

Emirates NBD (ENBD)

Strong growth in non-funded income & lower provisions boosted bottom line

1Q23 Net Profit exceeded our estimates

Emirates NBD's (ENBD/the Bank) net profit more than doubled from AED 2,741 Mn in 1Q22 to AED 6,012 Mn in 1Q23, exceeded our estimate of AED 4,325 Mn. The increase in net profit is mainly attributable to strong growth in net funded and non-funded income coupled with a decline in provisions partially offset by an increase in operating expenses.

P&L Highlights

ENBD's funded income rose 84.5% YOY to AED 11,792 Mn in 1Q23 driven by an improvement in loan mix and a marginal increase in net advances along with an expansion in asset yield. On the other hand, funded expense rose significantly from AED 2,135 Mn in 1Q22 to AED 4,598 Mn in 1Q23 mainly driven by higher benchmark rates. Thus, net funded income rose 69.0% YOY to AED 7,194 Mn in 1Q23. NIMs rose 140 bps YOY and declined 51 bps QOQ to 4.0% in 1Q23. The decline in NIMs on QOQ basis was mainly attributable to contractions of DenizBank NIMs due to regulatory impact. Fees and commission income rose 21.7% YOY to AED 1,119 Mn in 1Q23 owing to a growth in local and international card business both at ENBD and DenziBank, higher revenue from investment banking, and increased trade finance. Trading income rose significantly from AED 10 Mn in 1Q22 to AED 112 Mn in 1Q23. Other operating income recorded a sharp rise of 71.6% YOY to AED 2,039 Mn in 1Q23 driven by higher FX volumes due to increase in customer remittance at favourable rates, gain from property & investments, and an increase in hedging activity. Thus, non-funded income rose 54.3% YOY to AED 3,269 Mn in 1Q23. As a result, total operating income witnessed a solid 64.1% YOY growth to AED 10,463 Mn in 1Q23. ENBD's operating expenses rose 34.5% YOY to AED 2,642 Mn in 1Q23 driven by an increase in staff costs, D&A expenses, IT & communication expenses, and other costs. The increase in staff cost was mainly due to the incentives and investment in human capital whereas D&A expenses rose due to investments in digital platforms. Thus, cost-to-income ratio declined 557 bps YOY to 25.3% due to strong growth in operating profit. The Bank's impairments declined to AED 471 Mn in 1Q23, down from AED 1,404 Mn in 1Q22 due to lower provision against NPLs as a result of robust operating environment and recoveries. The Bank recorded a capital-neutral hyperinflation adjustment worth AED 832 Mn relating to its subsidiary DenizBank due to hyperinflation in Turkey. Tax expenses rose 90.8% YOY to AED 496 Mn in 1Q23 in line with growth in profitability.

Balance Sheet Highlights

ENBD's net advances rose 1.0% YOY and 3.1% QOQ to AED 429.7 Bn in 1Q23 whereas the loan-to-deposit ratio declined from 90.7% in 1Q22 to 79.9% in 1Q23. Total assets rose 12.7% YOY and 5.4% QOQ to AED 782.2 Bn in 1Q23. Furthermore, Customer deposits increased significantly 14.7% YOY and 6.9% QOQ to AED 537.9 Bn in 1Q23 due to increase in current and savings account balances whereas ENBD's CASA deposits as a percentage of total deposits stood at 60%. ENBD's subsidiary DenizBank's deposits increased 27.1% to AED 89 Bn in 1Q23. Total equity rose 19.4% YOY and 2.9% QOQ to AED 86.5 Bn in 1Q23.

Rating : BUY

First Look Note – 1Q23

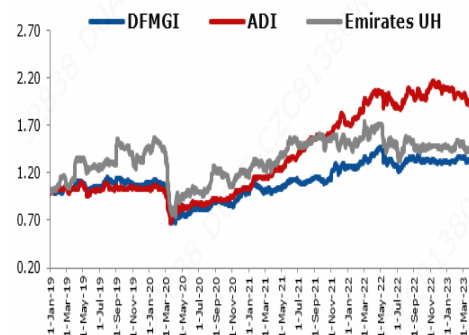
Sector: Banking

Recommendation

| | |
|---------------------------|-------|
| Current Price (27-Apr-23) | 13.90 |
| Target Price (AED) | 19.00 |
| Upside/Downside (%) | +37% |

Stock Information

| | |
|---------------------------|------------|
| Market Cap (mm) | 87,800.72 |
| Paid Up Capital (mm) | 6,316.60 |
| 52 Week High | 15.30 |
| 52 Week Low | 11.80 |
| 3M Avg. daily value (AED) | 30,971,320 |



