

18 November 2010

Produced by: Rasmala Investment Bank Ltd

Emirates NBD

Price recovery prompts downgrade

Change of recommendation

Hold

 (from Buy)

Target price
Dh3.41

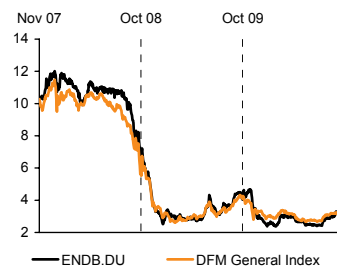
Price
Dh3.30

Short term (0-60 days)
n/a

Market view
No Weighting

Price performance

	(1M)	(3M)	(12M)
Price (Dh)	2.95	2.42	4.60
Absolute (%)	11.9	36.4	-28.3
Rel market (%)	16.1	19.5	-6.5
Rel sector (%)	10.4	19.7	-27.5


Market capitalisation
Dh18.34bn (€3.69bn)

Average (12M) daily turnover
Dh1.86m (US\$0.49m)

 Sector: ADX Bank & Fin Index
 RIC: ENDB.DU, EMIRATES UH
 Priced Dh3.30 at close 16 Nov 2010.
 Source: Bloomberg

Analyst

Raj Madha
 United Arab Emirates
 +971 55 224 8032
 raj.madha@rasmala.com

 Dubai International Financial Centre,
 The Gate Village, Building 10, Level 1,
 P.O. Box 31145, Dubai, United Arab
 Emirates

www.rasmala.com

ENBD's share price has prompted the question of whether we are ready to raise our target price or else lower our recommendation. With news-flow over the next quarter likely to remain difficult, for now we choose the latter.

Key forecasts

	FY08A	FY09A	FY10F	FY11F	FY12F
Reported PTP (Dhm)	3,669	3,322	1,889	4,348	5,452
Reported net profit (Dhm)	3,681	3,346	1,884	4,347	5,447
Reported EPS (Dh)	0.66	0.57	0.29	0.74	0.93
Normalised EPS (Dh)	0.66	0.57	0.29	0.74	0.93
Dividend per share (Dh)	0.18	0.20	0.25	0.24	0.39
Normalised PE (x)	5.00	5.74	11.30	4.49	3.53
Price/book value (x)	0.74	0.69	0.67	0.60	0.55
Dividend yield (%)	5.51	6.06	7.44	7.26	11.80
Return on avg equity (%)	15.20	13.00	6.93	15.00	17.10

Accounting standard: IFRS

Source: Company data, Rasmala forecasts

year to Dec, fully diluted

ENBD has risen 36% during 2H10

Our Buy rating on Emirates NBD was based on our view that, while the company still had problems, these problems were not nearly as many as the market seemed to be pricing in. Following a 36% bounce in the share price during 2H10, and indeed since 1 September 2010, we believe the risk/reward is in better balance. The DFM Index has risen 15.4% over the same period.

ENBD remains the cheapest stock on BV and tangible BV multiples basis

ENBD continues to be the value stock in our UAE financials coverage universe, trading at a substantial discount to its peers on both book value and tangible book value basis (adjusting for intangibles).

However, we maintain an elevated discount rate

Nevertheless, recent headlines about Dubai Group have underlined the elevated risk level. Elsewhere, we note that ENBD's associate Union Properties successfully sold down its Ritz Carlton hotel for Dh1.1bn, lowering its gearing by about 10%, and that the Index tower now appears to be close to delivery, but cash flow concerns continue. We continue to forecast a related Dh800m impairment in 4Q10. With this in mind, we make no changes in our elevated 18.6% discount rate.

No change to our target price, implies a technical downgrade

With no change to our target price, the potential upside from current levels is now limited to just 3.3%, and consequently we downgrade the stock from Buy to Hold. The likely trigger for a decrease in the discount rate, and therefore an increase in our target price, would be an improvement in the Dubai news-flow or a firm drive to improve the quality and transparency of the balance sheet.

Important disclosures can be found in the Disclosures Appendix.

Distributed outside MENA by The Royal Bank of Scotland N.V. and its affiliates under a strategic alliance with Rasmala Investment Bank Ltd.

Income statement

Dhm	FY08A	FY09A	FY10F	FY11F	FY12F
Net interest income	5834	7412	6903	7017	7590
Non-interest income	2357	3217	2744	3410	3698
Total income	8191	10629	9647	10427	11289
Operating costs	-3368	-3635	-3189	-3650	-3951
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>6364</u>	<u>6684</u>	<u>7244</u>
Provisions charges	-1397	-3100	-3524	-2381	-1839
<u>Post-prov op prof</u>	<u>3330</u>	<u>3800</u>	<u>2840</u>	<u>4303</u>	<u>5405</u>
Associates (pre-tax)	338.6	-477.6	-951.6	44.8	47.0
Other pre-tax items	0.00	0.00	0.00	0.00	0.00
Reported PTP	3669	3322	1889	4348	5452
Taxation	0.00	0.00	0.00	0.00	0.00
Minority interests	-0.72	3.30	-4.62	-1.00	-4.89
Preference dividends	0.00	-132.6	-258.7	-258.7	-258.7
Other post-tax items	12.7	153.2	258.7	258.7	258.7
Reported net profit	3681	3346	1884	4347	5447
Tot normalised items	0.00	0.00	0.00	0.00	0.00
Normalised PTP	3669	3322	1889	4348	5452
Normalised net profit	3681	3346	1884	4347	5447

