

Commercial Bank of Dubai (CBD)

Banking | UAE

Q1 2008 Results

Current Price

AED9.50

EPS FY08e

AED0.80

Recommendation

ADD

Target Price

AED10.40

Q1 2008 Results

Net Income. The bank reported a net income of AED267 million (US\$73 million) in 1Q2008, up 22.4% from AED218 million (US\$59.4 million) reported in 1Q2007.

Net Interest Income. Net interest income increased by 28.4% to reach AED246 million versus AED192 million last quarter, on the back of a 38.8% increase in interest income to AED417 million accompanied by a 57.1% increase in interest expense to AED171 million.

Loans, Deposits and Utilisation. Compared to the end of December 2007, gross loans increased by 10.6% to reach AED23.3 billion, deposits increased by 9.2%, and the total investment went up by 5.5%. Utilisation (gross loans/deposits) went up from 99% to 101%. We believe that CBD will face funding pressure in the short-term, given that the bank has not reverted, yet, to raising medium-term funding, unlike its peers.

Operating Income. Total operating income grew by an impressive 24.4% to AED396 million, on the back of the 28.4% jump in net interest income, and a 35.4% growth in net fees and commissions to AED78 million. However, net investment income remained almost unchanged to record AED69 million.

Provisions and Operating Expenses. Booked provisions stood at AED8 million. Non-performing loans in 1Q2008 stood at AED330 million, or 1.4% of gross loans, and the provisions coverage ratio stood at 90.3%. Total operating expenses increased by 28.6% to AED129 million. The overall cost-to-income ratio went down from 31.4% to 30.6%.

Capital Adequacy. The bank's capital adequacy ratio stood at 14.3% at the end Q1 2008.

In AED Mil.	1Q2007	1Q2008	Change
Interest Income	301	417	38.8%
Interest Expense	(109)	(171)	57.1%
Net Interest Income	192	246	28.4%
Fees & Commissions	58	78	35.4%
Investment Income	67	69	2.9%
Other Operating Income	2	3	34.5%
Operating Income	318	396	24.4%
Loan-Loss Provisions	(0)	(8)	1534.7%
Administrative Expenses	(80)	(111)	39.6%
Depreciation & Amortization	(8)	(10)	21.8%
Other Operating Expenses	(12)	-	
Total Operating Expenses	(100)	(129)	28.6%
Net Operating Profit	218	267	22.4%
Net Profit After Taxes	218	267	22.4%

In AED Mil.	Dec-07	Mar-08	Change
Cash & Due from Central Bank	5,730	5,340	-6.8%
Due from Banks	209	1,162	455.9%
Investment securities, net	2,290	2,417	5.5%
Loans & Discounts, net	20,777	22,991	10.7%
Total Assets	30,436	33,450	9.9%
Due to Banks	3,242	4,363	34.6%
Customer Deposits	21,177	23,118	9.2%
Total liabilities	25,677	28,849	12.4%
Total Net Worth	4,759	4,601	-3.3%

Analysts:

Radwa El-Swaify

relswaify@beltonefinancial.com Ext: 420

Nancy Fahmy

nfahmy@beltonefinancial.com Ext: 456

Key Data

Reuters Code
CBD.DU

Market Cap
AED13.4 billion
US\$3.6 billion

Shares Outstanding
1,411,845,525

Average Daily Turnover
AED1.8 million

Foreign Ownership Limit
Not open to foreign investors

Branches

26

Overseas branches

None

ATMs

130

Employees

1,100

Bloomberg Code
CBD UH

Shareholders' Structure
20% | Government of Dubai
80% | Free Float

52-week high / low
AED12.20/5.52

Asset market share 07

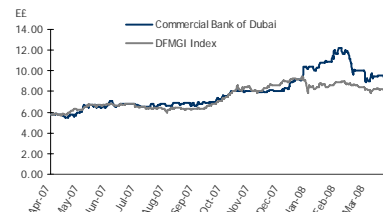
2.5%

Loan market share 07

2.9%

Deposit market share 07

2.9%



Our Opinion

Overall, the results are in line with our expectations. In our view, the biggest challenge which the banks in the Gulf will face is the slower growth in investment income in 2008, compared to the high figures achieved in 2007, especially in fourth quarter.

Valuation

CBD has a target DCF price of AED10.60. CBD is trading at a low P/E FY08E (12.7x) and P/B FY08E (2.9x), compared to a regional and emerging market average P/E FY08E of 13.2x and P/B FY08E of 3.2x. We assign CBD a target price of AED10.40, with an "Add" recommendation.

