

Results update – 1Q2016

Banks | UAE | 28 April 2016

National Bank of Abu Dhabi (NBAD) reported profit at AED1.27bn was in line with our expectation. Underlying profitability remained weak. Revenue growth was subdued primarily due to lower loan growth and weak margins. This was partially offset by strong fee income and flat growth in opex. Though credit costs was lower than last quarter, it was up on year on year basis due to stress in the SME sector. Management has indicated that the stress in the SME sector has bottomed out and expect overall credit costs to improve from current levels. Balance sheet growth was weak. Loan book has contracted owing to run-off in the bank's trade finance book. Deposits growth was flat. Going forward, we estimate profitability to remain weak, as we expect pressure on both the revenue and costs to continue. We maintain our Hold recommendation on NBAD.

► **Underlying profitability growth was weak, costs tightly controlled**

Pre-provisioning profit continued to remain weak (-1.7% YoY) due to lower than expected loan growth (-0.3% YoY, -3.1% QoQ) and weak margins (2.0%). This was partially offset by strong growth in fee based income (22.4% YoY) and forex and derivatives businesses (51.8% YoY). Further, operating costs has been tightly controlled. Growth in opex was flat (-0.6% YoY). In this context, we would like to highlight that the management in its process of branch rationalisation has closed 16 branches / cash offices in last one year.

► **Balance sheet growth remained weak**

Loan growth contracted during the quarter (AED6bn) as the bank shifts its exposure in trade finance (AED13bn) to higher yielding retail assets and liquid investments. Further, the focus continues to be on flow based products over core lending. In the wholesale banking, debt origination and distribution was up 48% YoY, while relationship based loans were down 7% YoY. Deposits growth was weak (-6.6% YoY, -0.2% QoQ). CASA ratio remained low at 31%.

► **Credit costs to improve from current levels**

Though credits costs (annualized) at 58bps was lower than last quarter (91bps), it was higher than 1Q5 (35bps) due to deterioration in the SME sector credit quality. Also a part of it was towards increase in loan loss coverage ratio to 110% (105% in 4Q15). NPL ratio was stable at 2.8%. Management has indicated that the stress in the SME sector has bottomed out and expect credit costs to be within 55bps for the full year 2016.

Key Financials	2014	2015	2016E	2017E	2018E
Net interest income (AEDm)	7,018	7,307	7,559	7,966	8,596
Total income (AEDm)	10,415	10,556	11,031	11,739	12,755
EPS (AED)	1.1	1.1	1.0	1.0	1.1
EPS (% Change)	19.4	(6.7)	(9.1)	4.3	6.5
P/E (x)	7.9	8.4	9.3	8.9	8.4
P/B (tangible)	1.3	1.3	1.2	1.1	1.0
Gross NPL (% of Loans and advances)	3.8	3.1	3.2	3.1	3.2
Dividend yield	4.4	4.4	4.4	5.0	5.6
ROAA (%)	1.5	1.3	1.2	1.2	1.2
RoAE (%)	16.7	14.3	13.3	12.8	12.7

Source: ADCB Securities Equity Research

Fundamentals

Recommendation	Hold
Target Price	AED 7.74
Price	AED 9.00
Price 12m High/Low	AED 12.73/6.90
Market Cap.	AED 36,442.47
Bloomberg/Reuters	NBAD UH / NBAD.AD

Price Performance Chart



Source: Bloomberg

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Financials

Income Statement (AEDmn)	2015	2016E	2017E	2018E
Net interest income	7,307	7,559	7,966	8,596
Total non interest income	3,249	3,473	3,774	4,160
Fee income	2,924	2,867	3,004	3,229
Trading income	254	384	517	633
Other income	71	222	252	299
Total income	10,556	11,031	11,739	12,755
Total operating expenses	4,083	4,238	4,481	4,860
Salaries and wages	2,774	2,885	3,058	3,302
Other operating expenses	1,309	1,353	1,423	1,558
Pre provision profit	6,473	6,794	7,258	7,895
Total provisions	943	1,126	1,342	1,603
Profit before tax and MI	5,530	5,667	5,916	6,292
Taxes	298	327	359	394
Minority interest	0	0	0	0
Reported net profit	5,232	5,340	5,557	5,898
Adjusted net profit	5,031	5,040	5,257	5,598

Source: ADCB Securities Equity Research

Balance Sheet (AEDmn)	2015	2016E	2017E	2018E
Loans and advances	205,914	216,666	232,638	252,174
Investments	76,085	77,607	81,487	87,191
Fixed assets	2,646	2,765	2,889	3,019
Other assets	34,455	37,234	40,489	44,061
Total assets	406,564	418,976	439,223	465,483
Total equity	36,356	39,429	42,459	45,571
Sub/hybrid/other debt	6,863	6,863	6,863	6,863
Minority interests	0	0	0	0
Deposits	233,815	238,491	250,415	267,944
Total borrowings	70,545	73,927	77,883	82,105
Total liabilities	363,346	372,684	389,901	413,050

Source: ADCB Securities Equity Research

Valuation and leverage metrics	2015	2016E	2017E	2018E
P/E (x)	8.4	9.3	8.9	8.4
P/PPE (x)	7.2	6.9	6.4	5.9
P/B (tangible)	1.3	1.2	1.1	1.0
Dividend yield (%)	4.4	4.4	5.0	5.6
Tier 1 ratio	15.7	16.3	16.5	16.6
Core tier 1 ratio	13.2	13.9	14.3	14.5
CAR (%)	16.7	17.5	17.8	17.9
Average assets/Equity (x)	11.1	10.9	10.5	10.3
Loan to deposit ratio (%)	88.1	90.8	92.9	94.1

