

27 July 2010

Buy

Target price
Dh3.26

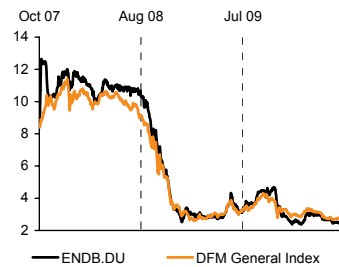
Price
Dh2.50

Short term (0-60 days)
n/a

Market view
No Weighting

Price performance

	(1M)	(3M)	(12M)
Price (Dh)	2.65	2.95	3.24
Absolute (%)	-5.7	-15.3	-22.8
Rel market (%)	-3.8	-1.4	-10.5
Rel sector (%)	-6.0	-5.6	-19.8



Market capitalisation
Dh13.89bn (€2.92bn)

Average (12M) daily turnover
Dh2.62m (US\$0.72m)

Sector: ADX Bank & Fin Index
RIC: ENDB.DU, EMIRATES UH
Priced Dh2.50 at close 26 Jul 2010.
Source: Bloomberg

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Emirates NBD

Building confidence

With many moving parts, it is not immediately clear whether on a quality-adjusted basis results are ahead or behind expectations. However, there seems to be growing confidence that balance sheet weaknesses have been quantified. For now, earnings momentum remains weak, but the discount cannot be justified.

Key forecasts

	FY08A	FY09A	FY10F	FY11F	FY12F
Reported PTP (Dhm)	3,669	3,322	1,343	3,801	4,899
Reported net profit (Dhm)	3,681	3,346	1,085	3,543	4,641
Reported EPS (Dh)	0.66	0.57	0.2	0.64	0.83
Normalised EPS (Dh)	0.66	0.57	0.2	0.64	0.83
Dividend per share (Dh)	0.18	0.2	0.16	0.14	0.29
Normalised PE (x)	3.79	4.35	12.8	3.92	3
Price/book value (x)	0.56	0.52	0.5	0.46	0.42
Dividend yield (%)	7.27	8	6.47	5.65	11.5
Return on avg equity (%)	15.2	13	3.99	12.2	14.6

Accounting standard: IFRS
Source: Company data, Rasmala forecasts

year to Dec, fully diluted

Better bottom line, driven by deferral of UP impairment

Attributable income was down 61% yoy and 68% qoq, but still beat our expectations by 84% (Dh152m). However, this was primarily due to the deferment of an impairment charge on Union Properties (UP), which we assumed would amount to Dh200m. Good cost control provided a further positive variance of Dh157m, due to reduced discretionary and integration expense, although this was offset by weak non-interest income (negative impact Dh209m).

Provisioning guidance positive, asset quality deterioration slows

Total provisioning was numerically in line with our forecast, but included the creation of a Dh745m general provision. This is equivalent to the likely Dubai World impairment, or alternatively the expected new central bank provisioning requirements, removing one source of downside risk. The NPL ratio (on a 180 day basis) worsened 25bp qoq to 288bp, which represents deterioration broadly in line with expectations.

Union Properties remains an unresolved issue but loan contraction not a concern

Although an impairment of ENBD's UP stake is looking increasingly necessary, the bank deferred this to 4Q10. Our estimated impairment of Dh400m, originally split over 2Q/4Q10 may now appear optimistic, and a further Dh400m impairment appears reasonable. The absolute 4% qoq decline in loan volumes was a surprise, but not necessarily a negative one. Lower loan-deposit ratios, which have fallen to 103% from a 4Q08 peak of 129%, will allow ENBD to refocus on assets after a period of prioritising deposit growth.

Buy recommendation remains justified, in our view

ENBD is guiding to stabilising interest spreads and margins, and an end to impairments of investment securities and properties, which should provide positive revenue momentum. Cost control has been impressive and is likely to be sustainable, in our view, at least in part, while guidance on provisioning has improved. In spite of continued UP concerns, we believe that 2Q10 results affirm our positive rating on the stock.

Important disclosures can be found in the Disclosures Appendix.

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Table 1 : Results summary, 2Q10

Dhm	2Q09A	1Q10A	2Q10A	2Q10E	yoy	qoq	Diff vs est
Balance sheet							
Loans & Islamic Financing	216,632	211,956	203,728	211,945	-6%	-4%	-4%
Financial instruments	17,467	17,096	16,254	16,747	-7%	-5%	-3%
Total assets	279,919	286,598	278,923	287,994	0%	-3%	-3%
Customer deposits & Islamic Funding	170,541	191,304	197,588	193,064	16%	3%	2%
Capital market liabilities	26,245	20,388	19,618	20,267	-25%	-4%	-3%
Total liabilities	248,774	254,076	246,139	255,291	-1%	-3%	-4%
Net liquid assets	(19,247)	3,152	16,761	2,509			
Shareholders' equity	31,145	32,521	32,784	32,702	5%	1%	0%
Income statement							
Net Interest & Islamic Returns	1,716	1,729	1,723	1,748	0%	0%	-1%
Core non-interest	1,041	768	627	743	-40%	-18%	-16%
Non-core non-interest	132	4	(93)	-	-171%	-2219%	n.a.
Total Non-interest income	1,172	773	534	743	-54%	-31%	-28%
Total banking income	2,888	2,501	2,257	2,491	-22%	-10%	-9%
Total operating expenses	(896)	(867)	(711)	(869)	-21%	-18%	-18%
Provisioning	(1,149)	(500)	(1,136)	(1,155)	-1%	127%	-2%
Profit before tax	852	1,110	403	245	-53%	-64%	65%
Tax, minorities & appropriations	0	(64)	(70)	(64)	n.a.	10%	10%
Attributable income	852	1,046	333	181	-61%	-68%	84%
Headline net income	852	1,111	398	245	-53%	-64%	62%
Comprehensive income	1,224	1,663	258	181	-79%	-84%	43%

