

## Commercial Bank International (CBI)

Impairment reversals and lower expenses supported profitability

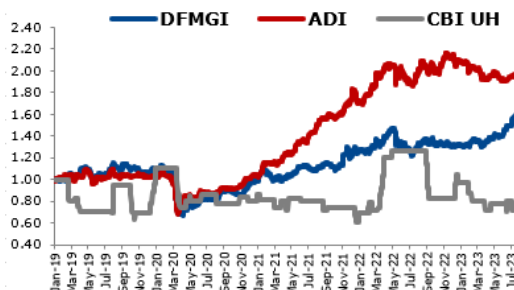
**Current Price**  
AED 0.61

**Target Price**  
AED 0.80

**Upside/Downside (%)**  
+31%

**Rating**  
BUY

- CBI's net profit rose significantly by 37.5% YOY to AED 77 Mn in 1H23 due to a rise in non-funded income and impairment reversals.
- The Bank's customer deposits grew 1.3% YOY in 2Q23 while Islamic customer deposits grew from AED 806 Mn in 2Q22 to AED 951 Mn in 2Q23
- CBI recorded a reversal in impairments charge of AED 1 Mn in 2Q23 compared to an impairment charge of AED 39 Mn in 2Q22 due to improvement in the economic environment
- The Bank's capitalization improved with a CAR of 14.7% in 2Q23 as compared to 14.1% in 2Q22 and CET 1 capital of 10.8% in 2Q23 as compared to 10.0% in 2Q22.



### 2Q23 Net Profit higher than our estimate

Commercial Bank International's ("CBI"/ "The Bank") net profit grew from AED 35 Mn in 2Q22 to AED 45 Mn in 2Q23, higher than our estimate of AED 35 Mn. The rise in net profit was driven by an increase in non-funded income and a reversal in provisioning expenses partially offset by a decline in net funded income.

### P&L Highlights

CBI's funded income increased from AED 169 Mn in 2Q22 to AED 240 Mn in 2Q23 while income from Islamic financing and investment assets also rose from AED 10 Mn in 2Q22 to AED 20 Mn in 2Q23. The increase is mainly driven by increase in net advances and higher asset yield. Net advances rose 2.1% YOY to AED 12.3 Bn in 2Q23. While asset yield rose 25 bps QOQ to 6.1% in 2Q23. Funded expenses rose significantly from AED 51 Mn in 2Q22 to AED 173 Mn in 2Q23 due to an increase in the cost of funds driven by higher benchmark rates. CBI's cost of funds grew 61 bps QOQ to 4.7% in 2Q23. Thus, net funded income declined 31.8% YOY to AED 87 Mn in 2Q23. NIMs declined 115 bps QOQ and 25 bps YOY to 2.1% in 2Q23. Fees and commission income declined marginally 1.6% YOY to AED 25 Mn in 2Q23. Other operating income rose from AED 4 Mn in 2Q22 to AED 10 Mn in 2Q23 due to an increase in foreign exchange gain and net gain on financial assets at FVPTL. Thus, non-funded income grew 18.0% YOY to AED 35 Mn in 2Q23. Resultantly, total operating income declined 22.5% YOY to AED 122 Mn in 2Q23. Operating expenses declined 7.3% YOY to AED 78 Mn in 2Q23. Resultantly, the cost-to-income ratio improved from 79.1% in 1Q23 to 64.0% in 2Q23. The Bank recorded a reversal in impairments of AED 1 Mn in 2Q23 compared to impairments charge of AED 39 Mn in 2Q22. Share of profit attributable to non-controlling interest holders stood at AED 0.25 Mn in 2Q23 compared to a profit of AED 0.6 Mn in 2Q22.

