

Emirates NBD (ENBD)

Robust loan & deposit expansion with strong growth in non-core business drove profitability

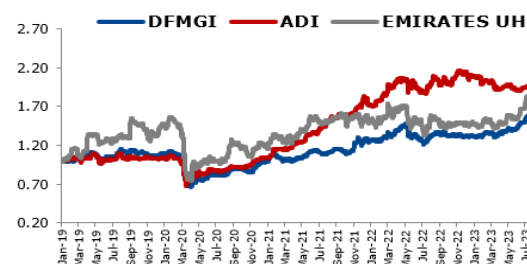
Current Price
AED 17.00

Target Price
AED 19.00

Upside/Downside (%)
+11.8%

Rating
ACCUMULATE

- ENBD revised its 2023 loan book guidance upwards from mid-single digit to high-single-digit growth in 2Q23.
- ENBD's stage 2 loans declined to 5.7% in 2Q23 as compared to 6.2% in 1Q23 on the back of strong writebacks and recoveries.
- ENBD's subsidiary DenizBank issued over USD 350 Mn through Diversified Payment Rights (DPR) in May 2023 and rolled out over USD 530 Mn in syndicated loans in June 2023 with a roll-over ratio of 117%.



2Q23 Net Profit higher than our estimate

Emirates NBD's (ENBD/the Bank) net profit grew significantly from AED 3,500 Mn in 2Q22 to AED 6,226 Mn in 2Q23, higher than our estimate of AED 5,511 Mn. The increase in net profit is mainly attributable to strong growth in net funded and non-funded income along with a decline in hyperinflation adjustment partially offset by an increase in operating expenses and impairment charges.

P&L Highlights

ENBD's funded income rose 72.6% YOY to AED 13,174 Mn in 2Q23 due to an improvement in loan mix, an increase in interest-earning assets, and an expansion in asset yield. On the other hand, funded expenses more than doubled from AED 2,496 Mn in 2Q22 to AED 5,942 Mn in 2Q23 due to an increase in the cost of funds owing to higher benchmark rates. Thus, net funded income rose 40.7% YOY to AED 7,232 Mn in 2Q23. However, NIMs rose 74 bps YOY but declined 15 bps QOQ to 3.8% in 2Q23. The decline in NIMs on QOQ basis is mainly due to the contraction of DenizBank NIMs due to high-interest rate and regulatory impact partially offset by higher margins of ENBD. The Bank's fee and commission income grew 4.8% YOY to AED 1,120 Mn in 2Q23 due to solid growth in the card business, strong investment banking activity, and an increase in trade finance. ENBD's trading income more than doubled to AED 78 Mn in 2Q23. Moreover, the Bank's other operating income rose 54.3% YOY to AED 2,394 Mn in 2Q23 due to strong growth in FX and derivative income, increased volumes of retail customer FX remittance, and higher hedging activity relating to DenizBank. Thus, ENBD's non-funded income rose 35.4% YOY to AED 3,592 Mn in 2Q23. As a result, total operating income rose 38.9% YOY to AED 10,824 Mn in 2Q23. Furthermore, ENBD's operating expenses rose 35.6% YOY to AED 2,817 Mn in 2Q23 on the back of higher staff cost, an increase in IT & communication expenses

Stock Information

Market Cap (AED, mm)	107,382.17
Paid Up Capital (mm)	6,316.60
52 Week High	17.05
52 Week Low	12.40
3M Avg. daily value(AED)	40,525,580

2Q23 Result Review (AED, mm)

Total Assets	811,132
Total Liabilities	712,577
Total Common Equity	89,274
Total Deposits	555,857
Net Profit	6,226

Financial Ratios

Dividend Yield (12m)	3.53
Dividend Pay-out (%)	30.34
Price-Earnings Ratio(x)	5.52
Price-to-Book Ratio (x)	1.20
Book Value (AED)	14.13
Return-on Equity (%)	23.49

Stock Performance

5 Days	4.94%
1 Months	14.48%
3 Months	21.86%
6 Months	28.30%
1 Year	20.57%
Month to Date (MTD%)	0.00%
Quarter to Date (QTD%)	14.48%
Year to Date (YTD%)	30.77%

to improve digitization and growth in other costs. An increase in other costs is attributable to higher services fees, an increase in VAT, and legal & professional fees. Thus, the Bank's cost-to-income ratio declined 64 bps YOY and rose 78 bps QOQ to 26.0% in 2Q23. Moreover, the Bank's impairments rose 3.8% YOY to AED 478 Mn in 2Q23. Tax charges rose 4.6% YOY to AED 772 Mn in 2Q23. The Bank incurred a capital-neutral hyperinflation adjustment worth AED 520 Mn in 2Q23 relating to its subsidiary DenizBank in Turkey. Share of profit attributable to non-controlling interest holders stood at AED 10 Mn in 2Q23 as compared to AED 4 Mn in 2Q22.

