

Abu Dhabi Commercial Bank

Solid loan growth and higher non-funded income supported profitability

1Q23 Net Profit higher than our estimate

Abu Dhabi Commercial Bank's ("ADCB", "The Bank") net profit rose 26.7% YOY to AED 1,879 Mn in 1Q23, higher than our estimate of AED 1,766 Mn. The increase in net profit is primarily driven by a strong growth in net funded which grew due to increase in loan growth and higher interest rates, partially offset by a rise in operating expenses and impairments.

P&L highlights

ADCB's funded income including interest income and income from Islamic financing grew significantly from AED 2,751 Mn in 1Q22 to AED 6,097 Mn in 1Q23. The increase in funded income was mainly driven by healthy growth in advances and an increase in asset yield. Net advances rose 7.2% YOY to AED 264 Bn in 1Q23. Asset yield rose 19 bps QOQ to 5.5% in 1Q23. Funded expenses rose significantly from AED 604 Mn in 1Q22 to AED 3,245 Mn in 1Q23 due to higher benchmark rates. Thus, net funded income rose 32.8% YOY to AED 2,851 Mn in 1Q23. NIMs declined 9 bps QOQ to 2.6% in 1Q23 owing to higher interest in suspense reversals recorded in 4Q22. Fees and commission income grew 9.4% YOY to AED 533 Mn in 1Q23 mainly due to a growth in trade finance commission and others partially offset by a decline in net card-related fees and loan processing fees. Net trading income rose significantly from AED 117 Mn in 1Q22 to AED 455 Mn in 1Q23 mainly due to higher gains from derivatives, foreign exchange, and financial assets at fair value through profit or loss (FVTPL). Resultantly, total non-funded income grew 34.4% YOY to AED 1,061 Mn in 1Q23. Thus, total operating income rose 33.3% YOY to AED 3,912 Mn in 1Q23. The Bank's operating expenses grew from AED 1,118 Mn in 1Q22 to AED 1,231 Mn in 1Q23 primarily due to high marketing expenses, higher commission to Retail and SME agents for growth in sales volumes, and investments in digital technology. Consequently, the cost-to-income ratio improved from 38.1% in 1Q22 to 31.5% in 1Q23 in line with its medium-term guidance. Impairments grew significantly from AED 294 Mn in 1Q22 to AED 748 Mn in 1Q23 mainly due to a significant release in 1Q22 as the UAE economy rebounded from the global pandemic. However, the impairments declined 37.3% QOQ mainly on account of higher provisioning in 4Q22 due to a couple of corporate accounts. Share of profit of associates declined from AED 2 Mn in 1Q22 to AED 1 Mn in 1Q23. Tax expenses rose from AED 29 Mn in 1Q22 to AED 55 Mn in 1Q23.

Balance Sheet highlights

ADCB recorded strong growth in the balance sheet as total assets rose 12.5% YOY to AED 501.4 Bn in 1Q23. Net advances grew 7.2% YOY and 1.9% QOQ to AED 263.5 Bn in 1Q23. The increase in net financing was primarily due to AED 20 Bn in new credit provided to corporate across a variety of economic sectors. In addition, ADCB received AED 15 Bn in repayments in 1Q23. The Bank's investment securities rose 22.0% YOY to AED 118.0 Bn in 1Q23 with 57.0% accounted at amortized cost and 43.0% at FVTOCI marked to market on a daily basis. Customer deposits witnessed a robust growth of 18.6% YOY to AED 310.5 Bn in 1Q23. The Bank's CASA deposits increased AED 5.0 Bn to AED 158 Bn in 1Q23. CASA deposits now account for 51.0% of total deposits. In addition, ADCB's total equity rose 7.7% YOY to AED 61.7 Bn in 1Q23.

