

Abu Dhabi Commercial Bank

Higher Fees and commissions push the bottom-line higher

2Q21 results marginally beats our estimates

Abu Dhabi Commercial Bank (ADCB) reported a significant increase in Net profit of AED1,402 mm in 2Q21 compared to AED1,228 mm in 2Q20, beating our estimate by 1.3% of AED1,384 mm. This is mainly due to a significant rise in Fees and commissions.

P&L highlights

Funded income decreased by 19.5% YOY to AED2,837 mm in 2Q21 from AED3,523 mm in 2Q20. Funded expense significantly decreased by 55.6% YOY to AED522 mm in 2Q21 from AED1,177 mm in 2Q20. Resultantly, the Net funded income decreased by 1.3% YOY to AED2,315 mm in 2Q21 from AED2,347 mm in 2Q20. Fees and commissions significantly increased by 61.2% YOY to AED501 mm in 2Q21 from AED311 mm in 2Q20. Other operating income rose by 19.6% YOY to AED339 in 2Q21 from AED284 mm in 2Q20. Therefore, the Non-funded income increased by 41.3% YOY to AED840 mm in 2Q21 from AED594 mm in 2Q20. Thus, Operating income increased by 7.3% YOY to AED3,155 mm in 2Q21 from AED2,941 mm in 2Q20. Operating expense increased by 2.9% YOY to AED1,055 mm in 2Q21 from AED1,025 mm in 2Q20. Impairments increased by 1.4% YOY to AED678 mm in 2Q21 from AED668 mm in 2Q20. Finally, the Net Profit increased by 14.1% to AED1,402 mm in 2Q21 from AED 1,228 mm in 2Q20.

Balance sheet highlights

ADCB's Net advances have decreased by 0.6% YOY to AED237.81 bn in 2Q21 from AED239.28 bn in 2Q20. Total Assets increased by 2.5% YOY to AED416.29 bn in 2Q21 compared to AED406.23 bn in 2Q20. Total shareholders' equity increased by 7.8% YOY to AED57.1 bn in 2Q21 from AED52.98 bn in 2Q20. Customer deposits recorded a marginal increase by 0.1% to AED250.56 bn compared to AED250.27 bn in 2Q20.

Target price and rating

We maintain a BUY rating on ADCB with a target price of AED8.50, ADCB had implemented previously a new five-year growth strategy based on digital transformation and their additional cost control measures and acceleration. This has been witnessing a good progress through acceleration of digital transformation with an increasing number of digital active customers standing at 633K registrations in 2Q21 from 523K in 2Q20 and with the numbers of digital transactions rising as well reaching 23.3 Mn transaction as compared to 18.5 Mn transactions same period last year. ADCB continued improving the Cost to income (C/I) ratio with a decrease of 290 bps to 33.4% in 2Q21 from 36.3% in 1Q21 despite the low interest rate environment caused by lower cost of fund and merger synergies along with other efficient operations. The bank also increased its lending mainly by lending to the government and the public sector enterprises when the exposure to real estate is still following a decreasing trend it fell by 26% of gross loans despite having a well-diversified loan portfolio with an LTV of 80%. ADCB recorded a strong increase by 25% from previous quarter in Net profit in

Rating : BUY

First Look Note – 2Q21

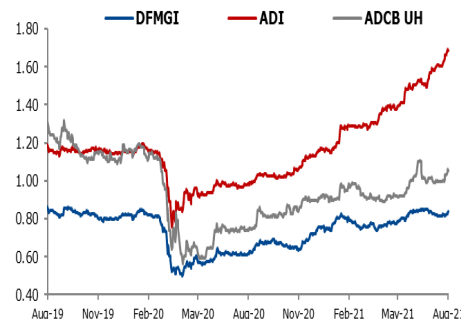
Sector: Banking

Recommendation

Current Price (04-Aug)	7.17
Target Price	8.50
Upside/Downside (%)	18.5%

Stock Information

Market Cap (mm)	49,953.98
Paid Up Capital (mm)	6,957.38
52 Week High	7.57
52 Week Low	5.01
3M Avg. daily value (AED)	58,918,680



