

Emirates NBD (ENBD)

Higher opex and provision impacted profitability

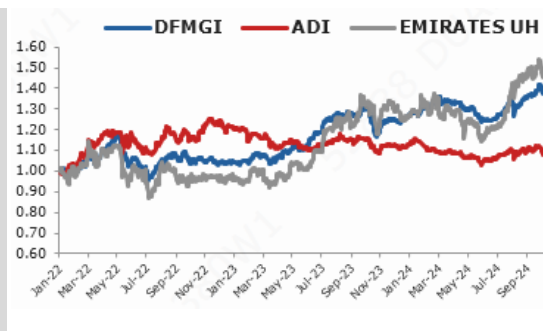
Current Price
AED 19.40

Target Price
AED 24.00

Upside/Downside (%)
+24%

Rating
BUY

- The Bank revised FY2024 loan growth guidance to low double-digit driven by the robust growth witnessed so far, positive economic outlook and announcements on infrastructure investments.
- NIMs for FY2024 are likely to be at the lower end of the guidance of 3.6-3.8% keeping into consideration the previous rate cut and potential remaining cuts in 2024.
- ENBD revised its cost of risk guidance to 10-20 bps compared to a forecast of credit 0-20 bps in FY2024.
- ENBD has been investing to diversify revenue streams, including the use of AI and ML to understand customer behavior and analyze the need for new FX and trade products, which is likely to offset the effect of declining interest rates.



3Q24 Net Profit lower than our estimate

Emirates NBD's (ENBD/the Bank) net profit fell 0.3% YOY to AED 5,230 Mn in 3Q24, lower than our estimate of AED 5,523 Mn. The marginal fall in net profit is mainly attributable to a decline in the non-funded income, higher operating expenses, taxes and impairment charges partially offset by a rise in net funded income and lower hyperinflation charges.

P&L Highlights

ENBD's funded income rose 34.5% YOY to AED 20,586 Mn in 3Q24 due to a healthy growth in the loan portfolio driven by an expansion in retail & corporate lending owing to robust demand coupled with higher asset yield. On the other hand, funded expenses rose significantly from AED 7,460 Mn in 3Q23 to AED 12,107 Mn in 3Q24 mainly due to an increase in the cost of funds owing to higher benchmark rates coupled with an increase in customer deposits. Thus, net funded income increased 8.2% YOY to AED 8,479 Mn in 3Q24 due to growth in interest-earning assets and repricing of DenizBank loans. Fee and commission income rose 36.9% YOY to AED 1,749 Mn in 3Q24 owing to solid momentum in domestic and international retail card business coupled with an increase in investment banking activity and customer lending. ENBD recorded significant growth in trading gain which rose to AED 233 Mn in 3Q24 from AED 140 Mn in 3Q23 attributed to growth in structured and credit trading as a result of elevated regional issuance coupled with macro positioning. However, other operating income witnessed a substantial decline from AED 2,174 Mn in 3Q23 to AED 1,039 Mn in 3Q24 mainly due to an increase in swap-funding cost in Turkey and high volatility in 3Q23. Other operating income mainly generates income from client & trading flow

Stock Information

| | |
|--------------------------|------------|
| Market Cap (AED, mn) | 122,542.01 |
| Paid Up Capital (mn) | 6,316.60 |
| 52 Week High | 21.25 |
| 52 Week Low | 15.45 |
| 3M Avg. daily value(AED) | 46,868,790 |

3Q24 Result Review (AED, mn)

| | |
|-------------------|---------|
| Total Assets | 956,041 |
| Total Liabilities | 832,652 |
| Total Equity | 114,040 |
| Total Deposits | 644,812 |
| Net Profit | 5,230 |

Financial Ratios

| | |
|-------------------------|-------|
| Dividend Yield (12m) | 6.19 |
| Dividend Pay-out (%) | 36.15 |
| Price-Earnings Ratio(x) | 5.44 |
| Price-to-Book Ratio (x) | 1.07 |
| Book Value (AED) | 18.05 |
| Return-on Equity (%) | 21.42 |