Rating : BUY

First Look Note – 1Q23

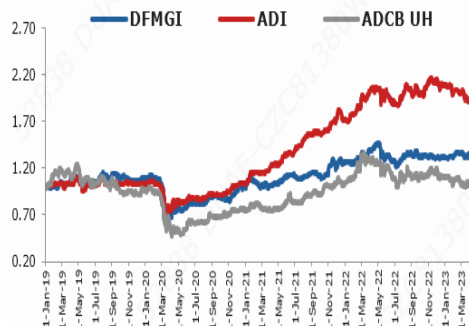
Sector: Banking

Recommendation

| | |
|---------------------------|-------|
| Current Price (24-Apr-23) | 8.75 |
| Target Price (AED) | 11.00 |
| Upside/Downside (%) | +26% |

Stock Information

| | |
|---------------------------|------------|
| Market Cap (mm) | 64,342.33 |
| Paid Up Capital (mm) | 7,319.95 |
| 52 Week High | 10.15 |
| 52 Week Low | 7.63 |
| 3M Avg. daily value (AED) | 26,746,140 |



Financial Ratios

| | |
|--------------------------|-------|
| Dividend Yield (12m) | 2.00 |
| Dividend Pay-out (%) | 60.23 |
| Price-Earnings Ratio (x) | 9.70 |
| Price-to-Book Ratio (x) | 1.15 |
| Book Value (AED) | 7.62 |
| Return-on Equity (%) | 12.25 |
| Earning Per Share (AED) | 0.91 |
| Beta | 1.00 |

Stock Performance

| | |
|-----------------------|---------|
| 5 Days | 0.00% |
| 1 Months | 8.29% |
| 3 Months | 4.26% |
| 6 Months | 1.63% |
| 1 Year | -10.04% |
| Month to Date (MTD) | 5.90% |
| Quarter to Date (QTD) | 5.90% |
| Year to Date (YTD) | 2.76% |

Target price and rating

We maintain our BUY rating on Abu Dhabi Commercial Bank (ADCB) with a target price of AED 11.00. ADCB recorded a strong growth in net advances which rose 2% QOQ across multiple sectors in UAE. It further expects the loan growth to remain in mid-single digit in FY2023. The Bank's Cards business, personal and auto loans, and mortgages grew 11.0% YOY, demonstrating solid consumer sentiment. Floating rate loans accounted for 74.0% of total loans in 1Q23. ADCB further expects its credit growth to remain solid in 2023 underpinned by its strong credit pipeline. Although the NIMs declined in 1Q23 due to higher interest in suspense reversals recorded in 4Q22. However due to rise in CASA deposits to positively benefit the NIMs going forward. Non-funded income continues to benefit from the introduction of new products such as 365 Cashback Card receiving healthy response in the first month. Asset quality moderated from 5.25% in 4Q22 to 5.42% in 1Q23, while the stage 2 loans decreased from AED 16.6 Bn in 4Q22 to AED 16.0 Bn in 1Q23. Provision coverage remain healthy at 92.4% in 1Q23 providing additional buffer against rise in NPLs. Coverage including collaterals stood at 143% in 1Q23 as compared to 144% in 4Q22. The Bank's capitalization stood healthy with a CET 1 ratio of 12.9% and CAR of 15.7% in 1Q23, above the regulatory limits. Furthermore, the ADCB Egypt also delivered a strong performance with net profit increasing 92.0% YOY to EGP 363 Mn in 1Q23. Net loans grew 3% QOQ to EGP 31.0 Bn in 1Q23. While customer deposits increased 2.0% QOQ to EGP 77.0 Bn in 1Q23. ADCB has been distributed a cash dividends of AED 18 fils with 2% dividend yield, in addition to 5.211% bonus shares. Thus, based on our analysis, we assign a BUY rating.

ADCB- Relative valuation

| (at CMP) | 2018 | 2019 | 2020 | 2021 | 2022 | 2023F |
|--------------------|-------|-------|-------|-------|-------|-------|
| PE | 13.73 | 14.16 | 18.15 | 12.64 | 10.24 | 9.24 |
| PB | 1.83 | 1.29 | 1.27 | 1.20 | 1.16 | 1.06 |
| Dividend Yield (%) | 5.3% | 4.3% | 3.1% | 4.2% | 2.0% | 4.6% |

