

Banking Sector – December 2021

Sector Weighting:
NEUTRAL
Preview 4Q 2021

COVID-19 has accelerated the financial industries and economy's digitization.

Top Picks and Rating Changes

While bank balance sheet growth has slowed in the UAE in the 3Q21, earnings have risen sharply, showing that banks are emphasizing profitability over expansion. The top 10 banks' third-quarter profits showed increased profitability, stronger return ratios, and a better credit outlook overall. Operating income has grown faster than costs thanks to operational savings. As banks continue to reduce their expenditures and overheads, the C/I ratio has dropped to 31.8%, the lowest level since 2018. Operating income climbed 7.4% quarter over quarter, owing to a 6.8% increase in net interest income (NII) and an 8.5% increase in net fee, commission, and other operating revenue. With higher loan rates (+24bps QoQ), the Net Interest Margin (NIM) climbed by 10 basis points to 2.15%. The current NIM values of 215bps are, however, still lower than the pre-pandemic levels of 2019. The increase in rates to 5.3% drove up aggregate interest revenue by 6.1% quarter over quarter. Profits were higher than predicted in the third quarter. Profitability growth, on the other hand, tends to be unequal, favouring larger banks over mid-sized banks. Banks' creditworthiness should be maintained via strong capital buffers, a predictable funding profile, and projected government support.

Key performance indicators such as asset quality, liquidity, loans, and deposit growth, profitability, loans to deposit ratio, expenses, and capitalization have already improved for banks. While the economy's robust fundamentals are projected to underpin banking sector performance this year and next, the UAE's banking sector's non-performing loans (NPL) ratio is expected to reduce to 2% in 2022, down from 8% this year. With the release of the 3Q21 results, it is apparent that the UAE banks have left the worst behind and are starting a period of solid asset and profit growth. The central bank's assistance was timely and significant, but the country's banking industry is prepared for the support under the Central Bank of UAE's Targeted Economic Support Scheme (TESS) to be phased off. Approximately 95% of banks have already given up their TESS quotas. This is based on their belief that their clients would be able to satisfy their credit obligations. Over the following few quarters, it is anticipated to see a gradual drop in loan impairments. The UAE's solid banking system contributes to the economy's economic momentum, and banks benefit from the underlying soundness of the operating environment.

The COVID-19 crisis has pushed the digitalization of the financial industry and the economy. During the financial crisis, the business climate prompted more banking clients to adopt digital solutions, and they now demand more of them. It is, without a doubt, a positive development for banks, consumers, and all other economic players. Increased digitalization is assisting banks in reducing the number of branches and total expenses while boosting customer experience and thereby operational efficiency. While digitization necessitates major infrastructure expenditures, it also results in considerable cost savings through reduced branch networks and more remote working opportunities.

Our top picks: **i) ENBD** (Trades on 13.10x/1.05x 2021E P/E and P/B multiple with a dividend yield of 2.8% and Target Price (TP) of AED16.10). The Net Profit grew by 61% YOY to AED2.5 Bn in 3Q21, up from AED1.55 Bn in 3Q20. Similarly, the Net Funded Income grew by 7.5% YOY to AED4.44 Bn in 3Q21, up from AED4.14 Bn in 3Q20. **ii) DIB** (Trades on 15.53x/0.99x 2021F P/E and P/B multiple with a high dividend yield of 3.6% and a Target Price (PT) at AED6.00. The Net Profit increased by 19.9% YOY to AED1.2 Bn in 2Q21. DIB's portfolio aims to consistently maintain diversification and is invested in low-risk sectors like sovereign and related entities that are expected to pick up pace soon. **iii) ADCB** (Trades on 16.52x/1.03x 2021E P/E and P/B multiple with a dividend yield of 3.1% and Target Price (TP) of AED9.50). ADCB has maintained a robust balance sheet with increase in Net Loans by 1.2%, thus, outperforming the banking sector. The diversified revenue mix and good profitability makes it an attractive entity.

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Industry Themes

Mashreq Bank has reached a \$100 million settlement with the US authorities

Mashreq Bank has struck an agreement with US regulators over its alleged behaviour concerning dollar transactions that occurred over a decade ago. Mashreq will pay DFS a \$100 million penalty under the terms of the settlement. Mashreq violated US sanctions against Sudan by sending \$4 billion in Sudan-related payments via US financial institutions between January 2005 and February 2009, according to the New York State Department of Financial Services (DFS) and the US Treasury Department. Mashreq must submit an acceptable program to guarantee compliance with OFAC requirements, as well as undertake an annual risk-focused sample of dollar transfers and engage an independent third party to examine its OFAC policies and processes, according to the settlement.

Abu Dhabi Commercial Bank is rated A+ by Fitch, with a stable outlook

The long-term Issuer Default Rating of Abu Dhabi Commercial Bank has been affirmed at 'A+' with a stable outlook by global rating agency Fitch. The IDR represents the extremely high likelihood of government backing for the bank, which is 60 percent controlled by Mubadala Investment Company. The sovereign's strong capacity to sustain the banking sector, anchored by its robust net external asset position, still-strong fiscal metrics, and recurrent hydrocarbon revenue, is considered when assessing prospective state help in the event of a need. It also represents the government's strong, consistent, and predictable track record of supporting domestic banks, as well as strategic ownership of a number of them, including ADCB. The Abu Dhabi Domestic Systemically Important Banks (D-SIB) level of ADCB's Long-Term IDR reflects the bank's strong systemic importance and government ownership. Because the government accounts for a large percentage of the UAE banking sector's funding, bank stress would very certainly coincide with the sovereign's own stress.

Emirates NBD is rated 'A+' by Fitch, with a stable outlook

The Long-Term Issuer Default Rating (IDR) of UAE-based Emirates NBD Bank PJSC (ENBD) has been confirmed at 'A+' with a Stable Outlook and Viability Rating (VR) of 'bb+' by Fitch Ratings. Fitch sees support factors in the UAE's strong capacity to sustain the banking sector, which is bolstered by the country's strong net external asset position, stable fiscal indicators, and recurrent hydrocarbon income. It also reflects the authorities' strong, timely, and predictable track record of supporting domestic banks, as well as the sovereign's close relations to and partial ownership of several banks, including ENBD. ENBD's SRF is one notch higher than the UAE's domestic systemically significant bank (D-SIB) SRF of 'A,' indicating its status as the city's flagship bank. This is because the government accounts for a substantial percentage of the UAE banking sector's funding, and bank difficulty would very certainly coincide with the sovereign's own stress.

FAB is planning to launch its first branch in China

First Abu Dhabi Bank plans to extend its worldwide network by opening its first branch in mainland China in the first quarter of 2022. The China Banking and Insurance Regulatory Commission Shanghai Office granted the bank a financial license, allowing it to build a branch in Shanghai. With this license, FAB will be able to conduct RMB and foreign currency transactions in China. FAB may now use its size, experience, and financial clout to help both countries' key industries collaborate more quickly.

The net profit of Dubai's Emirates NBD increased by 61% in the third quarter as retail lending increased

The third-quarter net profit of Dubai's largest bank, Emirates NBD, increased by 61% as better economic circumstances pushed demand for retail borrowing to new highs. The bank had a net profit of 2.5 billion dirhams (\$682 million) in the third quarter, up from 1.6 billion dirhams the previous year. The increase in revenue and profitability in the third quarter of 2021 is a strong indication of the region's improved economic conditions. The lender made much fewer impairment provisions, with 1.1 billion dirhams down 49% YoY. The loan mix improved because of robust

demand for retail finance, a more efficient funding base, and a much lower cost of risk. Total income increased by 7% year over year in 2021, as margins improved because of increased demand for retail lending, a more efficient funding base, and a larger contribution from DenizBank.

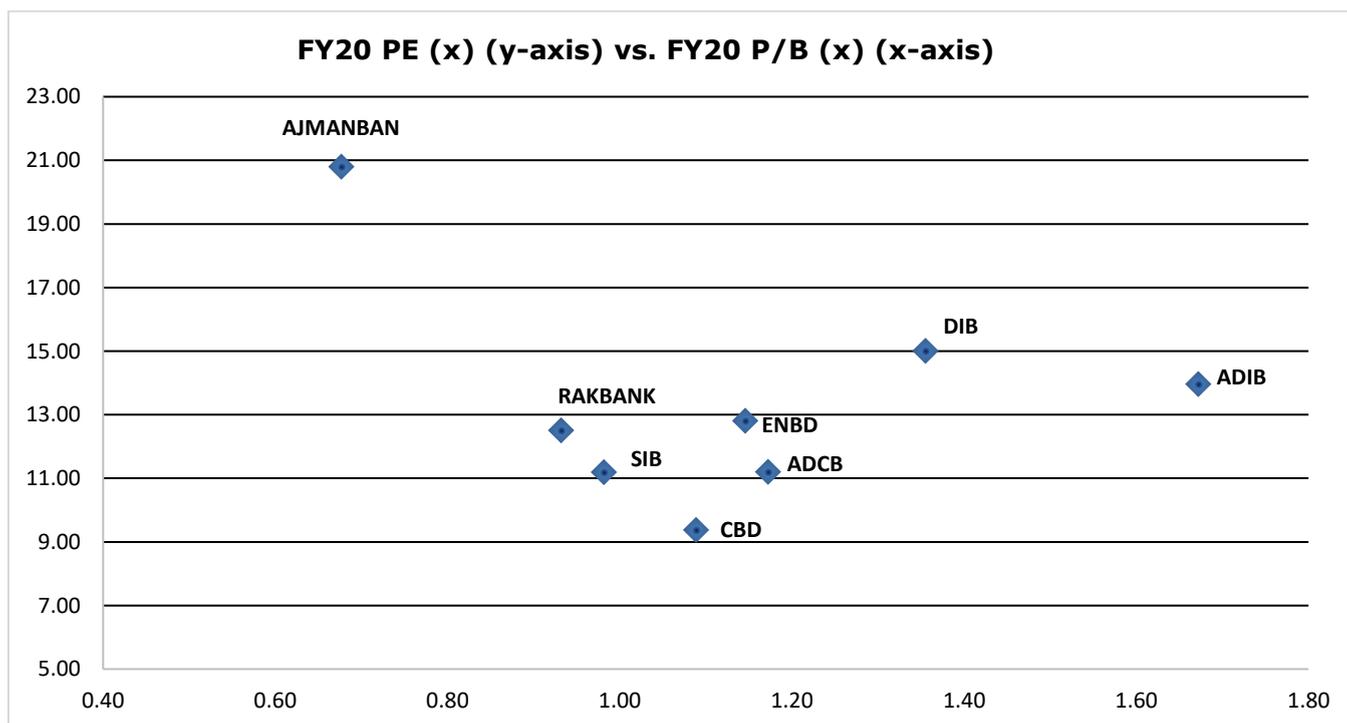
The banking sector in the United Arab Emirates is recovering

CBUAE's prompt and comprehensive financial system support helped protect the UAE economy from the pandemic's effects and hastened post-COVID recovery. The UAE has committed a total assistance package of AED 400 billion, with the CBUAE providing a total relief package of AED 250 billion to banks. The AED 100 billion Zero Cost Facility helped both people and companies while also facilitating liquidity management for banks through zero-cost collateralized funding. Hundreds of thousands of retail consumers, tens of thousands of SMEs, and thousands of private sector enterprises have benefitted from CBUAE's TESS loan deferral program. The positive Q2 financial results of UAE banks show that the banking industry is on the mend, after suffering a global drop due to COVID-19. Improvements in operational circumstances, cost efficiency, and loan demand are projected to help UAE banks sustain their growth momentum in the second half of the year.

Relative valuation and rating

Relative valuation

The UAE banks under our coverage are trading in the 2021 PE range of 9.38x (CBD) and 20.65x (Ajman Bank). The 2020 PB ranges between 0.35x (CBI & BOS) and 1.57x (INVESTB). The UAE banks are currently trading at average PE and PB multiple of 13.22x and 1x vis-à-vis the Saudi average of 19.03x (PE) and 2.28x (PB).



Source: FABS from Bloomberg

Market Weight

We remain MARKET WEIGHT with 3x BUY, 3x ACCUMULATE, 4X HOLD, and 2x SELL on the 12 UAE banks under our coverage. UAE systems' Total Net Assets increased by 7.31% YOY to AED3,271 Bn in October 2021. The UAE banking sector's Net advances declined 1.5% YOY to AED1,590 Bn in October 2021. Customer deposits mobilisation increased by 3% MOM to AED1,967 Bn in October 2021.

Target price and rating

(AED)	Target Price	CMP	Potential change	Rating
BOS	0.30	0.605	-50.4%	SELL
CBI	0.70	0.650	7.7%	HOLD
MASQ	82.00	79.50	3.1%	HOLD
NBS	1.90	1.87	1.6%	HOLD
AJMANBANK	0.90	0.837	7.5%	HOLD
RAKBANK	5.40	4.51	19.7%	BUY
CBD	5.15	4.30	19.8%	BUY
ADCB	9.50	8.59	10.6%	ACCUMULATE
ADIB	7.80	6.98	11.7%	ACCUMULATE
DIB	6.30	5.59	12.7%	ACCUMULATE
ENBD	16.10	14.00	15.0%	BUY
UAB	0.40	0.673	-40.6%	SELL

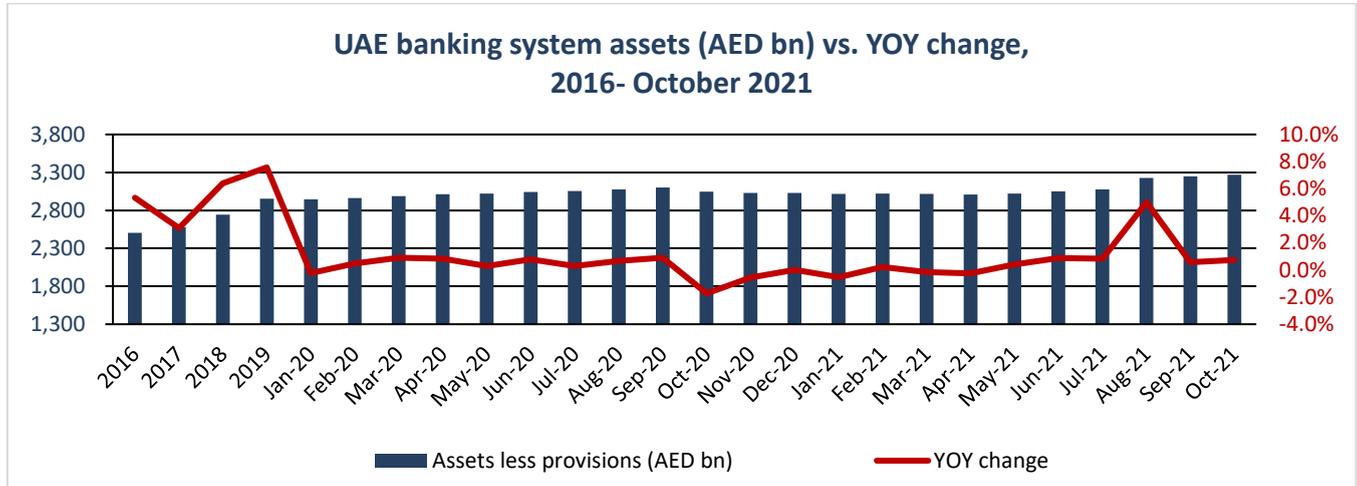
Source: FABS from co data

Banking indicators

1. Assets

Total net assets increased on a MOM basis in October 2021

UAE system's total net assets decreased by 0.74% on a MOM basis to AED3,271 Bn in October 2021.



Source: FABS from CBUAE

FAB witnessed the highest QOQ asset growth in 3Q21

At an individual bank level, CBD recorded the largest growth in assets by 4.2% QOQ to AED 982,833 Mn in 3Q21. This was followed by ADCB, which increased by 3.8% to AED432,061 Mn. CBD recorded the lowest growth of -4.4% QOQ to AED107,752 Mn in 3Q21.

Total assets: 14 UAE banks

(AED MN)	3Q20	4Q20	1Q21	2Q21	3Q21	QOQ ch
BOS	34,769	36,143	37,088	37,699	38,499	2.1%
YOY change	11.3%	13.8%	15.3%	9.4%	10.7%	
CBI	18,269	17,141	15,970	17,053	17,495	2.6%
YOY change	-9.7%	-8.0%	-10.6%	-9.2%	-4.2%	
MASQ	169,724	158,523	162,253	172,763	169,561	-1.9%
YOY change	15.6%	-0.6%	-0.2%	-0.3%	-0.1%	
NBS	53,332	53,601	54,919	54,351	54,510	0.3%
YOY change	16.9%	15.5%	11.5%	3.2%	2.2%	
AJMANBANK	22,611	21,507	21,967	21,316	21,505	0.9%
YOY change	-6.9%	-9.0%	-5.5%	-9.5%	-4.9%	
RAKBANK	52,328	52,773	53,231	54,312	54,495	0.3%
YOY change	-7.0%	-7.6%	-10.9%	-0.1%	4.1%	
CBD	92,750	97,362	102,471	112,767	107,752	-4.4%
YOY change	12.4%	10.6%	14.0%	20.4%	16.2%	
ADCB	409,262	411,156	395,819	416,290	432,061	3.8%
YOY change	0.6%	1.5%	-4.0%	2.5%	5.6%	
ADIB	127,116	127,816	130,694	130,608	133,382	2.1%
YOY change	2.3%	1.5%	6.5%	5.0%	4.9%	
DIB	299,303	289,556	291,711	293,782	289,389	-1.5%
YOY change	30.2%	24.9%	5.5%	-0.3%	-3.3%	
ENBD	692,138	698,087	695,059	693,783	699,067	0.8%
YOY change	2.5%	2.2%	0.5%	-0.1%	1.0%	

UAB	17,982	14,849	14,419	14,549	14,267	-1.9%
YOY change	-8.7%	-22.4%	-18.2%	-12.9%	-20.7%	
Invest	NA	NA	NA	NA	NA	NA
YOY change	NA	NA	NA	NA	NA	
FAB	955,147	919,061	940,746	943,647	982,833	4.2%
YOY change	21.2%	11.8%	12.6%	9.0%	2.9%	

Source: FABS from co data

FAB's remain a leader in terms of market share in 3Q21

Despite a slight decrease of 0.6%, FAB remains a leader in terms of market share with respect to assets, followed by ENBD and ADCB. With regards to momentum across the 14 banks, an increase in its total asset share was recorded by ADCB 0.4% pp QOQ followed by CBD by 0.3% pp QOQ and MASQ by 0.2% pp QOQ.

