

Abu Dhabi Commercial Bank

TP: AED 8.20 / share

Recommendation

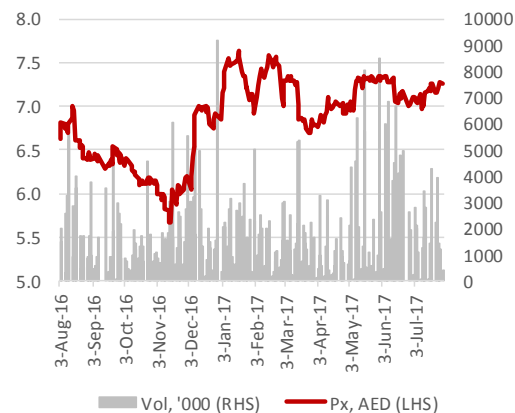
Bloomberg Ticker	ADCB UH
Current Market Price (AED)	7.25
52wk High / Low (AED)	7.680/5.660
12m Average Vol. (000)	1,953.7
Mkt. Cap. (USD/AED bn)	10.3/37.7
Shares Outstanding (mn)	5,198.2
Free Float (%)	37%
3m Avg Daily Turnover (AED mn)	17.5
6m Avg Daily Turnover (AED mn)	14.2
PE 2017e (x)	9.2
PBv 2017e (x)	1.3
Dividend Yield '17e (%)	5.1%

Price Performance:

1 month (%)	3.42
3 month (%)	4.77
12 month (%)	6.62

Source: Bloomberg

Price-Volume Performance



Source: Bloomberg

Ayisha Zia

Research Analyst

a.zia@u-capital.net

Tel: +968 24 94 90 36

Accumulate

Rating revised UPWARD to **ACCUMULATE**, with Blended Target Price (TP) updated to AED 8.20 per share. Our blended price represents a 13% upside to the latest closing price, with an implied PE'17e of 10.5x and PB'17e of 1.5x.

Better-than-expected core H1'17 performance; disciplined cost management

H1'17 operating income of AED 4.34bn was up by 2%YoY on account of a 7%YoY increase in total net interest income. Operating profit before impairment allowances of AED 2.93bn was up 3%YoY, benefiting from a tightly managed cost base. H1'17 operating expenses were AED 1.41bn, a slight increase of 1%YoY, which resulted in an improved cost to income ratio of 32.5% in H1'17 compared to 33.0% in H1'16. We expect the bank to maintain cost-to-income at the current level for 2017 and marginally reduce it over 2018F-2021F. Net profit of the bank was, however, down by 2%YoY on account of a 16%YoY jump in provision expense due to slower recoveries and lower non-interest income (-11%YoY).

AED'000	H1'16	H1'17	YoY 17/16
Net interest income	2,778,089	2,855,246	3%
Net income from Islamic financing	321,279	450,173	40%
Total Net interest & Islamic income	3,099,368	3,305,419	7%
Other operating income	1,159,140	1,037,311	-11%
Operating income	4,258,508	4,342,730	2%
Operating expenses	(1,404,061)	(1,411,394)	1%
Operating profit	2,854,447	2,931,336	3%
Impairment allowances	(703,029)	(813,804)	16%
Net profit for the period	2,146,875	2,113,783	-2%
Attributable to Equity holders	2,145,118	2,113,783	-1%

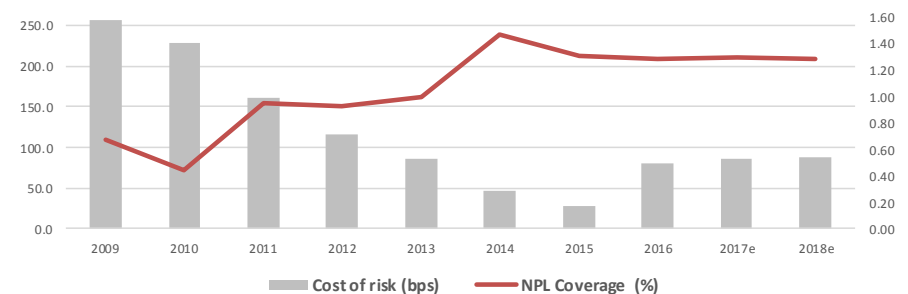
Source: Company Financials, U Capital Research

Continued balance sheet optimization

The total assets of the bank grew by 8%YoY to AED 259bn and net loans and advances to customers increased by 6%YoY to AED 164bn. Deposits from customers increased 9%YoY to AED 162bn. Low-cost CASA deposits comprised 44 % of total customer deposits as of H1'17. We expect deposit growth to remain in mid-high single digit over the forecast period.

