

## Emirates NBD (ENBD)

Strong growth in non-funded income drove profitability

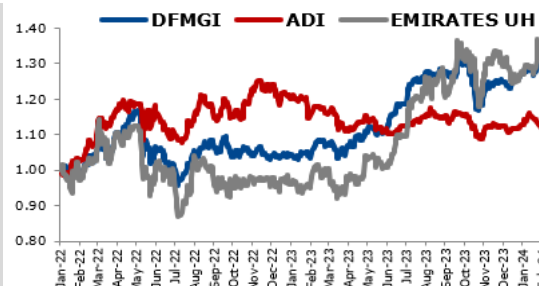
**Current Price**  
AED 18.00

**Target Price**  
AED 20.00

**Upside/Downside (%)**  
+11%

**Rating**  
**ACCUMULATE**

- ENBD's NIMs declined 59 bps YOY and 27 bps QOQ to 3.8 % in 4Q23, attributable to higher funding cost in ENBD as well as DenizBank while the Bank expects its NIMs to stay flat in 2024 between 3.8-4.0%.
- NPLs declined from 5.5% in 3Q23 to 4.6% in 4Q23 while the coverage ratio improved from 145.2% in 3Q23 to 162.5% in 4Q23 due to strong recovery and write-offs.
- ENBD witnessed a sharp rise in the capital-neutral hyperinflation adjustment from AED 3.1 Bn in 2022 to AED 4.2 Bn in 2023 due to a rise in inflation in Turkey.
- ENBD operates 15 branches in Saudi Arabia as of 2023 and further plans to expand to 24 branches by 2025.
- The board proposed a dividend of 120 fils per share for 2023 which will result in a strong dividend yield of 6.6%.



### 4Q23 Net Profit lower than our estimate

Emirates NBD's (ENBD/the Bank) net profit grew 34.7% YOY to AED 4,021 Mn in 4Q23, lower than our estimate of AED 4,852 Mn. The increase in net profit is mainly attributable to strong growth in non-funded income and lower hyperinflation charges coupled with tax reversal partially offset by an increase in operating expenses.

### P&L Highlights

ENBD's funded income rose 46.8% YOY to AED 17,053 Mn in 4Q23 due to a healthy loan and deposit mix, an increase in interest-earning assets, and an expansion in asset yield. On the other hand, funded expenses more than doubled from AED 3,876 Mn in 4Q22 to AED 9,239 Mn in 4Q23 mainly due to an increase in the cost of funds owing to higher benchmark rates. Thus, net funded income increased marginally 0.9% YOY to AED 7,814 Mn in 4Q23. Fee and commission income rose 31.7% YOY to AED 1,357 Mn in 4Q23 due to solid momentum in local and international card business from ENBD as well as DenizBank coupled with strong revenue from investment banking, trade finance, and IPO transactions. ENBD recorded trading gains of AED 150 Mn in 4Q23 as compared to AED 55 Mn in 4Q22, whereas other operating income declined 3.6% YOY to AED 988 Mn in 4Q23 due to a decline in FX and derivative gains coupled with lower investment income partially offset by growth in property and other income. Thus, non-funded income witnessed a strong growth of 18.2% YOY to AED 2,495 Mn in 4Q23. As a result, operating income rose 4.6% YOY to AED 10,309 Mn in 4Q23. The Bank's operating expenses increased 15.8% YOY to AED 3,341 Mn in 4Q23 on the back of an increase in staff cost, IT and communication cost and other costs. ENBD's other costs mainly increased due to incurring marketing expenses for COP28 and other events while IT and communication

### Stock Information

Market Cap (AED, Mn)	113,698.77
Paid Up Capital (Mn)	6,316.60
52 Week High	19.50
52 Week Low	12.50
3M Avg. daily value(AED)	42,511,160

### 4Q23 Result Review (AED, Mn)

Total Assets	862,773
Total Liabilities	752,801
Total Equity	100,670
Total Deposits	584,561
Net Profit	4,021

### Financial Ratios

Dividend Yield (12m)	3.37
Dividend Pay-out (%)	36.15
Price-Earnings Ratio(x)	5.30
Price-to-Book Ratio (x)	1.12
Book Value (AED)	15.94
Return-on Equity (%)	22.98