Total assets share

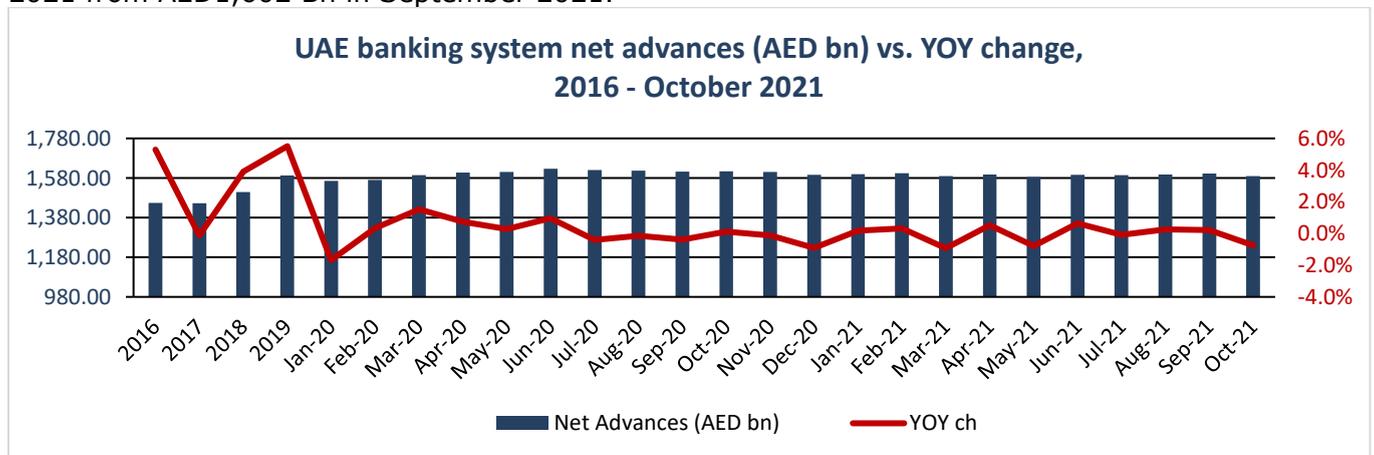
	3Q20	4Q20	1Q21	2Q21	3Q21	QOQ ch
BOS	1.1%	1.2%	1.2%	1.2%	1.2%	0.0%
CBI	0.6%	0.6%	0.5%	0.6%	0.5%	0.0%
MASQ	5.5%	5.1%	5.4%	5.6%	5.2%	-0.4%
NBS	1.7%	1.7%	1.8%	1.8%	1.7%	-0.1%
AJMANBANK	0.7%	0.7%	0.7%	0.7%	0.7%	0.0%
RAKBANK	1.7%	1.7%	1.8%	1.8%	1.7%	-0.1%
CBD	3.0%	3.1%	3.4%	3.7%	3.3%	-0.4%
ADCB	13.2%	13.3%	13.1%	13.5%	13.2%	-0.3%
ADIB	4.1%	4.1%	4.3%	4.2%	4.1%	-0.2%
DIB	9.6%	9.3%	9.7%	9.6%	8.8%	-0.7%
ENBD	22.3%	22.5%	23.1%	22.6%	21.4%	-1.2%
UAB	0.6%	0.5%	0.5%	0.5%	0.4%	0.0%
INVEST	NA	NA	0.4%	NA	NA	NA
FAB	30.8%	29.6%	31.2%	30.7%	30.0%	-0.6%

Source: FABS from co data, CBUAE

2. Advances

Advances decreased slightly MOM in October 2021

CBUAE banking indicators show net advances decreased by 0.8% MOM to AED1,590 Bn in October 2021 from AED1,602 Bn in September 2021.



Source: FABS from CBUAE

CBI's advances grew the most in QOQ basis in 3Q21

On an individual bank level, AJMANBANK and DIB lost the most in terms of advances formation momentum for 3Q21. AJMANBANK decreased by 1.2% QOQ to AED15,814 Mn in 3Q21 from AED16,001 Mn in 2Q21. DIB decreased by 0.8% QOQ to AED192,756 Mn in 3Q21 from AED194,756 Mn in 2Q21. On the other hand, CBI's advances increased by 5.2% QOQ to AED10,603 Mn from AED10,082 Mn in 2Q21.

Net advances: UAE banks

(AED MN)	3Q20	4Q20	1Q21	2Q21	3Q21	QOQ ch
BOS	19,417	19,456	19,879	20,191	20,329	0.7%
YOY change	6.1%	9.7%	5.2%	5.2%	4.7%	
CBI	10,565	10,372	10,226	10,082	10,603	5.2%
YOY change	-10.3%	-11.8%	-6.7%	-7.1%	0.4%	
MASQ	73,942	71,533	75,797	77,282	76,982	-0.4%
YOY change	2.5%	-6.1%	-3.2%	1.1%	4.1%	
NBS	29,536	29,269	29,327	29,292	29,551	0.9%
YOY change	16.3%	16.4%	3.9%	0.7%	0.1%	
AJMANBANK	17,231	16,961	16,982	16,001	15,814	-1.2%
YOY change	-1.5%	-0.9%	-3.7%	-9.9%	-8.2%	
RAKBANK	30,421	30,041	30,518	31,063	31,451	1.2%
YOY change	-12.0%	-13.1%	-11.1%	-4.6%	3.4%	
CBD	62,980	65,289	69,598	74,044	74,898	1.2%
YOY change	11.7%	8.5%	11.7%	16.8%	18.9%	
ADCB	242,890	238,976	235,725	237,814	241,912	1.7%
YOY change	-2.7%	-3.6%	-4.4%	-0.6%	-0.4%	
ADIB	83,205	83,409	83,082	83,700	84,419	0.9%
YOY change	5.0%	2.8%	4.7%	2.1%	1.5%	
DIB	197,436	196,689	196,181	194,290	192,756	-0.8%
YOY change	30.2%	30.3%	8.9%	-3.0%	-2.4%	
ENBD	442,305	443,541	436,102	438,227	438,318	0.0%
YOY change	2.9%	1.4%	-1.6%	-1.1%	-0.9%	
UAB	10,005	9,014	8,501	8,035	8,035	0.0%
YOY change	-20.0%	-22.1%	-23.9%	-22.5%	-19.7%	
INVEST	NA	NA	NA	NA	NA	NA
YOY change	NA	NA	NA	NA	NA	
FAB	388,800	386,644	378,007	398,638	403,807	1.3%
YOY change	2.9%	-5.2%	-1.0%	3.7%	3.9%	

Source: FABS from co data

Except for FAB and ADCB most banks' market share in advances remained broadly stable

FAB witnessed an increase of 0.4% pp QOQ in market share to 25.4% in 3Q21 from 25% in 2Q21, followed by ADCB with an increase of 0.3% pp QOQ in market share to 15.2% in 3Q21 from 14.9% in 2Q21. ENBD continued leading in market share with 27.6% in market share, followed by FAB.

Advances mkt share

	3Q20	4Q20	1Q21	2Q21	3Q21	QOQ: pp
BOS	1.2%	1.2%	1.2%	1.3%	1.3%	0.0%
CBI	0.7%	0.6%	0.6%	0.6%	0.7%	0.0%
MASQ	4.6%	4.4%	4.7%	4.8%	4.8%	0.0%
NBS	1.8%	1.8%	1.8%	1.8%	1.9%	0.0%
AJMANBANK	1.1%	1.1%	1.1%	1.0%	1.0%	0.0%

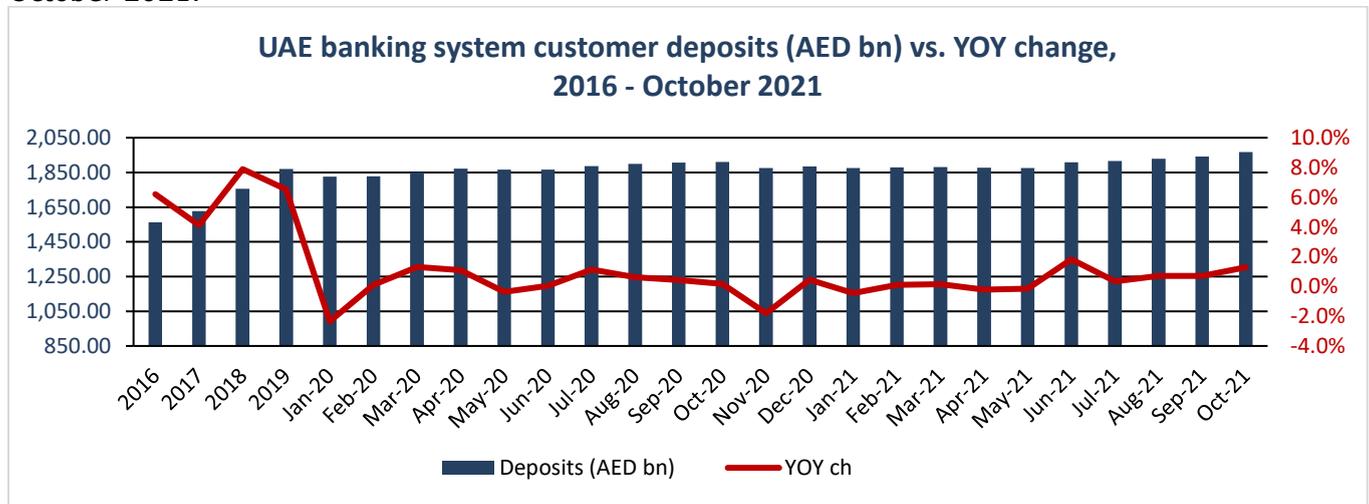
RAKBANK	1.9%	1.9%	1.9%	1.9%	2.0%	0.0%
CBD	3.9%	4.1%	4.4%	4.6%	4.7%	0.1%
ADCB	15.1%	14.8%	14.8%	14.9%	15.2%	0.3%
ADIB	5.2%	5.2%	5.2%	5.3%	5.3%	0.1%
DIB	12.3%	12.2%	12.3%	12.2%	12.1%	-0.1%
ENBD	27.4%	27.5%	27.3%	27.5%	27.6%	0.1%
UAB	0.6%	0.6%	0.5%	0.5%	0.5%	0.0%
INVEST	NA	NA	0.4%	NA	NA	NA
FAB	24.1%	24.0%	23.7%	25.0%	25.4%	0.4%

Source: FABS from co data, CBUAE

3. Customer Deposit

System customer deposit mobilization increased MOM in October 2021

The UAE system customer deposits mobilization increased by 1.3% MOM to AED1,967 Bn in October 2021.



Source: FABS from CBUAE

FAB's customer deposits increased the most in 3Q21

FAB's customer deposits increased by 5.4% QOQ to AED606,004 Mn in 3Q21 from AED575,192 Mn in 2Q21, followed by BOS by 5.1%. CBD's customer deposits decreased the most by 5% QOQ in 3Q21 to AED75,812 Mn from AED79,820 Mn in 2Q21 followed by CBI that decreased by 4.1%.

Customer deposits: UAE banks

(AED MN)	3Q20	4Q20	1Q21	2Q21	3Q21	QOQ ch
BOS	23,253	23,673	24,055	23,941	25,170	5.1%
YOY change	12.0%	11.0%	10.1%	1.9%	8.2%	
CBI	10,657	10,481	9,929	10,670	10,236	-4.1%
YOY change	-19.6%	-13.1%	-9.7%	-6.1%	-4.0%	
MASQ	94,716	88,261	90,205	95,433	94,779	-0.7%
YOY change	12.6%	-3.0%	1.9%	-3.2%	0.1%	
NBS	32,605	33,608	35,476	34,992	36,735	5.0%
YOY change	21.4%	23.0%	12.6%	8.5%	12.7%	
AJMANBANK	14,477	14,226	13,895	13,876	14,010	1.0%
YOY change	-2.4%	-4.7%	-6.6%	-6.1%	-3.2%	
RAKBANK	34,205	36,944	36,479	37,027	36,988	-0.1%

YOY change	-6.2%	0.3%	-3.5%	5.6%	8.1%	
CBD	64,000	69,751	70,902	79,820	75,812	-5.0%
YOY change	8.4%	10.1%	11.0%	22.2%	18.5%	
ADCB	243,579	251,395	238,830	250,564	255,753	2.1%
YOY change	-7.2%	-4.1%	-9.1%	0.1%	5.0%	
ADIB	100,722	101,276	103,069	105,159	107,005	1.8%
YOY change	0.4%	-0.1%	4.3%	6.6%	6.2%	
DIB	214,642	205,925	214,001	218,309	214,124	-1.9%
YOY change	31.7%	25.2%	7.1%	5.7%	-0.2%	
ENBD	458,007	464,197	459,092	457,886	466,508	1.9%
YOY change	-2.2%	-1.7%	-1.7%	-0.7%	1.9%	
UAB	14,104	11,247	10,839	10,639	10,328	-2.9%
YOY change	10.6%	-11.3%	-3.2%	-8.8%	-26.8%	
INVEST	NA	NA	NA	NA	NA	NA
YOY change	NA	NA	NA	NA	NA	NA
FAB	601,768	540,882	568,331	575,192	606,004	5.4%
YOY change	26.2%	4.2%	14.3%	10.9%	0.7%	

Source: FABS from co data

FAB's market share Increased the most in 2021

With regards to market share momentum, FAB increased by 0.8% QOQ in 3Q21 from 30% to 30.8% in 3Q21. FAB continues to remain a leader in terms of market share with respect to assets, followed by ENBD with 23.7% and ADCB 13%.

Deposits mkt share

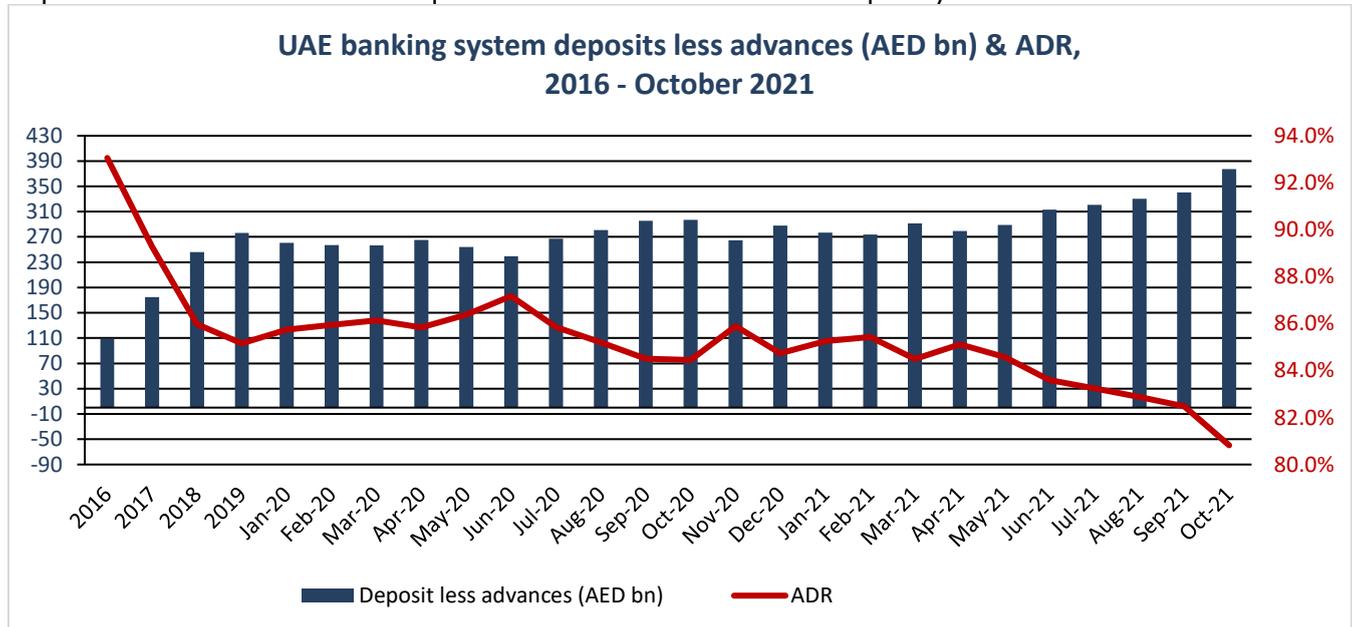
	3Q20	4Q20	1Q21	2Q21	3Q21	QOQ Ch
BOS	1.2%	1.2%	1.3%	1.3%	1.3%	0.0%
CBI	0.6%	0.5%	0.5%	0.6%	0.5%	0.0%
MASQ	5.0%	4.6%	4.8%	5.0%	4.8%	-0.2%
NBS	1.7%	1.8%	1.9%	1.8%	1.9%	0.0%
AJMANBANK	0.8%	0.7%	0.7%	0.7%	0.7%	0.0%
RAKBANK	1.8%	1.9%	1.9%	1.9%	1.9%	-0.1%
CBD	3.4%	3.7%	3.8%	4.2%	3.9%	-0.3%
ADCB	12.8%	13.2%	12.7%	13.1%	13.0%	-0.1%
ADIB	5.3%	5.3%	5.5%	5.5%	5.4%	-0.1%
DIB	11.3%	10.8%	11.4%	11.4%	10.9%	-0.5%
ENBD	24.0%	24.3%	24.5%	23.9%	23.7%	-0.2%
UAB	0.7%	0.6%	0.6%	0.6%	0.5%	0.0%
INVEST	NA	NA	0.4%	NA	NA	NA
FAB	31.6%	28.4%	30.3%	30.0%	30.8%	0.8%

Source: FABS from co data, CBUAE

4. Liquidity

Liquidity in the UAE banking system

Advances to deposit ratio stood at 81% as of October 2021. This view is validated by using deposits less advances as an equivalent indicator to measure liquidity.



Source: FABS from CBUAE

Top key liquidity metrics

We use three metrics to measure and rank the balance sheet liquidity of the 14 UAE banks under coverage. On an ADR basis, CBI increased the most by 9.9%, reaching 114.5% in 3Q21 compared to 104.6% in 2Q21. However, CBI deposit surplus decreased by 162.2% in 3Q21 to negative AED366 Mn from AED589 Mn in 2Q21. While the percentage lent has increased by 1.5% to 60.6% in 3Q21. BOS ADR has decreased the most by 3.8% to 89% in 3Q21 from 92.8% in 2Q21. The bank deposit increased to AED4,841 Mn in 3Q21 from AED3,750 Mn in 2Q21. At the same time, the percentage lent decreased by 0.8% to 52.8% in 3Q21 from 53.6% in 2Q21.

ADR: UAE Banks

	3Q20	4Q20	1Q21	2Q21	3Q21	QQ ch
BOS	91.8%	90.4%	90.9%	92.8%	89.0%	-3.8%
CBI	106.9%	107.3%	113.3%	104.6%	114.5%	9.9%
MASQ	83.0%	87.6%	89.4%	86.5%	88.2%	1.7%
NBS	94.4%	90.9%	86.4%	87.6%	84.2%	-3.3%
AJMANBANK	124.8%	126.1%	129.6%	121.9%	118.8%	-3.1%
RAKBANK	95.3%	87.2%	89.7%	89.7%	90.5%	0.8%
CBD	103.9%	99.0%	103.8%	98.1%	104.1%	6.0%
ADCB	103.7%	99.6%	103.5%	99.2%	98.5%	-0.7%
ADIB	86.3%	86.3%	84.6%	83.7%	83.3%	-0.5%
DIB	95.4%	99.6%	95.8%	93.1%	94.3%	1.2%
ENBD	104.0%	103.1%	102.9%	103.7%	101.9%	-1.8%
UAB	81.0%	94.9%	90.0%	87.6%	89.1%	1.5%
INVEST	NA	NA	151.9%	NA	NA	NA
FAB	67.1%	74.3%	69.2%	72.1%	69.3%	-2.8%

Source: FABS from co data

Deposit surplus/-deficit

AED MN	3Q20	4Q20	1Q21	2Q21	3Q21	QOQ ch
BOS	3,836	4,217	4,175	3,750	4,841	29.1%
CBI	93	110	-296	589	-366	-162.2%
MASQ	20,774	16,728	14,408	18,151	17,796	-2.0%
NBS	3,069	4,340	6,149	5,700	7,183	26.0%
AJMANBANK	-2,754	-2,735	-3,087	-2,125	-1,804	-15.1%
RAKBANK	3,784	6,903	5,962	5,964	5,536	-7.2%
CBD	4,253	6,226	3,068	8,676	3,499	-59.7%
ADCB	689	77,816	71,394	82,035	89,412	9.0%
ADIB	17,517	17,867	19,987	21,458	22,586	5.3%
DIB	17,206	9,236	17,819	24,020	21,367	-11.0%
ENBD	15,703	20,656	22,990	19,660	28,190	43.4%
UAB	4,098	2,233	2,338	2,604	2,293	-11.9%
INVEST	NA	NA	NA	NA	NA	NA
FAB	275,136	216,676	260,664	247,851	274,570	10.8%

Source: FABS from co data

Percentage lent

AED MN	3Q20	4Q20	1Q21	2Q21	3Q21	QOQ ch
BOS	55.8%	53.8%	53.6%	53.6%	52.8%	-0.8%
CBI	57.8%	60.5%	64.0%	59.1%	60.6%	1.5%
MASQ	43.6%	45.1%	46.7%	44.7%	45.4%	0.7%
NBS	55.4%	54.6%	53.4%	53.9%	54.2%	0.3%
AJMANBANK	76.2%	78.9%	77.3%	75.1%	73.5%	-1.5%
RAKBANK	58.1%	56.9%	57.3%	57.2%	57.7%	0.5%
CBD	67.9%	67.1%	67.9%	65.7%	69.5%	3.8%
ADCB	59.3%	58.1%	59.6%	57.1%	56.0%	-1.1%
ADIB	65.5%	65.3%	63.6%	64.1%	63.3%	-0.8%
DIB	66.0%	67.9%	67.3%	66.1%	66.6%	0.5%
ENBD	63.9%	63.5%	62.7%	63.2%	62.7%	-0.5%
UAB	55.6%	60.7%	59.0%	55.2%	56.3%	1.1%
INVEST	NA	NA	61.1%	NA	NA	NA
FAB	40.7%	42.1%	40.2%	42.2%	41.1%	-1.2%

Source: FABS from co data

5. Profitability

ADIB and FAB's ROE is the highest compared to other UAE banks

FAB's and ADIB's ROE stood at 12.7% and 12.4% respectively in 3Q21, the highest compared to other banks, with an increase by 1% QOQ for FAB and a decrease for 0.7% QOQ for ADIB. Next is CBD at 11.9% with a rise of 0.5% QOQ. The bank with the lowest ROE for 3Q21 is BOS of -59.5%, with a 25% QOQ decrease.

