

Emirates NBD (ENBD)

Growth in loan portfolio benefitted funded income

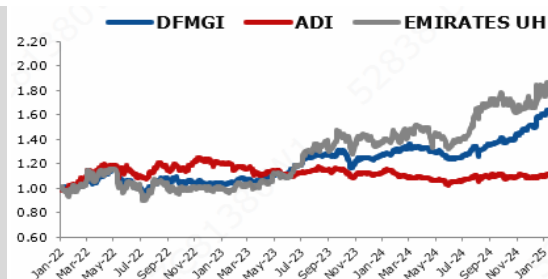
Current Price
AED 20.60

Target Price
AED 25.00

Upside/Downside (%)
+21%

Rating
BUY

- Net interest margin fell from 3.8% in 3Q24 to 3.7% in 4Q24 due to flow through of rate cuts leading to lower asset yield partially offset by an expansion in margins at Denizbank.
- The net funded income increased 9.6% YOY to AED 8,567 Mn in 4Q24 due to growth in interest-earning assets partially offset by higher cost of funds.
- Deposits increased 14.1% YOY and 3.4% QOQ to AED 666.8 Bn in 4Q24. CASA deposits represent 59% of total deposits in 4Q24.
- The reported NPLs declined from 3.9% in 3Q24 to 3.3% in 4Q24 due to solid recoveries, writebacks, write-offs and repayments.



4Q24 Net Profit lower than our estimate

Emirates NBD's (ENBD/the Bank) net profit fell marginally by 0.3% YOY to AED 3,983 Mn in 4Q24, lower than our estimate of AED 4,215 Mn. The marginal fall in net profit is mainly due to higher operating expenses and tax charge, partially offset by a rise in net funded & non funded income coupled with lower hyperinflation and impairment charges.

P&L Highlights

ENBD's funded income rose 24.2% YOY to AED 21,174 Mn in 4Q24 due to a healthy growth in the loan portfolio driven by record highest retail lending coupled with healthy growth in corporate lending supported by a buoyant economy & expansion in global reach. On the other hand, funded expenses rose significantly from AED 9,238 Mn in 4Q23 to AED 12,607 Mn in 4Q24 mainly due to higher cost of funds coupled with an increase in customer deposits. Thus, net funded income increased 9.6% YOY to AED 8,567 Mn in 4Q24 due to growth in interest-earning assets partially offset by higher cost of funds. Net interest margin fell from 3.8% in 3Q24 to 3.7% in 4Q24 due to flow through of rate cuts leading to lower asset yield partially offset by an expansion in margins at Denizbank. Fee and commission income rose 21.5% YOY to AED 1,648 Mn in 4Q24 owing to rise in local as well as international retail card business, record highest investment banking income, and increased global markets product offering. ENBD recorded significant growth in trading gain which rose to AED 205 Mn in 4Q24 compared to AED 150 Mn in 4Q23. However, other operating income witnessed a substantial decline from AED 988 Mn in 4Q23 to AED 838 Mn in 4Q24 mainly due to an increase in swap-funding cost in Turkey and lower gains on sale of properties. The Bank continued to generate AED 1.0-1.2 Bn income per quarter from the client &

Stock Information

Market Cap (AED, mn)	130,121.92
Paid Up Capital (mn)	6,316.60
52 Week High	22.85
52 Week Low	15.45
3M Avg. daily value(AED)	52,419,400

4Q24 Result Review (AED, Mn)

Total Assets	996,582
Total Liabilities	870,368
Total Equity	116,861
Total Deposits	666,777
Net Profit	3,983

Financial Ratios

Dividend Yield (12m)	5.76
Dividend Pay-out (%)	28.12
Price-Earnings Ratio(x)	5.86
Price-to-Book Ratio (x)	1.13
Book Value (AED)	18.50
Return-on Equity (%)	20.65

