

Results Review

ADCB

ST Rating: Underperform

LT Rating: Market Perform

ADCB – 3Q09 results review

- ADCB (CP 2.1, TP2.2, Market Perform) reported 3Q09 of AED44 mm (-85.4% qoq, -89.5% yoy) **driven down by provisions of AED810 mm compared to AED312 mm in 3Q08 and AED613 mm in 2Q09**. The stock dropped by 8.2% today following the release of results. YTD revenues have risen by 8.7% but the mix has shifted and interest income now makes up 68% of revenues, vs. 54% in 2008.
- While ADCB has been able to raise margins to 2.42% ytd (2.2% in 2008) and grow their loan book by 9.65% in 2009, **the non-funded business is feeling weakness (down 23% yoy)** due to lower volumes across wholesale and consumer banking. Loans/Deposit ratio weakened further to 143% from 129% at the end of 2Q09.
- The important story is on the provisions side of the business – In its bond disclosure dated Sep 27, 2009 the bank had disclosed exposures (net of collateral) to the Saad and Gosaibi groups of AED 2.24 bn of which **only 19% (AED 430mm) was provisioned for**. While the Saudi exposures account for the increase in NPL's (4.2% with and 2.6% without the Saudi exposure) excluding the Saudi's there was an estimated additional AED 755mm in new non-performing loans in Q3 alone. The bank has 60% of its loan book exposed to the Abu Dhabi market with a majority of the remaining in Dubai. With the real estate correction in Dubai and continued rise in NPL's (besides the Saudi exposure), **we believe NPL's will continue to rise and along with it the commensurate provisioning**.
- Loan loss coverage ratio has weakened considerably to 52.3% as of 3Q09 with the Saudi exposures and 70.7% without. Future results could continue to be impacted negatively by continued reserve building. The one silver lining could be recent moves by the Gosaibi group to reach a settlement with UAE banks and hope that the Saad groups overtures to Saudi banks will be mimicked in the UAE, although the timing and likelihood are unknown. We reiterate our ST 'Underperform' and LT 'Market Perform' on the stock.

Equity Data

Current Price (AED)	2.10
Target Price (AED)	2.20
Upside/downside	5%
Short-Term Rating	Underperform
Long-Term Rating	Market Perform
12 Mo. Performance	-18%
52-Week Range (AED)	1.33-2.96
Market Cap. (AED bn.)	10.1
RIC	ADCB.AD
Bloomberg	ADCB.UH



Deepak Tolani, CFA

T+971 4 360 11 52

Deepak.tolani@almalcapital.com

AED Millions, except per share data	3Q08	2Q09	3Q09	yoy	qoq
Net Interest Income	651	887	823	26.5%	-7.2%
Non-Interest Income	488	431	421	-13.6%	-2.3%
Total Income	1138	1317	1244	9.3%	-5.6%
Non-Interest Expense	(377)	(401)	(389)	3.1%	-2.9%
Provisions	(312)	(613)	(810)	159.2%	32.2%
Net Profit	420	302	44	-89.5%	-85.4%
Adjusted EPS	0.09	0.06	0.01	-89.5%	-85.4%
Net Loans	103,144	114,438	119,314	15.7%	4.3%
Total Assets	135,439	154,465	158,626	17.1%	2.7%
Customer Deposit	70,069	82,555	83,504	19.2%	1.1%
Loans/Deposits	147.2%	138.6%	142.9%		
Efficiency Ratio	-33.1%	-30.4%	-31.3%		

Downtown Burj Dubai

Emaar Square

Building 4, Office 302

Sheikh Zayed Road

P. O. Box 119930, Dubai, UAE

T +971 4 360 1111

F +971 4 360 1122

www.almalcapital.com

(AED mm)					
Saudi Exposures (net of collateral)					
Saad	751				
Gosaibi	1,487				
	2,237				
Allowances taken (Saudi Groups)	430				
% of Saudi exposure accounted for	19.2%				
	3Q09	1H09	2008	2007	2006
Allowance for loan losses	709	536	758	143	194
Allowance for Investment Impairments	102	354	740	560	-
	811	890	1,498	703	194
Loan Quality (with Saudi exposure)					
NPL %	5.094	4.619	1.260	1.055	1.178
NPL % -	4.20%	3.97%	1.13%	1.37%	1.86%
Reserves +	2,660				
Coverage Ratio	52.3%				
Loan Quality (w/o Saudi exposure)					
NPL %	3.154	2.398			
NPL % -	2.60%	2.06%			
Reserves +	2,230				
Coverage Ratio	70.7%				

* Al Mal Estimates

**Al Mal Securities Group****Managing Director**

Robert McKinnon +971 4 360 11 17

Institutional Sales & Trading

Zahed Chowdhury, CFA +971 4 360 1172

Ashraf Abu Shakra +971 4 369 66 01

Khamis Shennawi +971 4 360 11 10

Jalal Faruki +971 4 360 11 03

Carlo Dalafu +971 4 360 11 04

All Desks Numbers +971 4 360 11 00**Al Mal Capital Research****Equity Research Analysts**

Irfan Ellam +971 4 360 11 53

Deepak Tolani, CFA +971 4 360 11 52

Mala Pancholia +971 4 360 11 54

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