Flashnote

Emirates NBD

Banks | UAE

MENA Research

Well Capitalized to Take on Two Banks, Reiterate Overweight

- **ENBD's (unleveraged) Tier 1 ratio falls only to 9.7% in the worst case upon acquiring Dubai Bank and Amlak even if paid in cash**
- **Assuming ENBD executes the deals at a 0.5x PB multiple, our TP would drop only 11% even after taking into account substantial write downs (15% of loan book and 50% of real estate investments)**
- **We reiterate our Overweight rating on the stock as a potential new TP would still offer a substantial potential return of 61%–72%**

M&A Speculation: After DIB increased its stake in Tamweel, the market was rife with speculation on Bloomberg and Reuters about ENBD acquiring Amlak and Dubai Bank. In our view, it does not appear to make business sense nor is it a strategic fit for ENBD as it would rather expand outside Dubai. However, given that Investment Corporation of Dubai has a higher ownership in ENBD (55.6%) than in DIB (30.5%), we feel it is worth looking at the impact.

Tier 1 ratio falls 2.8% at most if paid in cash: Although the deals do not support ENBD strategically and financially, the bank is well placed to absorb the acquisitions. We have looked at the impact based on conservative assumptions: we write off 15% of Amlak and Dubai Bank's loan books and 50% of Amlak's real estate property book, which is not carried at fair value. We also look at three scenarios: (1) ENBD paying nothing for the two acquisitions; (2) Transactions being priced at 0.2x book value (in cash); and (3) Transactions being priced at 0.5x BV (in cash). ENBD's Tier I ratio falls to 10.4% from 12.5% under the first scenario and to 9.7% under the last scenario – still at comfortable levels (see page 2).

Limited impact on valuation (5%–11%): Our TP falls only 5% to AED4.93 if ENBD gets both the banks for free. If the bank pays 0.5x PB (highly unlikely and the worst case scenario) on these transactions, the TP falls 11% to AED4.61/share – still offering a 61% potential return.

We reiterate our Overweight rating as the downside potential stemming from write downs on the loan books and real estate investments of the two banks is well within comfortable levels supported by ENBD's capital base.

Key Indicators

	ENBD	Amlak	Dubai Bank	Consolidated
Loans (AED bn)	211.6	8.5	14.7	234.8
LD Ratio	107%		99%	110%
NPL Ratio	2.8%		5.3%	4.3%
Tier I Ratio	12.5%			10.4%
Total CAR	19.6%			16.7%

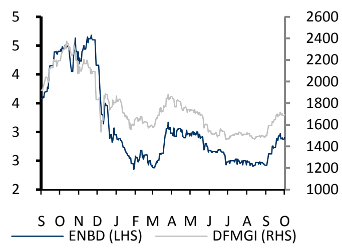
Source: Company data, HC estimates

Overweight

Target Price (AED)	**5.20**
Current Price (AED)	2.87
Potential Return	81%
Bloomberg	EMIRATES UH
Reuters	ENBD.DU
MCap (AEDm)	15,951
MCap (USDm)	4,343
Free Float	39%
Daily Volume (USDm)	0.3
Foreign Own. Limit	5.0%
Foreign Ownership	3.8%

Note: All prices as of 30 Sep

Price Performance



4 October 2010

Jaap Meijer, CFA
Senior Analyst
+971 4 293 5383
jaap.meijer@hc-si.com

Janany Vamadeva
Analyst
+971 4 293 5384
janany.vamadeva@hc-si.com

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Capital Impact of the Acquisitions