Asset quality intact

As at 30 June 2017, NPL and provision coverage ratios were 2.8% and 123.8% respectively, compared to NPL ratio of 2.7% and provision coverage ratio of 129.9% as at 31 December 2016. Cost of risk for the first half of 2017 was 0.81% compared to 0.83% in 2016. Collective impairment allowances were 1.76% of credit risk weighted assets, above the minimum 1.5% stipulated by the UAE Central Bank.



Source: Company Financials, U Capital Research

Key Revisions to Estimates

We have adjusted our estimates for FY17 net loans & deposits, as the recent performance of the bank indicates better-than-expected growth rates. Net loans to customers increased 6%YoY to AED 164.3bn. Credit growth of the entire UAE banking sector was 4.4%YoY until May'17 (Source: CBUAE). 94% of loans were within the UAE in line with the Bank's UAE centric strategy. Customer deposits increased by 9%YoY to AED 161.8bn. System wide growth was 7%YoY until May'17.

AED mn	Earlier FY'17e	Current FY17e	Var, %
Gross Loans & Financings	170.1	173.6	2%
Loan Loss Reserve	-5.9	-6.3	6%
Net Loans & Financings	164.2	167.3	2%
Deposits from Customers	159.6	164.1	3%
<i>LTD</i>	<i>103%</i>	<i>102%</i>	<i>-1%</i>
Total Operating Income	8.4	8.7	3%
Provisions expense	-1.7	-1.8	3%
Operating Expenses	-2.9	-2.8	-3%
Attributable Net Profit	3.8	4.1	9%

Source: U Capital Research

We are also expecting net interest margins to continue to improve, albeit slowly, from here onwards, with other operating income to continue to weigh down on total operating income due to competition in an over-banked market.

TP offers an upside of 13% to CMP; Implies PE'17e of 10.3x and PB'17e of 1.5x

Our target price offers an upside of 13% compared to the current market price. The bank is trading at an attractive PB'17E multiple of 1.3x compared to regional average of 1.4x. The bank's valuation is primarily driven by its strong core operating performance which warrants sustained dividend payouts over the forecast period. Additionally, market conditions are expected to improve as macroeconomic environment eases with fiscal consolidation, stronger global trade and higher Dubai Expo 2020 investment. The UAE will see non-oil growth hitting 3.3%¹ this year. Real GDP growth is expected to be 1.4% in 2017 and 4.4% in 2018².