Financial Ratios

| | |
|--------------------------|-------|
| Dividend Yield (12m) | 4.32 |
| Dividend Pay-out (%) | 30.34 |
| Price-Earnings Ratio (x) | 5.26 |
| Price-to-Book Ratio (x) | 1.01 |
| Book Value (AED) | 13.70 |
| Return-on Equity (%) | 21.02 |
| Earning Per Share (AED) | 2.64 |
| Beta | 1.02 |

Stock Performance

| | |
|-----------------------|--------|
| 5 Days | 4.91% |
| 1 Months | 6.92% |
| 3 Months | 7.34% |
| 6 Months | 4.91% |
| 1 Year | -8.85% |
| Month to Date (MTD) | 5.70% |
| Quarter to Date (QTD) | 5.70% |
| Year to Date (YTD) | 6.92% |

Target Price and Rating

We maintain our BUY rating on Emirates NBD with an unchanged target price of AED 19.00. ENBD's net profit more than doubled to AED 6,012 Mn in 1Q23 as compared to AED 2,741 Mn in 1Q22 due to a favourable deposit mix and an increase in asset yield. The Bank's NIMs rose 140 bps YOY and declined 51 bps QOQ to 4.0% in 1Q23 whereas the bank further maintained its 2023 NIMs guidance at 3.8 – 4.0%. It expects further growth in CASA deposits and robust liquidity position to benefit NIMs. Rolling out of "ENBD X", the Bank's mobile banking app and EI retail increased the Bank's digital offerings in 1Q23. ENBD issued more than 144,000 new cards and experienced the highest ever card spending in retail and wealth management business of AED 13 Bn in 1Q23 whereas AED 8 Bn of retail loans disbursed in 1Q23 strengthening its market share. This bodes well for the growth in funded and non-funded income. ENBD's gross loans rose 1.4% YOY to AED 469.5 Mn in 1Q23 driven by strong growth in corporate, retail, and DenizBank lending partially offset by a fall in sovereign lending. The Bank's CASA ratio stood at 60% of total deposits in 1Q23 benefiting the NIMs. ENBD's asset quality improved significantly with an NPL ratio of 5.6% in 1Q23 as compared to 6.0% in 4Q22 on the back of strong writeback and recoveries. Moreover, the Bank's coverage ratio improved to 152.2% in 1Q23 from 144.6% in 4Q22. ENBD increased its stage 1 coverage from 1.2% in 4Q22 to 1.4% in 1Q23 due to Turkish earthquake and higher interest rate environment whereas stage 3 coverage reduced from 98.3% in 4Q22 to 98.7% 1Q23 owing to the writeback of recoveries. Additionally, stage 2 loans as a percentage of gross loans declined 20 bps QOQ to 6.2% in 1Q23. Furthermore, ENBD lowered its 2023 NPL guidance from 6.5% to ~6.0% and cost-of-risk is also lowered to 50-70 bps from 100 bps owing to recoveries. In addition, ENBD and EI issued 1 Bn worth of public bonds and sukuk in 1Q23. The Bank's capitalization stood strong with a CET 1 ratio of 15.8% and a strong CAR of 18.7% in 1Q23. Considering all these factors, we maintain our BUY rating on the stock.

ENBD- Relative valuation

| (at CMP) | 2018 | 2019 | 2020 | 2021 | 2022 | 2023F |
|----------------|------|------|-------|-------|------|-------|
| PE | 8.17 | 8.27 | 13.90 | 10.08 | 7.02 | 5.56 |
| PB | 1.61 | 1.22 | 1.18 | 1.18 | 1.04 | 0.91 |
| Dividend Yield | 2.9% | 2.9% | 2.9% | 3.6% | 4.3% | 5.0% |

