

4 May 2011

Emirates NBD

Up with events

Hold

Target price
Dh4.55 (from Dh3.41)

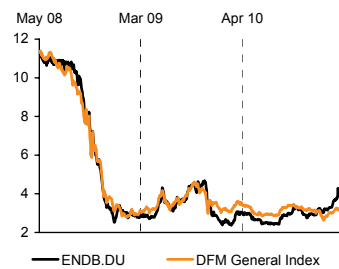
Price
Dh4.15

Short term (0-60 days)
n/a

Market view
No Weighting

Price performance

	(1M)	(3M)	(12M)
Price (Dh)	3.31	3.05	2.95
Absolute (%)	25.4	36.1	40.7
Rel market (%)	19.7	32.0	49.9
Rel sector (%)	16.0	28.9	33.0



Market capitalisation
Dh23.06bn (€4.24bn)

Average (12M) daily turnover
Dh1.19m (US\$0.33m)

Sector: ADX Bank & Fin Index
RIC: ENBD.DU, EMIRATES UH
Priced Dh4.15 at close 3 May 2011.
Source: Bloomberg

As well as realising value through its NI transaction, ENBD has progressed in cleaning its balance sheet and providing achievable targets. However, ENBD is now up 72% since its September 2010 low, outperforming the DFMGI by 55%, suggesting the market is up with events. Hold, new Dh4.55 target price.

Key forecasts

	FY09A	FY10A	FY11F	FY12F	FY13F
Reported PTP (Dhm)	3,322	2,338	4,153	5,510	6,557
Reported net profit (Dhm)	3,346	2,340	4,138	5,511	6,558
Reported EPS (Dh)	0.57	0.37	0.70	0.94	1.13
Normalised EPS (Dh)	0.57	0.37	0.37 ▼	0.94	1.13
Dividend per share (Dh)	0.20	0.20	0.18 ▼	0.38	0.51
Normalised PE (x)	7.22	11.20	11.30	4.41	3.68
Price/book value (x)	0.86	0.81	0.73	0.67	0.61
Dividend yield (%)	4.82	4.82	4.45	9.06	12.20
Return on avg equity (%)	13.00	8.46	7.68 ▼	16.70	18.10

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

ENBD's 1Q11 results primarily reflect NI disposal and offsetting provisions

ENBD reported bottom-line profit of Dh1,413m, up 248% qoq, due entirely to the disposal of a 49% stake in card processor Network International (NI), followed by the subsequent write-up of the remaining 51% stake. ENBD took advantage of this gain to improve the quality of its balance sheet, with a Dh612m general provision and a Dh500m impairment of its Union Properties associate, in both cases bringing forward impairments we were penciling in for later in the year.

Our forecast adjustments for 2012 minor

We shuffle our numbers around a little for 2012, but the main changes are to lower our non-interest income expectations due to the deconsolidation of NI, postponement of property income and a more conservative stance on other operating income. On the positive side, we have reduced our cost expectations 16%, partially due to guidance, recent results and the deconsolidation of NI.

Growth outlook now mixed (upgraded from weak)

ENBD has not raised its guidance on lending growth of 3-4% for 2011E, but with 1% shrinkage qoq, this isn't surprising. The last quarter of net expansion was 3Q09, with only sovereign lending expanding significantly since then. We continue to expect deleveraging across several sectors in Dubai, but ENBD is taking a rosier outlook, beginning to invest for the future and hinting at positive signs in various sectors and Abu Dhabi.

Improving quality allows value to drive performance

We raise our price target sharply, to Dh4.55 from Dh3.41, but this reflects primarily a reduction in the discount rate from 18.6% to 15.8% because we believe Dubai visibility has improved (as reflected in the CDS), as has the transparency of ENBD's balance sheet, we believe. We still take a lot on trust, such as the solvency of UP, stability in Dubai and the prospects of matching the operating metrics of the other banks. Nevertheless, with 2012Fx PCE multiples still in low single digits, it is difficult to say it is overvalued, in our view.

