

Abu Dhabi Commercial Bank

Strong Increase in Non-Funded Income & Lower Provision Supports Profitability

4Q21 results higher than our estimates

Abu Dhabi Commercial Bank (ADCB) reported a strong 43% YOY increase in Net Profit to AED1,443 Mn in 4Q21, up from AED1,009 Mn in 4Q20, beating our estimate by 7.8%. The performance is mainly driven by the increase in Non-Funded Income and a decline in Impairment charges in 4Q21.

P&L highlights

The Net Profit increased robustly by 43% YOY in 4Q21. The Net Funded Income declined by 4.8% YOY to AED2,250 Mn in 4Q21, down from AED2,362 Mn in 4Q20. It was mainly due to 7% YOY decline in Funded Income to AED2,820 Mn in 4Q21, down from AED3,033 Mn in 4Q20. Similarly, the Funded Expense declined by 15% YOY to AED570 Mn in 4Q21, down from AED670 Mn in 4Q20. However, the impact of decline in Funded Income outweighed the impact of Funded Expenses. As a result, the Net Funded Income contracted. However, the Non-Funded Income witnessed significant growth of 46.5% YOY to AED1,027 Mn in 4Q21, up from AED701 Mn in 4Q20. It was mainly driven by 90.2% YOY increase in Other Operating Income to AED508 Mn in 4Q21, up from AED267 Mn in 4Q20. Similarly, the Fees and Commissions increased by 19.6% YOY to AED519 Mn in 4Q21, up from AED434 Mn in 4Q20. As a result, the Operating Income increased by 7% YOY to AED3,277 Mn in 4Q21, up from AED3,063 Mn in 4Q20. The Operating Expenses increased by 5.1% YOY to AED1,128 Mn in 4Q21, up from AED1,073 Mn in 4Q20. However, the Cost to Income ratio declined by 60bps to 34.4% in 4Q21, down from 35% in 4Q20. The Pre-provision profit stood at AED2,149 Mn in 4Q21, up from AED1,990 Mn in 4Q20, 8% YOY growth. The Impairment charges declined strongly by 28.7% YOY to AED669 Mn in 4Q21, down from AED938 Mn in 4Q20. As a result, the Operating Profit after Impairments increased significantly by 40.7% YOY to AED1,480 Mn in 4Q21, up from AED1,052 Mn in 4Q20. The Loss from discontinued operations declined to AED4 Mn in 4Q21, down from AED17 Mn in 4Q20. As a result, the Bank witnessed robust growth in Net Profit with 43% YOY increase in 4Q21.

Balance sheet highlights

The Net Advances increased by 2.2% YOY to AED244.3 Bn in 2021, up from AED239 Mn in 2020. Consequently, the Total Assets increased by 7.1% YOY to AED440.3 Bn in 2021, up from AED411.2 Bn in 2020. The Customer Deposits increased by 5.4% YOY to AED265.1 Bn in 2021, up from AED251.4 Bn in 2020. As a result, the ADR ratio declined by 290 bps to 92.2% in 2021, down from 95.1% in 2020. Lastly, the Total Shareholder's Equity increased by 4.9% YOY to AED59.4 Bn in 2021, up from AED56.6 Bn in 2020.

Rating : ACCUMULATE

First Look Note – 4Q21

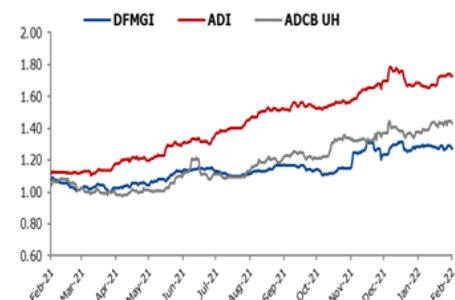
Sector: Banking

Recommendation

Current Price (4-Feb)	9.01
Target Price	10.00
Upside/Downside (%)	+11%

Stock Information

Market Cap (mm)	62,546.84
Paid Up Capital (mm)	6,957.38
52 Week High	9.05
52 Week Low	5.97
3M Avg. daily value (AED)	35,771,060



Financial Ratios

Dividend Yield (12m)	2.98
Dividend Pay-out (%)	50.64
Price-Earnings Ratio (x)	12.36
Price-to-Book Ratio (x)	1.18
Book Value (AED)	7.67
Return-on Equity (%)	9.75
Earning Per Share (AED)	0.73
Beta	1.13

Stock Performance

5 Days	0.33%
1 Months	6.01%
3 Months	9.90%
6 Months	25.38%
1 Year	36.83%
Month to Date (MTD)	0.33%
Quarter to Date (QTD)	5.39%
Year to Date (YTD)	5.39%