FABS Estimates & Co Data

ADCB - P&L

| AED mm | 1Q22 | 4Q22 | 1Q23 | 1Q23F | Var. | YOY Ch | QOQ Ch | 2022 | 2023F | Change |
|-----------------------------|--------------|--------------|--------------|--------------|--------------|--------------|---------------|---------------|---------------|--------------|
| Funded income | 2,751 | 5,809 | 6,097 | 5,942 | 2.6% | 121.6% | 5.0% | 16,417 | 24,377 | 48.5% |
| Funded expense | -604 | -2,891 | -3,245 | -3,118 | 4.1% | 437.0% | 12.3% | -6,223 | -13,046 | 109.6% |
| Net funded income | 2,146 | 2,918 | 2,851 | 2,824 | 1.0% | 32.8% | -2.3% | 10,194 | 11,332 | 11.2% |
| Fees & commissions | 487 | 620 | 533 | 466 | 14.3% | 9.4% | -14.1% | 2,110 | 2,195 | 4.0% |
| Other operating income | 302 | 865 | 528 | 490 | 7.8% | 74.7% | -39.0% | 2,040 | 1,841 | -9.7% |
| Non-funded income | 789 | 1,486 | 1,061 | 956 | 11.0% | 34.4% | -28.6% | 4,151 | 4,036 | -2.8% |
| Operating income | 2,936 | 4,403 | 3,912 | 3,780 | 3.5% | 33.3% | -11.2% | 14,344 | 15,368 | 7.1% |
| Operating expenses | -1,118 | -1,302 | -1,231 | -1,210 | 1.8% | 10.2% | -5.5% | -4,888 | -4,918 | 0.6% |
| Pre-provision profit | 1,818 | 3,101 | 2,681 | 2,570 | 4.3% | 47.4% | -13.6% | 9,456 | 10,450 | 10.5% |
| Impairments | -294 | -1,193 | -748 | -762 | -1.9% | 154.2% | -37.3% | -2,779 | -3,089 | 11.2% |
| Operating profit | 1,524 | 1,908 | 1,933 | 1,808 | 6.9% | 26.8% | 1.3% | 6,677 | 7,361 | 10.2% |
| Share of profit of assoc. | 2 | -4 | 1 | -4 | -119.6% | NM | -119.6% | -8 | -8 | 0.0% |
| Profit before tax | 1,526 | 1,904 | 1,934 | 1,804 | 7.2% | 26.7% | 1.6% | 6,669 | 7,352 | 10.3% |
| Overseas tax expense | -29 | -29 | -55 | -40 | 39.6% | 92.8% | 88.4% | -135 | -140 | 3.4% |
| Loss from discount oper | -14 | -90 | 0 | 0 | NM | NM | NM | -100 | -100 | 0.0% |
| NCI | 0 | 2 | 1 | 2 | -65.2% | NM | -65.2% | 2 | 2 | 0.0% |
| Net Profit | 1,484 | 1,786 | 1,879 | 1,766 | 6.4% | 26.7% | 5.2% | 6,435 | 7,114 | 10.6% |

FABS Estimates & Co Data

ADCB - P&L KPI

| | 1Q22 | 4Q22 | 1Q23 | YOY Ch | QOQ Ch | 2022 | 2023F | Change |
|---------------------|-------|-------|-------|--------|--------|-------|-------|--------|
| Net FI/OI | 73.1% | 66.3% | 72.9% | -23 | 662 | 71.1% | 73.7% | 267 |
| NIM | 2.1% | 2.7% | 2.6% | 43 | -9 | 2.4% | 2.5% | 9 |
| NIS | 2.0% | 2.3% | 2.1% | 10 | -16 | 2.2% | 2.1% | -9 |
| Fees & comms/OI | 16.6% | 14.1% | 13.6% | -298 | -47 | 14.7% | 14.3% | -43 |
| Other non-funded/OI | 10.3% | 19.7% | 13.5% | 320 | -615 | 14.2% | 12.0% | -224 |
| Cost to income | 38.1% | 29.6% | 31.5% | -660 | 190 | 34.1% | 32.0% | -208 |
| Impairment/PPP | 16.2% | 38.5% | 27.9% | 1171 | -1057 | 29.4% | 29.6% | 17 |
| Tax/PBT | 1.9% | 1.5% | 2.9% | 98 | 132 | 2.0% | 1.9% | -13 |
| NP/OI | 50.5% | 40.6% | 48.0% | -250 | 747 | 44.9% | 46.3% | 143 |
| ROAE | 10.7% | 11.9% | 12.3% | 158 | 40 | 11.8% | 12.3% | 48 |
| ROAA | 1.3% | 1.7% | 2.7% | 147 | 100 | 1.4% | 1.4% | 3 |