FABS Estimates & Co Data

ENBD- P&L

| AED mm | 1Q22 | 4Q22 | 1Q23 | 1Q23F | Var. | YOY Ch | QOQ Ch | 2022 | 2023F | Change |
|--|--------------|--------------|---------------|--------------|---------------|---------------|---------------|---------------|---------------|---------------|
| Funded income | 6,391 | 11,620 | 11,792 | 11,781 | 0.1% | 84.5% | 1.5% | 34,839 | 48,034 | 37.9% |
| Funded expense | -2,135 | -3,876 | -4,598 | -4,511 | 1.9% | 115.4% | 18.6% | -11,616 | -20,609 | 77.4% |
| Net funded inc | 4,256 | 7,744 | 7,194 | 7,270 | -1.0% | 69.0% | -7.1% | 23,222 | 27,425 | 18.1% |
| Fees and comm. | 920 | 1,031 | 1,119 | 1,022 | 9.5% | 21.7% | 8.5% | 4,081 | 4,163 | 2.0% |
| Trading gain/(loss) | 10 | 56 | 112 | 11 | 912.7% | NM | 100.4% | 52 | 55 | 5.0% |
| Operating Income | 1,189 | 1,024 | 2,039 | 521 | 291.7% | 71.6% | 99.1% | 5,152 | 2,318 | -55.0% |
| Non-funded inc. | 2,118 | 2,111 | 3,269 | 1,553 | 110.5% | 54.3% | 54.9% | 9,285 | 6,536 | -29.6% |
| Operating income | 6,374 | 9,855 | 10,463 | 8,823 | 18.6% | 64.1% | 6.2% | 32,507 | 33,961 | 4.5% |
| Operating expenses | -1,965 | -2,885 | -2,642 | -2,647 | -0.2% | 34.5% | -8.4% | -9,255 | -10,188 | 10.1% |
| Pre-provision profit | 4,410 | 6,969 | 7,821 | 6,176 | 26.6% | 77.4% | 12.2% | 23,252 | 23,773 | 2.2% |
| Impairments | -1,404 | -1,943 | -471 | -1,141 | -58.7% | -66.4% | -75.7% | -5,184 | -4,760 | -8.2% |
| PBT | 3,005 | 5,027 | 7,350 | 5,036 | 45.9% | 144.6% | 46.2% | 18,068 | 19,012 | 5.2% |
| Tax | -260 | -501 | -496 | -428 | 15.8% | 90.8% | -1.0% | -1,964 | -1,711 | -12.9% |
| Net profit | 2,745 | 4,526 | 6,854 | 4,608 | 48.7% | 149.7% | 51.4% | 16,105 | 17,301 | 7.4% |
| Hyperinflation | 0 | -1,546 | -832 | -300 | 177.3% | NM | -46.2% | -3,095 | -1,000 | -67.7% |
| Net Profit adj for hyperinflation | 2,745 | 2,980 | 6,022 | 4,308 | 39.8% | 119.4% | 102.1% | 13,010 | 16,301 | 25.3% |
| NCI | -4 | 5 | -10 | 18 | -156.7% | 127.1% | -297.2% | -7 | -7 | 1.8% |
| Net Profit | 2,741 | 2,985 | 6,012 | 4,325 | 39.0% | 119.3% | 101.4% | 13,003 | 16,294 | 25.3% |

FABS Estimates & Co Data
ENBD- Margins

| | 1Q22 | 4Q22 | 1Q23 | YOY | QOQ | 2022 | 2023F | Change |
|---------------------|-------------|-------------|-------------|------------|------------|-------------|--------------|---------------|
| Net FI/OI | 66.8% | 78.6% | 68.8% | 198 | -983 | 71.4% | 80.8% | 932 |
| NIM | 2.5% | 4.5% | 4.0% | 140 | -51 | 3.4% | 3.8% | 44 |
| NIS | 2.3% | 4.0% | 3.5% | 115 | -57 | 3.1% | 3.2% | 12 |
| Fees & comms/OI | 14.4% | 10.5% | 10.7% | -373 | 23 | 12.6% | 12.3% | -30 |
| Other non-funded/OI | 18.6% | 10.4% | 19.5% | 84 | 909 | 15.8% | 6.8% | -902 |
| Trading/OI | 0.2% | 0.6% | 1.1% | 91 | 50 | 0.2% | 0.2% | 0 |
| Cost to income | 30.8% | 29.3% | 25.3% | -557 | -403 | 28.5% | 30.0% | 153 |
| Impairment/PPP | 31.9% | 27.9% | 6.0% | -2,582 | -2,185 | 22.3% | 20.0% | -227 |
| Tax/PBT | 8.6% | 10.0% | 6.7% | -190 | -321 | 10.9% | 9.0% | -187 |
| NP/OI | 43.0% | 30.3% | 57.5% | 1,446 | 2,717 | 40.0% | 48.0% | 798 |
| ROAE | 13.2% | 15.9% | 19.1% | 585 | 317 | 16.4% | 18.0% | 163 |
| ROAA | 1.4% | 1.8% | 2.1% | 73 | 36 | 1.8% | 2.2% | 35 |

