

Abu Dhabi Commercial Bank

Lower Funded income and higher Provisions reduced Profitability

3Q21 results lower than our estimates

Abu Dhabi Commercial Bank (ADCB) reported a drop in Net profit of AED1.275 Bn in 3Q21, as compared to AED1.361 Bn in 3Q20, missing our estimate of AED1.475 by 13.5%. This was mainly due to a decrease in the Funded income and an increase in the Impairment Charges.

P&L highlights

Funded income decreased by 12% YOY to AED2.740 Bn in 3Q21, down from AED3.114 Bn in 3Q20. Funded expense decreased by 32.4% YOY to AED561 Mn in 3Q21, down from AED830 Mn in 3Q20. Resultantly, the Net funded income decreased by 4.6% YOY to AED2.179 Bn in 3Q21, as compared to AED2.285 Bn in 3Q20. Fees and commissions increased by 16.4% YOY to AED436 Mn in 3Q21, up from AED375 Mn in 3Q20. Other operating income decline by 12.5% YOY to AED290 Mn in 3Q21, down from AED331 Mn in 3Q20. Therefore, the Non-funded income increased by 2.8% YOY to AED726 Mn in 3Q21 from AED706 Mn in 3Q20. Thus, Operating income decreased by 2.9% YOY to AED2.905 Bn in 3Q21 from AED2.991 Bn in 3Q20. Moreover, Operating expenses decreased by 8.1% YOY to AED1.013 Bn in 3Q21 from AED1.102 Bn in 3Q20. As a result, the Cost to income ratio declined by 200 bps to 34.9% in 3Q21 from 36.9% in 3Q20. Impairments increased by 18.3% YOY to AED596 Mn in 3Q21, up from AED504 Mn in 3Q20, reducing the profitability.

Balance sheet highlights

ADCB's Net advances have decreased by 0.4% YOY to AED241.91 Bn in 3Q21 from AED242.89 Bn in 3Q20. Total Assets increased by 5.6% YOY to AED432.06 Bn in 3Q21, as compared to AED409.26 Bn in 3Q20. Total shareholders' equity increased by 5.7% YOY to AED58.16 Bn in 3Q21, up from AED55.02 Bn in 3Q20. Similarly, the Customer deposits recorded an increase by 5% YOY to AED255.75 Bn compared to AED243.58 Bn in 3Q20.

Target price and rating

We upgrade our rating to BUY on ADCB, with a revised target price of AED9.50. ADCB has maintained a strong performance through the first 9 months of 2021, while moving forward after the COVID-19 pandemic effect, with a robust balance sheet and good profitability with the recovery of the UAE economy. ADCB has a diversified revenue mix with Non-Interest Income increasing by 19% YOY to AED2.37 Bn being 26% of Operating Income as compared to 21% same period last year. Net Interest Income of AED2.18 Bn in 3Q21 down by 6% QOQ had led to Net Interest Margin (NIM) decreasing by 26 Bps to 2.34% and it was 36 Bps lower in 9M21 due to lower interest rates. Net profit increased in 9M21 by 36% to AED3.8 Bn mainly driven by higher Fee Income, a better Cost to Income ratio (C/I) decreasing by 190 bps to 34.8% and lower Impairment Charges by 35% YOY

Rating : BUY

First Look Note – 3Q21

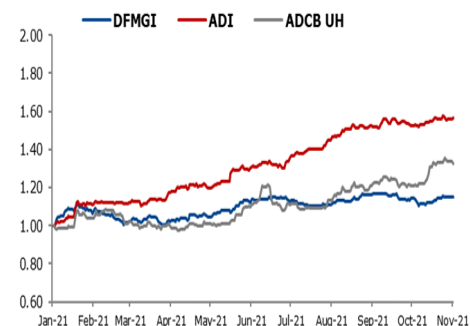
Sector: Banking

Recommendation

Current Price (1-Nov)	8.21
Target Price	9.50
Upside/Downside (%)	+16%

Stock Information

Market Cap (mm)	57,259.23
Paid Up Capital (mm)	6,957.38
52 Week High	8.45
52 Week Low	5.65
3M Avg. daily value (AED)	36,338,890