Financial Ratios

Dividend Yield (12m)	3.76
Dividend Pay-out (%)	52.63
Price-Earnings Ratio (x)	10.59
Price-to-Book Ratio (x)	0.98
Book Value (AED)	7.35
Return-on Equity (%)	9.53
Earning Per Share (AED)	0.68
Beta	1.05

Stock Performance

5 Days	4.82%
1 Months	4.06%
3 Months	15.43%
6 Months	9.28%
1 Year	43.03%
Month to Date (MTD)	2.28%
Quarter to Date (QTD)	4.51%
Year to Date (YTD)	15.81%

2Q21 reaching AED 1,402 Mn from AED 1,121 Mn in 1Q21 and an increase of 14% YOY from AED 1,227 Mn in 2Q20 with both a significant increase in fee income by 61% YOY and net interest income increasing QOQ by 9% reaching AED 2,315 Mn but still lower as compared to 2Q20 by 1%. This increase in net profit was supported by higher revenues and the continuous decrease in costs and better digital transformation progress as compared to previous periods. Interest expense has been decreasing reaching AED 522 Mn in 2Q21. Non-interest income has increase by 5% QOQ and 421% YOY standing at AED 840 Mn in 2Q21. Nevertheless, operating expenses were slightly up by 3% as compared to last year same period at AED 1,055 Mn from AED 1,025 Mn in 2Q20 but witnessed a decrease as compared to last quarter from AED 1,061 Mn. In second quarter of 2021, the loan to deposit ratio stood at 94.9% compared to 95.6% in second quarter of 2020. Customer deposits increased by 5% QOQ to AED 251 Bn due to the increase in CASA deposits while net loans increased by 1% to reach AED 238 Bn in 2Q21 but still below last year's figure by 0.5% better than the industry witnessing a decrease of 2% in net loans as compared to same period last year. Further, the Net interest margin (NIM) for 2Q21 remains lower than that in 2Q20 standing at 3.5% as compared to 4.2%, and Net Interest Spread (NIS) is also lower at 3.4% from 4.1% in 2Q20. ADCB's Common equity tier 1 capital ratio stood at 13.2% down from 13.9% as at end of year 2020, as Risk Weighted Assets have increased to AED326.8 Bn compared to AED306.4 bn in December 2020. The bank's Non-performing loan ratio has been following a decreasing trend and it currently stood at 5.86% in 2Q21 with a provision coverage ratio of 145% up from 151% as at end of December 2020. The Bank's Liquidity ratio stood at 30.4% in 2Q21 down from 31.2% in December 2020 with a liquidity coverage ratio of 127.6% as compared to 156.8% in December 2020 but still above the UAE central bank requirement of 70%. The stock is currently trading at attractive valuation with P/B of 0.83x. Therefore, we assign a BUY rating on the stock.

ADCB - Valuation

At CMP	2017	2018	2019	2020	2021F
PER (x)	8.96	7.97	10.10	14.06	8.85
P/BV (x)	1.31	1.29	1.00	0.99	0.79
Dividend yield	5.9%	6.4%	5.3%	3.8%	4.6%

