

4Q18 results review

First Abu Dhabi Bank (FAB) posted 4Q18 net profit of AED2.9bn (+4% YoY), in line with our estimate. Net interest income declined despite higher asset yields, impacted by dilutive effect of excess liquidity and competitive pricing environment. Non-interest income also fell and came below expectations. Operating costs sustained downward momentum as cost synergies are being realized ahead of timeline, while integration cost is also expected to be lower than expected. Credit cost continued to fall, reaching new cyclical lows. Loans grew primarily driven by international book. BoD proposed 2018 dividend of AED0.74/share (dividend yield of 5%), higher than AED0.7/share in 2017 but slightly below consensus of AED0.75/share. For 2019, management is looking to achieve high single digit growth in loans, accompanied by mid-single digit growth in revenues and net profit as credit costs return to normalized levels. FAB's valuation looks full with stock trading at 2019E P/BV (tangible) of 2.1x (for RoE of 16.7%). BoD proposed to increase foreign ownership limit from 25% to 40% (actual foreign ownership stands at 13%). This leaves more room to see increase in its weight in MSCI/FTSE EM indices and attract more foreign flows, thereby supporting stock. Maintain Hold.

► **Despite rate hikes, margins decline on excess liquidity**

NIMs declined 21bps YoY and 12bps QoQ despite rising asset yields. Funding cost rose sharply as deposits maintained strong growth. Risk optimization in retail and competitive pricing in corporate segment also capped margin increase. Though forex income was higher, non-interest income still fell 6% YoY on lower fee based income (mainly in personal segment) and fair value loss on investment properties.

► **On track to achieve synergies, lowers integration cost guidance**

Bank was able to realize cost synergies (AED1.1bn p.a.) at faster rate, achieving 75% of targeted synergy by 2018 (versus 65% expected earlier). Total integration cost guidance was also revised down from AED1.1bn to AED870mn. Cost-income ratio stood at 27% (excl. integration cost) in 4Q18, inching upwards QoQ due to new hiring and expansion in Saudi Arabia.

► **Asset quality stable, loan book growth driven by international markets**

Loan loss provisions fell supported by recoveries and risk optimization in retail. Credit cost at 38bps reached cyclical lows in 4Q18 (48bps in 2018), though management expect it to return to normalized levels of 55-65bps in 2019. NPLs ratio was stable at 3.1%. Loans grew 7% YoY in 2018, as international book expanded 31% YoY led by Asia Pacific region. Domestic loans increased 1% YoY. Deposits rose 18% YoY driven by strong government flows. CASA ratio remained stable at 34%. Capital position is comfortable with CET1 of 12.4%.

Key Financials	2017	2018	2019E	2020E	2021E
Net interest income (AEDm)	13,106	13,026	13,819	14,584	15,618
Total income (AEDm)	19,533	19,446	20,645	21,847	23,318
EPS (AED)	1.0	1.1	1.1	1.2	1.3
EPS (% Change)	(3.0)	9.1	6.2	5.7	5.4
P/E (x)	15.2	13.9	13.1	12.4	11.8
P/B (tangible)	2.3	2.3	2.1	2.0	1.9
Gross NPL (% of Loans and advances)	3.1	3.1	3.2	3.2	3.1
Dividend yield	4.7	5.0	5.2	5.4	5.5
ROAA (%)	1.6	1.6	1.6	1.6	1.5
RoAE (%)	11.9	12.7	13.2	13.3	13.4

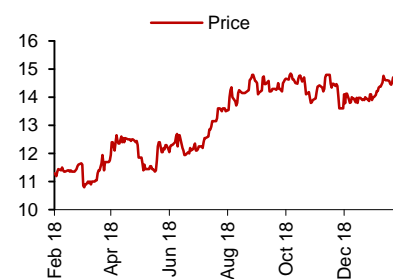
Source: ADCB Securities Equity Research

Banks | UAE | 3 February 2019

Fundamentals

Recommendation	Hold
Target Price	AED 13.20
Price	AED 14.74
Price 12m High/Low	AED 14.88/10.80
Market Cap.	AED160,253mn
Bloomberg/Reuters	FAB UH / FAB.AD

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	13,026	13,819	14,584	15,618
Total non-interest income	6,420	6,826	7,263	7,700
Fee income	5,435	5,809	6,211	6,596
Trading income	826	851	877	920
Other income	159	167	175	184
Total income	19,446	20,645	21,847	23,318
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	15,304	16,296	17,273
Total provisions	1,726	2,190	2,460	2,705
Profit before tax and MI	12,391	13,114	13,835	14,567
Taxes	325	348	372	398
Minority interest	56	43	49	54
Reported net profit	12,011	12,723	13,415	14,115
Adjusted net profit	11,516	12,228	12,920	13,620

