-2.84%

Balance Sheet Highlights

CBI's total assets grew 8.3% YOY, but declined 1.5% QOQ to AED 20.6 Bn in 1Q25. Net advances grew 9.6% YOY but fell 1.6% QOQ to AED 13.4 Bn in 1Q25. Customer deposits, including Islamic deposits, rose 20.9% YOY, but declined marginally 0.6% QOQ to AED 15.3 Bn in 1Q25. Thus, the loan-to-deposit ratio declined from 96.1% in 1Q24 to 87.1% in 1Q25. In addition, investment in securities measured at fair value and amortized cost fell 6.8% YOY but rose 6.7% QOQ to AED 3.3 Bn in 1Q25.

Target Price and Rating

We revised our rating from BUY to HOLD on CBI with an unchanged target price of AED 0.85. The Company's share price rose 8.3% since our last rating. CBI recorded strong year-over-year growth in funded and non-funded income in 1Q25. The growth in funded income YOY and QOQ basis is attributed to a decline in funded expenses due to growth in the CASA ratio, coupled with a decline in benchmark rates and lower interest paid on borrowing from banks. This is partially mitigated by an increase in distribution to Islamic deposits. As a result, NIMs improved 20 bps YOY and 16 bps QOQ to 2.1% in 1Q25. Going forward, the Bank's NIM is expected to benefit in a declining interest rate scenario due to negative interest rate sensitivity. In a declining interest rate scenario, the negative gap will push the NIM upward. A negative gap happens when rate-sensitive liabilities are greater than rate-sensitive assets. CBI demonstrated substantial growth in non-funded income in 1Q25 attributed to strong growth in fee & commission income and one-time gain on sale of properties. The Bank's ability to generate one-time gains from the sale of properties is also getting exhausted as the book value of investment property declined from AED 562 Mn in 3Q24 to AED 214 Mn in 4Q24 and further to AED 143 Mn in 1Q25. Furthermore, CBI recorded an impairment charge of AED 68 Mn in 1Q25 compared to a reversal of AED 6 Mn in 1Q24, mainly attributed to higher provisions recorded in the Wholesale Banking Segment and lower reversals recorded in the Retail Banking Segment in 1Q25. It recorded a fresh asset slippage of AED 77.1 Mn in 1Q25. As a result, NPL as a percentage of gross loans & advances rose from 15.9% in 4Q24 to 16.5% in 1Q25, indicating a worsening of asset quality. Provision coverage ratio improved from 41.7% in 4Q24 to 43.9% in 1Q25. The coverage ratio remains lower than the industry average of 58.8% in 4Q24. However, the Bank held collateral against NPLs of AED 1.9 Bn in 4Q24 against the mortgage and wholesale segments, mitigating risk from low provisioning. Stage 2 assets as a percentage of gross and advances remained flat at 9.9% in 1Q25 compared to 4Q24. The Bank is expected to generate an ROA of 0.7% in 2025 compared to the industry average of 2.2%. Hence, considering the above-mentioned factors, we revise assign HOLD rating on the stock.

CBI - Relative valuation

(at CMP)	2020	2021	2022	2023	2024	2025F
PE	NM	11.13	11.56	8.80	6.74	9.33
PB	0.69	0.65	0.63	0.59	0.55	0.52

FABS Estimates & Co Data

CBI – P&L

AED Mn	1Q24	4Q24	1Q25	1Q25F	Var.	YOY Ch	QOQ Ch	2024	2025F	Change
Funded income	241	240	226	233	-3.1%	-6.5%	-5.9%	978	932	-4.7%
Income from Islamic fin & invt assets	19	34	33	38	-12.9%	76.2%	-0.3%	105	133	27.1%
Funded expenses	-178	-182	-162	-178	-8.9%	-9.0%	-11.2%	-614	-649	5.7%
Net funded income	82	91	97	94	3.9%	18.0%	6.9%	344	416	20.9%
Fees and commissions	29	33	46	35	29.3%	56.1%	37.0%	138	152	10.0%
Other operating income, net	9	49	65	17	NM	NM	31.6%	221	133	-40.0%
Total non-funded income	38	83	110	53	109.1%	190.6%	33.8%	360	285	-20.8%
Total operating income	120	174	208	146	41.8%	72.4%	19.7%	704	701	-0.4%
Operating expenses	-86	-87	-94	-88	6.7%	9.0%	8.0%	-378	-421	11.3%
Pre provision profit	34	87	114	59	94.5%	231.5%	31.4%	326	280	-14.0%
Impairment	6	-119	-68	-18	NM	NM	-42.8%	-103	-119	15.2%
UAE Corporate Tax	-4	3	-4	-4	8.4%	3.9%	NM	-21	-15	-30.0%
Non-controlling interests	1	0	0	0	NM	NM	NM	1	2	NM
Net Profit	36	-29	42	37	11.8%	16.1%	NM	201	145	-27.8%