FABS Estimates & Co Data

ENBD- Key BS Items

| AED mm | 1Q22 | 2Q22 | 3Q22 | 4Q22 | 1Q23 | YOY |
|--------------------------|---------|---------|---------|---------|---------|-------|
| Net advances | 425,351 | 424,987 | 419,063 | 416,604 | 429,722 | 1.0% |
| QOQ Change | 0.7% | -0.1% | -1.4% | -0.6% | 3.1% | |
| Total assets | 694,035 | 710,640 | 720,523 | 741,962 | 782,177 | 12.7% |
| QOQ Change | 1.0% | 2.4% | 1.4% | 3.0% | 5.4% | |
| Customer deposits | 468,974 | 467,877 | 480,835 | 502,953 | 537,883 | 14.7% |
| QOQ Change | 2.7% | -0.2% | 2.8% | 4.6% | 6.9% | |
| Total equity | 72,464 | 76,189 | 79,424 | 84,070 | 86,518 | 19.4% |
| QOQ Change | -2.6% | 5.1% | 4.2% | 5.8% | 2.9% | |

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 | 20.2 | 70.0% | 14.2 |
| Relative Valuation | 16.2 | 30.0% | 4.9 |
| Weighted Average Valuation (AED) | | | 19.0 |
| Current market price (AED) | | | 13.9 |
| Upside/Downside (%) | | | 36.9% |

1) Residual Income Method:

We have discounted the economic profit/excess equity using the cost of equity of 8.4%. Cost of equity is calculated by using 10-year government bond yield of 4.7%, beta of 1.05 and equity risk premium of 3.4%. 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) | 20,494 |
| Terminal value (AED, Mn) | 23,237 |
| Book Value of equity (as of March 2023) | 84,070 |
| FV to Common shareholders (AED, Mn) | 127,801 |
| No. of share (Mn) | 6,317 |
| Current Market Price (AED) | 13.9 |
| Fair Value per share (AED) | 20.2 |

Residual Income Method

| (All Figures in AED Mn) | FY 2023E | FY 2024E | FY 2025E | FY 2026E | FY 2027E |
|---------------------------------------|--------------|--------------|--------------|--------------|--------------|
| Net Profit | 15,783 | 14,865 | 14,869 | 14,161 | 13,520 |
| (-) Equity charge | -8,076 | -8,992 | -9,882 | -10,686 | -11,410 |
| Excess Equity | 7,707 | 5,873 | 4,988 | 3,475 | 2,110 |
| Discounting Factor | 0.95 | 0.87 | 0.81 | 0.74 | 0.69 |
| Present Value of Excess Equity | 7,300 | 5,134 | 4,023 | 2,587 | 1,449 |

2) Relative Valuation:

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

| Company | Market (USD Mn) | PB (x) | | PE (x) | | Dividend Yield (%) | |
|----------------------------------|--------------------|-------------|-------------|-------------|-------------|--------------------|-------------|
| | | 2023 | 2024 | 2023 | 2024 | 2023 | 2024 |
| Sharjah Islamic Bank (SIB) | 1,644 | 0.9 | 0.9 | 10.9 | 10.3 | 4.5% | 4.9% |
| Commercial Bank of Dubai (CBD) | 3,686 | 1.1 | 1.0 | 0.0 | 0.0 | 7.0% | 6.4% |
| Abu Dhabi Islamic Bank (ADIB) | 8,969 | 1.8 | 1.7 | 9.7 | 9.3 | 5.5% | 6.0% |
| Mashreq Bank | 5,325 | 0.8 | 0.8 | 6.1 | 6.5 | 5.1% | 6.2% |
| Abu Dhabi Commercial Bank (ADCB) | 17,233 | 1.1 | 1.0 | 9.0 | 9.0 | 5.6% | 5.6% |
| Dubai Islamic Bank (DIB) | 11,078 | 1.2 | 1.1 | 7.1 | 7.4 | 6.5% | 6.5% |
| RAKBANK | 2,054 | 0.8 | 0.8 | 6.5 | 7.1 | 7.7% | 7.6% |
| | | | | | | | |
| Average | | 1.1x | 1.0x | 7.0x | 7.1x | 6.0% | 6.2% |
| Median | | 1.1x | 1.0x | 7.1x | 7.4x | 5.6% | 6.2% |
| Max | | 1.1x | 1.1x | 9.4x | 9.2x | 6.7% | 6.5% |
| Min | | 0.9x | 0.8x | 6.3x | 6.8x | 5.3% | 5.8% |

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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