Balance Sheet Highlights

ENBD's net advances rose 3.5% YOY and 2.4% QOQ to AED 439.9 Bn in 2Q23 owing to a growth in corporate and retail loan book partially offset by a decline in sovereign loan book. Deposits rose significantly 18.8% YOY and 3.3% QOQ to AED 555.9 Bn in 2Q23 due to an increase in CASA as well as time deposits. The Bank's CASA deposits represent 61% of total deposits in 2Q23. Loan-to-deposits ratio stood at 79.1% in 2Q23 as compared to 90.8% in 2Q22 due to improvement in liquidity. Total assets rose 14.1% YOY and 3.7% QOQ to AED 811.1 Bn in 2Q23. ENBD's total equity grew 17.2% YOY and 3.2% QOQ to AED 89.3 Bn in 2Q23.

Target Price and Rating

We revise our rating on Emirates NBD from BUY to ACCUMULATE with an unchanged target price of AED 19.00. ENBD share price rose 19.4% since our last rating (i.e., 28 April 2023). The Bank recorded solid growth in net profit on the back of an improved loan & deposit mix, expansion in asset yield, and increase in interest-earning assets supported by strong growth in non-core business. The Bank's NIMs rose 74 bps YOY but declined 15 bps QOQ due to a decline in DenizBank margins owing to higher interest rates and regulatory impact. ENBD recorded a healthy growth in advances which grew 3.5% YOY and 2.4% QOQ whereas the bank revised its loan growth guidance upwards from mid-single digit to high-single digit in 2Q23. The Bank's technology investment is driving revenue growth from customer-focused products and services. The Bank's gross loans grew 5% YOY in 2Q23 driven by growth in corporate retail and, DenizBank advances partially offset by a decline in sovereign lending. ENBD's CASA ratio stood strong comprising 61% of total deposits in 2Q23. ENBD's asset quality stood stable on the back of strong writebacks and recoveries as NPLs stood unchanged at 5.6% in 2Q23 as compared to 1Q23 while coverage declined from 152.2% in 1Q23 to 146.8% in 2Q23. Additionally, stage 2 loans as a percentage of gross loans declined to 5.7% in 2Q23 as compared to 6.2% in 1Q23. ENBD's subsidiary DenizBank issued over USD 350 Mn through diversified payment rights in May 2023 and rolled out over USD 530 Mn syndicated loans in June 2023 with a roll-over ratio of 117%. ENBD's capitalization stood strong with a CAR of 19.5% and a CET 1 ratio of 16.6% in 2Q23. Thus, considering these factors, we assign an ACCUMULATE rating on the stock.

ENBD- Relative valuation

(at CMP)	2018	2019	2020	2021	2022	2023F
PE	9.99	10.11	17.01	12.32	8.59	4.85
PB	1.97	1.49	1.45	1.44	1.28	1.04
Dividend yield	2.4%	2.4%	2.4%	2.9%	3.5%	4.1%