### Stock Performance

5 Days	-0.55%
1 Months	4.65%
3 Months	4.96%
6 Months	5.57%
1 Year	35.34%
Month to Date (MTD%)	1.69%
Quarter to Date (QTD%)	4.05%
Year to Date (YTD%)	4.05%

cost rose on the back of continued investments in technology. Thus, the cost to income ratio increased 314 bps YOY to 32.4% in 4Q23. The Bank's impairments stood flat with a marginal growth of 0.1% YOY to AED 1,946 Mn in 4Q23. The Bank recorded tax reversals of AED 72 Mn during 4Q23 as compared to a tax charge of AED 501 Mn in 4Q22 due to the release of deferred tax liability. In addition, the Bank incurred a capital-neutral hyperinflation adjustment worth AED 1,067 Mn in 4Q23 as compared to AED 1,546 Mn during 4Q22 relating to its subsidiary DenizBank in Turkey.

### Balance Sheet Highlights

ENBD's net advances rose 6.8% YOY to AED 445.1 Bn in 4Q23 driven by an increase in corporate, retail and DenizBank loan book partially offset by a decline in sovereign loan book. Deposits rose significantly 16.2% YOY to AED 584.6 Bn in 4Q23 due to an increase in overall deposits. The Bank's CASA deposits represent 60% of total deposits in 2023. The loan-to-deposits ratio stood at 76.1% in 2023. Total assets rose 16.3% to AED 862.8 Bn in 4Q23. ENBD's total equity grew 19.7% YOY to AED 100.7 Bn in 4Q23.

### Target Price and Rating

We maintain our ACCUMULATE rating on ENBD with an unchanged target price of AED 20.00. ENBD recorded a healthy growth in advances, which rose 6.8% YOY to AED 445.1 Bn in 4Q23 driven by a rise in corporate and retail loan book. The Bank's retail lending rose 19% YOY to AED 114 Bn in 2023 while corporate lending increased 18% to AED 212 Bn. A strong loan and deposit mix with solid growth in non-core business drove profitability. The Bank's NIMs declined 59 bps YOY and 27 bps QOQ to 3.81% in 4Q23, attributable to higher funding cost in ENBD as well as DenizBank. The Bank expects its NIMs to marginally decline in 2024 between 3.8-4.0% on the back of fast downward repricing on the assets owing to higher exposure of corporate loans. ENBD's operating expenses rose on the back of investment in technology and marketing expenses towards the COP28 event. The bank is investing heavily in technology and promotional expenses to build business volumes through new revenue streams. ENBD's CASA deposits stood at 60% of total deposits in 4Q23 compared to 59% in 3Q23 while the Bank recorded AED 30 Bn growth in CASA deposits during 2023. The Bank is actively expanding its international network and earned 39% of its income from international operations. ENBD operates 15 branches in Saudi Arabia as of 2023 and further plans to add 24 branches by 2025. The Bank aims to increase syndicated loans in Saudi Arabia to take advantage of its robust liquidity amid tight liquidity in the Saudi Banking system. ENBD's LCR stood strong at 210% in 2023. ENBD also benefitted from more than one-third of the market share of card spending in UAE as the bank's card spending rose 25% in 2023. The Bank's asset quality improved as NPLs declined from 5.5% in 3Q23 to 4.6% in 4Q23 while the coverage ratio improved from 145.2% in 3Q23 to 162.5% in 4Q23. The Bank's NPLs mainly declined due to large portion of write-offs in 4Q23 further supported by recoveries on the back of realization of property collaterals in Turkey. In addition, the Bank updated its NPL guidance favorably from less than 6% in 2023 to 4-5% in 2024. ENBD's capitalization stood strong with a CET 1 ratio of 14.9% and a CAR of 17.6% in 2023. However, due to sudden increase in Turkey's inflation, the Bank experienced a sharp rise in hyperinflation adjustment from AED 3,095 Mn in 2022 compared to AED 4,229 Mn in 2023. This adjustment is capital-neutral. The board proposed a dividend of 120 fils per share for 2023, resulting in a strong dividend yield of 6.6%. Thus, considering the above-mentioned factors, we assign an ACCUMULATE rating on the stock.

