

26 April 2011

Change of recommendation

Hold (from Buy)

Target price

Dh11.11 (from Dh13.20)

Price

Dh11.40

Short term (0-60 days)

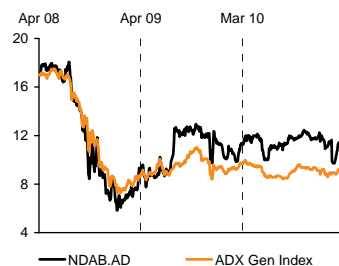
n/a

Market view

No Weighting

Price performance

	(1M)	(3M)	(12M)
Price (Dh)	11.65	11.85	11.85
Absolute (%)	-2.1	-3.8	-3.8
Rel market (%)	-5.7	-4.8	0.1
Rel sector (%)	-10.2	-10.0	-8.6



Market capitalisation

Dh27.27bn (€5.10bn)

Average (12M) daily turnover

Dh3.73m (US\$1.02m)

Sector: ADX Bank & Fin Index
 RIC: NDAB.AD, NBAD UH
 Priced Dh11.40 at close 21 Apr 2011.
 Source: Bloomberg

Analyst

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Ntl Bank of Abu Dhabi

Provisioning still a factor

Following preliminary 1Q11 results, we reduce our reported net profit forecasts for FY11 and FY12 by 12% and 10%, respectively, primarily reflecting company guidance on provisioning. We also reduce our target price to Dh11.11 per share, but this is due to a 20% bonus issue in February.

Key forecasts

	FY09A	FY10A	FY11F	FY12F	FY13F
Reported PTP (Dhm)	3,126	3,858	3,874 ▼	4,827 ▼	5,888
Reported net profit (Dhm)	3,020	3,683	3,763 ▼	4,694 ▼	5,726
Reported EPS (Dh)	1.01	1.20	1.23 ▼	1.55 ▼	1.91
Normalised EPS (Dh)	1.02	1.22	1.23 ▼	1.55 ▼	1.91
Dividend per share (Dh)	0.08	0.30	0.22 ▼	0.39 ▼	1.02
Normalised PE (x)	11.20	9.31	9.29	7.36	5.97
Price/book value (x)	2.02	1.70	1.48	1.29	1.17
Dividend yield (%)	0.66	2.63	1.94	3.45	8.96
Return on avg equity (%)	20.40	21.20	18.20 ▼	19.70 ▼	21.40

Use of ▲ ▼ indicates that the line item has changed by at least 5%.
 Accounting standard: IFRS
 Source: Company data, Rasmala forecasts

year to Dec, fully diluted

Trimming 2011 and 2012 revenue forecasts 4% and 7%, respectively

NBAD's preliminary 1Q11 numbers were solid, but the trend primarily reflected weak 4Q10 numbers. In particular, the 25% increase in profit before tax was largely the result of substantial seasonal costs in the 4Q10 results. Total revenue increased by a more modest 4% qoq, with the improvement coming through in the investment income line. Loan volumes were good, rising 5% qoq, but we trim our net interest income forecasts 2% for 2011 and 7% for 2012 on the back of a decline in spreads. In addition, we have reduced our estimates for FX income and fee income 37% and 4%, respectively.

Bringing our provisioning forecast in line with company guidance

In addition to trimming our revenue forecasts, we also brought our provisioning and NPL forecasts in line with company guidance. We had assumed NPLs would flatten out from mid-2011, but this has now been negatively revised to increases throughout 2011, culminating in a forecast 3.25% ratio at year-end. In addition, company guidance for an additional Dh1bn of provisioning in 2011 has a Dh250m negative effect on the bottom line, resulting in a 13% negative revision to our 2011 reported earnings forecast, leaving us 3% below Bloomberg consensus, but still 5% ahead of consensus for 2012F.

Not yet adjusting our longer-term numbers

The key long-term number we use is the 2014-23 fully levered ROTCE of 24%. Previously, this looked conservative vs NBAD's medium-term ROE target of 25%, but less so compared to its revised target of 20%. Although it is not clear what capital assumption the medium-term target is based on, this does suggest some downside risk potential to the TP.

Our target price adjusted primarily for the bonus issue

Negative revisions to our forecasts are offset by a small reduction in the discount rate as visibility improves across the UAE. Consequently, the main driver of the 16% reduction in our target price is the 20% bonus issue. Nevertheless, with the share price indicating 3% potential downside to our target price, we downgrade to Hold.

Important disclosures can be found in the Disclosures Appendix.

