

Results Review

ADCB

ST Rating: Underperform

LT Rating: Market Perform

Abu Dhabi Commercial Bank – 2Q09 Results

- ADCB reported 2Q09 net profit of AED 302mm (-51% yoy, -15% qoq) vs. our expectation of AED 405mm. The yoy change is -32% if investment property gains of Q108 are adjusted out. **Although the top line grew strongly with revenues increasing by 31% qoq, this did not translate to bottom line performance due to continued increase in provisioning level.** The successful re-pricing of loans has resulted in strong growth in interest income (+41% yoy, +25% qoq) with net interest margins expanding to 2.4% vs. 2.2% in the previous quarter. In addition, the non-interest income also increased by 44% from Q1, although it is still lower than the levels seen at the peak of the market in Q208
- **Provisioning goes higher** – ADCB continues to expand provisioning levels, putting aside AED 613mm in loan loss and impairment charges (AED 401mm for loans and AED 212mm for the investment portfolio) in anticipation of worsening conditions. This was above our expectations of AED 273mm in provisions, and 121% above the provisions taken in Q109. At the end of 2008, the bank reported AED 1.3 bn in nonperforming loans, which at the time represented 1.13% of outstanding loans.
- **Highest loan and deposit growth in the country so far – ADCB recorded a 3.8% qoq growth in the loan book while deposits grew by an extremely strong 12.7% over the quarter.** As the deposit base has expanded (AED 9.3bn), ADCB continues to show the ability to pass on higher rates paid on deposits to the end users, as evidenced by the higher net interest margins. The high growth in the loan book is a bit concerning in a deteriorating credit environment, as the Central bank suggests system wide loan growth of only 1.4% in the quarter. The healthy growth in deposits (12.7% qoq vs. 0.5% for all UAE banks) has resulted in loans/deposits ratio improving to 138.6% vs 150.6% in Q1. The bank is the most dependent on external funding in the UAE, and this is seen in the higher than average loans/deposit ratios. The loans/deposits ratio drops to 91% when the stable funding sources are included in the denominator. The bank converted the AED 6.6bn in UAE federal government deposits in Q1.
- ADCB continues to expand its loan book at a rate much faster than the general market but this endeavor is supported by outstanding deposit raising capabilities while at the same time expanding margins. **Top line growth and cost control has not translated to bottom line growth due to the higher level of provisioning at ADCB.** The AED 890mm in provision charges in the first half of the year, while prudent, raises cause for concern about continued deterioration in the loan book. We continue to remain concerned on the quality of the loan book and maintain our LT 'Market Perform' rating on the stock.

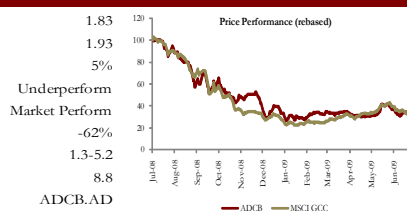
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Equity Data

Current Price (AED)	1.83
Target Price (AED)	1.93
Upside/downside	5%
Short-Term Rating	Underperform
Long-Term Rating	Market Perform
12 Mo. Performance	-62%
52-Week Range (AED)	1.3-5.2
Market Cap. (AED bn.)	8.8
RIC	ADCB.AD
Bloomberg	ADCB.UH



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AED Millions, except per share data	2Q08	1Q09	2Q09	yoy	qoq
Net Interest Income	630	708	887	40.8%	25.2%
Non-Interest Income	592	299	431	-27.2%	43.9%
Total Income	1222	1007	1317	7.8%	30.8%
Non-Interest Expense	(345)	(375)	(401)	16.1%	6.8%
Provisions	(219)	(277)	(613)	180.1%	120.8%
Net Profit	621	355	302	-51.4%	-15.0%
Adjusted EPS	0.13	0.07	0.06	-51.4%	-15.0%
Net Loans	90,985	110,273	114,438	25.8%	3.8%
Total Assets	128,346	144,297	154,465	20.4%	7.0%
Customer Deposit	63,137	73,236	82,555	30.8%	12.7%
Loans/Deposits	144.1%	150.6%	138.6%		
Efficiency Ratio	-28.3%	-37.3%	-30.4%		

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