Strategy Briefing

Following the addition of Peter Baltussen as Chief Executive Officer, in 2006, a total revamp of strategy took place during the latter half of the year. The strategy's main focus was client segmentation, after carrying out extensive client engagement reviews to assess clients' needs, based on a specific set of criteria. Accordingly, the bank redesigned its products and processes to offer innovative products including: asset management products; debt capital markets; wealth management; mortgage financing and personalised banking products. The bank also obtained an Islamic window permit from the UAE Central Bank.

The bank views the growing number of affluent customers, who pursue innovative wealth management opportunities, as key elements of its strategy. CBD launched the Al Dana Wealth Management Programme, targeting the bank's high net worth customers, which offers a wide range of Shari'a-compliant investment funds, mortgage financing, customised loan facilities and online brokerage services, through designated relationship managers. CBD and Rasmala Investments formed a joint venture to establish Rasmala CBD Asset management Ltd, 70% of which is owned by Rasmala Investments and 30% by CBD.

Commercial Bank of Dubai (CBD)

Banking | UAE

Q1 2008 Results

Current Price

AED9.50

EPS FY08e

AED0.80

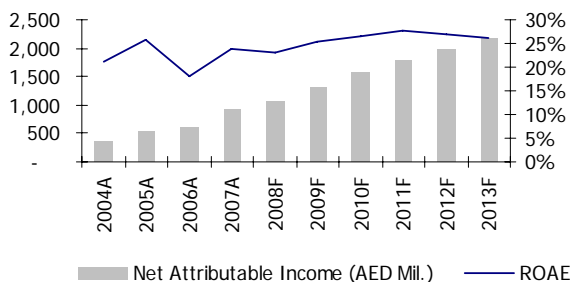
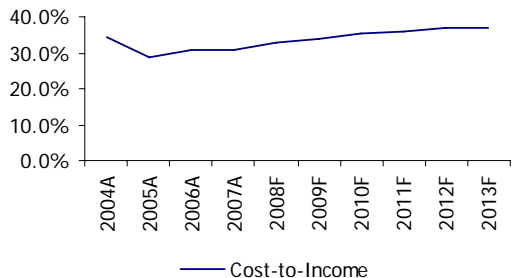
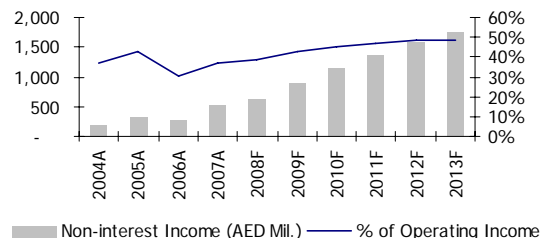
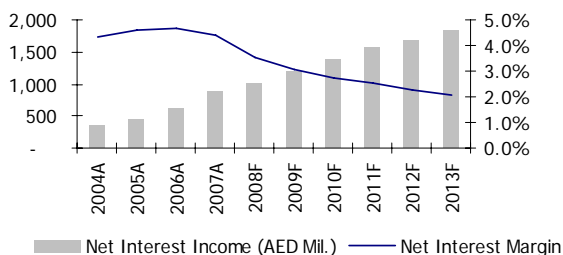
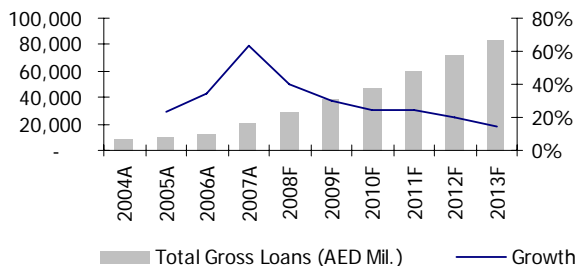
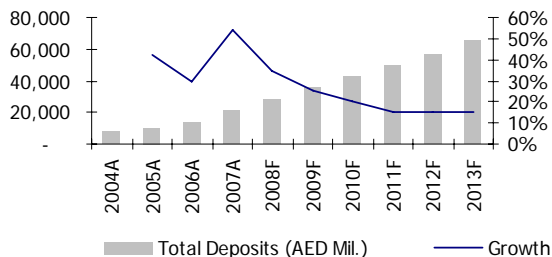
Recommendation

ADD

Target Price

AED10.40

Business Performance and Summary Forecasts



Financial Summary (Fiscal Year ends December | AED million)

