

1Q19 results review

Emirates NBD's 1Q19 net profit at AED2.7bn rose 15% y-o-y and came ~10% above our and Bloomberg consensus estimates. Beat was mainly driven by non-interest income as Fx and derivatives income surprised positively. Net interest income maintained strong y-o-y growth supported by 2018 rate hikes. Operating expenses remained under tight control while credit cost moved up as expected. Loan book picked up in a quarter, while CASA mix also recovered sequentially. Despite no rate hike expectations this year, management is confident on meeting 2019 NIM guidance. Management also sees better performance in 1Q as an opportunity to accelerate digital growth strategy without impacting targeted cost-income levels. Denizbank's acquisition is likely to be completed by 2Q19 end after obtaining all regulatory approvals. Additionally, stake sale in Network International (28.6% stake sold in IPO for ~AED3.0bn) is expected to result in one-time gain of ~AED2.0bn in 2Q19 results. Proceeds from sale may partially fund Turkish bank acquisition. This coupled with revised down offer for Denizbank (US\$2.8bn) could lower the size of planned rights issue in our view and thus reduces potential dilution. Despite strong RoE, its valuation remains constrained by lower liquidity and we see FOL opening (may be announced along with acquisition) as a key catalyst for its re-rating. Buy.

► **Broad based revenue growth; non-interest income surprised positively**

Net interest income rose 14% y-o-y benefiting from rate hikes of previous year. NIM increased 15bps y-o-y albeit it declined q-o-q by 2bps. Management expects to achieve stable NIMs in 2019E despite no rate hike expectations. Non-interest income exceeded expectations by 14% as forex and derivatives income came in strong.

► **Operating expenses kept in check**

Growth in operating expenses was tightly controlled in 1Q19 (9% y-o-y versus 16% in 2018) due to decline in staff cost, professional fees and marketing expenses. As a result of higher non-interest income and lower than expected opex, cost to income ratio reached 29.6%, well below guidance of 33% in 2019E. Management did not change FY2019 guidance anticipating pick up in opex going forward to accelerate investments in its digital growth strategy.

► **Balance sheet growth picked up; asset quality steady**

Loan book picked up sequentially by 3% (8% y-o-y) supported by manufacturing, real estate & hospitality and others. Deposits also grew at healthy rate of 8% as CASA mix improved (52.3% versus 50.5% in 4Q18). Credit cost at 66bps (% of net loans) moved up in line with our expectations. NPLs ratio remained broadly stable at 5.9% with provision coverage of 124%. Bank remains well capitalized with CET1 of 16.8%.

Key Financials	2017	2018	2019E	2020E	2021E
Net interest income (AEDm)	10,785	12,888	13,837	14,861	16,017
Total income (AEDm)	15,454	17,402	18,721	19,958	21,338
EPS (AED)	1.4	1.7	1.8	1.8	2.0
EPS (% Change)	16.6	20.8	3.3	5.3	7.6
P/E (x)	8.5	7.1	6.8	6.5	6.0
P/B (tangible)	1.6	1.4	1.2	1.1	0.9
Gross NPL (% of Loans and advances)	6.2	5.9	5.9	5.8	5.8
Dividend yield	3.4	3.4	3.6	3.8	4.1
ROAA (%)	1.7	1.9	1.9	1.9	1.9
RoAE (%)	16.5	18.1	16.7	15.6	14.9

Source: ADCB Securities Equity Research

Banks | UAE | 18 April 2019

Fundamentals

Recommendation	Buy
Target Price	AED 13.6
Price	AED 12.0
Price 12m High/Low	AED 12.00/8.25
Market Cap.	AED66,693mn
Bloomberg/Reuters	EMIRATES UH / ENBD.DU

