

Emirates NBD

TP: AED 9.40 / share

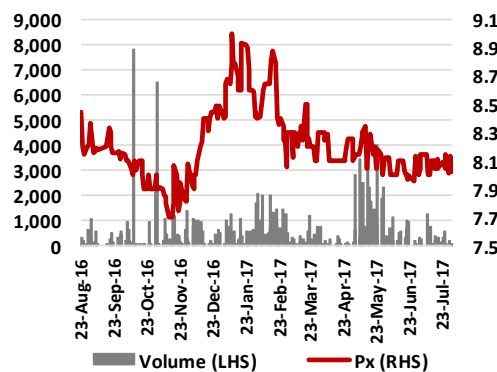
Recommendation	Accumulate
Bloomberg Ticker	EMIRATES DB
Current Market Price (AED)	8.03
52wk High / Low (AED)	9.000/7.600
12m Average Vol. (000)	518.1
Mkt. Cap. (USD/AED bn)	12.1/44.6
Shares Outstanding (mn)	5,557.8
Free Float (%)	39%
3m Avg Daily Turnover (AED mn)	5.5
6m Avg Daily Turnover (AED mn)	4.6
PE 2017e (x)	6.0
PBv 2017e (x)	0.9
Dividend Yield '17e (%)	5.0%

Price Performance:

1 month (%)	0.25
3 month (%)	(0.86)
12 month (%)	(5.53)

Source: Bloomberg

Price Performance



Source: Bloomberg

Rating maintained at **ACCUMULATE**, with Blended Target Price (TP) reduced slightly to AED 9.40 per share. Our blended price represents a 17% upside to the latest closing price, with an implied PE'17e of 6.8x and PB'17e of 1.0x. Our rating does not take into account the lack of liquidity in the shares and tight foreign ownership limit of just 5%.

Solid H1'17 performance; Cost control played key role in growing net profit

H1'17 operating income of AED 7.45bn was down by 3%YoY on account of a 12%YoY decline in non-interest income, in spite of a 2%YoY increase in net interest income, which grew because of loan growth despite contracting NIMs (NIMs improved 16 bps QoQ as rate rises flowed into loan yields and funding pressures receded. NIMs tightened 17 bps YoY on higher funding costs). H1'17 non-interest income declined by 12%YoY due to lower one-off gains from sale of investment securities. Operating profit before impairment allowances of AED 5.2bn was flat on YoY basis, benefiting from a tightly managed cost base. H1'17 operating expenses were AED 2.25bn, down by 9% on YoY basis. We expect the bank to maintain cost-to-income at the current level for 2017 and marginally reduce it over 2018F-2021F. Profit before tax & after impairment was up by 5%YoY due to a 13% YoY reduction in Net Impairment Charge. H1'17 Net profit of the bank was up by 5%YoY.

AED bn	H1'16	H1'17	YoY %
Interest Income	5,099	5,185	2%
Non Interest Income	2,572	2,268	-12%
Total Operating Income	7,671	7,453	-3%
General Admin Expenses	-2,476	-2,253	-9%
Operating Profit	5,195	5,201	0%
Impairment Charges	-1,456	-1,260	-13%
Pretax Income	3,739	3,940	5%
Taxation charge	-82	-58	-29%
Share of profits from associates	61	12	-80%
Net profit	3,718	3,894	5%
<i>Cost to Income Ratio</i>	<i>32.3%</i>	<i>30.2%</i>	
<i>Net Interest Margin</i>	<i>2.58%</i>	<i>2.41%</i>	

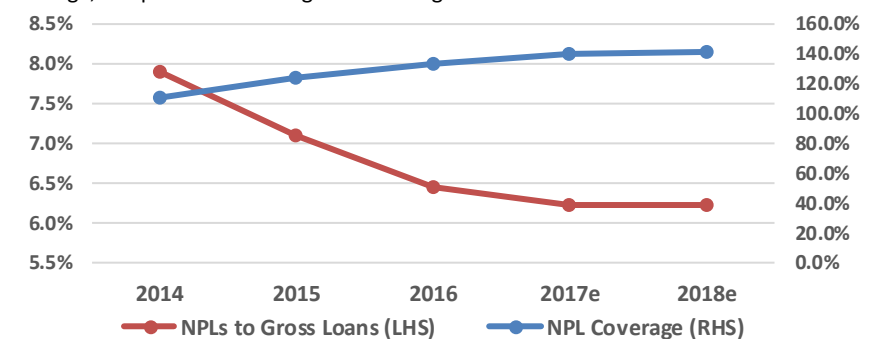
Source: Company Financials, U Capital Research

Loan-book expanded by 5%YoY and deposits grew by 7%YoY

The total assets of the bank grew by 8%YoY to AED 259bn and net loans and advances to customers increased by 6%YoY to AED 164bn. Deposits grew 3% YTD and 7%YoY where CASA deposits grew 7%YTD and represent 56% of total deposits. We expect deposit growth to remain in mid-to-high single digit over the forecast period.

