



## Forecast Update

## NBAD

ST Rating: Outperform

LT Rating: Outperform

New TP – AED 16.9

Old TP – AED 11.6

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*National Bank of Abu Dhabi – raise TP to AED 16.9 and maintain rating at Outperform.*

- We revise our balance sheet and income forecasts for the forecast period 2009-14. NBAD continues to show a **consistent revenue generating engine backed by strong asset quality**. The bank recorded its highest quarterly revenue of AED1.7bn in Q309, supported by both the funded and unfunded business lines. In addition, margins have expanded to 2.75% in Q309 from 2.61% in 2008.
- NBAD has shown the ability to tap credit markets (launching a \$5mm ETMN, has enjoyed **the slowest growth in NPL's in our UAE coverage** with minimum Saudi exposure and continues steady provisioning. The bank continues to invest in people, networks and infrastructure recording cost increases, but these seem at a manageable level with cost efficiency at 28.8% at the end of Q3 rising from 26.5% in 2008
- Our **primary areas of concern are the exposure to real estate and construction sector** (representing 21% of the loan book at end of 2008), and the pace of growth in exposure to those two areas (+79% from 2007-2008). YTD loan growth has outpaced deposit growth – rising 14.7% vs. 6.8%, respectively while sector-wide growth has been 2.7% and 5.9%, respectively. In addition, the **stable but low margin government and public sector loans make up approximately one-third of the loan portfolio**. We believe this along with increased competition in 2010 and onwards will result in lower margins.
- NBAD shares have risen by 60% ytd, and currently trade at a 2010eP/B of 1.2x (a to sector avg. of 0.7x). We believe this premium is justified as NBAD will benefit from increased government spending (08 government and public sector loans – 35% of loan book and 63% of deposits). Furthermore, the bank is well capitalized has manageable NPL's and reserves along with the highest ROE in our UAE coverage. **We are raising our TP to AED 16.9 (30% upside) based on our revised forecasts and upgrade our ST rating while maintaining LT rating of 'Outperform'.**
- Detailed below are the particular changes made for '09 and '10 with the rest of the changes feeding through into our detailed 5 year numbers. –
  1. **Strong loan growth in '09 not supported by deposit growth** - While sector loan and deposit growth ytd has been muted at 2.7% and 5.9%, NBAD has been able to grow its loan book by AED16.4bn in the first three quarters of 2009. Loans and deposit growth in the first three quarters was 14.7% and 6.8%, respectively vs. our previous full year expectations of 12% and 11%. We increase our loan growth estimates to 18% for 2009 and 16% in 2010, with the changes in outer years increasing the 5-year CAGR to 13% from 8% previously. In addition, we are updating the adjusted (for MOF deposits converted to Tier II) deposit growth for 2009 and 2010 to 9% and 16% respectively, changing the adjusted 5-year CAGR to 9.7% from 8.3% previously. Adjustment is made for conversion of Ministry of Finance deposits (AED 5.6bn) to tier II capital to be completed by the end of 2009.
  2. **Stronger revenues** – With a growing loan book and expanding margins in 2009, NBAD has succeeded in growing three quarter



interest income by 36% in 2009 vs. 2008. Although we believe margins will be impacted going forward (competition, loan mix, higher funding costs as old borrowing programs mature), the stable margins and growth in loan book will continue to contribute strongly to the bottom line. At the same time, non-interest income is averaging around AED500mn a quarter on the back of stabilizing fee income and foreign exchange trading gains. Also, the investment portfolio is now in strong positive territory after the corrections seen in Q408 and Q109.

3. **Increasing Provisioning** – While margin expansion is helping the bottom line, we were too conservative in our estimates of provisions in 2009. We had assumed AED 698mm in provisions for 2009, but the provisioning activity through Q309 has already been AED 784mm. We increase our provisions to AED 1.0bn for 2009 and AED 821mm in 2010 trailing off from that point. We update our NPL estimate for 2009 slightly to 1.3% with a bigger adjustment to 1.85% in 2010. We believe NPL's will peak in late 2010 to early 2011 and trail off from there. We increase our provisioning levels to maintain a loss coverage ratio averaging 140% over our forecast period.
4. We reflect the impact to the major balance sheet and income statement items below :

National Bank Of Abu Dhabi (AED Millions)	2009E			2010E		
	Old	New	Change	Old	New	Change
Net Interest Income	3,820	4,424	16%	4,113	5,018	22%
Non-Interest Income	1,457	2,001	37%	1,623	2,051	26%
Total Income	5,276	6,425	22%	5,736	7,069	23%
Non-Interest Expense	(1,612)	(1,813)	12%	(1,747)	(1,991)	14%
Provisions	(698)	(1,058)	52%	(622)	(838)	35%
Net Profit	2,892	3,465	20%	3,283	4,134	26%
Adjusted EPS	1.33	1.59	20%	1.51	1.90	26%
Investments	15,953	18,232	14%	16,591	19,690	19%
Net Loans	124,921	131,781	5%	139,808	155,216	11%
Total Assets	177,018	184,943	4%	192,526	211,580	10%
Customer Deposit	114,438	112,886	-1%	128,171	130,948	2%
Loans/Deposits	109%	117%	8%	109%	119%	9%
Efficiency Ratio	31%	28%	-2%	30%	28%	-2%
NIM	2.51%	2.76%	0.26%	2.49%	2.69%	0.20%
NPL	1.24%	1.30%	0.06%	1.34%	1.85%	0.51%
Coverage Ratio	140%	146%	6%	144%	112%	-31%
Loan Growth	12%	18%	6%	12%	18%	6%
Deposit Growth	11%	9%	-1%	12%	16%	4%

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