

Weak core performance

Results review – 1Q2016

Banks | UAE | 20 April 2016

Emirates National Bank of Dubai (ENBD) reported profit at AED1.8bn, marginally lower than our expectations (AED1.9bn). The miss was due to lower margins and higher loan loss provisioning expenses. A part of the rise in credit costs was on account of increase in loan loss coverage ratio by 200bps. Asset quality continued to improve with NPL ratio at 6.9% from 7.1% in 4Q15. Growth in non-interest income was weak mainly on account of muted corporate activity. ENBD continued to witness robust growth in their balance sheet with deposit growth at 1.3% QoQ and loan growth at 3.1% QoQ. Growth in CASA deposits was impressive. Going forward, we expect loan growth to moderate. We expect improvement in credit costs to be the key earnings driver for the bank. Further, its margins are likely to improve from current levels as banks benefits from its strong liability franchise and higher US rates. We maintain our Buy rating on ENBD.

► Margins declined sequentially; non-interest income growth was weak

Margins contracted sharply to 2.62% from 2.82% in 4Q15 due to increase in cost of funds. During 4Q15, the bank witnessed sharp increase in term deposits, which led to increase in cost of funds in 1Q16. We expect the cost of funds to improve as bank witnessed strong growth in CASA deposits (7.6% QoQ), which has also helped them to retire some of the expensive fixed deposits (-7% QoQ). CASA ratio was up at 59% from 55% in 4Q15. Growth in non-interest income was weak at -0.7%. In particular, growth was weak in forex and derivatives (-5% YoY) and capital markets businesses (-9% YoY). Core fee income growth was healthy at 8% YoY supported by higher credit card volumes.

► Asset quality continued to improve

Asset quality improved further with drop in NPL ratio to 6.9% from 7.1% in 4Q15. However, credit costs were higher at 115bps (82bps in 4Q15), as the bank improved its coverage ratio to 113.5% (111.5% in 4Q15). Management has guided for further improvement in asset quality. We expect credit costs to be at 110bps in 2016 from ~200bps in 2013-2014 and 130bps in 2015.

► Healthy balance sheet growth

After a strong growth in deposits in 4Q15 (6.7% from Sept-15 base), ENBD reported another healthy quarter. Deposit growth at 1.3% QoQ (11.7% YoY) was primarily driven by increase in CASA deposits. Long growth was strong at 3.1% QoQ (12.1% YoY). In particular, growth was strong in the Islamic financing (6% QoQ) and corporate banking (3% QoQ). Going forward, we expect growth to moderate and be in the mid-single digit.

Key Financials	2014	2015	2016E	2017E	2018E
Net interest income (AEDm)	9,496	10,241	10,679	11,082	11,767
Total income (AEDm)	14,442	15,228	15,626	16,411	17,658
EPS (AED)	0.8	1.2	1.3	1.3	1.4
EPS (% Change)	61.3	41.0	5.9	5.0	8.6
P/E (x)	10.0	7.1	6.7	6.4	5.9
P/B (tangible)	1.6	1.4	1.3	1.1	1.0
Gross NPL (% of Loans and advances)	8.5	7.4	7.1	7.0	7.3
Dividend yield	5.4	6.2	7.7	8.5	8.9
ROAA (%)	1.3	1.7	1.7	1.7	1.7
RoAE (%)	13.0	16.6	16.0	15.3	15.2

Source: ADCB Securities Equity Research

Fundamentals

Recommendation	Buy
Target Price	AED 9.97
Price	AED 8.40
Price 12m High/Low	AED 10.75/6.43
Market Cap.	AED 45,195
Bloomberg/Reuters	EMIRATES UH / ENBD.DU

Price Performance Chart



Source: Bloomberg

Equity Research Team

Nikhil Poddar, CFA (+971 2 696 6450)
nikhil.poddar@adcb.com

Financials

Income Statement () (AEDmn)	2015	2016E	2017E	2018E
Net interest income	10,241	10,679	11,082	11,767
Total non interest income	4,987	4,947	5,329	5,890
Fee income	3,911	3,957	4,219	4,560
Trading income	219	241	277	332
Other income	856	749	832	998
Total income	15,228	15,626	16,411	17,658
Total operating expenses	4,719	5,035	5,365	5,727
Salaries and wages	3,083	3,329	3,596	3,883
Other operating expenses	1,637	1,705	1,770	1,844
Pre provision profit	10,509	10,591	11,045	11,931
Total provisions	3,406	3,101	3,203	3,456
Profit before tax and MI	7,102	7,490	7,842	8,474
Taxes	145	166	191	220
Minority interest	1	1	1	1
Reported net profit	7,123	7,506	7,851	8,474
Adjusted net profit	6,532	6,917	7,262	7,886

