

Commercial Bank of Dubai

Lower Impairment Charges supported the bottom-line

Rating : ACCUMULATE

First Look Note – 4Q21

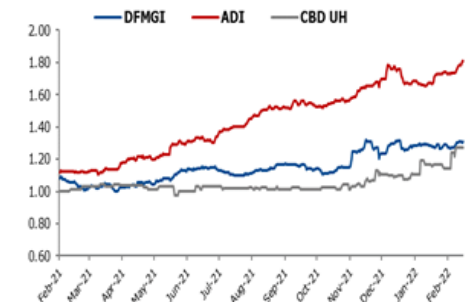
Sector: Banking

Recommendation

Current Price (16-Feb)	4.90
Target Price	5.60
Upside/(Downside) (%)	+14%

Stock Information

Market Cap (mm)	14,013.67
Paid Up Capital (mm)	2,802.73
52 Week High	5.05
52 Week Low	3.85
3M Avg. daily value (AED)	1,245,258



Financial Ratios

Dividend Yield (12m)	4.00
Dividend Pay-out (%)	38.64
Price-Earnings Ratio (x)	9.68
Price-to-Book Ratio (x)	1.23
Book Value (AED)	4.05
Return-on Equity (%)	13.13
Earning Per Share (AED)	0.52
Beta	0.26

Stock Performance

5 Days	0.00%
1 Months	8.70%
3 Months	19.33%
6 Months	25.00%
1 Year	25.00%
Month to Date (MTD)	11.11%
Quarter to Date (QTD)	14.94%
Year to Date (YTD)	14.94%

4Q21 results lower than our estimate

Commercial Bank of Dubai (CBD) reported an increase by 31.3% YOY in Net Profit to AED399 Mn in 4Q21 compared to AED304 Mn in 4Q20, missing our estimate of AED433 Mn by 7.8%. That increase was mainly due to a drop in the Impairment Allowances on loans and Islamic Financing.

P&L highlights

Bank's Funded Income has decreased by 6.1% YOY to AED657 Mn in 4Q21, down from AED699 Mn in 4Q20. Similarly, the Funded Expense has declined by 21% YOY to AED146 Mn in 4Q21, down from AED186 Mn in 4Q20. As a result, the Net Funded Income has slightly decreased by 0.7% YOY to AED510 Mn in 4Q21 from AED514 Mn in 4Q20. Fees and Commissions increased by 30.3% YOY to AED199 Mn in 4Q21, up from AED153 Mn in 4Q20. Trading Income has shown a decline by 65.2% YOY to AED65 Mn in 4Q21, as compared to AED188 Mn in 4Q20. While the Other non-funded income strongly increased to AED16 Mn in 4Q21, up from AED8 Mn in 4Q20. Therefore, the Total Non-Funded Income declined by 19.5% YOY to AED280 Mn from AED348 Mn in 4Q20. Thus, the Total Operating Income decreased by 8.3% YOY to AED791 Mn in 4Q21, down from AED862 Mn in 4Q20. Moreover, the Total Operating Expenses including (General & Administrative, Depreciation and Amortization) increased by 11.6% YOY to AED241 Mn in 4Q21, up from AED216 Mn in 4Q20. Resultantly, the Cost to Income ratio (C/I) rose by 543 bps to 30.5% in 4Q21 compared to 25.1% in 4Q20. Additionally, Impairment Allowances on loans and Islamic Financing has significantly decreased by 54.2% YOY to AED164 Mn in 4Q21, down from AED357 Mn in 4Q20, supporting profitability.

Balance sheet highlights

CBD's Net Advances have increased by 17.1% YOY to AED76.4 Bn in 4Q21, as compared to AED65.3 Bn in 4Q20. In addition, Total Assets have increased by 17.3% YOY to AED114.2 Bn in 4Q21, up from AED97.4 Bn in 4Q20. Moreover, Customer Deposits have increased by 18.6% YOY to AED82.7 Bn from AED69.8 Bn in 4Q20. Total Equity has also increased by 4.7% YOY to AED13.6 Bn in 4Q21, up from AED13 Bn in 4Q20.