Improving asset quality

Provisions of AED 1.26bn improved 13%YoY as cost of risk continues to normalize on the back of improving asset quality metrics. NPL ratio improved to 6.1%, which is still higher than sector average, but provision coverage ratio strengthened to 123.5%.



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Key Revisions to Estimates

We have adjusted our estimates for FY17 net loans & deposits, as the recent performance of the bank indicates better-than-expected growth rates. Credit growth of the entire UAE banking sector was 4.4%YoY until May'17 (Source: CBUAE). System wide deposit growth was 7%YoY until May'17.

In spite of better-than-expected performance, the bank's TP has been reduced in lieu of a slightly higher cost of equity.

AED bn	Previous FY'17e	Current FY'17e	Var %
Gross Loans & Financings	325.1	340.4	5%
Loan Loss Reserve	(29.2)	(29.4)	1%
Net Loans & Financings	295.9	310.9	5%
Deposits from Customers	323.0	330.4	2%
LTD, %	0.9	0.9	3%
Total Operating Income	16.2	15.1	-7%
Impairment Charges	(3.1)	(2.5)	-18%
Operating Expenses	(4.9)	(5.0)	1%
Attributable Net Profit	7.6	7.5	-1%

Source: U Capital Research

We are also expecting net interest margins to continue to improve, as seen in Q2'17, albeit slowly, from here onwards, with other operating income to continue to weigh down on total operating income due to competition in an over-banked market.

TP offers an upside of 17% to CMP; Implies PE'17e of 7.0x and PB'17e of 1.0x

Our target price is based on blended methodology of Dividend Discount Model (80% weight) using a normalized ROE of c13% and a Peer-group P/B valuation (20% weight). Our TP offers an upside of 17% compared to the current market price. We believe that the bank is trading at an attractive PB'17E multiple of 0.9x compared to regional average of 1.4x. The bank's valuation is primarily driven by its strong core operating performance which warrants sustained dividend payouts over the forecast period.

EmiratesNBD is the flagship bank of Dubai (56% owned by the Dubai Government). The bank's sheer size can be estimated by: c16% market share in UAE banking assets, c19% in loans and c18% in deposits, the largest branch network among UAE banks with 156 branches in the country, over 50 of which are Islamic.

Additionally, we believe that the bank's performance will improve as market conditions are expected to pick up with fiscal consolidation, stronger global trade and higher Dubai Expo 2020 investment. The UAE will see non-oil growth hitting 3.3%¹ this year. Real GDP growth is expected to be 1.4% in 2017 and 4.4% in 2018².

