

4Q18 results review

Emirates NBD's (ENBD) 4Q18 net profit at AED2.38bn (10% YoY, -10% QoQ) came 5% below our estimate. Net interest income maintained strong growth driven by improving NIMs and higher loan growth. However, decline in trading revenue coupled with higher than expected operating expenses pulled down growth in pre-provisioning profit. Credit cost rose sharply in 4Q18, reversing the trend after reaching cyclical lows in 3Q18. Loan growth was healthy, while deposits growth mainly came from high cost time deposits. BoD recommended 2018 dividend at AED0.4/share (payout of 22%), unchanged from 2017 level citing need of capital conservation for international expansion. Management is cautious on 2019 outlook with guidance of stable NIMs, expecting limited benefit of further rate hikes. Moreover, management also expect credit cost to rise going forward. Thus, we expect ENBD's earnings growth to slowdown in 2019E to 2% YoY (versus 20% in 2018). Its valuation remains constrained by lower liquidity and we see FOL opening as a key catalyst for its re-rating.

► **Margins have peaked, limited room for further improvement**

Net interest income rose 20% YoY in 4Q18 as NIM increased 34bps YoY, led by asset re-pricing and loan growth. However, NIM contracted 2bps QoQ and management see limited potential for further increase despite one or two rate hikes in 2019E. Increase in funding cost is expected to offset rate hike benefit. Fee-based income was flat while trading revenues declined, impacted by fair value loss on investment securities.

► **Cost to income ratio increased but expected to stabilize**

In 4Q18, cost income ratio reached 33.5%, above management guidance of 33%. Growth in operating expenses remained high (14% YoY) due to increase in staff cost and higher IT, international expansion and Expo 2020 related sponsorship expenses. Management has guided for cost to income ratio of 33% in 2019E (versus 32.3% in 2018), supported by cost cuts in non-core areas.

► **Asset quality steady, credit cost to move up**

NPLs ratio remained broadly stable at 5.9% (from 5.8% in 3Q18). However, credit cost at 78bps (% of net loans) jumped up sharply as management looks to maintain adequate provisions amid challenging market. In 2019, credit cost is expected to normalize around 80 bps (versus 55bps in 2018).

► **Mid-single digit loan growth guidance for 2019**

2018 loan book grew at 8% YoY supported by personal loans, trade, construction and financial institutions lending. However, management expect mid-single digit growth in 2019E, highlighting cautious outlook. Deposits are expected to be mainly driven by time deposits as competition for CASA has increased. ENBD's capital buffers remain strong with CET1 of 16.6%.

Key Financials	2017	2018	2019E	2020E	2021E
Net interest income (AEDm)	10,785	12,888	13,916	14,827	15,838
Total income (AEDm)	15,454	17,402	18,703	19,819	21,045
EPS (AED)	1.4	1.7	1.7	1.8	1.9
EPS (% Change)	16.6	20.8	2.0	4.4	6.5
P/E (x)	6.4	5.3	5.2	5.0	4.7
P/B (tangible)	1.2	1.1	0.9	0.8	0.7
Gross NPL (% of Loans and advances)	6.2	5.9	5.9	5.9	5.9
Dividend yield	4.5	4.5	5.1	5.4	5.6
ROAA (%)	1.7	1.9	1.9	1.8	1.8
RoAE (%)	16.5	18.1	16.5	15.3	14.6

Source: ADCB Securities Equity Research

Banks | UAE | 17 January 2019

Fundamentals

Recommendation	Buy
Target Price	AED 13.1
Price	AED 9.1
Price 12m High/Low	AED 11.00/8.25
Market Cap.	AED50,019mn
Bloomberg/Reuters	EMIRATES UH / ENBD.DU

Price Performance Chart



Source: Bloomberg

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Financials

Income Statement (AEDmn)	2018	2019E	2020E	2021E
Net interest income	12,888	13,916	14,827	15,838
Total non-interest income	4,515	4,787	4,992	5,208
Fee income	4,101	4,265	4,438	4,618
Trading income	(43)	35	36	38
Other income	457	487	518	551
Total income	17,402	18,703	19,819	21,045
Total operating expenses	5,620	6,174	6,544	6,937
Salaries and wages	3,451	3,796	4,024	4,265
Other operating expenses	2,169	2,378	2,520	2,671
Pre provision profit	11,783	12,529	13,275	14,109
Total provisions	1,748	2,309	2,636	2,823
Profit before tax and MI	10,034	10,221	10,639	11,286
Taxes	129	135	142	149
Minority interest	1	1	1	1
Reported net profit	10,040	10,234	10,660	11,316
Adjusted net profit	9,445	9,639	10,065	10,721

Source: ADCB Securities Equity Research

Balance Sheet (AEDmn)	2018	2019E	2020E	2021E
Loans and advances	327,931	350,886	375,448	401,729
Investments	20,066	21,070	22,123	23,229
Fixed assets	2,516	2,591	2,669	2,749
Other assets	23,188	24,938	26,863	28,980
Total assets	500,343	531,648	564,480	599,262
Total equity	54,538	61,954	69,517	77,571
Sub/hybrid/other debt	9,477	9,477	9,477	9,477
Minority interests	9	10	11	12
Deposits	347,866	368,738	390,862	414,314
Total borrowings	66,740	68,671	70,675	72,753
Total liabilities	436,318	460,207	485,475	512,202

