

Emirates NBD (ENBD)

Impairment reversal boosts bottom line

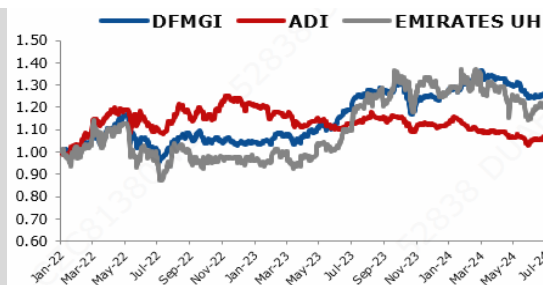
Current Price
AED 17.50

Target Price
AED 23.00

Upside/Downside (%)
+31.4%

Rating
BUY

- ENBD's NIMs improved 13 bps QOQ to 3.65% in 2Q24 attributable to asset repricing and stabilization of cost of funds in DenizBank. The Bank expects its NIMs to stay between 3.6-3.8% in 2024.
- NPLs declined from 4.4% in 1Q24 to 4.2% in 2Q24 and the coverage ratio declined from 153% in 1Q24 to 145% in 2Q24 due to strong recovery and write-offs.
- ENBD recorded AED 1.4 Bn in impairment reversal in 2Q24 compared to an impairment charge of 0.5 Bn in 2Q23.
- Upgraded its 2024 cost-of-risk (COR) guidance from 20-30 bps to 0-20 bps and expects normalization in COR in 2H24 to c. 70 bps.
- Loan guidance revised from mid-single-digit to high-single-digit owing to strong loan growth in 1H24.



Stock Information

Market Cap (AED, mn)	110,540.47
Paid Up Capital (mn)	6,316.60
52 Week High	19.50
52 Week Low	15.45
3M Avg. daily value(AED)	44,828,780

2Q24 Result Review (AED, mn)

Total Assets	930,785
Total Liabilities	814,239
Total Equity	107,199
Total Deposits	624,417
Net Profit	7,058

Financial Ratios

Dividend Yield (12m)	6.86
Dividend Pay-out (%)	36.15
Price-Earnings Ratio(x)	4.86
Price-to-Book Ratio (x)	1.03
Book Value (AED)	16.97
Return-on Equity (%)	23.15

Stock Performance

5 Days	2.94%
1 Months	6.71%
3 Months	7.69%
6 Months	0.00%
1 Year	7.03%
Month to Date (MTD%)	6.06%
Quarter to Date (QTD%)	6.06%
Year to Date (YTD%)	1.16%

2Q24 Net Profit higher than our estimate

Emirates NBD's (ENBD/the Bank) net profit grew 13.4% YOY to AED 7,058 Mn in 2Q24, higher than our estimate of AED 5,748 Mn. The increase in net profit is mainly attributable to a growth in net funded income and the recording of impairment reversal of AED 1.4 Bn in 2Q24 owing to writeback and repayments partially offset by a decline in non-funded income, increase in operating expenses, tax expense, and hyperinflation charges.

P&L Highlights

ENBD's funded income rose 44.9% YOY to AED 19,088 Mn in 2Q24 due to a healthy loan and deposit mix coupled with an increase in interest-earning assets. As per our calculation, ENBD's asset yield rose 52 bps QOQ to 8.7% in 1Q24. On the other hand, funded expenses more than doubled from AED 5,942 Mn in 2Q23 to AED 11,148 Mn in 2Q24 mainly due to an increase in the cost of funds owing to higher benchmark rates. Thus, net funded income increased 9.8% YOY to AED 7,940 Mn in 2Q24 driven by diversified regional growth and improvement in margins. Fee and commission income rose 55.7% YOY to AED 1,743 Mn in 2Q24 due to solid momentum in domestic and international retail card business from ENBD as well as DenizBank coupled with an increase in investment banking activity, increase in revenue from trade finance, and brokerage & asset management business. ENBD recorded significant trading gains of AED 202 Mn in 2Q24 compared to AED 78 Mn in 2Q23. However, other operating income witnessed a substantial decline from AED 2,394 Mn in 2Q23 to AED 829 Mn in 2Q24 mainly due to an increase in swap-funding cost in Turkey and high volatility in 2Q23. Thus, non-funded income witnessed a decline of 22.8% YOY to AED 2,774 Mn in 2Q24. As a result, operating income declined marginally 1.0% YOY to AED 10,714 Mn in 2Q24. The Bank's operating expenses increased 7.9%

