

## Emirates NBD (ENBD)

Impairment reversal led to substantial gains

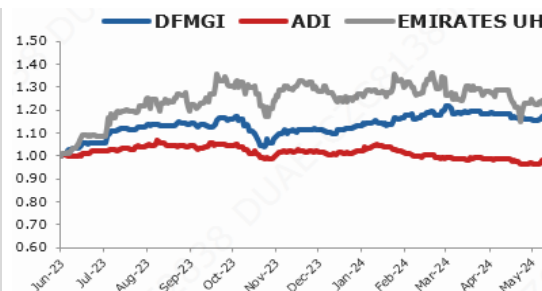
**Current Price**  
AED 16.50

**Target Price**  
AED 20.00

**Upside/Downside (%)**  
+21%

**Rating**  
BUY

- ENBD's NIMs declined 44 bps YOY and 37 bps QOQ to 3.5% in 1Q24 attributable to higher funding cost and competitive loan pricing. The Bank expects its NIMs to stay between 3.6-3.8% in 2024.
- NPLs declined from 4.6% in 4Q23 to 4.4% in 1Q24 and the coverage ratio declined from 162.5% in 4Q23 to 153.3% in 1Q24 due to strong recovery and write-offs.
- ENBD recorded reversal of AED 0.9 Bn in impairments compared to an impairment charge of 0.5 Bn.
- ENBD operates 18 branches in Saudi Arabia as of 1Q24 and further plans to expand to 24 branches by 2025.
- ENBD's shareholders agreed to distribute a dividend of 120 fils per share for 2023, resulting in a strong dividend yield of 7.3%.



### 1Q24 Net Profit higher than our estimate

Emirates NBD's (ENBD/the Bank) net profit grew 11.5% YOY to AED 6,702 Mn in 1Q24, higher than our estimate of AED 4,602 Mn. The increase in net profit is mainly attributable to a growth in net funded income and recording impairment reversal of AED 0.9 Bn in 1Q24 owing to writeback and repayments partially offset by increase in operating expenses, tax expense, and hyperinflation charges.

### P&L Highlights

ENBD's funded income rose 46.6% YOY to AED 17,284 Mn in 1Q24 due to a healthy loan and deposit mix coupled with an increase in interest-earning assets. As per our calculation, ENBD's asset yield rose 171 bps YOY but declined 27 bps QOQ to 8.2% in 1Q24. On the other hand, funded expenses more than doubled from AED 4,598 Mn in 1Q23 to AED 9,874 Mn in 1Q24 mainly due to an increase in the cost of funds owing to higher benchmark rates. Thus, net funded income increased 3.0% YOY to AED 7,410 Mn in 1Q24. Fee and commission income rose 47.8% YOY to AED 1,653 Mn in 1Q24 due to solid momentum in domestic and international retail card business from ENBD as well as DenizBank coupled with an increase in investment banking activity and strong revenue from trade finance product growth. ENBD recorded trading gains which rose significantly 77.4% YOY to AED 198 Mn in 1Q24. However, other operating income witnessed a substantial decline of 31.3% YOY to AED 1,401 Mn in 1Q24 due to an increase in swap funding cost in Turkey. Thus, non-funded income witnessed a marginal decline of 0.5% YOY to AED 3,252 Mn in 1Q24. As a result, operating income rose 1.9% YOY to AED 10,662 Mn in 1Q24. The Bank's operating expenses increased 16.2% YOY to AED 3,070 Mn in 1Q24 on the back of an increase in staff cost and IT and communication cost. IT and communication costs

### Stock Information

Market Cap (AED, mn)	104,223.87
Paid Up Capital (mn)	6,316.60
52 Week High	19.50
52 Week Low	13.60
3M Avg. daily value(AED)	36,775,110

### 1Q24 Result Review (AED, mm)

Total Assets	902,284
Total Liabilities	793,798
Total Equity	99,144
Total Deposits	610,371
Net Profit	6,702

### Financial Ratios

Dividend Yield (12m)	7.27
Dividend Pay-out (%)	36.15
Price-Earnings Ratio(x)	4.75
Price-to-Book Ratio (x)	1.05
Book Value (AED)	15.70
Return-on Equity (%)	23.61

### Stock Performance

5 Days	-2.65%
1 Months	-2.94%
3 Months	-9.34%
6 Months	-8.08%
1 Year	18.71%
Month to Date (MTD%)	-2.94%
Quarter to Date (QTD%)	-5.71%
Year to Date (YTD%)	-4.62%

rose on the back of continued investments in technology developments. Thus, the cost to income ratio increased 354 bps YOY to 28.8% in 1Q24. The Bank witnessed an impairment reversal of AED 0.9 Bn in 1Q24 compared to an impairment charge of AED 0.5 Bn in 1Q23, mainly due to continued recoveries and improved credit quality. The Bank recorded a tax expense of AED 861 Mn during 1Q24 compared to AED 471 Mn in 1Q23 due to the introduction of UAE corporate tax. In addition, the Bank incurred a capital-neutral hyperinflation adjustment worth AED 881 Mn in 1Q24 compared to AED 832 Mn during 1Q23.