¹ IMF estimates

² IMF estimates

Key Financials

(AED mn)	2014	2015	2016	2017e	2018e	2019e	2020e
Income Statement							
Interest/Financing Income	6,985	7,797	8,751	9,420	9,996	10,578	11,192
Interest Expense/Payment to Depositor	(1,401)	(1,591)	(2,550)	(2,897)	(3,044)	(3,190)	(3,343)
Net Interest/Financing Income	5,585	6,206	6,201	6,523	6,953	7,388	7,849
Fee & Commission Income	1,243	1,438	1,472	1,508	1,544	1,582	1,620
Other Income	702	618	830	649	683	717	753
Total Non-Interest/Financing Income	1,945	2,056	2,302	2,157	2,227	2,299	2,373
Total Operating Income	7,529	8,262	8,503	8,680	9,180	9,687	10,221
Provisions expense	(762)	(502)	(1,521)	(1,753)	(1,886)	(1,999)	(2,118)
Operating Expenses	(2,563)	(2,827)	(2,796)	(2,821)	(2,974)	(3,129)	(3,271)
Profit Before Taxation	4,204	4,933	4,187	4,106	4,320	4,559	4,832
Net Profit Attributable to Parent	4,050	4,924	4,149	4,077	4,289	4,527	4,798
Balance Sheet							
Cash Balances	10,208	10,669	19,262	20,046	23,435	22,974	24,430
Deposits with Banks & FIs	18,074	24,466	24,664	26,038	27,340	28,707	30,142
Gross Loans & Financings	147,340	160,022	164,400	173,562	182,240	191,352	200,920
Loan Loss Reserve	(6,778)	(6,345)	(5,942)	(6,274)	(6,587)	(6,917)	(7,262)
Net Loans & Financings	140,562	153,677	158,458	167,289	175,653	184,436	193,658
Net Fixed Assets	806	835	927	927	927	927	927
Other Assets	33,558	37,774	54,115	56,886	57,189	61,454	64,022
Total Assets	204,019	228,267	258,289	272,241	285,652	299,662	314,401
Deposits from Banks & FIs	4,089	1,692	3,843	4,057	4,260	4,473	4,696
Deposits from Customers	126,011	143,526	155,442	164,105	172,310	180,926	189,972
Other Borrowings	40,695	43,172	50,744	52,862	54,869	56,976	59,188
Other Liabilities	10,805	15,144	21,910	22,864	23,767	24,716	25,712
Paid-up Capital	5,596	5,596	5,198	5,198	5,198	5,198	5,198
Retained Earnings	7,173	9,627	11,295	15,537	17,629	19,755	22,016
Other Reserves	9,640	9,505	9,857	7,618	7,618	7,618	7,618
Shareholders' Equity	22,408	24,728	26,351	28,353	30,446	32,571	34,832
Minority Interest	10	5	-	-	-	-	-
Total Equity & Liability	204,019	228,267	258,289	272,241	285,652	299,662	314,401
Cash Flow Statement							
Cash from operations	(3,357)	(754)	15,613	2,662	2,950	3,120	3,321
Cash from investing activities	2,842	2,990	18,827	2,876	275	4,235	2,537
Cash from financing	6,446	4,206	11,807	998	713	654	672
Net changes in cash	247	461	8,593	784	3,389	(460)	1,455
Cash at the end of period	10,208	10,669	19,262	20,046	23,435	22,974	24,430
Key Ratios							
Return on Average Assets	2.1%	2.3%	1.7%	1.5%	1.5%	1.5%	1.6%
Return on Average Equity	19.0%	20.9%	16.2%	14.9%	14.6%	14.4%	14.2%
Recurring Income/Operating Income	90.7%	92.5%	90.2%	92.5%	92.6%	92.6%	92.6%
Cost of Funds	0.9%	0.9%	1.2%	1.3%	1.3%	1.3%	1.3%
Net Spread	3.2%	3.2%	2.6%	2.5%	2.5%	2.5%	2.5%
Cost to Income Ratio	34.0%	34.2%	35.9%	36.3%	36.3%	36.4%	36.3%
Net Loans to Customer Deposits	111.5%	107.1%	101.9%	101.9%	101.9%	101.9%	101.9%
NPLs to Gross Loans	3.1%	3.0%	2.8%	2.8%	2.8%	2.8%	2.8%
NPL Coverage	147.0%	131.3%	129.2%	129.2%	129.2%	129.2%	129.2%
Cost of Risk (bps)	46.4	28.7	80.4	86.4	88.3	89.1	89.9
Equity to Gross Loans	15.2%	15.5%	16.0%	16.3%	16.7%	17.0%	17.3%
Equity to Total Assets	11.0%	10.8%	10.2%	10.4%	10.7%	10.9%	11.1%
Dividend Payout Ratio	38.5%	42.2%	56.4%	47.5%	48.0%	50.0%	50.0%
Adjusted EPS (AED)	0.7	0.9	0.7	0.7	0.8	0.8	0.9
Adjusted BVPS (AED)	4.0	4.4	4.7	5.1	5.4	5.8	6.2
Market Price (AED)	7.0	6.6	6.9	7.3	7.3	7.3	7.3
Dividend Yield	4.0%	5.6%	6.5%	5.1%	5.5%	6.0%	6.4%
P/E Ratio (x)	9.7	7.5	8.6	9.2	8.8	8.3	7.9
P/BV Ratio (x)	1.8	1.5	1.4	1.3	1.2	1.2	1.1

Source: Company Financials, U Capital Research

* Market price for 2017 and subsequent years based on closing price of 30-Jul-17

Recommendation

BUY	Greater than 20%
ACCUMULATE	Between +10% and +20%
HOLD	Between +10% and -10%
REDUCE	Between -10% and -20%
SELL	Lower than -20%