

Emirates NBD (ENBD)

Favorable loan & deposit mix and higher interest boosted profitability

4Q22 Net Profit beats our estimates

Emirates NBD's (ENBD/the Bank) net profit almost doubled from AED 2,012 Mn in 4Q21 to AED 3,929 Mn in 4Q22, slightly above our estimate of AED 3,818 Mn. The increase in net profit is mainly attributable to strong growth in net funded income and a decline in impairments partially offset by a rise in operating expenses and tax expenses.

P&L Highlights

ENBD's funded income rose significantly from AED 6,555 Mn in 4Q21 to AED 11,534 Mn in 4Q22 driven by higher asset yield, favourable loan and deposit mix, and robust performance from DenizBank. Similarly, funded expense witnessed a sharp rise from AED 2,226 Mn in 4Q21 to AED 3,836 Mn in 4Q22 due to higher cost of funds. Thus, the Bank's net funded income rose 77.8% YOY to AED 7,698 Mn in 4Q22. NIMs rose from 3.34% in 3Q22 to 4.11% in 4Q22 due to higher benchmark rates feeding to margins. Fees and commission income grew 27.3% YOY to AED 1,020 Mn in 4Q22 due to solid growth in domestic and international retail card business of ENBD and DenizBank coupled with strong income from investment banking activity. Trading income rose from AED 13 Mn in 4Q21 to AED 55 Mn in 4Q22. Other operating income declined 24.5% YOY to AED 1,041 Mn in 4Q22 attributable to low property gains. Thus, non-funded income declined 3.5% YOY to AED 2,116 Mn in 4Q22. As a result, total operating income recorded a strong growth of 50.5% YOY to AED 9,814 Mn in 4Q22. Furthermore, operating expenses rose significantly 25.8% YOY to AED 2,858 Mn in 4Q22 mainly driven by higher staff costs attributable to the payment of incentives, international hiring, and a rise in other costs due to campaigns and professional fees. Impairments declined 11.6% YOY to AED 1,926 Mn in 4Q22 mainly due to improvement in economic environment. Tax expense increased significantly from AED 54 Mn in 4Q21 to AED 433 Mn in 4Q22 in line with rise in profitability. In addition, the Bank recorded hyperinflation adjustments worth AED 550 Mn relating to its subsidiary DenizBank due to the hyperinflation in Turkey. This adjustment is offset by a corresponding credit to other comprehensive income making it capital neutral.

Balance Sheet Highlights

ENBD's net advances declined 1.3% to AED 417 Bn in 2022 whereas the loan-to-deposit ratio declined from 92.5% in 2021 to 82.8% in 2022. Total assets rose 7.9% to AED 742 Bn in 2022. Furthermore, Customer deposits increased significantly 10.2% to AED 503 Bn in 2022 whereas ENBD's CASA deposits rose by AED 20 Bn constituting 60% of total deposits. ENBD's subsidiary DenizBank's deposits increased 18.8% to AED 82 Bn in 2022. Total equity rose 13.0% to AED 84 Bn in 2022.

Target Price and Rating

We maintain our BUY rating on Emirates NBD with a revised target price of AED 19.00. ENBD recorded strong growth in net profit of 39.8% YOY to AED 3,929 Mn in 4Q22 due to the positively geared balance sheet with an improved deposit mix. The Bank is expected to record mid-single growth in advances in 2023 continuing its growth momentum in 2022. ENBD's robust digital infrastructure will

Rating : BUY

First Look Note – 4Q22

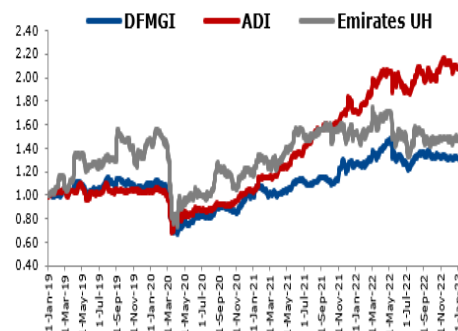
Sector: Banking

Recommendation

| | |
|--------------------------|--------|
| Current Price (1-Feb-23) | 13.00 |
| Target Price (AED) | 19.00 |
| Upside/Downside (%) | +46.2% |

