

# First Look Note | 4Q23

**UAE Equity Research** 

Sector: Banking

Market: ADX

# **Abu Dhabi Commercial Bank (ADCB)**

Solid lending growth along with rising rates supported profitability

Current Price	Target Price	Upside/Downside (%)	Rating	
AED 8.58	AED 11.00	+28%	BUY	

- ADCB's net loans grew 16.8% to AED 302.0 Bn in 4Q23, mainly driven by increased lending to GRE and other key sectors while real estate exposure declined from 22% in 2022 to 17% in 2023.
- The Bank recorded net gain of AED 490 Mn in 4Q23 primarily due to its divestment in subsidiary Abu Dhabi Commercial Properties (ADCP)
- NPL ratio declined from 4.8% in 3Q23 to 3.7% in 4Q23. Provision coverage ratio rose to 102.5% in 4Q23 from 91.4% in 3Q23 whereas provision including collateral stood at 168% in 4Q23 as compared to 148% in 3Q23.
- Capitalization stood strong with CET1 ratio of 12.9% and total CAR of 16.2% in 4Q23.

#### **4Q23 Net Profit in line with our estimate**

Abu Dhabi Commercial Bank's ("ADCB", "The Bank") net profit grew 37.3% YOY to AED 2,453 Mn in 4Q23, in line with our estimate of AED 2,471 Mn. The growth in net profit is mainly driven by a healthy growth recorded in net funded income and gain received on disposal of subsidiary partially offset by lower non-funded income and increase in operating expenses.

### **P&L Highlights**

ADCB's funded income including interest income and income from Islamic financing grew 38.7% YOY to AED 8,054 Mn in 4Q23 driven by strong growth in advances and expansion in asset yield. On the other hand, funded expenses rose significantly from AED 2,891 Mn in 4Q22 to AED 4,641 Mn in 4Q23 due to increase in cost of funds. However, the cost of funds in 2023 rose by 217bps YOY to 3.85% at a lower rate compared to 3M average EIBOR and LIBOR, indicating a solid funding mix. Thus, net funded income grew 17.0% YOY to AED 3,413 Mn in 4Q23. NIMs rose 9 bps YOY and 6 bps QOQ to 2.7% in 4Q23. Moreover, ADCB's fee and commission income declined 6.9% YOY to AED 577 Mn in 4Q23. Other operating income also declined 22.4% YOY to AED 672 Mn in 4Q23 mainly due to net loss recorded on disposal of investment securities, lower gain arising from hedging derivatives and a decline in trading income. Thus, non-funded income declined 15.9% YOY to AED 1,249 Mn in 4Q23. As a result, total operating income grew 5.9% YOY to AED 4,662 Mn in 4Q23. Furthermore, operating expenses grew 14.5% YOY to AED 1,491 Mn in 4023 attributable to an increase in staff cost and G&A expenses partially offset by decline in depreciation and amortization expense. ADCB's cost-to-income ratio grew 240 bps YOY to 32.0% in 4Q23 mainly due to rise in operating expenses. The Bank's impairments declined 2.6% YOY to AED 1,162 Mn in 4Q23.



Stock Information						
Market Cap (AED, Mn)	62,805.15					
Paid Up Capital (Mn)	7,319.95					
52 Week High	9.31					
52 Week Low	7.63					
3M Avg. daily value(AED)	34,469,640					

4Q23 Result Review	4Q23 Result Review (AED, Mn)					
Total Assets	567,194					
Total Liabilities	495,941					
Total Equity	71,253					
Total Deposits	362,905					
Net Profit	2,453					

Financial Ratios	
Dividend Yield (12m)	1.99
Dividend Pay-out (%)	52.46
Price-Earnings Ratio(x)	8.08
Price-to-Book Ratio (x)	1.01
Book Value (AED)	8.54
Return-on Equity (%)	13.25

Stock Performa	Stock Performance						
5 Days	-4.67%						
1 Months	-4.79%						
3 Months	3.26%						
6 Months	-2.84%						
1 Year	2.34%						
Month to Date (MTD%)	-5.11%						
Quarter to Date (QTD%)	-6.97%						
Year to Date (YTD%)	-6.97%						



In addition, the Bank recorded a net gain of AED 490 Mn in 4Q23 primarily due to disposal of its stake in subsidiary Abu Dhabi Commercial Properties (ADCP). Furthermore, overseas tax expense grew 58.3% YOY to AED 47 Mn in 4Q23 due to solid performance in overseas business.