YOY to AED 3,041 Mn in 2Q24 on the back of an increase in staff cost and inflationary impact of DenizBank cost base coupled with higher IT and communication cost. Thus, the cost-to-income ratio increased to 28.4% in 2Q24 compared to 26.0% in 2Q23. The Bank witnessed an impairment reversal of AED 1,350 Mn in 2Q24 compared to an impairment charge of AED 478 Mn in 2Q23 mainly due to continued recoveries and improved credit quality. The Bank recorded a tax expense of AED 1,224 Mn during 2Q24 compared to AED 772 Mn in 2Q23 due to the introduction of UAE corporate tax. In addition, the Bank incurred a capital-neutral hyperinflation adjustment worth AED 736 Mn in 2Q24 compared to AED 520 Mn during 2Q23.

Balance Sheet Highlights

ENBD's net advances rose 8.5% YOY and 4.0% QOQ to AED 477.1 Bn in 2Q24. Deposits increased 12.3% YOY and 2.3% QOQ to AED 624.4 Bn in 2Q24 due to an increase in overall deposits. The Bank's CASA deposits represent 59% of total deposits in 2Q24. Moreover, the Bank's loan-to-deposits ratio stood at 76.4% in 2Q24. Total assets rose 14.8% YOY and 3.2% QOQ to AED 930.8 Bn in 2Q24. In addition, ENBD's total equity rose 20.1% YOY and 8.1% QOQ to AED 107.2 Bn in 2Q24.

Target Price and Rating

We maintain our BUY rating on ENBD with a revised target price of AED 23.00. ENBD recorded strong growth in profitability during 1H24 mainly due to the reversal of impairments and solid loan and deposit mix leading us to revise our target price. The Bank's reported NIMs grew by 13 bps QOQ to 3.65% in 2Q24 mainly driven by asset repricing and stabilization of cost of funds in DenizBank. The Bank further expects its NIMs to range between 3.6-3.8% in 2024. However, NIMs might pressurize in the upcoming period if the DenizBank cost of funds grows at a faster pace compared to asset repricing. ENBD's advances rose 8.5% YOY to AED 477.1 Bn in 2Q24 owing to strong growth in corporate, retail, and DenizBank loans partially offset by a decline in the sovereign portfolio. The Bank is aggressively backfilling the sovereign repayments and increasing its loan market share in the UAE Banking system which has also resulted in a significant growth in the Bank's risk weighted assets. Additionally, ENBD revised its 2024 advances growth guidance from mid-single digit to high-single digit on the back of solid growth achieved in 1H24. The Bank also witnessed 33% YOY loan growth from KSA in 1H24 owing to network expansion. ENBD's deposits grew 12.3% YOY to AED 624.4 Bn in 2Q24 with CASA deposits comprising 59% of total deposits. Loan-to-deposits ratio increased to 76.4% in 2Q24 compared to 75% in 1Q24. The Bank's asset quality improved as NPLs declined 140 bps YOY and 20 bps QOQ to 4.2% in 2Q24 while the coverage ratio fell 200 bps YOY to 145%. The decline in NPLs is mainly attributable to strong recoveries and repayments in 1Q24. Half of the collateral recovery from NPLs primarily came from selling property-related assets while the other half came from repayments in stage two loans. On the other hand, ENBD upgraded its 2024 cost-of-risk (COR) guidance from 20-30 bps to 0-20 bps and expects normalization in COR in 2H24 to c. 70 bps. ENBD's capitalization stood strong with a CET 1 ratio of 15.4% and a CAR of 18.0% in 2Q24. 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	10.41	17.51	12.69	8.84	5.27	4.73
PB	1.53	1.49	1.49	1.31	1.10	0.95
Dividend yield	2.3%	2.3%	2.9%	3.4%	6.9%	6.9%