ROE: UAE Banks

	3Q20	4Q20	1Q21	2Q21	3Q21	QOQ ch
BOS	-15.2%	-21.3%	-19.5%	-34.5%	-59.5%	-25.0%
CBI	-0.6%	-1.4%	-6.9%	-5.7%	-1.0%	4.7%
MASQ	3.1%	-6.2%	-8.5%	-8.5%	-6.8%	1.8%
NBS	8.4%	7.1%	7.4%	7.7%	8.7%	1.0%
AJMANBANK	1.1%	2.1%	3.2%	2.8%	3.3%	0.6%
RAKBANK	9.1%	6.5%	6.2%	6.5%	7.6%	1.1%
CBD	11.3%	10.7%	11.2%	11.5%	11.9%	0.5%
ADCB	7.3%	7.0%	9.8%	9.5%	9.2%	-0.4%
ADIB	11.3%	9.2%	11.7%	13.0%	12.4%	-0.7%
DIB	13.6%	10.1%	9.0%	8.4%	9.2%	0.8%
ENBD	10.3%	8.6%	9.2%	9.5%	10.7%	1.2%
UAB	-36.8%	-36.9%	-35.0%	-26.4%	-16.3%	10.1%
INVEST	NA	NA	NA	NA	NA	NA
FAB	10.7%	10.4%	11.7%	11.6%	12.7%	1.0%

Source: FABS from co data

ADIB's ROA is the highest compared to other UAE banks

ADIB's ROA stands at 1.6% in 3Q21, highest in comparison to other UAE banks with a 0.1% QOQ decrease. Followed by FAB, CBD with the same ROA of 1.4% in 3Q21. The bank with the lowest ROA is BOS -5.7%, with a decrease of 2.5% QOQ.

ROA: UAE Banks

	3Q20	4Q20	1Q21	2Q21	3Q21	QOQ ch
BOS	-1.6%	-1.9%	-1.8%	-3.2%	-5.7%	-2.5%
CBI	-0.1%	-0.2%	-0.8%	-0.6%	-0.1%	0.5%
MASQ	0.4%	-0.8%	-1.0%	-1.0%	-0.8%	0.2%
NBS	1.0%	0.8%	0.8%	0.8%	0.9%	0.1%
AJMANBANK	0.1%	0.2%	0.4%	0.3%	0.4%	0.1%
RAKBANK	1.3%	0.9%	0.8%	0.9%	1.1%	0.2%
CBD	1.3%	1.2%	1.2%	1.2%	1.4%	0.1%
ADCB	0.9%	0.9%	1.2%	1.2%	1.1%	0.0%
ADIB	1.5%	1.3%	1.5%	1.7%	1.6%	-0.1%
DIB	1.6%	1.3%	1.1%	1.0%	1.1%	0.1%
ENBD	1.1%	1.0%	1.0%	1.1%	1.2%	0.1%
UAB	-4.1%	-3.9%	-3.4%	-2.8%	-1.6%	1.2%
INVEST	NA	NA	NA	NA	NA	NA
FAB	1.2%	1.2%	1.2%	1.2%	1.3%	0.1%

Source: FABS from co data

6. Efficiency

ADCB and RAKBANK's NIM declined the most compared to other banks

ADCB and RAKBANK's Net Interest Margin (NIM) declined by 0.1% QOQ to 2.4% and 4.6%, respectively in 3Q21. Meanwhile, BOS Net Interest Margin (NIM) increased the most by 0.3% QOQ in 3Q21 to 2.7%.

NIM: UAE Banks

	3Q20	4Q20	1Q21	2Q21	3Q21	QOQ ch
BOS	1.7%	2.5%	2.5%	2.5%	2.7%	0.3%
CBI	3.1%	3.1%	2.9%	2.7%	2.6%	0.0%
MASQ	2.5%	2.2%	2.0%	2.0%	2.2%	0.1%
NBS	2.1%	2.3%	2.2%	2.3%	2.3%	0.1%
AJMANBANK	2.4%	2.7%	2.8%	3.0%	3.0%	0.1%
RAKBANK	5.6%	5.3%	4.8%	4.6%	4.6%	-0.1%
CBD	2.5%	2.5%	2.3%	2.3%	2.5%	0.2%
ADCB	2.8%	2.8%	2.6%	2.5%	2.4%	-0.1%
ADIB	3.9%	3.8%	3.7%	3.6%	3.7%	0.1%
DIB	3.0%	3.0%	2.7%	2.6%	2.7%	0.1%
ENBD	3.2%	3.1%	2.9%	2.8%	2.8%	0.0%
UAB	1.0%	1.9%	1.8%	1.9%	2.0%	0.1%
INVEST	NA	NA	NA	NA	NA	NA
FAB	2.1%	2.0%	1.9%	1.8%	1.8%	0.0%

Source: FABS from co data

UAB Cost-to-income (C/I) ratio highest compared to other UAE banks

MASQ's Cost to Income ratio increased the most on a QOQ basis to 48.4% in 3Q21 from 41.1% in 2Q21. The bank with the highest decline in C/I ratio is CBI, with a decrease of 11.5% to 47.8% in 3Q21 from 59.3% in 2Q21.

Cost to Income: UAE bank

	3Q20	4Q20	1Q21	2Q21	3Q21	QOQ ch
BOS	24.4%	-198.4%	47.8%	51.2%	50.0%	-1.2%
CBI	29.5%	54.5%	69.6%	59.3%	47.8%	-11.5%
MASQ	55.2%	90.1%	44.0%	41.1%	48.4%	7.2%
NBS	43.8%	95.3%	38.2%	40.3%	36.6%	-3.7%
AJMANBANK	46.2%	30.1%	45.5%	39.8%	46.5%	6.6%
RAKBANK	38.2%	45.0%	41.2%	41.3%	43.6%	2.4%
CBD	28.5%	24.4%	27.5%	24.0%	24.2%	0.2%
ADCB	36.9%	35.0%	36.3%	33.4%	34.9%	1.4%
ADIB	45.0%	40.0%	45.6%	45.5%	40.3%	-5.3%
DIB	30.2%	24.0%	27.4%	27.6%	25.1%	-2.5%
ENBD	32.0%	41.5%	30.3%	35.3%	34.0%	-1.3%
UAB	80.4%	63.2%	45.1%	57.8%	60.5%	2.7%
INVEST	NA	NA	NA	NA	NA	NA
FAB	28.0%	25.8%	30.1%	27.9%	24.8%	-3.2%

Source: FABS from co data

MASQ's COR highest in 2Q21

MASQ's Cost of Risk stood at 0.7% in 3Q21, which decreased by 0.3% QOQ. CBI increased the most in 3Q21 by 0.3% from 0.2% in 2Q21 to 0.5% in 3Q21.

Cost of risk: UAE Banks

	3Q20	4Q20	1Q21	2Q21	3Q21	QOQ ch
BOS	0.6%	1.7%	0.0%	0.2%	0.1%	-0.1%
CBI	1.6%	0.3%	1.2%	0.2%	0.5%	0.3%
MASQ	0.8%	2.2%	0.9%	1.0%	0.7%	-0.3%
NBS	0.2%	0.3%	0.2%	0.3%	0.2%	0.0%
AJMANBANK	0.4%	0.8%	0.3%	0.4%	0.3%	-0.1%
RAKBANK	1.2%	1.2%	1.1%	0.9%	0.7%	-0.2%
CBD	0.3%	0.5%	0.3%	0.4%	0.3%	-0.1%
ADCB	0.2%	0.4%	0.3%	0.3%	0.2%	0.0%
ADIB	0.3%	0.4%	0.2%	0.3%	0.4%	0.2%
DIB	0.3%	0.9%	0.4%	0.4%	0.3%	0.0%
ENBD	0.5%	0.3%	0.4%	0.2%	0.2%	0.1%
UAB	1.5%	3.2%	0.6%	0.3%	0.2%	-0.1%
INVEST	NA	NA	NA	NA	NA	NA
FAB	0.1%	0.1%	0.1%	0.2%	0.2%	0.0%

Source: FABS from co data

NBS has a higher CAR compared to other UAE banks

Sharjah Islamic Bank (NBS) has a higher Capital Adequacy Ratio (CAR) of 21.2% compared to other banks which increased by 0.4% in 3Q21. This indicates that NBS is better positioned to withstand unforeseen losses or a financial downturn if occurred, Followed by ENBD with a CAR of 19.2% and an increase of 0.5% QOQ. The bank with the lowest CAR is BOS with a CAR of 10.8%.

CAR: UAE Banks

	3Q20	4Q20	1Q21	2Q21	3Q21	QOQ ch
BOS	11.4%	10.7%	10.6%	10.7%	10.8%	0.1%
CBI	15.7%	16.3%	15.8%	14.7%	14.9%	0.1%
MASQ	17.4%	16.0%	14.4%	14.0%	14.4%	0.5%
NBS	21.5%	20.7%	20.7%	20.8%	21.2%	0.4%
AJMANBANK	15.7%	16.0%	16.1%	16.2%	16.2%	0.1%
RAKBANK	19.4%	18.6%	18.1%	17.8%	17.8%	0.0%
CBD	14.4%	16.7%	16.3%	15.7%	16.2%	0.5%
ADCB	16.7%	17.2%	16.6%	16.3%	16.3%	-0.1%
ADIB	18.4%	19.4%	19.2%	19.1%	19.5%	0.4%
DIB	17.3%	18.5%	17.1%	17.0%	17.5%	0.5%
ENBD	19.1%	18.5%	19.0%	18.7%	19.2%	0.5%
UAB	14.0%	13.7%	14.2%	13.4%	13.6%	0.2%
INVEST	NA	NA	NA	NA	NA	NA
FAB	16.8%	16.5%	16.9%	16.1%	15.9%	-0.2%

Source: FABS from co data

Banking stock performance

The UAE banking sector's stock performance for 2021 YTD has underperformed compared to KSA sector but overperformed compared to Egypt and Qatar Banking sector. CBI among the UAE banks with a decline of -13.3%, followed by UAB with a decrease of -20.7%, while FAB is the top-performing stock in UAE banks, increased by +55.2% YTD followed by ADIB with an increase of +47.7%. Along with UAE, KSA and Qatar averaged YTD gains in 2021 by 20.9%, 41.2% and 20.2%, respectively.

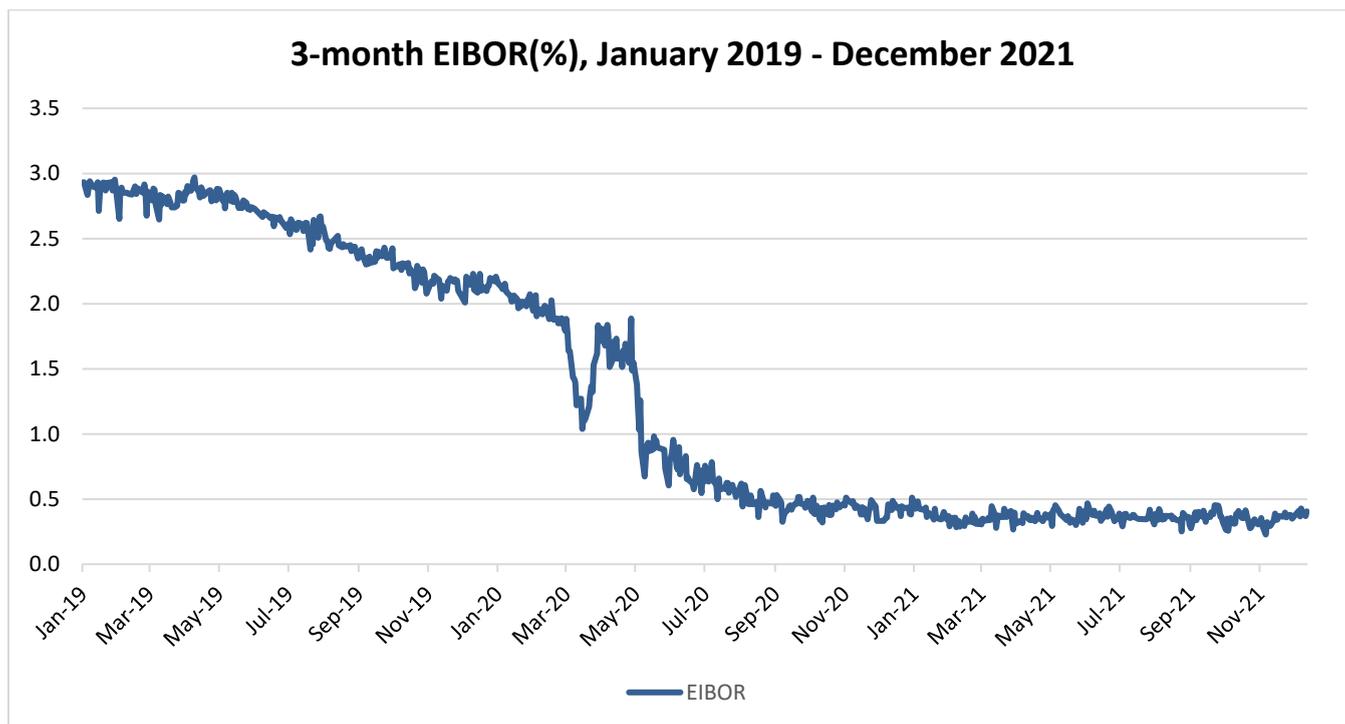
27 MENA bank stocks: YE20 to 15th of December 2021, Ranked

		UAE	KSA	Qatar	Egypt	Ranking
QIBK	6.4%			6.4%		28
MARK	7.7%			7.7%		25
CBD	9.1%	9.1%				24
MASQ	32.3%	32.3%				12
QNBK	11.5%			11.5%		22
UAB	-20.7%	-20.7%				30
NBS	41.7%	41.7%				8
CBQK	52.1%			52.1%		3
DSM	12.2%					21
RJHI	85.6%		85.6%			1
TASI	27.2%					16
ADI	74.9%					2
ALINMA	42.4%		42.4%			7
ALBI	51.7%		51.7%			5
BSFR	27.8%		27.8%			15
RAKBANK	15.6%	15.6%				20
DHBK	25.9%			25.9%		17
COMI	18.3%				18.3%	19
FAB	51.9%	51.9%				4
EGX30	7.1%					27
BOS	2.3%	2.3%				29
NCB	41.2%					9
DFM	31.3%					13
ARNB	9.6%		9.6%			23
RIBL	30.2%		30.2%			14
CBI	-22.0%	-22.0%				31
ENBD	36.4%	36.4%				11
ADIB	46.6%	46.6%				6
DIB	20.6%	20.6%				18
AJMANBANK	7.7%	7.7%				26
ADCB	37.7%	37.7%				10
AVERAGE		19.9%	41.2%	20.7%	18.3%	

FABS from Bloomberg

EIBOR

United Arab Emirates Interbank Offered Rate (EIBOR) was 0.136% pa on December 13, 2021, according to the Central Bank of the United Arab Emirates. This is up from the previous level of 0.119% pa for December 12, 2021. United Arab Emirates Interbank Offered Rate Overnight data is updated daily, with 2184 observations average 0.213 percent pa from June 2013 to December 13, 2021. The statistics peaked at 2.606% pa on December 31, 2018 and peaked at 0.069% pa on April 15, 2021. The federal reserve is expected to keep the interest rates steady between 0 and 0.25% until a noticeable recovery from COVID-19. The decline in EIBOR began in January 2020 and has been low since then. This is predicted to enhance liquidity in the UAE banking sector and allow cheaper borrowing for investors.



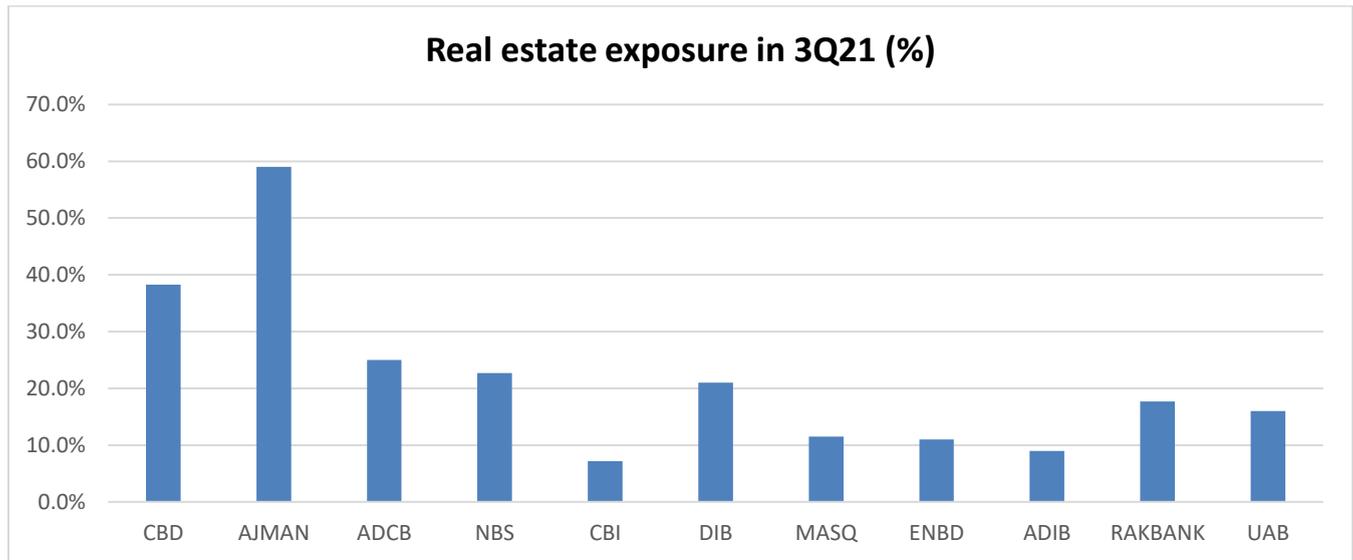
Source: FABS from Bloomberg

Real Estate

Due to the government's response in limiting the spread of COVID-19, which sparked interest in the housing market, house prices in Dubai increased by 21% this year. While developers are reacting by pushing the limit and putting residences to the market for AED 10,000 per square foot, more moderately priced apartments in Dubai's third property cycle continue to languish. The United Arab Emirates has long been known for its excellent governance. And the post-Covid rebound in Dubai's real estate market, which is propelling the emirate's third property cycle, serves as a reminder of the authorities' extraordinary reaction to the pandemic.

There are early signals that 2021 will be the peak of Dubai's third property cycle. While prices are still growing, circumstantial evidence suggests that a gap is developing between seller and buyer expectations, a typical symptom of a rising market about to plateau. Overall transaction volumes in October fell to AED 11.2 billion, still the busiest October in the market's history, but down from the previous month.