#### **Balance Sheet Highlights**

ADCB's total assets recorded a healthy growth of 13.9% to AED 567.1 Bn in 4Q23 mainly due to increase in cash balance held with central bank, growth in investment securities and increase in Bank's loan book. Net advances grew 16.8% to AED 302.0 Bn in 4Q23 due to corporate and retail loans growth. The bank's investment securities rose 14.5% to AED 128.3 Bn in 4Q23, with 68.0% accounted for amortized cost and 32.0% at the FVTOCI mark to market on a daily basis. Customer deposits rose 17.5% YOY to AED 362.9 Bn in 4Q23. CASA deposits grew from AED 157.5 Bn in 3Q23 to AED 167.3 Bn in 4Q23 while CASA deposits account for 46.0% of total deposits in 4Q23. In addition, ADCB's total equity rose 16.0% to AED 71.3 Bn in 4Q23.

#### **Target Price and Rating**

We maintain our BUY rating on Abu Dhabi Commercial Bank (ADCB) with a target price of AED 11.00. ADCB recorded a strong growth in profitability driven by increase in net funded income and net gains recorded on disposal of subsidiary. The rise in net funded income was primarily attributed to the strong growth in net loans and advances. Net advances grew 16.8% to AED 302.0 Bn in 4Q23 due to increase in lending to GRE's, transportation, trading, manufacturing and financial institutions along with a decline in exposure to real estate sector. The Bank continued to reduce exposure to real estate sector from 22% in 2022 to 17% in 2023. ADCB deployed 75% of its loans to the corporate sector and 25% to the retail sector. Retail sector saw a significant growth marked by a rise in the lending to personal, mortgage, and auto loans. NIMs rose 9 bps YOY and 6 bps QOQ to 2.7% in 4Q23. ADCB issued c.220 thousand cards during 2023 and welcomed around 633 thousand new retail banking customers out of which 79% were onboarded digitally in 2023. ADCB's customer deposits grew 17.5% to AED 362.9 Bn in 4023 resulting in a loan-to-deposit ratio of 83.2% in 4023 as compared to 86.3% in 3Q23. The Bank added AED 14 Bn in CASA deposits in 2023 despite rising interest rate mainly due to the strong franchise. CASA deposits now account for 46.0% of total deposits as of 4Q23. Furthermore, the Bank's asset quality improved as the NPL ratio declined from 4.8% in 3Q23 to 3.7% in 4Q23, mainly due to the large accounts' write-off. Provision coverage also strengthened from 91.4% in 3023 to 102.5% in 4023. Provisions including collaterals stood at 168% in 4023 as compared to 148% in 3023. ADCB's capitalization stood strong with a CET 1 ratio of 12.9% and CAR of 16.2% in 4Q23. The Bank's board of directors also proposed a dividend of 5.6 fils, generating a dividend yield of 6.4% in 2023. Thus, based on our analysis, we assign a BUY rating on the stock.

