



Results Review

EMIRATES

Rating: Market Perform

Emirates NBD - 1Q 2010

Loan growth remains elusive, while margin compression and potential write-downs could weigh on stock in short term.

- **ENBD reported 1Q 2010 net income of AED 1.1bn**, -12% yoy but far above the 178m in Q409. Negative loan growth and margin compression has resulted in net interest income shrinking to 1.7bn, in-line with last year's quarterly average but 10% below Q109. However, non-interest income in the quarter was bolstered by a recovery in fee income and gains on trading securities vs. a loss last year. Fair value reserves in the equity base also received a boost from reversal of MTM losses on investments.
- **Bank lending activity continues to be weak with loans at AED 211.9bn, a similar level to that at the beginning of 2009.** Deposits however have bucked the sector trend growing by 5.6% qoq and 12.2% yoy. The AED 10bn in deposit growth in Q1 along with the staid lending activity has resulted in an improved L/D ratio of 111%. Significantly, loans dropped the most in the 'personal retail sector' (-4.7% this quarter) while deposits grew mostly in the corporate sector, signaling potential margin pressure.
- **Margins compression reducing net interest income as cost of funding rises and product mix changes.** NIM shrunk to 2.58% in Q1, compared to 3.01% in Q109. ENBD's interest income in 2009 grew by 21% qoq, even with loan growth at an anemic 2.7% due to margin expansion to 2.81% from 2.18% in 2008. Local lenders were able to expand margins in 2009 to compensate for the lack of loan growth but we believe could face difficulties on both ends in 2010. (Bank now guiding NIM trending to 2.0% in 2010.)
- **Asset quality continues weakening but pace slowing – NPL's rose to 2.63% from 2.35% at the end of 2009 (as reported on a 90 day basis), translating to an absolute rise of AED 500mm. Considering last year's average quarterly increase in absolute NPL's was AED 733mm, may mean the asset quality weakness may be peaking in the next few quarters.**
- Total provisioning at AED 555m (520m for loans and 35m for investments), while higher than 462m in Q109, is below the quarterly average provisioning level of 766m seen in 2009. **(Provisioning charge at 23bp this quarter vs. average quarterly charge of 34bp in 2009).** The retail portfolio continues to account for the lion's share of NPL's and provisioning needs - 11% of the loan book, 52% of NPL's and 57% of Q1 provisions. Meanwhile, the investment portfolio has improved considerably, seeing a drop in impairments to 35mm in Q1 2010 from 144m in Q109
- While deposit growth is encouraging, pricing on the funding side looks expensive. Non-interest income picked up the slack from weakening margins and a stable loan book in Q1 but future quarters could be challenging both on the revenue front and accounting impact of proposed Dubai World settlement. Although provisioning and NPL growth have tapered off from last year – we cannot rule out the medium term impact of weakness in RE and construction sector (20% of the loan book) and weakened credit profile of Dubai Inc. (sovereign exposure makes up 23% of the loan book). **We maintain a 'Market Perform' rating on the stock with a TP of AED 4.0, while noting that ENBD trades at deep discount to sector peers (2010e P/B and P/E of 0.51x and 3.9x)**

Deepak Tolani, CFA
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, United Arab Emirates
T +971 4 360 1111
F +971 4 360 1122
www.almalcapital.com



Emirates NBD					
(AED Millions)	1Q09	4Q09	1Q10A	qoq	yoy
Net Interest Income	1,928	1,924	1,731	-10.0%	-10.2%
Non-Interest Income	685	656	829	26.5%	21.1%
Total Income	2612	2580	2,560	-0.8%	-2.0%
Non-Interest Expense	(911)	(958)	(896)	-6.4%	-1.7%
Impairment allowances	(462)	(945)	(554)	-41.4%	19.9%
Net Profit	1,259	178	1,110	523.2%	-11.8%
Investments	18,870	16,764	17,096	2.0%	-9.4%
Net Loans	214,398	214,600	211,900	-1.3%	-1.2%
Total Assets	281,429	281,600	289,723	2.9%	2.9%
Customer Deposit	170,494	181,200	191,300	5.6%	12.2%
Loans/Deposits	126%	118%	111%	-6.5%	-11.9%
Efficiency Ratio	-34.9%	-37.1%	-33.9%	-8.7%	-2.8%
NIM	3.01%	2.85%	2.58%	-9.5%	-14.3%
NPL	1.17%	2.36%	2.63%	11.4%	125.1%
Coverage Ratio	104.4%	105.0%	102.5%	-2.4%	-1.8%

Al Mal Securities Group

Institutional Sales & Trading

Jalal Faruki	+971 4 360 11 03
Zahed Chowdhury, CFA	+971 4 360 11 09
Khamis Shinnawi	+971 4 360 11 10
Ashraf Abushakra	+971 4 369 66 01
Kamal Samarraï	+971 4 360 11 05
Carlo Dalafu	+971 4 360 11 04
<u>All Desks Number</u>	+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
Ghada Abdulkader	+971 4 360 11 47

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