### Stock Information

Market Cap (AED, mm)	1,059.80
Paid Up Capital (mm)	1,737.38
52 Week High	1.10
52 Week Low	0.57
3M Avg. daily value (AED)	3,543

### 2Q23 Result Review (AED, mm)

Total Assets	19,460
Total Liabilities	16,682
Total Equity	2,778
Total Deposits	11,418
Net Profit	45

### Financial Ratios

Dividend Yield (12m)	N/A
Dividend Pay-out (%)	0.00
Price-Earnings Ratio(x)	7.64
Price-to-Book Ratio (x)	0.48
Book Value (AED)	1.27
Return-on Equity (%)	6.46

### Stock Performance

5 Days	-1.61%
1 Months	-1.61%
3 Months	-10.29%
6 Months	-12.86%
1 Year	-44.55%
Month to Date (MTD%)	-1.61%
Quarter to Date (QTD%)	-12.23%
Year to Date (YTD%)	-28.15%

## Balance Sheet Highlights

CBI's total assets grew 2.0% YOY to AED 19.5 Bn in 2Q23. Net advances grew 2.1% YOY to AED 12.3 Bn in 2Q23. Customer deposits grew 1.3% YOY to AED 11.4 Bn in 2Q23 while it fell 8.3% QOQ in 2Q23. The loan-to-deposit ratio increased from 97.5% in 1Q23 to 107.5% in 2Q23. While the Bank's total equity rose 6.8% YOY to AED 2.8 Bn in 2Q23.

## Target Price and Rating

We maintain our BUY rating on CBI with a target price of AED 0.80. The Bank witnessed a robust performance with net profit growth of 37.5% YOY to AED 77 Mn in 1H23 primarily due to higher non-funded income and a decline in impairment on account of improving asset quality. CBI's net advances grew marginally 2.1% YOY and 1.0% QOQ to AED 12.3 Bn in 2Q23, mainly due to growth in Islamic financing partially offset by a decline in non-Islamic loans and advances. While, asset yield improved 161 bps YOY and 25 bps QOQ to 6.1% in 2Q23. Despite this, NIMs declined 115 bps YOY and 25 bps QOQ to 2.1% in 2Q23 mainly due to increase in cost of funds. However, the improvement in the Bank's CASA deposits grew from 23.1% in 1Q23 to 23.5% in 2Q23 will support the margins. Customer deposits also witnessed a marginal growth of 1.3% YOY in 2Q23 mainly due to a growth in the Bank's Islamic customer deposits. Islamic customer deposits grew from AED 806 Mn in 2Q22 to AED 951 Mn in 2Q23. CBI's operating expenses declined 7.3% YOY and 33.0% QOQ resulting an improvement in cost-to-income ratio. CBI recorded a reversal in impairments charge of AED 1 Mn in 2Q23 compared to an impairment charge of AED 39 Mn in 2Q22 indicating an improvement in Bank's credit risk. Furthermore, the bank's asset quality improved marginally 18.0% in 1Q23 to 17.9% in 2Q23. The Stage 2 loans rose marginally from 10.7% in 1Q23 to 10.8% in 2Q23. However, the coverage ratio improved from 29.3% in 1Q23 to 30.2% in 2Q23 which will provide cushion against bad loans going forward. CBI held collateral worth AED 1,989.0 Mn against the impaired loans in 4Q22 enough to cover nonperforming loans. The bank was also able to maintain healthy capitalization as its CET 1 ratio stood at 10.8% and total CAR ratio at 14.7% in 2Q23. Thus, considering the above-mentioned factors, we assign a BUY rating on the stock.