FABS Estimates & Co Data

ENBD- P&L

AED mm	2Q22	1Q23	2Q23	2Q23F	Var.	YOY Ch	QOQ Ch	2022	2023F	Change
Funded income	7,635	11,792	13,174	12,291	7.2%	72.6%	11.7%	34,839	51,698	48.4%
Funded expense	-2,496	-4,598	-5,942	-5,030	18.1%	138.0%	29.2%	-11,616	-22,826	96.5%
Net funded income	5,139	7,194	7,232	7,261	-0.4%	40.7%	0.5%	23,222	28,873	24.3%
Fees and commissions	1,068	1,119	1,120	1,074	4.3%	4.8%	0.1%	4,081	4,489	10.0%
Trading gain/(loss)	32	112	78	125	-37.4%	144.7%	-29.9%	52	397	660.0%
Other Operating Income	1,552	2,039	2,394	1,325	80.6%	54.3%	17.4%	5,152	7,728	50.0%
Non-funded income	2,652	3,269	3,592	2,524	42.3%	35.4%	9.9%	9,285	12,614	35.9%
Operating income	7,790	10,463	10,824	9,785	10.6%	38.9%	3.4%	32,507	41,487	27.6%
Operating expenses	-2,078	-2,642	-2,817	-2,593	8.6%	35.6%	6.6%	-9,255	-11,284	21.9%
Pre-provision profit	5,713	7,821	8,006	7,192	11.3%	40.2%	2.4%	23,252	30,203	29.9%
Impairment	-460	-471	-478	-647	-26.2%	3.8%	1.3%	-5,184	-2,746	-47.0%
PBT	5,252	7,350	7,528	6,545	15.0%	43.3%	2.4%	18,068	27,456	52.0%
Tax	-737	-496	-772	-524	47.3%	4.6%	55.6%	-1,964	-2,608	32.8%
Net profit	4,515	6,854	6,757	6,021	12.2%	49.6%	-1.4%	16,105	24,848	54.3%
Hyperinflation	-1,011	-832	-520	-500	4.1%	-48.5%	-37.5%	-3,095	-2,200	-28.9%
Net Profit adj for hyperinflation	3,504	6,022	6,237	5,521	13.0%	78.0%	3.6%	13,010	22,648	74.1%
NCI	-4	-10	-10	-10	2.1%	NM	NM	-7	-7	1.8%
Profit for the period	3,500	6,012	6,226	5,511	13.0%	77.9%	3.6%	13,003	22,641	74.1%

FABS estimate & Co Data

ENBD- KPI

	2Q22	1Q23	2Q23	YOY	QOQ	2022	2023F	Change
Net FI/OI	66.0%	68.8%	66.8%	86	-194	71.4%	69.6%	-184
NIM	3.1%	4.0%	3.8%	74	-15	3.4%	4.0%	63
NIS	2.8%	3.5%	3.2%	42	-26	3.1%	3.0%	-8
Fees & comms/OI	13.7%	10.7%	10.3%	-337	-35	12.6%	10.8%	-173
Other non-funded/OI	19.9%	19.5%	22.1%	220	263	15.8%	18.6%	278
Trading/OI	0.4%	1.1%	0.7%	31	-34	0.2%	1.0%	80
Cost to income	26.7%	25.3%	26.0%	-64	78	28.5%	27.2%	-127
Impairment/PPP	8.1%	6.0%	6.0%	-209	-6	22.3%	9.1%	-1,320
Tax/PBT	14.0%	6.7%	10.2%	-379	350	10.9%	9.5%	-137
NP/OI	44.9%	57.5%	57.5%	1,260	7	40.0%	54.6%	1,457
ROAE	14.5%	19.1%	21.6%	714	254	16.4%	24.2%	780
ROAA	1.5%	2.1%	2.4%	85	25	1.8%	3.0%	119

FABS estimate & Co Data

ENBD- Key B/S items

AED mm	2Q22	3Q22	4Q22	1Q23	2Q23F	YOY
Net advances	424,987	419,063	416,604	429,722	439,938	3.5%
QOQ ch	-0.1%	-1.4%	-0.6%	3.1%	2.4%	
Total assets	710,640	720,523	741,962	782,177	811,132	14.1%
QOQ ch	2.4%	1.4%	3.0%	5.4%	3.7%	
Customer deposits	467,877	480,835	502,953	537,883	555,857	18.8%
QOQ ch	-0.2%	2.8%	4.6%	6.9%	3.3%	
Total equity	76,189	79,424	84,070	86,518	89,274	17.2%
QOQ ch	5.1%	4.2%	5.8%	2.9%	3.2%	

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	19.20	70.0%	13.44
Relative Valuation (RV)	18.53	30.0%	5.56
Weighted Average Valuation (AED)			19.00
Current market price (AED)			17.00
Upside/Downside (%)			+11.76%

1) Residual Income Method:

We have discounted the economic profit/excess equity using the cost of equity of 8.6%. Cost of equity is calculated by using 10-year government bond yield of 5.1%, beta of 1.00 and equity risk premium of 3.5%. Government bond yield is calculated after adding Abu Dhabi 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)	21,069
Terminal value (AED, Mn)	10,916
Book Value of Equity (as of June 2023)	89,274
FV to Common shareholders (AED, Mn)	121,260
No. of share (Mn)	6,317
Current Market Price (AED)	17.00
Fair Value per share (AED)	19.20

