

Abu Dhabi Commercial Bank

Lowest impairment in the last nine quarters drove net profit

Rating : ACCUMULATE

First Look Note – 1Q22

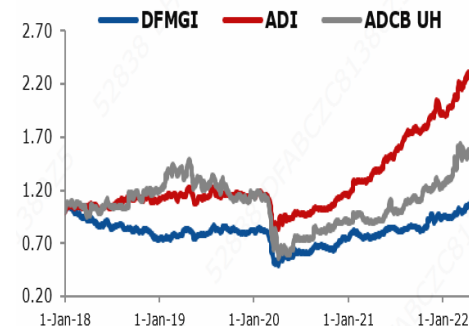
Sector: Banking

Recommendation

Current Price (28-Apr-22)	10.28
Target Price	11.60
Upside/Downside (%)	+13%

Stock Information

Market Cap (mm)	71,521.86
Paid Up Capital (mm)	6,957.38
52 Week High	11.30
52 Week Low	6.20
3M Avg. daily value (AED)	56,878,150



Financial Ratios

Dividend Yield (12m)	3.57
Dividend Pay-out (%)	50.64
Price-Earnings Ratio (x)	13.20
Price-to-Book Ratio (x)	1.40
Book Value (AED)	7.38
Return-on Equity (%)	10.76
Earning Per Share (AED)	0.79
Beta	1.04

Stock Performance

5 Days	1.38%
1 Months	-2.10%
3 Months	14.73%
6 Months	23.86%
1 Year	63.69%
Month to Date (MTD)	-1.91%
Quarter to Date (QTD)	-1.91%
Year to Date (YTD)	20.52%

1Q22 Net Profit exceeded our estimate

Abu Dhabi Commercial Bank (ADCB) net profit rose 32.3% YOY to AED 1,484 Mn in 1Q22, higher than our estimate of AED 1,407 Mn. This increase was primarily due to a significant decline in impairment charges somewhat offset by an increase in operating expenses.

P&L highlights

ADCB funded income rose by 1.0% YoY to AED 2,751 million in 1Q22 due to an increase in interest-bearing assets which rose 9.0% YoY, partially offset by a decline in yield due to a change in borrowing mix. Furthermore, funded expenses fell marginally 0.1% YoY to AED 630 million in 1Q22 as benchmark interest rates rose sequentially by 4 basis point. On the other hand, non-funded income fell 1.6% YoY to AED 789 million primarily due to a decline in trading and other operating income offset by a rise in fee and commission income offset by a. Fee and commission grew due to an increase in loan processing fees and trade finance commission. Thus, net operating income rose marginally 0.5% YoY to AED 2,936 Mn in 1Q22 and fell by 10.4% on QoQ basis. Operating expenses grew 5.4% YoY to AED 1,118 million in 1Q22 due to a rise in compensation costs and additional investment in the growth of the business. Cost-to-income ratio rose to 38.1% in 1Q22 from 36.3% in 1Q21 suffered from the dual impact of an increase in operating expense and a decline in operating income. Impairments charges decline significantly by 58.2% YoY to AED 294 Mn in 1Q22, mainly due to improved economic conditions and higher recoveries. This is the lowest impairment charge recorded in the last nine quarters.

Balance sheet highlights

Balance sheet of ADCB stood strong with net assets of AED 446 billion growing at 1.2% on QoQ basis. Net Advances grew 0.6% QoQ basis to AED 246 billion in 1Q22. The bank continues to grow and diversify the loan book as it added AED 13 Bn in new loans during the quarter which is offset by corporate repayment. Real estate made up 23% of total gross loan and credit extended to government and public sector stood at 26%. Customer deposits fell 1.2% QoQ to AED 262 Bn in 1Q22 due to an addition of fewer corporate accounts somewhat offset by an increase in consumer deposits. CASA deposits represented 57.5% of total customer deposits in 1Q22. Total equity of the bank declined 3.4% QoQ to AED 57 billion in 1Q22.