Stock Information

| | |
|---------------------------|------------|
| Market Cap (mm) | 83,694.93 |
| Paid Up Capital (mm) | 6,316.60 |
| 52 Week High | 15.50 |
| 52 Week Low | 11.80 |
| 3M Avg. daily value (AED) | 24,671,090 |



Financial Ratios

| | |
|--------------------------|-------|
| Dividend Yield (12m) | 3.85 |
| Dividend Pay-out (%) | 30.34 |
| Price-Earnings Ratio (x) | 6.13 |
| Price-to-Book Ratio (x) | 0.98 |
| Book Value (AED) | 13.31 |
| Return-on Equity (%) | 16.96 |
| Earning Per Share (AED) | 2.12 |
| Beta | 1.05 |

Stock Performance

| | |
|-----------------------|--------|
| 5 Days | 2.32% |
| 1 Months | 1.92% |
| 3 Months | 0.00% |
| 6 Months | -6.03% |
| 1 Year | 0.76% |
| Month to Date (MTD) | 1.92% |
| Quarter to Date (QTD) | 1.92% |
| Year to Date (YTD) | 1.92% |

further enhance the Bank's efficiency in the forthcoming period. The Bank rolled out its new mobile banking app "ENBD X" which will not only increase its product offering but also create new revenue streams and enable cost savings. The Bank's NPL ratio moderated to 6.0% in 4Q22 as compared to 5.8% in 3Q22 with a coverage ratio of 144.6% in 4Q22 compared to 142.6% in 3Q22 providing a strong buffer against NPLs. Stage 2 loans also moderated from 6.5% in 3Q22 to 6.4% in 4Q22 indicating improvement in credit risk. It is further expected to record an increase in NIMs supported by favorable deposit mix. ENBD's CASA deposits rose AED 20 Bn in 2022 whereas its subsidiary DenizBank recorded 19% YOY growth in deposits. Improvement in the deposit mix and a high CASA ratio enhanced the Bank's NIMs. ENBD's NIMs improved 77 bps QOQ to 4.1% in 4Q22 driven by high-interest rates and improved margins of DenizBank while the bank expects its NIMs to stay between 3.8% to 4.0% in 2023. In addition, the Bank issued AED 1 Bn 3-year public bond in January 2023. The liquidity stood strong with a liquidity coverage ratio of 182% and advances to deposits ratio of 82% in 2022 with enough room for credit growth. The Bank's capitalization stood strong with a CET 1 ratio of 15.4% and a total capital adequacy ratio of 18.3% in 2022. Thus, looking at these positives, we maintain our BUY rating on the stock.

ENBD- Relative valuation

| (at CMP) | 2018 | 2019 | 2020 | 2021 | 2022 | 2023F |
|----------------|------|------|-------|------|------|-------|
| PE | 7.73 | 7.82 | 13.15 | 9.53 | 6.64 | 5.72 |
| PB | 1.52 | 1.15 | 1.12 | 1.12 | 0.99 | 0.88 |
| Dividend Yield | 3.0% | 3.0% | 3.0% | 3.8% | 4.6% | 4.6% |