Target price and rating

We maintain our ACCUMULATE rating on CBD, with a revised target price of AED5.60. Commercial Bank of Dubai (CBD) a progressive and modern banking institution, offering a wide range of retail and commercial banking products and services, in both formats Conventional and Shariah-compliant, with a network of 15 branches and over 121 ATMs throughout the UAE. The Bank aims to support the businesses that drive the UAE economy. CBD has reported an increase by 29.5% YOY in the Net profit reaching AED 1.45 Bn at the year ended 31 December 2021, compared to AED 1.12 Bn in the same period last year. This increase was mainly supported by an increase in the Net funded income and a decrease in the Impairment allowances on loans and Islamic financ-

ing. The Bank's Net funded income has shown an advance by 10.1% YOY to reach AED 2.08 Bn in the final year of 2021, mainly attributed to a drop by 37.6% YOY in the Funded expense standing at AED 611 Mn in 2021, down from AED 979 Mn in 2020. This was offset by a decline in the Funded income to AED 2.69 Bn, compared to AED 2.87 Bn in 2020. Moreover, the Net Fees and commissions grew by 14% YOY to AED 742 Mn. While the Bank has shown a decline in both Trading income and Other Non-funded income to AED 229 Mn and AED 3 Mn, respectively for the full year of 2021. Therefore, the Total Non-funded income has reduced by 10.2% YOY reaching AED 975 Mn from AED 1.09 Bn in 2020. Resultantly, the Total Operating income increased by 2.7% YOY to AED 3.05 Bn, as compared to AED 2.97 Bn in the year ended 2020. Whereas the Operating expenses increased by 7.2% YOY to AED 865 Mn in 2021, driven by an increase in both G&A and D&A expenses. Thus, the Cost to income (C/I) ratio stood at 27.3% in 2021. Furthermore, the Bank's Impairment allowances on loans and Islamic financing declined by 15.2% YOY to AED 902 Mn, down from AED 1.06 Bn in 2020, supporting the profitability. Meanwhile, the Bank is still maintaining a strong balance sheet with a robust increase by 17.3% YOY in the Total Assets to AED 114.2 Bn in 2021. The Net advances were up by 17.1% YOY to AED 76.4 Bn in the year ended 2021. Similarly, the Customer deposits have increased by 18.6% YOY to AED 82.7 Bn, up from AED 69.8 Bn in 2020. As a result, the ADR ratio has declined by 119 bps to 92.4% in the end of 2021, as compared to 93.6% in the same period last year. Additionally, the Bank has shown an increase by 253 bps and 16 bps in ROE and ROA to 13.2% and 1.37%, respectively in 2021, through improving in the product capability and deeper customer relationships. On the other hand, the Bank's NIM and NIS decline both to 4% in 2021, due to subdued growth in the system credit. The Capital Adequacy Ratio (CAR) dropped to 15.82%, down from 16.65% in 2020. In addition, the Common Equity (CET1) ratio stood at 12.13% compared to 12.71% in 2020. Whereas the Eligible Liquid Assets Ratio (ELAR) rose to 18.71% in 2021. This reflects the bank's strong Capital and Liquidity ratios, all above the regulatory limits. The Board of Directors have proposed a cash dividend of 50% which is equivalent to 25.88 fils per share. Based on our analysis, we maintain an ACCMULATE rating on the stock.