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Income statement

Dhm	FY09A	FY10A	FY11F	FY12F	FY13F
Net interest income	4571	5249	5644	6117	7086
Non-interest income	1828	1930	2022	2346	2679
Total income	6399	7179	7666	8463	9764
Operating costs	-1903	-2191	-2367	-2710	-3205
Goodwill (amort/impaired)	n/a	n/a	n/a	n/a	n/a
Other costs	0.00	0.00	0.00	0.00	0.00
<u>Pre-prov operating profit</u>	4496	4988	5299	5753	6560
Provisions charges	-1370	-1130	-1425	-926.1	-671.4
<u>Post-prov op prof</u>	3126	3858	3874	4827	5888
Associates (pre-tax)	0.00	0.00	0.00	0.00	0.00
Other pre-tax items	0.00	0.00	0.00	0.00	0.00
Reported PTP	3126	3858	3874	4827	5888
Taxation	-72.9	-102.6	-111.2	-138.5	-169.0
Minority interests	0.00	0.00	0.00	0.00	0.00
Preference dividends	-120.0	-240.0	-240.0	-240.0	-240.0
Other post-tax items	86.9	167.9	240.0	245.8	246.7
Reported net profit	3020	3683	3763	4694	5726
Tot normalised items	-37.5	-77.0	0.00	0.00	0.00
Normalised PTP	3126	3858	3874	4827	5888
Normalised net profit	3057	3760	3763	4694	5726

Source: Company data, Rasmala forecasts

year to Dec

Balance sheet

Dhm	FY09A	FY10A	FY11F	FY12F	FY13F
Net loans to customers	132258	136834	149423	171866	198061
Other int earn assets	40127	47751	45696	52559	60570
Goodwill	0.00	0.00	0.00	0.00	0.00
Oth non-int earn assets	6403	8413	8228	9196	8994
Total assets	196845	211427	219783	250808	283469
Total customer deposits	121205	123131	134481	154680	178255
Oth int-bearing liabs	49611	56900	50572	56391	59730
Non int-bearing liab	5805	8144	8590	10276	13477
Total liabilities	176621	188175	193643	221347	251462
Share capital	16223	19252	22140	25461	28007
Reserves	0.00	0.00	0.00	0.00	0.00
Total equity (excl min)	20223	23252	26140	29461	32007
Minority interests	0.00	0.00	0.00	0.00	0.00
Total liab & sh equity	196845	211427	219783	250808	283469
Risk weighted assets	142882	151562	165507	190366	219380
Est non-perf loans	n/a	n/a	n/a	n/a	n/a
Specific provisions	-2658	-3664	-4922	-5650	-6094
General provisions	n/a	n/a	n/a	n/a	n/a

Source: Company data, Rasmala forecasts

year ended Dec

Capital

Dhm	FY09A	FY10A	FY11F	FY12F	FY13F
Risk weighted assets	142882	151562	165507	190366	219380
Reported net profit	3020	3683	3763	4694	5726
Opening risk assets	118595	142882	151562	165507	190366
Closing risk assets	142882	151562	165507	190366	219380
Change in risk assets	24287	8680	13945	24859	29014
Capital required	2429	868.0	1394	2486	2901
Free capital flow	711.2	3055	2609	2448	3065
Ordinary dividend paid	-217.4	-861.0	-635.4	-1127	-2933
Share buy back/spec div	0.00	0.00	0.00	0.00	0.00
Equity / preference issue	5.98	29.1	0.00	0.00	0.00
Cash flow from financing	-211.4	-831.9	-635.4	-1127	-2933
Net capital flow	499.8	2223	1973	1321	131.4
Tier 1 capital	21286	24528	27607	31148	33863
Tier 1 capital ratio (%)	14.9	16.2	16.7	16.4	15.4