Stock Performance

| | |
|------------------------|--------|
| 5 Days | -1.77% |
| 1 Months | -4.90% |
| 3 Months | 9.92% |
| 6 Months | 19.38% |
| 1 Year | 21.25% |
| Month to Date (MTD%) | -4.43% |
| Quarter to Date (QTD%) | -4.43% |
| Year to Date (YTD%) | 12.14% |

income and non-client income. The Bank continued to generate AED 1.0-1.2 Bn income per quarter from the client & trading flow income. Thus, non-funded income witnessed a decline of 15.9% YOY to AED 3,021 Mn in 3Q24. As a result, operating income rose marginally by 0.6% YOY to AED 11,500 Mn in 3Q24. The Bank's operating expenses increased 22.3% YOY to AED 3,541 Mn in 3Q24 attributable to an increase in staff costs, depreciation of completed projects, professional fees, IT costs, and seasonal marketing costs coupled with the inflationary impact of Denizbank cost base. Thus, the cost-to-income ratio increased to 30.8% in 3Q24 compared to 25.3% in 3Q23. The Bank witnessed an increase in impairment charge from AED 553 Mn in 3Q23 to AED 872 Mn in 3Q24. The Bank recorded a tax expense of AED 1,060 Mn during 3Q24 compared to AED 939 Mn in 3Q23. In addition, the Bank's capital-neutral hyperinflation adjustment fell significantly from AED 1,810 Mn in 3Q23 to AED 788 Mn during 3Q24.

Balance Sheet Highlights

ENBD's net advances rose 8.5% YOY and 3.5% QOQ to AED 493.8 Bn in 3Q24 owing to robust loan growth in KSA coupled with strong performance of corporate and retail loan portfolio. Deposits increased 13.1% YOY and 3.3% QOQ to AED 644.8 Bn in 3Q24. The Bank's CASA deposits represent 59% of total deposits in 3Q24. Moreover, the Bank's loan-to-deposits ratio stood at 76.6% in 3Q24. Total assets rose 14.4% YOY and 2.7% QOQ to AED 956.0 Bn in 3Q24.

Target Price and Rating

We maintain our BUY rating on ENBD with an unchanged target price of AED 24.00. ENBD's reported NIMs grew 16 bps QOQ to 3.79% in 3Q24 mainly driven by improvement in loan repricing of Denizbank assets. The Bank further expects NIMs for FY2024 to be at the lower end of the guidance of 3.6-3.8% keeping into consideration the previous rate cut and potential remaining cuts in FY2024. Although ENBD does not anticipate any rate cuts in Turkey. If any rate cuts take place in Turkey, DenizBank would benefit as the cost of funding will decline faster than asset repricing, benefitting the Bank's margins. However, ENBD has been investing to diversify revenue streams, including the use of AI and ML to understand customer behavior and analyze the need for new FX and trade products, which is likely to offset the effect of declining interest rates. KSA loan portfolio witnessed robust growth owing to network expansion and ENBD is likely to have 21 branches in KSA by the end of FY2024. The Bank revised FY2024 loan growth guidance to low double-digit driven by the robust growth witnessed so far due to positive economic outlook and announcements on infrastructure investments. However, ENBD's focus on generating non-core income will offset the impact. NPL ratio improved 160 bps YOY to 3.9% in 3Q24 due to solid recoveries, write-offs and repayments in a favorable operating environment. Also, the NPL coverage ratio improved 431 bps YOY to 149.3% in 3Q24. ENBD revised its cost of risk guidance to 10-20 bps for FY2024. It expects cost of risk of around 150-190 bps for 4Q24, owing to weak expectations of a further recovery in 4Q24 coupled with the impact of high interest rates in Turkey. For FY2025, cost of risk is estimated to be around 85-125 bps. ENBD's capitalization stood strong with a CET 1 ratio of 15.5% and a CAR of 18.0% in 3Q24. 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 | 11.84 | 19.91 | 14.43 | 10.05 | 5.99 | 5.48 |
| PB | 1.74 | 1.69 | 1.69 | 1.50 | 1.25 | 1.08 |
| Dividend yield | 2.0% | 2.0% | 2.5% | 3.0% | 6.2% | 6.2% |