Source: ADCB Securities Equity Research

Valuation and leverage metrics	2018	2019E	2020E	2021E
P/E (x)	5.3	5.2	5.0	4.7
P/PPE (x)	4.2	4.0	3.8	3.5
P/B (tangible)	1.1	0.9	0.8	0.7
Dividend yield (%)	4.5	5.1	5.4	5.6
Tier I ratio	19.8	21.0	22.1	23.2
Core tier I ratio	16.6	18.0	19.3	20.5
CAR (%)	20.9	22.1	23.1	24.1
Average assets/Equity (x)	9.3	8.9	8.3	7.9
Loan to deposit ratio (%)	94.3	95.2	96.1	97.0

Source: ADCB Securities Equity Research

Key Ratios (%)	2018	2019E	2020E	2021E
ROAA	1.9	1.9	1.8	1.8
RoAE	18.1	16.5	15.3	14.6
Net interest margin	2.82	2.86	2.86	2.86
Cost-income	32.3	33.0	33.0	33.0
CASA	50.5	48.2	46.8	45.7
Gross NPL (% of Loans and advances)	5.9	5.9	5.9	5.9
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	1.7	1.8	1.9
DPS	0.40	0.45	0.48	0.50
BVPS	9.4	10.7	12.0	13.5
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 **AED14.4**

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 **AED8.6**

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 0.9x P/FBV (tangible).

Results summary – 4Q2018

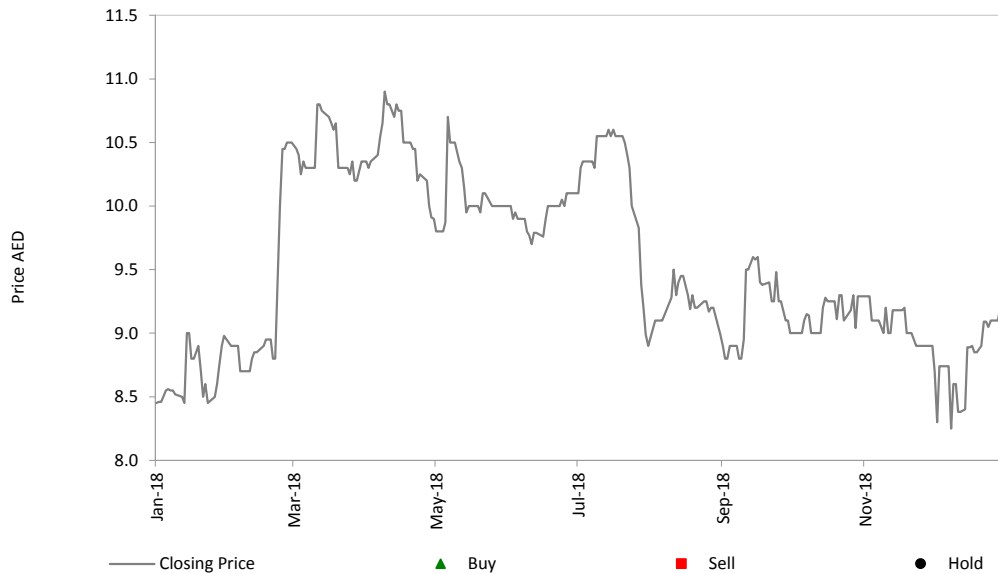
Fig. 1. 4Q18 results review

Income statement (AEDmn)	4Q17	3Q18	4Q18	% YoY	% QoQ
Interest income	4,207	5,155	5,365	27.5	4.1
Interest expense	1,412	1,848	2,013	42.6	9.0
Net Interest Income	2,794	3,307	3,351	19.9	1.3
Non-interest Income	1,241	1,147	1,145	(7.7)	(0.2)
- Fee based income	1,100	997	1,091	(0.8)	9.5
- Trading revenue	102	28	-30	NM	NM
Total income	4,035	4,454	4,497	11.4	1.0
Operating expenses	1,322	1,466	1,508	14.0	2.8
- Employee Exp	797	884	913	14.5	3.3
- Other expenses	525	582	595	13.3	2.2
Pre-provision profit	2,714	2,988	2,989	10.1	0.0
Loan loss provisions	518	361	640	23.7	77.4
Profit before tax	2,177	2,635	2,349	7.9	(10.9)
Associate, taxes and minorities	2	-3	-36	NM	NM
Net Income	2,175	2,638	2,385	9.7	(9.6)
Balance sheet (AEDbn)				% YoY	% QoQ
Loans	304	325	328	7.8	1.0
Deposits	327	341	348	6.5	2.0
- CASA ratio (%)	54.6	51.6	50.5		
Ratios (%)				YoY (bps)	QoQ (bps)
Cost/income ratio	32.8	32.9	33.5	77	62
NIM	2.5	2.9	2.9	34	(2)
Credit costs	0.68	0.45	0.78	10	33
RoAA	1.9	2.2	1.9	5	(25)
Tier I	18.9	20.0	19.8	92	(19)
- CET I ratio	15.6	16.6	16.6	101	1
CAR	21.2	21.3	20.9	(27)	(36)
Asset quality				% YoY	% QoQ
Gross NPA (AEDmn)	20,311	20,500	20,979	3.3	2.3
Gross NPA (%)	6.2	5.8	5.9		
Coverage (%)	124.5	127.4	127.3		

Source: Company, ADCB Securities Equity Research

Recommendation history

EMIRATES NBD (EMIRATES UH EQUITY)



Date	Recommendation	Target Price (AED)	Closing Price (AED)
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Rating Distribution

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

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