



Results Review

FGB - 1Q 2010

Defying the odds - core business keeps ticking along as NPL's and provisioning continues

FGB

Rating: Outperform

- **FGB reported 1Q 2010 net income of AED 920m** (+8% qoq, +22.5% yoy) handily beating our estimate of 800mm. While revenues grew by 26% yoy, they dropped by 10.1% on an unadjusted qoq basis. Q409 had benefited from approximately AED 500mm in gains on sale and revaluation of investment properties, and we estimate there could be an additional AED 150-175mm of similar gains in Q1 2010. Core banking lending activity continues to be robust and rewarding – Loans and deposits both rising >3% qoq (vs. sector averages of flat to -1% growth), along with margin stability resulted in net interest income crossing the AED 1bn mark in a single quarter for the first time (Net interest income +2.1% qoq, +18.5% yoy)
- **Asset quality has weakened considerably with NPL's rising to 2% from 1.6% at the end of 2009** – Provisioning charge of AED 493mm in Q1 translates to a 0.53% cost of risk charge vs. 0.78% in Q4 and 0.33% in Q109. We estimate an additional AED 470mm in non-performing loans in Q1 alone (49% of new NPL's in all of 2009). The resulting coverage ratio has weakened slightly to 158%, but note that the impact of 90-day rule for NPL recognition currently being considered by the Central Bank could raise the effective NPL to an estimated 3.1% and the coverage ratio dropping to 100% (notably only ADCB, ADIB and DIB have weaker NPL ratios)
- Q1 results were evidence of solid revenue growth tempered by the asset quality issues plaguing the sector. **Interest income has grown for 11 straight quarters on the back of robust loan growth supported by even stronger deposit growth (+11.5% yoy and +18.1%, respectively).** The bank has also been able to maintain margins higher than most peers at 3.63% for the quarter. While asset quality has weakened faster than our expectation, the balance sheet is still growing, margins are stable, operating costs remain under check and the capital base is extremely strong (CAR of 22.6%). In addition balance leverage with A/E of 6x is the lowest in our coverage leaving more room for growth. **We reiterate our Outperform rating on the stock with a TP of AED 20.4 (upside of 7%).** The stock currently trades at a 2010E P/B and P/E of 1.1x and 6.5x, respectively (vs. a sector average of 0.78x and 6.4x)

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

First Gulf Bank (AED Millions)	1Q09	4Q09	1Q10A	qoq	yoy
Net Interest Income	875	1016	1,037	2.1%	18.5%
Non-Interest Income	443	829	622	-24.9%	40.5%
Total Income	1318	1845	1,659	-10.1%	25.9%
Non-Interest Expense	(293)	(283)	(246)	-12.9%	-16.0%
Provisions	(275)	(705)	(493)	-30.1%	79.3%
Net Profit	751	853	920	7.9%	22.5%
Net Loans	83,640	90,386	93,257	3.2%	11.5%
Total Assets	109,417	125,473	132,772	5.8%	21.3%
Customer Deposit	75,744	86,422	89,432	3.5%	18.1%
Loans/Deposits	110%	104.6%	104.3%	-0.3%	-6.1%
Efficiency Ratio	-22.2%	-15.3%	-14.8%	0.5%	7.4%
NIM	3.56%	3.57%	3.63%	0.1%	0.1%
NPL	0.70%	1.60%	2.0%	0.4%	1.3%
Coverage Ratio	225%	174.0%	158.0%	-16.0%	-67.3%

**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 Samarrai	+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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