FAB SECURITIES أبوظبي الأول للأوراق المالية

Earnings Call Insight | 4Q24

UAE Equity Research | Sector: Banking | Market: DFM

Emirates NBD (ENBD)

Current Price	Target Price	Upside/Downside (%)	Rating
AED 20.70	AED 25.00	+21%	BUY

4Q24 Net Profit lower than our estimate

- Net funded income rose 9.6% YOY to AED 8.6 Bn in 4Q24 due to growth in interest-earning assets partially offset by higher cost of funds.
- Net interest margin fell from 3.75% in 3Q24 to 3.65% in 4Q24 due to flow through of rate cuts leading to lower asset yield partially offset by an expansion in margins at Denizbank.
- Non-funded income rose 7.9% YOY to AED 2.7 Bn attributed to robust growth in fees and commissions income owing to rise in local as well as international retail card business, record highest investment banking income, and increased global markets product offering coupled with trading gains partially offset by a decline in other operating income due to higher swap funding costs in Turkey and lower gains on sale of properties.
- The cost-to-income ratio increased from 32.4% in 4Q23 to 36.4% in 4Q24 due to higher staff cost, seasonal marketing expenses, higher professional fees, and accelerated depreciation of systems being replaced as part of a technology upgrade.
- Impairment charge fell from AED 1,946 Mn in 4Q23 to AED 1,450 Mn in 4Q24.
- ENBD's net profit fell marginally by 0.3% YOY to AED 4.0 Bn in 4Q24 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.
- Total assets grew 4.2% QOQ to AED 996.6 Bn in 4Q24, driven by an increase in the interest earning assets.
- The reported NPL ratio improved 130 bps YOY 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.
- ENBD recorded CAR of 17.1% and CET1 of 14.7% in 4Q24.
- Deposits grew 3.4% QOQ and 14.1% YOY to AED 666.8 Bn, while net advances grew 1.6% QOQ and 12.7% YOY to AED 501.6 Bn in 4Q24.

Earnings Call Summary

- ENBD is actively seeking acquisition opportunities in key markets, while also identifying areas for organic growth.
- It aims to implement cost control measures, specifically in the current declining interest rates scenario.
- The Bank anticipates asset growth to offset the decline in margins.
- The cost of risk and cost-to-income ratios are anticipated to return to normal levels.
- NPLs are expected to stay within the 3-4% range, marking the lowest level in more than ten years.
- The Board proposed a cash dividend of AED 1 per share for 2024, amounting to AED 6,317 Mn.
- Denizbank's NIMs improved as loan pricing adjusted to higher funding costs following significant rate hikes.
- ENBD expects margins 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'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 USD14 Bn in 2024.

- The 2025 cost of risk guidance is expected to amount to 40 to 50 basis points as normalization is expected, though the economy remains strong. The cost of risk is expected to be a bit higher in the retail segment due to elevated interest rates impacting retail borrowers.
- NPLs are expected to remain within the 3-4% range in 2025.
- The Bank secured AED 24 Bn in term debt, 50% of which relates to syndicated loans and short-term debt instruments which typically rollover.
- Denizbank was able to upsize its syndicated loan in November, with significant demand for a two-year tranch.
- ENBD has AED 12 Bn in term debt and AED 12 Bn in sukuk maturing in FY2025, with over a third of the debt already refinanced.
- It is focused on growing in five markets where it has relatively small market shares, such as Egypt, Saudi Arabia, and India.
- The bank no longer benefits from ECL (Expected Credit Loss) add-backs in 2025, as this adjustment was utilized in 2024.
- Operating expenses (OPEX) grew by 18% YOY in 2024, and the bank is working to moderate cost growth, aiming for single digit increases in 2025 while continuing to drive returns.
- The bank is strategically investing in key areas, particularly in Egypt.
- It 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.
- There's an economic incentive to call Tier 1 notes in March, as the reset margin would be higher than market rates. A formal decision will be announced in March, but from a regulatory perspective, the notes are expected to be called and replaced.

ENBD – P&L

AED mm	4Q23	3Q24	4Q24	4Q24F	Var.	YOY Ch	QOQ Ch
Net funded income	7,814	8,479	8,567	8,568	0.0%	9.6%	1.0%
Non-Funded Income	2,495	3,021	2,691	3,031	-11.2%	7.9%	-10.9%
Operating income	**10,309**	**11,500**	**11,258**	**11,599**	**-2.9%**	**9.2%**	**-2.1%**
Pre-provisioning profit	6,969	7,959	7,159	7,820	-8.5%	2.7%	-10.1%
Impairment charges	-1,946	-872	-1,450	-2,047	-29.2%	-25.5%	66.3%
Profit before tax	**5,023**	**7,087**	**5,709**	**5,773**	**-1.1%**	**13.7%**	**-19.4%**
Tax	72	-1,060	-988	-799	23.6%	NM	-6.8%
Profit for the period	**3,995**	**5,230**	**3,983**	**4,215**	**-5.5%**	**-0.3%**	**-23.8%**

FABS estimate & Co Data

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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