

Strong quarter

Results review – 4Q2015

Banks | UAE | 19 January 2016

Emirates National Bank of Dubai (ENBD) reported profit at AED2.1bn, significantly higher than our and consensus estimates. The beat was largely led by improvement in credit costs on the back of stable asset quality. Core performance (ex-treasury) was strong with both improvement in margins and healthy growth in the core fee income franchise. Contrary to industry trends, ENBD witnessed strong growth in their balance sheet with deposit growth at 6.7% QoQ and loan growth at 3.4% QoQ. ENBD has proposed a dividend of AED0.4 per share translating into a dividend yield of 6.2% at current market price. Going forward, we expect growth to moderate due to the slowdown in the economy and tightening of liquidity. We lower our target multiple to 1.3x from 1.6x on account of the weak macro environment. We maintain our Buy recommendation on ENBD with a revised target price of AED8.6.

► Credit costs continues to improve

Credit costs continued to improve for the sixth consecutive quarter to 0.8% (1.3% in 3Q15 and 1.7% in 4Q14). However, part of the improvement was due to a sequential drop in reported coverage ratio to 112% (115% in 3Q15). Asset quality was stable with GNPA's at 7.1%. We expect credit costs to be 110bps in 2016 from ~200bps in 2013-2014 as the bank comes to the end of its enhanced provisioning cycle.

► Margins were up sequentially, core fee income growth healthy

Pre-provisioning profit growth (ex-treasury) was strong at 16% YoY and higher than loan growth (10% YoY). Margins at 2.82% were up sequentially by 7bps supported by lower cost of deposit and improvement in treasury spreads. ENBD reported a strong growth in non-interest income (ex-treasury) at 34% YoY, supported by growth in income from the forex and derivative businesses as well as trade finance, remittances and an increase in credit card volumes.

► Strong balance sheet growth

Balance sheet growth picked up during the quarter with deposit growth at 6.7% QoQ (11% YoY) and loan growth at 3.4% QoQ (10% YoY). Consequently, the credit-deposit ratio declined to 94% (97% in 3Q15). Growth in deposits was largely driven by an increase in bulk deposits from corporates. ENBD's CASA ratio was down sequentially at 56% (61% in 3Q15). Loan growth was strong in the Islamic financing (29% YoY) and consumer banking (11% YoY) segments. 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)	7.7	5.5	5.2	4.9	4.5
P/B (tangible)	1.2	1.1	1.0	0.9	0.8
Net NPL (% of Loans and advances)	2.4	1.7	1.5	1.4	1.5
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 8.60
Price	AED 6.50
Price 12m High/Low	AED 10.75/6.50
Market Cap.	AED 36,125
Bloomberg	EMIRATES UH Equity

Bloomberg

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Financials

Income Statement (Dec) (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)	5.5	5.2	4.9	4.5
P/PPE (x)	3.4	3.4	3.2	3.0
P/B (tangible)	1.1	1.0	0.9	0.8
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

AED10.60

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

Downside case

AED5.30

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 0.8x P/BV 2016E.

Results summary

Fig. 1. Results review – 4Q2015

Income statement (AEDmn)	4Q14	3Q15	4Q15	% YoY	% QoQ
Interest income	3,093	3,334	3,578	15.7	7.3
Interest expense	620	743	909	46.6	22.4
Net Interest Income	2,473	2,591	2,669	7.9	3.0
Non-interest Income	1,027	1,009	1,404	36.7	39.2
- Fee based income	953	951	999	4.8	5.1
- Trading revenue	-40	-3	-29	NM	NM
Total income	3,500	3,600	4,073	16.4	13.2
Operating expenses	1,177	1,126	1,357	15.3	20.5
- Employee Exp	722	755	859	19.0	13.6
- Other expenses	455	371	499	9.5	34.6
Pre-provision profit	2,323	2,474	2,716	16.9	9.8
Loan loss provisions	1,074	814	547	(49.0)	(32.8)
Profit before tax	1,159	1,652	2,117	82.7	28.2
Associate, taxes and minorities	-12	-21	-16		
Net Income	1,171	1,672	2,134	82.2	27.6
Balance sheet (AEDbn)					
Loans	246	262	271	10.0	3.4
Deposits	258	269	287	11.2	6.7
- CASA ratio	58.3	60.9	55.6		
Ratios					
Cost/income ratio (%)	33.6	31.3	33.3		
NIM (%)	2.9	2.8	2.8		
RoAA (%)	1.3	1.7	2.1		
Tier I (%)	18.0	18.0	18.0		
CAR (%)	21.1	20.9	20.7		
Asset quality (AEDmn)					
Gross NPA	20,711	20,300	20,800	0.4	2.5
Gross NPA (%)	7.7	7.1	7.1		
Coverage (%)	100.3	115.3	111.5		

Source: Company, ADCB Securities Equities Research.

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