

ENBD 1Q09 Results

EMIRATES

ST Rating: Underperform

LT Rating: Market Perform

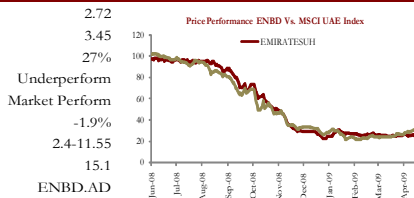
Emirates NBD – *Roaring back?*

- ENBD reported 1Q09 net profit of AED 1.26bn vs. AED 1.20bn last year, a rise of 5.2% yoy** (vs. our estimate of AED 1.22bn). The bank displayed tremendous strength in re-pricing risk on the corporate and retail businesses resulting in the quarterly net interest income rising to AED 1.9 billion (+39.6% yoy, +14% qoq). However, a slowdown in trading activity and a freezing of underwriting fees has impacted the non-interest income, which fell by 16.2% yoy. On the back of the tremendous revenue growth and smaller increase in costs (AED 911 mm, +9.1% yoy and +11.7% qoq), the cost efficiency ratio has improved to 34.9% at the end of 1Q09 from 39.7% for 2008. The bank reported NIM rose to 2.76% vs. 2.01% in 2008.
- Asset quality – steady as it goes** – Although 1Q09 reported NPL (excluding investment securities) was 1.2%, the bank clarified that this was representative of a single transaction that has since corrected, resulting in a current NPL ratio closer to 1.05%. In the context of the ratio being close to 1.0% at the end of 2008, the deterioration in the asset quality of the loan portfolio is minimal. The bank is expecting worsening conditions on this front and is now guiding to a NPL of 1.7% by the end of 2009, in line with our expectations. ENBD booked AED 364mm in loans related impairment charges and the coverage ratio is now 108%.
- Loans and deposits ticking up** - Supported by Dubai government entities, the loans grew by AED 5.5bn (+2.6% from year end), and deposits grew by AED 8.2bn (+5.0% from year end), resulting in a loans/deposit ratio of 126%. The bank has partly benefited from some of the Dubai government \$10 billion bond issuance proceeds deposited with the bank till they are deployed. During the quarter, the bank also converted AED 9.6 billion in Ministry of Finance deposits into Tier II capital.
- Core business and investment book stabilizing, but Dubai exposure concerning** - The core business is showing signs of stabilizing with smaller (compared to 4Q08) mtm and impairment losses. CAR has now strengthened to 16.2%, with a further proposed issue of AED 3.5b in Tier I perpetual securities being issued in 2Q09. We believe the combination of heavy Dubai exposure along with the limited ability to maintain margins in face of competition for loans and deposits will weigh the bottom line in the near future. We have estimated impairment allowances similar to 2008 for this year (AED 1.6bn), and a worsening of NPL's to 1.74% by the end of the year. We continue to monitor the loan book for further deterioration and maintain our ST 'Underperform' and LT 'Market Perform' on the stock.

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Equity Data

Current Price (AED)	2.72
Target Price (AED)	3.45
Upside/downside	27%
Short-Term Rating	Underperform
Long-Term Rating	Market Perform
YTD Performance	-1.9%
52-Week Range (AED)	2.4-11.55
Market Cap. (AED bn.)	15.1
RIC	ENBD.AD
Bloomberg	EMIRATES.UH



AED Millions, except per share data	1Q08	4Q08	1Q09	yoy	qoq
Net Interest Income	1381	1691	1928	39.6%	14.0%
Non-Interest Income	818	77	685	-16.2%	791.3%
Total Income	2198	1768	2612	18.8%	47.8%
Non-Interest Expense	(835)	(816)	(911)	9.1%	11.7%
Provisions	(263)	(843)	(462)	75.7%	-45.2%
Net Profit	1196	14	1259	5.2%	8884.1%
Net Loans	175,427	208,930	214,398	22.2%	2.6%
Total Assets	277,464	282,414	281,429	1.4%	-0.3%
Customer Deposit	114,188	162,315	170,494	49.3%	5.0%
Loans/Deposits	154%	129%	126%		
Efficiency Ratio	-38.0%	-46.2%	-34.9%		

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