FABS Estimates & Co Data

ENBD- P&L

| AED mm | 4Q21 | 3Q22 | 4Q22 | 4Q22F | Var. | YOY Ch | QOQ Ch | 2021 | 2022 | Change |
|--|--------------|--------------|--------------|--------------|--------------|---------------|---------------|---------------|---------------|--------------|
| Funded income | 6,555 | 9,192 | 11,534 | 9,420 | 22.4% | 76.0% | 25.5% | 26,486 | 34,839 | 31.5% |
| Funded expense | -2,226 | -3,109 | -3,836 | -3,285 | 16.8% | 72.3% | 23.4% | -9,561 | -11,616 | 21.5% |
| Net funded income | 4,329 | 6,083 | 7,698 | 6,135 | 25.5% | 77.8% | 26.5% | 16,925 | 23,222 | 37.2% |
| Fees and comm. | 801 | 1,062 | 1,020 | 956 | 6.7% | 27.3% | -4.0% | 3,836 | 4,081 | 6.4% |
| Trading gain/(loss) | 13 | -45 | 55 | -43 | NM | 333.7% | -221.2% | 151 | 52 | -65.3% |
| Operating Income | 1,379 | 1,388 | 1,041 | 1,241 | -16.1% | -24.5% | -25.0% | 2,910 | 5,152 | 77.0% |
| Non-funded income | 2,193 | 2,404 | 2,116 | 2,154 | -1.7% | -3.5% | -12.0% | 6,897 | 9,285 | 34.6% |
| Operating income | 6,521 | 8,488 | 9,814 | 8,288 | 18.4% | 50.5% | 15.6% | 23,822 | 32,507 | 36.5% |
| Operating expenses | -2,272 | -2,327 | -2,858 | -2,404 | 18.9% | 25.8% | 22.8% | -7,992 | -9,255 | 15.8% |
| Pre-provision profit | 4,249 | 6,161 | 6,957 | 5,885 | 18.2% | 63.7% | 12.9% | 15,830 | 23,252 | 46.9% |
| Impairment | -2,179 | -1,377 | -1,926 | -1,378 | 39.8% | -11.6% | 39.9% | -5,899 | -5,184 | -12.1% |
| PBT | 2,070 | 4,784 | 5,031 | 4,507 | 11.6% | 143.0% | 5.2% | 9,910 | 18,068 | 82.3% |
| Tax | -54 | -466 | -433 | -135 | 219.9% | 696.6% | -7.1% | -604 | -1,964 | 225.0% |
| Net profit | 2,016 | 4,318 | 4,598 | 4,372 | 5.2% | 128.1% | 6.5% | 9,306 | 16,105 | 73.1% |
| Hyperinflation | 0 | -538 | -687 | -550 | 24.9% | NM | 27.7% | 0 | -3,095 | NM |
| Net Profit adj for hyperinflation | 2,016 | 3,780 | 3,911 | 3,822 | 2.3% | 94.0% | 3.5% | 9,306 | 13,010 | 39.8% |
| NCI | -4 | -4 | 18 | -4 | NM | NM | NM | -8 | -7 | -16.3% |
| Net Profit | 2,012 | 3,776 | 3,929 | 3,818 | 2.9% | 95.3% | 4.0% | 9,298 | 13,003 | 39.8% |

FABS Estimates & Co Data

ENBD– Margins

| | 4Q21 | 3Q22 | 4Q22 | YOY | QOQ | 2021 | 2022 | Change |
|---------------------|-------|-------|-------|--------|------|-------|-------|--------|
| Net FI/OI | 66.4% | 71.7% | 78.4% | 1,206 | 677 | 71.0% | 71.4% | 39 |
| NIM | 2.4% | 3.3% | 4.1% | 171 | 77 | 2.5% | 3.4% | 90 |
| NIS | 2.1% | 2.9% | 3.5% | 145 | 66 | 2.2% | 3.1% | 87 |
| Fees & comms/OI | 12.3% | 12.5% | 10.4% | -190 | -212 | 16.1% | 12.6% | -355 |
| Other non-funded/OI | 21.1% | 16.3% | 10.6% | -1,053 | -574 | 12.2% | 15.8% | 363 |
| Trading/OI | 0.2% | -0.5% | 0.6% | 37 | 110 | 0.6% | 0.2% | -47 |
| Cost to income | 34.8% | 27.4% | 29.1% | -572 | 170 | 33.5% | 28.5% | -508 |
| Impairment/PPP | 51.3% | 22.3% | 27.7% | -2,359 | 534 | 37.3% | 22.3% | -1,497 |
| Tax/PBT | 2.6% | 9.7% | 8.6% | 597 | -114 | 6.1% | 10.9% | 477 |
| NP/OI | 30.8% | 44.5% | 40.0% | 918 | -446 | 39.0% | 40.0% | 97 |
| ROAE | 12.3% | 14.2% | 15.9% | 356 | 166 | 12.5% | 16.4% | 390 |
| ROAA | 1.3% | 1.5% | 1.8% | 44 | 23 | 1.3% | 1.8% | 48 |