Target price and rating

We maintain our ACCUMULATE rating on ADCB with a target price of AED 11.60. The bank's net interest margin is expected to benefit in a rising interest rate environment due to the positive interest rate sensitivity gap. In a rising interest rate scenario, the positive gap will push the NIM upwards and vice versa. A positive gap happens when rate-sensitive assets are greater than rate-sensitive liabilities. ADCB also maintains a stable funding profile largely funded by customer deposits reflecting a strong franchise. Low-cost CASA deposits make up 58% of total deposits in 1Q22. Non-funded income is also projected to maintain a healthy growth rate with improving economic outlook. The bank operational efficiency is projected to improve further as merger-related synergies are fully realized and continued investment in digital initiatives. Additionally, asset quality is also anticipated to remain stable in 2022 given improving macroeconomic outlook. Notwithstanding all these positives, ADCB is projected to generate ROA of 1.30% in 2022 compared to industry of 1.49% in 2022 leading us to assign ACCUMULATE rating on the stock.

ADCB - Relative valuation

(at CMP)	2018	2019	2020	2021	2022F
P/E (x)	11.42	14.48	20.16	14.08	12.21
P/B (x)	1.86	1.29	1.26	1.20	1.10
Dividend Yield (%)	4.47	3.70	2.63	3.60	3.89

FABS Estimates & Co Data

ADCB - P&L

AED mm	1Q21	4Q21	1Q22A	1Q22F	Var.	YOY Ch	QOQ Ch	2021	2022F	Change
Funded income	2,724	2,820	2,751	2,968	-7%	1.0%	-2.4%	11,121	11,923	7.2%
Funded expense	-605	-570	-604	-630	-4%	-0.1%	6.1%	-2,258	-2,198	-2.6%
Net funded income	2,119	2,250	2,146	2,338	-8%	1.3%	-4.6%	8,864	9,724	9.7%
Fees & commissions	443	519	487	508	-4%	9.9%	-6.2%	1,899	1,902	0.1%
Other operating income	359	508	302	340	-11%	-15.9%	-40.5%	1,496	1,522	1.7%
Non funded income	802	1,027	789	848	-7%	-1.6%	-23.2%	3,396	3,424	0.8%
Operating income	2,922	3,277	2,936	3,186	-8%	0.5%	-10.4%	12,259	13,149	7.3%
Operating expenses	-1,061	-1,128	-1,118	-1,097	2%	5.4%	-1.0%	-4,257	-4,339	1.9%
Pre-provision profit	1,861	2,149	1,818	2,089	-13%	-2.3%	-15.4%	8,002	8,810	10.1%
Impairments	-704	-669	-294	-656	-55%	-58.2%	-56.0%	-2,646	-2,745	3.7%
Operating profit after impairment	1,157	1,480	1,524	1,433	6%	31.7%	3.0%	5,356	6,065	13.2%
Share of profit of assoc.	2	1	2	1	199%	-4.5%	199.3%	8	3	-64.6%
Profit before tax	1,159	1,481	1,526	1,434	6%	31.6%	3.1%	5,363	6,068	13.1%
Overseas tax expense	-28	-29	-29	-26	11%	4.4%	-0.4%	-100	-206	106.7%
Loss from discontinued operations	-10	-4	-14	0	NM	31.0%	240.5%	-16	0	-100.0%
Non controlling interest	0	-5	0	-1	-102%	-104.9%	-100.4%	-6	-4	-35.9%
Net profit attributable	1,121	1,443	1,484	1,407	5%	32.3%	2.8%	5,241	5,858	11.8%

FABS Estimates & Co Data

ADCB - P&L KPI

	1Q21	4Q21	1Q22A	QOQ Ch	YOY Ch	2021	2022F	Change
Net FI/OI	72.5%	68.7%	73.1%	446	58	72.3%	74.0%	165
NIM	2.4%	2.4%	2.3%	-15	-14	2.5%	2.6%	9
NIS	2.2%	2.4%	2.3%	-15	3	2.4%	2.5%	8
Fees & comms/OI	15.2%	15.8%	16.6%	75	142	15.5%	14.5%	-103
Other non-funded/OI	12.3%	15.5%	10.3%	-521	-200	12.2%	11.6%	-63
Cost to income	36.3%	34.4%	38.1%	363	177	34.7%	33.0%	-173
Impairment/PPP	37.8%	31.1%	16.2%	-1493	-2164	33.1%	31.2%	-192
Tax/PBT	2.4%	1.9%	1.9%	-7	-49	1.9%	3.4%	154
NP/OI	38.4%	44.0%	50.5%	651	1217	42.8%	44.6%	180
ROAE	9.5%	10.9%	11.3%	40	183	10.1%	10.4%	32
ROAA	1.1%	1.3%	1.3%	2	23	1.2%	1.3%	6