Financial Ratios

Dividend Yield (12m)	3.28
Dividend Pay-out (%)	52.63
Price-Earnings Ratio (x)	12.24
Price-to-Book Ratio (x)	1.10
Book Value (AED)	7.50
Return-on Equity (%)	9.16
Earning Per Share (AED)	0.67
Beta	1.05

Stock Performance

5 Days	-1.56%
1 Months	9.88%
3 Months	16.90%
6 Months	31.26%
1 Year	43.13%
Month to Date (MTD)	-0.84%
Quarter to Date (QTD)	9.88%
Year to Date (YTD)	32.74%

to AED1.97 Bn in 9M21. Nevertheless, Net Profit in 3Q21 decreased by 7% YOY and 9% QOQ to reach AED1.27 Bn. Operating Expenses decreased by 9% YOY for the first 9 months in 2021 reaching AED3.13 Bn given the good management of costs. The bank sustained its solid performance despite the macro-economic conditions by increasing its lending portfolio by AED28 Bn targeting economic sectors in line with their 5-year growth strategy while reducing the concentration risk especially in the real estate sector due to significant corporate repayments. The bank is also focusing on its digital transformation strategy with the mobile app reaching 800K subscribers almost 80% of total customer base and 94% of these customers are registered with either internet or mobile banking. The Bank's Balance Sheet remains strong with total Assets reaching AED432 Bn, up by 5% compared to end of year 2020. ADCB has outperformed the banking sector in the market with an increase in Net Loans by 1.2% compared to end of year 2020 with Net Financing increased by 1.7% YOY during the first 9 months of 2021 as compared to same period last year. The NPL ratio decreased to 5.64% in 3Q21 down from 5.86% in 2Q21 and the provision coverage ratio decreased to 88.4% compared to 91.5% in 2Q21 and up to 143% including collateral compared to 145% in 2Q21. It is worth noting that the lending to Government and public sector forming 24% of gross loans up from 21% at year end 2020 while decreasing exposure to Real Estate sector to 25% down from 29% as at end of 2020. Customers Deposits stood at AED256 Bn up by 2% YTD with CASA deposits increasing by AED4.5 Bn in 3Q21 and AED18.9 Bn YTD to AED146 Bn as at 3Q21 accounting 57% of Total Consumer Deposits. ADCB is still robustly capitalised with Capital Adequacy Ratio (CAR) of 16.25% despite the decrease from 17.22% as at year end and Common Equity tier 1 (CET1) ratio decreasing also to 13.23% from 13.91% as at December 2020 both ratios still above minimum regulatory requirements. The bank also maintains good liquidity position with a liquidity coverage of 131.7% in 3Q21 up from 127.6% From previous quarter. Loan to Deposit (LTD) ratio stood at 94.6%. Finally, in the General Meeting held in March 2021, the shareholders approved a cash Dividend for AED1.87 Bn for the year 2020, being AED0.27 Dividend per share and amounting to 27% of the paid-up share capital. The stock is currently trading at attractive valuation with P/B of 1.1x. Therefore, we assign a BUY rating on the stock.

ADCB - Valuation

At CMP	2017	2018	2019	2020	2021F
PER (x)	10.29	9.14	11.59	16.14	11.12
P/BV (x)	1.50	1.49	1.15	1.13	0.97
Dividend yield	5.1%	5.6%	4.6%	3.3%	4.0%

