

Commercial Bank International

Decrease in Funded and Non-Funded income & Higher Provisions impacted the bottom-line

1Q21 profit significantly lower than estimate

Commercial Bank International (CBI) reported a Net Loss of AED96.1 mm in 1Q21, down from AED10.1 mm in 1Q20. The Bank performed lower than our estimate. This was mainly attributed to a decline in the Funded income and Non-Funded Income in addition to increase in Impairment Charges.

P&L highlights

The Bank recorded a 35.3% YOY decrease in Funded Income to AED129 mm in 1Q21, from AED200 mm in 1Q20. The Funded Expenses reduced favourably by 38% YOY to AED49.9 mm in 1Q21, from AED80.4 mm in 1Q20. However, the reduction in Funded Income impacted the Net Funded Income to reduce by 25.9% to AED90.5 mm in 1Q21, compared to AED122 mm in 1Q20. The Fees and Commissions decreased by 25.6% YOY to AED30.8 mm in 1Q21, down from AED41.4 mm in 1Q20. Similarly, the Other Operating Income decreased by 41.2% YOY to AED38.6 mm in 1Q21, as compared to AED54.6 in 1Q20. As a result, the Total Non-Funding Income reduced by 29.4% YOY to AED38.6 mm in 1Q21, as compared to AED54.6 mm in 1Q20. The Total Operating Income was impacted due to the unfavourable outcome and declined by 27% YOY to AED129 mm in 1Q21, as compared to AED176.7 mm in 1Q20. The Operating Expenses increased by 7.4% YOY to AED78.9 mm in 1Q21, up from AED73.5 mm in 1Q20. Resultantly, the Pre-Provision profit decreased by 51.4% YOY to AED50.1 mm in 1Q21, as compared to AED103.2 mm in 1Q20. The Impairment charges have increased by 60.2% YOY to AED147.4 mm as compared to AED92.1 mm in 1Q20, due to the bank's exposure to current macroeconomic climate. Due to above-mentioned items, the Bank recorded a Net Loss of AED96.1 mm in 1Q21, down from a Net Profit of AED10.1 mm in 1Q20.

Balance sheet highlights

The Net Advances declined by 6.7% YOY to AED10.2 bn in 1Q21, as compared to AED10.9 bn in 1Q20. The Total Assets decreased by 10.6% YOY to AED16 bn in 1Q21, down from AED18 bn in 1Q20. Similarly, the Customer Deposits also decreased by 14.2% YOY to AED9.4 bn in 1Q21, compared to AED11 bn in 1Q20. The Total Equity decreased by 3.6% YOY to AED2.4 bn in 1Q21, from AED2.5 bn in 1Q20. The Bank's Accumulated losses increased significantly in 1Q21, as compared to 1Q20.

Target price and rating

We assign a REDUCE rating on CBI with a target price of AED0.56. Commercial Bank International (CBI) has five subsidiaries through which it operates and provides services. The business model in UAE mainly includes commercial banking services via its branches. CBI reported a Net Loss of AED96.1 mm in 1Q21 compared to a

Rating : REDUCE

First Look Note – 1Q21

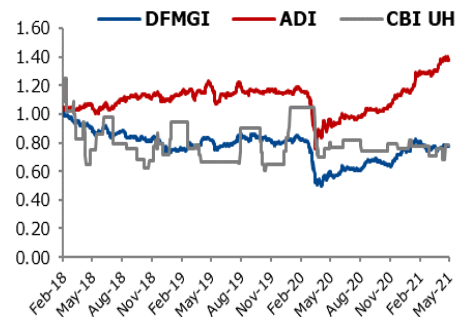
Sector: Banking

Recommendation

Current Price (17-May)	0.72
Target Price	0.56
Upside (%)	-22.7%

Stock Information

Market Cap (AED/mm)	1,257.87
Paid Up Capital (USD)	1,737.38
52 Week High	0.75
52 Week Low	0.63
3M Avg. daily value	1,001



Financial Ratios

Dividend Yield (12month)	NA
Dividend Payout	NA
Price-Earning Ratio	NA
Price-to-Book Ratio	0.67
Book Value	1.08
Return-on Equity	-6.86
Earning Per Share	-0.08
Beta	0.33

Stock Performance

5 Days	0.00%
1 Months	14.92%
3 Months	1.54%
6 Months	-0.82%
1 Year	2.99%
Month to Date (MTD%)	0.00%
Quarter to Date (QTD%)	3.43%
Year to Date (YTD%)	-3.47%