Source: ADCB Securities Equity Research

Balance Sheet (AEDmn)	2015	2016E	2017E	2018E
Loans and advances	270,581	281,770	296,903	315,533
Investments	17,605	18,838	20,345	21,769
Fixed assets	2,396	2,576	2,743	2,922
Other assets	18,745	18,172	17,625	17,102
Total assets	406,560	426,124	449,324	477,119
Total equity	41,266	45,427	49,658	54,347
Sub/hybrid/other debt	9,477	9,477	9,477	9,477
Minority interests	6	6	7	8
Deposits	287,232	298,721	313,657	332,477
Total borrowings	54,031	57,507	61,090	64,912
Total liabilities	355,812	371,213	390,182	413,287

Source: ADCB Securities Equity Research

Valuation and leverage metrics	2015	2016E	2017E	2018E
P/E (x)	7.1	6.7	6.4	5.9
P/PPE (x)	4.4	4.4	4.2	3.9
P/B (tangible)	1.4	1.3	1.1	1.0
Dividend yield (%)	6.2	7.7	8.5	8.9
Tier I ratio	18.0	19.0	19.6	20.0
Core tier I ratio	14.2	15.3	16.1	16.8
CAR (%)	20.7	21.8	22.3	22.7
Average assets/Equity (x)	9.8	9.6	9.2	8.9
Loan to deposit ratio (%)	94.2	94.3	94.7	94.9

Source: ADCB Securities Equity Research

Key Ratios (%)	2015	2016E	2017E	2018E
ROAA	1.7	1.7	1.7	1.7
RoAE	16.6	16.0	15.3	15.2
Net interest margin	2.9	2.7	2.7	2.7
Cost-income	31.0	32.2	32.7	32.4
CASA	55.6	55.2	54.8	55.2
Gross NPL (% of Loans and advances)	7.4	7.1	7.0	7.3
Loan loss coverage	107.3	110.1	111.7	110.4
Credit costs (% of avg loans)	1.3	1.1	1.1	1.1

Source: ADCB Securities Equity Research

Per-share data (AED)	2015	2016E	2017E	2018E
EPS	1.2	1.3	1.3	1.4
DPS	0.4	0.5	0.6	0.6
BVPS	7.1	7.7	8.5	9.3
Total no. of outstanding shares (mn)	5,512	5,512	5,512	5,512

Source: ADCB Securities Equity Research

Investment case

We maintain Buy on ENBD. It is emerging from a period where its profitability was below potential. Earnings growth to be healthy aided by strong liability franchise and improving asset quality. Also, it continues to maintain sustainable position in capital markets and asset mgmt. businesses.

Upside case **AED11.30**

Material reduction in concentration risks and a sharper moderation in credit cycle could rerate the stock to 1.7x P/BV 2016E.

Downside case **AED6.60**

Lower than expected book growth as it run off its exposure to the government of Dubai. Also, higher than expected credit losses, particularly in the event of failure of Dubai megaprojects. In such case, stock could trade down to 1.0x P/BV 2016E.