Target price and rating

We maintain our ACCUMULATE rating on ADCB, with a target price of AED10.00. Abu Dhabi Commercial Bank witnessed strong growth in Net Profit by 38% YOY to AED5,241 Mn in 2021, up from AED3,806 Mn in 2020. It was mainly driven by 26.3% YOY growth in Non-Funded Income to AED3,396 Mn in 2021, up from AED2,688 Mn in 2020. The Operating Expenses declined by 5.9% YOY to AED4,257 Mn in 2021, down from AED4,526 Mn in 2020. The Bank exceeded its cost synergy target for 2021 and improved its operating model. As a result, the Cost to Income ratio improved by 157 bps to 34.7% in 2021, up from 36.3% in 2020. Lastly, the Impairment charges declined strongly by 33.7% YOY to AED2,646 Mn in 2021, down from AED3,993 Mn in 2020. The provisioning recorded was mainly attributable to NMC, Finabl and others. Additionally, despite the low interest rate environment, the Bank managed to increase its performance due to synergies and low cost of risk. The Interest Expenses declined strongly by 47.3% YOY to AED2,258 Mn in 2021, down from AED4,282 Mn in 2020. The Net Funded Income declined by 9.4% YOY to AED8,864 Mn in 2021, down from AED9,783 Mn in 2020. It was mainly due to low benchmark interest rates. The Non-Funded Income increased strongly by 26.3% YOY to AED3,396 Mn in 2021, up from AED2,688 Mn in 2020. It was driven by robust growth in Fees and Commissions and Other Operating Income in 2021. The Non-Funded Income comprises of 28% of the Operating Income in 2021. The Fees and Commissions Income comprises of card fees which grew by 50% YOY, due to improvement in consumer sentiment. The loan processing fees increased by 27% YOY in 2021. The Bank reported a AED166 Mn gain on acquisition of mortgage portfolio from Abu Dhabi Finance (ADF) in 2021. The Net Trading Income also positively impacted the performance and improved by 22% YOY due to higher FX and Derivative Income in 2021. The Bank's realized synergies are consistently high since 2020, with a 19% jump from target synergies. Around AED1.2 Bn synergies were realized that are well above the target level for 2021. They are mainly cost related.

The Total Assets increased by 7.1% YOY to AED440.3 Bn in 2021. It was driven by increase in Investment Securities and Loans to banks that were up by 9% and 94% respectively. The Bank is focused on rebalancing the loan portfolio by increase in lending activity to GREs and limit its exposure to real estate. The Net Loans mainly comprise of Wholesale banking and Consumer Banking. In line with its strategy, the Bank reduced investments in Real estate and increased Government and PSE investments. Around AED40 Bn in loan was granted to targeted economic sectors, as per the 5-year strategy. The Real estate exposure reduced to 24% in 2021, down from 29% in 2020. The current exposure is well diversified with LTV ratio of 80%. The Bank has maintained its support to the SMEs with AED3.9 Bn for the sector as financing through the pandemic. The ADF acquisition of AED1.077 Bn is also reflected in the mortgage loan book. The Total liabilities are dominated by Customer Deposits with 70% concentration. The Customer Deposits grew by 5.4% YOY to AED265.1 Bn in 2021, up from AED251.4 Bn in 2020. Around 58% of the Total Deposits are CASA deposits and the balance are Time Deposits. The CASA deposits increased by AED25.5 Bn to 58% of the Total in 2021, up from 51% in 2020. Both Retail and Wholesale CASA deposits grew in 2021. The Liquidity Coverage Ratio declined to 124.1% in 2021, down from 156.8% in 2020. However, it is well above UAE CB requirement of 70%. The Liquidity ratio has remained stable at 31.2% in 2021. The Capital Adequacy ratio declined from 16.61% in 2020 to 15.97% in 2021. It was mainly due to increase in Risk Weighted Assets in 2021. Regarding the NMC restructure, the Bank is likely to receive exit instruments of around 38% of the USD2.25 Bn facility. As a result, the provisions regarding NMC are revised at AED1.142 Bn as of 2021. The Bank mainly has two subsidiaries, ADCB Egypt and Al Hilal bank. ADCB Egypt has demonstrated strong performance with Net profit up by 32% YOY. Similarly, Net Loans and Deposits increased by 28% and 42% respectively. Al Hilal bank is focused to be a fully digital shariah-complaint bank and has witnessed significant growth in its digital metrics.

The Board of Directors proposed AED2.574 Bn in cash dividends or AED0.37 per share that is subject to shareholder approval. The payout ratio is stable at 49% in 2021. Moreover, the Bank plans to increase the payout to 50% in the medium term. Therefore, based on our analysis above, we assign a ACCUMULATE rating.

