

Earnings beat driven by one-offs

Results update – 4Q2015

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First Gulf Bank (FGB) reported profit at AED1.7bn was higher than our expectations (AED1.4bn). The beat was largely due to a higher than expected gain on revaluation of investment property. Margins were up sequentially supported by reversal of interest in suspense. Credit costs were up, as the bank recognized its one large international exposure as NPA. Management has adopted a cautious growth strategy, which led to a contraction in the loan book in 4Q15. FGB surprised the market with a higher dividend payout ratio of 75%. The bank has proposed a dividend of AED1 per share translating into a dividend yield of 8.5%. Going forward, management has guided for flat to low single digit earnings growth on the back of lower balance sheet growth and tightening of liquidity. We believe current valuation factors the moderation in medium term earnings growth. The long term growth story continues to be intact, supported by strong profitability with RoAA at 2.4% and RoAE (tangible) at 19%. We maintain Buy on FGB.

► Margins were up sequentially, other income boosted by one-offs

Pre-provisioning profit growth was strong (26.1% YoY) and much higher than loan growth (7.2% YoY). Total income was up at 18.3% YoY supported by improvement in margins and higher other income. Margins were up ~10bps QoQ to 3.2% supported by a reversal of interest in suspense. Other income was strong (57.2% YoY) led by a sharp increase in gain on revaluation of investment property to AED534mn (AED113mn in 4Q14), which we believe is one-off in nature. Growth in fee based income remained weak (-16.5% YoY), due to lower income from trade finance activities. Letters of credit/guarantees were down 12% YoY.

► Credit costs inched up

Credit costs (annualized) were higher at 1.3% (0.8% in 3Q15 and 0.5% in 4Q14), despite a drop in the coverage ratio to 103% (110% in 3Q15). During the quarter, the bank recognized a large international exposure as NPA. However, absolute NPAs declined sequentially (1.3%), due to higher write-offs at ~AED802mn.

► Conscious control on business growth, conservative 2016 guidance

Management has adopted a cautious approach towards growth, which we believe is a prudent strategy in the current environment. During the quarter, the loan book contracted 3% as new underwritings were offset by loan repayments. Furthermore, the bank has guided for a low single digit loan growth in 2016. Earnings growth is expected to be flat to low single digit growth as management expects further compression in margins and credit costs to increase from current levels.

Key Financials	2014	2015	2016E	2017E	2018E
Net interest income (AEDm)	6,470	6,429	6,544	6,976	7,450
Total income (AEDm)	9,232	9,432	9,418	10,121	10,937
EPS (AED)	1.5	1.3	1.2	1.3	1.5
EPS (% Change)	(2.1)	(12.6)	(3.4)	7.8	10.4
P/E (x)	7.9	9.0	9.4	8.7	7.9
P/B (tangible)	1.5	1.7	1.6	1.6	1.5
NPL (% of Loans and advances)	3.0	3.2	3.3	3.3	3.4
Dividend yield	8.5	8.5	8.5	9.4	9.8
ROAA (%)	2.8	2.6	2.4	2.4	2.5
RoAE (%)	20.1	18.8	17.3	18.0	19.2

Source: ADCB Securities Equity Research

Fundamentals

Recommendation	Buy
Target Price	AED 13.72
Price	AED 11.70
Price 12m High/Low	AED 16.08/10.05
Market Cap.	AED 52,650
Bloomberg	FGB UH EQUITY

Price Performance Chart



Source: Bloomberg

Financials

Income Statement (Dec) (AEDmn)	2015	2016E	2017E	2018E
Net interest income	6,429	6,544	6,976	7,450
Total non interest income	3,003	2,874	3,146	3,487
Fee income	1,967	2,102	2,279	2,538
Trading income	139	164	199	254
Other income	896	609	668	694
Total income	9,432	9,418	10,121	10,937
Total operating expenses	1,947	2,078	2,237	2,441
Salaries and wages	869	921	985	1,064
Other operating expenses	1,079	1,157	1,252	1,377
Pre provision profit	7,485	7,340	7,884	8,495
Total provisions	1,454	1,537	1,641	1,617
Profit before tax and MI	6,031	5,803	6,243	6,878
Taxes	13	6	2	1
Minority interest	13	43	47	52
Reported net profit	6,006	5,756	6,196	6,828
Adjusted net profit	5,820	5,620	6,060	6,692