Results summary – 1Q2016

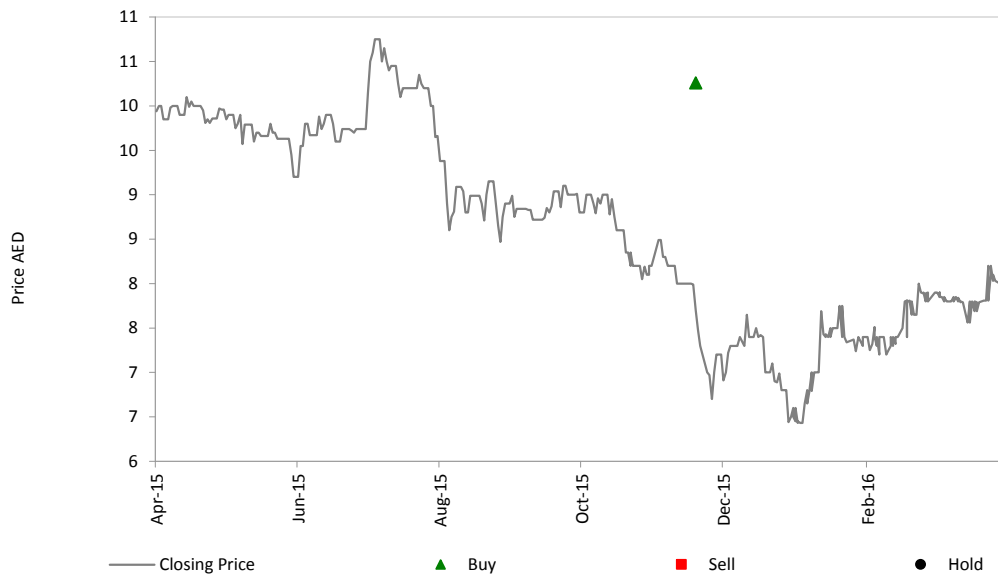
Fig. 1. Results review - 1Q2016

Income statement (AEDmn)	1Q15	4Q15	1Q16	% YoY	% QoQ
Interest income	3,151	3,578	3,622	14.9	1.2
Interest expense	666	909	1,067	60.1	17.3
Net Interest Income	2,485	2,669	2,555	2.8	(4.3)
Non-interest Income	1,360	1,404	1,350	(0.7)	(3.8)
- Fee based income	1,006	999	1,022	1.6	2.3
- Trading revenue	95	-29	223	135.3	(876.2)
Total income	3,845	4,073	3,905	1.6	(4.1)
Operating expenses	1,079	1,357	1,250	15.8	(7.9)
- Employee expense	710	859	848	19.5	(1.2)
- Other expenses	370	499	402	8.8	(19.4)
Pre-provision profit	2,766	2,716	2,655	(4.0)	(2.2)
Loan loss provisions	1,066	547	787	(26.1)	43.8
Profit before tax	1,681	2,117	1,826	8.6	(13.8)
Associate, taxes and minorities	10	-16	18	83.9	(208.7)
Net Income	1,671	2,134	1,808	8.2	(15.3)
Balance sheet (AEDbn)					
Loans	249	271	279	12.1	3.1
Deposits	260	287	291	11.7	1.3
- CASA ratio	60.3	55.6	59.1		
Ratios					
Cost/income ratio (%)	28.1	33.3	32.0		
NIM (%)	2.9	2.8	2.6		
RoAA (%)	1.8	2.1	1.8		
Tier I (%)	17.5	18.0	17.6		
CAR (%)	20.6	20.7	20.3		
Asset quality (AEDmn)					
Gross NPA	21,200	21,660	21,000	(0.9)	(3.0)
Gross NPA (%)	7.8	7.1	6.9		
Coverage (%)	103.9	111.5	113.5		

Source: Company, ADCB Securities Equity Research.

Recommendation history

EMIRATES NBD (EMIRATES UH EQUITY)



Date	Recommendation	Target Price (AED)	Closing Price (AED)
08-Dec-2015	Buy	10.26	7.70
19-Jan-2016	Buy	8.60	6.60

Rating Distribution

Rating	Coverage Universe %
Buy	75%
Hold	25%
Sell	0%

Guide to the ADCB Securities LLC ("ADCB Securities") Equity Research Rating System

ADCB Securities' equity investment research is based on fundamental analysis of companies and securities, the sectors that they are exposed to, as well as the country and regional economic environment. Investors should carefully read the entire research report and not infer its contents from ratings alone as the research report contains more complete information concerning the analysts' views and the basis for the rating.

In rare situations, ADCB Securities may assign a rating for a security that is different from the one indicated by the 12-month expected return relative to the corresponding fair value.

For the 12-month long-term ratings for any investment covered in our research, the ratings are defined by the following ranges in percentage terms:

Rating	Potential upside / (downside) %
Buy	Above 15%
Hold	(10%) – 15%
Sell	Below (10%)

ADCB Securities' may update research reports when appropriate based on material changes in a company's financial performance, the sector outlook, the general economic outlook, or any other changes which could impact the analyst's outlook or rating for the company. Share price volatility may cause a security to move outside of the longer-term rating range to which the original rating was applied. In such cases, the analyst will not necessarily need to adjust the rating for the security immediately.