AEDm	If for Free		Price of 0.2x BV		Price of 0.5x BV	
	Tier I	**Total CAR**	**Tier I**	**Total CAR**	**Tier I**	**Total CAR**
Capital Adjustment for Amlak						
ENBD's Capital Base	26,972	42,364	26,972	42,364	26,972	42,364
Increase in Value from Acquisition						
If ENBD Pays Nothing	1,832	1,832				
Transaction Done at a 0.2x PB			1,466	1,466		
Transaction Done at a 0.5x PB					916	916
Capital Base Post Consolidation	***28,804***	***44,196***	***28,438***	***43,830***	***27,888***	***43,280***
ENBD's RWA	216,400	216,400	216,400	216,400	216,400	216,400
Amlak's RWA (est.)	*12,931*	*12,931*	*12,931*	*12,931*	*12,931*	*12,931*
ENBD + Amlak RWA	**229,331**	**229,331**	**229,331**	**229,331**	**229,331**	**229,331**
Write Down 15% of Amlak's Loan Book	(1,271)	(1,271)	(1,271)	(1,271)	(1,271)	(1,271)
Write Down 50% of Amlak's Invest. Property	(1,582)	(1,582)	(1,582)	(1,582)	(1,582)	(1,582)
Adjusted Capital	***25,951***	***41,343***	***25,585***	***40,977***	***25,035***	***40,427***
Adjusted Solvency Ratio (New)	**11.3%**	**18.0%**	**11.2%**	**17.9%**	**10.9%**	**17.6%**
ENBD's Standalone Solvency Ratio (Old)	*12.5%*	*19.6%*	*12.5%*	*19.6%*	*12.5%*	*19.6%*
Impact	*-1.2%*	*-1.6%*	*-1.3%*	*-1.7%*	*-1.6%*	*-2.0%*
Capital Adjustment for Dubai Bank						
ENBD's Capital Base	26,972	42,364	26,972	42,364	26,972	42,364
Increase in Value from Acquisition						
If ENBD Pays Nothing	1,726	1,726				
Transaction Done at a 0.2x PB			1,381	1,381		
Transaction Done at a 0.5x PB					863	863
Capital Base Post Consolidation	***28,698***	***44,090***	***28,353***	***43,745***	***27,835***	***43,227***
ENBD's RWA	216,400	216,400	216,400	216,400	216,400	216,400
DB's RWA (est.)	15,920	15,920	15,920	15,920	15,920	15,920
ENBD + DB RWA	**232,320**	**232,320**	**232,320**	**232,320**	**232,320**	**232,320**
Write Down 15% of DB's Loan Book	(2,211)	(2,211)	(2,211)	(2,211)	(2,211)	(2,211)
Adjusted Capital	***26,487***	***41,879***	***26,142***	***41,534***	***25,624***	***41,016***
Adjusted Solvency Ratio (New)	**11.4%**	**18.0%**	**11.3%**	**17.9%**	**11.0%**	**17.7%**
ENBD's Standalone Solvency Ratio (Old)	*12.5%*	*19.6%*	*12.5%*	*19.6%*	*12.5%*	*19.6%*
Impact	*-1.1%*	*-1.6%*	*-1.3%*	*-1.7%*	*-1.5%*	*1.9%*
Capital Adjustment for Amlak and DB						
ENBD's Capital Base	26,972	42,364	26,972	42,364	26,972	42,364
Increase in Value from Acquisition						
If ENBD Pays Nothing	3,558	3,558				
Transaction Done at a 0.2x PB			2,846	2,846	1,779	1,779
Transaction Done at a 0.5x PB						
Capital Base Post Consolidation	***30,530***	***30,530***	***29,818***	***45,210***	***28,751***	***44,143***
ENBD's RWA	216,400	216,400	216,400	216,400	216,400	216,400
Amlak +DB's RWA (est.)	28,851	28,851	28,851	28,851	28,851	28,851
ENBD + Amlak + DB RWA	**245,251**	**245,251**	**245,251**	**245,251**	**245,251**	**245,251**
Total Write Offs (15% Loans/ 50% Inv. Prop.)	(5,064)	(5,064)	(5,064)	(5,064)	(5,064)	(5,064)
Adjusted Capital	***25,466***	***40,858***	***24,754***	***40,146***	***23,687***	***39,079***
Adjusted Solvency Ratio (New)	**10.4%**	**16.7%**	**10.1%**	**16.4%**	**9.7%**	**15.9%**
ENBD's Standalone Solvency Ratio (Old)	*12.5%*	*19.6%*	*12.5%*	*19.6%*	*12.5%*	*19.6%*
Impact	*-2.1%*	*-2.9%*	*-2.4%*	*-3.2%*	*-2.8%*	*-3.7%*

Source: Company data, HC estimates

Valuation Impact of the Acquisitions

		If for Free	Price of 0.2x BV	Price of 0.5x BV
Fair Value of ENBD (Based on our TP of AED5.2/Share)	**28,900**			
BV of Amlak		1,832	1,466	916
BV of Dubai Bank		1,726	1,381	863
Total FV Before Write Off		32,458	31,747	30,679
Total		5,064	5,064	5,064
Adjusted FV		**27,394**	**26,683**	**25,616**
Potential New TP		**4.93**	**4.80**	**4.61**
Old TP		5.20	5.20	5.20
% Change		*-5%*	*-8%*	*-11%*
New Potential Return		72%	67%	61%
Old Potential Return		81%	81%	81%

Source: Company data, HC estimates

Rating Scale

Recommendation	Potential Return
Overweight	Greater than 20%
Neutral	0% to 20%
Underweight	Less than 0%