FABS estimate & Co Data

CBI – P&L KPI

	1Q24	4Q24	1Q25	YOY Ch	QOQ Ch	2024	2025F	Change
Net FI/OI	68.4%	52.4%	46.8%	NM	-560	48.9%	59.3%	NM
NIM	1.9%	2.0%	2.1%	20	16	1.9%	2.2%	27
NIS	1.4%	1.6%	1.8%	40	22	1.5%	1.8%	37
Fees & comms/OI	24.3%	19.2%	22.0%	-231	278	19.7%	21.7%	205
Trading/OI	7.3%	28.4%	31.2%	NM	282	31.5%	18.9%	NM
Cost to income	71.5%	50.0%	45.2%	NM	-488	53.7%	60.0%	633
Impairment/PPP	-17.7%	137.4%	59.9%	NM	NM	31.6%	42.3%	NM
NP/OI	29.8%	-16.4%	20.1%	-974	NM	28.6%	20.7%	-787
Cost of risk	-0.2%	4.0%	2.4%	258	-164	0.9%	1.0%	14
Loan-to-Deposit	96.1%	88.0%	87.1%	-898	-92	88.0%	88.0%	-3
NPL - Calculated	21.6%	15.9%	16.5%	-512	53	15.9%	16.2%	27
Coverage - Calculated	29.3%	41.7%	43.9%	NM	218	41.7%	44.0%	227
CET1	11.0%	13.8%	13.7%	269	-17	13.8%	14.1%	24
Capital adequacy	14.8%	17.7%	17.6%	278	-14	17.7%	17.8%	8
ROAE	7.0%	8.4%	8.6%	157	11	8.4%	5.7%	-273
ROAA	0.8%	1.0%	1.0%	23	4	1.0%	0.7%	-33

FABS estimate & Co Data

CBI – Key BS Items

AED Mn	1Q24	2Q24	3Q24	4Q24	1Q25	YOY Ch
Net advances	12,192	12,510	12,911	13,583	13,362	9.6%
QOQ Change	-3.3%	2.6%	3.2%	5.2%	-1.6%	
Total assets	19,003	19,972	20,995	20,895	20,577	8.3%
QOQ Change	0.2%	5.1%	5.1%	-0.5%	-1.5%	
Customer deposits	12,687	14,225	15,191	15,430	15,339	20.9%
QOQ Change	0.6%	12.1%	6.8%	1.6%	-0.6%	
Total equity	2,789	2,821	2,970	2,929	2,969	6.4%
QOQ Change	1.3%	1.1%	5.3%	-1.4%	1.4%	

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	0.72	70.0%	0.50
Relative Valuation (RV)	1.15	30.0%	0.35
Weighted Average Valuation (AED)			0.85
Current market price (AED)			0.787
Upside/Downside (%)			+8%

1) Residual Income Method:

We have discounted the economic profit/excess equity using the cost of equity of 8.5%. Cost of equity is calculated by using 10-year government bond yield of 5.2%, beta of 0.8 and equity risk premium of 4.1%. 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)	-281
Terminal value (AED, Mn)	-977
Book value of equity (as of March 2025)	2,510
FV to Common shareholders (AED, Mn)	1,252
No. of share (Mn)	1,737
Current Market Price (AED)	0.787
Fair Value per share (AED)	0.72

Residual Income Method

(All Figures in AED Mn)	FY 2025E	FY 2026E	FY 2027E	FY 2028E	FY 2029E
Net Income	145	177	184	191	195
(-) Equity Charge	-222	-237	-252	-269	-285
Excess Equity	-77	-59	-69	-78	-90
Discounting Factor	0.95	0.87	0.81	0.74	0.68
Present Value of Excess Equity	-54	-52	-55	-58	-62

Source: FAB Securities

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 its peers. It is valued at a 2025 PB multiple of 0.8x as compared to a peer valuation of 1.3x.

Company	Market (USD Mn)	P/E (x)		P/B (x)	
		2025F	2026F	2025F	2026F
Commercial Bank of Dubai (CBD)	6,258	7.5	7.9	1.4	1.3
Mashreq Bank (MASQ)	13,217	6.5	6.8	1.3	1.2
RAK Bank	3,461	6.5	6.7	1.0	0.9
Emirates NBD	33,448	5.9	5.6	0.9	0.8
Dubai Islamic Bank (DIB)	14,737	8.7	8.8	1.3	1.2
Abu Dhabi Commercial Bank (ADCB)	21,119	8.8	8.2	1.1	1.0
Abu Dhabi Islamic Bank (ADIB)	16,157	11.3	10.6	2.4	2.2
Average		7.9x	7.8x	1.3x	1.2x
Median		7.5x	7.9x	1.3x	1.2x
Max		8.7x	8.5x	1.4x	1.3x
Min		6.5x	6.7x	1.0x	1.0x

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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