Analyst Certification

I, Nikhil Poddar, hereby certify that (a) the views expressed in this document accurately reflects my personal views about the securities and companies that are the subject of this report; and (b) no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendation(s) or view(s) expressed in this research report.

Important Disclosures

ADCB Securities LLC ("ADCB Securities"), or any of its affiliates or officers (other than the author(s) of this report) may have a financial interest in one or any of the securities that are the subject of this report. Funds managed by ADCB Securities and its affiliates (together, "ADCB Group") for third parties may own the securities that are the subject of this report. ADCB Group may own shares in one or more of the aforementioned funds or in funds managed by third parties. The author of this report may own shares in funds open to the public that invest in the securities mentioned in this report as part of a diversified portfolio over which the author has no discretion.

Abu Dhabi Commercial Bank PJSC (the holding company of ADCB Securities) may be in the process of soliciting fee-earning mandates for companies (or affiliates of companies) that are either the subject of this report or are mentioned in this report.

Investment Disclaimers

This report is intended for general information purposes only. It should not be construed as an offer or solicitation to purchase or dispose of any securities or to enter in any transaction or adopt any hedging, trading or investment strategy. Neither this report nor anything contained herein shall form the basis of any contract or commitment whatsoever. Distribution of this report does not obligate ADCB Securities to enter into any transaction. The opinions and recommendations contained in the report do not take into account individual client circumstances, objectives, or needs and are not intended as recommendations of particular securities or strategies to particular clients.

The content of this report should not be considered legal, regulatory, credit, tax or accounting advice. Anyone proposing to rely on or use the information contained in the report should independently verify and check the accuracy, completeness, reliability and suitability of the information, obtain independent and specific advice from appropriate professionals or experts regarding information contained in this report and make independent decisions regarding any security mentioned in this report.

Information contained herein is based on various sources, including but not limited to public information, annual reports and statistical data that ADCB Securities considers accurate and reliable. However, ADCB Securities makes no representation or warranty as to the accuracy or completeness of any statement made in or in connection with this report and accepts no responsibility whatsoever for any loss or damage caused by any act or omission taken as a result of the information contained in this report. This report is intended for customers of ADCB Securities or the ADCB Group.

Charts, graphs and related data or information provided in this report are intended to serve for illustrative purposes only. The information contained in this report is prepared as of a particular date and time and will not reflect subsequent changes in the market or changes in any other factors relevant to their determination. All statements as to future matters are not guaranteed to be accurate. ADCB Securities expressly disclaims any obligation to update or revise any forward looking statements to reflect new information, events or circumstances after the date of this report or to reflect the occurrence of unanticipated events.

ADCB Group does and may at any time solicit or provide commercial banking, investment banking, credit, advisory or other services to the companies covered in its reports. As a result, recipients of this report should be aware that any or all of the foregoing services may at time give rise to a conflict of interest that could affect the objectivity of this report.

Past performance does not guarantee future results. Investment products are not bank deposits and are not guaranteed by ADCB Securities or the ADCB Group. They are subject to investment risks, including possible loss of principal amount invested.

This report may contain a short- or medium-term recommendation or trading idea, which considers a near-term event that would have a short-term price impact on the equity securities of the company or companies' subject of this report. Short-term trading ideas and recommendations are different from ADCB Securities' fundamental equity rating, which reflects, among other things, both a longer-term total return expectation and relative valuation of equity securities relative to other securities within their wider peer group. Short-term trading recommendations may therefore differ from the longer-term securities' fundamental rating.

This report is being furnished to you solely for your information and neither it nor any part of it may be used, forwarded, disclosed, distributed or delivered to anyone else. You may not copy, reproduce, display, modify or create derivative works from any data or information contained in this report.

SALES CONTACTS**Call Center**

800 3325 (within UAE)
+971 2 621 1608 (outside UAE)
adcbsecurities@adcb.com

Head of Institutional Desk

Chahir Hosni
+971 2 696 2700
Chahir.Hosni@adcb.com