The emirate's real estate market is expected to be strong in 2021, attracting purchasers from beyond the emirate. Non-resident ultra-high-net-worth individuals are coming to the city to acquire costly houses. Since the start of the outbreak, apartments in the most expensive regions of the city have outperformed apartments in general, with places such as The Palm Jumeirah and Downtown Dubai surpassing flats in general.



Source: FABS from Bloomberg

TESS Program and Lending

While the banking sector has benefited greatly from the central bank's substantial support since the outbreak of the coronavirus pandemic, there is a belief that the sector no longer requires the re-enforcement and that the CBUAE's Targeted Economic Support Scheme should begin to phase out the support (TESS). Approximately 95% of banks have already relinquished their TESS quotas; banks must now transition from the support period to the forward phase. Since the beginning of the crisis, banks have made necessary precautions. Customers are confident in their ability to satisfy their credit obligations, and loan impairments are likely to diminish steadily over the next few quarters. The UAE government and CBUAE have taken pre-emptive efforts to prevent and reduce the impact of the pandemic on retail and business consumers, allocating AED250 billion (\$68 billion) in stimulus funds to the UAE banking industry.

4Q21 preview: Emirates NBD (ENBD)

Lower Impairments would support the profitability

CMP (AED): 14.0
Potential Upside (%): +15.0%

12-m target price:

AED16.10

Stock rating:

BUY

4Q21 estimate

Emirates NBD (ENBD) is forecasted to report a significant increase in Net Profit to AED2,804 Mn in 4Q21, up from AED1,316 Mn in 4Q20. The Net Funded Income is expected to increase by 12.9% YOY to AED4,566 Mn in 4Q21, up from AED4,044 Mn in 4Q20. The Funded Income is expected to increase by 10.4% YOY to AED7,088 Mn in 4Q21, up from AED6,422 Mn in 4Q20. The Funded Expense is expected to increase by 6% YOY to AED2,522 Mn in 4Q21, up from AED2,378 Mn in 4Q20. The Non-Funded Income is expected to increase by 50.6% YOY to AED1,340 Mn in 4Q21, up from AED890 Mn in 4Q20. It is expected to be driven by a strong increase in Other Operating Income to AED387 Mn in 4Q21, up from AED83 Mn in 4Q20. The Fees and Commissions are expected to increase by 19.5% YOY to AED929 Mn in 4Q21, up from AED777 Mn in 4Q20. The Trading Gain is expected to decline by 18.7% YOY to AED24 Mn in 4Q21, down from AED29 Mn in 4Q20. As a result, the Operating Income is expected to increase by 19.7% YOY to AED5,906 Mn in 4Q21, up from AED4,934 Mn in 4Q20. The Operating Expenses are anticipated to decrease by 3.4% YOY to AED1,977 Mn in 4Q21, down from AED2,047 Mn in 4Q20. The Pre-Provision Profit is expected to rise by 36.1% YOY to AED3,928 Mn in 4Q21, up from AED2,887 Mn in 4Q20. The Impairment charges are expected to decline by 42.5% YOY to AED906 Mn in 4Q21, down from AED1,575 Mn in 4Q20. The expected decline in Impairment charges is likely to contribute positively to the Bank. As a result, the Net Profit is forecasted to improve strongly YOY to AED2,804 Mn in 4Q21, up from AED1,316 Mn in 4Q20.

2021 forecast

We forecast ENBD's Net Profit to increase robustly YOY to AED10,090 Mn in 2021, up from AED6,960 Mn in 2020. The Net Funded Income is expected to decline by 1.9% YOY to AED17,162 Mn in 2021, down from AED17,487 Mn in 2020. It is driven by 3.6% YOY decline in Funded Income to AED27,019 Mn in 2021, down from AED28,017 Mn in 2020. Similarly, the Funded Expense is likely to decline by 6.4% YOY to AED9,857 Mn in 2021, down from AED10,530 Mn in 2020. The Non-Funded Income is expected to increase by 5.6% YOY to AED6,044 Mn in 2021, up from AED5,724 Mn in 2020. It is likely to be driven by 8.5% YOY increase in Fees and Commissions to AED3,963 Mn in 2021, up from AED3,655 Mn in 2020. The Trading gains is expected to decrease by 10% YOY to AED162 Mn in 2021, down from AED180 Mn in 2020. The Other Operating Income is likely to increase by 1.6% YOY to AED1,919 Mn in 2021, up from AED1,889 Mn in 2020. As a result, the Operating Income is expected to slightly decline YOY to AED23,206 Mn in 2021, down from AED23,211 Mn in 2020. Operating Expenses are likely to increase by 3.4% YOY to AED8,122 Mn in 2021, up from AED7,856 Mn in 2020. The decline in Impairment charges is likely to support the profitability in 2021. The Impairment charges are expected to fall by 41.7% YOY to AED4,626 Mn in 2021, down from AED7,936 Mn in 2020. As a result, the Net Profit is expected to increase by 45% YOY to AED10,090 Mn in 2021, up from AED6,960 Mn in 2020.

3Q21 Outturn

Emirates NBD reported a 7.5% YOY increase in Net Funded Income to AED4.44 Bn in 3Q21, up from AED4.14 Bn in 3Q20. It was mainly due to 6.9% YOY rise in Funded Income to AED6.95 Bn in 3Q21 as compared to AED6.5 Bn in 3Q20. Furthermore, the Funded Expense increased by 6% YOY to AED2.5 Bn in 3Q21 as compared to AED2.36 Bn in 3Q20. However, the increase in Funded Income outweighed the rise in Funded Expense and positively impacted the Net Funded Income. The Non-Funded Income, on the other hand, declined by 13.1% YOY to AED1.31 Bn in 3Q21, down from AED1.51 Bn in 3Q20. It was mainly impacted by significant decline in Other Operating Income by 28.5% YOY to AED379 Mn in 3Q21, from AED530 Mn in 3Q20. The Fees and Commissions decreased by 4.6% YOY to AED911 Mn in 3Q21, from AED955 Mn in 3Q20. Nevertheless, the

Trading Gain also decreased by 9% YOY to AED23 Mn in 3Q21, from AED 25 Mn in 3Q20. The increase in Net Funded Income outweighed the decrease in the Non-Funded Income and thus, increased slightly the Operating Income of the Bank by 2% YOY to AED5.76 Bn in 3Q21, as compared to AED5.64 Bn in 3Q20. The Operating Expenses increased by 8.1% YOY to AED1.95 Bn in 3Q21, up from AED1.81 Bn in 3Q20. The Impairments reduced significantly by 48.6% YOY to AED1.1 Bn in 3Q21 as compared to AED2.15 Bn in 3Q20 as the economy recovers from the impact of COVID-19. Due to the abovementioned changes, the Net Profit increased strongly by 61% YOY to AED2.5 Bn in 3Q21, up from AED1.55 Bn in 3Q20. The Net Advances decreased by 0.9% YOY to AED438.3 Bn in 3Q21, down from AED442.3 Bn in 3Q20. The Customer Deposits increased by 1.86% YOY to AED466 Bn in 3Q21, up from AED458 Bn in 3Q20. As a result, the ADR ratio declined to 94% in 3Q21, as compared to 96.6% in 3Q20. The Total Assets increased by 1% YOY to AED699 Bn in 3Q21 up from AED692 Bn in 3Q20. Total Liabilities slightly increased by 0.7% in 3Q21 to AED613.6 Bn up from AED609.4 Bn in 3Q20. The Total Equity increased by 5.41% YOY to AED 76.2 Bn in 3Q21 as compared to AED72.3 Bn in 3Q20. It was mainly supported by strong operating performance of 3Q21.

Target price and recommendation

We maintain our BUY rating on Emirates NBD with a target price of AED16.10. Emirates NBD is delivering a robust financial performance in 3Q21 with a significant 61% YOY increase in Net Profit in parallel to the UAE economy boosting with the Expo 2020 beginning. The increase was mainly supported by significant decline in the Impairments by 49% YOY to AED1.1 Bn in 3Q21, down from AED2.2 Bn in 3Q20 with Cost of Risk standing at 91 Bps. Total Operating Income was up by 2% YOY to AED5.8 Bn in 3Q21 compared to AED5.6 Bn in 3Q20 impacted by better NIM margins standing at 2.65% in 3Q21 compared to 2.48% in 3Q20 due to lower cost of funding and higher loan yields. Expenses were well monitored leading to Cost to Income (C/I) remaining within guidance at 34% in 3Q21 supported by higher income. It is worth noting that the retail loan growth is extended in 3Q21 while Total Advances decreasing in 3Q21 as opposed to Deposits increasing and leading to ADR ratio to decrease to 94% in 3Q21 while still demonstrating good levels of liquidity. The liquid assets in 3Q21 standing at AED71.8 Bn cover 15% of Deposits and 12% of Total Liabilities. To note that Customer Deposits consist of 76% of Total Deposits. The Non-Performing Loan (NPL) ratio improved insignificantly by 0.1% QOQ to 6.2% in 3Q21 given the recoveries and the write-offs with the Loan Coverage Ratio (LCR) despite decreasing to 157.2% in 3Q21 compared to 165% as at end of year 2020, a decrease by 7.8%, is still maintaining healthy coverage in 3Q21 along with a debt maturity profile within the Group's abilities. The Capital Adequacy Ratio (CAR) increased in 3Q21 to 19.2% as opposed to 19.1% in 3Q20 and 18.5% as at end of year 2020 with Common Equity Tier 1 (CET1) capital ratio increasing to 16.1% in 3Q21 compared to 15.6% in 3Q21 and 15% as at end of 2020. All the capital ratios are well above the minimum regulatory requirements. DenizBank, the fifth largest bank in Turkey and a subsidiary of ENBD, has reported a 10% increase in retail loans as well as a 10% increase in Deposits, both in local currency. It has also achieved lower funding costs with higher Net Interest Income (NIM) QOQ. The subsidiary has reported 23% increase YTD in Net Profit while cost of risk improving to 203 Bps in 3Q21 YTD compared to 408 Bps in 2020. All in all, DenizBank has contributed to Total Income of AED 4.9 Bn and Net Profit of AED1.51 Bn in 2021 YTD. Finally, the shareholders approved a cash dividend of AED0.4 per share amounting to AED2.52 Bn which was recognized in the 3Q21 financials. Based on our analysis, we maintain our BUY rating on this stock.

ENBD - Relative valuation

(at CMP)	2017	2018	2019	2020	2021E
P/E (x)	10.40	8.57	8.33	14.00	10.16
P/B (x)	1.62	1.48	1.23	1.19	1.17
Dividend yield	2.9%	2.9%	2.9%	2.9%	2.9%

FABS estimate and Co Data

ENBD - P&L

AED Mn	4Q20	3Q21	4Q21F	YOY Ch	QOQ Ch	2020	2021F	Change
Funded income	6,422	6,957	7,088	10.4%	1.9%	28,017	27,019	-3.6%
Funded expense	-2,378	-2,509	-2,522	6.0%	0.5%	-10,530	-9,857	-6.4%
Net funded income	4,044	4,447	4,566	12.9%	2.7%	17,487	17,162	-1.9%
Fees and commissions	777	911	929	19.5%	2.0%	3,655	3,963	8.5%
Trading gain/(loss)	29	23	24	-18.7%	3.2%	180	162	-10.0%
Other Operating Income	83	379	387	NM	2.0%	1,889	1,919	1.6%
Non-funded income	890	1,313	1,340	50.6%	2.0%	5,724	6,044	5.6%
Operating income	4,934	5,761	5,906	19.7%	2.5%	23,211	23,206	-0.02%
Operating expenses	-2,047	-1,956	-1,977	-3.4%	1.1%	-7,856	-8,122	3.4%
Pre-provision profit	2,887	3,805	3,928	36.1%	3.2%	15,354	15,084	-1.8%
Impairment	-1,575	-1,105	-906	-42.5%	-18.0%	-7,936	-4,626	-41.7%
PBT	1,315	2,699	3,022	NM	11.9%	7,430	10,437	40.5%
Tax	3	-194	-218	NM	12.4%	-465	-767	64.9%
Net profit attributable	1,316	2,506	2,804	NM	11.9%	6,960	10,090	45.0%

FABS estimate & Co Data

ENBD - P&L KPI

AED Mn	4Q20	3Q21	4Q21F	YOY Ch	QOQ Ch	2020	2021F	Change
Net FI/OI	82.0%	77.2%	77.3%	-465	11	75.3%	74.0%	-139
NIM	2.6%	2.4%	2.4%	-15	-1	2.7%	2.4%	-35
NIS	2.4%	2.4%	2.3%	-7	-3	2.7%	2.3%	-42
Fees & comms/OI	15.8%	15.8%	15.7%	-2	-8	15.7%	17.1%	133
Other non-funded/OI	1.7%	6.6%	6.5%	486	-3	8.1%	8.3%	13
Trading/OI	0.6%	0.4%	0.4%	-19	0	0.8%	0.7%	-8
Cost to income	41.5%	34.0%	33.5%	-800	-47	33.8%	35.0%	115
Impairment/PPP	54.6%	29.1%	23.1%	-3,148	-598	51.7%	30.7%	-2,102
Tax/PBT	-0.2%	7.2%	7.2%	741	3	6.3%	7.4%	109
NP/OI	26.7%	43.5%	47.5%	2,082	399	30.0%	43.5%	1,350
ROAE	1.8%	3.4%	3.8%	196	41	9.5%	10.9%	138
ROAA	1.0%	0.4%	0.4%	-61	4	1.0%	1.2%	16

FABS estimate & Co Data

ENBD - BS Key items

AED Mn	4Q20	1Q21	2Q21	3Q21	4Q21F	YOY Ch
Net advances	443,541	436,102	438,227	438,318	440,395	-0.7%
QOQ change	0.3%	-1.7%	0.5%	0.02%	0.5%	
Total Assets	698,087	695,059	693,783	699,067	703,541	0.8%
QOQ change	0.9%	-0.4%	-0.2%	0.8%	0.6%	
Customer Deposits	464,197	459,092	457,886	466,508	469,632	1.2%
QOQ change	1.4%	-1.1%	-0.3%	1.9%	0.7%	
Total Equity	72,323	72,288	74,445	76,232	76,110	5.2%
QOQ change	0.00%	-0.05%	3.0%	2.4%	-0.2%	

FABS estimate & Co Data

4Q21 preview: Dubai Islamic Bank (DIB)

Lower Impairments expected support the increase in Profit

CMP (AED): 5.59

Potential Upside (%): +12.7%

12-m target price:

AED6.30

Stock rating:

ACCUMULATE

4Q21 estimate

Dubai Islamic Bank (DIB) is forecasted to report a significant increase YOY in Net Profit to AED1,198 Mn in 4Q21 from AED168 Mn in 4Q20, mainly due to a forecasted decline in Impairment charges. We estimate the Net Funded Income to increase by 5.1% YOY to AED1,773 Mn in 4Q21, due to the decrease by 17.5% YOY in Funded expense to AED590 Mn in 4Q21 from AED715 Mn in 4Q20 outweighed by a decrease by 1.6% YOY in the Funded income to AED2,363 Mn in 4Q21, down from AED2,403 Mn in 4Q20. Fees and Commissions are forecasted to increase by 26.8% YOY to AED416 Mn in 4Q21, up from AED328 Mn in 4Q20. While the Other Non-Funded Income is expected to decrease by 31.8% YOY to AED355 Mn in 4Q21, down from AED520 Mn in 4Q20. Therefore, the Non-Funded Income is forecasted to drop by 9.1% YOY to AED771 Mn in 4Q21, down from AED848 Mn in 4Q20. Resultantly, the Operating Income (OI) is likely to slightly rise YOY to AED2,544 Mn in 4Q21, up from AED2,535 Mn in 4Q20. General Expenses are expected to increase by 8.9% YOY to AED647 Mn in 4Q21, up from AED594 Mn in 4Q20. Thus, the Cost-to-Income ratio is predicted to increase by 201 bps to 25.4% in 4Q21 compared to 23.4% in 4Q20. Impairment charges are likely to decrease by 63.6% YOY to AED692 Mn in 4Q21, down from AED1,902 Mn in 4Q20.

2021 forecast

We forecast DIB's Net Profit to increase by 29.2% YOY to AED4,256 Mn in 2021 compared to AED3,294 Mn in 2020, mainly due to the lower Impairment charges. We anticipate Net Funded Income to slightly rise by 0.5% YOY to AED6,783 Mn in 2021 from AED6,749 Mn in 2020, mainly due to a decrease in Funded expense by 35% YOY to AED2,387 Mn in 2021 as compared to AED3,672 Mn in 2020. Funded income is forecasted to decrease by 12% YOY to AED9,170 Mn in 2021 from AED10,421 Mn in 2020. We forecast Non-Funded Income to increase by 6.9% YOY to AED2,910 Mn in 2021 compared to AED2,721 Mn in 2020. Thus, the Operating Income would rise by 2.3% YOY to AED9,693 Mn in 2021, up from AED9,471 Mn in 2020. The General & Administrative expenses are likely to decrease by 7.6% YOY to AED2,521 Mn in 2021, down from AED2,728 Mn in 2020. As a result, the Cost to Income ratio would decline by 280 bps to 26% from 28.8% in 2020. Impairments charges are likely to significantly decline by 37% YOY to AED2,866 Mn in 2021, as compared to AED4,552 Mn in 2020.

3Q21 outturn

The Net Funded Income increased by 11.4% YOY to AED1.76 Bn in 3Q21 as compared to AED1.58 Bn in 3Q20. It was mainly due to significant decrease in Funded Expenses by 31.9% to AED583 Mn in 3Q21, down from AED856 Mn in 3Q20 outweighing the decrease in Funded Income by 3.8% YOY to AED2.34 Bn in 3Q21 down from AED2.43 Bn in 3Q20. The Non-Funded Income increased significantly by 20.4% YOY to AED759 Mn in 3Q21, up from AED630 Mn in 3Q20. It was boosted by robust increase in Other Non-Funded Income by 85.5% YOY to AED344 Mn up from AED185 Mn. The increase in Other Non-Funded Income outweighed the 6.7% YOY decrease in Fees and Commissions to AED415 Mn down from AED445 Mn in 3Q20. As a result, the Operating Income increased by 14% YOY to AED2.52 Bn in 3Q21, up from AED2.21 Bn in 3Q20. The General Expenses decreased by 5.4% YOY to AED628 Mn in 3Q21 down from AED664 Mn in 3Q20. However, the Cost to Income fell by 510 bps to 24.9% in 3Q21 down from 30% in 3Q20. The Impairment charges increased significantly by 27.4% YOY to AED676 Mn in 3Q21, up from AED530 Mn in 3Q20. As a result, the Net Profit increased by 19.9% YOY to AED1.20 Bn in 3Q21. The Net

Financing decreased by 2.4% YOY to AED192.75 Bn in 3Q21, down from AED197.43 Bn in 3Q20. The Customer Deposits slightly decreased by 0.2% YOY to AED214.12 Bn in 3Q21, down from AED214.64 Bn in 3Q20. The Total Equity increased by 2.7% YOY to AED29.81 Bn in 3Q21, up from AED29.04 Bn in 3Q20.