### CBI - Relative valuation

(at CMP)	2018	2019	2020	2021	2022	2023F
PE	5.48	9.08	NM	8.70	9.04	6.85
PB	0.55	0.53	0.54	0.51	0.50	0.47

FABS Estimates & Co Data

### CBI - P&L

AED mm	2Q22	1Q23	2Q23	2Q23F	Var.	YOY Ch	QOQ Ch	2022	2023F	Change
Funded income	169	243	240	251	-4.4%	42.5%	-1.2%	654	1,076	64.4%
Income from Islamic fin & invt assets	10	16	20	17	17.3%	93.1%	29.7%	46	66	42.7%
Funded expenses	-51	-157	-173	-151	14.7%	239.6%	10.2%	-262	-639	143.3%
<b>Net funded income</b>	<b>128</b>	<b>102</b>	<b>87</b>	<b>118</b>	<b>-25.7%</b>	<b>-31.8%</b>	<b>-14.1%</b>	<b>398</b>	<b>450</b>	<b>13.2%</b>
Fees and commissions	25	31	25	32	-20.9%	-1.6%	-19.3%	101	132	30.0%
Other operating income, net	4	15	10	12	-17.9%	NM	-34.3%	104	52	-50.0%
<b>Total non-funded income</b>	<b>30</b>	<b>46</b>	<b>35</b>	<b>44</b>	<b>-20.1%</b>	<b>18.0%</b>	<b>-24.2%</b>	<b>205</b>	<b>184</b>	<b>10.5%</b>
<b>Total operating income</b>	<b>158</b>	<b>148</b>	<b>122</b>	<b>161</b>	<b>-24.2%</b>	<b>-22.5%</b>	<b>-17.2%</b>	<b>603</b>	<b>634</b>	<b>5.2%</b>
Operating expenses	-84	-117	-78	-109	-28.1%	-7.3%	-33.0%	-328	-406	23.8%
<b>Pre provision profit</b>	<b>73</b>	<b>31</b>	<b>44</b>	<b>52</b>	<b>-16.0%</b>	<b>-39.9%</b>	<b>42.2%</b>	<b>275</b>	<b>228</b>	<b>17.0%</b>
Impairment	-39	3	1	-15	-105.8%	-102.3%	NM	-125	-66	-46.7%
Non-controlling interests	-1	1	0	2	-87.4%	NM	-79.2%	33	7	-78.9%
<b>Net Profit</b>	<b>35</b>	<b>33</b>	<b>45</b>	<b>35</b>	<b>26.8%</b>	<b>27.2%</b>	<b>35.9%</b>	<b>117</b>	<b>155</b>	<b>32.0%</b>

FABS estimate & Co Data

**CBI – P&L KPI**

	2Q22	1Q23	2Q23	YOY Ch	QOQ Ch	2022	2023F	Change
Net FI/OI	81.3%	68.9%	71.5%	-976	262	66.0%	71.1%	506
NIM	3.2%	2.3%	2.1%	-115	-25	2.3%	2.4%	8
NIS	3.1%	1.9%	1.6%	-151	-32	2.1%	2.1%	1
Fees & comms/OI	16.1%	21.0%	20.5%	434	-53	16.8%	20.8%	397
Trading/OI	2.6%	10.1%	8.0%	542	-208	17.2%	8.2%	-903
Cost-to-income	53.6%	79.1%	64.0%	1047	-1,503	54.4%	64.0%	963
Impairment/PPP	53.0%	-10.1%	-2.0%	-5497	807	45.3%	29.1%	-1620
NP/OI	22.2%	22.2%	36.5%	1425	1,426	19.4%	24.4%	497
ROAE	12.2%	7.6%	8.0%	-428	34	5.6%	7.0%	150
ROAA	1.3%	0.8%	0.9%	-39	9	0.6%	0.7%	15

FABS estimate & Co Data

**CBI – Key BS Items**

AED mm	2Q22	3Q22	4Q22	1Q23	2Q23	YOY Ch
<b>Net advances</b>	12,024	13,034	12,924	12,150	12,273	2.1%
QOQ Change	1.8%	8.4%	-0.8%	-6.0%	1.0%	
<b>Total assets</b>	19,088	20,622	21,167	19,681	19,460	2.0%
QOQ Change	-8.5%	8.0%	2.6%	-7.0%	-1.1%	
<b>Customer deposits</b>	11,268	12,216	12,200	12,457	11,418	1.3%
QOQ Change	-11.1%	8.4%	-0.1%	2.1%	-8.3%	
<b>Total equity</b>	2,532	2,543	2,595	2,628	2,673	5.6%
QOQ Change	-1.4%	0.4%	2.1%	1.3%	1.7%	

FABS estimate & Co Data

## Valuation:

We use Residual Income and Relative Valuation (RV) method to value CBI. We have assigned 70% weight to Residual Income, and 30% to RV method.