Source: ENBD reports, Rasmala forecasts

Income statement

Dhm	FY08A	FY09A	FY10F	FY11F	FY12F
Net interest income	5834	7412	6964	7146	7742
Non-interest income	2357	3217	3096	3513	3810
Total income	8191	10629	10060	10659	11551
Operating costs	-3368	-3635	-3479	-3731	-4043
Goodwill (amort/impaired)	n/a	n/a	n/a	n/a	n/a
Other costs	-95.9	-93.9	-93.9	-93.9	-93.9
<u>Pre-prov operating profit</u>	<u>4727</u>	<u>6899</u>	<u>6486</u>	<u>6835</u>	<u>7414</u>
Provisions charges	-1397	-3100	-4742	-3111	-2596
<u>Post-prov op prof</u>	<u>3330</u>	<u>3800</u>	<u>1744</u>	<u>3724</u>	<u>4818</u>
Associates (pre-tax)	338.6	-477.6	-401.6	77.0	80.9
Other pre-tax items	0.00	0.00	0.00	0.00	0.00
Reported PTP	3669	3322	1343	3801	4899
Taxation	0.00	0.00	0.00	0.00	0.00
Minority interests	-0.72	3.30	0.74	-1.00	-4.66
Preference dividends	0.00	-132.6	-258.0	-258.0	-258.0
Other post-tax items	12.7	153.2	-0.74	1.00	4.66
Reported net profit	3681	3346	1085	3543	4641
Tot normalised items	0.00	0.00	0.00	0.00	0.00
Normalised PTP	3669	3322	1343	3801	4899
Normalised net profit	3681	3346	1085	3543	4641

Source: Company data, Rasmala forecasts

year to Dec

Balance sheet

Dhm	FY08A	FY09A	FY10F	FY11F	FY12F
Net loans to customers	208930	214614	213604	226022	249027
Other int earn assets	27764	26811	36012	38106	41984
Goodwill	6139	6045	5952	5858	5764
Oth non-int earn assets	19217	11169	12872	16526	15970
Total assets	279553	279014	291000	310457	339066
Total customer deposits	162315	181162	199460	216981	244047
Oth int-bearing liabs	81756	58950	51421	50060	46798
Non int-bearing liab	10731	8042	8459	8998	10770
Total liabilities	254802	248155	259339	276039	301615
Share capital	24655	26765	27568	30325	33357
Reserves	0.00	0.00	0.00	0.00	0.00
Total equity (excl min)	24655	30765	31568	34325	37357
Minority interests	96.8	94.1	93.3	93.3	93.3
Total liab & sh equity	279553	279014	291000	310457	339066
Risk weighted assets	217286	201180	200234	211874	233439
Est non-perf loans	n/a	n/a	n/a	n/a	n/a
Specific provisions	-3314	-5948	-8609	-9998	-10594
General provisions	n/a	n/a	n/a	n/a	n/a

Source: Company data, Rasmala forecasts

year ended Dec

Capital

Dhm	FY08A	FY09A	FY10F	FY11F	FY12F
Risk weighted assets	217286	201180	200234	211874	233439
Reported net profit	3681	3346	1085	3543	4641
Opening risk assets	172658	217286	201180	200234	211874
Closing risk assets	217286	201180	200234	211874	233439
Change in risk assets	44628	-16105	-946.6	11640	21565
Capital required	4463	-1611	-113.6	1397	2588
Free capital flow	-782.3	5089	1456	2404	2311
Ordinary dividend paid	-1011	-1112	-899.2	-784.9	-1604
Share buy back/spec div	0.00	0.00	0.00	0.00	0.00
Equity / preference issue	0.00	0.00	0.00	0.00	0.00
Cash flow from financing	-1011	-1112	-899.2	-784.9	-1604
Net capital flow	-1793	3977	557.1	1619	707.3
Tier 1 capital	20381	26654	27550	30401	33527
Tier 1 capital ratio (%)	9.38	13.2	13.8	14.3	14.4

Source: Company data, Rasmala forecasts

year to Dec

Recommendation structure

Absolute performance, long term (fundamental) recommendation: The recommendation is based on implied upside/downside for the stock from the target price and only reflects capital appreciation. A Buy/Sell implies upside/downside of 10% or more and a Hold less than 10%.

Performance parameters and horizon: Given the volatility of share prices and our pre-disposition not to change recommendations frequently, these performance parameters should be interpreted flexibly. Performance in this context only reflects capital appreciation and the horizon is 12 months. Market or sector view: This view is the responsibility of the strategy team and a relative call on the performance of the market/sector relative to the region. Overweight/Underweight implies upside/downside of 10% or more and Neutral implies less than 10% upside/downside.

Target price: The target price is the level the stock should currently trade at if the market were to accept the analyst's view of the stock and if the necessary catalysts were in place to effect this change in perception within the performance horizon. In this way, therefore, the target price abstracts from the need to take a view on the market or sector. If it is felt that the catalysts are not fully in place to effect a re-rating of the stock to its warranted value, the target price will differ from 'fair' value.

Valuation and risks to target price

Emirates NBD (RIC: ENDB.DU, Rec: Buy, CP: Dh2.50, TP: Dh3.26): Our target price is based on discounted residual earnings on an efficient capital basis. The weakness of the Dubai economy remains a poor backdrop for the bank. Consequently, a highly negative scenario would most likely be driven by further losses due to the restructuring of loans to government-related PE or property companies or a much higher NPL ratio and, by implication, higher provisioning.

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