#### **ADCB - Relative valuation**

(at CMP)	2019	2020	2021	2022	2023	2024F
PE	14.1	18.0	12.6	10.2	8.1	9.4
PB	1.3	1.3	1.2	1.1	1.0	1.1
Dividend yield	4.2%	3.0%	4.0%	2.0%	6.4%	5.6%

FABS Estimates & Co Data



#### ADCB - P&L

AED Mn	4Q22	3Q23	4Q23	4Q23F	VAR	YOY Ch	QOQ Ch	2022	2023	Change
Funded income	5,809	7,386	8,054	8,005	0.6%	38.7%	9.0%	16,417	28,251	72.1%
Funded expense	-2,891	-4,206	-4,641	-4,585	1.2%	60.6%	10.3%	-6,223	-15,877	155.1%
Net funded income	2,918	3,179	3,413	3,420	-0.2%	17.0%	7.3%	10,194	12,374	21.4%
Fees & commissions	620	611	577	644	-10.4%	-6.9%	-5.5%	2,110	2,444	15.8%
Other operating income	865	443	672	915	-26.5%	-22.4%	51.5%	2,040	2,048	0.4%
Non funded income	1,486	1,054	1,249	1,559	-19.9%	-15.9%	18.5%	4,151	4,493	8.2%
Operating income	4,403	4,233	4,662	4,979	-6.4%	5.9%	10.1%	14,344	16,866	17.6%
Operating expenses	-1,302	-1,412	-1,491	-1,537	-3.0%	14.5%	5.6%	-4,888	-5,453	11.5%
Pre-provision profit	3,101	2,822	3,171	3,442	-7.9%	2.3%	12.4%	9,456	11,414	20.7%
Impairments	-1,193	-819	-1,162	-891	30.4%	-2.6%	41.8%	-2,779	-3,477	25.1%
Operating profit	1,908	2,002	2,009	2,551	-21.2%	5.3%	0.3%	6,677	7,937	18.9%
Share of profit of assoc.	-4	-2	1	0	NM	NM	NM	-8	0	-98.8%
Net gain on disp of subsi	0	0	490	0	NM	NM	NM	0	490	NM
Profit before tax	1,904	2,000	2,500	2,551	-2.0%	31.3%	25.0%	6,669	8,427	26.4%
Overseas tax expense	-29	-58	-47	-80	-42.0%	58.3%	-20.2%	-135	-221	63.4%
Non- Controlling interest	2	0	-1	0	NM	NM	NM	2	1	NM
Profit for the period	1,786	1,942	2,453	2,471	-0.7%	37.3%	26.3%	6,435	8,207	27.5%

FABS estimate & Co Data

#### ADCB - KPI

	4Q22	3Q23	4Q23	YOY Ch	QOQ Ch	2022	2023	Change
Net FI/OI	66.3%	75.1%	73.2%	694	-190	71.1%	73.4%	230
NIM	2.7%	2.7%	2.7%	9	6	2.4%	2.6%	17
NIS	2.3%	2.2%	2.2%	-8	2	2.2%	2.1%	-8
Fees & comms/OI	14.1%	14.4%	12.4%	-170	-204	14.7%	14.5%	-22
Other non-funded/OI	19.7%	10.5%	14.4%	-524	394	14.2%	12.1%	-208
Cost to income	29.6%	33.3%	32.0%	240	-137	34.1%	32.3%	-175
Impairment/PPP	38.5%	29.0%	36.6%	-182	761	29.4%	30.5%	108
Tax/PBT	1.5%	2.9%	1.9%	32	-105	2.0%	2.6%	59
NP/OI	40.6%	45.9%	52.6%	1,206	675	44.9%	48.7%	379
Cost of risk	1.21%	0.73%	1.02%	-19	29	0.76%	0.79%	3
Loan-to-deposit	83.7%	86.3%	83.2%	-46	-311	83.7%	83.2%	-46
NPL	5.3%	4.8%	3.7%	-152	-109	5.3%	3.7%	-152
Coverage excluding collateral	93.0%	91.4%	102.5%	950	1,110	93.0%	102.5%	950
CET 1	13.0%	13.1%	12.9%	-10	-26	13.0%	12.9%	-10
Capital adequacy	15.8%	15.8%	16.2%	45	41	15.8%	16.2%	45
ROAE	11.9%	12.9%	13.5%	159	59	11.8%	13.9%	209
ROAA	1.4%	1.4%	1.5%	4	6	1.4%	1.5%	17