Important disclosures can be found in the Disclosures Appendix.

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Income statement

Dhm	FY09A	FY10A	FY11F	FY12F	FY13F
Net interest income	7412	6795	7001	7583	8197
Non-interest income	3217	2641	2645	3057	3430
Total income	10629	9436	9646	10640	11627
Operating costs	-3635	-3075	-3324	-3429	-3689
Goodwill (amort/impaired)	n/a	n/a	n/a	n/a	n/a
Other costs	-93.9	-93.9	-93.9	-93.9	-93.9
<u>Pre-prov operating profit</u>	6899	6267	6228	7117	7844
Provisions charges	-3100	-2904	-3492	-1697	-1381
<u>Post-prov op prof</u>	3800	3363	2736	5420	6463
Associates (pre-tax)	-477.6	-1024	-418.5	89.9	94.4
Other pre-tax items	0.00	0.00	1835	0.00	0.00
Reported PTP	3322	2338	4153	5510	6557
Taxation	0.00	-20.9	-13.9	-18.5	-22.0
Minority interests	3.30	0.32	-0.99	-4.69	-4.69
Preference dividends	-132.6	-261.6	-258.0	-258.0	-258.0
Other post-tax items	153.2	283.4	258.0	282.5	284.8
Reported net profit	3346	2340	4138	5511	6558
Tot normalised items	0.00	0.00	1835	0.00	0.00
Normalised PTP	3322	2338	2318	5510	6557
Normalised net profit	3346	2340	2303	5511	6558

Source: Company data, Rasmala forecasts

year to Dec

Balance sheet

Dhm	FY09A	FY10A	FY11F	FY12F	FY13F
Net loans to customers	214614	197096	201601	219523	242765
Other int earn assets	26811	28812	39514	43027	47582
Goodwill	6045	5925	5831	5737	5643
Oth non-int earn assets	11169	10161	10318	13325	15431
Total assets	279014	281583	290419	316352	349557
Total customer deposits	181162	199972	209665	228304	252476
Oth int-bearing liabs	58950	40432	35789	38197	42144
Non int-bearing liab	8042	8541	9472	11218	12851
Total liabilities	248155	248945	254927	277719	307471
Share capital	26765	28544	31399	34539	37992
Reserves	0.00	0.00	0.00	0.00	0.00
Total equity (excl min)	30765	32544	35399	38539	41992
Minority interests	94.1	93.8	93.8	93.8	93.8
Total liab & sh equity	279014	281583	290419	316352	349557
Risk weighted assets	223898	217187	222151	241900	267511
Est non-perf loans	n/a	n/a	n/a	n/a	n/a
Specific provisions	-5948	-8322	-10573	-10684	-10463
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	223898	217187	222151	241900	267511
Reported net profit	3346	2340	4138	5511	6558
Opening risk assets	241200	223898	217187	222151	241900
Closing risk assets	223898	217187	222151	241900	267511
Change in risk assets	-17302	-6711	4965	19749	25611
Capital required	-1730	-671.1	496.5	1975	2561
Free capital flow	5209	3272	3900	3794	4254
Ordinary dividend paid	-1112	-1112	-1027	-2089	-2819
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	-1112	-1112	-1027	-2089	-2819
Net capital flow	4097	2161	2873	1706	1436
Tier 1 capital	26654	27692	30640	33874	37422
Tier 1 capital ratio (%)	11.9	12.8	13.8	14.0	14.0