FABS Estimates & Co Data

ENBD- Key BS Items

| AED mm | 4Q21 | 1Q22 | 2Q22 | 3Q22 | 4Q22 | YOY |
|-------------------|---------|---------|---------|---------|---------|-------|
| Net advances | 422,272 | 425,351 | 424,987 | 419,063 | 416,604 | -1.3% |
| QOQ Change | -3.7% | 0.7% | -0.1% | -1.4% | -0.6% | |
| Total assets | 687,437 | 694,035 | 710,640 | 720,523 | 741,962 | 7.9% |
| QOQ Change | -1.7% | 1.0% | 2.4% | 1.4% | 3.0% | |
| Customer deposits | 456,484 | 468,974 | 467,877 | 480,835 | 502,953 | 10.2% |
| QOQ Change | -2.1% | 2.7% | -0.2% | 2.8% | 4.6% | |
| Total equity | 74,391 | 72,464 | 76,189 | 79,424 | 84,070 | 13.0% |
| QOQ Change | -2.4% | -2.6% | 5.1% | 4.2% | 5.8% | |

FABS estimate & Co Data

Research Rating Methodology:

| Rating | Upside/Downside potential |
|------------|---------------------------|
| BUY | Higher than +15% |
| ACCUMULATE | Between +10% to +15% |
| HOLD | Lower than +10% to -5% |
| REDUCE | Between -5% to -15% |
| SELL | Lower than -15% |

FAB Securities Contacts:
Research Analysts

Ahmad Banihani +971-2-6161629 ahmad.banihani@Bankfab.com

Sales & Execution

Abu Dhabi Head Office

Trading Desk +971-2-6161700/1 [Online Trading Link](#)
 +971-2-6161777

Institutional Desk +971-4-4245765

Sales and Marketing +971-2-6161703

DISCLAIMER

This report has been prepared by FAB Securities (FABS), which is authorised by the UAE Securities and Commodities Authority, licensing registration number 604002, and is a member of the Abu Dhabi Securities Exchange and Dubai Financial Market. The information, opinions and materials contained in this report are provided for information purposes only and are not to be used, construed, or considered as an offer or the solicitation of an offer or recommendation to sell or to buy or to subscribe for any investment security or other financial instrument. The information, opinions and material in this report have been obtained and derived from publicly available information and other sources considered reliable without being independently verified for their accuracy or completeness. FABS gives no representation or warranty, express or implied, as to the accuracy and completeness of information and opinions expressed in this report. Opinions expressed are current as of the original publication date appearing on the report only and the information, including the opinions contained herein, are subject to change without notice. FABS is under no obligation to update this report. The investments referred to in this report might not be suitable for all recipients. Recipients should not base their investment decisions on this report and should make their own investigations, and obtain independent advice, as appropriate. Any loss or other consequences arising from the uses of material contained in this report shall be the sole and exclusive responsibility of the recipient and FABS accepts no liability for any such loss or consequence. The value of any investment could fall as well as rise and the investor may receive less than the original amount invested. Some investments mentioned in this report might not be liquid investments, which could be difficult to realise in cash. Some investments discussed in this report could be characterised by high level of volatility, which might result in loss. FABS owns the intellectual property rights and any other material contained in this report. No part of this report may be reproduced, utilised or modified in any form either in whole or in part or by any electronic, mechanical or other means, now known or hereafter invented, including photocopying and recording, or stored in any retrieval system without the prior consent of FABS in writing. While utmost care has been taken to ensure that the information provided is accurate and correct, neither FABS, nor its employees shall, in any way, be responsible for the contents. By accepting this document, the recipient agrees he/she has read the above disclaimer and to be bound by the foregoing limitations/restrictions.

FAB Securities Awards



Best Brokerage House
in UAE 2016 & 2017
by "Banker Middle East"



Best Brokerage House in UAE
2016, 2017, 2019 and 2020
by "IFA"



Best Brokerage in the UAE
2016 By "Global Investor/
ISF ME Awards"



Best Research House
in UAE 2016 and 2020
by "IFA"



Best New Mobile Application
in UAE 2016
by "IFA"



Best Equity Finance Company
in UAE 2016
by "IFA"