Target price and rating

We revised our rating to ACCUMULATE on DIB with a target price of AED6.30. The Bank showed significant growth with around 20% YOY increase in Net Profit to AED1.2 Bn in 3Q21 along with an increase of 19.6% QOQ. The Net Profit Margin remained stable at 2.6% in 3Q21 compared to end of year 2020. The main segments in the bank are the Corporate, Consumer and Treasury segments. The Gross Corporate Financing stood stable at AED149 Bn in 3Q21 despite increase in Prepayments. The Net Operating Revenue stood at AED2.45 Bn throughout the 9 months in 2021. The portfolio has consistently maintained diversification and is mainly invested in low-risk sectors such as sovereign and related entities that are likely to pick up in pace with the Yield on Financing decreasing significantly to 2.7% YTD down from 3.7% in FY20. The Gross Consumer Financing now reached AED51 Bn with a 9% increase compared to same period last year with AED10.2 Bn new financing given the increase in Home Financing. To note that Auto, Home and personal financing remain main pillars consisting of 96% of the Consumer portfolio. Yield on Financing decreased YTD to 5.61% compared to 6.23% in FY20. The Treasury's Gross Financing and Sukuk Investment increased by 13% YTD standing at AED43 Bn regardless of the challenging environment with a significant increase in Net Operating Revenue of the segment by 28% YOY to AED1.6 Bn. Yield of financing remained stable at 3.9%. On the bank's level, Operating Expenses YTD have decreased, and this was reflected in the cost to income decreasing as well to 26.2% compared to 29.4% in FY20, an improvement by almost 320 Bps given the continuous improvement in cost management. Both ROA and ROE have showed a significant growth YTD at 1.4% and 10.9%, respectively compared to 1.22% and 10.4% in FY20. Cost of Funds has decreased as well at the end of 9M21 to 0.78% compared to 1.41% in FY20. The Balance Sheet managed to maintain its levels with assets stable compared to end of year 2020 at almost AED290 Bn regardless of the maturities and Prepayments. Deposits grew by 4% compared to year end 2020 to AED214.12 Bn compared to AED205.92 Bn with Net Financing increasing insignificantly by 0.3%, leading to Net Financing Deposits (ADR) ratio decreasing to 90% YTD compared to 96% in FY20. The NPF ratio has increased by 40 Bps QOQ to 6.7% YTD. The Overall Coverage Ratio stood at 103% in September 2021, above 100%. The Cost of Risk declined to 1.01% YTD, down from 1.37% in FY20. The Bank has improved its Liquidity position by increasing LCR up to 160% in 9M21 compared to 129% in FY20. The Capital Adequacy Ratio (CAR) stood at 17.5% and the CET1 ratio stood at 12.8%, both above the minimum requirements of the regulators. We assign an ACCUMULATE Rating.

DIB - Relative valuation

(at CMP)	2017	2018	2019	2020	2021E
P/E (x)	8.02	7.74	8.07	14.66	9.44
P/B (x)	1.66	1.52	1.43	1.41	1.33
Dividend yield	8.1%	6.3%	6.3%	3.6%	5.4%

FABS Estimates & Co data

DIB - P&L

AED Mn	4Q20	3Q21	4Q21F	YOY Ch	QOQ Ch	2020	2021F	Change
Funded income	2,403	2,345	2,363	-1.6%	0.8%	10,421	9,170	-12.0%
Funded expense	-715	-583	-590	-17.5%	1.2%	-3,672	-2,387	-35.0%
Net funded income (NFI)	1,687	1,762	1,773	5.1%	0.6%	6,749	6,783	0.5%
Fees & commissions	328	415	416	26.8%	0.2%	1,646	1,666	1.2%
Other non-funded income	520	344	355	-31.8%	3.2%	1,076	1,244	15.6%
Non-Funded Income	848	759	771	-9.1%	1.6%	2,721	2,910	6.9%
Operating income	2,535	2,521	2,544	0.3%	0.9%	9,471	9,693	2.3%
General expenses	-594	-628	-647	8.9%	3.1%	-2,728	-2,521	-7.6%
Pre-provisioning profit	1,942	1,893	1,897	-2.3%	0.2%	6,743	7,172	6.4%
Impairment charges	-1,902	-676	-692	-63.6%	2.4%	-4,552	-2,866	-37.0%
Gain on bargain purchase	0	0	0	NA	NA	1,015	0	NM
Profit before tax	40	1,218	1,205	NM	-1.1%	3,206	4,306	34.3%
Tax	-5	-12	-11	NM	-11.5%	-46	-44	-5.2%
Profit before NCI	35	1,205	1,194	NM	-1.0%	3,160	4,263	34.9%
Non-controlling interests	133	0	4	-97.0%	NM	134	-6	NM
Profit for the period	168	1,205	1,198	NM	-0.6%	3,294	4,256	29.2%

FABS estimate & Co Data
DIB - P&L KPI

%	4Q20	3Q21	4Q21F	YOY Ch	QOQ Ch	2020	2021F	Change
Net FI/OI	66.6%	69.9%	69.7%	315	-20	71.3%	70.0%	-129
NIM	3.2%	2.9%	2.9%	-31	-4	3.1%	2.8%	-30
NIS	3.2%	2.9%	2.9%	-28	-3	3.1%	2.9%	-24
Fees & commissions/OI	12.9%	16.5%	16.3%	342	-11	17.4%	17.2%	-19
Other non-funded/OI	20.5%	13.6%	14.0%	-656	31	11.4%	12.8%	147
Cost to income	23.4%	24.9%	25.4%	201	54	28.8%	26.0%	-280
Impairment/PPP	97.9%	35.7%	36.5%	-6146	80	67.5%	40.0%	-2755
Tax/PBT	-378.3%	0.0%	-0.3%	37793	-37	-4.2%	0.1%	439
NP/OI	6.6%	47.8%	47.1%	4045	-71	34.8%	43.9%	913
ROAA	0.1%	0.4%	0.4%	34	-1	1.3%	1.4%	17
ROAE	0.6%	4.1%	4.1%	345	-3	12.2%	14.5%	229

FABS estimate & Co Data
DIB - Key B/S items

AED Mn	4Q20	1Q21	2Q21	3Q21	4Q21F	YOY Ch
Net financings	196,689	196,181	194,290	192,756	190,561	-3.1%
QOQ change	-0.4%	-0.3%	-1.0%	-0.8%	-1.1%	
Total assets	289,556	291,711	293,782	289,389	305,849	5.6%
QOQ change	-3.3%	0.7%	0.7%	-1.5%	5.7%	
Customer deposits	205,925	214,001	218,309	214,124	225,189	9.4%
QOQ change	-4.1%	3.9%	2.0%	-1.9%	5.2%	
Shareholders' fund	28,606	27,898	28,664	29,816	30,281	5.9%
QOQ change	-1.5%	-2.5%	2.7%	4.0%	1.6%	

FABS estimate & Co Data

4Q21 preview: Abu Dhabi Islamic Bank (ADIB)

Lower Impairment charges to boost profitability

CMP (AED): 6.98
Potential upside (%): +11.70%

12-m target price:
AED7.80

Stock rating:
ACCUMULATE

4Q21 estimate

Abu Dhabi Islamic Bank (ADIB) is forecasted to increase by 9.9% YOY in Net profit to AED530 Mn in 4Q21 compared to AED482 Mn in 4Q20, primarily due to a decline in Impairments. We expect Net Funded Income to slightly decrease by 0.2% YOY to AED921 Mn in 4Q21 compared to AED922 Mn in 4Q20, mainly due to a decline by 12.1% YOY in Depositor's distribution to AED83 Mn in 4Q21, down from AED95 Mn in 4Q20. The Non-Funded Income is expected to decrease by 14.8% YOY to AED510 Mn in 4Q21, down from AED598 Mn in 4Q20. It is mainly due to an expected fall by 14.1% YOY in Fees and Commissions, as well as the decrease by 15.3% YOY in Other Non-Funded Income. Thus, the Operating Income is likely to decline by 5.5% YOY to AED1,347 Mn in 4Q21, down from AED1,426 Mn in 4Q20, while the Operating Expenses would decrease by 1.6% YOY to AED582 Mn in 4Q21 from AED592 Mn in 4Q20. Therefore, the Cost-to-Income (C/I) ratio is predicted to increase by 170 bps to 43.2% in 4Q21, as compared to 41.5% in 4Q20. We expect Impairment charges to decline by 33.5% YOY to AED231 Mn in 4Q21 compared to AED346 Mn in 4Q20.

2021 forecast

ADIB's Net profit is expected to rise by 33% YOY to AED2,131 Mn in 2021 as compared to AED1,603 Mn in 2020, mainly due to the decline in Impairment charges. We expect Net Funded Income to increase by 1.7% YOY to AED3,382 Mn in 2021 due to the decrease by 34.1% YOY in depositor's distribution to AED331 Mn in 2021 compared to AED502 Mn in the 2020. Also, the Non-Funded Income is estimated to increase by 1.2% YOY to AED2,057 Mn in 2021, as compared to AED2,034 Mn in 2020 led by an anticipated 8.7% increase in Other Non-Funded Income to AED1,132 Mn compared to AED1,042 Mn in 2020. Thus, the Operating Income will increase by 1.5% YOY to AED5,440 Mn in 2021, as compared to last year at AED5,358 Mn. Operating Expenses are expected to decrease by 6.2% YOY to AED2,298 Mn in 2021, down from AED2,450 Mn in 2020. Subsequently, the Cost-to-Income ratio is likely to decrease by 349 bps to 42.2% in 2021 as compared to 45.7% in 2020. Impairment charges would decrease by 24.3% YOY to AED995 Mn in 2021 compared to AED1,314 Mn in 2020.

3Q21 outturn

The Net Funded Income increased by 15.8% YOY to AED957 Mn in 3Q21, up from AED827 Mn in 3Q20. It was mainly due to an increase by 12.2% YOY in Income from Islamic financing to AED1.024 Bn in 3Q21, up from AED913 Mn in 3Q20, besides a decrease by 20.3% YOY in Depositors distribution to AED76 Mn in 3Q21. Moreover, Fees and commissions decreased by 24.2% YOY to AED228 Mn in 3Q21, down from AED301 Mn in 3Q20. Therefore, the Non-Funded Income declined by 10.6% YOY to AED491 Mn in 3Q21, down from AED549 Mn in 3Q20. As a result, the Operating Income increased by 5.3% YOY to AED1.448 Mn in 3Q21, up from AED1.376 Mn in 3Q20. Operating expenses decreased by 7.5% YOY to AED567 Mn in 3Q21, as compared to AED614 Mn in 3Q20. Thus, the Cost to income ratio dropped by 541 bps to 39.2%, down from 44.6% in 3Q20. The Impairments significantly increased by 56.5% YOY to AED384 Mn in 3Q21, as compared to AED245 Mn in 3Q20, reducing the profitability. The Net Customer Funding increased by 1.5% YOY to AED84.42 Bn in 3Q21, as compared to AED83.2 Bn in 3Q20. The Total Assets increased by 4.9% YOY to AED133.38 Bn in 3Q21, up from AED127.12 Bn in 3Q20. The Customer Deposits increased robustly by 6.2% YOY to AED107 Bn in 3Q21, up from AED100.72 Bn in 3Q20.

Whereas the Shareholders' funds increased by 6.7% YOY to AED15.16 Bn in 3Q21 from AED14.2 Bn in 3Q20.

Target price and rating

We revised our rating to ACCUMULATE on ADIB, with a target price of AED7.80. Abu Dhabi Islamic Bank (ADIB) is a leading Islamic Bank in the region. It has announced a new strategy to be implemented by 2025 to focus on Long-Term growth and shareholder value while working on becoming the world's most innovative Islamic Bank while serving all its stakeholders professionally. It is worth noting that more than 93K customers joined the bank's customer base in the last 12 months. The Bank has delivered a robust financial performance for the first 9 months of 2021. The bank recorded an increase in Net Profit before Zakat and Tax by 43% YOY to AED1.6 Bn for the first 9 months of 2021 compared to AED1.12 Bn same period in 2020 while reporting one of the highest Net Profit Margins in the market at 3.32% despite the decrease from 3.55% same period last year, mainly driven by one of the lowest cost of funds in the industry. The increase in Net Profit is driven by a strong performance reflected in 4.1% increase in Revenues to AED4.09 Bn compared to AED3.93 Bn same period in 2020 along with the rebound in UAE economic activity. The Income from Financing activity was up by 2% in 9 months 2021 to AED2.54 Bn compared to AED2.49 Bn supported by an increase in customer financing. On the other hand, Income from Non-Financing activities which constitutes 38% of total income was up by 8% to AED1.55 Bn in 9M21 up from AED1.44 Bn same period last year, led mainly by 19.5% growth in Investment Income and 25.1% increase in foreign exchange income YOY. The bank had a strict cost strategy which led to Total Expenses decreasing by 7.6% YOY to AED1.73 Bn in 9M21 reflected in an improvement by 535 Bps in the Cost to Income ratio to 42.2%. Impairments witnessed a significant decrease in 9M21 by 21.3% reaching AED751 Mn down from AED954 Mn. Total Assets increased by 4.9% YOY to AED133.4 Bn while maintaining a strong asset base with Non-Performing Assets (NPA) increasing to AED8Bn up from AED7.8Bn same period last year and the ratio standing at 9% with an insignificant increase by 3 Bps YOY covered by an adequate coverage ratio of 118% including collaterals as of September 2021. Customer deposits also grew by 6.2% YOY to AED107 Bn in 3Q21 with a healthy ADR ratio of 78.9% in 3Q21. ADIB also is maintaining a robust liquidity position with a fund ratio of 82.4% in 3Q21 compared to 87.1% in 3Q20 but still above minimum regulatory requirements. Capital Adequacy Ratio (CAR) of the bank stood at 19.47% in 3Q21 up from 18.8% as at end of year 2020 while Common Equity Tier 1 Capital (CET1) increased to 13.77% in 3Q21 up from 12.94% as at end of 2020 remaining strongly above minimum regulatory requirements. During 2021 Cash Dividend of 20.58% of the paid-up capital amounting to AED747 Mn were paid after being approved by the Shareholders at the Annual General Assembly held on 4th April 2021. The Bank currently trades at a PB multiple of 1.37X. Based on the above, we maintain an ACCUMULATE rating.

ADIB - Relative valuation

(at CMP)	2017	2018	2019	2020	2021E
P/E (x)	11.71	10.83	10.92	18.96	11.76
P/B (x)	2.14	1.93	1.75	1.74	1.23
Dividend yield	4.2%	4.0%	4.0%	3.0%	3.0%

FABS Estimates & Co data

ADIB - P&L

AED Mn	4Q20	3Q21	4Q21F	YOY Ch	QOQ Ch	2020	2021F	Change
Institutions	8	10	10	35.0%	5.1%	61	39	-36.7%
Islamic financings	915	1,024	910	-0.5%	-11.1%	3,766	3,675	-2.4%
Funded income	922	1,034	921	-0.2%	-10.9%	3,827	3,713	-3.0%
Depositors' distribution	-95	-76	-83	-12.1%	8.9%	-502	-331	-34.1%
Net funded income	828	957	837	1.2%	-12.5%	3,324	3,382	1.7%
Fees and commissions	274	228	236	-14.1%	3.4%	992	925	-6.8%
Other non-funded income	324	263	274	-15.3%	4.2%	1,042	1,132	8.7%
Non-Funded Income	598	491	510	-14.8%	3.8%	2,034	2,057	1.2%
Operating income	1,426	1,448	1,347	-5.5%	-7.0%	5,358	5,440	1.5%
Operating expenses	-592	-567	-582	-1.6%	2.6%	-2,450	-2,298	-6.2%
Pre-provisioning income	834	881	765	-8.2%	-13.2%	2,908	3,142	8.0%
Financing impairment	-346	-384	-231	-33.5%	-40.0%	-1,314	-995	-24.3%
Profit before NCI	487	497	535	9.7%	7.6%	1,594	2,147	34.7%
NIC. & zakat	-5	-4	-5	-11.9%	9.8%	9	-16	NM
Net profit for period	482	493	530	9.9%	7.6%	1,603	2,131	33.0%

FABS estimate & Co Data

ADIB - P&L KPI

AED mm	4Q20	3Q21	4Q21F	YOY Ch	QOQ Ch	2020	2021F	Change
Net FI/OI	58.1%	66.1%	62.2%	411	-394	62.0%	62.2%	13
NIM	3.4%	3.3%	3.3%	-3	-1	3.3%	3.3%	0
NIS	3.4%	3.3%	3.3%	-4	-1	3.4%	3.3%	-2
Fees & commissions/OI	19.2%	15.7%	17.5%	-174	175	18.5%	17.0%	-151
Other non-funded/OI	22.7%	18.2%	20.3%	-236	218	19.4%	20.8%	138
Cost to income	41.5%	39.2%	43.2%	170	403	45.7%	42.2%	-349
Impairment/PPP	41.5%	43.6%	30.1%	-1141	-1348	45.2%	31.7%	-1352
NP/OI	33.8%	34.0%	39.3%	551	533	29.9%	39.2%	926
ROAE	2.5%	2.5%	2.7%	16	15	8.4%	10.8%	241
ROAA	0.4%	0.4%	0.4%	3	3	1.3%	1.7%	39

FABS estimate & Co Data

ADIB - Key B/S items

AED mm	4Q20	1Q21	2Q21	3Q21	4Q21F	YOY Ch
Net customer financing	83,409	83,082	83,700	84,419	84,782	1.6%
QOQ change	0.2%	-0.4%	0.7%	0.9%	0.4%	
Total assets	127,816	130,694	130,608	133,382	129,836	1.6%
QOQ change	0.6%	2.3%	-0.1%	2.1%	-2.7%	
Customer deposits	101,276	103,069	105,159	107,005	101,903	0.6%
QOQ change	0.6%	1.8%	2.0%	1.8%	-4.8%	
Shareholders' funds (ex Tier 1)	14,396	15,069	14,773	15,163	15,790	9.7%
QOQ change	1.3%	4.7%	-2.0%	2.6%	4.1%	

FABS estimate & Co Data

4Q21 preview: National Bank of Ras Al Khaimah (RAKBANK)

Decrease in Impairment Charges helps bottom line

CMP (AED): 4.51
Potential upside (%): +19.7%

12-m target price:

AED 5.40

Stock rating:

BUY

4Q21 estimate

RAKBANK is forecasted to report a significant increase YOY in Net Profit to AED264 Mn in 4Q21, as compared to AED68 Mn in 4Q20. This is due to a decrease in Impairment charges. Interest Income is expected to increase by 1.4% YOY to AED528 Mn in 4Q21, up from AED521 Mn in 4Q20. Interest Expenses is expected to decline by 15.4% YOY to AED54 Mn in 4Q21, down from AED63 Mn in 4Q20. Resultantly, the Net Funded Income is expected to rise by 3.7% YOY to AED474 Mn from AED458 Mn in 4Q20. Fees and Commissions are expected to increase by 36.8% YOY to AED195 Mn in 4Q21, up from AED143 Mn in 4Q20. Net Operating Income is expected to increase by 10.7% YOY to AED894 Mn in 4Q21, as compared to AED808 Mn in 4Q20. We expect Operating Expenses to increase by 1% YOY to AED368 Mn in 4Q21 from AED364 Mn in 4Q20. Thus, the Bank's Cost to Income (C/I) ratio is expected to decrease by 394 bps this quarter to 41.1% from 45% in 4Q20. We estimate Impairment charges to fall significantly by 30.5% YOY to AED262 Mn in 4Q21, down from AED377 Mn in 4Q20.

2021 forecast

We forecast RAKBANK to report a significant increase by 58.1% YOY in Net profit to AED797 Mn in 2021 from AED504 Mn in 2020, mainly due to a decrease in Impairment charges. We forecast Interest Income to decrease by 20% YOY to AED2,002 Mn in 2021 from AED2,501 Mn in 2020 as we expect a significant fall by 50.1% YOY in Interest Expense to AED204 Mn in 2021 as compared to AED409 Mn in 2020. Therefore, the Net funded income is expected to decline by 12.9% YOY to AED2,200 Mn in 2021 from AED2,526 Mn in 2020. We expect Non-Funded Income to increase by 9.1% YOY to AED1,133 Mn in 2021, mainly due to the expected increase by 13.7% YOY in Fees and Commissions to AED719 Mn in 2021, as well as an increase in the Investment Income by 20.1% YOY to AED108 Mn from AED90 Mn in 2020. As a result, Net Operating Income would decline by 6.5% YOY to AED3,332 Mn in 2021 from AED3,564 Mn in 2020. Operating Expenses are forecasted to marginally decrease by 0.2% YOY to AED1,392 Mn from AED1,395 Mn in 2020. Thus, the Cost-to-Income (C/I) ratio is expected to increase by 262 bps to 41.8% in 2021 from 39.2% in 2020. We estimate that Impairment charges would decline by 31.4% YOY to AED1,141 Mn compared to AED1,663 Mn in 2020.

