

1Q19 results review

Banks | UAE | 30 April 2019

First Abu Dhabi Bank (FAB) posted 1Q19 net profit of AED3.1bn, up 4% y-o-y. Earnings came 5% above our estimate but in line with consensus. While core income (both net interest income and fee based income) came below our expectation, strong gains made in forex and investment income along with lower credit cost supported modest growth in bottom line. Margins continued to trend down due to competitive pressure in corporate loan book and rising funding cost. Operating costs sustained downward momentum owing to realization of cost synergies. Management is now looking to accelerate investments in digital space, implying further room for reduction in opex could be limited. While pre-provisioning profit was in line with our expectations, credit cost remained at lower end of guidance. Thus, lower than expected loan loss provisions supported earnings. Loan book grew primarily driven by government/public sector and financial institutions lending. While total revenue growth lagged expectations in 1Q19, management maintained mid-single digit growth guidance for 2019 expecting pick up going forward. The stock is trading at 2019E P/BV (tangible) of 2.4x (for RoE of 16.2%). FAB's valuation appears full now and seems to be pricing in fundamental improvement in outlook. Maintain Hold.

► **NIM impacted by competitive pricing, excessive liquidity**

Net interest income fell 5% y-o-y as NIMs declined 33bps y-o-y and 5bps q-o-q. Risk optimization in retail and competitive pricing in corporate segment capped gains in asset re-pricing. Cost of funding increased at higher pace thereby offsetting the impact of rate hikes. Non-interest income rose 14% y-o-y driven by increase in investment and forex income.

► **Operating expenses maintained downward trend**

Operating expenses remained flat y-o-y and fell 3% sequentially supported by realization of cost synergies as well as receding integration cost. As a result, cost-income ratio stood at 26.1% (excl. integration cost). Further scope to reduce opex could be limited given expected increase in digital spending and increasing investments in international operations like Saudi Arabia.

► **Marginal uptick in NPLs, loan book growth driven by public sector**

Credit cost at 50bps remained low and came below our expectation of 58bps. We expect credit cost to inch up in coming quarters as management still expect it to normalize in the range of 55-65bps in 2019. NPLs ratio moved up to 3.3% (versus 3.1% at 2018 end) led by retail and few corporate accounts. Loans grew 6% y-o-y, largely on the back of increase in public/government sectors and banking sector lending. Growth in Personal segment remained flat. Deposits rose 7% y-o-y driven by government flows, though there were outflows in government deposits towards end of quarter. CASA mix improved to 37.3% (versus 34.5% at 2018 end).

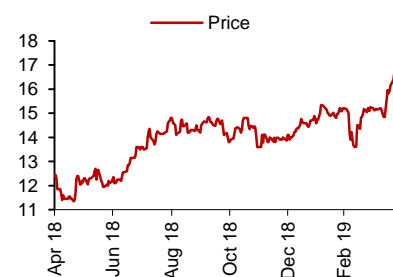
Key Financials	2017	2018	2019E	2020E	2021E
Net interest income (AEDm)	13,106	13,026	13,156	13,873	14,716
Total income (AEDm)	19,533	19,446	20,157	21,252	22,469
EPS (AED)	1.0	1.1	1.1	1.1	1.2
EPS (% Change)	(3.0)	9.1	3.3	4.3	3.3
P/E (x)	17.1	15.7	15.2	14.5	14.1
P/B (tangible)	2.5	2.5	2.4	2.3	2.2
Gross NPL (% of Loans and advances)	3.1	3.1	3.2	3.2	3.1
Dividend yield	4.3	4.5	4.8	4.9	5.0
ROAA (%)	1.6	1.6	1.6	1.6	1.5
RoAE (%)	11.9	12.7	12.8	12.8	12.7

Source: ADCB Securities Equity Research

Fundamentals

Recommendation	Hold
Target Price	AED 14.0
Price	AED 16.4
Price 12m High/Low	AED 16.80/11.35
Market Cap.	AED180,475mn
Bloomberg/Reuters	FAB UH / FAB.AD

Price Performance Chart



Source: Bloomberg

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Financials

Income Statement (AEDmn)	2018	2019E	2020E	2021E
Net interest income	13,026	13,156	13,873	14,716
Total non-interest income	6,420	7,001	7,379	7,753
Fee income	5,435	5,843	6,183	6,497
Trading income	826	991	1,021	1,072
Other income	159	167	175	184
Total income	19,446	20,157	21,252	22,469
Total operating expenses	5,329	5,342	5,551	6,045
Salaries and wages	3,167	3,262	3,491	3,840
Other operating expenses	1,724	1,619	1,588	1,720
Pre provision profit	14,117	14,816	15,701	16,424
Total provisions	1,726	2,039	2,379	2,662
Profit before tax and MI	12,391	12,777	13,322	13,762
Taxes	325	348	372	398
Minority interest	56	43	49	54
Reported net profit	12,011	12,386	12,901	13,309
Adjusted net profit	11,516	11,891	12,406	12,814