Source: Company data, Rasmala forecasts

year to Dec

Standard ratios	NBAD					Abu Dhabi Comm Bank			First Gulf Bank		
Performance	FY09A	FY10A	FY11F	FY12F	FY13F	FY11F	FY12F	FY13F	FY11F	FY12F	FY13F
Non-int inc/gr op inc (%)	28.6	26.9	26.4	27.7	27.4	27.2	28.0	n/a	32.9	32.8	n/a
Cost/income (%)	29.7	30.5	30.9	32.0	32.8	35.0	35.0	n/a	18.6	19.6	n/a
Costs/average assets (%)	1.05	1.07	1.10	1.15	1.20	1.05	1.07	n/a	0.91	0.97	n/a
Net income growth (%)	-0.08	22.0	2.31	24.6	22.0	574.5	29.6	n/a	41.5	31.5	n/a
Net cust loan growth (%)	14.6	3.46	9.20	15.0	15.2	7.59	10.0	n/a	15.6	16.6	n/a
Cust deposit growth (%)	17.1	1.59	9.22	15.0	15.2	11.4	13.8	n/a	15.6	16.6	n/a
Net interest margin (%)	2.90	2.89	2.91	2.84	2.86	2.48	2.51	n/a	3.56	3.55	n/a
Return on avg assets (%)	1.76	1.96	1.86	2.10	2.23	1.19	1.42	n/a	3.42	3.85	n/a
Return on avg equity (%)	20.4	21.2	18.2	19.7	21.4	12.2	14.9	n/a	22.2	25.0	n/a
RORWA (%)	2.34	2.55	2.37	2.64	2.79	0.00	0.00	n/a	3.54	4.00	n/a
				year to Dec			year to Dec			year to Dec	
Valuation											
Normalised EPS growth (%)	3.43	19.9	0.23	26.3	23.2	6386	34.2	n/a	44.8	33.3	n/a
Reported PE (x)	11.3	9.52	9.29	7.36	5.97	8.91	6.64	n/a	6.02	4.52	n/a
Normalised PE (x)	11.2	9.31	9.29	7.36	5.97	8.91	6.64	n/a	6.02	4.52	n/a
Price/book value (x)	2.02	1.70	1.48	1.29	1.17	0.93	0.86	n/a	1.17	0.99	n/a
Price/adjusted BVPS (x)	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Dividend yield (%)	0.66	2.63	1.94	3.45	8.96	4.63	8.06	n/a	5.22	6.70	n/a
				year to Dec			year to Dec			year to Dec	
Per share data	FY09A	FY10A	FY11F	FY12F	FY13F	Solvency	FY09A	FY10A	FY11F	FY12F	FY13F
Tot adj dil sh, ave (m)	2870	2870	2870	2870	2870	Tier 1 capital ratio (%)	14.9	16.2	16.7	16.4	15.4
Pre-prov prof/share (AED)	1.57	1.74	1.85	2.00	2.29	Total CAR (%)	17.4	22.6	22.7	22.0	20.7
Reported EPS (AED)	1.01	1.20	1.23	1.55	1.91	Equity/assets (%)	10.3	11.0	11.9	11.7	11.3
Normalised EPS (AED)	1.02	1.22	1.23	1.55	1.91	Net cust loans/dep (%)	109.1	111.1	111.1	111.1	111.1
Book value per sh (AED)	5.65	6.71	7.71	8.87	9.76	Rep NPL/gr cus adv (%)	0.00	0.00	0.00	0.00	0.00
Dividend per share (AED)	0.08	0.30	0.22	0.39	1.02	Tot prov/rep NPLs (%)	0.00	0.00	0.00	0.00	0.00
Dividend cover (x)	14.1	4.37	5.92	4.16	1.95	Bad debts/advances (%)	0.99	0.79	0.91	0.52	0.33
				year to Dec						year to Dec	

Priced as follows: NDAB.AD - Dh11.40; ADCB.AD - Dh2.69; FGB.AD - Dh18.05
Source: Company data, Rasmala forecasts

Valuation methodology – Gordon Growth Model

Stage 1 (2010-13)			2010	2011F	2012F	2013F
Explicit Dividends		Forecast CF to shareholders	847	635	1,127	2,933
	NPV Stage 1	3,511	4,358	3,952	3,733	2,933
Stage 2 (2014-23)						
Modelled Dividends	Excess Capital	8,263	ROE1	Growth	Capital Req'd	RWA
	Modelled Dividends	13,548	22%	15%	19,744	219,380
	NPV Stage 2	15,295				
Stage 3 (2024+)						
Terminal Value	2023	60,881	ROE1	Growth	Capital Req'd	
	NPV Stage 3	13,076	11%	6%	79,876	
Total NPV	Stage 1 (2010-2013)	3,511	COE			
	Stage 2 (2014-23)	15,295	US RFR			3.31%
	Stage 3 (2024+)	13,076	Country Risk Spread			6.00%
	NPV	31,882	Sector Risk Spread			3.00%
	Shares	2,870	Stock Spread			0.25%
	Price Target	11.11	Discount Rate			12.56%
	Price	11.40				
	Upside/(Downside)	-3%				

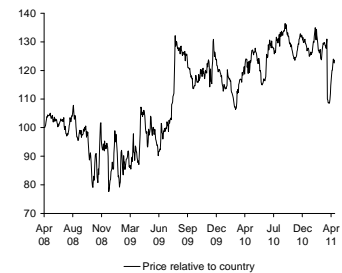
Source: Rasmala forecasts

Company description

Hold

Price relative to country

National Bank of Abu Dhabi (NBAD) was originally set up to serve as the primary banker to the Abu Dhabi and federal governments and still maintains that role. As well as serving the corporate and retail market, NBAD includes ancillary areas such as equity brokerage, leasing, property management, private banking and fund management. Internationally, NBAD has two home markets besides the UAE: Egypt and Oman. However, it has a smaller presence across the MENA region and global financial centres. The bank is 70.5% owned by the government of Abu Dhabi, via the Abu Dhabi Investment Council, with a freefloat of 29.5%.



