FAB أبوظبي الأول للأوراق المالية SECURITIES

Earnings Call Insight | 1Q25

UAE Equity Research | Sector: Banking | Market: DFM

Emirates NBD (ENBD)

Current Price	Target Price	Upside/Downside (%)	Rating
AED 19.90	AED 25.00	+26%	BUY

1Q25 Net Profit higher than our estimate

- Net funded income rose 14.1% YOY to AED 8.5 Bn in 1Q25 due to growth in interest-earning assets coupled with decline in cost of funds partially offset by lower asset yield and increase in interest bearing liabilities.
- Reported Net interest margin rose 6 bps YOY to 3.58% in 1Q25 due to strong CASA growth and higher DenizBank margins, partially offset by the impact of interest rate cuts in 2024.
- Non-funded income rose 5.2% YOY to AED 3.4 Bn attributed to robust growth in fees and commissions income owing to increase in local as well as international retail card business, higher Investment Banking, Trade Finance and Wealth Management income and growth in customer lending partially offset by a decline in other operating income due to higher swap funding costs in Turkey coupled with lower trading income.
- The cost-to-income ratio increased from 28.8% in 1Q24 to 30.9% in 1Q25 due to higher staff cost and accelerated depreciation of systems being replaced as part of a technology upgrade, coupled with growth in IT costs, equipment & supplies, occupancy costs, and other costs.
- Impairment reversal fell from AED 866 Mn in 1Q24 to AED 465 Mn in 1Q25.
- ENBD's net profit fell by 7.3% YOY to AED 6.2 Bn in 1Q25 mainly due to higher operating expenses and tax charge coupled with lower impairment reversal, partially offset by a rise in net funded & non-funded income.
- Total assets grew 3.4% QOQ to AED 1,030.5 Bn in 1Q25 crossing the mark of one trillion for first time, driven by an increase in the interest earning assets.
- The reported NPL ratio improved 130 bps YOY to 3.1% in 1Q25 due to solid recoveries. Also, the reported NPL coverage ratio improved from 156% in 4Q24 to 158% in 1Q25.
- ENBD recorded CAR of 17.0% and CET1 of 14.7% in 1Q25.
- Deposits grew 4.6% QOQ and 14.3% YOY to AED 697.6 Bn while net advances grew 3.8% QOQ and 13.6% YOY to AED 520.9 Bn in 1Q25.

Earnings Call Summary

- The Bank's top-line income grew 5.2% YOY in 1Q25, supported by robust loan growth and fee income. This reflects strong business momentum, especially in retail and international segments, despite macro headwinds from lower rates.
- For the first time, Emirates Islamic posted over AED 1 Bn in quarterly profit. This landmark achievement reflects strong Islamic banking performance and positions it as the leading Islamic bank in the UAE by profitability and growth momentum.
- NIM compressed from 3.65% in 4Q24 to 3.58% in 1Q25 due to a lower rate environment. However, Emirates NBD continues to maintain one of the strongest NIMs in the region due to its robust CASA base and selective lending.
- Although operating costs rose, the Bank's cost-to-income ratio remains low and efficient at 30.9% during 1Q25. Management expects this to stabilize as cost growth slows to high single digits, benefiting future operating leverage.
- The elevated Tier 1 interest expense in 1Q25 was primarily due to a one-month overlap between the legacy and newly issued Tier 1 instruments. The replacement Tier 1 carries a 0.25% higher coupon, resulting in a temporary increase of AED 33 Mn. This impact is expected to normalize from 2Q25 onwards, with the full-year incremental cost estimated at just AED 9 Mn.