Income Statement	2007A	2008F	2009F	2010F	2011F
Interest Income	1,378	1,928	2,349	2,741	3,106
Interest Expense	-506	-905	-1,155	-1,363	-1,543
Net Interest Income	872	1,023	1,194	1,378	1,564
Fees & Commissions, Net	266	315	364	412	459
Investment Income, Net	235	307	517	721	903
Other Operating Income	12	13	15	17	19
Net Operating Income	1,384	1,658	2,090	2,527	2,946
Administrative Expenses	-371	-482	-634	-808	-963
Depreciation	-36	-45	-56	-70	-88
Other Operating Expenses	-16	-15	-13	-12	-11
Total Operating Expenses	-423	-542	-704	-891	-1,062
Loan-Loss Provisions	-25	-42	-60	-68	-60
Net Operating Profit	936	1,074	1,326	1,568	1,824
Non-Shareholder Appropriations	-6	-8	-10	-12	-14
Net Attributable Income	930	1,066	1,316	1,557	1,811

Balance Sheet	2007A	2008F	2009F	2010F	2011F
Assets					
Cash & Short Term Assets	2,330	2,698	3,477	4,474	5,707
Inter-bank Deposits	3,609	4,872	6,334	7,917	9,501
ST Investments in Securities	2,038	3,974	5,961	7,451	8,941
Gross Loans & Advances	21,062	29,487	38,333	47,916	59,895
(Loan-Loss Provisions)	-285	-327	-387	-455	-515
Net Loans & Advances	20,777	29,160	37,946	47,461	59,380
Investments in Securities	253	556	1,000	1,600	2,080
Net Fixed Assets	416	455	498	545	595
Other Assets	1,013	1,419	1,774	2,128	2,447
Total Assets	30,436	43,132	56,988	71,573	88,647
Liabilities					
Due to Banks	3,242	7,294	12,400	17,981	26,971
Customer Deposits	21,177	28,589	35,736	42,883	49,316
Total Liabilities	26,022	38,233	51,503	65,406	81,694
Total Net Worth	4,414	4,899	5,485	6,168	6,954
Contra Accounts	10,776	14,548	18,912	23,641	28,369

Key Ratios	2007A	2008F	2009F	2010F	2011F
EPS (AED)	0.66	0.76	0.93	1.10	1.28
P/E (x)	14.6	12.7	10.3	8.7	7.5
BVPS (AED)	2.74	3.30	3.68	4.13	4.65
P/BV (x)	3.5	2.9	2.6	2.3	2.1
DPS (AED)	0.24	0.30	0.38	0.44	0.52
Dividend yield (%)	2.5%	3.2%	3.9%	4.6%	5.4%
Profitability Ratios					
ROAA	3.8%	2.9%	2.6%	2.4%	2.3%
ROAE	24.0%	22.9%	25.3%	26.7%	27.6%
Net Interest Margin	4.4%	3.5%	3.0%	2.8%	2.5%
Efficiency Ratios					
Cost -to- Income	30.6%	32.7%	33.7%	35.2%	36.0%
Liquidity Ratios					
Avg. G. Loans/ Av. Deposits	97.2%	101.6%	105.4%	109.7%	116.9%
Avg. N. Loans/Av. Deposits	95.7%	100.3%	104.3%	108.6%	115.9%
Avg. N. Loans/Av. Funds	86.8%	82.8%	79.9%	78.4%	77.9%
Asset Quality Ratios					
Avg. N. Loans/Av. Assets	68.0%	67.9%	67.0%	66.4%	66.7%
Avg. NPLs/Av. G. Loans	1.8%	1.4%	1.1%	1.0%	0.9%
Provisions Coverage	88.7%	90.0%	95.0%	100.0%	100.0%
Capitalisation Ratios					
Capital Adequacy Ratio	16.0%	14.0%	11.9%	10.7%	10.0%
Dividend Payout Ratio	36.2%	40.0%	40.0%	40.0%	40.0%

Beltone Financial

Isis Bldg., Osiris St., 8th & 9th floors
Garden City, Cairo, Egypt 11451
Tel: +20 (0)2 2792 6610
Fax: +20 (0)2 2792 6620
E-mail: research@beltonefinancial.com
Website: www.beltonefinancial.com

Beltone Enclave Securities

708 Third Avenue, 19th Floor,
New York, NY 10017
Tel: +1 6464548620

Beltone Financial Securities

The Fairmont, 2105 Sheikh Zayed Road
Dubai, UAE, 213534
Tel: +971 (4) 509 0300
Fax: +971 (4) 332 1203

Saudi Arabia Affiliate:

BMG

Financial Advisors

Al Mukhmal Plaza, 5th floor
Palestine Street
P.O. Box 52972
Jeddah 21573 Saudi Arabia
Tel: +966 (2) 668 1777
Fax: +966 (2) 668 1888
E-mail: info@bmg.com.sa
Website: www.bmg.com.sa