FABS Estimates & Co Data

ENBD- P&L

| AED mn | 3Q23 | 2Q24 | 3Q24 | 3Q24F | Var. | YOY Ch | QOQ Ch | 2023 | 2024F | Change |
|--|---------------|---------------|---------------|---------------|--------------|---------------|---------------|---------------|---------------|--------------|
| Funded income | 15,300 | 19,088 | 20,586 | 19,342 | 6.4% | 34.5% | 7.8% | 57,319 | 77,949 | 36.0% |
| Funded expense | -7,460 | -11,148 | -12,107 | -11,301 | 7.1% | 62.3% | 8.6% | -27,239 | -45,162 | 65.8% |
| Net funded income | 7,840 | 7,940 | 8,479 | 8,041 | 5.5% | 8.2% | 6.8% | 30,080 | 32,787 | 9.0% |
| Fees and commissions | 1,278 | 1,743 | 1,749 | 1,830 | -4.4% | 36.9% | 0.3% | 4,873 | 6,871 | 41.0% |
| Trading gain/(loss) | 140 | 202 | 233 | 162 | 44.2% | 66.4% | 15.3% | 480 | 878 | 83.0% |
| Other Operating Income | 2,174 | 829 | 1,039 | 870 | 19.4% | -52.2% | 25.3% | 7,595 | 4,329 | -43.0% |
| Non-funded income | 3,592 | 2,774 | 3,021 | 2,862 | 5.5% | -15.9% | 8.9% | 12,948 | 12,078 | -6.7% |
| Operating income | 11,432 | 10,714 | 11,500 | 10,903 | 5.5% | 0.6% | 7.3% | 43,028 | 44,865 | 4.3% |
| Operating expenses | -2,896 | -3,041 | -3,541 | -3,162 | 12.0% | 22.3% | 16.4% | -11,696 | -13,549 | 15.8% |
| Pre-provision profit | 8,536 | 7,673 | 7,959 | 7,741 | 2.8% | -6.8% | 3.7% | 31,332 | 31,316 | -0.1% |
| Impairment | -553 | 1,350 | -872 | -750 | 16.2% | 57.7% | NM | -3,448 | -703 | NM |
| PBT | 7,983 | 9,023 | 7,087 | 6,991 | 1.4% | -11.2% | -21.5% | 27,884 | 30,613 | 9.8% |
| Tax | -939 | -1,224 | -1,060 | -720 | 47.2% | 12.9% | -13.4% | -2,134 | -3,980 | 86.5% |
| Net profit | 7,044 | 7,799 | 6,027 | 6,271 | -3.9% | -14.4% | -22.7% | 25,750 | 26,634 | 3.4% |
| Hyperinflation | -1,810 | -736 | -788 | -736 | 7.1% | -56.5% | 7.1% | -4,229 | -3,150 | -25.5% |
| Net Profit adj for hyperinflation | 5,234 | 7,063 | 5,239 | 5,535 | -5.3% | 0.1% | -25.8% | 21,521 | 23,484 | 9.1% |
| NCI | 13 | -5 | -9 | -11 | -21.1% | NM | 80.0% | -41 | -42 | 2.0% |
| Profit for the period | 5,247 | 7,058 | 5,230 | 5,523 | -5.3% | -0.3% | -25.9% | 21,480 | 23,442 | 9.1% |

FABS estimate & Co Data
ENBD- KPI

| | 3Q23 | 2Q24 | 3Q24 | YOY | QOQ | 2023 | 2024F | Change |
|-----------------------------|--------|--------|--------|------|--------|--------|--------|--------|
| Net FI/OI | 68.6% | 74.1% | 73.7% | 515 | -38 | 69.9% | 73.1% | 317 |
| NIM | 4.0% | 3.6% | 3.8% | -23 | 16 | 3.9% | 3.8% | -18 |
| NIS | 3.3% | 2.6% | 2.7% | -58 | 9 | 3.2% | 2.3% | -98 |
| Fees & comms/OI | 11.2% | 16.3% | 15.2% | 403 | -106 | 11.3% | 15.3% | 399 |
| Other non-funded/OI | 19.0% | 7.7% | 9.0% | -998 | 130 | 17.7% | 9.6% | -800 |
| Trading/OI | 1.2% | 1.9% | 2.0% | 80 | 14 | 1.1% | 2.0% | 84 |
| Cost to income (calculated) | 25.3% | 28.4% | 30.8% | 546 | 241 | 27.2% | 30.2% | 302 |
| Impairment/PPP | 6.5% | -17.6% | 11.0% | 448 | 2,855 | 11.0% | 2.2% | -876 |
| Tax/PBT | 11.8% | 13.6% | 15.0% | 319 | 139 | 7.7% | 13.0% | 535 |
| NP/OI | 45.9% | 65.9% | 45.5% | -42 | -2,040 | 49.9% | 52.2% | 233 |
| Loan-to-deposit (Headline) | 80.0% | 76.4% | 76.6% | -341 | 17 | 76.0% | 77.0% | 100 |
| NPL - Reported | 5.5% | 4.2% | 3.9% | -160 | -30 | 4.6% | 4.5% | -10 |
| NPL Coverage - Reported | 145.0% | 145.0% | 149.3% | 431 | 431 | 163.0% | 149.0% | -1,400 |
| CET1 | 16.9% | 15.4% | 15.5% | -138 | 5 | 14.9% | 15.7% | 75 |
| Capital Adequacy | 19.7% | 18.0% | 18.0% | -171 | -5 | 17.6% | 18.1% | 50 |
| ROAE | 22.8% | 22.9% | 21.4% | -136 | -150 | 22.7% | 21.1% | -159 |
| ROAA | 2.6% | 2.6% | 2.6% | -11 | -8 | 2.7% | 2.6% | -12 |

