

## Commercial Bank of Dubai

Higher net-funded income & improved business activity boosted profit

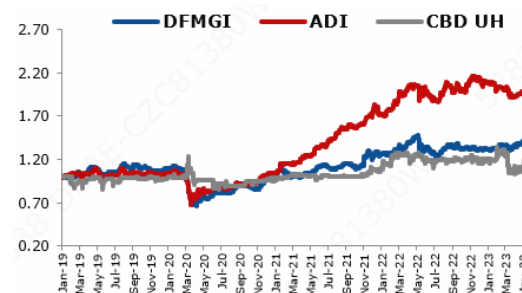
**Current Price**  
AED 4.74

**Target Price**  
AED 5.63

**Upside/Downside (%)**  
+19%

**Rating**  
BUY

- CBD revised its loan guidance from low-mid single digit in 1Q23 to mid-high single digit in 2Q23.
- CBD's gross loans recorded a strong growth of 8.5% YTD to AED 86.4 Bn in 2Q23 and reduced its exposure in the real estate sector during 2Q23. While it increased its loan exposure to government and personal mortgages.
- CBD's NIMs pressurized in 2Q23 due to an increase in borrowing from market instruments such as notes and repurchase agreements.
- The Bank raised USD 500 Mn from the inaugural green bonds during 2Q23.



### Stock Information

Market Cap (AED, mm)	14,030.40
Paid Up Capital (mm)	2,985.19
52 Week High	5.02
52 Week Low	4.00
3M Avg. daily value(AED)	168,749

### 2Q23 Net Profit higher than our estimate

Commercial Bank of Dubai ("CBD, "the Bank") recorded 49.5% YOY growth in net profit to AED 650 Mn in 2Q23, higher than our estimate of AED 582 Mn. The increase in profit is mainly attributable to strong growth in net funded income and non-funded income due to an increase in interest rates and improvement in business activities partially offset by an increase in G&A expenses and higher impairments.

### P&L Highlights

CBD's funded income rose more than doubled from AED 802 Mn in 2Q22 to AED 1,627 Mn in 2Q23 mainly due to expansion in asset yield owing to an increase in interest rate and growth in interest-bearing assets. The Bank's asset yield improved 31 bps YOY to 5.9% in 2Q23. On the other hand, funded expenses rose significantly from AED 212 Mn in 2Q22 to AED 747 Mn in 2Q23 due to higher benchmark rates and an increase in borrowing from market instruments such as notes and repurchase agreements. Thus, net funded income rose 49.1% YOY to AED 880 Mn in 2Q23. NIMs declined 16 bps QOQ to 3.2% in 2Q23. CBD's non-funded income rose 20.1% YOY to AED 342 Mn in 2Q23 due to improvement in business activities. Fees and commission income grew 30.7% YOY to AED 242 Mn in 2Q23 due to syndication and transaction banking fees while trading income rose 7.2% YOY to AED 84 Mn. However other non-funded income declined 25.5% YOY to AED 16 Mn in 2Q23. As a result, total operating income rose 39.7% YOY to AED 1,221 Mn in 2Q23. Furthermore, G&A expenses rose 21.1% YOY to AED 279 Mn in 2Q23 attributable to inflation and investments in technology and digitization. Depreciation and amortization charges increase 37.3% YOY to AED 12 Mn in 2Q23. In addition, impairments rose 18.7% YOY and declined 18.1% QOQ to AED 267 Mn in 2Q23.

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

Total Assets	123,129
Total Liabilities	108,810
Total Equity	14,319
Total Deposits	85,720
Net Profit	582

### Financial Ratios

Dividend Yield (12m)	5.20
Dividend Pay-out (%)	43.05
Price-Earnings Ratio(x)	6.85
Price-to-Book Ratio (x)	1.16
Book Value (AED)	4.06
Return-on Equity (%)	17.82

### Stock Performance

5 Days	2.17%
1 Months	4.44%
3 Months	6.33%
6 Months	4.29%
1 Year	4.51%
Month to Date (MTD%)	3.52%
Quarter to Date (QTD%)	3.52%
Year to Date (YTD%)	3.64%

## Balance Sheet Highlights

CBD's net advances rose 2.4% YOY and 5.5% QOQ to AED 80.8 Bn in 2Q23, owing to an increase in credit towards manufacturing, construction, trade, transport, hospitality sector, financial institutions, personal mortgage, and government entities. Moreover, the Bank's total assets rose 4.8% YOY to AED 123.1 Bn in 2Q23. Customer deposits rose 1.1% YOY to 85.7 Bn in 2Q23 whereas the Bank's CASA deposits as a percentage of total deposits stood at 49.7% as of 2Q23. Additionally, total equity grew 9.1% YOY to AED 14.3 Bn.