3Q21 outturn

The Net Interest income declined by 8.7% YOY to AED450 Mn in 3Q21, down from AED492 Mn in 3Q20, mainly driven by 14% YOY decrease in the Interest income to AED495 Mn in 3Q21. Whereas the Net Islamic financing income decreased by 11% YOY to AED97 Mn in 3Q21, down from AED109 Mn in 3Q20, mainly due to a decline by 14.3% YOY in the Income from Islamic financing. Therefore, the Net Funded income declined by 9.1% YOY to AED546 Mn in 3Q21, as compared to AED601 Mn in 3Q20. Net fees and commissions increased by 8.9% YOY to AED172 Mn in 3Q21. Furthermore, the Other operating income have significantly increased to AED30 Mn in 3Q21, up from AED13 Mn in 3Q20. As a result, the Total non-funded income increased by 3% YOY to AED259 Mn in 3Q21, up from AED251 Mn in 3Q20. Thus, the Net Operating Income decreased by 5.5% YOY to AED805 Mn in 3Q21, down from AED853 Mn in 3Q20. Moreover, the Operating Expenses increased by 7.9% YOY to AED351 Mn in 3Q21, as compared to AED326 Mn in 3Q20. Thus, the Cost-to-Income ratio "C/I" increased by 542 bps to 43.6% from 38.2% in 3Q20. Impairment charges significantly declined by 42.9% YOY to AED225 Mn in 3Q21, down from AED395 Mn in 3Q20, supporting the increase in the bottom line. RAKBANK's Net Advances

increased by 3.4% YOY to AED31.45 Bn in 3Q21 from AED30.42 Bn in 3Q20. Whereas Customer Deposits increased by 8.1% YOY to AED36.98 Bn in 3Q21 from AED34.2 Bn in 3Q20. Total Assets increased by 4.1% YOY to AED54.49 Bn in 3Q21 from AED52.32 Bn in 3Q20, and the Equity increased by 5.8% to AED8.15 Bn in 3Q21 compared to AED7.7 Bn in 3Q20.

Target price and rating

We revise our rating on RAKBANK to BUY with a target price of AED5.40. RAKBANK showed a robust performance during 3Q21 highlighted by a significant improvement in profitability along with an improvement in asset quality given the change of mix in the bank's advances. RAKBANK has already surpassed its previous year's profitability and is forecasted to keep on doing so throughout the end of the year. Net Profit was up significantly by 73.2% to AED228.7 Mn in 3Q21 from AED130.9 Mn in 3Q20 and up by 19.1% compared to 2Q21. Net Income YTD has also increased by 21.9% reaching AED534.7 Mn. Net Operating Income recorded AED805 Mn down by 5.5% YOY from AED853 Mn in 3Q20 and down by 3.2% from 2Q20. Operating Expenses for 3Q21 increased by 7.9% YOY to AED351 Mn compared to AED326 Mn in 3Q20 while the bank's Cost-to-Income ratio increased to 42% from 37.4% at the end of 3Q20 given the decrease in Total Income. It is worth noting that the Provisions for Impairment have been following a decreasing trend and have decreased by 42.9% in 3Q21 reaching AED225 Mn compared to AED395 Mn in 3Q20. This demonstrates that the bank is rebounding with the economy in UAE after COVID-19 pandemic. Total Assets have increased by 4.1% YOY to AED54.5 Bn in 3Q21 from AED52.3 Bn in 3Q20 and they were up by 3.3% as compared to end of year 2020. Likewise, Gross Loans and Advances were up by 2.7% YOY in 3Q21 at AED33.5 Bn compared to AED32.6 Bn in 3Q20 and up by 4% YTD from AED32.2 as at end of 2020. Deposits on the other hand increased insignificantly by 0.1% as compared to end of year 2020 and increased by 8.1% YOY to AED37 Bn in 3Q21 compared to AED34.2 Bn in 3Q20. Non-Performing Loans stood at 4.5% in 3Q21 down from 5.1% in 3Q20 with the coverage ratio standing at a good level of 134.3% in 3Q21. The bank's Capital Adequacy Ratio (CAR) stood at 17.8% from 18.6% as of year end 2020 and Common Equity Tier 1 (CET1) ratio was 16.7% in 3Q21 from 17.5% at end of the previous year. Despite the marginal decrease, the ratios are still way above the requirements set by the regulators and the bank still maintains good liquidity levels with a Regulatory Eligible Liquid Assets ratio of 10.4% by end of 3Q21 and Advances to stable resources ratio of 83.9% as compared to 80.6% as at end of 2020. The bank is rated Baa1 with a negative outlook by Moody's in July 2021, whereas it is rated BBB+ with a stable outlook by Fitch in May 2021. Finally, on April 11, 2021, the shareholders of the bank approved a cash dividend of 15% amounting to AED251.4 Mn which was paid in April 15 of the same year. Moreover, the stock is trading at an PB multiple of 0.83x, leading us to our BUY rating.

RAKBANK - Relative valuation

(at CMP)	2017	2018	2019	2020	2021E
PE (x)	9.40	8.35	6.94	15.03	9.60
P/B (x)	0.97	1.07	0.97	0.97	0.93
Dividend yield	6.7%	6.7%	6.7%	3.3%	5.1%

FABS Estimates & Co data

RAKBANK - P&L

AED mm	4Q20	3Q21	4Q21F	YOY Ch	QOQ Ch	2020	2021F	Change
Interest income	521	495	528	1.4%	6.5%	2,501	2,002	-20.0%
Interest expenses	-63	-46	-54	-15.4%	17.0%	-409	-204	-50.1%
Net interest income	458	450	474	3.7%	5.5%	2,093	1,798	-14.1%
Income: Islamic financing	124	112	120	-2.9%	6.8%	555	462	-16.9%
Islamic profit distribution	-19	-16	-16	-17.1%	2.2%	-123	-60	-50.9%
Net Islamic financing income	104	97	104	-0.2%	7.6%	433	401	-7.3%
Net funded income	562	546	578	3.0%	5.8%	2,526	2,200	-12.9%
Net fees and commissions	143	172	195	36.8%	13.7%	633	719	13.7%
Foreign exchange gain	38	42	50	32.9%	21.6%	188	168	-10.4%
Gross insurance underwriting Profit	17	8	14	-16.6%	65.1%	53	39	-26.2%
Investment Income	30	7	34	13.2%	NM	90	108	20.1%
Other operating income	18	30	22	21.5%	-27.0%	76	99	30.6%
Total non-funded income	246	259	316	28.5%	22.0%	1,038	1,133	9.1%
Net operating income	808	805	894	10.7%	11.0%	3,564	3,332	-6.5%
Operating expenses	-364	-351	-368	1.0%	4.6%	-1,395	-1,392	-0.2%
Pre-provision profit	444	454	527	18.7%	16.0%	2,169	1,940	-10.5%
Impairment	-377	-225	-262	-30.5%	16.3%	-1,663	-1,141	-31.4%
Profit for the year	67	229	265	NM	15.7%	505	799	58.2%
Non-controlling interest	1	-1	-1	NM	20.0%	-2	-3	78.5%
Net profit attributable	68	228	264	NM	15.7%	504	797	58.1%

FABS estimate & Co Data

RAKBANK - KPI

AED mm	4Q20	3Q21	4Q21F	YOY Ch	QOQ Ch	2020	2021F	Change
Net FI/OI	69.6%	67.9%	64.7%	-489	-317	70.9%	66.0%	-485
NIM	5.3%	4.6%	4.6%	-74	1	5.4%	4.6%	-78
NIS	5.3%	4.5%	4.5%	-74	1	5.3%	4.6%	-76
Fees & comms/OI	17.7%	21.3%	21.8%	416	52	17.8%	21.6%	383
Trading/OI	3.7%	0.9%	3.8%	8	293	2.5%	3.2%	72
Cost to income	45.0%	43.6%	41.1%	-394	-253	39.2%	41.8%	262
Impairment/PPP	85.0%	49.6%	49.7%	-3522	12	76.7%	58.8%	-1789
NP/OI	8.4%	28.3%	29.5%	2114	120	14.1%	23.9%	977
ROAE	0.9%	2.8%	3.3%	247	50	6.4%	10.1%	369
ROAA	0.1%	0.4%	0.5%	33	4	0.9%	1.4%	53

FABS estimate & Co Data

RAKBANK - Key B/S items

AED mm	4Q20	1Q21	2Q21	3Q21	4Q21F	YOY Ch
Net advances	30,041	30,518	31,063	31,451	31,765	5.7%
QOQ change	-1.2%	1.6%	1.8%	1.2%	1.0%	
Total assets	52,773	53,231	54,312	54,495	57,652	9.2%
QOQ change	0.9%	0.9%	2.0%	0.3%	5.8%	
Customer deposits	36,944	36,479	37,027	36,988	40,371	9.3%
QOQ change	8.0%	-1.3%	1.5%	-0.1%	9.1%	
Total Equity	7,845	7,960	7,924	8,149	7,913	0.9%
QOQ change	1.8%	1.5%	-0.5%	2.8%	-2.9%	

FABS estimate & Co Data

4Q21 preview: Abu Dhabi Commercial Bank (ADCB)

Lower Impairments supports the increase in bottom-line

CMP (AED): 8.59

Potential Upside (%): +10.6%

12-m target price:

AED 9.50

Stock rating:

ACCUMULATE

4Q21 estimate

Abu Dhabi Commercial Bank (ADCB) Net Profit is expected to increase by 32.7% YOY to AED1,339 Mn in 4Q21 from AED1,009 Mn in 4Q20. This increase is mainly due to a decrease in Impairment charges. Funded Income is estimated to decline by 6% YOY to AED2,850 Mn in 4Q21 compared to AED3,033 Mn in 4Q20. Funded Expense is also expected to decline by 11.1% YOY to AED596 Mn in 4Q21, down from AED670 Mn in 4Q20. Resultantly, the Net Funded Income would decrease by 4.6% YOY to AED2,254 Mn in 4Q21, down from AED2,362 Mn in 4Q20. Fees and Commissions would rise by 16.8% YOY to AED507 Mn in 4Q21, up from AED434 Mn in 4Q20. Other Operating Income is expected to increase by 45.1% YOY to AED387 Mn in 4Q21 from AED267 Mn in 4Q20. As a result, the Non-Funded Income is expected to rise by 27.5% YOY to AED894 Mn in 4Q21 from AED701 Mn in 4Q20. Resultantly, the Operating Income is expected to rise by 2.8% YOY to AED3,148 Mn in 4Q21, up from AED3,063 Mn in 4Q20. The Operating Expenses would increase by 5.5% YOY to AED1,132 Mn in 4Q21 from AED1,073 Mn in 4Q20. Thus, the Cost to Income ratio would rise by 94 bps to 36% in 4Q21 from 35% in 4Q20. Impairment charges would decline by 30.1% YOY to AED656 Mn in 4Q21, down from AED938 Mn in 4Q20.

2021 forecast

We forecast ADCB to report a Net Profit of AED5,137 Mn in 2021 compared to AED3,806 Mn in 2020, an increase by 35%, mainly due to a rise in Non-Funded Income and a decrease in Impairment charges. We expect Net Funded Income to decrease by 9.4% YOY to AED8,867 Mn in 2021 from AED9,783 Mn in 2020. The Non-Funded Income is estimated to rise by 21.4% YOY to AED3,263 Mn in 2021, as compared to AED2,688 Mn in 2020, led by an anticipated 21.7% YOY increase in Fees and Commissions to AED1,887 Mn in 2021, up from AED1,551 Mn in 2020. Thus, the Operating Income would decline by 2.7% YOY to AED12.13 Bn in 2021 compared to AED12.47 Bn in 2020. Operating Expenses would decline by 5.9% YOY to AED4,261 Mn in 2021 from AED4,526 Mn in 2020. Subsequently, the Cost-to-Income ratio is likely to decrease by 117 bps to 35.1% as compared to 36.3% in 2020. Impairment charges would decrease by 34.1% YOY to AED2,633 Mn in 2021 compared to AED3,993 Mn in 2020.

3Q21 outturn

Funded income decreased by 12% YOY to AED2.740 Bn in 3Q21, down from AED3.114 Bn in 3Q20. Funded expense decreased by 32.4% YOY to AED561 Mn in 3Q21, down from AED830 Mn in 3Q20. Resultantly, the Net funded income decreased by 4.6% YOY to AED2.179 Bn in 3Q21, as compared to AED2.285 Bn in 3Q20. Fees and commissions increased by 16.4% YOY to AED436 Mn in 3Q21, up from AED375 Mn in 3Q20. Other operating income decline by 12.5% YOY to AED290 Mn in 3Q21, down from AED331 Mn in 3Q20. Therefore, the Non-funded income increased by 2.8% YOY to AED726 Mn in 3Q21 from AED706 Mn in 3Q20. Thus, Operating income decreased by 2.9% YOY to AED2.905 Bn in 3Q21 from AED2.991 Bn in 3Q20. Moreover, Operating expenses decreased by 8.1% YOY to AED1.013 Bn in 3Q21 from AED1.102 Bn in 3Q20. As a result, the Cost to income ratio declined by 200 bps to 34.9% in 3Q21 from 36.9% in 3Q20. Impairments increased by 18.3% YOY to AED596 Mn in 3Q21, up from AED504 Mn in 3Q20, reducing the profitability. ADCB's Net advances have decreased by 0.4% YOY to AED241.91 Bn in 3Q21 from AED242.89 Bn in 3Q20. Total Assets increased by 5.6% YOY to AED432.06 Bn in 3Q21, as compared to AED409.26 Bn in 3Q20. Total shareholders' equity increased by 5.7% YOY to AED58.16 Bn in 3Q21, up from

AED55.02 Bn in 3Q20. Similarly, the Customer deposits recorded an increase by 5% YOY to AED255.75 Bn compared to AED243.58 Bn in 3Q20.

Target price and recommendation

We revised our rating on ADCB to ACCUMULATE with a target price of AED9.50. ADCB has maintained a strong performance through the first 9 months of 2021, while moving forward after the COVID-19 pandemic effect, with a robust balance sheet and good profitability with the recovery of the UAE economy. ADCB has a diversified revenue mix with Non-Interest Income increasing by 19% YOY to AED2.37 Bn being 26% of Operating Income as compared to 21% same period last year. Net Interest Income of AED2.18 Bn in 3Q21 down by 6% QOQ had led to Net Interest Margin (NIM) decreasing by 26 Bps to 2.34% and it was 36 Bps lower in 9M21 due to lower interest rates. Net profit increased in 9M21 by 36% to AED3.8 Bn mainly driven by higher Fee Income, a better Cost to Income ratio (C/I) decreasing by 190 bps to 34.8% and lower Impairment Charges by 35% YOY to AED1.97 Bn in 9M21. Nevertheless, Net Profit in 3Q21 decreased by 7% YOY and 9% QOQ to reach AED1.27 Bn. Operating Expenses decreased by 9% YOY for the first 9 months in 2021 reaching AED3.13 Bn given the good management of costs. The bank sustained its solid performance despite the macro-economic conditions by increasing its lending portfolio by AED28 Bn targeting economic sectors in line with their 5-year growth strategy while reducing the concentration risk especially in the real estate sector due to significant corporate repayments. The bank is also focusing on its digital transformation strategy. The mobile app reaches 800K subscribers almost 80% of the total customer base and 94% of these customers are registered with either internet or mobile banking. The Bank's Balance Sheet remains strong with total Assets reaching AED432 Bn, up by 5% compared to end of year 2020. ADCB has outperformed the banking sector in the market with an increase in Net Loans by 1.2% compared to end of year 2020 with Net Financing increased by 1.7% YOY during the first 9 months of 2021 as compared to same period last year. The NPL ratio decreased to 5.64% in 3Q21 down from 5.86% in 2Q21 and the provision coverage ratio decreased to 88.4% compared to 91.5% in 2Q21 and up to 143% including collateral compared to 145% in 2Q21. It is worth noting that the lending to the government and public sector formed 24% of gross loans up from 21% at year-end 2020 while decreasing exposure to the Real Estate sector to 25% down from 29% as of the end of 2020. Customers Deposits stood at AED256 Bn up by 2% YTD with CASA deposits increasing by AED4.5 Bn in 3Q21 and AED18.9 Bn YTD to AED146 Bn as at 3Q21 accounting 57% of Total Consumer Deposits. ADCB is still robustly capitalised with Capital Adequacy Ratio (CAR) of 16.25% despite the decrease from 17.22% as at year end and Common Equity tier 1 (CET1) ratio decreasing also to 13.23% from 13.91% as at December 2020 both ratios still above minimum regulatory requirements. The bank also maintains a good liquidity position with a liquidity coverage of 131.7% in 3Q21 up from 127.6% from the previous quarter. Loan to Deposit (LTD) ratio stood at 94.6%. Finally, in the General Meeting held in March 2021, the shareholders approved a cash Dividend for AED1.87 Bn for the year 2020, being AED0.27 Dividend per share and amounting to 27% of the paid-up share capital. The stock is currently trading at attractive valuation with P/B of 1.1x. Therefore, we assign an ACCUMULATE rating on the stock.