### Balance Sheet Highlights

ENBD's net advances rose 3.0% QOQ and 6.7% YOY to AED 458.6 Bn in 1Q24. Deposits increased 4.4% QOQ and 13.5% YOY to AED 610.4 Bn in 1Q24 due to an increase in overall deposits. The Bank's CASA deposits represent 61% of total deposits in 1Q24. Moreover, the Bank's loan-to-deposits ratio stood at 75.1% in 1Q24. Total assets rose 4.6% QOQ and 15.4% YOY to AED 902.3 Bn in 1Q24. In addition, ENBD's total equity declined 1.5% QOQ and increased 14.6% YOY to AED 99.1 Bn in 1Q24.

### Target Price and Rating

We maintain our BUY rating on ENBD with an unchanged target price of AED 20.00. ENBD recorded a healthy growth in advances which rose 3.0% QOQ and 6.7% YOY to AED 458.6 Bn in 1Q24 driven by a healthy growth in retail as well as corporate lending. ENBD's AUMs witnessed a strong growth of 37% YOY in 1Q24 due to the bank's current wealth management strategy. ENBD's NIMs declined 44 bps YOY and 37 bps QOQ to 3.5% in 1Q24 attributable to competitive loan pricing, higher funding costs in ENBD and lower margins at DenizBank due to higher interest rates. The Bank revised down its NIMs guidance to 3.6-3.8% on the back of the expected delay in DenizBank margin widening due to further increase in rates partially offset by a favorable loan mix and growth in CASA. The Bank is heavily investing in technology and promotional expenses to build business volumes through new revenue streams. ENBD's CASA deposits stood at 61% of total deposits in 1Q24 compared to 60% in 4Q23, while the Bank recorded AED 21 Bn growth in CASA deposits during 1Q24. The Bank expects a moderate impact on NIMs in 2024 attributed to a strong CASA balance. ENBD holds strong liquidity with a Liquidity Coverage Ratio (LCR) of 186% in 1Q24. The Bank's asset quality improved as NPLs declined from 4.6% in 4Q23 to 4.4% in 1Q24 while the coverage ratio declined from 162.5% in 4Q23 to 153.3% in 1Q24. The Bank's NPL mainly declined due to write-offs, recoveries, and repayments in 1Q24. In addition, the Bank updated its full-year cost of risk guidance to 20-30 basis points from the previous guidance of 50-70 basis points. ENBD's capitalization stood strong with a CET 1 ratio of 15.2% and a CAR of 17.8% in 1Q24. The Bank has been increasing its international presence and operating in KSA for the past 20 years with a network of 18 branches and 19% loan growth in 1Q24. The shareholders agreed to distribute a dividend of 120 fils per share for 2023, resulting in a strong dividend yield of 7.3%. Thus, considering the above-mentioned factors, we assign a BUY rating on the stock.

#### ENBD- Relative valuation

(at CMP)	2019	2020	2021	2022	2023	2024F
PE	9.99	16.81	12.18	8.49	5.06	5.66
PB	1.47	1.43	1.43	1.26	1.05	0.94
Dividend yield	2.4%	2.4%	3.0%	3.6%	7.3%	6.0%