ADCB - Valuation

	2017	2018	2019	2020	2021
At CMP					
PER (x)	11.1	9.9	12.4	17.3	12.1
P/BV (x)	1.6	1.6	1.2	1.2	1.2
Dividend yield	5%	5%	4%	3%	4%

FABS estimate & Co Data
ADCB - P&L

AED mm	4Q20	3Q21	4Q21	4Q21F	Var	YOY Ch	QOQ Ch	2020	2021	Change
Funded income	3,033	2,740	2,820	2,850	-1.1%	-7.0%	2.9%	14,065	11,121	-20.9%
Funded expense	-670	-561	-570	-596	-4.5%	-15.0%	1.6%	-4,282	-2,258	-47.3%
Net funded income	2,362	2,179	2,250	2,254	-0.2%	-4.8%	3.2%	9,783	8,864	-9.4%
Fees & commissions	434	436	519	507	2.4%	19.6%	19.0%	1,551	1,899	22.5%
Other operating income	267	290	508	387	31.1%	90.2%	75.3%	1,137	1,496	31.6%
Non funded income	701	726	1,027	894	14.9%	46.5%	41.4%	2,688	3,396	26.3%
Operating income	3,063	2,905	3,277	3,148	4.1%	7.0%	12.8%	12,471	12,259	-1.7%
Operating expenses	-1,073	-1,013	-1,128	-1,132	-0.3%	5.1%	11.4%	-4,526	-4,257	-5.9%
Pre-provision profit	1,990	1,892	2,149	2,015	6.6%	8.0%	13.5%	7,945	8,002	0.7%
Impairments	-938	-596	-669	-656	2.0%	-28.7%	12.2%	-3,993	-2,646	-33.7%
Operating profit after impairment	1,052	1,296	1,480	1,360	8.8%	40.7%	14.2%	3,952	5,356	35.5%
Share of profit of associate	4	1	1	5	-86.4%	-82.3%	-51.4%	18	8	-57.4%
Profit before tax	1,056	1,298	1,481	1,365	8.5%	40.2%	14.1%	3,970	5,363	35.1%
Overseas tax expense	-31.8	-24	-29	-18	64.7%	-9.2%	20.0%	-120	-100	-17.2%
Loss from discontinued operations	-17.0	2	-4	-8	-49.8%	-76.4%	NM	-41	-16	-59.7%
Non controlling interest	2	0	-5	0	NM	NM	NM	-3	-6	NM
Profit for the period	1,009	1,275	1,443	1,339	7.8%	43.0%	13.1%	3,806	5,241	37.7%

FABS estimate & Co Data
ADCB - P&L KPI

AED mm	4Q20	3Q21	4Q21	YOY Ch	QOQ Ch	2020	2021	Change
Net FI/OI	77.1%	75.0%	68.7%	-845	-635	78.4%	72.3%	-614
NIM	3.7%	3.4%	3.3%	-31	-7	3.7%	3.3%	-34
NIS	3.6%	3.4%	3.3%	-30	-7	3.6%	3.3%	-33
Fees & comms/OI	14.2%	15.0%	15.8%	167	82	12.4%	15.5%	306
Other non-funded/OI	8.7%	10.0%	15.5%	678	553	9.1%	12.2%	309
Cost to income	35.0%	34.9%	34.4%	-60	-43	36.3%	34.7%	-157
Impairment/PPP	47.1%	31.5%	31.1%	-1602	-38	50.3%	33.1%	-1719
Tax/PBT	3.0%	1.9%	1.9%	-106	10	3.0%	1.9%	-117
NP/OI	32.9%	43.9%	44.0%	1108	12	30.5%	42.8%	1223
ROAE	1.8%	2.3%	2.5%	69	23	6.8%	9.0%	226
ROAA	0.2%	0.3%	0.3%	9	4	0.9%	1.2%	30

FABS estimate & Co Data
ADCB Key B/S items

(AED MM)	4Q20	1Q21	2Q21	3Q21	4Q21	YOY Ch
Net advances	238,976	235,725	237,814	241,912	244,282	2.2%
QOQ change	-1.6%	-1.4%	0.9%	1.7%	1.0%	
Total assets	411,156	395,819	416,290	432,061	440,278	7.1%
QOQ change	0.5%	-3.7%	5.2%	3.8%	1.9%	
Customer deposits	251,395	238,830	250,564	255,753	265,052	5.4%
QOQ change	3.2%	-5.0%	4.9%	2.1%	3.6%	
Total shareholders' equity	56,597	55,719	57,104	58,161	59,360	4.9%
QOQ change	2.9%	-1.6%	2.5%	1.9%	2.1%	

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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