



Earnings Update

ADCB

ST Rating: Underperform

LT Rating: Market Perform

ADCB 1Q09 Results

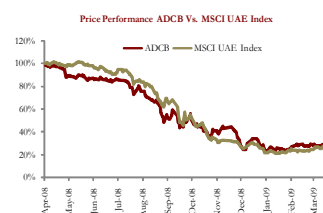
- **ADCB reported 1Q09 net profit of AED 354mm, a drop of 23% yoy vs. our bottom line estimate of AED 439mm.** The net profit drop was primarily due to continued build up in provisions (AED 277mm vs. our estimate of AED 201mm) as well as a 28% (qoq and yoy) drop in Non-Interest income. The bank has not released detailed financials, but we estimate there may be further losses on trading and investment securities recognized on the income statement, as well as lower fee and foreign exchange trading income.
- **Net loans registered a small gain of 1.4% from the end of 2008** (in line with our estimates) while the yoy rise in loans of 37.9% was mainly due to the strong credit growth in 2008. **Customer deposits dropped by AED 11.2bn** (higher than our estimated drop of AED 3.9bn) over the quarter to AED 73.2bn, a drop of 13.2%. The bank explained some of this deposit drop was due to AED6.6 bn conversion of government deposits into Tier II capital. Adjusting for this fact, customer deposits still fell by an estimated 5.4%. The small growth in loans, with the drop in deposits (adjusted for Tier II conversion), result in a higher loans/deposit ratio of 138.2% vs. 129.0% at the end of 2008.
- However, as evidenced by the **growth in net interest income**(40% yoy and 2.1% qoq), it seems the bank may been successful in a) reducing some high cost deposits and b) effectively re-priced some loans on the asset side of the balance sheet. NIM for 2008 was 2.08% and we estimate a small rise in 1Q09. Although non-interest expenses dropped by 22.1% qoq to AED 375mm resulting in an efficiency ratio of 37.2%, it was still higher than 2008 efficiency ratio of 34.7%.
- Although the bank has reflected good cost controls in the quarter, the story on the revenue side of the equation is more mixed. The bank was able to maintain or slightly grow interest margins, but total revenue for the quarter was pulled down by continued weakness in non-interest income. In addition, provisions for loan losses and the investment portfolio (AED 142mm and AED 135mm, respectively) continue to hurt the bottom line. Lower loan growth coupled with a reversal in deposit growth is also stressing the Loan/Deposit ratio at a time when capital markets are still cost prohibitive to access. **We continue to be doubtful** on the future prospects of stock price appreciation and maintain our 'ST' 'Underperform' and LT 'Market Perform' rating on the stock.

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Equity Data

Current Price (AED)	1.61
Target Price (AED)	1.93
Upside/downside	20%
Short-Term Rating	Underperform
Long-Term Rating	Market Perform
12 Mo. Performance	-71%
52-Week Range (AED)	1.3-6.2
Market Cap. (AED bn.)	7.7
RIC	ADCB.AD
Bloomberg	ADCB.UH



AED Millions, except per share data	1Q08	4Q08	1Q09	yoy	qoq
Net Interest Income	506	693	708	39.9%	2.1%
Non-Interest Income	415	415	299	-27.9%	-28.0%
Total Income	921	1109	1008	9.4%	-9.1%
Non-Interest Expense	(321)	(481)	(375)	16.7%	-22.1%
Provisions	(79)	(888)	(277)	249.5%	-68.8%
Net Profit	460	(264)	354	-23.0%	-233.9%
Adjusted EPS	0.10	(0.05)	0.07	-23.0%	-233.9%
Net Loans	80,002	108,813	110,300	37.9%	1.4%
Total Assets	113,991	142,668	144,300	26.6%	1.1%
Customer Deposit	59,227	84,361	73,200	23.6%	-13.2%
Loans/Deposits	135.1%	129.0%	150.7%		

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