FABS Estimates & Co Data

ENBD- P&L

AED mn	2Q23	1Q24	2Q24	2Q24F	Var.	YOY Ch	QOQ Ch	2023	2024F	Change
Funded income	13,174	17,284	19,088	17,781	7.3%	44.9%	10.4%	57,319	73,707	28.6%
Funded expense	-5,942	-9,874	-11,148	-10,102	10.4%	87.6%	12.9%	-27,239	-41,950	54.0%
Net funded income	7,232	7,410	7,940	7,679	3.4%	9.8%	7.2%	30,080	31,758	5.6%
Fees and commissions	1,120	1,653	1,743	1,670	4.4%	55.7%	5.4%	4,873	6,822	40.0%
Trading gain/(loss)	78	198	202	139	45.7%	158.2%	2.0%	480	696	45.0%
Other Operating Income	2,394	1,401	829	1,471	-43.6%	-65.4%	-40.8%	7,595	4,557	-40.0%
Non-funded income	3,592	3,252	2,774	3,279	-15.4%	-22.8%	-14.7%	12,948	12,075	-6.7%
Operating income	10,824	10,662	10,714	10,958	-2.2%	-1.0%	0.5%	43,028	43,833	1.9%
Operating expenses	-2,817	-3,070	-3,041	-3,178	-4.3%	7.9%	-0.9%	-11,696	-13,150	12.4%
Pre-provision profit	8,006	7,592	7,673	7,780	-1.4%	-4.2%	1.1%	31,332	30,683	-2.1%
Impairment	-478	866	1,350	-365	NM	NM	NM	-3,448	-468	-86.4%
PBT	7,528	8,458	9,023	7,416	21.7%	19.9%	6.7%	27,884	30,215	8.4%
Tax	-772	-861	-1,224	-764	60.3%	58.6%	42.2%	-2,134	-3,112	45.8%
Net profit	6,757	7,597	7,799	6,652	17.2%	15.4%	2.7%	25,750	27,103	5.3%
Hyperinflation	-520	-881	-736	-894	-17.7%	41.5%	-16.5%	-4,229	-3,200	-24.3%
Net Profit adj for hyperinflation	6,237	6,716	7,063	5,758	22.7%	13.3%	5.2%	21,521	23,903	11.1%
NCI	-10	-14	-5	-9	-46.1%	-51.2%	-64.3%	-41	-42	2.0%
Profit for the period	6,226	6,702	7,058	5,748	22.8%	13.4%	5.3%	21,480	23,861	11.1%