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

| AED mn | 3Q23 | 4Q23 | 1Q24 | 2Q24 | 3Q24 | YOY |
|-------------------|---------|---------|---------|---------|---------|-------|
| Net advances | 455,106 | 445,105 | 458,633 | 477,132 | 493,843 | 8.5% |
| QOQ ch | 3.4% | -2.2% | 3.0% | 4.0% | 3.5% | |
| Total assets | 835,563 | 862,773 | 902,284 | 930,785 | 956,041 | 14.4% |
| QOQ ch | 3.0% | 3.3% | 4.6% | 3.2% | 2.7% | |
| Customer deposits | 570,187 | 584,561 | 610,371 | 624,417 | 644,812 | 13.1% |
| QOQ ch | 2.6% | 2.5% | 4.4% | 2.3% | 3.3% | |
| Total equity | 96,014 | 100,670 | 99,144 | 107,199 | 114,040 | 18.8% |
| QOQ ch | 7.5% | 4.8% | -1.5% | 8.1% | 6.4% | |

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 | 25.10 | 70.0% | 17.57 |
| Relative Valuation (RV) | 21.43 | 30.0% | 6.43 |
| Weighted Average Valuation (AED) | | | 24.00 |
| Current market price (AED) | | | 19.40 |
| Upside/Downside (%) | | | +24% |

1) Residual Income Method:

We have discounted the economic profit/excess equity using the cost of equity of 9.9%. Cost of equity is calculated by using 10-year government bond yield of 5.4%, beta of 1.00 and equity risk premium of 4.5%. 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) | 18,428 |
| Terminal value (AED, Mn) | 26,110 |
| Book Value of Equity (as of Sep 2024) | 114,040 |
| FV to Common shareholders (AED, Mn) | 158,578 |
| No. of share (Mn) | 6,317 |
| Current Market Price (AED) | 19.40 |
| Fair Value per share (AED) | 25.10 |

Residual Income Method

| (All Figures in AED Mn) | FY 2024E | FY 2025E | FY 2026E | FY 2027E | FY 2028E |
|---------------------------------------|---------------|--------------|--------------|--------------|--------------|
| Net Profit | 22,931 | 18,756 | 17,488 | 17,540 | 17,229 |
| (-) Equity Charge | (10,523) | (11,579) | (12,520) | (13,597) | (14,644) |
| Excess Equity | 12,407 | 7,177 | 4,968 | 3,944 | 2,585 |
| Discounting Factor | 0.98 | 0.90 | 0.83 | 0.76 | 0.70 |
| Present Value of Excess Equity | 3,051 | 6,475 | 4,110 | 2,993 | 1,800 |

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 1.2x 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 | 2,017 | 1.1 | 1.1 | 9.5 | 8.8 | 5.2 | 5.7 |
| Commercial Bank of Dubai | 5,543 | 1.4 | 1.3 | 7.5 | 7.9 | 7.1 | 6.5 |
| Mashreq Bank | 13,490 | 1.5 | 1.4 | 7.7 | 8.1 | 7.2 | 7.2 |
| Rakbank | 2,930 | 0.9 | 0.9 | 5.4 | 5.8 | 6.9 | 7.5 |
| Abu Dhabi Commercial Bank | 16,735 | 0.9 | 0.9 | 7.7 | 8.0 | 6.4 | 6.5 |
| Abu Dhabi Islamic Bank | 12,103 | 2.0 | 1.8 | 8.7 | 9.0 | 6.0 | 5.9 |
| Dubai Islamic Bank | 12,258 | 1.2 | 1.1 | 7.5 | 8.0 | 7.3 | 7.4 |
| Average | | 1.3x | 1.2x | 7.7x | 7.9x | 6.6x | 6.7x |
| Median | | 1.2x | 1.1x | 7.7x | 8.0x | 6.9x | 6.5x |
| Max | | 1.4x | 1.3x | 8.2x | 8.4x | 7.1x | 7.3x |
| Min | | 1.0x | 1.0x | 7.5x | 7.9x | 6.2x | 6.2x |

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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