

Commercial Bank of Dubai

Strong growth in advances and favourable deposit mix benefited net line

Rating : ACCUMULATE

First Look Note – 1Q22

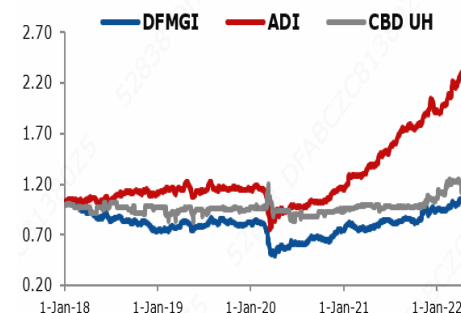
Sector: Banking

Recommendation

Current Price (10-May-22)	4.99
Target Price	5.60
Upside/Downside (%)	+12%

Stock Information

Market Cap (mm)	13,985.64
Paid Up Capital (mm)	2,802.73
52 Week High	5.60
52 Week Low	3.85
3M Avg. daily value (AED)	754,341



Financial Ratios

Dividend Yield (12m)	5.19
Dividend Pay-out (%)	38.64
Price-Earnings Ratio (x)	9.13
Price-to-Book Ratio (x)	1.30
Book Value (AED)	3.85
Return-on Equity (%)	14.69
Earning Per Share (AED)	0.55
Beta	0.28

Stock Performance

5 Days	-0.99%
1 Months	6.17%
3 Months	-0.20%
6 Months	21.71%
1 Year	22.60%
Month to Date (MTD)	-1.19%
Quarter to Date (QTD)	0.00%
Year to Date (YTD)	14.71%

1Q22 Net Profit exceeded our estimate

Commercial Bank of Dubai (CBD) recorded a significant increase in net profit to AED 431 Mn in 1Q22 compared to AED 325 million in 1Q21, exceeding our estimate of AED 357 Mn in 1Q21. This increase was primarily due to significant increase operating income and decline in provisions along with rise in recoveries partially offset by higher operating expenses .

P&L highlights

Commercial Bank of Dubai (CBD) funded income rose 9.5% YoY to AED 693 million in 1Q22. It was mainly driven due robust growth in interest-bearing assets by 16.9% YoY, partially offset by decline in assets yield. Funded expenses fell 4.3% YoY to AED 150 million in 1Q22 due to favorable deposit mix. Resultantly, net funded income grew 14.1% YoY to AED 543 million in 1Q22. Similarly, non-funded income grew 23.8% YoY to AED 312 million in 1Q22 mainly due to increase in income from fee and commission income, trading income and other non-funded income. Fee and commission income rose significantly by 22.1% YoY to AED 222 million in 1Q22 due to uplift in business activity associated with higher volumes across all segments. Thus, net operating income grew 17.4% YoY to AED 856 million in 1Q22, up from AED 729 million in 1Q21. Furthermore, the bank's operating expenses grew 20.5% YoY to AED 236 million mainly driven by increased of bank's investment in digitization, risk management, government initiatives and increased compliance cost and incentives associated with improved performance. This led to increase in cost-to-income ratio which rose to 27.6% in 1Q22 from 26.9% in 1Q21. Impairment charges rose 8.7% YoY to AED 223 million in 1Q22, partially offset by increase in recoveries which stood at AED 49 million in 1Q22 compared to AED 8 Mn in 1Q21, leading to a decline in net impairment charges by AED 24 million .

Balance sheet highlights

The balance sheet of CBD stood strong with Net Assets of AED 119 billion recording solid growth of 4.2% on QoQ basis. Net Advances grew 2.9% QoQ basis to AED 77 billion in 1Q22. Customer deposits stood at AED 83 billion which increased marginally by 0.1% QoQ. CASA deposits represented 46.8% of total customer deposits, totalled AED 38 billion in 1Q22. Total equity of bank declined by 4.2% QoQ to AED 13 billion .

Target price and rating

We maintain our ACCUMULATE rating on Commercial Bank of Dubai with a target price of AED 5.60. CBD NIMs rose 3 basis point (bps) QOQ to 2.2% during 1Q22 due to a favorable deposit mix. We anticipate NIM is further expected to benefit by 6 bps to 2.3% during FY2022 due to the replacement of high-cost deposits and positive interest rate sensitivity gap as reported by the bank in FY2021. CASA ratio stood at 46.8% during 1Q22 compared to 45.2% during 4Q21. The bank continues to experience strong growth in advances and expects to grow further supported led by a rebound in economic activity. Additionally, asset quality is also anticipated to remain stable in 2022 given the improving macroeconomic outlook. Provision coverage ratio is enough to cover for loan losses in the near-term. However, capitalisation is only adequate for the time being as loan growth exceeded internal cash generation historically requiring CBD to look for an external source of funding. The bank CET 1 ratio stood at 12.0% during 1Q22 just enough for the time being and might need to raise capital in the near term. Considering all these factors, we assign ACCUMULATE rating on the stock.