FABS estimate & Co Data
ENBD- KPI

	2Q23	1Q24	2Q24	YOY	QOQ	2023	2024F	Change
Net FI/OI	66.8%	69.5%	74.1%	729	461	69.9%	72.5%	254
NIM	3.8%	3.5%	3.6%	-18	11	3.9%	3.7%	-27
NIS	3.2%	2.6%	2.6%	-57	2	3.2%	2.6%	-60
Fees & comms/OI	10.3%	15.5%	16.3%	592	76	11.3%	15.6%	424
Other non-funded/OI	22.1%	13.1%	7.7%	-1,438	-540	17.7%	10.4%	-726
Trading/OI	0.7%	1.9%	1.9%	116	3	1.1%	1.6%	47
Cost to income (calculated)	26.0%	28.8%	28.4%	235	-41	27.2%	30.0%	282
Impairment/PPP	6.0%	-11.4%	-17.6%	-2,356	-619	11.0%	1.5%	-948
Tax/PBT	10.2%	10.2%	13.6%	332	339	7.7%	10.3%	265
NP/OI	57.5%	62.9%	65.9%	835	302	49.9%	54.4%	451
Loan-to-deposit	79.0%	75.1%	76.4%	-259	127	76.0%	78.0%	200
NPL - Reported	5.6%	4.4%	4.2%	-140	-20	4.6%	4.0%	-60
NPL Coverage - Reported	147.0%	153.0%	145.0%	-200	-800	163.0%	160.0%	-300
CET1	16.6%	15.2%	15.4%	-117	21	14.9%	16.0%	109
Capital Adequacy	19.5%	17.8%	18.0%	-149	16	17.6%	18.5%	88
ROAE	21.0%	21.7%	21.8%	76	12	22.7%	21.5%	-124
ROAA	2.3%	2.5%	2.5%	13	0	2.6%	2.6%	-5

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

AED mn	2Q23	3Q23	4Q23	1Q24	2Q24	YOY
Net advances	439,938	455,106	445,105	458,633	477,132	8.5%
<i>QOQ ch</i>	2.4%	3.4%	-2.2%	3.0%	4.0%	
Total assets	811,132	835,563	862,773	902,284	930,785	14.8%
<i>QOQ ch</i>	3.7%	3.0%	3.3%	4.6%	3.2%	
Customer deposits	555,857	570,187	584,561	610,371	624,417	12.3%
<i>QOQ ch</i>	3.3%	2.6%	2.5%	4.4%	2.3%	
Total equity	89,274	96,014	100,670	99,144	107,199	20.1%
<i>QOQ ch</i>	3.2%	7.5%	4.8%	-1.5%	8.1%	

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	24.05	70.0%	16.83
Relative Valuation (RV)	20.55	30.0%	6.17
Weighted Average Valuation (AED)			23.00
Current market price (AED)			17.50
Upside/Downside (%)			+31%

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)	26,059
Terminal value (AED, Mn)	18,629
Book Value of Equity (as of June 2024)	107,199
FV to Common shareholders (AED, Mn)	151,886
No. of share (Mn)	6,317
Current Market Price (AED)	17.50
Fair Value per share (AED)	24.05

Residual Income Method

(All Figures in AED Mn)	FY 2024E	FY 2025E	FY 2026E	FY 2027E	FY 2028E
Net Profit	23,350	20,058	19,238	19,482	18,815
(-) Equity Charge	(11,579)	(12,865)	(14,070)	(15,382)	(16,619)
Excess Equity	11,771	7,193	5,168	4,100	2,196
Discounting Factor	0.96	0.87	0.79	0.72	0.66
Present Value of Excess Equity	11,281	6,273	4,101	2,960	1,443

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	1,980	1.1	1.0	9.4	8.7	5.3	5.8	
Commercial Bank of Dubai	5,040	1.2	1.2	NA	NA	7.1	6.5	
Mashreq Bank	11,420	1.3	1.2	6.5	6.8	7.2	7.2	
Rakbank	2,900	0.9	0.9	5.6	6.1	6.9	7.5	
Abu Dhabi Commercial Bank	16,480	0.9	0.9	8.0	8.1	6.4	6.5	
Abu Dhabi Islamic Bank	11,970	2.0	1.8	8.9	9.1	6.0	5.9	
Dubai Islamic Bank	11,570	1.1	1.0	7.3	7.4	7.3	7.4	
Average			1.2x	1.1x	7.6x	7.7x	6.6%	6.7%
Median			1.1x	1.0x	7.7x	7.8x	6.9%	6.5%
Max			1.3x	1.2x	8.7x	8.5x	7.1%	7.3%
Min			1.0x	0.9x	6.7x	7.0x	6.2%	6.2%

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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