FABS Estimates & Co Data

ADCB- Key BS Items

| AED mm | 1Q22 | 2Q22 | 3Q22 | 4Q22 | 1Q23 | YOY Ch |
|--------------------------|---------|---------|---------|---------|---------|--------|
| Net advances | 245,797 | 242,913 | 251,202 | 258,493 | 263,533 | 7.2% |
| QOQ Change | 0.6% | -1.2% | 3.4% | 2.9% | 1.9% | |
| Total assets | 445,677 | 476,093 | 486,365 | 497,842 | 501,423 | 12.5% |
| QOQ Change | 1.2% | 6.8% | 2.2% | 2.4% | 0.7% | |
| Customer deposits | 261,891 | 292,262 | 302,262 | 308,931 | 310,587 | 18.6% |
| QOQ Change | -1.2% | 11.6% | 3.4% | 2.2% | 0.5% | |
| Total equity | 57,352 | 57,866 | 58,869 | 61,426 | 61,767 | 7.7% |
| QOQ Change | -3.4% | 0.9% | 1.7% | 4.3% | 0.6% | |

FABS estimate & Co Data

Valuation:

We use 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 | 11.87 | 70.0% | 8.31 |
| Relative Valuation | 8.97 | 30.0% | 2.69 |
| Weighted Average Valuation (AED) | | | 11.00 |
| Current market price (AED) | | | 8.75 |
| Upside/Downside (%) | | | 25.71% |

1) Residual Income Method:

We have discounted the economic profit/excess equity using the cost of equity of 8.3%. Cost of equity is calculated by using 10-year government bond yield of 4.3%, beta of 1.0 and an equity risk premium of 3.9%. 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) | 6,903 |
| Terminal value (AED, Mn) | 24,256 |
| Book Value of equity (as of March 2023) | 55,760 |
| FV to Common shareholders (AED, Mn) | 86,919 |
| No. of share (Mn) | 7,320 |
| Current Market Price (AED) | 8.75 |
| Fair Value per share (AED) | 11.87 |

Residual Income Method

| (All Figures in AED Mn) | FY 2023E | FY 2024E | FY 2025E | FY 2026E | FY 2027E |
|---------------------------------------|--------------|--------------|--------------|--------------|--------------|
| Net Profit | 6,694 | 6,409 | 6,476 | 7,486 | 7,888 |
| (-) Equity charge | (4,983) | (4,775) | (5,048) | (5,870) | (5,721) |
| Excess Equity | 1,712 | 1,634 | 1,428 | 1,616 | 2,167 |
| Discounting Factor | 0.95 | 0.87 | 0.81 | 0.75 | 0.69 |
| Present Value of Excess Equity | 1,621 | 1,429 | 1,154 | 1,206 | 1,493 |

2) Relative Valuation:

We have used local peers to value ADCB and it is valued using the PB multiple. It is valued at PB multiple of 1.1x in line with peers.

| Company | Market (USD Mn) | P/B (x) | | PE (x) | | Dividend Yield (%) | |
|---------------------------|--------------------|-------------|-------------|--------------|--------------|--------------------|-------------|
| | | 2023 | 2024 | 2023 | 2024 | 2023 | 2024 |
| Dubai Islamic Bank | 10,555 | 1.1 | 1.0 | 7.4 | 7.6 | 6.1% | 6.2% |
| FIRST ABU DHABI BANK PJSC | 40,217 | 1.3 | 1.2 | 11.2 | 11.3 | 4.1% | 4.3% |
| ABU DHABI ISLAMIC BANK | 10,748 | 2.0 | 1.9 | 10.6 | 11.1 | 5.1% | 4.9% |
| EMIRATES NBD PJSC | 22,805 | 0.8 | 0.8 | 5.3 | 5.7 | 5.2% | 5.2% |
| MASHREQ BANK | 6,555 | 1.0 | 0.9 | 7.8 | 7.6 | 5.0% | 5.8% |
| Average | | 1.2x | 1.2x | 8.5x | 8.7x | 5.1% | 5.3% |
| Median | | 1.1x | 1.0x | 7.8x | 7.6x | 5.1% | 5.2% |
| Max | | 1.3x | 1.2x | 10.6x | 11.1x | 5.2% | 5.8% |
| Min | | 1.0x | 0.9x | 7.4x | 7.6x | 5.0% | 4.9% |

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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