FABS Estimates & Co Data

**ENBD- P&L**

AED mn	1Q23	4Q23	1Q24	1Q24F	Var.	YOY Ch	QOQ Ch	2023	2024F	Change
Funded income	11,792	17,053	17,284	18,353	-5.8%	46.6%	1.4%	57,319	66,843	16.6%
Funded expense	-4,598	-9,239	-9,874	-10,345	-4.6%	114.7%	6.9%	-27,239	-36,690	34.7%
<b>Net funded income</b>	<b>7,194</b>	<b>7,814</b>	<b>7,410</b>	<b>8,008</b>	<b>-7.5%</b>	<b>3.0%</b>	<b>-5.2%</b>	<b>30,080</b>	<b>30,153</b>	<b>0.2%</b>
Fees and commissions	1,119	1,357	1,653	1,405	17.7%	47.8%	21.8%	4,873	4,629	-5.0%
Trading gain/(loss)	112	150	198	158	25.5%	77.4%	31.8%	480	384	-20.0%
Other Operating Income	2,039	988	1,401	1,067	31.3%	-31.3%	41.8%	7,595	5,317	-30.0%
<b>Non-funded income</b>	<b>3,269</b>	<b>2,495</b>	<b>3,252</b>	<b>2,629</b>	<b>23.7%</b>	<b>-0.5%</b>	<b>30.3%</b>	<b>12,948</b>	<b>10,330</b>	<b>-20.2%</b>
<b>Operating income</b>	<b>10,463</b>	<b>10,309</b>	<b>10,662</b>	<b>10,637</b>	<b>0.2%</b>	<b>1.9%</b>	<b>3.4%</b>	<b>43,028</b>	<b>40,482</b>	<b>-5.9%</b>
Operating expenses	-2,642	-3,341	-3,070	-3,351	-8.4%	16.2%	-8.1%	-11,696	-12,550	7.3%
<b>Pre-provision profit</b>	<b>7,821</b>	<b>6,969</b>	<b>7,592</b>	<b>7,287</b>	<b>4.2%</b>	<b>-2.9%</b>	<b>8.9%</b>	<b>31,332</b>	<b>27,933</b>	<b>-10.8%</b>
Impairment	-471	-1,946	866	-971	NM	NM	NM	-3,448	-1,405	-59.2%
<b>PBT</b>	<b>7,350</b>	<b>5,023</b>	<b>8,458</b>	<b>6,315</b>	<b>33.9%</b>	<b>15.1%</b>	<b>68.4%</b>	<b>27,884</b>	<b>26,528</b>	<b>-4.9%</b>
Tax	-496	72	-861	-568	51.5%	73.7%	NM	-2,134	-2,732	28.0%
<b>Net profit</b>	<b>6,854</b>	<b>5,095</b>	<b>7,597</b>	<b>5,747</b>	<b>32.2%</b>	<b>10.8%</b>	<b>49.1%</b>	<b>25,750</b>	<b>23,795</b>	<b>-7.6%</b>
Hyperinflation	-832	-1,067	-881	-1,135	-22.4%	5.9%	-17.4%	-4,229	-4,500	6.4%
<b>Net Profit adj for hyperinflation</b>	<b>6,022</b>	<b>4,028</b>	<b>6,716</b>	<b>4,611</b>	<b>45.6%</b>	<b>11.5%</b>	<b>66.7%</b>	<b>21,521</b>	<b>19,295</b>	<b>-10.3%</b>
NCI	-10	-7	-14	-10	44.6%	39.5%	95.2%	-41	-42	2.0%
<b>Profit for the period</b>	<b>6,012</b>	<b>4,021</b>	<b>6,702</b>	<b>4,602</b>	<b>45.6%</b>	<b>11.5%</b>	<b>66.7%</b>	<b>21,480</b>	<b>19,253</b>	<b>-10.4%</b>

*FABS estimate & Co Data*
**ENBD- KPI**

	1Q23	4Q23	1Q24	YOY	QOQ	2023	2024F	Change
Net FI/OI	68.8%	75.8%	69.5%	75	-630	69.9%	74.5%	458
NIM	4.0%	3.9%	3.5%	-44	-37	3.9%	3.6%	-32
NIS	3.5%	3.0%	2.6%	-85	-40	3.2%	2.7%	-52
Fees & comms/OI	10.7%	13.2%	15.5%	481	234	11.3%	11.4%	11
Other non-funded/OI	19.5%	9.6%	13.1%	-635	356	17.7%	13.1%	-452
Trading/OI	1.1%	1.5%	1.9%	79	40	1.1%	0.9%	-17
Cost to income	25.3%	32.4%	28.8%	354	-361	27.2%	31.0%	382
Impairment/PPP	6.0%	27.9%	-11.4%	-1,743	-3,933	11.0%	5.0%	-597
Tax/PBT	6.7%	-1.4%	10.2%	343	1,161	7.7%	10.3%	265
NP/OI	57.5%	39.0%	62.9%	540	2,385	49.9%	47.6%	-236
Loan-to-deposit	80.0%	76.0%	75.1%	-486	-86	76.0%	77.5%	150
NPL - Calculated	5.6%	4.6%	4.4%	-115	-16	4.6%	4.9%	32
NPL Coverage - Calculated	152.2%	162.5%	153.3%	108	-914	162.5%	163.0%	53
CET1	15.8%	14.9%	15.2%	-59	29	14.9%	16.2%	124
Capital Adequacy	18.7%	17.6%	17.8%	-84	25	17.6%	18.7%	116
ROAE	19.1%	21.8%	22.2%	311	35	23.3%	18.1%	-518
ROAA	2.1%	2.5%	2.5%	38	-2	2.7%	2.2%	-48