Source: ADCB Securities Equity Research

Balance Sheet (AEDmn)	2018	2019E	2020E	2021E
Loans and advances	353,205	377,930	404,385	430,670
Investments	105,054	110,307	118,029	126,291
Fixed assets	3,991	4,311	4,655	4,981
Other assets	72,401	77,070	81,252	85,991
Total assets	744,125	767,365	810,607	853,571
Total equity	90,857	94,702	98,628	102,744
Sub/hybrid/other debt	10,755	10,755	10,755	10,755
Minority interests	362	405	454	508
Deposits	465,476	474,785	503,273	530,953
Total borrowings	101,081	107,221	113,869	121,072
Total liabilities	642,152	661,503	700,770	739,564

Source: ADCB Securities Equity Research

Valuation and leverage metrics	2018	2019E	2020E	2021E
P/E (x)	15.7	15.2	14.5	14.1
P/PPE (x)	12.8	12.2	11.5	11.0
P/B (tangible)	2.5	2.4	2.3	2.2
Dividend yield (%)	4.5	4.8	4.9	5.0
Tier 1 ratio	14.6	15.0	15.1	15.1
Core tier 1 ratio	12.4	12.9	13.1	13.2
CAR (%)	15.7	16.2	16.2	16.2
Average assets/Equity (x)	7.8	8.1	8.2	8.3
Loan to deposit ratio (%)	75.9	79.6	80.4	81.1

Source: ADCB Securities Equity Research

Key Ratios (%)	2018	2019E	2020E	2021E
ROAA	1.6	1.6	1.6	1.5
RoAE	12.7	12.8	12.8	12.7
Net interest margin	2.4	2.2	2.3	2.3
Cost-income	27.4	26.5	26.1	26.9
CASA	34.5	35.3	35.5	36.2
Gross NPL (% of Loans and advances)	3.1	3.2	3.2	3.1
Loan loss coverage	111.1	101.1	96.1	93.7
Credit costs (% of avg loans)	0.5	0.6	0.6	0.6

Source: ADCB Securities Equity Research

Per-share data (AED)	2018	2019E	2020E	2021E
EPS	1.1	1.1	1.1	1.2
DPS	0.7	0.8	0.8	0.8
BVPS	8.4	8.7	9.1	9.5
Total no. of outstanding shares (mn)	10,872	10,872	10,872	10,872

Source: ADCB Securities Equity Research

Investment case

FAB is the largest bank in UAE and 2nd largest in the MENA region supported by strong board and management team. Fiscal stimulus by Abu Dhabi government coupled with amendments in visa regulations may support gradual recovery in economic growth. However, end of rate hike cycle and normalization of credit cost would limit significant upside in bank's earnings. Its current valuation already prices in improving outlook thereby leaving limited room for further re-rating. We recommend Hold on FAB.

Upside case **AED16.8**

Upside case for FAB assumes pick up in its market share as well as more conducive operating environment. Also, potential acquisition of another domestic player may offer further room to benefit from new cost synergies. We value upside case at 2.4x P/FBV (tangible).

Downside case **12.6**

Downside case for FAB assumes higher than expected increase in operating costs and deterioration in asset quality. Furthermore, loss in market share. We value downside case at 1.8x 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	4,918	6,151	6,083	23.7	(1.1)
Interest expense	1,650	2,880	2,969	80.0	3.1
Net Interest Income	3,268	3,271	3,114	(4.7)	(4.8)
Non-interest Income	1,603	1,538	1,828	14.1	18.8
- Fee based income	934	793	816	(12.6)	2.9
- Investment income	320	116	323	1.0	179.0
- Forex income	336	688	648	93.1	(5.8)
Total income	4,871	4,809	4,942	1.5	2.8
Operating expenses	1,326	1,355	1,314	(0.9)	(3.0)
Pre-provision profit	3,545	3,454	3,628	2.4	5.0
Loan loss provisions	439	428	407	(7.2)	(4.8)
Profit before tax	3,106	3,026	3,221	3.7	6.4
Associate, taxes and minorities	108	93	114	5.8	22.2
Net Income	2,998	2,933	3,107	3.6	5.9
Balance sheet (AEDbn)				% y-o-y	% q-o-q
Loans	338	353	359	6.1	1.6
Deposits	404	465	433	7.1	(7.0)
- CASA ratio	41.1	34.5	37.3		
Investments	106.3	105.1	126.7	19.1	20.6
Ratios (%)				y-o-y (bps)	y-o-y (bps)
Cost/income ratio	27.2	28.2	26.6	(64)	(159)
- Cost/income ratio (ex-integration costs)	25.7	26.8	26.1	40	(70)
NIM	2.5	2.2	2.2	(33)	(5)
Credit costs	0.51	0.39	0.50	(1)	11
Loan-deposit ratio	83.7	75.9	83.0	(77)	707
Tier I	14.5	14.6	14.9	40	34
- CET I	12.4	12.4	12.7	30	32
CAR	15.6	15.7	16.0	40	28
Asset quality				% y-o-y	% q-o-q
Gross NPA (AEDmn)	11,000	11,499	12,122	10.2	5.4
Gross NPA (%)	3.1	3.1	3.3		
Coverage (%)	127.2	111.1	106.0		

Source: Company, ADCB Securities Equity Research

Recommendation history

FIRST ABU DHABI BANK (FAB 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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