CBD - Relative valuation

(at CMP)	2018	2019	2020	2021	2022F
P/E (x)	12.2	10.0	12.5	10.6	6.7
P/B (x)	1.5	1.4	1.3	1.2	1.1
Dividend Yield (%)	4.1%	4.1%	4.0%	5.2%	5.2%

FABS Estimates & Co Data

CBD - P&L

AED mm	1Q21	4Q21	1Q22A	1Q22F	Var.	YOY Ch	QOQ Ch	2021	2022F	Change
Funded income	633	657	693	756	-8.3%	9.5%	5.5%	2,689	3,057	13.7%
Funded expense	-157	-146	-150	-174	-13.7%	-4.3%	2.3%	-611	-720	17.8%
Net funded income	476	510	543	582	-6.7%	14.1%	6.5%	2,078	2,337	12.5%
Fees and commissions	182	199	222	207	6.9%	22.1%	11.2%	742	880	18.6%
Trading income	63	65	79	0	NM	24.7%	20.9%	288	242	-16.1%
Other non-funded income	8	16	12	16	-26.9%	55.7%	-25.4%	63	67	6.3%
Total non-funded income	252	280	312	223	39.8%	23.8%	11.4%	1,094	1,189	8.7%
Total operating income	729	791	856	806	6.2%	17.4%	8.2%	3,171	3,526	11.2%
General and administrative expenses	-189	-233	-228	-238	-4.2%	20.6%	-2.3%	-835	-923	10.5%
Depreciation and amortization	-7	-8	-8	-8	2.4%	17.6%	2.4%	-30	-32	7.8%
Operating Expenses	-196	-241	-236	-246	-4.0%	20.5%	-2.1%	-865	-955	10.4%
Pre provision profit	533	550	620	560	10.7%	16.3%	12.7%	2,306	2,571	11.5%
Impair allow. on loans & adv and Islamic fin	-205	-214	-223	-203	9.9%	8.7%	4.2%	-902	-837	-7.2%
Recoveries	8	50	49	0	NM	530.1%	-2.3%	75	55	-26.6%
Impairment allowances on AFS investment	-12	-15	-18	0	NM	44.2%	18.8%	-41	-39	-4.6%
Share of profit of assoc	2	4	3	0	NM	51.6%	-22.8%	12	10	-13.3%
Net profit	325	375	431	357	20.9%	32.7%	15.0%	1,451	1,760	21.3%

FABS Estimates & Co Data

CBD - P&L KPI

	1Q21	4Q21	1Q22A	YOY Ch	QQQ Ch	2021	2022F	Change
Net FI/OI	65.4%	64.5%	63.5%	-187	-104	65.5%	66.3%	76
NIM	2.3%	2.1%	2.2%	-15	3	2.3%	2.3%	6
NIS	2.3%	2.1%	2.1%	-16	3	2.2%	2.3%	7
Fees & comms/OI	24.9%	25.2%	25.9%	99	69	23.4%	25.0%	156
Trading/OI	8.7%	8.3%	9.2%	54	97	9.1%	6.9%	-223
Cost to income	26.9%	30.5%	27.6%	70	-291	27.3%	27.1%	-19
Impairment/PPP	39.4%	32.5%	30.9%	-847	-159	37.6%	31.9%	-568
NP/OI	44.6%	47.4%	0.0%	-4461	-4745	37.7%	45.7%	805
ROAE	12.3%	13.4%	15.6%	329	220	13.1%	14.5%	139
ROAA	1.3%	1.4%	1.5%	18	13	1.4%	1.9%	53

FABS Estimates & Co Data
CBD- Key BS Items

AED mm	1Q21	2Q21	3Q21	4Q21	1Q22A	YOY Ch
Net advances	69,598	74,044	74,898	76,441	78,687	13.1%
<i>QoQ change</i>	6.6%	6.4%	1.2%	2.1%	2.9%	
Total assets	1,02,471	1,12,767	1,07,752	1,14,213	1,19,036	16.2%
<i>QoQ change</i>	5.2%	10.0%	-4.4%	6.0%	4.2%	
Customer deposits	70,902	79,820	75,812	82,722	82,808	16.8%
<i>QoQ change</i>	1.7%	12.6%	-5.0%	9.1%	0.1%	
Total shareholders' equity	10,419	12,966	13,275	13,567	12,996	24.7%
<i>QoQ change</i>	-19.6%	24.4%	2.4%	2.2%	-4.2%	

FABS estimate & Co Data

FAB Securities Awards



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Best Brokerage in the UAE
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by "IFA"



Best New Mobile Application
in UAE 2016
by "IFA"



Best Equity Finance Company
in UAE 2016
by "IFA"