Strategic analysis

Average SWOT company score: 2

2

Net profit split, 2010

Strengths

3

NBAD is the second-largest bank in the UAE in terms of both asset market share (13.1% in 1Q10) and physical presence through its 103 local branches. Other strong areas of NBAD include its negligible exposure to Dubai World, the lowest NPL ratio in the sector and no investment property exposure.

Weaknesses

1

A conservative and protective business strategy (even in the boom time) is considered NBAD's greatest weakness.

Opportunities

2

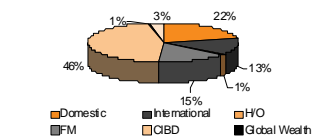
Capitalising on Abu Dhabi infrastructure growth by continuing to finance most government projects, in turn allowing it to sustain double-digit asset growth in the medium term. The bank projects itself as one of the safest in the downturn, increasing market share in other geographic areas.

Threats

2

A significant decline in oil prices (thus limiting country growth rates) or geopolitical instability remain top threats for the UAE banks.

Scoring range is 1-5 (high score is good)



Source: Company data

Market data

Headquarters

1, NBAD Tower, Sheikh Khalifa Street, P.O. Box 4, Abu Dhabi, United Arab Emirates

Website

www.nbad.com

Shares in issue

2391.7m

Freefloat

30%

Majority shareholders

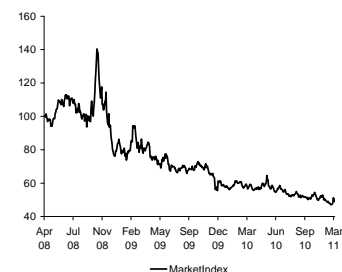
Abu Dhabi Investment Council (71%)

Country view: United Arab Emirates

Country rel to M East & Africa

MENA markets are showing characteristics of a text book case of loss aversion. This is expected given the magnitude of losses investors experienced since 2008, with 2009 lagging emerging markets by a fairly wide margin. Rising oil prices and budget surpluses drove asset prices across the region higher resulting in a real-estate bubble that has negatively impacted speculators and the banking system. Bubbles do pop and recover over time if there is a legal system in place that enables the transfer of assets. The bad news is such a mechanism did not exist. The good news is that with the creation of RERA and the possibility of Strata Law, this could change and facilitate the transfer of properties from speculators to real investors.

The country view is set in consultation with the relevant company analyst but is the ultimate responsibility of the Strategy Team.



Competitive position

Average competitive score: 4+

4+

Broker recommendations

Supplier power

3+

The lack of significant regulator control allows the banks to change contract arrangements (such as the base rate). This substantially increases the supplier power for all banks in the UAE.

Barriers to entry

4+

Strong local government ownership in most banks coupled with branch limits for foreign banks keeps barriers to entry high for this sector.

Customer power

5+

Customer power is extremely low in the UAE, as any change in bank policies has to be accepted by clients. Points of contact at institutions remain limited, thus raising customer redressal issues.

Substitute products

4+

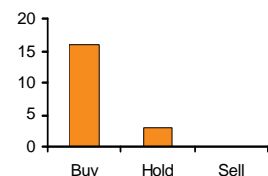
We believe the availability of substitute products (capital markets and syndicate loans) has diminished in recent times, thus improving margin capabilities for banks in the core interest business.

Rivalry

4+

Competition (and price war) among local banks is low. However, recent low growth has forced a few newer institutions to lower product prices, indicating a trend towards more competition long term.

Scoring range 1-5 (high score is good) Plus = getting better Minus = getting worse



Source: Bloomberg

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

Ntl Bank of Abu Dhabi (RIC: NDAB.AD, Rec: Hold, CP: Dh11.40, TP: Dh11.11): We base our valuation on a three-stage DDM: a three-year stage of explicit forecasts, a 10-year stage of trend forecasts and a terminal stage based on a GGM. NBAD continues to benefit from resilient government spending, with public sector business continuing to provide profitable low-risk opportunities. However, this is now broadly appreciated by the market. Consequently, unless we reduce our discount rate, upside is limited. Downside risk comes from long-term returns that may have to be revised downward.

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