Source: Company data, Rasmala forecasts

year to Dec

Standard ratios

	Emirates NBD					Ntl Bank of Abu Dhabi			First Gulf Bank		
	FY09A	FY10A	FY11F	FY12F	FY13F	FY11F	FY12F	FY13F	FY11F	FY12F	FY13F
Performance											
Non-int inc/gr op inc (%)	30.3	28.0	27.4	28.7	29.5	26.4	27.7	27.4	32.9	32.8	n/a
Cost/income (%)	35.1	33.6	35.4	33.1	32.5	30.9	32.0	32.8	18.6	19.6	n/a
Costs/average assets (%)	1.34	1.13	1.20	1.16	1.14	1.10	1.15	1.20	0.91	0.97	n/a
Net income growth (%)	-9.45	-30.2	78.6	32.7	19.0	2.31	24.6	22.0	41.5	31.5	n/a
Net cust loan growth (%)	2.72	-8.16	2.29	8.89	10.6	9.20	15.0	15.2	15.6	16.6	n/a
Cust deposit growth (%)	11.6	10.4	4.85	8.89	10.6	9.22	15.0	15.2	15.6	16.6	n/a
Net interest margin (%)	3.04	2.82	2.88	2.89	2.86	2.91	2.84	2.86	3.56	3.55	n/a
Return on avg assets (%)	1.24	0.93	0.90	1.90	2.05	1.86	2.10	2.90	3.42	3.85	n/a
Return on avg equity (%)	13.0	8.46	7.68	16.7	18.1	18.2	19.7	21.4	22.2	25.0	n/a
RORWA (%)	1.44	1.06	1.05	2.38	2.57	2.37	2.64	2.79	3.54	4.00	n/a
				year to Dec				year to Dec			year to Dec
Valuation											
Normalised EPS growth (%)	-13.0	-35.6	-0.55	155.7	20.0	0.23	26.3	23.2	44.8	33.3	n/a
Reported PE (x)	7.22	11.2	5.94	4.41	3.68	9.12	7.23	5.87	6.09	4.57	n/a
Normalised PE (x)	7.22	11.2	11.3	4.41	3.68	9.12	7.23	5.87	6.09	4.57	n/a
Price/book value (x)	0.86	0.81	0.73	0.67	0.61	1.45	1.26	1.15	1.18	1.00	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 (%)	4.82	4.82	4.45	9.06	12.2	1.98	3.51	9.12	5.16	6.63	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)	5558	5557	5558	5558	5558	Tier 1 capital ratio (%)	11.9	12.8	13.8	14.0	14.0
Pre-prov prof/share (AED)	1.24	1.13	1.12	1.28	1.41	Total CAR (%)	18.7	20.1	20.9	20.6	19.9
Reported EPS (AED)	0.57	0.37	0.70	0.94	1.13	Equity/assets (%)	11.0	11.6	12.2	12.2	12.0
Normalised EPS (AED)	0.57	0.37	0.37	0.94	1.13	Net cust loans/dep (%)	118.5	98.6	96.2	96.2	96.2
Book value per sh (AED)	4.82	5.14	5.65	6.21	6.84	Rep NPL/gr cus adv (%)	0.00	0.00	0.00	0.00	0.00
Dividend per share (AED)	0.20	0.20	0.18	0.38	0.51	Tot prov/rep NPLs (%)	0.00	0.00	0.00	0.00	0.00
Dividend cover (x)	3.01	2.10	2.24	2.64	2.33	Bad debts/advances (%)	1.39	1.42	1.65	0.74	0.55
				year to Dec							year to Dec

Priced as follows: ENDB.DU - Dh4.15; NDAB.AD - Dh11.20; FGB.AD - Dh18.25
Source: Company data, Rasmala forecasts