## Target Price and Rating

We maintain our BUY rating on CBD with a target price of AED 5.63. CBD continued to record strong growth in profit in 2Q23 owing to an improvement in business activity and higher interest rates. The Bank reduced its exposure in wholesale loan segment from 71.2% in FY2022 to 68.8% in 2Q23. While it increased its loan exposure to government and personal mortgages. This will benefit the bank in the volatile economic scenario. CBD's gross loans rose 8.5% YTD to AED 86.4 Bn in 2Q23. However, the Bank's loan-to-deposit ratio increased from 88.78% in 1Q22 to 94.22% in 2Q23 while advances to stable resources ratio declined from 87.1% in FY2022 to 86.2% in 2Q23. CBD further expects its loan book to grow by mid-high single digit in 2023 revising its guidance upward from 1Q23. Moreover, CBD's cost-to-income ratio declined significantly 351 bps YOY to 23.8% in 2Q23 due to growth in the operating income base. Furthermore, the Bank's asset quality remained stable in 2Q23 with an NPL ratio of 6.63% as compared to 6.71% in 1Q23. Whereas the coverage ratio improved from 80.69% in 1Q23 to 81.72% in 2Q23 and including collateral stood at 119.26% in 2Q23. Provisioning buffer will reduce the impact on the bottom line in the case of worsening asset quality. In addition, the Bank maintained a healthy capitalization with a CAR of 16.43% and CET 1 ratio of 12.92% well above the regulatory limits. The Bank issued USD 500 Mn worth of green bonds during 2Q23. Thus, based on our analysis, we maintain our BUY rating on the stock.

### CBD - Relative valuation

(at CMP)	2018	2019	2020	2021	2022	2023F
P/E	12.18	10.11	12.72	10.75	8.37	6.56
P/B	1.62	1.47	1.39	1.25	1.21	1.05
Dividend yield	4.1%	4.1%	4.0%	5.1%	5.2%	6.1%

FABS Estimates & Co Data

### CBD - P&L

AED mm	2Q22	1Q23	2Q23	2Q23F	Var.	YOY Ch	QOQ Ch	2022	2023F	Change
Funded income	802	1,484	1,627	1,531	6.3%	102.8%	9.7%	3,783	6,170	63.1%
Funded expense	-212	-595	-747	-672	11.3%	251.8%	25.7%	-1,107	-2,704	144.3%
<b>Net funded income</b>	<b>590</b>	<b>889</b>	<b>880</b>	<b>859</b>	<b>2.4%</b>	<b>49.1%</b>	<b>-1.0%</b>	<b>2,676</b>	<b>3,466</b>	<b>29.5%</b>
Fees and commissions	185	215	242	228	6.3%	30.7%	12.7%	756	846	12.0%
Trading income	78	75	84	72	16.7%	7.2%	12.3%	322	338	4.9%
Other non-funded income	21	59	16	12	32.1%	-25.5%	-73.6%	50	100	100.0%
<b>Total non-funded income</b>	<b>285</b>	<b>349</b>	<b>342</b>	<b>312</b>	<b>9.7%</b>	<b>20.1%</b>	<b>-2.0%</b>	<b>1,128</b>	<b>1,284</b>	<b>13.9%</b>
<b>Total operating income</b>	<b>874</b>	<b>1,237</b>	<b>1,221</b>	<b>1,170</b>	<b>4.3%</b>	<b>39.7%</b>	<b>-1.3%</b>	<b>3,804</b>	<b>4,750</b>	<b>24.9%</b>
G&A Expenses	-230	-279	-279	-273	2.1%	21.1%	0.0%	-961	-1,057	10.0%
Depreciation & amortization	-9	-11	-12	-8	48.5%	37.3%	9.8%	-36	-31	-12.0%
<b>Operating Expenses</b>	<b>-239</b>	<b>-289</b>	<b>-290</b>	<b>-281</b>	<b>3.4%</b>	<b>21.7%</b>	<b>0.4%</b>	<b>-997</b>	<b>-1,088</b>	<b>9.2%</b>
<b>Pre provision profit</b>	<b>636</b>	<b>948</b>	<b>931</b>	<b>890</b>	<b>4.6%</b>	<b>46.4%</b>	<b>-1.8%</b>	<b>2,807</b>	<b>3,662</b>	<b>30.4%</b>
Impairments	-225	-326	-267	-339	-21.2%	18.7%	-18.1%	-1,075	-1,387	29.0%
<b>Net Profit</b>	<b>435</b>	<b>575</b>	<b>650</b>	<b>582</b>	<b>11.7%</b>	<b>49.5%</b>	<b>13.0%</b>	<b>1,825</b>	<b>2,288</b>	<b>25.4%</b>