ADCB - Relative valuation

(at CMP)	2017	2018	2019	2020	2021E
P/E (x)	10.68	9.49	12.03	16.75	11.54
P/B (x)	1.56	1.54	1.20	1.17	1.01
Dividend yield	4.9%	5.4%	4.4%	3.2%	3.9%

FABS Estimates & Co data

ADCB - P&L

AED mm	4Q20	3Q21	4Q21F	YOY Ch	QOQ Ch	2020	2021F	Change
Funded income	3,033	2,740	2,850	-6.0%	4.0%	14,065	11,151	-20.7%
Funded expense	-670	-561	-596	-11.1%	6.3%	-4,282	-2,284	-46.7%
Net funded income	2,362	2,179	2,254	-4.6%	3.4%	9,783	8,867	-9.4%
Fees & commissions	434	436	507	16.8%	16.1%	1,551	1,887	21.7%
Other operating income	267	290	387	45.1%	33.7%	1,137	1,376	21.0%
Non funded income	701	726	894	27.5%	23.1%	2,688	3,263	21.4%
Operating income	3,063	2,905	3,148	2.8%	8.3%	12,471	12,130	-2.7%
Operating expenses	-1,073	-1,013	-1,132	5.5%	11.8%	-4,526	-4,261	-5.9%
Pre-provision profit	1,990	1,892	2,015	1.3%	6.5%	7,945	7,869	-1.0%
Impairments	-938	-596	-656	-30.1%	10.0%	-3,993	-2,633	-34.1%
Operating profit after impairment	1,052	1,296	1,360	29.3%	4.9%	3,952	5,236	32.5%
Share of profit of assoc.	4	1	5	30.8%	258.4%	18	12	-33.4%
Profit before tax	1,056	1,298	1,365	29.3%	5.2%	3,970	5,248	32.2%
Overseas tax expense	-31.8	-24	-18	-44.9%	-27.2%	-120	-88	-26.7%
Loss from discontinued operations	-17.0	2	-8	-53.0%	NM	-41	-20	-49.9%
Non controlling interest	2	0	0	NM	0.3%	-3	-2	-44.0%
Profit for the period	1,009	1,275	1,339	32.7%	5.0%	3,806	5,137	35.0%

FABS estimate & Co Data
ADCB - P&L KPI

%	4Q20	3Q21	4Q21F	YOY Ch	QOQ Ch	2020	2021F	Change
Net FI/OI	77.1%	75.0%	71.6%	-552	-342	78.4%	73.1%	-534
NIM	3.7%	3.4%	3.4%	-30	-6	3.7%	3.3%	-33
NIS	3.6%	3.4%	3.3%	-29	-6	3.6%	3.3%	-32
Fees & comms/OI	14.2%	15.0%	16.1%	193	108	12.4%	15.6%	312
Other non-funded/OI	8.7%	10.0%	12.3%	359	234	9.1%	11.3%	222
Cost to income	35.0%	34.9%	36.0%	94	111	36.3%	35.1%	-117
Impairment/PPP	47.1%	31.5%	32.5%	-1461	104	50.3%	33.5%	-1679
Tax/PBT	3.0%	1.9%	1.3%	-173	-57	3.0%	1.7%	-135
NP/OI	32.9%	43.9%	42.5%	959	-137	30.5%	42.4%	1183
ROAE	1.8%	2.3%	2.3%	52	6	6.8%	8.9%	211
ROAA	0.2%	0.3%	0.3%	7	2	0.9%	1.2%	29

FABS estimate & Co Data
ADCB - Key B/S items

AED Mn	4Q20	1Q21	2Q21	3Q21	4Q21F	YOY Ch
Net advances	238,976	235,725	237,814	241,912	243,788	2.0%
QOQ change	-1.6%	-1.4%	0.9%	1.7%	0.8%	
Total assets	411,156	395,819	416,290	432,061	425,937	3.6%
QOQ change	0.5%	-3.7%	5.2%	3.8%	-1.4%	
Customer deposits	251,395	238,830	250,564	255,753	256,032	1.8%
QOQ change	3.2%	-5.0%	4.9%	2.1%	0.1%	
Total shareholders' equity	56,597	55,719	57,104	58,161	59,032	4.3%
QOQ change	2.9%	-1.6%	2.5%	1.9%	1.5%	

FABS estimate & Co Data

4Q21 preview: Mashreq Bank (MASQ)

Lower Impairments to increase the bottom-line

CMP (AED): 79.50
Potential upside (%): +3.1%

12-m target price:

AED82.00

Stock rating:

HOLD

4Q21 estimate

Mashreq bank (MASQ) is forecasted to record a significant increase YOY in Net Profit to AED203 Mn in 4Q21, as compared to reported losses of AED1,630 Mn in 4Q20. This is mainly due to lower Impairments. We expect the Net Funded Income to increase by 32.1% YOY to AED815 Mn in 4Q21, up from AED617 Mn in 4Q20. It is likely to be driven by 11% YOY decline in Interest Expense to AED381 Mn in 4Q21, down from AED427 Mn in 4Q20. While the Interest Income is expected to increase by 11.4% YOY to AED1,119 Mn in 4Q21, up from AED1,005 Mn in 4Q20. We estimate the Total Operating Income to increase by 31.1% YOY to AED1,543 Mn in 4Q21 from AED1,177 Mn in 4Q20, led by a significant increase YOY in Income from Investment Securities to AED113 Mn in 4Q21, up from AED32 Mn in 4Q20 and an increase by 30% YOY in Fees and Commission Income to AED369 Mn in 4Q21 from AED284 Mn in 4Q20. Total Other Operating Income is also predicted to increase by 29.9% YOY to AED728 Mn in 4Q21, up from AED561 Mn in 4Q20, and the Operating Expenses are assumed to fall by 37.3% YOY to AED665 Mn in 4Q21 compared to AED1,061 Mn in 4Q20. Thus, the Cost-to-Income (C/I) ratio is predicted to fall drastically to 43.1% in 4Q21 compared to 90.1% in 4Q20. We estimate Impairment charges to decline by 62.8% YOY to AED638 Mn in 4Q21, down from AED1,714 Mn in 4Q20.

2021 forecast

We expect MASQ to record a Net profit of AED468 Mn in 2021 compared to a Net loss of AED1,278 Mn in 2020, this is mainly due to the lower Impairments. Net Funded Income is anticipated to increase by 14% YOY to AED3,050 Mn as compared to AED2,676 Mn in 2020, due to the decrease by 28.6% YOY in Interest Expense to AED1,507 Mn in 2021 as compared to AED2,111 Mn in 2020 and the decrease by 35% YOY in Distribution to depositors – Islamic products to AED176 Mn in 2021 from AED271 Mn in 2020. Total Other Operating Income would rise by 12.9% YOY to AED2,791 Mn in 2021 from AED2,472 Mn in 2020, mainly due to an increase by 27.1% YOY in Net Fee and Commission Income to AED1,550 Mn from AED1,220 Mn in 2020. Therefore, the Total Operating Income is predicted to rise by 13.5% YOY to AED5,841 Mn in 2021 from AED5,148 Mn in 2020 while Operating Expenses are expected to decrease by 12.5% YOY to AED2,577 Mn in 2021 compared to AED2,945 Mn in 2020. Subsequently, the Cost-to-Income (C/I) ratio would decrease to 44.1% in 2021 as compared to 57.2% in 2020. Impairment charges is expected to drop by 20.4% YOY to AED2,673 Mn in 4Q21, down from AED3,357 Mn in 4Q20.

3Q21 outturn

MASQ's Interest Income has increased by 8.2% YOY to AED1,087 Mn in 3Q21 from AED1,004 Mn in 3Q20, while the Income from Islamic Financing has decreased by 12.5% YOY to AED116 Mn in 3Q21 from AED133 Mn in 3Q20. Interest Expense and Distribution to Depositors in Islamic Finance have decreased by 27.8% and 39.3% YOY to AED366 Mn and AED42 Mn, respectively in 3Q21. As a result, Net Funded Income has shown a growth by 41.7% YOY to AED795 Mn in 3Q21, as compared to AED561 Mn in 3Q20. Net Fees and Commission Income has increased by 28% YOY to AED362 Mn, up from AED283 Mn in 3Q20. Whereas the Other Income has increased by 1% YOY to AED231 Mn in 3Q21, up from AED229 Mn in 3Q20. Therefore, the Total Operating Income has increased by 25.2% YOY to AED1,428 Mn in 3Q21 from AED1,140 Mn in 3Q20. Similarly, the Operating expenses increased by 9.9% YOY to AED691 Mn from AED629 Mn in 3Q20. Thus, the Cost to income ratio has declined by 678 bps to 48.4%, down from 55.2% in 3Q20. Moreover,

Impairment charges has dropped by 19% YOY to AED538 Mn in 3Q21, down from AED665 Mn in 3Q20, supporting the profitability. Net Advances have increased by 7.6% YOY to AED76.98 Bn from AED71.53 Bn in 3Q20. While, Total Assets have declined slightly by 0.1% YOY to AED169.56 Bn in 3Q21, down from AED169.72 Bn in 3Q20. Customer Deposits have marginally increased to AED54.78 Bn in 3Q21 compared to AED94.72 Bn in 3Q20. Total Equity declined by 7.2% YOY to AED20.16 Bn from AED21.73 Bn in 3Q20.

Target price and recommendation

We maintain our HOLD rating on MASQ with a target price of AED82.00. Mashreq is one of the leading financial institutions in the UAE and the best digital bank in the Middle East also offering a wide range of products through international branches. For 9 months of 2021, the Operating Income by 8.2% YOY to AED4,298 Mn up from AED3,971 Mn mainly driven by the increase in Interest Income & Income from Islamic Financing by 8.5% and increase in Non-Interest Income by 7.9%. Operating Expenses also increased slightly by 1.5% YOY reaching AED1,912 Mn up from AED1,884 in 9M20 driven by continuous investment in the digital sector. Impairment allowance increased significantly to AED2,035 Mn in 9M21 up from AED1,643 Mn in 9M20, an increase by 23.8% give the risk charge in Corporate Banking. Given the above, the Net Income in 9M21 decreased substantially by 24.7% reaching AED265 Mn down from AED352 Mn in 9M20. The bank's balance sheet maintained a robust performance by the end of September 2021 with total Assets increasing by 7% to AED169.59 Bn up from AED158.52 Bn as at end of 2020. The Advances reached AED77 Bn in 3Q21 up by 7.6% from end of year with Trade being the largest proportion of Gross Loans with 18% followed by Government constituting 14.4% of Gross Loans while Personal Loans represent 14% of Gross Loans. Customer Deposits increased to AED94.8 Bn in 3Q21 from AED88.3 Bn at the end of 2020, an increase by 7.4% with CASA constituting almost 59% of Total Deposits 3Q21 as compared to 53% as at end of 2020. To note that customer Deposits account for 64% of the Bank's Total Liabilities. As a result, Advances to Deposits (ADR) ratio stood at 81.2% in 3Q21 up from 78.1% in 3Q20. Total Equity decreased insignificantly by 0.2% as compared to end of 2020 standing at AED19.4 Bn. The bank is still maintaining an acceptable Capital Adequacy Ratio (CAR) above the minimum requirement of 13%, despite the decrease to 14.4% in 3Q21 down from 17.4% in 3Q20 and the Tier 1 Capital Ratio decreased as well to 13.3% from 16.3% same period last year, still above minimum regulatory requirement of 8.5%. Liquidity of the bank is still at good levels with Liquid assets constituting almost 30% of Total Assets although it was down from 36% same period last year and the Liquidity Coverage Ratio stood at 150.1% down from 153.6%. Mashreq maintains a good asset quality with NPL increasing slightly to 5.6% compared to 5.1% as at the end of 2020 and the Coverage Ratio decreasing slightly to 125% from 130% in FY20. The bank's ROA and ROE reached positive levels at 0.2% and 1.8%, respectively, compared to negative 0.9% and negative 6.2% respectively in FY20. Finally, it is worth noting that the EPS stands at 1.49 in 3Q21 as compared to 1.98 in 3Q20, while the bank hasn't paid any Dividends. All factors stated above lead us to maintain our HOLD rating on the stock.

MASQ – Relative Valuation

(at CMP)	2017	2018	2019	2020	2021E
P/E (x)	6.88	6.85	6.84	-11.04	53.36
P/B (x)	0.69	0.70	0.66	0.73	0.70
Dividend yield	5.0%	5.0%	5.0%	0.0%	0.0%

FABS Estimates & Co data

MASQ - P&L

AED mm	4Q20	3Q21	4Q21F	YOY Ch	QOQ Ch	2020	2021F	Change
Interest income	1,005	1,087	1,119	11.4%	3.0%	4,515	4,277	-5.3%
Income from Islamic financing	98	116	118	20.8%	1.4%	543	456	-16.2%
Interest expense	-427	-366	-381	-11.0%	4.0%	-2,111	-1,507	-28.6%
Distribution to depositors – Islamic products	-59	-42	-42	-28.3%	-0.7%	-271	-176	-35.0%
Net funded income	617	795	815	32.1%	2.5%	2,676	3,050	14.0%
Net Fee and commission income	284	362	369	30.0%	2.1%	1,220	1,550	27.1%
Inc. from investment securities	32	40	113	NM	NM	321	287	-10.8%
Other income, net	244	231	246	0.8%	6.4%	931	955	2.5%
Total other OI	561	633	728	29.9%	15.0%	2,472	2,791	12.9%
Total operating income	1,177	1,428	1,543	31.1%	8.1%	5,148	5,841	13.5%
General & admin. Expenses	-1,061	-691	-665	-37.3%	-3.8%	-2,945	-2,577	-12.5%
Pre provision profit	116	737	878	NM	19.2%	2,203	3,264	48.1%
Allowances for impairment, net	-1,714	-538	-638	-62.8%	18.6%	-3,357	-2,673	-20.4%
Overseas income tax expense	-19	-6	-13	-32.9%	NM	-52	-44	-14.6%
Non-controlling interests	-13	-13	-24	81.5%	80.1%	-73	-78	8.0%
Net Profit	-1,630	180	203	NM	13.1%	-1,278	468	NM

FABS estimate & Co Data
MASQ - KPI

%	4Q20	3Q21	4Q21F	YOY Ch	QOQ Ch	2020	2021F	Change
Net FI/OI	52.4%	55.7%	52.8%	42	-287	52.0%	52.2%	23
NIM	2.4%	2.4%	2.7%	25	25	2.4%	2.6%	19
NIS	2.5%	2.5%	2.6%	17	13	2.5%	2.7%	21
Fees & comms/OI	24.1%	25.3%	23.9%	-19	-139	23.7%	26.5%	284
Trading/OI	2.7%	2.8%	7.3%	457	451	6.2%	4.9%	-133
Cost to income	90.1%	48.4%	43.1%	-4703	-530	57.2%	44.1%	-1,308
Impairment/PPP	1474.6%	73.1%	72.7%	NM	-36	152.3%	81.9%	-7,045
NP/OI	-138.4%	12.6%	13.2%	NM	58	-24.8%	8.0%	3,284
ROAE	-6.0%	-6.4%	2.3%	828	869	-6.0%	2.3%	833
ROAA	-0.8%	-0.87%	0.28%	107	115	-0.8%	0.3%	108

FABS estimate & Co Data
MASQ - key BS items

AED mm	4Q20	1Q21	2Q21	3Q21	4Q21F	YOY Ch
Net advances	71,533	75,797	77,282	76,982	76,533	7.0%
QOQ changes	0.0%	6.0%	2.0%	-0.4%	-0.6%	
Total assets	158,523	162,253	172,763	169,561	176,459	11.3%
QOQ changes	-6.6%	2.4%	6.5%	-1.9%	4.1%	
Customer deposits	88,261	90,205	95,433	94,779	98,130	11.2%
QOQ changes	-6.8%	2.2%	5.8%	-0.7%	3.5%	
Total equity	20,188	19,652	20,067	20,165	20,317	0.6%
QOQ changes	-7.1%	-2.7%	2.1%	0.5%	0.8%	

FABS estimate & Co Data

4Q21 preview: Sharjah Islamic Bank (SIB)

Lower Provisions and higher Funded and Non-Funded income to boost Profits

CMP (AED): 1.87
Potential upside (%): +1.6%

12-m target price:

AED 1.90

Stock rating:

HOLD

4Q21 estimate

Sharjah Islamic Bank (SIB) is forecasted to report a strong growth in Net Profit to AED166 Mn in 4Q21, up from AED52 Mn in 4Q20, mainly due to an expected increase in Net Fees and commissions and a significant decline in Provisions. The Income from Financing and Leasing is expected to decrease slightly by 0.9% YOY to AED443 Mn in 4Q21. The Depositor's share of Profit is expected to increase by 33.2% YOY to AED164 Mn in 4Q21, up from AED123 Mn in 4Q20. The Profit Expense on Sukuks is expected to decline significantly to nil, down from AED48 Mn in 4Q20. As a result, the Net funded income would increase by 1.2% YOY to AED279 Mn in 4Q21, up from AED276 Mn in 4Q20. We estimate the Fees and Commissions to increase by 83.3% YOY AED73 in 4Q21, as compared to AED40 Mn in 4Q20. Therefore, the Operating Income is expected to increase by 11.5% YOY to AED352 Mn in 4Q21, up from AED315 Mn in 4Q20. The General and Administrative Expenses are likely to drop by 11.1% YOY to AED141 Mn in 4Q21, down from AED159 Mn in 4Q20. Resultantly, the Cost to income ratio would decline by 576 bps to 40.1% from 45.9% in 4Q20. The Provisions are expected to decline by 57.3% YOY to AED45 Mn in 4Q21, down from AED105 Mn in 4Q20.

2021 forecast

We forecast SIB's Net Profit to increase by 53.7% YOY to AED624 Mn in 2021, up from AED406 Mn in 2020. The Income from Financing and Leasing is likely to decrease by 2% YOY to AED1,693 Mn in 2021. The Depositors share of profits is expected to increase by 4.2% YOY to AED602 Mn in 2021, up from AED577 Mn in 2020. The Profit Expense on Sukuks is likely to decline significantly to nil in 2021, down from AED177 Mn in 2020. Resultantly, the Net Funded Income is likely to increase by 12% YOY to AED1,091 Mn in 2021, as compared to AED974 Mn in 2020. The Net Fees and commissions is expected to increase strongly by 28.1% YOY to AED319 Mn in 2021, up from AED249 Mn in 2020. As a result, the Operating Income is expected to increase by 15.3% YOY to AED1,410 Mn in 2021, up from AED1,223 Mn in 2020. The General & Administrative Expenses are likely to decline by 2.6% YOY to AED547 Mn in 2021, down from AED561 Mn in 2020. Thus, the Cost to income ratio would decline by 71 bps to 38.8% in 2021, down from 45.9% in 2020. Provisions are expected to decline by 6.4% YOY to AED240 Mn in 2021, down from AED256 Mn in 2020.

3Q21 outturn

The Net Funded Income increased by 16.3% YOY to AED274 Mn in 3Q21, up from AED236 Mn in 3Q20. This was mainly due to reduction in Depositor's share of profits by 2.8% YOY to AED140 Mn in 3Q21 as compared to AED144 Mn in 3Q20. Furthermore, the Profit on expense for Sukuks were nil in 3Q21. The decline in expenses outweighed the 3.1% YOY decline in Income from investment. The Non-Funded income increased by 37.6% YOY to AED97 Mn in 3Q21, up from AED71 Mn in 3Q20. It comprises of Fees, commission, and Other Income. Resultantly, the Operating income grew by 21.2% YOY to AED372 Mn in 3Q21, up from AED307 Mn in 3Q20 due to healthy growth in Net Funded and Non-Funded Income on a year-on-year basis. General & admin expenses increased by 1.5% YOY to AED136 Mn in 3Q21, up from AED134 Mn in 3Q20. Thus, the Cost to income ratio declined by 713 bps to 36.6% from 43.8% in 3Q20. The Provisions declined by 4.6% YOY to AED67 Mn in 3Q21 as compared to AED70 Mn in 3Q20. The Net Advances increased slightly by 0.1% YOY to AED29.55 Bn in 3Q21, up from AED29.53 Bn in 3Q20. The Customer Deposits grew strongly by 12.7% YOY to AED36.7 Bn in 3Q21 as compared to AED32.6 Bn in 3Q20. Similarly, Total Assets increased by 2.2% YOY to AED54.5 Bn in 3Q21. Whereas the Total equity increased by 0.8% YOY to AED7.7 Bn in 3Q21.

Target price and recommendation

We maintain our HOLD rating on the stock with a target price of AED1.90. Sharjah Islamic Bank has reported a robust increase in performance both on year-on-year as well as quarter-on-quarter basis. The Net Profit increased by 64.9% YOY to AED169 Mn in 3Q21, up from AED102 Mn in 3Q20. It was mainly driven lower expenses on Sukuks and higher Non-Funded Income in 3Q21. In 9M 21, the Net Profit increased by 29.6% YOY to AED458 Mn in 9M 21, up from AED353.4 Mn. The Net Funded income increased by 16.3% YOY to AED274 Mn in 3Q21, up from AED236 Mn in 3Q20. It is driven by decline in Sukuk expenses and decline in Depositor's share of Profit. The Income from Financing and Leasing declined by 3.1% YOY to AED414 Mn in 3Q21, down from AED427 Mn in 3Q20. The Bank mainly operates via four main segments – Corporate and Government, Retail, Investment and Treasury and lastly Hospitality, brokerage, and real estate. The highest contributor to the Net Funded Income is Corporate and Government with 61% contribution to Net Funded Income, followed by Retail with 26% and the balance Investment & Treasury for 9M 21. The Fees and Commissions increased by 37.6% YOY to AED97 Mn in 3Q21, up from AED71 Mn in 3Q20. It was mainly contributed by Corporate and Government, followed by Retail. As a result, the Total Operating Profit increased by 21.2% YOY to AED372 Mn in 3Q21, up from AED307 Mn in 3Q20. In 9M 21, the Total Operating Profit increased by 16.6% YOY to AED1.1 Bn, up from AED907.9 Mn in 9M 20. Before accounting for Impairments, the Net operating income increased by 36.6% YOY to AED236 Mn in 3Q21, up from AED172 Mn in 3Q20. Similarly, it increased by 29.3% YOY to AED652.9 Mn in 9M 21, up from AED504.8 Mn in 9M 20. The General expenses increased slightly by 1.5% YOY to AED136 Mn in 3Q21. As a result, the Cost to Income ratio declined to 36.6% in 3Q21, down from 43.8% in 3Q20. The Bank has reported a decline in Provisions by 4.6% YOY to AED67 Mn in 3Q21, down from AED70 Mn in 3Q20. As a result, the Net Profit increased by 64.9% YOY to AED169 Mn in 3Q21, up from AED102 Mn in 3Q20. SIB strategizes stable growth in its financial position The Total Assets stood at AED54.5 Bn in 9M 21, up from AED53.6 Bn in 2020. The Total Liquid Assets comprise of 23.6% of the Total Assets that increased from 20.9% in 2020. The Investment in Islamic Financing increased by 1% YOY to AED29.6 Bn in 9M 21. The Investment in Islamic Financing to Customer Deposits stood at 80.4% in 3Q21 that is in line with the management strategy. The Investment securities have declined by 14.8% in 3Q21, down from 2020 level. The Customer Deposits increased strongly by 9.3% or by AED3.1 Bn to AED36.7 Bn in 3Q21, up from AED33.6 Bn in 2020. It demonstrates the strong customer base and brand value enjoyed by the Bank. The Sukuk payables declined by 1.8 Bn to AED3.7 Bn as of 3Q21. Around USD500 worth Sukuks were repaid back in 3Q21 from the Banks's own reserves. The Bank has maintained solid liquidity position that aided the step. The NPL ratio stood at 4.88% in 3Q21 because of robust risk management framework and prudent management initiatives. These actions have significantly added to the Bank's liquidity position and improved Coverage ratio to 100.1% in 3Q21. The Bank is strongly capitalized, and the Total Equity comprises of 14.1% of the Total Assets. In February 2021, the Bank announced 8% cash dividend that amounts to AED246.5 Mn pertaining to 2020. Therefore, we assign our HOLD rating.

