

Commercial Bank International

Reversal of provision against NPLs supported profitability

1Q22 Net Profit beats our estimate

Commercial Bank International (CBI) has reported a significant increase in net profit from a loss of AED 96 Mn in 1Q21 to a profit of AED21 Mn in 1Q22, higher than our estimate of AED 17 Mn. This increase was mainly attributed to a decline in impairment charges, somewhat offset by a decline in funded and non-funded income.

P&L highlights

The Bank funded income including income from Islamic financing fell 2.3% YOY to AED 137 Mn in 1Q22 mainly due to pressure on asset yield. Funded Expenses increased rose 0.7% YOY to AED52 Mn in 1Q22 mainly due to increase in benchmark rates. Consequently, net funded income fell 5.3% YOY to AED 86 Mn in 1Q22. Fees and Commissions declined 31.5% YOY to AED 21 Mn in 1Q22. Whereas, the other operating income decreased to AED4 Mn in 1Q22 from AED 8 Mn in 1Q21. As a result, total non-funded income declined 34.9% YOY to AED 25 Mn in 1Q22. Therefore, total operating income was impacted due to the unfavorable outcome and declined 14.2% YOY to AED 111 Mn in 1Q22. Operating expenses decreased 10.7% YOY to AED70 Mn in 1Q22. Cost-to-income ratio fell rose from 61.2% in 1Q21 to 63.6% in 1Q22 due to decline in operating income. Impairment charges fell significantly from AED 147 Mn in 1Q21 to AED 20 Mn in 1Q22 due to recoveries of against loans written-off earlier.

Balance sheet highlights

Net Advances increased 15.5% YOY to AED 11.8 Bn in 1Q22. As a result, total Assets rose 30.6% YOY to AED 20.9 Bn. Similarly, customer deposits grew 27.7% YOY to AED12.7 Bn in 1Q22. While, the total equity increased 10.0% YOY to AED2.6 Bn in 1Q22.

Target price and rating

We revise our rating on CBI to SELL with target price of AED 0.80. CBI NPLs were showing early signs of stabilization post pandemic. However, NPLs rose from 17.9% in 4Q21 to 19.2% in 1Q22 mainly due to slippages in wholesale banking division. Coverage of stage 3 assets dipped marginally from 41.7% in 4Q21 to 39.8% in 1Q22. Although, the bank held collateral worth AED 2,179 Mn against NPLs in 4Q21 after including, collaterals NPLs will be fully covered against loss. However, falling net interest margin and low capitalization levels remain an area of concern for the bank. CBI CET 1 ratio stood at 10.7% in 1Q22 compared to regulatory requirement of 7.0%. Low capitalization might pressurize the bank to raise money through equity issuance diluting value for existing shareholders. Considering all these factors, we assign a SELL rating on the stock.

Rating : SELL

First Look Note – 1Q22

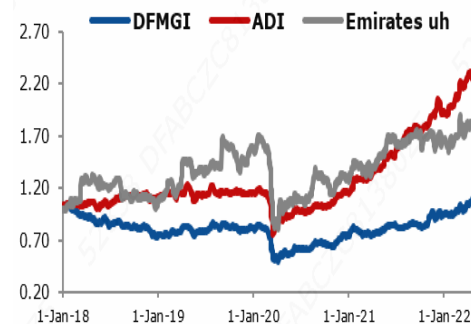
Sector: Banking

Recommendation

Current Price (27-Apr-22)	1.05
Target Price	0.80
Upside/Downside (%)	-27%

Stock Information

Market Cap (mm)	1,911.12
Paid Up Capital (mm)	1,737.38
52 Week High	1.10
52 Week Low	0.53
3M Avg. daily value (AED)	68,824



Financial Ratios

Dividend Yield (12m)	NA
Dividend Pay-out (%)	-
Price-Earnings Ratio (x)	7.62
Price-to-Book Ratio (x)	0.87
Book Value (AED)	1.21
Return-on Equity (%)	12.01
Earning Per Share (AED)	0.14
Beta	0.35