#### ENBD- Relative valuation

(at CMP)	2018	2019	2020	2021	2022	2023	2024F
PE	10.61	10.74	18.06	13.08	9.12	5.43	6.02
PB	2.09	1.58	1.54	1.53	1.36	1.13	1.01
Dividend yield	2.2%	2.2%	2.2%	2.8%	3.3%	6.6%	5.5%

FABS Estimates & Co Data

**ENBD- P&L**

AED Mn	4Q22	3Q23	4Q23	4Q23F	Var.	YOY Ch	QOQ Ch	2022	2023	Change
Funded income	11,620	15,299	17,053	16,930	0.7%	46.8%	11.5%	34,838	57,319	64.5%
Funded expense	-3,876	-7,459	-9,239	-8,731	5.8%	138.4%	23.9%	-11,616	-27,239	134.5%
<b>Net funded income</b>	<b>7,744</b>	<b>7,840</b>	<b>7,814</b>	<b>8,200</b>	<b>-4.7%</b>	<b>0.9%</b>	<b>-0.3%</b>	<b>23,222</b>	<b>30,080</b>	<b>29.5%</b>
Fees and commissions	1,031	1,277	1,357	1,300	4.4%	31.7%	6.2%	4,081	4,873	19.4%
Trading gain/(loss)	55	140	150	68	122.4%	171.1%	7.4%	52	480	NM
Other Operating Income	1,024	2,174	988	2,151	-54.1%	-3.6%	-54.6%	5,152	7,595	47.4%
<b>Non-funded income</b>	<b>2,110</b>	<b>3,592</b>	<b>2,495</b>	<b>3,519</b>	<b>-29.1%</b>	<b>18.2%</b>	<b>-30.5%</b>	<b>9,285</b>	<b>12,948</b>	<b>39.5%</b>
<b>Operating income</b>	<b>9,854</b>	<b>11,432</b>	<b>10,309</b>	<b>11,718</b>	<b>-12.0%</b>	<b>4.6%</b>	<b>-9.8%</b>	<b>32,507</b>	<b>43,028</b>	<b>32.4%</b>
Operating expenses	-2,884	-2,896	-3,341	-2,976	12.3%	15.8%	15.4%	-9,254	-11,696	26.4%
<b>Pre-provision profit</b>	<b>6,970</b>	<b>8,536</b>	<b>6,969</b>	<b>8,742</b>	<b>-20.3%</b>	<b>0.0%</b>	<b>-18.4%</b>	<b>23,253</b>	<b>31,332</b>	<b>34.7%</b>
Impairment	-1,943	-553	-1,946	-1,015	91.7%	0.1%	251.7%	-5,184	-3,448	-33.5%
<b>PBT</b>	<b>5,027</b>	<b>7,983</b>	<b>5,023</b>	<b>7,727</b>	<b>-35.0%</b>	<b>-0.1%</b>	<b>-37.1%</b>	<b>18,069</b>	<b>27,884</b>	<b>54.3%</b>
Tax	-501	-939	72	-929	NM	NM	NM	-1,964	-2,134	8.7%
<b>Net profit</b>	<b>4,526</b>	<b>7,044</b>	<b>5,095</b>	<b>6,798</b>	<b>-25.0%</b>	<b>12.6%</b>	<b>-27.7%</b>	<b>16,105</b>	<b>25,750</b>	<b>59.9%</b>
Hyperinflation	-1,546	-1,810	-1,067	-1,932	-44.8%	-31.0%	-41.1%	-3,095	-4,229	36.6%
<b>Net Profit adj for hyperinflation</b>	<b>2,981</b>	<b>5,234</b>	<b>4,028</b>	<b>4,866</b>	<b>-17.2%</b>	<b>35.1%</b>	<b>-23.0%</b>	<b>13,010</b>	<b>21,521</b>	<b>65.4%</b>
NCI	5	-14	-7	-14	NM	NM	-47.0%	-7	-41	NM
<b>Profit for the period</b>	<b>2,986</b>	<b>5,221</b>	<b>4,021</b>	<b>4,852</b>	<b>-17.1%</b>	<b>34.7%</b>	<b>-23.0%</b>	<b>13,003</b>	<b>21,480</b>	<b>65.2%</b>