Source: ADCB Securities Equity Research

Balance Sheet (AEDmn)	2015	2016E	2017E	2018E
Loans and advances	149,766	157,081	167,753	180,769
Investments	22,692	24,054	25,737	27,796
Fixed assets	1,486	1,634	1,798	1,978
Other assets	10,597	11,657	12,822	14,105
Total assets	227,496	240,352	257,882	280,977
Total equity	31,904	33,024	34,134	35,651
Sub/hybrid/other debt	4,000	4,000	4,000	4,000
Minority interests	400	444	491	542
Deposits	142,463	149,586	160,057	172,861
Total borrowings	40,799	44,337	48,896	56,380
Total liabilities	191,192	202,884	219,258	240,784

Source: ADCB Securities Equity Research

Valuation and leverage metrics	2015	2016E	2017E	2018E
P/E (x)	9.0	9.4	8.7	7.9
P/PPE (x)	7.0	7.2	6.7	6.2
P/B (tangible)	1.7	1.6	1.6	1.5
Dividend yield (%)	8.5	8.5	9.4	9.8
Tier I ratio	16.3	15.3	14.6	14.0
Core tier I ratio	14.0	13.2	12.6	12.1
CAR (%)	17.5	16.7	15.9	15.3
Average assets/Equity (x)	7.1	7.2	7.4	7.7
Loan to deposit ratio (%)	105.1	105.0	104.8	104.6

Source: ADCB Securities Equity Research

Key Ratios (%)	2015	2016E	2017E	2018E
ROAA	2.6	2.4	2.4	2.5
RoAE	18.8	17.3	18.0	19.2
Net interest margin	3.3	3.1	3.2	3.2
Cost-income	20.6	22.1	22.1	22.3
CASA	20.7	20.9	21.6	22.4
Gross NPL (% of Loans and advances)	3.2	3.3	3.3	3.4
Loan loss coverage	91.1	87.0	85.7	85.2
Credit costs (% of avg loans)	1.0	1.0	1.0	0.9

Source: ADCB Securities Equity Research

Per-share data (AED)	2015	2016E	2017E	2018E
EPS	1.3	1.2	1.3	1.5
DPS	1.0	1.0	1.1	1.2
BVPS	7.1	7.3	7.6	7.9
Total no. of outstanding shares (mn)	4,500	4,500	4,500	4,500

Source: ADCB Securities Equity Research

Investment case

We maintain Buy on FGB. Track record of consistent performance supported by strong board and management team. Strong asset franchise with dominant position in both Abu Dhabi corporate and retail segments that has proven to be less risky. With strongest pre-provisioning profitability, FGB is justifiably viewed as a relatively low-risk investment in current uncertain environment.

Upside case

AED15.9

Higher than expected book growth led by a more positive macro or growth environment. We value upside case at 2.2x P/BV 2016E.

Downside case

AED9.7

Given its proximity to Abu Dhabi, lower oil price may have a negative impact on growth and profitability. Also, margins compression can be higher in a rising interest rate environment, due to its wholesale funding profile. In this scenario, we value FGB at 1.3x P/BV 2016E.

Results summary

Fig. 1. Results review - 4Q2015

Income statement (AEDmn)	4Q14	3Q15	4Q15	% YoY	% QoQ
Interest income	2,012	2,060	2,181	8.4	5.9
Interest expense	385	485	523	35.8	8.0
Net Interest Income	1,626	1,575	1,658	2.0	5.2
Non-interest Income	684	622	1,075	57.2	72.8
- Fee based income	526	500	439	(16.5)	(12.1)
- Trading revenue	-7	8	44	(759.2)	461.1
Total income	2,310	2,197	2,733	18.3	24.4
Operating expenses	540	461	500	(7.4)	8.5
Pre-provision profit	1,770	1,736	2,233	26.1	28.6
Total provisions	177	317	507	187.1	60.0
Profit before tax	1,593	1,420	1,726	8.3	21.6
Associate, taxes and minorities	43	2	8	(81.4)	366.2
Net Income	1,550	1,418	1,718	10.8	21.2
Balance sheet (AEDbn)					
Loans	140	154	150	7.2	(2.8)
Deposits	141	142	142	0.8	0.6
- CASA ratio	20.7	19.1	20.7		
Ratios					
Cost/income ratio (%)	23.4	21.0	18.3		
NIM (%)	3.5	3.1	3.2		
RoAA (%)	2.9	2.5	3.0		
Tier I (%)	16.2	17.3	16.3		
CAR (%)	17.5	18.6	17.5		
Asset quality (AEDmn)					
Gross NPA	3,605	4,352	4,294	19.1	(1.3)
Gross NPA (%)	2.5	2.7	2.8		
Coverage (%)	124.2	109.5	102.9		

Source: Company, ADCB Securities Equity Research.

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