



Results Review

National Bank of Abu Dhabi – 2009 Results Review

NBAD

ST Rating: Outperform

LT Rating: Outperform

Target Price – AED 16.9

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- NBAD reported FY 2009 net income of AED 3.0bn (flat compared to 2008). Revenues in Q409 of AED 1.6bn were in line with our expectations but the Q4 provisions of AED 623mm were more than double our expectations. **While FY 09 revenues grew by 21% on the back of healthy growth in the balance sheet (loans and deposit growth of 18.3% and 17.1%, respectively) and margin expansion (2.80% from 2.61%), the banks results were impacted by continued buildup in loan loss reserves.**
- The bank has manageable level of lending to Saad/Gosabi (\$8.7mm) and Dubai World (\$345 mm), so the increase in provisions is primarily due to other domestic lending which is heavily weighted towards the real estate and construction sectors. While we continue to see strong balance sheet and revenue growth, **the higher level of provisioning points to potential asset quality issues in 2010** due to continued weakness in the general economy.
- **Asset quality weakens marginally** - NPL's rose to 1.25% (from 0.93% at the end of 2008) of the loan book and absolute growth in NPL's in Q409 of AED 146mm was slightly below average NPLs growth from Q1-Q3 of AED 156mm per quarter. Coverage ratio also improved to 158% from 149% at the end of 2008.
- **Average quarterly revenues in 2009 were AED 1.6bn vs. AED 1.3bn in 2008 (a growth rate of 21%), primarily due to strength in interest income.** While non-interest income weakened in Q4 due to investment losses, full year gains on investments of AED 161mm was a strong reversal from a loss of AED 199mm in 2008. Fee and commission income continues to be steady yoy along with foreign exchange gains.
- **Non-Interest expenses escalated in 2009 by 27% to AED 1.9bn**, probably to support growth in the balance sheet and also due to international expansion into Hong Kong + Jordan and the UAE. Cost efficiency ratio has risen to 29.7% vs. 28.2% at the end of 2008, compared to a sector average of 28.1%.
- NBAD trades at 2010E P/B of 1.05x vs. a sector average of 0.75x, a premium we believe is deserved with **CAR of 17.4% (lifts to 22-23% after conversion of MOF deposits of AED 5.6bn), stronger coverage ratio compared to the sector, potential growth of government lending, robust balance sheet and revenue growth and a sector high ROE of 17.4%** (equity includes Tier I capital injection of AED 4bn). We reiterate our Outperform rating on the stock with a TP of AED 16.9 (upside of 47%).

National Bank Of Abu Dhabi							4Q		
(AED Millions)	4Q08	3Q09	4Q09	2008	2009	yoy	yoy	qoq	
Net Interest Income	1,162	1,181	1,228	3,608	4,571	26.7%	5.6%	4.0%	
Non-Interest Income	186	528	376	1,694	1,828	7.9%	102.3%	-28.8%	
Total Income	1,348	1,708	1,604	5,301	6,399	20.7%	19.0%	-6.1%	
Non-Interest Expense	(444)	(493)	(534)	(1,493)	(1,898)	27.1%	20.3%	8.4%	
Provisions	(394)	(284)	(623)	(717)	(1,407)	96.3%	58.2%	119.0%	
Net Profit	492	914	429	3,019	3,020	0.0%	-12.9%	-53.1%	
Investments	16,278	16,144	18,954	16,278	18,954	16.4%	16.4%	17.4%	
Net Loans	111,764	128,194	132,258	111,764	132,258	18.3%	18.3%	3.2%	
Total Assets	164,654	185,566	196,845	164,654	196,845	19.6%	19.6%	6.1%	
Customer Deposit	103,481	110,488	121,205	103,481	121,205	17.1%	17.1%	9.7%	
Loans/Deposits	108%	116%	109.1%	108.0%	109.1%	1.0%	1.0%	-6.0%	
Efficiency Ratio	-32.9%	-28.8%	-33.3%	-28.2%	-29.7%	5.3%	1.1%	15.5%	
NIM	3.18%	2.75%	2.77%	2.61%	2.80%	0.19%	-0.41%	0.02%	
NPL	0.93%	1.16%	1.24%	0.93%	1.24%	0.31%	0.31%	0.07%	
Coverage Ratio	145%	146%	158%	145%	158%	13.4%	13.4%	11.8%	


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