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	796,053	852,915	912,857
Total equity	90,857	95,039	99,478	104,400
Sub/hybrid/other debt	10,755	10,755	10,755	10,755
Minority interests	362	405	454	508
Deposits	465,476	503,137	543,845	585,127
Total borrowings	101,081	107,221	114,755	124,526
Total liabilities	642,152	689,854	742,229	797,193

Source: ADCB Securities Equity Research

Valuation and leverage metrics	2018	2019E	2020E	2021E
P/E (x)	13.9	13.1	12.4	11.8
P/PPE (x)	11.4	10.5	9.8	9.3
P/B (tangible)	2.3	2.1	2.0	1.9
Dividend yield (%)	5.0	5.2	5.4	5.5
Tier I ratio	14.6	14.5	14.5	14.4
Core tier I ratio	12.4	12.5	12.6	12.6
CAR (%)	15.7	15.7	15.6	15.5
Average assets/Equity (x)	7.8	8.3	8.5	8.7
Loan to deposit ratio (%)	75.9	75.1	74.4	73.6

Source: ADCB Securities Equity Research

Key Ratios (%)	2018	2019E	2020E	2021E
ROAA	1.6	1.6	1.6	1.5
RoAE	12.7	13.2	13.3	13.4
Net interest margin	2.35	2.29	2.25	2.25
Cost-income	27.4	25.9	25.4	25.9
CASA	34.1	32.9	32.5	32.5
Gross NPL (% of Loans and advances)	3.1	3.2	3.2	3.1
Loan loss coverage	111.1	102.3	97.9	95.6
Credit costs (% of avg loans)	0.50	0.60	0.63	0.65

Source: ADCB Securities Equity Research

Per-share data (AED)	2018	2019E	2020E	2021E
EPS	1.1	1.1	1.2	1.3
DPS	0.74	0.78	0.8	0.82
BVPS	8.4	8.7	9.1	9.6
Total no. of outstanding shares (mn)	10,872	10,872	10,872	10,872

Source: ADCB Securities Equity Research

Investment case

We recommend Hold on FAB. The merged entity is the largest bank in UAE and 2nd largest in the MENA region supported by strong board and management team. The bank will be able to capitalise on FGB's leadership in retail banking and NBAD's strength in wholesale banking. However, in the near term, macro-economic environment remains challenging, limiting growth prospects and thus any significant upside.

Upside case

AED14.9

Upside case for FAB assumes higher than expected execution and synergies from the merger. Also, pick up in market share. We value upside case at 2.2x P/FBV (tangible).

Downside case

11.9

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 1.7x P/FBV (tangible).

Results summary - 4Q2018

Fig. 1. 4Q18 results review

Income statement (AEDmn)	4Q17	3Q18	4Q18	% YoY	% QoQ
Interest income	4,846	5,511	6,151	26.9	11.6
Interest expense	1,410	2,248	2,880	104.3	28.2
Net Interest Income	3,436	3,263	3,271	(4.8)	0.2
Non-interest Income	1,636	1,582	1,538	(6.0)	(2.8)
- Fee based income	947	805	793	(16.2)	(1.4)
- Investment income	247	280	116	(53.1)	(58.6)
- Forex income	153	458	688	350.0	50.3
Total income	5,072	4,845	4,809	(5.2)	(0.7)
Operating expenses	1,631	1,309	1,355	(16.9)	3.5
Pre-provision profit	3,441	3,536	3,454	0.4	(2.3)
Loan loss provisions	572	435	428	(25.1)	(1.6)
Profit before tax	2,869	3,101	3,026	5.5	(2.4)
Associate, taxes and minorities	48	80	93	96.0	17.1
Net Income	2,821	3,021	2,933	3.9	(2.9)
Balance sheet (AEDbn)				% YoY	% QoQ
Loans	330	354	353	6.9	(0.2)
Deposits	396	455	465	17.6	2.2
- CASA ratio	38.1	34.0	34.1		
Investments	107.7	104.1	105.1	(2.5)	0.9
Ratios (%)				YoY (bps)	QoQ (bps)
Cost/income ratio	32.2	27.0	28.2	(398)	115
- Cost/income ratio (ex-integration costs)	28.0	25.5	26.7	(130)	120
NIM	2.4	2.3	2.2	(21)	(12)
Credit costs	0.69	0.52	0.39	(30)	(13)
RoAA				0	0
Loan-deposit ratio	83.5	77.7	75.9	(760)	(183)
Tier I	15.5	15.8	14.6	(96)	(124)
- CET I	14.5	13.6	12.4	(212)	(122)
CAR	16.3	17.0	15.7	(55)	(128)
Asset quality				% YoY	% QoQ
Gross NPA (AEDmn)	10,597	11,600	11,499	8.5	(0.9)
Gross NPA (%)	3.1	3.1	3.1		
Coverage (%)	120.1	118.0	111.1		

Source: ADCB Securities Research

Recommendation history

FIRST ABU DHABI BANK (FAB 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 reflects 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