FABS estimate & Co Data

ADCB - P&L

AED mm	2Q20	1Q21	2Q21	2Q21F	Var.	YOY	QOQ	2020	2021F	YOY ch
Funded income	3,523	2,724	2,837	3,342	-15.1%	-19.5%	4.1%	14,065	14,347	2.0%
Funded expense	-1,177	-605	-522	-1,053	-50.4%	-55.6%	-13.7%	-4,282	-4,447	3.9%
Net funded income	2,347	2,119	2,315	2,289	1.1%	-1.3%	9.2%	9,783	9,899	1.2%
Fees & commissions	311	443	501	413	21.4%	61.2%	13.0%	1,551	1,861	20.0%
Other operating income	284	359	339	449	-24.5%	19.6%	-5.6%	1,137	1,800	58.2%
Non funded income	594	802	840	862	-2.5%	41.3%	4.7%	2,688	3,661	36.2%
Operating income	2,941	2,922	3,155	3,151	0.1%	7.3%	8.0%	12,471	13,560	8.7%
Operating expenses	-1,025	-1,061	-1,055	-1,039	1.5%	2.9%	-0.5%	-4,526	-4,262	-5.8%
Pre-provision profit	1,916	1,861	2,100	2,112	-0.6%	9.6%	12.8%	7,945	9,298	17.0%
Impairments	-668	-704	-678	-697	-2.8%	1.4%	-3.7%	-3,993	-3,494	-12.5%
Operating profit after impairment	1,248	1,157	1,422	1,415	0.5%	14.0%	22.9%	3,952	5,805	46.9%
Share of profit of assoc.	11	2	3	4	-13.4%	-69.1%	63.2%	18	19	3.5%
Profit before tax	1,259	1,159	1,426	1,419	0.5%	13.3%	23.0%	3,970	5,823	46.7%
Overseas tax expense	-28.8	-27.5	-19	-25	-22.6%	-33.3%	-30.3%	-120	-118	-2.0%
Loss from discontinued operations	-3.2	-10.4	-4	-8	-47.6%	30.6%	-60.0%	-41	-39	-5.0%
Non controlling interest	2	0	0	-2	-89.9%	-112.3%	-52.6%	-3	-3	9.4%
Profit for the period	1,228	1,121	1,402	1,384	1.3%	14.1%	25.1%	3,806	5,663	48.8%

FABS estimate & Co Data

ADCB - P&L KPI

AED mm	2Q20	1Q21	2Q21	YOY CH	QOQ CH	2020	2021F	YOY CH
Net FI/OI	79.8%	72.5%	73.4%	-641	84	78.4%	73.0%	-544
NIM	4.2%	3.4%	3.5%	-71	2	3.7%	3.7%	4
NIS	4.1%	3.4%	3.4%	-68	2	3.6%	3.7%	5
Fees & comms/OI	10.6%	15.2%	15.9%	531	70	12.4%	13.7%	129
Other non-funded/OI	9.6%	12.3%	10.8%	110	-154	9.1%	13.3%	415
Cost to income	34.9%	36.3%	33.4%	-141	-286	36.3%	31.4%	-487
Impairment/PPP	34.9%	37.8%	32.3%	-261	-555	50.3%	37.6%	-1268
Tax/PBT	2.3%	2.4%	1.3%	-94	-103	3.0%	2.0%	-101
NP/OI	41.8%	38.4%	44.4%	267	608	30.5%	41.8%	1125
ROAE	2.3%	2.2%	2.5%	22	40	6.8%	9.5%	271
ROAA	0.3%	0.3%	0.3%	4	6	0.9%	1.3%	41

FABS estimate & Co Data

ADCB Key B/S items

(AED MM)	2Q20	3Q20	4Q20	1Q21	2Q21	YOY ch
Net advances	239,288	242,890	238,976	235,725	237,814	-0.6%
QOQ change	-3.0%	1.5%	-1.6%	-1.4%	0.9%	
Total assets	406,235	409,262	411,156	395,819	416,290	2.5%
QOQ change	-1.4%	0.7%	0.5%	-3.7%	5.2%	
Customer deposits	250,272	243,579	251,395	238,830	250,564	0.1%
QOQ change	-4.8%	-2.7%	3.2%	-5.0%	4.9%	
Total shareholders' equity	52,986	55,019	56,597	55,719	57,104	7.8%
QOQ change	9.2%	3.8%	2.9%	-1.6%	2.5%	

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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