



Results Review

First Gulf Bank

ST Rating: Outperform

LT Rating: Outperform

Target Price – AED 20.4

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First Gulf Bank – 2009 results review

- FGB's reported FY 2009 net profit of AED 3.3bn (+10% yoy) vs. our estimate of AED 3.0bn, on the back of continued robust revenue gains and strong cost controls. **Revenues rose by 31% yoy with interest income rising by 49% supported by growth in the loan book and significant margin expansion - 3.7% in '09 compared to 3.1% in 2008.** While full year provisions of AED 1.8bn were higher than our expectation of AED 1.5bn, the bank outperformed on the revenue side with AED 6.1bn for the full year vs. our expectation of AED 5.6bn.
- **Balance sheet growth was strong with loans and deposits growing by 13.9% and 16.8% (unadjusted) yoy, far outpacing sector growth of 2.4% and 6.5%, respectively.** While loans ended the year at AED 90.4bn (+ AED 11bn yoy), deposit growth far outpaced loan growth rising by a net of AED 17bn – ending the year at AED 86.4bn. The growth in deposits are adjusted for AED 4.5bn that were included in the 2008 base number but have since been converted to Tier II capital. The loans/deposit ratio has improved to 105% from an adjusted ratio of 114% at the end of 2008. Subsequent to the conversion of deposits into Tier II capital and the Tier I capital injection (AED 4.0bn) from the Government of Abu Dhabi, total CAR rose to 22.6%, with a Tier I ratio of 19%.
- Higher provisioning continued with AED 705mm taken to reserves in Q4 alone, a 267% rise from Q408. Total provisions for the year were AED1.7bn (compared to AED 560mm in 2008), translating to a provisioning charge ratio of 2.0%. The company disclosed exposures to the troubled Saudi conglomerates of AED 383mm and stated that 70mm was accounted for in Q2 and Q3. With central bank guidance of 50% provisioning for Saad/Gosabi in 2009, we estimate a sizeable amount of provisioning in Q4 was for the general portfolio. The bank disclosed a slight uptick in NPLs' to 1.6% from 1.4% in Q4 and 0.6% at the end of 2008 with a loan loss coverage ratio of 174%. **We estimate NPL's rose by AED 200mm in Q4, far slower than the average AED 350mm seen in the previous two quarters, perhaps indicating a slowdown in non-performing loan growth.**
- The bank continues to show strength in its core banking business with extremely strong revenue growth. While loan growth tapered off in Q4 (+0.4%), the expansion in margins and a strong finish on the unfunded business (+10% yoy) led the growth in the bottom line. The bank also saw a recovery in the forex trading and an AED 66mm return on investments vs. last year's loss of AED 229mm. **With a CAR above 22%, strong cost controls (efficiency ratio best in sector at 17.4%), and minimal asset quality deterioration (considering the broader weak business environment), we reiterate our Outperform rating on the stock with a TP of AED 20.4 (upside of 33%).** The stock currently trades at a 2010E P/B and P/E of 0.91x and 5.9x, respectively (vs. a sector average of 0.75x and 6.3x)

First Gulf Bank (AED Millions)	4Q08		2008			2009		
	4Q08	4Q09	2008	2009	yoy	4Q yoy	4Q qoq	
Net Interest Income	780	1016	2,581	3,834	48.6%	30.3%	3.1%	
Non-Interest Income	492	829	2,118	2,330	10.0%	68.4%	17.9%	
Total Income	1272	1845	4,698	6,164	31.2%	45.0%	9.3%	
Non-Interest Expense	(411)	(283)	(1,135)	(1,081)	-4.7%	-31.2%	13.9%	
Provisions	(192)	(705)	(560)	(1,770)	215.8%	267.6%	38.2%	
Net Profit	671	853	3,005	3,310	10.2%	27.1%	-8.3%	
Net Loans	79,363	90,386	79,363	90,386	13.9%	13.9%	0.4%	
Total Assets	107,522	125,473	107,522	125,473	16.7%	16.7%	0.9%	
Customer Deposit	73,963	86,422	73,963	86,422	16.8%	16.8%	-3.3%	
Loans/Deposits	107%	104.6%	107.3%	104.6%	-2.5%	-2.5%	3.8%	
Efficiency Ratio	-32.3%	-15.3%	-24.2%	-17.5%	-27.4%	-52.6%	4.3%	

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