Stock Performance

5 Days	-9.05%
1 Months	0.49%
3 Months	6.46%
6 Months	8.14%
1 Year	14.13%
Month to Date (MTD%)	-1.20%
Quarter to Date (QTD%)	-3.96%
Year to Date (YTD%)	-3.96%

trading flow income. Thus, non-funded income witnessed an increase of 7.9% YOY to AED 2,691 Mn in 4Q24. As a result, operating income rose by 9.2% YOY to AED 11,258 Mn in 4Q24. The Bank's operating expenses increased 22.7% YOY to AED 4,099 Mn in 4Q24 attributable to higher staff cost, seasonal marketing expenses, higher professional fees, and accelerated depreciation of systems being replaced as part of a technology upgrade. Thus, the cost-to-income ratio increased from 32.4% in 4Q23 to 36.4% in 4Q24. The Bank witnessed a significant decline in impairment charge from AED 1,946 Mn in 4Q23 to AED 1,450 Mn in 4Q24. The Bank recorded a tax expense of AED 988 Mn during 4Q24 compared to a tax credit of AED 72 Mn in 4Q23. In addition, the Bank's capital-neutral hyperinflation adjustment fell significantly from AED 1,067 Mn in 4Q23 to AED 731 Mn during 4Q24.

Balance Sheet Highlights

ENBD's net advances rose 12.7% YOY and 1.6% QOQ to AED 501.6 Bn in 4Q24 owing to buoyant economy & expansion in global reach. The retail portfolio rose to AED 148 Bn at the end of 4Q24 recording a 30% YOY growth attributable to population growth & a broader product portfolio. The Bank added AED 88 Bn in corporate loans during 2024 despite higher repayments & limited growth opportunities. Deposits increased 14.1% YOY and 3.4% QOQ to AED 666.8 Bn in 4Q24. The Bank added AED 48 Bn in CASA deposits during 2024. CASA deposits represent 59% of total deposits in 4Q24. Moreover, the Bank's loan-to-deposits ratio stood at 75.2% in 4Q24, compared to 76.6% in 3Q24. Total assets rose 15.5% YOY and 4.2% QOQ to AED 996.6 Bn in 4Q24.

Target Price and Rating

We maintain our BUY rating on ENBD with a revised target price of AED 25.00. ENBD reported healthy growth in the net funded income, despite higher funding costs. The non funded income also witnessed healthy growth reflecting its ability to generate income from its core as well as non-core business. ENBD expects NIMs to fall slightly and remain in the 3.3-3.5% range as the full impact of last year's rate cuts takes effect in FY2025. Denizbank's sensitivity to a 25-bps rate cut declined to AED 450 Mn for 2024, indicating the balance sheet is now less sensitive to interest rate changes compared to 2023. NIMs is expected to fall by 5 bps for every 25-bps rate cut. The Bank anticipates asset growth to offset the decline in margins. ENBD's guidance for 2025 loan growth is in the high single digits, primarily due to expected sovereign repayments, which have been significant, especially with Dubai repaying USD 14 Bn in 2024. Apart from this, the Bank is strengthening its wealth management capabilities, expanding in KSA and Abu Dhabi, and enhancing its analytics and technology. The bank aims to continue growing fee revenues, particularly in non-interest areas that aren't capital-intensive. The bank is strategically investing in key areas, particularly in Egypt. Moreover, it aims to implement cost control measures to offset the impact of rate cuts. As a result, it is aiming for single digit increase in the opex on a YOY basis in 2025. The reported NPLs declined from 3.9% in 3Q24 to 3.3% in 4Q24 due to solid recoveries, writebacks, write-offs and repayments. Also, the reported NPL coverage ratio improved from 149% in 3Q24 to 156% in 4Q24. NPL ratio is expected to remain within the 3-4% range, marking the lowest level in more than ten years. There's an economic incentive to call and replace Tier 1 notes in March, as the reset margin would be higher than market rates. The Board proposed a cash dividend of AED 1 per share for 2024, amounting to AED 6,317 Mn. ENBD's capitalization stood strong with a CET 1 ratio of 14.7% and a CAR of 17.1% in 4Q24. Thus, considering the above-mentioned factors, we assign a BUY rating on the stock.

