



Results Review

NBAD

Rating: Outperform

National Bank of Abu Dhabi - 1Q 2010

Investment portfolio recovery leads revenues higher as asset quality concerns ease

- NBAD reported Q1 net income of AED 1.03bn (+34% yoy, +140% qoq), on the back of **strong revenue gains, as assets crossed the AED 200bn mark**. Non-interest income rose to AED 533mm (+56% yoy, +42% qoq) for the quarter, 17% higher than last year's avg quarterly number due to a AED 152mm swing in investment and revaluation gains and recovery in foreign exchange gains.
- Loans and deposit growth remains lethargic in Q1 - loans +1% qoq, and deposits -0.75% on an adjusted basis (AED 5.6bn in MOF deposits converted to Tier II capital). Interest income (70% of revenue base) grew by 1% qoq, so **slowdown in lending could continue to impact revenues negatively in future quarters**. CEO guiding to 5-10% loan growth for the year vs. 18% in 2009.
- Asset quality remains best in the sector with NPL weakening by a mere 6bp over the quarter to 1.3%. Absolute NPL growth in Q1 of 91mm vs. 615mm in FY 2009. Impairment charges at 17bp in Q1 2010 vs. 18bp in Q109 and a quarterly average of 28bp in 2009 - could indicate a peak in NPL cycle. NPL breakdown is 65% corporate and 35% retail which represent 42% and 19% of the loan book.
- Coverage ratio has improved to 161% with collective provisions already at CB proposed level of 1.25%. **CRO expects NPL's to rise to 2% by year end and based on current provision level and an estimated conservative loan growth of 10%, coverage ratio still at a respectable 96% even if no more provisions in 2010**. Both Saad/Gosabi (\$10.9mm) and Dubai World subsidiaries (\$239 mm) exposures are manageable for balance sheet size.
- We estimate annualized NIM (based on interest earning assets) at 2.7%, slightly weaker than 2.8% in 2009. **ROE is close to sector high at 19.6%, including the AED 4bn equity injection from Abu Dhabi in the denominator**. While absolute non-interest costs are up 13% yoy, the cost/Income ratio has improved to 27.9% thanks to strong revenue growth (29.7% in 2009)
- Loan growth should return as Abu Dhabi government spending rises, albeit margins may be impacted. Low balance sheet leverage of 7.4x and ability to raise funds at attractive rate (4.25% for 5-year paper in Q1), leaves room for growth even though (as reported) L/D now at 116%. Story for UAE banks this year should be how well they handle NPL's and has provisioning peaked. **NBAD seems to be the first to be coming out of provisioning cycle**. Robust ROE and strong asset quality justifies highest 2010e P/B in our coverage universe of 1.2x vs. 0.8x for the sector. **Maintain 'Outperform', TP 16.9** (upside of 41%).

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National Bank Of Abu Dhabi (AED Millions)	1Q09	4Q09	1Q10A	qoq	yoy
Net Interest Income	1,097	1,228	1,239	0.9%	13.0%
Non-Interest Income	341	376	533	41.9%	56.1%
Total Income	1,438	1,604	1,772	10.5%	23.2%
Non-Interest Expense	(435)	(534)	(494)	-7.5%	13.5%
Provisions	(214)	(623)	(225)	-63.9%	5.1%
Net Profit	770	429	1,031	140.6%	33.8%
Net Loans	115,872	132,258	133,612	1.0%	15.3%
Total Assets	161,135	196,845	200,837	2.0%	24.6%
Customer Deposit	97,868	121,205	114,719	-5.4%	17.2%
Loans/Deposits	118%	109.1%	116.5%	6.7%	-1.6%
Efficiency Ratio	-30.3%	-33.3%	-27.9%	-16.3%	-7.9%
NIM	2.96%	2.77%	2.72%	-1.7%	-8.3%
NPL	1.04%	1.24%	1.30%	5.1%	24.7%
Coverage Ratio	140%	158%	161%	1.9%	14.7%



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