Valuation Method	Target	Weight	Weighted Value
Residual Income	0.83	70.0%	0.58
Relative Valuation (RV)	0.72	30.0%	0.22
<b>Weighted Average Valuation (AED)</b>			<b>0.80</b>
Current market price (AED)			0.61
Upside/Downside (%)			+31%

### 1) Residual Income Method:

We have discounted the economic profit/excess equity using the cost of equity of 7.7%. The cost of equity is calculated using a 10-year government bond yield of 4.5%, a beta of 0.9, and an equity risk premium of 3.5%. 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)	-131
Terminal value (AED, Mn)	-636
Book value of equity (as of June 2023)	2,214
<b>FV to Common shareholders (AED, Mn)</b>	<b>1,448</b>
No. of share (Mn)	1,737
Current Market Price (AED)	0.61
<b>Fair Value per share (AED)</b>	<b>0.83</b>

### Residual Income Method

(All Figures in AED Mn)	FY 2023E	FY 2024E	FY 2025E	FY 2026E	FY 2027E
Net Income	155	172	163	165	176
(-) Equity Charge	-173	-186	-198	-211	-224
<b>Excess Equity</b>	<b>-18</b>	<b>-14</b>	<b>-36</b>	<b>-46</b>	<b>-49</b>
Discounting Factor	0.97	0.90	0.84	0.78	0.72
<b>Present Value of Excess Equity</b>	<b>-17</b>	<b>-12</b>	<b>-30</b>	<b>-36</b>	<b>-35</b>

Source: FAB Securities

## 2) Relative Valuation:

We have used local peers to value CBI, which 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 peers. It is valued at PB multiple of 0.6x as compared to a peer valuation of 1.1x.

Company	Market (USD Mn)	P/B (x)		P/E (x)		Dividend Yield (%)	
		2023F	2024F	2023F	2024F	2023F	2024F
Commercial Bank of Dubai (CBD)	3,823	1.1	1.0	6.4	6.9	6.7	6.5
Mashreq Bank (MASQ)	7,926	1.2	1.1	5.5	6.5	8.6	8.6
Rakbank	2,494	1.0	0.9	6.2	6.8	8.1	7.5
Emirates NBD	27,969	1.1	1.0	5.8	6.9	4.5	4.5
Dubai Islamic Bank (DIB)	11,167	1.1	1.1	7.3	8.2	5.9	5.8
Abu Dhabi Commercial Bank (ADCB)	16,395	1.0	0.9	8.3	9.1	6.1	5.2
Abu Dhabi Islamic Bank (ADIB)	11,025	2.0	1.9	9.9	10.2	5.4	5.3
<b>Average</b>		<b>1.2x</b>	<b>1.1x</b>	<b>7.0x</b>	<b>7.8x</b>	<b>6.5%</b>	<b>6.2%</b>
<b>Median</b>		<b>1.1x</b>	<b>1.0x</b>	<b>6.4x</b>	<b>6.9x</b>	<b>6.1%</b>	<b>5.8%</b>
<b>Max</b>		<b>1.1x</b>	<b>1.1x</b>	<b>7.8x</b>	<b>8.6x</b>	<b>7.4%</b>	<b>7.0%</b>
<b>Min</b>		<b>1.0x</b>	<b>0.9x</b>	<b>6.0x</b>	<b>6.8x</b>	<b>5.7%</b>	<b>5.2%</b>

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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