ENBD- Relative valuation

(at CMP)	2020	2021	2022	2023	2024	2025F
PE	20.71	15.01	10.46	6.23	5.82	6.12
PB	1.76	1.76	1.56	1.30	1.12	0.99
Dividend yield	1.9%	2.4%	2.9%	5.8%	4.8%	4.8%

FABS Estimates & Co Data

ENBD- P&L

AED mn	4Q23	3Q24	4Q24	4Q24F	Var.	YOY Ch	QOQ Ch	2023	2024	Change
Funded income	17,053	20,586	21,174	20,786	1.9%	24.2%	2.9%	57,319	78,132	36.3%
Funded expense	-9,238	-12,107	-12,607	-12,218	3.2%	36.5%	4.1%	-27,239	-45,736	67.9%
Net funded income	7,814	8,479	8,567	8,568	0.0%	9.6%	1.0%	30,080	32,396	7.7%
Fees and commissions	1,357	1,749	1,648	1,726	-4.5%	21.5%	-5.8%	4,873	6,793	39.4%
Trading gain/(loss)	150	233	205	245	-16.5%	36.5%	-12.0%	480	838	74.6%
Other Operating Income	988	1,039	838	1,060	-21.0%	-15.2%	-19.3%	7,595	4,107	-45.9%
Non-funded income	2,495	3,021	2,691	3,031	-11.2%	7.9%	-10.9%	12,948	11,738	-9.3%
Operating income	10,309	11,500	11,258	11,599	-2.9%	9.2%	-2.1%	43,028	44,134	2.6%
Operating expenses	-3,341	-3,541	-4,099	-3,780	8.5%	22.7%	15.8%	-11,696	-13,751	17.6%
Pre-provision profit	6,969	7,959	7,159	7,820	-8.5%	2.7%	-10.1%	31,332	30,383	-3.0%
Impairment	-1,946	-872	-1,450	-2,047	-29.2%	-25.5%	66.3%	-3,448	-106	NM
PBT	5,023	7,087	5,709	5,773	-1.1%	13.7%	-19.4%	27,884	30,277	8.6%
Tax	72	-1,060	-988	-799	23.6%	NM	-6.8%	-2,134	-4,133	93.7%
Net profit	5,095	6,027	4,721	4,974	-5.1%	-7.3%	-21.7%	25,750	26,144	1.5%
Hyperinflation	-1,067	-788	-731	-745	-1.9%	-31.5%	-7.2%	-4,229	-3,136	-25.8%
Net Profit adj for hyperinflation	4,028	5,239	3,990	4,229	-5.6%	-1.0%	-23.8%	21,521	23,008	6.9%
NCI	-34	-9	-7	-14	-49.3%	-79.2%	-22.2%	-41	-35	-14.6%
Profit for the period	3,995	5,230	3,983	4,215	-5.5%	-0.3%	-23.8%	21,480	22,973	7.0%

FABS estimate & Co Data
ENBD- KPI

	4Q23	3Q24	4Q24	YOY	QOQ	2023	2024	Change
Net FI/OI	75.8%	73.7%	76.1%	30	237	69.9%	73.4%	350
NIM	3.9%	3.8%	3.7%	-18	-8	3.9%	3.655%	-27
NIS	3.0%	2.7%	2.7%	-37	-8	3.2%	2.7%	-59
Fees & comms/OI	13.2%	15.2%	14.6%	148	-57	11.3%	15.4%	407
Other non-funded/OI	9.6%	9.0%	7.4%	-214	-159	17.7%	9.3%	-835
Trading/OI	1.5%	2.0%	1.8%	36	-21	1.1%	1.9%	78
Cost to income (calculated)	32.4%	30.8%	36.4%	401	562	27.2%	31.2%	398
Impairment/PPP	27.9%	11.0%	20.3%	-767	930	11.0%	0.3%	-1,066
Tax/PBT	-1.4%	15.0%	17.3%	NM	235	7.7%	13.7%	600
NP/OI	38.7%	45.5%	35.4%	-337	-1,010	49.9%	52.1%	213
Loan-to-deposit (Headline)	76.0%	76.6%	75.2%	-77	-136	76.0%	75.2%	-77
NPL - Reported	4.6%	3.9%	3.3%	-130	-60	4.6%	3.3%	-127
NPL Coverage - Reported	163.0%	149.0%	156.0%	-700	700	163.0%	156.0%	-700
CET1	14.9%	15.5%	14.7%	-26	-81	14.9%	14.7%	-26
Capital Adequacy	17.6%	17.9%	17.1%	-50	-84	17.6%	17.1%	-50
ROAE	22.7%	21.4%	20.7%	-205	-75	22.7%	20.7%	-205
ROAA	2.7%	2.6%	2.5%	-21	-9	2.7%	2.5%	-21