Stock Performance

5 Days	4.76%
1 Months	10.00%
3 Months	80.62%
6 Months	69.23%
1 Year	51.93%
Month to Date (MTD)	4.76%
Quarter to Date (QTD)	4.76%
Year to Date (YTD)	80.62%

CBI - Relative valuation

(at CMP)	2019	2020	2021	2022F
P/E (x)	16.43	NM	14.98	12.93
P/B (x)	0.74	0.75	0.72	0.68

FABS Estimates & Co Data
CBI - P&L

AED mm	1Q21	4Q21	1Q22A	1Q22F	Var.	YOY Ch	QOQ Ch	2021	2022F	Change
Funded income	129	131	126	144	-12.6%	-2.3%	-3.5%	513	645	25.7%
Income from Islamic financing and investing assets	13	12	11	12	-6.0%	-11.6%	-7.8%	50	52	4.4%
Funded expenses	-51	-47	-52	-51	0.5%	0.7%	10.8%	-178	-266	49.7%
Net funded income	90	96	86	105	-18.2%	-5.3%	-11.0%	376	430	14.5%
Fees and commissions	31	31	21	32	-34.1%	-31.5%	-31.2%	121	127	4.5%
Other operating income, net	8	84	4	8	-49.8%	-48.3%	-95.2%	133	77	-41.9%
Total non-funded income	39	115	25	40	-37.2%	-34.9%	-78.1%	255	204	-19.9%
Total operating income	129	211	111	145	-23.5%	-14.2%	-47.4%	631	634	0.6%
Operating expenses	-79	-74	-70	-87	-18.9%	-10.7%	-4.9%	-303	-310	2.5%
Pre provision profit	50	137	40	58	-30.4%	-19.6%	-70.5%	328	324	-1.2%
Impairment	-147	39	-20	-43	-54.4%	-86.7%	-150.1%	-197	-191	-3.3%
Non-controlling interests	-1	11	-1	-2	-69.1%	71.4%	-105.5%	9	-8	-191.1%
Net profit attributable	-96	165	21	17	26.9%	-122.1%	-87.1%	122	141	15.9%

FABS estimate & Co Data
CBI - P&L KPI

	1Q21	4Q21	1Q22	YoY Ch	QoQ Ch	2021	2022F	Change
Net FI/OI	70.1%	45.6%	77.3%	721	3,166	59.6%	67.8%	821
NIM	2.8%	2.6%	2.1%	-72	-47	2.5%	2.6%	6
NIS	2.6%	2.4%	2.0%	-66	-46	2.4%	2.4%	-2
Fees & comms/OI	23.9%	14.6%	19.1%	-481	450	19.2%	19.9%	74
Trading/OI	6.0%	39.8%	3.6%	-239	-3,616	21.2%	12.2%	-895
Cost to income	61.2%	35.2%	63.6%	246	2,845	48.0%	48.9%	93
Impairment/PPP	294.2%	-28.8%	48.8%	-24,535	7,760	60.2%	58.9%	-127
NP/OI	-74.5%	78.2%	19.2%	9,368	-5,900	19.3%	22.2%	293
ROAE	-5.6%	4.9%	9.4%	1,497	442	4.9%	5.4%	50
ROAA	-0.8%	0.6%	1.1%	196	51	0.6%	0.7%	3

FABS estimate & Co Data

CBI - Key BS Items

AED mm	1Q21	2Q21	3Q21	4Q21	1Q22	YOY Ch
Net advances	10,226	10,082	10,603	11,779	11,806	15.5%
<i>QOQ Change</i>	-1.4%	-1.4%	5.2%	11.1%	0.2%	
Total assets	15,970	17,053	17,495	20,774	20,858	30.6%
<i>QOQ Change</i>	-6.8%	6.8%	2.6%	18.7%	0.4%	
Customer deposits	9,929	10,670	10,236	12,574	12,675	27.7%
<i>QOQ Change</i>	-5.3%	7.5%	-4.1%	22.8%	0.8%	
Total equity	2,333	2,361	2,386	2,545	2,567	10.0%
<i>QOQ Change</i>	-6.3%	1.2%	1.1%	6.6%	0.9%	

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%

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