

FGB 1Q09 Results

FGB

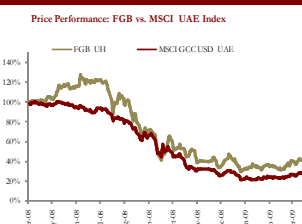
ST Rating: Market Perform

LT Rating: Market Perform

FGB: Too far, too fast – *downgrading to 'Market perform'*

- **FGB reported 1Q09 net profit of AED 750mm vs. AED 676mm last year, a rise of 11% yoy** (vs. our estimate of AED 704mm). The higher profit was reported on the back of strong net interest income which rose by 12.2% qoq and 106.4% yoy, primarily due to the 78.6% growth in the loan book in 2008. Non-interest income dropped by a smaller than estimated -9.8% qoq and -23.6% yoy, to come in at AED 444mm. However, considering that 1Q08 results had benefited from investment property related gains of AED 274mm, the small drop is encouraging. Bottom line - total revenues continued to grow besides the challenging macro environment, NIM rose to a bank reported level of 3.6% and costs dropped by 29% qoq to AED 293mm resulting in an efficiency ratio drop from 24.2% in 2008 to 22.2% in 1Q09.
- **Continued build up of provisions** points to an expected weakness in the loan portfolio. The provisioning charge of AED 275mm (220mm for loans and 55mm for investments), represent an estimated annualized charge level of 1.3% vs. 0.94% for 2008, and results in a loan loss coverage ratio of 235% (up slightly from 233% at the end of 2008). The bank disclosed a NPL to gross loans ratio of 0.7%, and we estimate NPL's to have risen by AED 80-100mm over the quarter.
- **The loan book sustained its onward progression growing 5.3%** (vs. our expectation of a small contraction) from the end of 2008 to end at AED 83.6bn. In addition, customer deposits also grew by 2.3% to AED 75.7bn, resulting in a slightly stressed Loan/Deposit ratio of 110%. FGB has not yet completed its conversion of Ministry of Finance deposits (in the amount of AED 4.5bn) into Tier II capital, a fact that will stress the ratio further in 2Q09. However, considering that this is a cheap source of funding and shores up CAR to an estimated 21% gives us less cause for concern on this end.
- FGB has benefited from its aggressive growth of the loan book, strong cost control and opportunistic margin expansion. However, **concentration risk is high** - personal loans along with real estate and construction loans represented 56.2% of the loan book at the end of 2008. We believe the bank recognizes that a majority of the loans are in the early vintages and as they move down the loss curve, the bank could face charge-offs and pressures to the bottom line. The stock has moved up 24.5% since the beginning of the month and now trades through our target price. We therefore change our LT rating on FGB from 'Outperform' to 'Market Perform'.

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

Equity Data		Price Performance: FGB vs. MSCI UAE Index	
Current Price (AED)	10.50		
Target Price (AED)	10.07		
Upside/downside	-4%		
Short-Term Rating	Market Perform		
Long-Term Rating	Market Perform		
YTD Performance	14.8%		
52-Week Range (AED)	6.5-30.0		
Market Cap. (AED bn.)	14.4		
RIC	FGB.AD		
Bloomberg	FGB.UH		

AED Millions, except per share data	1Q08	4Q08	1Q09	yoy	qoq
Net Interest Income	424	780	875	106.4%	12.2%
Non-Interest Income	602	492	444	-26.3%	-9.8%
Total Income	1026	1272	1319	28.5%	3.7%
Non-Interest Expense	(209)	(411)	(293)	40.1%	-28.7%
Provisions	(142)	(192)	(275)	94.2%	43.4%
Net Profit	676	671	750	11.0%	11.8%
Net Loans	54,320	79,363	83,600	53.9%	5.3%
Total Assets	84,810	107,522	109,000	28.5%	1.4%
Customer Deposit	50,823	73,963	75,700	48.9%	2.3%
Loans/Deposits	107%	107%	110%		
Efficiency Ratio	20.4%	20.4%	22.5%		

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



Al Mal Securities Group

Institutional Sales & Trading

Ashraf Abu Shakra	+971 4 369 66 01
Khamis Shennawi	+971 4 360 11 10
Hassan El Salah	+971 4 360 11 09
Kamal Samarrai	+971 4 360 11 05
Jalal Faruki	+971 4 360 11 03

Portfolio Advisory

Akram Annous	+971 4 360 11 12
--------------	------------------

<u>All Desks Numbers</u>	+971 4 360 11 00
---------------------------------	------------------

Al Mal Capital Research

Managing Director

Robert McKinnon	+971 4 360 11 17
-----------------	------------------

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

Disclaimer: This report is not an offer to buy or sell nor a solicitation to buy or sell any of the securities mentioned within. The information and recommendations contained in this report were prepared using information available to the public and sources Al Mal Capital believes to be reliable. Al Mal Capital PSC does not guarantee the accuracy of the information contained within this report and accepts no responsibility or liability for losses or damages incurred as a result of investment decisions taken based on information provided or referred to in this report. Any analysis of historical facts and data is for information purposes only and past performance of any company or security is no guarantee or indication of future results. Al Mal Capital PSC, or its "related group companies" (which may include any of its branches, affiliates and subsidiaries) or any director(s) or employee(s) of the said companies, individually or collectively, may from time to time take positions or effect transactions related to companies mentioned in this report. Al Mal Capital PSC and its related group companies may have performed or seek to perform investment banking or any other financial or advisory services for the companies mentioned in this report.