FABS estimate & Co Data

ENBD- Key B/S items

AED mn	4Q23	1Q24	2Q24	3Q24	4Q24	YOY
Net advances	445,105	458,633	477,132	493,843	501,627	12.7%
<i>QOQ ch</i>	-2.2%	3.0%	4.0%	3.5%	1.6%	
Total assets	862,773	902,284	930,785	956,041	996,582	15.5%
<i>QOQ ch</i>	3.3%	4.6%	3.2%	2.7%	4.2%	
Customer deposits	584,561	610,371	624,417	644,812	666,777	14.1%
<i>QOQ ch</i>	2.5%	4.4%	2.3%	3.3%	3.4%	
Total equity	100,670	99,144	107,199	114,040	116,861	16.1%
<i>QOQ ch</i>	4.8%	-1.5%	8.1%	6.4%	2.5%	

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	24.59	70.0%	17.21
Relative Valuation (RV)	25.94	30.0%	7.78
Weighted Average Valuation (AED)			25.00
Current market price (AED)			20.60
Upside/Downside (%)			+21%

1) Residual Income Method:

We have discounted the economic profit/excess equity using the cost of equity of 9.1%. Cost of equity is calculated by using 10-year government bond yield of 5.5%, beta of 0.85 and equity risk premium of 4.3%. 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)	23,502
Terminal value (AED, Mn)	21,273
Book Value of Equity (as of Sep 2024)	1,10,544
FV to Common shareholders (AED, Mn)	1,55,319
No. of share (Mn)	6,317
Current Market Price (AED)	20.60
Fair Value per share (AED)	24.59

Residual Income Method

(All Figures in AED Mn)	FY 2025E	FY 2026E	FY 2027E	FY 2028E	FY 2029E
Net Profit	21,426	21,545	19,693	19,673	19,353
(-) Equity Charge	(12,093)	(13,472)	(14,682)	(15,890)	(17,069)
Excess Equity	9,333	8,073	5,012	3,783	2,284
Discounting Factor	0.92	0.85	0.78	0.71	0.65
Present Value of Excess Equity	8,615	6,829	3,885	2,687	1,487

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 (%)	
		2025F	2026F	2025F	2026F	2024F	2025F
Sharjah Islamic Bank	2,334	1.3	1.2	10.6	9.8	4.2	4.6
Commercial Bank of Dubai	5,859	1.5	1.4	7.4	7.9	6.5	6.7
Mashreq Bank	11,889	1.3	1.2	7.7	7.1	6.9	6.9
Rakbank	2,930	1.0	1.0	5.7	6.1	6.8	7.2
Abu Dhabi Commercial Bank	21,596	1.2	1.1	9.3	9.6	5.0	5.1
Dubai Islamic Bank	14,933	1.4	1.3	8.6	9.5	6.1	5.9
Average		1.3x	1.2x	8.2x	8.3x	5.9	6.1
Median		1.3x	1.2x	8.1x	8.7x	6.3	6.3
Max		1.4x	1.3x	9.1x	9.6x	6.7	6.8
Min		1.2x	1.1x	7.5x	7.3x	5.3	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.