*FABS estimate & Co Data*
**ENBD- Key B/S items**

AED mn	1Q23	2Q23	3Q23	4Q23	1Q24	YOY
Net advances	429,722	439,938	455,106	445,105	458,633	6.7%
QOQ ch	3.1%	2.4%	3.4%	-2.2%	3.0%	
Total assets	782,177	811,132	835,563	862,773	902,284	15.4%
QOQ ch	5.4%	3.7%	3.0%	3.3%	4.6%	
Customer deposits	537,883	555,857	570,187	584,561	610,371	13.5%
QOQ ch	6.9%	3.3%	2.6%	2.5%	4.4%	
Total equity	86,518	89,274	96,014	100,670	99,144	14.6%
QOQ ch	2.9%	3.2%	7.5%	4.8%	-1.5%	

*FABS estimate & Co Data*

## Valuation:

We use Residual Income and Relative Valuation (RV) method to value ENBD. We have assigned 70% weight to Residual Income, and 30% to RV method.

Valuation Method	Target	Weight	Weighted Value
Residual Income	20.34	70.0%	14.24
Relative Valuation (RV)	19.21	30.0%	5.76
<b>Weighted Average Valuation (AED)</b>			<b>20.00</b>
Current market price (AED)			16.50
Upside/Downside (%)			+21%

### 1) Residual Income Method:

We have discounted the economic profit/excess equity using the cost of equity of 9.8%. Cost of equity is calculated by using 10-year government bond yield of 5.7%, beta of 1.00 and equity risk premium of 4.1%. Government bond yield is calculated after adding Dubai 10-year CDS spread over 10-year US risk-free rate. Also, assumed a terminal growth rate of 2.0%.

Sum of PV (AED, Mn)	16,347
Terminal value (AED, Mn)	12,991
Book Value of Equity (as of Mar 2024)	99,144
<b>FV to Common shareholders (AED, Mn)</b>	<b>128,482</b>
No. of share (Mn)	6,317
Current Market Price (AED)	16.50
<b>Fair Value per share (AED)</b>	<b>20.34</b>

### Residual Income Method

(All Figures in AED Mn)	FY 2024E	FY 2025E	FY 2026E	FY 2027E	FY 2028E
Net Profit	18,742	17,589	17,773	17,596	17,042
(-) Equity Charge	(10,959)	(12,114)	(13,280)	(14,422)	(15,516)
<b>Excess Equity</b>	<b>5,232</b>	<b>5,475</b>	<b>4,493</b>	<b>3,174</b>	<b>1,526</b>
Discounting Factor	0.94	0.86	0.78	0.71	0.65
<b>Present Value of Excess Equity</b>	<b>4,915</b>	<b>4,686</b>	<b>3,503</b>	<b>2,255</b>	<b>988</b>

Source: FAB Securities

## 2) Relative Valuation:

We have used local peers to value ENBD and it is valued using the PB multiple. It is valued at a PB multiple of 1.1x in line with peers.

Company	Market (USD Mn)	P/B (x)		P/E (x)		Dividend Yield (%)	
		2024F	2025F	2024F	2025F	2024F	2025F
Sharjah Islamic Bank	1,940	1.1	1.0	9.2	8.5	5.5	5.9
Commercial Bank of Dubai	5,490	1.3	1.3	NM	NM	6.5	6.0
Mashreq Bank	9,830	1.1	1.0	5.6	5.9	8.3	8.3
Rakbank	2,820	0.9	0.8	6.1	5.9	6.6	7.6
Abu Dhabi Commercial Bank	18,060	0.9	0.9	8.0	8.2	6.6	6.5
Abu Dhabi Islamic Bank	39,950	1.8	1.6	8.6	8.5	6.3	6.3
Dubai Islamic Bank	10,820	1.0	1.0	6.9	7.1	7.8	7.9
<b>Average</b>		<b>1.2x</b>	<b>1.1x</b>	<b>7.4x</b>	<b>7.3x</b>	<b>6.8%</b>	<b>6.9%</b>
<b>Median</b>		<b>1.1x</b>	<b>1.0x</b>	<b>7.4x</b>	<b>7.7x</b>	<b>6.6%</b>	<b>6.5%</b>
<b>Max</b>		<b>1.2x</b>	<b>1.2x</b>	<b>8.5x</b>	<b>8.4x</b>	<b>7.2%</b>	<b>7.7%</b>
<b>Min</b>		<b>1.0x</b>	<b>0.9x</b>	<b>6.3x</b>	<b>6.2x</b>	<b>6.4%</b>	<b>6.1%</b>

Source: FAB Securities

