

## Results Review

## ENBD

ST Rating: Underperform

LT Rating: Market Perform

## EMIRATES NBD – 2Q09 Results

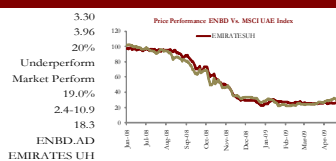
- ENBD reported 2Q09 net profit of AED 852mm (-41% yoy, -32% qoq) vs. our expectation of AED 917mm. **The bank once again displayed a strong revenue generation engine, but bottom line results were impacted by extremely high level of provisioning.** As net interest income has stabilized around the AED 1.7bn level for the last three quarters, non-interest income has shown a strong recovery. The income from non-funded business has soared by 71.3% qoq, coming in at AED 1.17bn in Q2 (higher than the peak of Q208) on the back of foreign exchange trading and strong mtm recoveries for investments and CDS's. Net interest margin dropped to 2.40% from 2.76% in Q1, due to increased cost of deposits and the reduced LIBOR/EIBOR differential.
- High levels of provisioning accompanying NPL rise** – ENBD has been one of the most aggressive UAE banks in provisioning for future loan losses, equaling close to last years total impairments in H109 alone. In Q2, the bank took total impairment charges of AED 1.1bn (584mm –specific, 507mm – collective, 58mm – investments) to account for further deterioration in asset quality including some Saudi specific exposure. NPL ratios are also rising – equaling 1.56% of loans in Q2 from 1.19% in Q1. The bank has revised its full year 09 guidance on NPL's to 2.0% from 1.7% discussed last quarter (mgt expects 2.5% in 2010). Given the rise in NPL's and provisioning, the loan loss coverage ratio stayed close to 140%
- Slowing balance sheet growth** - Loans and deposit grew by 4% and 5% in H109, with most of the growth occurring in Q1. Although the loans/deposits ratio is high at 127%, it drops to 111% when stable funds are included. We believe together with decline in the investment portfolio size, the bank is deleveraging the balance sheet as it assesses the credit quality of the existing portfolio. In addition, for 2009 ENBD is now seeing UAE GDP growth of 0%, and loans and deposits growing at 7% and 10% respectively. The bank has shored up its capital base with recent issuance of Tier I notes, conversion of Tier II notes and an exchange of certain bonds. The CAR now stands at 19.0% with Tier I ratio at 12.1%
- Costs down marginally** despite expansion of private banking business and Abu Dhabi footprint. Merger synergies are beginning to pay off with costs dropping 1.7% qoq and 3.8% yoy, to AED 896mm in Q2. This together with strong revenue growth has improved the cost efficiency ratio to 31.0% from 34.9% in Q2 vs. a Q1 sector average of 33.1% Management is guiding to a full year efficiency ratio of 35%, taking into account expansion opportunities.
- As the top line continues to grow and show resilience to the weakened general economy, ENBD has realized that asset quality deterioration may worsen as the year proceeds. Although the bank continues to be prudent in aggressively building loan loss provisions as it face rising NPL's, we believe the combination of **lower margins, limited scope for continued growth in funded and non-funded business lines and deteriorating economic conditions** in Dubai (especially real estate, construction and retail loans) will continue to impact the bottom line. We maintain our LT 'Market Perform' rating on the stock.

Deepak Tolani  
T+971 4 360 11 52  
Deepak.tolani@almalcapital.com

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

## Equity Data

Current Price (AED)	3.30
Target Price (AED)	3.96
Upside/downside	20%
Short-Term Rating	Underperform
Long-Term Rating	Market Perform
YTD Performance	19.0%
52-Week Range (AED)	2.4-10.9
Market Cap. (AED bn.)	18.3
RIC	ENBD.AD
Bloomberg	EMIRATES.UH



AED Millions, except per share data	2Q08	1Q09	2Q09	yoy	qoq
Net Interest Income	1363	1928	1716	25.9%	-11.0%
Non-Interest Income	1133	685	1173	3.5%	71.3%
Total Income	2496	2612	2888	15.7%	10.6%
Non-Interest Expense	(931)	(911)	(896)	-3.8%	-1.7%
Provisions	(249)	(462)	(1149)	362.0%	148.7%
Net Profit	1452	1259	852	-41.3%	-32.3%
Net Loans	187,390	214,398	216,631	15.6%	1.0%
Total Assets	285,517	281,429	281,893	-1.3%	0.2%
Customer Deposit	157,060	170,494	170,540	8.6%	0.0%
Loans/Deposits	119%	126%	127%		
Efficiency Ratio	-37.3%	-34.9%	-31.0%		

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

Robert McKinnon +971 4 360 11 17

**Institutional Sales & Trading**

Ashraf Abu Shakra +971 4 369 66 01

Khamis Shennawi +971 4 360 11 10

Kamal Samarraï +971 4 360 11 05

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

Bobby Sarkar +971 4 360 11 68

Deepak Tolani, CFA +971 4 360 11 52

Mala Pancholia +971 4 360 11 54

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