FABS estimate & Co Data

ADCB - P&L

AED mm	3Q20	2Q21	3Q21	3Q21F	Var.	YOY Ch	QOQ Ch	2020	2021F	Change
Funded income	3,114	2,837	2,740	2,922	-6.2%	-12.0%	-3.4%	14,065	11,151	-20.7%
Funded expense	-830	-522	-561	-584	-4.1%	-32.4%	7.4%	-4,282	-2,284	-46.7%
Net funded income	2,285	2,315	2,179	2,338	-6.8%	-4.6%	-5.9%	9,783	8,867	-9.4%
Fees & commissions	375	501	436	497	-12.2%	16.4%	-12.9%	1,551	1,887	21.7%
Other operating income	331	339	290	380	-23.7%	-12.5%	-14.6%	1,137	1,376	21.0%
Non funded income	706	840	726	877	-17.2%	2.8%	-13.6%	2,688	3,263	21.4%
Operating income	2,991	3,155	2,905	3,214	-9.6%	-2.9%	-7.9%	12,471	12,130	-2.7%
Operating expenses	-1,102	-1,055	-1,013	-1,071	-5.4%	-8.1%	-4.0%	-4,526	-4,261	-5.9%
Pre-provision profit	1,888	2,100	1,892	2,144	-11.7%	0.2%	-9.9%	7,945	7,869	-1.0%
Impairments	-504	-678	-596	-648	-8.0%	18.3%	-12.0%	-3,993	-2,633	-34.1%
Operating profit after impairment	1,384	1,422	1,296	1,496	-13.3%	-6.4%	-8.8%	3,952	5,236	32.5%
Share of profit of assoc.	14	3	1	5	-72.1%	-89.7%	-59.8%	18	12	-33.4%
Profit before tax	1,398	1,426	1,298	1,501	-13.5%	-7.2%	-9.0%	3,970	5,248	32.2%
Overseas tax expense	-28.1	-19	-24	-20	21.8%	-14.4%	25.4%	-120	-88	-26.7%
Loss from discontinued operations	-4.1	-4	2	-6	NM	NM	NM	-41	-20	-49.9%
Non controlling interest	-5	0	0	0	1.7%	-89.9%	NM	-3	-2	-44.0%
Profit for the period	1,361	1,402	1,275	1,475	-13.5%	-6.3%	-9.0%	3,806	5,137	35.0%

FABS estimate & Co Data

ADCB - P&L KPI

	3Q20	2Q21	3Q21	YOY Ch	QOQ Ch	2020	2021F	Change
AED mm								
Net FI/OI	76.4%	73.4%	75.0%	-138	163	78.4%	73.1%	-534
NIM	3.9%	3.5%	3.4%	-52	-5	3.7%	3.3%	-33
NIS	3.9%	3.4%	3.4%	-50	-5	3.6%	3.3%	-32
Fees & comms/OI	12.5%	15.9%	15.0%	249	-85	12.4%	15.6%	312
Other non-funded/OI	11.1%	10.8%	10.0%	-110	-78	9.1%	11.3%	222
Cost to income	36.9%	33.4%	34.9%	-200	142	36.3%	35.1%	-117
Impairment/PPP	26.7%	32.3%	31.5%	481	-77	50.3%	33.5%	-1679
Tax/PBT	2.0%	1.3%	1.9%	-16	51	3.0%	1.7%	-135
NP/OI	45.5%	44.4%	43.9%	-161	-54	30.5%	42.4%	1183

FABS estimate & Co Data

ADCB Key B/S items

(AED MM)	3Q20	4Q20	1Q21	2Q21	3Q21	YOY Ch
Net advances	242,890	238,976	235,725	237,814	241,912	-0.4%
QOQ change	1.5%	-1.6%	-1.4%	0.9%	1.7%	
Total assets	409,262	411,156	395,819	416,290	432,061	5.6%
QOQ change	0.7%	0.5%	-3.7%	5.2%	3.8%	
Customer deposits	243,579	251,395	238,830	250,564	255,753	5.0%
QOQ change	-2.7%	3.2%	-5.0%	4.9%	2.1%	
Total shareholders' equity	55,019	56,597	55,719	57,104	58,161	5.7%
QOQ change	3.8%	2.9%	-1.6%	2.5%	1.9%	

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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