Disclaimer

Copyright © 2008 by Beltone Research ("Beltone"). All rights reserved. This publication may not be reproduced or re-disseminated in whole or in part without prior written permission from Beltone. The information provided herein is for informational purposes only and is not intended as an offer or solicitation with respect to the purchase or sale of any security, nor a recommendation to participate in any particular trading strategy. Such information is subject to change without prior notice. Although Beltone obtains information from sources it considers reliable, Beltone makes no representations or warranties as to the information's accuracy or completeness. Furthermore, such information may be incomplete or condensed. Beltone has no liability for any errors or omissions or for any losses arising from the use of this information. Investors shall bear all responsibility for investment decisions taken on the basis of the contents of this report. Beltone strongly advises potential investors to seek financial guidance when determining whether an investment is appropriate to their needs. All opinions and estimates included in this report constitute our judgment as of the date published on the report and are subject to change without notice.

Beltone Investments S.A.E. F.Z., a foreign broker-dealer, has prepared this research report. For further information concerning this research report or any security described herein, please contact Beltone Enclave Securities, 708 Third Avenue, New York, NY 10017, 646-454-8600 ("Beltone Enclave"). Beltone Enclave is a division of Enclave Capital LLC, a U.S. broker-dealer that is registered with the Securities and Exchange Commission (the "Commission") and is a member of the Financial Industry Regulatory Authority (FINRA). Since this research report was prepared by a broker-dealer that is neither registered with Commission nor a member of FINRA, U.S. rules on research analysts and research reports and the attendant restrictions and required disclosures do not apply.

This research report does not constitute, nor shall it be deemed, an offer to sell or the solicitation of an offer to buy, any security, and has been prepared for informational purposes only. While reasonable care has been taken to ensure that the information contained herein is correct and not misleading, no representation is made as to the accuracy or completeness of this research report and, as a result, no reliance should be placed on it and no liability is accepted for any direct, consequential or other loss arising from any use of this research report or its contents.

This research report contains information that is intended to be conveyed only to intended recipients that are "major U.S. institutional investors" (i.e., U.S. institutional investors that have, or have under management, total assets in excess of \$100 million or investment advisers that are registered with the Commission and have total assets under management in excess of \$100 million). If the reader or recipient of this research report is not the intended recipient, please notify Beltone Enclave immediately and promptly destroy this research report without retaining any portion hereof in any manner. The unauthorized use, dissemination, distribution or reproduction of this research report by any person other than the intended recipient is strictly prohibited.

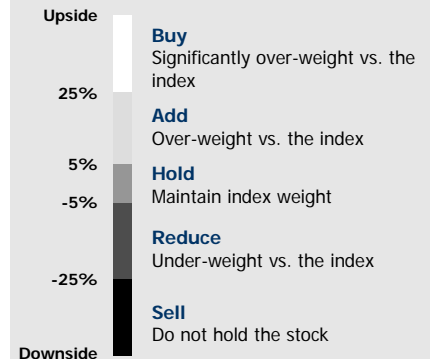
Any transactions in a security discussed in this report may be effected only through Beltone Enclave, which accepts full responsibility for this research report and its dissemination in the United States. Beltone Enclave has not and shall not receive any compensation for the dissemination of this research report.

It should be noted that:

- Neither Beltone Enclave nor any of its members or affiliates own shares of the subject company's securities;
- Neither Beltone Enclave nor any of its members or affiliates managed or co-managed a public offering of the subject company's securities in the past twelve (12) months, received compensation for investment banking services from the subject company in the past twelve (12) months, or expects to receive or intends to seek compensation for investment banking services from the subject company in the next three (3) months;
- Beltone Enclave does not make a market in the subject company's securities at the time this research report was published; and
- At present, there are no material conflicts of interest known to Beltone Enclave at the time of the distribution of this research report.

All rights reserved. No part of this research report publication may be reproduced or transmitted in any form or by any means electronic, mechanical, photocopying, recording or otherwise.

Inv. Rating



Sales and Trading

Cairo

Dalia Sultan
dsultan@beltonefinancial.com
Ibrahim Abou-Elkheir
ibouelkheir@beltonefinancial.com
Mohamed Badawy
mbadawy@beltonefinancial.com
Mohamed Choucri
mchoucri@beltonefinancial.com
Teymour El Derini
tderini@beltonefinancial.com
Waleed Hamdy
whamdy@beltonefinancial.com
Wael El-Tahawy
weltahawy@beltonefinancial.com
Yasmeen Youssef
youssef@beltonefinancial.com

Dubai

Chamel Fahmy
cfahmy@beltonefinancial.com

New York

Karim Baghdady
kbaghdady@beltoneenclave.com
Albina Brady
abrady@beltoneenclave.com