Price Performance Chart



Source: Bloomberg

Equity Research Team

Yugesh Suneja (+971 2 305 0838)
yugesh.suneja@adcb.com

Abdullah Sahli (+971 2 205 4942)
abdulla.a4@adcb.com

Financials

Income Statement () (AEDmn)	2018	2019E	2020E	2021E
Net interest income	12,888	13,837	14,861	16,017
Total non interest income	4,515	4,884	5,097	5,320
Fee income	4,101	4,347	4,527	4,714
Trading income	(43)	50	52	55
Other income	457	487	518	551
Total income	17,402	18,721	19,958	21,338
Total operating expenses	5,620	6,075	6,439	6,826
Salaries and wages	3,451	3,727	3,951	4,188
Other operating expenses	2,169	2,348	2,488	2,638
Pre provision profit	11,783	12,646	13,519	14,512
Total provisions	1,748	2,310	2,671	2,894
Profit before tax and MI	10,034	10,336	10,848	11,619
Taxes	129	135	142	149
Minority interest	1	1	1	1
Reported net profit	10,040	10,349	10,869	11,649
Adjusted net profit	9,445	9,754	10,274	11,054

Source: ADCB Securities Equity Research

Balance Sheet (AEDmn)	2018	2019E	2020E	2021E
Loans and advances	327,931	353,666	381,426	411,369
Investments	20,066	21,070	22,123	23,229
Fixed assets	2,516	2,591	2,669	2,749
Other assets	23,188	24,588	26,100	27,733
Total assets	500,343	535,035	572,846	613,315
Total equity	54,538	62,069	70,009	78,562
Sub/hybrid/other debt	9,477	9,477	9,477	9,477
Minority interests	9	10	11	12
Deposits	347,866	370,477	396,411	424,159
Total borrowings	66,740	69,118	71,144	73,246
Total liabilities	436,318	463,479	493,349	525,263

Source: ADCB Securities Equity Research

Valuation and leverage metrics	2018	2019E	2020E	2021E
P/E (x)	7.1	6.8	6.5	6.0
P/PPE (x)	5.7	5.3	4.9	4.6
P/B (tangible)	1.4	1.2	1.1	0.9
Dividend yield (%)	3.4	3.6	3.8	4.1
Tier 1 ratio	19.8	21.0	22.0	23.0
Core tier 1 ratio	16.6	18.0	19.2	20.4
CAR (%)	20.9	22.0	23.0	23.9
Average assets/Equity (x)	9.3	8.9	8.4	8.0
Loan to deposit ratio (%)	94.3	95.5	96.2	97.0

Source: ADCB Securities Equity Research

Key Ratios (%)	2018	2019E	2020E	2021E
ROAA	1.9	1.9	1.9	1.9
RoAE	18.1	16.7	15.6	14.9
Net interest margin	2.8	2.8	2.8	2.8
Cost-income	32.3	32.4	32.3	32.0
CASA	50.5	47.9	46.2	44.6
Gross NPL (% of Loans and advances)	5.9	5.9	5.8	5.8
Loan loss coverage	127.3	124.8	123.1	121.5
Credit costs (% of avg loans)	0.5	0.7	0.7	0.7

Source: ADCB Securities Equity Research

Per-share data (AED)	2018	2019E	2020E	2021E
EPS	1.7	1.8	1.8	2.0
DPS	0.4	0.4	0.5	0.5
BVPS	9.4	10.7	12.1	13.7
Total no. of outstanding shares (mn)	5,558	5,558	5,558	5,558

Source: ADCB Securities Equity Research

Investment case

We maintain Buy on ENBD. It has benefitted from rate hikes driven by short dated asset mix and strong CASA franchisee. Asset quality has also improved supported by higher recoveries. Going forward, earnings growth is likely to moderate after high base. However, it maintains strong capital base and thus positioned to grow in UAE as market recovers or expand inorganically in international markets.

Upside case **AED14.6**

Material reduction in concentration risks and a sharper moderation in credit cycle coupled with increase in foreign ownership limit could rerate the stock to 1.5x P/FBV (tangible).

Downside case **AED9.7**

Lower than expected book growth as it run off its exposure to the government of Dubai as well as 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/FBV (tangible).