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Issuer of report:

HC Brokerage
Building F15-B224, Smart Village
KM28 Cairo-Alexandria Desert Road
6 October 12577, Egypt
Telephone: +202 3535 7666
Fax: +202 3535 7665
Website: www.hc-si.com

Alembic Global Advisors
780 Third Avenue, 8th Floor
New York, NY 10017
Telephone: +1 212 359 8292
Website: www.alembicglobal.com

US distributor of report:

Pulse Trading
2 Liberty Square, 2nd Floor
Boston, MA 02109
Telephone: +1 617 316 5620
Website: www.pulsetrading.com

Research		**research@hc-si.com**	
Karim Khadr	Head of Research (ME)/Telecoms	karim.khadr@hc-si.com	+971 4 293 5381
Sarah Shabayek	Telecoms	sarah.shabayek@hc-si.com	+20 2 3535 7366
Hassan Ahmed Registered with US-based broker dealer Pulse Trading Inc.	Head of Research (US)/Chemicals	hassan.ahmed@alembicglobal.com	+1 212 359 8291
Lovetesh Singh	Chemicals	lovetesh.singh@hc-si.com	+91 9772 755 777
Jaap Meijer	Financials	jaap.meijer@hc-si.com	+971 4 293 5383
Janany Vamadeva	Financials	janany.vamadeva@hc-si.com	+971 4 293 5384
Majed Azzam	Real Estate & Construction	majed.azzam@hc-si.com	+971 4 293 5385
Ankur Khetawat	Real Estate & Construction	ankur.khetawat@hc-si.com	+971 4 293 5387
Nermeen Abdel Gawad	Real Estate & Construction	nermeen.abdelgawad@hc-si.com	+20 2 3535 7362
Sapna Sharma	Real Estate & Construction	sapna.sharma@hc-si.com	+971 4 293 5382
Hatem Alaa, CFA	Diversified	hatem.alaa@hc-si.com	+20 2 3535 7354
Mennatallah El Hefnawy	Diversified	menna.elhefnawy@hc-si.com	+20 2 3535 7360
Mai Nehad	Diversified	mai.nehad@hc-si.com	+20 2 3535 7356
Tudor Allin-Khan, CFA	Chief Economist	tudor.allin-khan@hc-si.com	+971 4 293 5386
Amr Abdel Khalek	Economist	amr.abdelkhalek@hc-si.com	+20 2 3535 7368
Nadine Weheba	Economist	nadine.weheba@hc-si.com	+20 2 3535 7358
Rehaam Romero	Editor	rehaam.romero@hc-si.com	+20 2 3535 7364
Mohamed El Saiid, MFTA	Head of TA Research	msaeed@hc-si.com	+20 2 3535 7390
Wael Atta, CFTe	Senior Technical Analyst	wael.atta@hc-si.com	+971 4 293 5388
Sameh Khalil, CFTe	Technical Analyst	skhalil@hc-si.com	+20 2 3535 7392
Sales and Trading – Cairo, Egypt		**salesandtrading@hc-si.com**	
Shawkat El-Maraghy	Managing Director	selmaraghy@hc-si.com	+20 2 3535 7500
Mohamed Helmy	Sales	mohamed.helmy@hc-si.com	+20 2 3535 7502
Aboubakr Shaaban	Sales	aboubakr.shaaban@hc-si.com	+20 2 3535 7518
Hossam Wahid	Sales Trading	hwahid@hc-si.com	+20 2 3535 7522
Hassan Kenawi	Sales Trading	hkenawi@hc-si.com	+20 2 3535 7528
Nihal Hany	Sales Trading	nhany@hc-si.com	+20 2 3535 7532
Ahmed Nabil	Sales Trading	anabil@hc-si.com	+20 2 3535 7516
Sales and Trading – Dubai, UAE			
Hassan Aly Choucri	Managing Director/Sales Trading	hassan.choucri@hc-si.com	+971 4 293 5305
Nadia Kabbani	Sales	nadia.kabbani@hc-si.com	+971 4 293 5365
Anne Marie Browne	Sales	annemarie.browne@hc-si.com	+971 4 293 5301
Samer Azzam	Sales	samer.azzam@hc-si.com	+971 4 293 5302
Mohamed Galal	Sales Trading	mohammed.galal@af-hc.com	+971 4 293 5309
Sales and Trading – New York, US			
Stephen Matthews Registered with US-based broker dealer Pulse Trading Inc.	Sales	stephen.matthews@alembicglobal.com	+1 212 359 8292