Residual Income Method

(All Figures in AED Mn)	FY 2023E	FY 2024E	FY 2025E	FY 2026E	FY 2027E
Net Profit	22,129	14,058	13,343	12,881	12,892
(-) Equity Charge	-8,824	-9,694	-10,476	-11,191	-11,880
Excess Equity	13,305	4,363	2,867	1,690	1,012
Discounting Factor	0.97	0.89	0.82	0.75	0.70
Present Value of Excess Equity	12,857	3,883	2,350	1,276	704

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 (x)	
		2023F	2024F	2023F	2024F	2023F	2024F
Sharjah Islamic Bank	1,993	1.1	1.1	10.8	9.5	4.8	5.3
Commercial Bank of Dubai	3,823	1.1	1.0	6.4	6.9	6.7	6.5
Abu Dhabi Islamic Bank (ADIB)	11,025	2.0	1.8	9.9	10.2	5.4	5.3
Mashreq Bank	7,926	1.2	1.1	5.4	6.5	8.6	8.6
Abu Dhabi Commercial Bank (ADCB)	16,395	1.0	0.9	8.3	9.1	6.1	5.2
Dubai Islamic Bank (DIB)	11,167	1.1	1.1	7.3	8.2	5.9	5.8
RAKBank	2,494	0.9	0.9	6.2	6.8	8.1	7.4
Average		1.2x	1.1x	7.8x	8.1x	6.5%	6.3%
Median		1.1x	1.1x	7.3x	8.2x	6.1%	5.8%
Max		1.1x	1.1x	9.1x	9.3x	7.4%	7.0%
Min		1.0x	1.0x	6.3x	6.8x	5.7%	5.3%

Source: FAB Securities

Research Rating Methodology:

Rating	Upside/Downside potential
BUY	Higher than +15%
ACCUMULATE	Between +10% to +15%
HOLD	Lower than +10% to -5%
REDUCE	Between -5% to -15%
SELL	Lower than -15%

FAB Securities Contacts:

Research Analyst

Ahmad Banihani +971-2-6161629 ahmad.banihani@Bankfab.com

Sales & Execution

Abu Dhabi Head Office

Trading Desk +971-2-6161700/1 Online Trading Link
 +971-2-6161777

Institutional Desk +971-4-4245765

DISCLAIMER

This report has been prepared by FAB Securities (FABS), which is authorised by the UAE Securities and Commodities Authority, licensing registration number 604002, and is a member of the Abu Dhabi Securities Exchange and Dubai Financial Market. The information, opinions and materials contained in this report are provided for information purposes only and are not to be used, construed, or considered as an offer or the solicitation of an offer or recommendation to sell or to buy or to subscribe for any investment security or other financial instrument. The information, opinions and material in this report have been obtained and derived from publicly available information and other sources considered reliable without being independently verified for their accuracy or completeness. FABS gives no representation or warranty, express or implied, as to the accuracy and completeness of information and opinions expressed in this report. Opinions expressed are current as of the original publication date appearing on the report only and the information, including the opinions contained herein, are subject to change without notice. FABS is under no obligation to update this report. The investments referred to in this report might not be suitable for all recipients. Recipients should not base their investment decisions on this report and should make their own investigations, and obtain independent advice, as appropriate. Any loss or other consequences arising from the uses of material contained in this report shall be the sole and exclusive responsibility of the recipient and FABS accepts no liability for any such loss or consequence. The value of any investment could fall as well as rise and the investor may receive less than the original amount invested. Some investments mentioned in this report might not be liquid investments, which could be difficult to realise in cash. Some investments discussed in this report could be characterised by high level of volatility, which might result in loss. FABS owns the intellectual property rights and any other material contained in this report. No part of this report may be reproduced, utilised or modified in any form either in whole or in part or by any electronic, mechanical or other means, now known or hereafter invented, including photocopying and recording, or stored in any retrieval system without the prior consent of FABS in writing. While utmost care has been taken to ensure that the information provided is accurate and correct, neither FABS, nor its employees shall, in any way, be responsible for the contents. By accepting this document, the recipient agrees he/she has read the above disclaimer and to be bound by the foregoing limitations/restrictions.