



## Results Review

## ADCB

Rating: Market Perform

## Abu Dhabi Commercial Bank - 1Q 2010

*Provisioning battle continues even as core business shows sign of life*

- ADCB reported Q1 net income of AED 225mm (-36.4% yoy, net loss of 1.2bn in Q409). Pre-provisioning profit of 906mm (+8% qoq,+44% yoy) is reflective of expanding margins, recovery in investment portfolio, balance sheet expansion and cost controls. Income from associates is paying off – RHB Malaysia coming through contributing AED 99mm this quarter (7.8% of revenues, 11% of pre-provision profits) vs. AED 22mm in Q109 (2.2% of revenues, 3.5% of pre-provision profits).
- However, top line growth is tempered by asset quality issues and continued provisioning. Bank only discloses NPL and coverage ratios every 6 months. NPL's at end of 2009 were 5.2% with low coverage ratio of 53%. Provisioning for loan losses charge of 50bp in Q1 vs. 12bp in Q109 and avg quarterly charge of 66bp in 2009. In addition, impairments on investments are tapering off but still high at AED 92mm in Q1 2010. We expect provisioning to be high in 2010, to account for low coverage ratio and further expected weakness in asset quality. Sizeable exposure still remain - Saad/Gosabi (AED 2.24bn, 50% provisioned for) and Dubai World (estimated at AED 9bn)
- Loans growth staid along with sector, +0.5% in Q1, but ADCB was able to raise deposits by 3.8bn in Q1 relieving some pressure on L/D – now at 130%. NIM of 2.59% in Q1 vs. 2.43% in 2009, on successful re-pricing of loans and lower cost of funds due to lower EIBOR/LIBOR, resulting in 26% yoy drop in interest expenses. We do not think the NIM growth is sustainable as funding expenses at AED 801mm in Q1, similar to Q4 levels. Cost of funding in near future likely higher as banks funding model historically reliant on external funding which may not be available to bank with its weakened asset quality.
- P/B and P/E on 2010e of 0.43x and 4.8x, respectively. Cheapest in coverage universe, but lots of claw-back on provisioning front required in a dead loan market with higher funding costs and additional provisioning to break through to positive growth bottom line. **Maintain 'Market Perform' with TP of AED 2.2**

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Abu Dhabi Commercial Bank					
(AED Millions)	1Q09	4Q09	1Q10A	qoq	yoy
Net Interest Income	708	859	872	1.5%	23.1%
Non-Interest Income	299	355	398	12.1%	33.0%
Total Income	1008	1214	1,270	4.6%	26.0%
Non-Interest Expense	(375)	(374)	(361)	-3.5%	-3.8%
Provisions	(135)	(1835)	(589)	-67.9%	335.0%
Impairment on Investments	(142)	(217)	(92)	-57.6%	-35.2%
Net Profit	354	(1212)	225	-118.6%	-36.4%
Net Loans	110,273	116,610	117,200	0.5%	6.3%
Total Assets	144,297	160,209	163,701	2.2%	13.4%
Customer Deposit	73,236	86,300	90,139	4.4%	23.1%
Loans/Deposits	150.6%	135.1%	130.0%	-3.8%	-13.6%
Efficiency Ratio	-37.2%	-30.8%	-28.4%	-7.7%	-23.7%
NIM	2.11%	2.39%	2.59%	8.5%	23.0%
NPL	0.0%	5.2%			
Coverage Ratio		52.6%			

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