Source: ADCB Securities Equity Research

Key Ratios (%)	2015	2016E	2017E	2018E
ROAA	1.3	1.2	1.2	1.2
RoAE	14.3	13.3	12.8	12.7
Net interest margin	2.0	2.0	2.0	2.1
Cost-income	38.7	38.4	38.2	38.1
CASA	30.5	31.1	32.0	32.5
Gross NPL (% of Loans and advances)	3.1	3.2	3.1	3.2
Loan loss coverage	95.0	96.7	97.4	98.8
Credit costs (% of avg loans)	0.5	0.5	0.6	0.7

Source: ADCB Securities Equity Research

Per-share data (AED)	2015	2016E	2017E	2018E
EPS	1.1	1.0	1.0	1.1
DPS	0.4	0.4	0.5	0.5
BVPS	7.0	7.6	8.2	8.8
Total no. of outstanding shares (mn)	5,199	5,199	5,199	5,199

Source: ADCB Securities Equity Research

Investment case

We recommend Hold on NBAD. Bank's valuation multiple is constrained by its weak profitability. Its pre-provisioning profitability is the lowest among its peers. Earnings to remain subdued as we expect pressure on both revenue and cost to continue.

Upside case

AED10.7

Upside case for NBAD assumes pick-up in fee income growth. Bank has been investing in this area. Also, faster growth in retail book - an area which has been of less focus in the past. We value upside case at 1.4x P/BV 2016E.

Downside case

AED6.1

Downside case assumes income growth not keeping up pace with cost growth as it builds up its franchise due to slower than expected economic growth. In this scenario, NBAD can trade at 0.8x P/BV 2016E.

Results summary

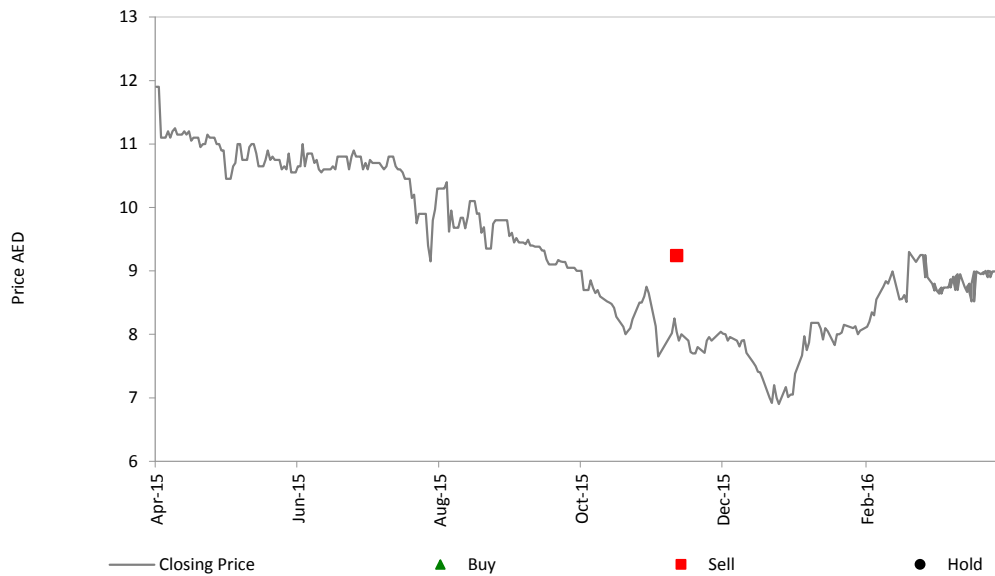
Fig. 1. Results review - 1Q 2016

Income statement (AEDmn)	1Q15	4Q15	1Q16	% YoY	% QoQ
Interest income	2,284	2,425	2,484	8.7	2.4
Interest expense	495	581	653	31.9	12.4
Net Interest Income	1,789	1,844	1,831	2.3	(0.7)
Non-interest Income	894	713	819	(8.4)	14.9
- Fee based income	730	761	894	22.4	17.4
- Trading revenue	139	-56	-83	(159.8)	47.2
Total income	2,684	2,557	2,650	(1.2)	3.6
Operating expenses	1,014	1,039	1,008	(0.6)	(3.0)
Pre-provision profit	1,670	1,518	1,642	(1.7)	8.2
Loan loss provisions	170	436	295	73.3	(32.3)
Profit before tax	1,500	1,082	1,347	(10.2)	24.5
Associate, taxes and minorities	76	46	77	0.1	66.3
Net Income	1,423	1,036	1,271	(10.7)	22.6
Balance sheet (AEDbn)					
Loans	200	206	200	(0.3)	(3.1)
Deposits	250	234	233	(6.6)	(0.2)
- CASA ratio	27.9	30.5	30.7		
Ratios					
Cost/income ratio (%)	37.8	40.6	38.0		
NIM (%)	2.0	2.0	2.0		
RoAA (%)	1.5	1.0	1.3		
Tier I (%)	14.3	15.7	15.1		
CAR (%)	15.5	16.7	16.0		
Asset quality (AEDmn)					
Gross NPA	5,955	5,847	5,792	(2.7)	(0.9)
Gross NPA (incl. loans overdue for more than 90 days)	7,046	6,450	6,479	(8.1)	0.4
Gross NPA (%)	2.9	2.8	2.8		
Coverage (%)	111.0	105.0	110.0		

Source: Company, ADCB Securities Equity Research.

Recommendation history

NATIONAL BANK OF ABU DHABI (NBAD UH EQUITY)



Date	Recommendation	Target Price (AED)	Closing Price (AED)
08-Dec-2015	Hold	9.24	8.04
28-Jan-2016	Hold	7.74	7.38

Rating Distribution

Rating	Coverage Universe %
Buy	50%
Hold	50%
Sell	0%

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