Results summary – 1Q2019

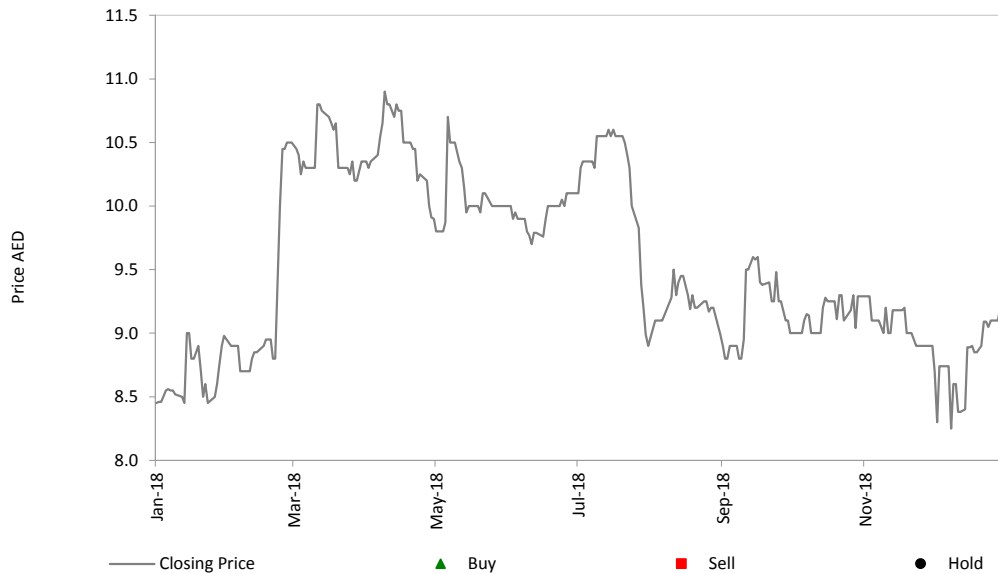
Fig. 1. 1Q19 results review

Income statement (AEDmn)	1Q18	4Q18	1Q19	% y-o-y	% q-o-q
Interest income	4,443	5,365	5,573	25.4	3.9
Interest expense	1,458	2,013	2,173	49.0	7.9
Net Interest Income	2,984	3,351	3,400	13.9	1.5
Non-interest Income	1,119	1,145	1,317	17.7	15.0
- Fee based income	1,058	1,091	1,211	14.5	11.0
- Trading revenue	53	-30	67	25.4	NM
Total income	4,103	4,497	4,717	14.9	4.9
Operating expenses	1,276	1,508	1,397	9.5	(7.4)
- Employee Exp	812	913	891	9.7	(2.4)
- Other expenses	463	595	506	9.1	(15.0)
Pre-provision profit	2,828	2,989	3,320	17.4	11.1
Loan loss provisions	415	640	564	35.8	(11.9)
Profit before tax	2,388	2,349	2,750	15.2	17.1
Associate, taxes and minorities	1	-36	7	NM	NM
Net Income	2,386	2,385	2,743	15.0	15.0
Balance sheet (AEDbn)				% y-o-y	% q-o-q
Loans	311	328	338	8.4	3.0
Deposits	332	348	359	8.3	3.3
- CASA ratio (%)	56.7	50.5	52.3		
Ratios (%)				y-o-y (bps)	q-o-q (bps)
Cost/income ratio	31.1	33.5	29.6	(148)	(392)
NIM	2.7	2.9	2.8	15	(2)
Credit costs	0.54	0.78	0.66	12	(12)
RoAA	2.0	1.9	2.2	13	23
Tier I	19.0	19.8	20.9	197	113
- CET I ratio	15.5	16.6	16.8	130	19
CAR	20.3	20.9	22.0	169	108
Asset quality				% y-o-y	% q-o-q
Gross NPA (AEDmn)	20,300	20,979	21,400	5.4	2.0
Gross NPA (%)	6.0	5.9	5.9		
Coverage (%)	127.9	127.3	123.9		

Source: Company, ADCB Securities Equity Research

Recommendation history

EMIRATES NBD (EMIRATES UH EQUITY)



Date	Recommendation	Target Price (AED)	Closing Price (AED)
------	----------------	--------------------	---------------------

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, Yugesh Suneja, hereby certify that (a) the views expressed in this document accurately reflect 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**

600 50 3325 (within UAE)
+971 2 621 1608 (outside UAE)
adcbsecurities@adcb.com

Institutional Desk

Wael Atta
+971 2 408 2306
Wael.Atta@adcb.com