

Results Review

ADCB

ST Rating: Underperform

LT Rating: Market Perform

ADCB – 2009 results review

- ADCB reported FY2009 net loss of AED 511 mm vs. a small profit of AED 44mm in 2008 and our expectation of a FY profit of AED 716mm. The primary reason for the continued weakness in results is the high level of provisions for loan losses (AED 3.1bn) and losses on the investment portfolio (AED 673mm). The Q409 loss of AED 1.2bn was primarily due to the AED 1.8bn in provisions for loan losses and AED 217mm in investment impairments, accounting for 30% of the UAE banking sectors provisions of Q409. The bank disclosed AED 2.1bn of the AED 3.7bn in total provisions (56%) is related to the international exposure and structured investment portfolio in US/Europe. CAR ratio has dropped to 17.2% from 19.4% at the end of Q309.
- In its bond documents dated Sep 27, 2009 the bank had disclosed exposures (net of collateral) to the Saad and Gosaibi groups of AED 2.24bn of which **only 19% (AED 430mm) was provisioned for at that time.** In order to bring it up to Central Bank guidance of 50% by the end of 2009, we had expected an additional AED 690mm in Q4 provisions related to Saad/Gosaibi alone. With Q4 loan loss provisions at AD 1.8bn, we would like to believe management has pulled in next year's anticipated provisions (and a lot more) into 2009, leaving 2010 results relatively clean. However, the NPL ratio at the end of 2009 has risen to 5.2% (vs. our expectation of 4.6%) with a coverage ratio of 67.8%. Absolute NPL's rose by an anticipated AED 1.3bn in Q4 alone and an estimated AED 5bn in FY 2009. At the end of Q309, NPL's stood at 4.2%, with another AED 4.9bn in overdue but not impaired loans.
- Operating performance continues to be relatively healthy, with loans (+8.8%), deposits (+11%, adjusted for deposits converted to Tier II), and revenues (+9%). Interest income rose by 32% to AED 3.3bn from AED 2.5bn in 2008, on the back of balance sheet expansion and also a 25bp margin improvement ending the year with a NIM of 2.43%. Meanwhile, non-interest income continued its recent decline, falling by 21% yoy on lower trading and investment income and now represents only 31.5% of revenues vs. 43.5% in 2008. Cost efficiency ratio has improved to 32.2% on the back of stronger revenues and strict cost control – only +1% yoy.
- As we anticipated after the Q3 results, the weakened loan loss coverage and Saad/Gosaibi overhang impacted FY09 results negatively. While we seek management clarity on what was included in the AED 1.8bn Q4 provisioning number (all Saad/Gosaibi or partial Saad/Gosaibi with more for weakness in asset quality for the rest of the book), we believe the high 2009 provisions, may leave the bank with a stronger footing to start 2010. The bank faces challenges on the unfunded business lines but loan book and margin expansion continues. After the recent selloff in regional stocks, ADCB now trades at a 50% discount to the sector – 2010E P/B of 0.3x vs. 0.6x for the sector. We reiterate our ST 'Underperform' and LT 'Market Perform' rating on in anticipation of full financials and clarity on provisioning.

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Abu Dhabi Commercial Bank						4Q	
(AED Millions)	4Q08	4Q09	2008	2009	yoy	yoy	qoq
Net Interest Income	693	859	2480	3277	32.1%	23.9%	4.4%
Non-Interest Income	415	355	1910	1506	-21.1%	-14.6%	-15.7%
Total Income	1109	1214	4390	4782	8.9%	9.5%	-2.4%
Non-Interest Expense	(481)	(374)	(1525)	(1539)	0.9%	-22.3%	-3.9%
Provisions	(332)	(1835)	(758)	(3080)	306.1%	452.7%	158.8%
Impairment on Investments	(556)	(217)	(740)	(673)	-9.0%	-60.9%	112.7%
Net Profit	-264	-1212	1236	-511	-141.3%	358.4%	-2854.5%
Net Loans	111,071	120,843	111,071	120,843	8.8%	8.8%	1.3%
Total Assets	147,728	160,209	147,728	160,209	8.4%	8.4%	1.0%
Customer Deposit	84,361	86,300	84,361	86,300	2.3%	2.3%	3.3%
Loans/Deposits	131.7%	140.0%	131.7%	140.0%	6.4%	6.4%	-2.0%
Efficiency Ratio	-43.4%	-30.8%	-34.7%	-32.2%	-7.4%	-29.0%	-1.5%

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