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

	4Q22	3Q23	4Q23	YOY	QOQ	2022	2023	Change
Net FI/OI	78.6%	68.6%	75.8%	-279	722	71.4%	69.9%	-153
NIM	4.4%	4.1%	3.8%	-59	-14	3.4%	4.0%	52
NIS	4.0%	3.3%	3.0%	-103	-29	3.1%	3.2%	17
Fees & comms/OI	10.5%	11.2%	13.2%	270	199	12.6%	11.3%	-123
Other non-funded/OI	10.4%	19.0%	9.6%	-81	-944	15.8%	17.7%	180
Trading/OI	0.6%	1.2%	1.5%	89	23	0.2%	1.1%	96
Cost to income	29.3%	25.3%	32.4%	314	707	28.5%	27.2%	-129
Impairment/PPP	27.9%	6.5%	27.9%	5	NM	22.3%	11.0%	-1,129
Tax/PBT	10.0%	11.8%	-1.4%	NM	NM	10.9%	7.7%	-322
NP/OI	30.3%	45.7%	39.0%	870	-666	40.0%	49.9%	992
ROAE	15.9%	22.1%	21.8%	594	-23	16.4%	23.3%	684
ROAA	1.8%	2.5%	2.5%	75	5	1.8%	2.7%	86

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

AED Mn	4Q22	1Q23	2Q23	3Q23	4Q23	YOY
Net advances	416,604	429,722	439,938	455,106	445,105	6.8%
QOQ ch	-0.6%	3.1%	2.4%	3.4%	-2.2%	
Total assets	741,962	782,177	811,132	835,563	862,773	16.3%
QOQ ch	3.0%	5.4%	3.7%	3.0%	3.3%	
Customer deposits	502,953	537,883	555,857	570,187	584,561	16.2%
QOQ ch	4.6%	6.9%	3.3%	2.6%	2.5%	
Total equity	84,070	86,518	89,274	96,014	100,670	19.7%
QOQ ch	5.8%	2.9%	3.2%	7.5%	4.8%	

*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	21.10	70.0%	14.07
Relative Valuation (RV)	19.77	30.0%	5.93
<b>Weighted Average Valuation (AED)</b>			<b>20.00</b>
Current market price (AED)			18.00
Upside/Downside (%)			+11%

### 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 5.2%, beta of 1.00 and equity risk premium of 4.6%. 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)	12,899
Terminal value (AED, Mn)	13,364
Book Value of Equity (as of Dec 2023)	100,670
<b>FV to Common shareholders (AED, Mn)</b>	<b>126,933</b>
No. of share (Mn)	6,317
Current Market Price (AED)	18.00
<b>Fair Value per share (AED)</b>	<b>21.10</b>

### Residual Income Method

(All Figures in AED Mn)	FY 2024E	FY 2025E	FY 2026E	FY 2027E	FY 2028E
Net Profit	18,929	17,971	18,073	17,904	17,308
(-) Equity Charge	(11,028)	(12,220)	(13,407)	(14,575)	(15,689)
<b>Excess Equity</b>	<b>1,317</b>	<b>5,751</b>	<b>4,666</b>	<b>3,330</b>	<b>1,618</b>
Discounting Factor	0.92	0.84	0.76	0.69	0.63
<b>Present Value of Excess Equity</b>	<b>1,209</b>	<b>4,807</b>	<b>3,552</b>	<b>2,309</b>	<b>1,022</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	2,176	1.2	1.1	10.3	9.5	4.9	5.3
Commercial Bank of Dubai	4,064	1.1	NM	NM	NM	5.5	6.0
Mashreq Bank	8,303	1.0	0.9	5.2	5.7	8.2	7.2
Rakbank	2,875	1.0	0.9	7.4	5.5	7.2	9.1
Abu Dhabi Commercial Bank	17,714	1.0	0.9	8.6	8.4	5.8	5.9
Abu Dhabi Islamic Bank	10,107	1.7	1.6	8.9	8.3	5.9	6.2
Dubai Islamic Bank	11,374	1.1	1.0	8.0	7.3	5.9	6.1
<b>Average</b>		<b>1.2x</b>	<b>1.1x</b>	<b>8.0x</b>	<b>7.4x</b>	<b>6.2%</b>	<b>6.5%</b>
<b>Median</b>		<b>1.1x</b>	<b>1.0x</b>	<b>8.3x</b>	<b>7.8x</b>	<b>5.9%</b>	<b>6.1%</b>
<b>Max</b>		<b>1.2x</b>	<b>1.1x</b>	<b>8.8x</b>	<b>8.4x</b>	<b>6.6%</b>	<b>6.7%</b>
<b>Min</b>		<b>1.0x</b>	<b>0.9x</b>	<b>7.5x</b>	<b>6.1x</b>	<b>5.7%</b>	<b>5.9%</b>

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%

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