Valuation methodology

Stage 1 (2010-2013)		2010	2011	2012	2013
Explicit Divid Forecast CF to shareholders		1,112	1,027	2,089	2,819
NPV Stage 1	4,932	5,370	4,932	4,523	2,819
Stage 2 (2014-23)		Model Numbers			
Modelled Divic Excess Capital	8,273	ROE1	Growth	Capital Req'd	RWA
Modelled Dividends	11,670	17%	10%	24,076	267,511
NPV Stage 2	14,870				
Stage 3 (2024+)		Model Numbers			
Terminal Valu 2023	31,828	ROE1	Growth	Capital Req'd	
NPV Stage 3	5,468	11%	6%	62,447	
Total NPV		COE			
Stage 1 (2010-2013)	4,932	US RFR			3.31%
Stage 2 (2014-23)	14,870	Country Risk Spread			5.00%
Stage 3 (2024+)	5,468	Sector Risk Spread			3.00%
NPV	25,270	Stock Spread			4.50%
Shares	5,558	Discount Rate			15.81%
Price Target	4.55				
Price	4.14				
Upside/(Downside)	10%				

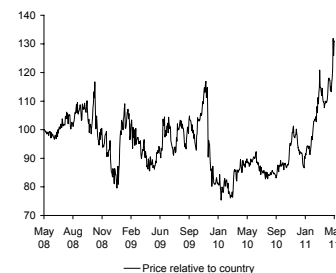
Source: Company data, Rasmala forecasts

Company description

Hold

Price relative to country

ENBD is the UAE's third largest listed bank by market capitalisation, and Dubai's largest, with the largest branch network in the country. ENBD has strong positions in every major banking area, including retail banking, mortgages, premium banking, private banking, Islamic banking, corporate banking and investment banking. Since its 2008 formation, Emirates NBD has been working to merge its operations and now has a single conventional branch network, as well as Emirates Islamic Bank. Most of the branches are based in Dubai, but with significant presence in Northern Emirates. ENBD is significantly underexposed to Abu Dhabi, and this will now be a strategic focus. Regionally, ENBD has branches in Saudi Arabia and Qatar. Major investments include a 48.9% stake in Union Properties.



Strategic analysis

Average SWOT company score: 2

2

Loan book split, 2010

Strengths

3

Within the UAE, ENBD has a 21% market share in loans and 19% in deposits. It is the largest bank in the UAE and thus has the strongest branch network of 142 branches and 16 pay offices.

Weaknesses

1

High exposure to Dubai World, qoq rise in NPL ratio, increased competition leading to compressed NIMs and inability to roll over wholesale funding at feasible rate might limit gearing capability, impacting ROE growth. A worse-case scenario could mean a full write-off of its troubled subsidiary UP.

Opportunities

2

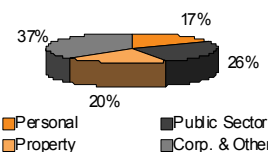
Balance-sheet optimisation (increased dependence on customer deposits and reducing the funding gap), optimising revenues (increasing contribution from new divisions) and risk management (controlling asset quality deterioration) remain top opportunities for the bank.

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

P.O.Box: 777, 9th Floor, National Bank of Dubai Building, Baniyas Street, Deira, Dubai,

Website

www.emiratesnbd.com

Shares in issue

5557.8m

Freefloat

39%

Majority shareholders

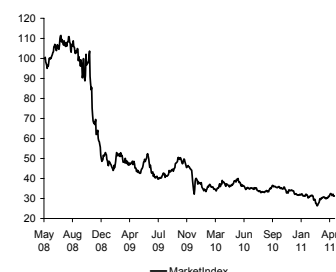
Investment Corporation of Dubai (56%), Jumaa Al Majed Abdullah Koraiban (5%)

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+

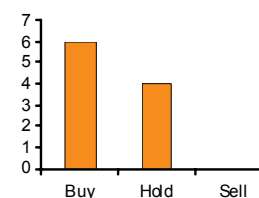
We believe the availability of substitute products (capital markets and syndicate loans) has diminished in recent times, thus improving margin capabilities for banks in the core interest business.

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

Emirates NBD (RIC: ENDB.DU, Rec: Hold, CP: Dh4.15, TP: Dh4.55): We base our valuation on a 3-stage DDM: a 3-yr stage of explicit forecasts, a ten year stage of trend forecasts and a terminal stage based on a GDM. 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.

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