- Group net advances grew 3.8% QOQ to AED 520.9 Bn in 1Q25, with over half of the incremental lending originating from international operations. This indicates continued success in diversifying the loan book geographically and reducing UAE concentration.
- Domestic retail lending continues to perform well, driven by consumer demand and an improving economic environment. Emirates NBD has effectively leveraged its market leadership and digital capabilities to maintain growth in this segment. However, the corporate segment in the UAE is highly competitive with limited large-scale new projects. Most activity remains concentrated in refinancing, which constrains net loan growth and puts downward pressure on margins.
- Over half of 1Q25 lending growth came from international markets, including KSA, Egypt, Turkey, and India, demonstrating successful geographic diversification and growth resilience.
- Lending in Saudi Arabia accounts for approximately 6% of ENBD's total loan book, highlighting its strategic focus on regional expansion. Emirates NBD focuses on private enterprises in Saudi that offer cross-sell potential for cash management, FX, trade finance, and derivatives — maximizing return on risk capital instead of just interest income.
- The Bank's balance sheet crossed the AED 1 trillion mark in 1Q25, up from AED 997 Bn in 4Q24. This milestone reflects robust asset growth and cements ENBD's position as a leading regional banking institution.
- The majority of 1Q25 deposit growth came from current and savings accounts, which significantly lowered the ENBD's cost of funds. CASA represents 61% of total Group deposits and contributed AED 27 Bn out of the total AED 31 Bn growth during 1Q25.
- The Bank has already refinanced over two-thirds of its term debt maturities for 2025 in the first quarter, demonstrating proactive liquidity management and strong market access.
- Properties acquired through recoveries are held as inventory valued at AED 3.7 Bn. These assets are sold on a commercial basis when market conditions are favorable, with no indication of fire-sale urgency
- Due to inflation trends, Emirates NBD will likely continue hyperinflation accounting treatment for Turkish operations until at least 2027. This will impact reported results but does not affect underlying operational performance.
- Emirates NBD now holds a 35% share of credit card spending in the UAE, underscoring its leadership in consumer banking. This performance is driven by a strong digital offering, loyalty programs, and affluent customer penetration.
- Management reaffirmed its guidance for a 20–25 basis point NIM compression in 2025 due to expected global rate cuts. The bank models assume three more rate reductions, with timing expected in 2Q25 to 4Q25. A full-year 25 basis point cut is estimated to reduce net interest income by AED 450 Mn (or 5 bps of margin).
- The bank recorded AED 465 Mn in impairment credit in 1Q25, driven by strong recoveries, especially in property-backed exposures. This resulted in a cost of risk credit of 34 bps, better than the guidance provided. However, ENBD retains full-year cost of risk guidance at 40–60 bps. However, management indicated that the trend is likely to stay toward the lower end, reflecting continued recoveries and conservative underwriting.
- While Emirates NBD sees no material direct balance sheet or profitability impact from tariffs or oil volatility, management continues to monitor indirect effects such as weaker trade flows, softer consumer sentiment, or lower corporate confidence across the network.
- DenizBank reported a 6.11% margin (NIM), flat QOQ, despite high Turkish interest rates. The business remains resilient, although management expects full-year Turkish margins to remain around 6% amid expected rate moderation.
- ENBD maintained original guidance of high single digit loan growth, 3-4% NPL ratio, less than 33% of cost to income ratio, and credit risk of 40-60 bps.

ENBD – P&L

AED Mn	1Q24	4Q24	1Q25	1Q25F	Var.	YOY Ch	QOQ Ch
Net funded income	7,410	8,567	8,455	8,098	4.4%	14.1%	-1.3%
Non-Funded Income	3,252	2,691	3,420	2,695	26.9%	5.2%	27.1%
Operating income	**10,662**	**11,258**	**11,875**	**10,792**	**10.0%**	**11.4%**	**5.5%**
Pre-provisioning profit	7,592	7,159	8,199	7,555	8.5%	8.0%	14.5%
Impairment charges	866	-1,450	465	-790	-158.8%	-46.3%	-132.1%
Profit before tax	**8,458**	**5,709**	**8,664**	**6,764**	**28.1%**	**2.4%**	**51.8%**
Tax	-861	-988	-1,546	-1,015	52.4%	79.6%	56.5%
Profit for the period	**6,702**	**3,983**	**6,214**	**5,071**	**22.5%**	**-7.3%**	**56.0%**

FABS estimate & Co Data

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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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