FABS estimate & Co Data

**CBD - KPI**

	2Q22	1Q23	2Q23	YOY Ch	QQQ Ch	2022	2023F	Change
Net FI/OI	67.5%	71.8%	72.0%	457	20	70.4%	73.0%	262
NIM	2.2%	3.4%	3.2%	98	-16	2.60%	3.22%	63
NIS	2.1%	3.1%	2.9%	73	-22	2.5%	2.9%	43
Fees & comms/OI	21.2%	17.4%	19.8%	-136	246	19.9%	17.8%	-205
Trading/OI	9.0%	6.0%	6.9%	-209	83	8.5%	7.1%	-136
Cost to income	27.3%	23.4%	23.8%	-351	40	26.2%	22.9%	-329
Impairment/PPP	31.7%	39.3%	30.4%	-125	-889	35.3%	37.5%	222
NP/OI	49.8%	46.5%	53.2%	348	675	48.0%	48.2%	19
ROAE	14.9%	16.9%	18.5%	356	151	15.8%	18.2%	240
ROAA	1.4%	1.7%	1.8%	44	13	2.0%	2.2%	19

FABS estimate & Co Data

**CBD - Key B/S items**

AED mm	2Q22	3Q22	4Q22	1Q23	2Q23	YOY Ch
Net advances	78,852	79,138	74,608	76,522	80,766	2.4%
QOQ ch	0.2%	0.4%	-5.7%	2.6%	5.5%	
Total assets	117,537	117,531	116,074	119,315	123,129	4.8%
QOQ ch	-1.3%	0.0%	-1.2%	2.8%	3.2%	
Customer deposits	84,827	81,778	81,074	86,193	85,720	1.1%
QOQ ch	2.4%	-3.6%	-0.9%	6.3%	-0.5%	
Total equity	13,121	13,387	13,882	13,761	14,319	9.1%
QOQ ch	1.0%	2.0%	3.7%	-0.9%	4.1%	

FABS estimate & Co Data

## Valuation:

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

Valuation Method	Target	Weight	Weighted Value
Residual Income	5.86	70.0%	4.10
Relative Valuation (RV)	5.11	30.0%	1.53
<b>Weighted Average Valuation (AED)</b>			<b>5.63</b>
Current market price (AED)			4.74
Upside/Downside (%)			+19%

### 1) Residual Income Method:

We discounted the economic profit/excess equity using the cost of equity of 8.5%. Cost of equity is calculated by using 10-year government bond yield of 5.1%, a beta of 1.00, and equity risk premium of 3.4%. Government bond yield is calculated after adding Abu Dhabi's 10-year spread over 10-year US risk-free rate. Also, assumed a terminal growth rate of 2.0%.

Sum of PV (AED, Mn)	2,241
Terminal value (AED, Mn)	3,128
FV to Common shareholders (AED, Mn)	17,484
No. of share (Mn)	2,985
Current Market Price (AED)	4.74
<b>Fair Value per share (AED)</b>	<b>5.86</b>

(All Figures in AED Mn)	FY 2023E	FY 2024E	FY 2025E	FY 2026E	FY 2027E
Net Profit	2,024	1,843	1,735	1,827	1,759
(-) Equity charge	(1,141)	(1,239)	(1,320)	(1,401)	(1,472)
<b>Excess Equity</b>	<b>883</b>	<b>604</b>	<b>415</b>	<b>426</b>	<b>288</b>
Discounting Factor	0.96	0.88	0.82	0.75	0.69
<b>Present Value of Excess Equity</b>	<b>848</b>	<b>534</b>	<b>339</b>	<b>320</b>	<b>199</b>

Source: FAB Securities

## 2) Relative Valuation:

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

Company	Market (USD Mn)	P/B(x)		PE (x)		Yield (%)	
		2023F	2024F	2023F	2024F	2023F	2024F
Dubai Islamic Bank	11,167	1.1	1.1	7.3	8.2	5.9	5.8
Abu Dhabi Islamic Bank	11,025	2.0	1.8	9.9	10.2	5.4	5.3
Emirates NBD	27,969	1.1	1.0	5.8	6.9	4.5	4.5
FAB	41,361	1.3	1.2	10.8	11.3	4.2	4.3
ADCB	16,395	1.0	0.9	8.3	9.1	6.1	5.2
Dubai Islamic Bank	11,167	1.1	1.1	7.3	8.2	5.9	5.8
<b>Average</b>		<b>1.3x</b>	<b>1.2x</b>	<b>8.4x</b>	<b>9.1x</b>	<b>5.2%</b>	<b>5.0%</b>
<b>Median</b>		<b>1.1x</b>	<b>1.1x</b>	<b>8.3x</b>	<b>9.1x</b>	<b>5.4%</b>	<b>5.2%</b>
<b>Max</b>		<b>1.3x</b>	<b>1.2x</b>	<b>9.9x</b>	<b>10.2x</b>	<b>5.9%</b>	<b>5.3%</b>
<b>Min</b>		<b>1.1x</b>	<b>1.0x</b>	<b>7.3x</b>	<b>8.2x</b>	<b>4.5%</b>	<b>4.5%</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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