Source: Company data, Rasmala forecasts

year to Dec

Balance sheet

Dhm	FY08A	FY09A	FY10F	FY11F	FY12F
Net loans to customers	208930	214614	208453	220716	243241
Other int earn assets	27764	26811	35373	37454	41277
Goodwill	6139	6045	5952	5858	5764
Oth non-int earn assets	19217	11169	11611	12406	15195
Total assets	279553	279014	285742	302285	333910
Total customer deposits	162315	181162	208453	220716	243241
Oth int-bearing liabs	81756	58950	36358	37462	41922
Non int-bearing liab	10731	8042	9265	9685	11292
Total liabilities	254802	248155	254076	267863	296455
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	97.8	97.8	97.8
Total liab & sh equity	279553	279014	285742	302285	333910
Risk weighted assets	217286	201180	195405	206900	228015
Est non-perf loans	n/a	n/a	n/a	n/a	n/a
Specific provisions	-3314	-5948	-7990	-9173	-9636
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	195405	206900	228015
Reported net profit	3681	3346	1884	4347	5447
Opening risk assets	172658	217286	201180	195405	206900
Closing risk assets	217286	201180	195405	206900	228015
Change in risk assets	44628	-16105	-5776	11495	21116
Capital required	4463	-1611	-693.1	1379	2534
Free capital flow	-782.3	5089	2836	3226	3172
Ordinary dividend paid	-1011	-1112	-1364	-1331	-2156
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	-1364	-1331	-2156
Net capital flow	-1793	3977	1471	1895	1016
Tier 1 capital	20381	26654	27554	30405	33531
Tier 1 capital ratio (%)	9.38	13.2	14.1	14.7	14.7

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: Hold, CP: Dh3.30, TP: Dh3.41): Our target price is based on discounted residual earnings on an efficient capital basis. The weakness of the Dubai economy remains a poor and uncertain backdrop for the bank, with upside and downside risks to our target price and valuation. However, a faster clean-up of its balance sheet would be likely to lead to upgrades.

Disclaimer

This report is prepared by Rasmala Investment Bank Limited ("RIB"). RIB is regulated by the Dubai Financial Services Authority ("DFSA"). RIB products or services are only made available to customers who RIB is satisfied meet the regulatory criteria to be a "Professional Client", as defined under the Rules and Regulations of the Dubai International Financial Centre ("DIFC").

Our investment recommendations take into account both risk and expected return. We base our long-term fair value estimates on a fundamental analysis of a company's future prospects, after having taken perceived risks into consideration. We have conducted reasonable research to arrive at our investment recommendations and fair value estimates for the company or companies mentioned in this report. Although the information in this report has been obtained from sources that RIB believes to be reliable, we have not independently verified such information thus it may not be accurate or complete. RIB does not represent or warrant, either expressly or impliedly, the accuracy or completeness of the information or opinions contained within this report and no liability whatsoever is accepted by RIB or any other person for any loss howsoever arising, directly or indirectly, from any use of such information or opinions or otherwise arising in connection therewith.

Readers should understand that financial projections, fair value estimates and statements regarding future prospects may not be realized. All opinions and estimates included in this report constitute our judgment as of this date and are subject to change without notice. This research report is prepared for general circulation and is intended for general information purposes only. It is not intended as an offer or solicitation or advice with respect to the purchase or sale of any securities referred to in the report. It is not tailored to the specific investment objectives, financial situation or needs of any specific person that may receive this report. We strongly advise potential investors to seek financial guidance when determining whether an investment is appropriate to their needs.

RIB is not registered with the U.S. Securities and Exchange Commission, or any U.S. state authority, as a broker-dealer or investment advisor. This report has not been approved, disapproved or recommended by the U.S. Securities and Exchange Commission, any state securities commission in the United States, the securities commission of any non-U.S. jurisdiction or any other U.S. or non-U.S. regulatory authority. None of these authorities has passed on or endorsed the merits or the accuracy or adequacy of this report.

RIB and its group entities (together and separately, "Rasmala") does and may seek to do business with companies covered in its reports. As a result, users should be aware that the firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision. Rasmala and its respective employees, directors and officers shall not be responsible or liable for any liabilities, damages, losses, claims, causes of action, or proceedings (including without limitation indirect, consequential, special, incidental, or punitive damages) arising out of or in connection with the use of this report or any errors or omissions in its content.

The research analyst or analysts responsible for the content of this research report certify that: (1) the views expressed and attributed to the research analyst or analysts in the research report accurately reflect their personal opinion(s) about the subject securities and issuers and/or other subject matter as appropriate; and, (2) no part of his or her compensation was, is or will be directly or indirectly related to the specific recommendations or views contained in this research report. On a general basis, the efficacy of recommendations is a factor in the performance appraisals of analysts.