Net Profit of AED10.1 mm in 1Q20. This was mainly due to a decrease in income from operations that generate Net Funded and Non-Funded Income. The Bank operates through five segments: Wholesale Banking, Retail Banking, Treasury, Real Estate, and Others. Around 70% of the Revenue was contributed by its largest segment – Wholesale Banking. The Treasury segment contributed 18.5% of the Total Revenue of the Bank, followed by Retail Banking. Revenue from all segments, except for Treasury, was reduced in 1Q21 from 1Q20. Revenue from Treasury increased by 43% YOY to AED23.9 mm in 1Q21, up from AED16.7 mm in 1Q20. This was mainly driven by an increase in Net Interest Income from external customers. The Wholesale Banking segment recorded the highest Impairment charges of all the segments, in line with its level of operations. The segment recorded a Net Loss of AED125.3 mm in 1Q21 compared to a Net Profit of AED14.1 mm in 1Q20. Overall, the underperformance of the Wholesale segment impacted the Group's performance to report a Net Loss in 1Q21. The profitability ratios such as Return on Average Equity and Average Assets reduced to negative 4% and 0.6% in 1Q21. The Operating Expenses increased by 7.4% YOY to AED78.9 mm in 1Q21, up from AED73.5 mm in 1Q20. Similarly, the Cost-to-Income ratio increased to 61.2% in 1Q21, as compared to 41.6% in 1Q20. The CET1 ratio reduced to 11.33% in 1Q21, down from 11.95%. Furthermore, the Capital Adequacy Ratio (CAR) decreased to 15.8% in 1Q21, down from 16.3% in 1Q20, however, above the minimum regulatory requirements. The decline in capital ratios was mainly due to a reduction in the Bank's Total Capital base. The Customer Deposits decreased by 14.2% YOY to AED9.4 bn in 1Q21, from AED11 bn in 1Q20. The CASA mix remained the same in 1Q21 as compared to the previous year. The Time Deposits consist of around 69% of the Total Customer Deposits. The Net advances decreased by 6.7% in 1Q21. The Loans and Advances is dominated by Loans for Wholesale Lending segment. The decline is mainly due to the ECL allowance recorded by the Bank, in line with the given macroeconomic environment. Based on the above, We maintain a REDUCE Rating on the stock.

CBI- Relative Valuation

AED mm	2017	2018	2019	2020	2021E
PE (x)	8.32	5.70	10.81	NM	NM
P/B (x)	0.63	0.65	0.63	0.64	0.56

FABs Estimate & Co Data

CBI - P&L

AED mm	1Q20	4Q20	1Q21	1Q21F	Var	YOY CH	QOQ ch	2020	2021F	Change
Funded income	200	139	129	163	-20.9%	-35.3%	-7.4%	667	586	-12.1%
Income from Islamic financing and investing assets	8	13	13	14	-7.6%	67.8%	-3.0%	41	54	32.1%
Funded expenses	-80	-60	-50	-71	-29.5%	-38.0%	-17.3%	-275	-224	-18.4%
Depositors' share of profits	-5	-2	-1	-4	-61.2%	-70.2%	-41.8%	-15	-7	-56.9%
Net funded income	122	90	90	102	-11.7%	-25.9%	0.8%	418	409	-2.0%
Fees and commissions	41	28	31	38	-18.5%	-25.6%	10.0%	146	135	-7.8%
Other operating income, net	13	10	8	22	-64.6%	-41.2%	-25.7%	177	36	-79.6%
Total non-funded income	55	38	39	60	-35.4%	-29.4%	0.3%	323	171	-47.1%
Total operating income	177	128	129	162	-20.5%	-27.0%	0.6%	740	580	-21.6%
Operating expenses	-73	-53	-79	-53	49.7%	7.4%	49.6%	-264	-288	9.0%
Pre provision profit	103	75	50	110	-54.2%	-51.4%	-33.6%	476	292	-38.6%
Impairment (total)	-92	-50	-147	-71	NM	60.2%	NM	-437	-545	24.8%
Share of results of associates	-1	-2	0	-2	NM	NM	NM	-5	0	NM
Non-controlling interests	0	0	1	0	NM	NM	NM	-61	1	NM
Net profit	10	23	-96	37	NM	NM	NM	-27	-252	NM

FABS estimate & Co Data

CBI - P&L KPI

	1Q20	4Q20	1Q21	YOY CH	QOQ ch	2020	2021F	Change
AED mm								
Net FI/OI	69.1%	70.0%	56.4%	-1,266	-1,357	56.4%	70.6%	1417
NIM	3.5%	3.3%	3.4%	-8	15	3.4%	3.4%	-6
NIS	3.7%	3.2%	3.5%	-21	24	3.5%	3.3%	-12
Fees & comms/OI	23.5%	21.9%	19.7%	-374	-214	19.7%	23.2%	348
Trading/OI	7.5%	8.1%	23.9%	1,639	1,571	23.9%	6.2%	-1765
Cost to income	41.6%	41.1%	35.7%	-590	-545	35.7%	49.6%	1394
Impairment/PPP	89.2%	43.6%	84.0%	-521	4,039	84.0%	174.9%	9087
NP/OI	5.7%	18.2%	-3.7%	-941	-2,186	-3.7%	-43.5%	-3977
ROAE	0.4%	0.9%	-1.1%	-151	-204	-1.1%	-10.6%	-954
ROAA	0.1%	0.1%	-0.2%	-20	-28	-0.2%	-1.4%	-127

FABS estimate & Co Data

CBI- Key BS Items

	1Q20	2Q20	3Q20	4Q20	1Q21	YOY CH
AED mm						
Net advances	10,956	10,857	10,565	10,372	10,226	-6.7%
QoQ Change	-6.9%	-0.9%	-2.7%	-1.8%	-1.4%	
Total assets	17,866	18,784	18,269	17,141	15,970	-10.6%
QoQ Change	-4.0%	5.1%	-2.7%	-6.2%	-6.8%	
Customer deposits	10,996	11,368	10,657	10,481	9,432	-14.2%
QoQ Change	-8.9%	3.4%	-6.2%	-1.7%	-10.0%	
Total equity	2,482	2,487	2,421	2,429	2,393	-3.6%
QoQ Change	0.4%	0.2%	-2.7%	0.3%	-1.5%	

FABs Estimate & Co Data

Research Rating Methodology:

Rating	Upside/Downside potential
BUY	Higher than +15%
ACCUMULATE	Above +10% to +15%
HOLD	Between +10% to -5%
REDUCE	Below -5% to -15%
SELL	Lower than -15%

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