FABS estimate & Co Data

#### ADCB - Key B/S items

AED Mn	4Q22	1Q23	2Q23	3Q23	4Q23	YOY Ch
Net advances	258,493	263,533	271,960	284,257	301,995	16.8%
QOQ change	2.9%	1.9%	3.2%	4.5%	6.2%	
Total assets	497,842	501,423	521,301	536,889	567,194	13.9%
QOQ change	2.4%	0.7%	4.0%	3.0%	5.6%	
Customer deposits	308,931	310,587	315,908	329,276	362,905	17.5%
QOQ change	2.2%	0.5%	1.7%	4.2%	10.2%	
Total equity	61,426	61,767	63,712	65,306	71,253	16.0%
QOQ change	4.3%	0.6%	3.1%	2.5%	9.1%	

FABS estimate & Co Data



# Valuation:

We use Residual Income and Relative Valuation (RV) method to value ADCB. We have assigned 70% weight to Residual Income, and 30% to RV method.

Valuation Method	Target	Weight	Weighted Value
Residual Income	11.07	70.0%	7.75
Relative Valuation (RV)	10.84	30.0%	3.25
Weighted Average Valuation (AED)			11.00
Current market price (AED)			8.58
Upside/Downside (%)			+28%

## 1) Residual Income Method:

We have discounted the economic profit/excess equity using the cost of equity of 8.6%. Cost of equity is calculated by using 10-year government bond yield of 4.5%, beta of 1.00 and equity risk premium of 4.0%. Government bond yield is calculated after adding Abu Dhabi 10-year CDS spread over 10-year US risk-free rate. Also, assumed a terminal growth rate of 2.0%.

Sum of PV (AED, Mn)	4,685
Terminal value (AED, Mn)	13,852
Book Value of Equity (as of Dec 2023)	62,492
FV to Common shareholders (AED, Mn)	81,029
No. of share (Mn)	7,320
Current Market Price (AED)	8.58
Fair Value per share (AED)	11.07

#### **Residual Income Method**

(All Figures in AED Mn)	FY 2024E	FY 2025E	FY 2026E	FY 2027E	FY 2028E
Net Profit	6,884	7,133	7,341	7,778	8,401
(-) Equity Charge	-5,636	-5,962	-6,297	-6,662	-7,061
Excess Equity	1,247	1,171	1,044	1,116	1,341
Discounting Factor	0.93	0.85	0.79	0.72	0.67
Present Value of Excess Equity	1,158	1,001	822	809	895

Source: FAB Securities



### 2) Relative Valuation:

We have used local and international peers to value ADCB and it is valued using the PB multiple. It is valued at a 2024 PB multiple of 1.2x in line with peers.

Company	Market	P/B	(x)	P/E (x)		Dividend Yield (%)	
	(USD Mn)	2024F	2025F	2024F	2025F	2024F	2025F
Commercial Bank of Dubai	4,064	1.1	NA	NA	NA	5.5	6.0
Abu Dhabi Islamic Bank	10,107	1.7	1.6	8.9	8.3	5.9	6.2
Dubai Islamic Bank	11,374	1.1	1.0	8.0	7.3	5.9	6.1
Emirates NBD	30,184	1.0	0.9	6.1	6.0	4.9	4.9
Banque Saudi Fransi	13,190	1.3	1.2	10.4	9.8	5.2	5.5
Riyad Bank	24,050	1.5	1.4	10.7	10.2	4.7	4.7
Average		1.3x	1.2x	8.8x	8.3x	5.4x	5.6x
Median		1.2x	1.2x	8.9x	8.3x	5.4x	5.8x
Max		1.5x	1.4x	10.4x	9.8x	5.8x	6.1x
Min		1.1x	1.0x	8.0x	7.3x	5.0x	5.1x

Source: FAB Securities



#### **Research Rating Methodology:**

Rating Upside/Downside potential

BUY
ACCUMULATE
HOLD
REDUCE
Between +10% to +15%
Lower than +10% to -5%
Between -5% to -15%
Lower than -15%

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