



Results Review

NBAD

ST Rating: Market Perform

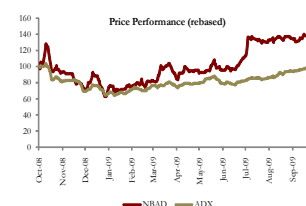
LT Rating: Outperform

NBAD – 3Q09 results review

- NBAD reported solid 3Q09 net profit of AED 914mm (40.5% yoy, +0.8% qoq) beating market consensus of AED 817mm. **The bank recorded its highest quarterly revenue ever of AED 1.7bn**, helped by continued growth in interest income and also stabilization in the non funded business. While loans have grown by 14.7% since the end of 2008, YTD revenues in 2009 grew by 21.3% helped primarily by a 36.7% rise in interest income. The bank was able to expand 2009 ytd margins to 2.77%, compared to 2.61% in 2008.
- **Loan base expanding albeit slower than Q2** – The loan book grew by AED 3.9bn in Q3 (+3.2%qoq) versus the AED 8.4bn growth seen in 2Q. The big surprise was in the customer deposit base shrinking by AED 1.1bn, but this was expected following the stronger than estimated growth in 2Q09 of AED 13.8bn. Net-net, the loans/deposit ratio weakened to 116%, but is less concerning in light of the recent 5-year MTN note of \$850 mm at 4.5% fixed and another MTN in the amount of \$132mm to meet funding requirements.
- **Provisioning levels maintained as NPL's rise slightly** – Q309 provisions were flat qoq at AED284mm, but up by 59% yoy. While absolute NPL's rose markedly by AED218mm in Q3 vs. AED 76mm in Q2, the NPL ratio only rose to 1.2% from 1.06%. We estimate loan loss coverage ratio dropped slightly to a still healthy 146.3%. The bank had previously disclosed minimal Saad and Gosabi exposures totaling USD 10.9mm.
- **Costs up but manageable with revenue growth** – The bank continued investment in people, network and infrastructure recording a AED 56mm cost increase (+35% yoy, +13%qoq). The cost efficiency ratio weakened to 28.8% from 26.5% in Q2, but is still in line with the banks guideline of 30% and below.
- NBAD continues its prudent provisioning level and together with improvements in the revenue base, is in-line to handsomely beat our full year net income forecast of AED 2.9bn. Our expectation of rise in NPL's has not materialized but we believe the threat looms. The stock has risen 71% ytd vs. 32% for the ADX and currently trades at a P/B of 1.5x, a significant premium to other UAE banks. Some of the premium is deserved considering **higher margins, revenue expansion, balanced business profile and the strong capital base**. We maintain our LT 'Outperform' rating on the stock and will look to revising estimates once full financials are available.

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Equity Data	
Current Price (AED)	13.90
Target Price (AED)	11.60
Upside/downside	-17%
Short-Term Rating	Market Perform
Long-Term Rating	Outperform
YTD Performance	70.8%
52-Week Range (AED)	6.3-14.5
Market Cap. (AED bn.)	30.2
RIC	NBAD.AD
Bloomberg	NBAD UH



AED Millions, except per share data	3Q08	2Q09	3Q09	yoy	qoq
Net Interest Income	845	1066	1181	39.7%	10.8%
Non-Interest Income	368	583	528	43.4%	-9.5%
Total Income	1213	1649	1708	40.8%	3.6%
Non-Interest Expense	(364)	(436)	(493)	35.2%	12.9%
Provisions	(178)	(286)	(284)	59.4%	-0.5%
Net Profit	651	907	914	40.5%	0.8%
Net Loans	112,536	124,250	128,194	13.9%	3.2%
Total Assets	159,647	181,029	185,566	16.2%	2.5%
Customer Deposit	97,234	111,674	110,488	13.6%	-1.1%
Loans/Deposits	116%	111%	116%		
Efficiency Ratio	-30.0%	-26.5%	-28.8%		

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