FABS Estimates & Co Data

ADCB- Key BS Items

AED mm	1Q21	2Q21	3Q21	4Q21	1Q22A	YOY Ch
Net advances	2,35,725	2,37,814	2,41,912	2,44,282	2,47,334	4.3%
QoQ change	-1.4%	0.9%	1.7%	1.0%	1.2%	
Total assets	3,95,819	4,16,290	4,32,061	4,40,278	4,45,562	12.6%
QoQ change	-3.7%	5.2%	3.8%	1.9%	1.2%	
Customer deposits	2,38,830	2,50,564	2,55,753	2,65,052	2,69,823	9.7%
QoQ change	-5.0%	4.9%	2.1%	3.6%	1.8%	
Total shareholders' equity	55,719	57,104	58,161	59,360	60,852	2.9%
QoQ change	10.1%	2.5%	1.9%	2.1%	2.5%	

FABS estimate & Co Data

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%

FAB Securities Contacts:
Research Analysts

Ahmad Banihani +971-2-6161629 ahmad.banihani@Bankfab.com

Sales & Execution

Abu Dhabi Head Office

Trading Desk +971-2-6161700/1 [Online Trading Link](#)
 +971-2-6161777

Institutional Desk +971-4-4245765

Sales and Marketing +971-2-6161703

DISCLAIMER

This report has been prepared by FAB Securities (FABS), which is authorised by the UAE Securities and Commodities Authority, licensing registration number 604002, and is a member of the Abu Dhabi Securities Exchange and Dubai Financial Market. The information, opinions and materials contained in this report are provided for information purposes only and are not to be used, construed, or considered as an offer or the solicitation of an offer or recommendation to sell or to buy or to subscribe for any investment security or other financial instrument. The information, opinions and material in this report have been obtained and derived from publicly available information and other sources considered reliable without being independently verified for their accuracy or completeness. FABS gives no representation or warranty, express or implied, as to the accuracy and completeness of information and opinions expressed in this report. Opinions expressed are current as of the original publication date appearing on the report only and the information, including the opinions contained herein, are subject to change without notice. FABS is under no obligation to update this report. The investments referred to in this report might not be suitable for all recipients. Recipients should not base their investment decisions on this report and should make their own investigations, and obtain independent advice, as appropriate. Any loss or other consequences arising from the uses of material contained in this report shall be the sole and exclusive responsibility of the recipient and FABS accepts no liability for any such loss or consequence. The value of any investment could fall as well as rise and the investor may receive less than the original amount invested. Some investments mentioned in this report might not be liquid investments, which could be difficult to realise in cash. Some investments discussed in this report could be characterised by high level of volatility, which might result in loss. FABS owns the intellectual property rights and any other material contained in this report. No part of this report may be reproduced, utilised or modified in any form either in whole or in part or by any electronic, mechanical or other means, now known or hereafter invented, including photocopying and recording, or stored in any retrieval system without the prior consent of FABS in writing. While utmost care has been taken to ensure that the information provided is accurate and correct, neither FABS, nor its employees shall, in any way, be responsible for the contents. By accepting this document, the recipient agrees he/she has read the above disclaimer and to be bound by the foregoing limitations/restrictions.

FAB Securities Awards



Best Brokerage House
in UAE 2016 & 2017
by "Banker Middle East"



Best Brokerage House in UAE
2016, 2017, 2019 and 2020
by "IFA"



Best Brokerage in the UAE
2016 By "Global Investor/
ISF ME Awards"



Best Research House
in UAE 2016 and 2020
by "IFA"



Best New Mobile Application
in UAE 2016
by "IFA"



Best Equity Finance Company
in UAE 2016
by "IFA"