CBD - Relative Valuation

	2017	2018	2019	2020	2021
PE (x)	13.89	12.20	10.00	12.50	9.66
P/B (x)	1.54	1.52	1.37	1.30	1.23
Dividend yield	4.0%	4.1%	4.1%	4.0%	5.1%

FABs Estimate & Co Data

CBD - P&L

	4Q20	3Q21	4Q21	4Q21F	Var	YOY Ch	QOQ Ch	2020	2021	Change
AED mm										
Funded income	699	714	657	778	-15.6%	-6.1%	-8.0%	2,865	2,689	-6.1%
Funded expense	-186	-156	-146	-171	-14.4%	-21.0%	-6.0%	-979	-611	-37.6%
Net funded income	514	558	510	607	-15.9%	-0.7%	-8.5%	1,887	2,078	10.1%
Fees and commissions	153	159	199	226	-11.8%	30.3%	25.7%	651	742	14.0%
Trading income	188	86	65	83	-20.9%	-65.2%	-24.1%	387	229	-40.8%
Other non-funded income	8	12	16	29	-44.5%	NM	28.4%	48	3	-92.8%
Total non-funded income	348	257	280	337	-16.8%	-19.5%	9.2%	1,086	975	-10.2%
Total operating income	862	815	791	944	-16.2%	-8.3%	-3.0%	2,972	3,053	2.7%
General and administrative expenses	-209	-208	-233	-218	6.7%	11.3%	12.3%	-779	-835	7.2%
Depreciation and amortization	-7	-8	-8	-7	6.8%	19.5%	6.3%	-28	-30	6.3%
Operating Expenses	-216	-215	-241	-226	6.7%	11.6%	12.1%	-807	-865	7.2%
Pre provision profit	646	600	550	718	-23.5%	-14.9%	-8.3%	2,165	2,188	1.1%
Impair allow. on loans & adv and Islamic fin	-357	-243	-164	-301	-45.7%	-54.2%	-32.8%	-1,063	-902	-15.2%
Recoveries	7	30	25	13	92.8%	NM	-17.3%	24	75	NM
Impairment allowances on AFS investment	-2	-13	-16	-1	NM	NM	23.9%	-17	-41	139.4%
Share of profit of assoc.	10	1	4	4	-2.2%	-57.1%	NM	6	12	92.4%
Net profit	304	375	399	433	-7.8%	31.3%	6.5%	1,120	1,451	29.5%

FABs estimate & Co Data

CBD - KPI

AED mm	4Q20	3Q21	4Q21	YOY Ch	QQQ Ch	2020	2021	Change
Net FI/OI	59.6%	68.5%	64.5%	492	-394	63.5%	65.5%	205
NIM	5.6%	4.4%	4.1%	-150	-25	5.4%	4.0%	-134
NIS	5.7%	4.4%	4.1%	-152	-26	5.4%	4.0%	-135
Fees & comms/OI	17.7%	19.5%	25.2%	746	575	21.9%	23.4%	150
Trading/OI	6.0%	6.4%	7.5%	150	112	7.5%	7.2%	-24
Cost to income	25.1%	26.4%	30.5%	543	409	27.2%	27.3%	11
Impairment/PPP	54.4%	37.7%	28.1%	-2633	-958	48.5%	37.6%	-1093
NP/OI	35.3%	46.0%	50.5%	1523	449	37.7%	45.7%	805
ROAE	2.6%	3.2%	3.0%	39	-14	9.7%	10.9%	127
ROAA	0.3%	0.4%	0.4%	5	0	1.2%	1.4%	16

FABS estimate & Co Data
CBD - Key B/S items

AED mm	4Q20	1Q21	2Q21	3Q21	4Q21	YOY Ch
Net advances	65,289	69,598	74,044	74,898	76,441	17.1%
QOQ change	3.7%	6.6%	6.4%	1.2%	2.1%	
Total assets	97,362	102,471	112,767	107,752	114,213	17.3%
QOQ change	5.0%	5.2%	10.0%	-4.4%	6.0%	
Customer deposits	69,751	70,902	79,820	75,812	82,722	18.6%
QOQ change	9.0%	1.7%	12.6%	-5.0%	9.1%	
Total equity	12,954	12,623	12,966	13,275	13,567	4.7%
QOQ change	23.1%	-2.6%	2.7%	2.4%	2.2%	

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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