¹ IMF estimates

² IMF estimates

Key Financials

Income Statement (AED mn)	2014	2015	2016	2017e	2018e	2019e	2020e
Income Statement							
Interest/Financing Income	12,253	13,275	14,945	16,211	17,367	18,686	20,069
Interest Expense/Payment to Deposit	(2,757)	(3,034)	(4,834)	(5,984)	(6,322)	(6,719)	(7,150)
Net Interest/Financing Income	9,496	10,241	10,111	10,227	11,045	11,967	12,919
Fee & Commission Income	2,563	2,793	2,861	3,090	3,338	3,605	3,893
Other Income	2,482	2,279	1,745	1,823	1,904	1,993	2,086
Total Non-Interest/Financing Income	5,045	5,073	4,607	4,913	5,242	5,598	5,979
Total Operating Income	14,541	15,314	14,718	15,140	16,287	17,565	18,898
Provisions expense	(4,995)	(3,406)	(2,608)	(2,548)	(2,732)	(2,926)	(3,131)
Operating Expenses	(4,389)	(4,719)	(4,888)	(4,972)	(5,349)	(5,768)	(6,206)
Profit Before Taxation	5,158	7,188	7,222	7,620	8,207	8,870	9,561
Net Profit Attributable to Parent	5,028	7,043	7,074	7,467	8,042	8,692	9,369
Balance Sheet (AED mn)							
Cash Balances	27,949	34,088	32,584	34,427	34,497	38,481	42,034
Deposits with Banks & FIs	19,812	39,837	57,082	60,687	65,419	70,032	75,232
Investment Securities	14,480	15,927	13,574	13,574	13,574	13,574	13,574
Gross Loans & Financings	269,464	296,353	317,433	340,355	366,893	392,769	421,928
Loan Loss Reserve	(23,490)	(25,772)	(27,036)	(29,442)	(31,839)	(34,030)	(36,586)
Net Loans & Financings	245,974	270,581	290,396	310,913	335,054	358,739	385,342
Other Assets	49,152	41,311	49,736	48,951	51,226	52,068	53,776
Total Assets	363,021	406,560	448,004	475,936	504,992	538,478	575,928
Deposits from Banks & FIs	15,386	18,823	18,857	20,047	21,610	23,135	24,852
Deposits from Customers	258,259	287,232	310,752	330,376	356,136	381,253	409,557
Other Borrowings	39,883	44,685	55,587	53,176	50,765	50,192	49,621
Other Liabilities	12,207	14,549	18,424	19,715	21,148	22,706	24,169
Paid-up Capital	5,558	5,558	5,558	5,558	5,558	5,558	5,558
Retained Earnings	13,031	17,567	21,939	26,574	31,784	37,644	44,181
Other Reserves	18,692	18,141	16,880	17,983	17,983	17,983	17,983
Shareholders' Equity	37,281	41,266	44,377	50,115	55,325	61,185	67,722
Total Equity & Liability	363,021	406,560	448,004	475,936	504,992	538,478	575,928
Cash Flow Statement (AED mn)							
Cash from operations	(3,359.5)	6,531.4	(5,739)	11,242	10,659	12,760	12,354
Cash from investing activities	2,207.3	(1,843.3)	(2,742)	(5,252)	(5,339)	(5,362)	(5,387)
Cash from financing	6,501.2	1,451.0	6,977	(4,147)	(5,250)	(3,414)	(3,414)
Net changes in cash	5,349.0	6,139.1	(1,504)	1,843	70	3,984	3,553
Cash at the end of period	27,949	34,088	32,584	34,427	34,497	38,481	42,034
Key Ratios							
Return on Average Assets	1.5%	1.9%	1.7%	1.6%	1.6%	1.7%	1.7%
Return on Average Equity	14.4%	18.1%	16.9%	15.8%	15.3%	14.9%	14.5%
Recurring Income/Operating Income	82.9%	85.1%	88.1%	88.0%	88.3%	88.7%	89.0%
Cost of Funds	0.9%	1.0%	1.3%	1.6%	1.6%	1.6%	1.6%
Net Spread	2.9%	2.8%	2.5%	2.3%	2.3%	2.4%	2.4%
Cost to Income Ratio	30.0%	30.7%	32.8%	32.8%	32.8%	32.8%	32.8%
Net Loans to Customer Deposits	95.2%	94.2%	93.4%	94.1%	94.1%	94.1%	94.1%
NPLs to Gross Loans (LHS)	7.9%	7.1%	6.4%	6.2%	6.2%	6.2%	6.2%
NPL Coverage (RHS)	111.3%	123.7%	133.4%	140.3%	140.8%	140.6%	140.7%
Cost of Risk (bps)	62.2	117.1	85.0	77.5	77.2	77.0	76.9
Equity to Gross Loans	13.8%	13.9%	14.0%	14.7%	15.1%	15.6%	16.1%
Equity to Total Assets	10.3%	10.1%	9.9%	10.6%	11.0%	11.4%	11.8%
Dividend Payout Ratio	37.8%	31.2%	30.7%	29.7%	27.6%	25.5%	23.7%
Adjusted EPS (AED)	0.9	1.3	1.3	1.3	1.4	1.6	1.7
Adjusted BVPS (AED)	6.7	7.4	8.0	9.0	10.0	11.0	12.2
Market Price (AED) *	8.9	7.4	8.5	8.0	8.0	8.0	8.0
Dividend Yield	3.9%	5.4%	4.7%	5.0%	5.0%	5.0%	5.0%
P/E Ratio (x)	9.6	5.8	6.5	6.0	5.5	5.1	4.8
P/BV Ratio (x)	1.3	1.0	1.1	0.9	0.8	0.7	0.7

Source: U Capital Research, Company Financials

* Market price for 201 and subsequent years based on closing price of 02-Aug-17

Recommendation

BUY	Greater than 20%
ACCUMULATE	Between +10% and +20%
HOLD	Between +10% and -10%
REDUCE	Between -10% and -20%
SELL	Lower than -20%