SIB – Relative Valuation

(at CMP)	2017	2018	2019	2020	2021F
P/E (x)	10.85	11.49	10.85	14.31	9.54
P/B (x)	1.04	1.06	1.01	0.99	0.74
Dividend yield	4.3%	4.3%	2.7%	4.3%	4.3%

FABS Estimates & Co Data

SIB - P&L

AED mm	4Q20	3Q21	4Q21F	YOY Ch	QOQ Ch	2020	2021F	Change
Income from fin. & Leasing	447	414	443	-0.9%	6.9%	1,728	1,693	-2.0%
Depositors' share of profit	-123	-140	-164	33.2%	17.1%	-577	-602	4.2%
Profit expense on Sukuks	-48	0	0	NM	NA	-177	0	NM
Net funded income	276	274	279	1.2%	1.7%	974	1,091	12.0%
Fees and commissions	40	97	73	83.3%	-25.4%	249	319	28.1%
Total non-funded income	40	97	73	83.3%	-25.4%	249	319	28.1%
Total operating income	315	372	352	11.5%	-5.4%	1,223	1,410	15.3%
General & admin. Expenses	-159	-136	-141	-11.1%	3.7%	-561	-547	-2.6%
Pre provision profit	157	236	210	34.5%	-10.7%	662	863	30.5%
Provisions	-105	-67	-45	-57.3%	-33.4%	-256	-240	-6.4%
Net profit	52	169	166	NM	-1.6%	406	624	53.7%

FABS estimate & Co Data

SIB - KPI

AED mm	4Q20	3Q21	4Q21F	YOY Ch	QOQ Ch	2020	2021F	Change
Net FI/OI	79.6%	73.8%	79.3%	-32	553	79.6%	77.4%	-23
NIM	2.3%	2.5%	2.4%	6	-8	2.3%	2.3%	0.0
NIS	2.3%	2.5%	2.4%	7	-8	2.3%	2.3%	0.2
Fees & comms/OI	20.4%	26.2%	20.7%	32	-553	20.4%	22.6%	23
Cost to income	45.9%	36.6%	40.1%	-576	351	45.9%	38.8%	-71
Provisions/PPP	38.7%	28.5%	21.2%	-1,744	-724	38.7%	27.7%	-109
NP/OI	33.2%	45.3%	47.2%	1,398	182	33.2%	44.2%	111
ROAE	5.3%	2.2%	2.2%	-319	-4	5.3%	8.1%	28
ROAA	0.8%	0.3%	0.3%	-51	-1	0.8%	1.1%	3

FABS estimate & Co Data

SIB- Key BS Items

AED mm	4Q20	1Q21	2Q21	3Q21	4Q21F	YOY Ch
Net advances	29,269	29,327	29,292	29,551	29,881	2.1%
QOQ change	-0.9%	0.2%	-0.1%	0.9%	1.1%	
Total assets	53,601	54,919	54,351	54,510	57,806	7.8%
QOQ change	0.5%	2.5%	-1.0%	0.3%	1.1%	
Customer deposits	33,608	35,476	34,992	36,735	37,463	11.5%
QOQ change	3.1%	5.6%	-1.4%	5.0%	1.0%	
Total equity	7,645	7,492	7,615	7,708	7,717	0.9%
QOQ change	0.0%	-2.0%	1.6%	1.2%	1.9%	

FABS estimate & Co Data

4Q21 preview: Commercial Bank of Dubai (CBD)

Expected drop in Impairments likely to boost profitability

CMP (AED): 4.30
Potential downside (%): +19.8%

12-m target price:

AED 5.15

Stock rating:

BUY

4Q21 forecast

Commercial Bank of Dubai (CBD) is forecasted to increase its Net Profit by 42.4% YOY to AED433 Mn in 4Q21, up from AED304 Mn in 4Q20. The Net Funded Income is expected to increase by 18.1% YOY to AED607 Mn in 4Q21, up from AED514 Mn in 4Q20, mainly due to an expected decline by 7.7% YOY in Funded Expense to AED171 Mn in 4Q21 and an increase by 11.2% YOY in the Funded Income to AED778 Mn in 4Q21, up from AED699 Mn in 4Q20. The Non-Funded Income is expected to drop by 3.2% YOY to AED337 Mn in 4Q21, down from AED348 Mn in 4Q20. It is likely to be driven by 56% YOY decrease in Trading Income to AED83 Mn in 4Q21 from AED188 Mn in 4Q20. Fees and commissions income is estimated to increase by 47.8% YOY to AED226 Mn in 4Q21. The Other Non-Funded Income would significantly increase YOY to AED29 Mn in 4Q21, up from AED8 Mn in 4Q20. Therefore, the Operating Income is expected to increase by 9.5% YOY to AED944 Mn in 4Q21, up from AED862 Mn in 4Q20. The General and Administrative Expenses are likely to increase by 4.3% YOY to AED218 Mn in 4Q21, up from AED209 Mn in 4Q20. The Operating Expenses are likely to increase by 4.6% YOY to AED226 Mn in 4Q21, up from AED216 Mn in 4Q20. Thus, the Cost to income ratio would decline by 113 bps to 23.9% from 25.1% in 4Q20. The Impairment Allowances are expected to decrease by 15.6% YOY to AED301 Mn in 4Q21, down from AED357 Mn in 4Q20.

2021 forecast

We forecast CBD's Net Profit to increase by 32.5% YOY to AED1,484 Mn in 2021, up from AED1,120 Mn in 2020. The Net Funded Income is expected to increase by 15.3% YOY to AED2,175 Mn in 2021, up from AED1,887 Mn in 2020. It is expected to be driven by 35% YOY decline in Funded Expense to AED636 Mn in 2021, down from AED979 Mn in 2020. The Non-Funded Income is expected to decrease by 6.1% YOY to AED1,019 Mn in 2021. The Fees and Commissions are likely to increase by 18.1% YOY to AED769 Mn in 2021, up from AED651 Mn in 2020. The Trading Income is expected to decline by 36.4% YOY to AED246 Mn in 2021, down from AED387 Mn in 2020. The Other Non-Funded Income is expected to decline by 91.6% YOY to AED4 Mn in 2021, down from AED48 Mn in 2020. As a result, the Operating Income is likely to increase by 7.4% YOY to AED3,194 Mn in 2021, up from AED2,972 Mn in 2020. The General and Administrative expenses are likely to increase by 5.3% YOY to AED821 Mn in 2021, up from AED779 Mn in 2020. The Operating Expenses are likely to increase by 5.3% YOY to AED850 Mn in 2021, up from AED807 Mn in 2020. Thus, the Cost to income ratio would decline by 160 bps to 25.6% from 27.2% in 4Q20. The Impairment Charges are likely to decrease by 2.3% YOY to AED1,039 Mn in 2021, up from AED1,063 Mn in 2020.

3Q21 Outturn

Bank's Funded Income has increased by 7.7% YOY to AED714 Mn in 3Q21 from AED663 Mn in 3Q20. While the Funded Expense has declined by 29% YOY to AED156 Mn in 3Q21, down from AED219 Mn in 3Q20. As a result, the Net Funded Income has increased by 25.8% YOY to AED558 Mn in 3Q21, up from AED443 Mn in 3Q20. Fees and Commissions decreased by 4.3% YOY to AED159 Mn in 3Q21 from AED166 Mn in 3Q20. Trading Income has shown a growth by 17.6% YOY to AED86 Mn in 3Q21, as compared to AED73 Mn in 3Q20. Similarly, the Other non-funded income increased by 42.4% YOY to AED12 Mn in 3Q21, up from AED9 Mn in 3Q20. Therefore, the Total Non-Funded Income increased by 3.8% YOY to AED257 Mn from AED248 Mn in 3Q20. Thus, the Total Operating Income increased by 17.9% YOY to AED815 Mn in 3Q21, up from AED691 Mn in 3Q20. Moreover, the Total Operating Expenses including (General & Administrative, Depreciation and Amortization) increased by 4.9% YOY to AED215 Mn in 3Q21, up from AED205 Mn in 3Q20. Resultantly, the Cost to Income ratio (C/I) has declined by 327 bps to 26.4% in 3Q21 compared to

29.7% in 3Q20. Additionally, Impairment Allowances on loans and Islamic Financing has increased by 13.1% YOY to AED243 Mn in 3Q21, up from AED215 Mn in 3Q20. CBD's Net Advances have increased by 18.9% YOY to AED74.89 Bn in 3Q21, as compared to AED62.98 Bn in 3Q20. In addition, Total Assets have increased by 16.2% YOY to AED107.75 Bn in 3Q21, up from AED92.75 Bn in 3Q20. Moreover, Customer Deposits have increased by 18.5% YOY to AED75.81 Bn from AED64 Bn in 3Q20. Total Equity has also increased by 26.1% YOY to AED13.27 Bn in 3Q21, up from AED10.52 Bn in 3Q20.

Target price and recommendation

We revised our rating on CBD to BUY with a target price of AED5.15. Commercial Bank of Dubai (CBD) has been determined to achieve good financial results while becoming an employer of choice by supporting its employees, encouraging a high-performance culture, and retaining and recruiting talented nationals. CBD is also focused on its customer base and has been shifting towards digitalization to serve its customers better. Net Profit has increased in 9M21 by 29% YOY reaching AED1.05 Bn from AED816 Mn in 9M20 and Revenues showed an improvement by 13% as well from AED2.11 Bn in 9M20 compared to AED2.38 Bn during 9M21. Meanwhile, the bank is still maintaining a robust Balance sheet reflected in an increase in the Assets to reach AED 107.75 Bn in 3Q21 from AED 97.36 Bn by end of 2020. Net Loans have increased drastically from AED 65.29 Bn as at end of 2020 to AED 74.89 Bn at the end of 3Q21 with Non-Performing Loan (NPL) ratio increasing slightly to 6.93% from 6.77% as at end of 2020 with the coverage inclusive of collateral in stage 3 loans increasing to 118.53% in 9M21 compared to 105.09% in 9M20. Provisions to Gross Loans decreased from 5.45% in December 2020 to 5.09% in 3Q21. Customer Deposits have increased significantly from AED 69.75 Bn as at end of 2020 to AED 75.81 Bn in 3Q21 showing stable funding and supporting the loan growth with the Loans to Deposits (LTD) ratio increasing from 93.6% in December 2020 to 98.8% in September 2021. The highest increase in Deposits came from the corporate sector from AED 35.55 Bn as at end of 2020 to AED 41.07 Bn as at end of 3Q21, outweighing the effect of the decrease in Government Deposits decreasing to AED13.56 Bn in 3Q21 down from AED15.63 Bn in FY20. The bank is still showing capital strength despite the decrease in Capital Adequacy Ratio (CAR) by 49 bps to 16.16% in 3Q21 from 16.65% as at end of previous year but still above the minimum requirement of 13% set by regulators. Common Equity Tier 1 (CET1) ratio has also slightly decreased, reaching 12.5% in 3Q21 from 12.71% as at end of 2020 but also above the requirement of 9.5%. Net Interest Margin (NIM) YTD maintained its level at 2.01% with Cost of Fund decreasing from 1.38% in 3Q20 to 0.71% in 3Q21. Return on Equity (ROE) reached 12.9% in September 2021 an increase by 20.56% as compared to 10.7% as at year end 2020 and Return on Assets (ROA) increased by 13.2% in 9M21 to reach 1.37% as compared to 1.21% as at end of 2020. It is worth noting the healthy operating performance achieved by CBD in 3Q21 despite the small decrease in Operating Profit as a percentage of Operating Expenses but staying way above 100% at 131.49% with the Cost-to-Income ratio decreasing by 4% to 26.13% as compared to 27.11% by year end 2020. Finally, the Cost of Risk is showing some signs of improvement by decreasing to 1.16% as at end of third quarter 2021 as compared to 1.51% by end of year 2020. The stock is currently trading at P/B of 1.04x, leading us to assign a BUY rating.

CBD - Relative valuation

(at CMP)	2017	2018	2019	2020	2021E
P/E (x)	11.94	10.49	8.60	10.75	7.98
P/B (x)	1.33	1.31	1.18	1.12	0.90
Dividend yield	4.1%	4.8%	4.8%	4.7%	4.7%

FABS Estimates & Co Data

CBD - P&L

AED mm	4Q20	3Q21	4Q21F	YOY Ch	QOQ Ch	2020	2021F	Change
Funded income	699	714	778	11.2%	9.0%	2,865	2,810	-1.9%
Funded expense	-186	-156	-171	-7.7%	9.8%	-979	-636	-35.0%
Net funded income	514	558	607	18.1%	8.8%	1,887	2,175	15.3%
Fees and commissions	153	159	226	47.8%	42.6%	651	769	18.1%
Trading income	188	86	83	-56.0%	-4.1%	387	246	-36.4%
Other non-funded income	8	12	29	NM	NM	48	4	-91.6%
Total non-funded income	348	257	337	-3.2%	31.2%	1,086	1,019	-6.1%
Total operating income	862	815	944	9.5%	15.9%	2,972	3,194	7.4%
General and administrative expenses	-209	-208	-218	4.3%	5.2%	-779	-821	5.3%
Depreciation and amortization	-7	-8	-7	11.8%	-0.5%	-28	-29	4.5%
Operating Expenses	-216	-215	-226	4.6%	5.0%	-807	-850	5.3%
Pre provision profit	646	600	718	11.2%	19.7%	2,165	2,344	8.3%
Impair allow. on loans & adv and Islamic fin	-357	-243	-301	-15.6%	23.8%	-1,063	-1,039	-2.3%
Recoveries	7	30	13	82.4%	-57.1%	24	63	NM
Impairment allowances on AFS investment	-2	-13	-1	-57.2%	-93.4%	-17	-26	52.5%
Share of profit of associates	10	1	4	-56.2%	NM	6	12	94.0%
Net profit	304	375	433	42.4%	15.6%	1,120	1,484	32.5%

FABS estimate & Co Data

CBD - KPI

%	4Q20	3Q21	4Q21F	YOY Ch	QOQ Ch	2020	2021F	Change
Net FI/OI	59.6%	68.5%	64.3%	468	-418	63.5%	65.4%	193
NIM	5.6%	4.4%	4.2%	-136	-12	5.4%	4.1%	-132
NIS	5.7%	4.4%	4.3%	-138	-12	5.4%	4.1%	-131
Fees & comms/OI	17.7%	19.5%	23.9%	620	449	21.9%	23.1%	122
Trading/OI	6.0%	6.4%	8.1%	206	168	7.5%	7.4%	-6
Cost to income	25.1%	26.4%	23.9%	-113	-247	27.2%	25.6%	-160
Impairment/PPP	54.4%	37.7%	40.2%	-1417	258	48.5%	40.5%	-805
NP/OI	35.3%	46.0%	45.9%	1062	-12	37.7%	44.6%	696
ROAE	2.6%	3.2%	3.3%	70	18	9.7%	11.4%	173
ROAA	0.3%	0.4%	0.4%	7	2	1.2%	1.4%	16

FABS estimate & Co Data

CBD - Key B/S items

AED Mn	4Q20	1Q21	2Q21	3Q21	4Q21F	YOY Ch
Net advances	65,289	69,598	74,044	74,898	77,791	19.1%
QOQ Change	3.7%	6.6%	6.4%	1.2%	3.9%	
Total assets	97,362	102,471	112,767	107,752	120,435	23.7%
QOQ Change	5.0%	5.2%	10.0%	-4.4%	11.8%	
Customer deposits	69,751	70,902	79,820	75,812	85,626	22.8%
QOQ Change	9.0%	1.7%	12.6%	-5.0%	12.9%	
Total equity	12,954	12,623	12,966	13,275	13,102	1.1%
QOQ Change	23.1%	-2.6%	2.7%	2.4%	-1.3%	

FABS estimate & Co Data

4Q21 preview: Ajman Bank (AJMANBAN)

Decline in the Impairment charges and higher Fees and commissions supports the bottom-line

CMP (AED): 0.837
Potential upside (%): +7.5%

12-m target price:

AED0.90

Stock rating:

HOLD

4Q21 estimate

Ajman Bank (AJMANBANK) is expected to report a significant increase in Net Profit to AED33 Mn in 4Q21 from a Net loss of AED2 Mn in 4Q20. This is mainly due to the lower Impairments expected. Funded Income is expected to decrease by 22% YOY to AED173 Mn in 4Q21 from AED222 Mn in 4Q20. Funded Expense is expected to decline by 23.2% YOY to AED55 Mn in 4Q21, down from AED72 Mn in 4Q20. Resultantly, the Net Funded Income is anticipated to decrease by 21.5% YOY to AED118 Mn in 4Q21, down from AED150 Mn in 4Q20. Total Non-Funded Income is forecasted to increase by 11.1% YOY to AED45 Mn in 4Q21, up from AED41 Mn in 4Q20 as the Fees and Commissions are forecasted to increase significantly to reach AED25 Mn in 4Q21 compared to only AED6 Mn in 4Q20, whereas the trading income is expected to decrease by 29% YOY to AED20 Mn in 4Q21, down from AED28 Mn in 4Q20. Therefore, Total Operating Income is estimated to drop by 14.5% YOY to AED163 Mn in 4Q21 compared to AED191 Mn in 4Q20. On the other hand, the Operating Expenses are forecasted to increase by 31.6% to AED69 Mn in 4Q21 from AED53 Mn in 4Q20. Thus, the Cost-to-Income (C/I) ratio is expected to increase to 42.5% in 4Q21 compared to 27.6% in 4Q20. Impairment charges are estimated to strongly decline by 79.7% YOY to AED61 Mn in 4Q21, down from AED300 Mn in 4Q20.

2021 forecast

We estimate AJMANBANK's Net Profit to significantly increase to AED123 Mn in 2021 from a Net profit of AED53 Mn in 2020, mainly due to a lower Impairments. Funded Income is estimated to decrease by 20.9% YOY to AED695 Mn in 2021 down from AED879 Mn in 2020. Funded Expense is also expected to decline by 46.8% YOY to AED231 Mn in 2021 from AED435 Mn in 2020. Resultantly, the Net Funded Income is estimated to increase by 4.4% YOY to AED464 Mn in 2021 from AED444 Mn in 2020. Non-Funded Income is anticipated to rise by 3.2% YOY to AED176 Mn in 2021 from AED170 Mn in 2020, led by the expected significant increase YOY in Fees and Commissions to AED91 Mn up from AED49 Mn in 2020. We anticipate the Trading income to decline by 16.1% YOY to AED91 Mn in 2021 from AED109 Mn in 2020. Therefore, the Total Operating Income would increase by 4.1% YOY to AED640 Mn in 2021. Similarly, the Operating Expenses would increase by 7.7% YOY to AED281 Mn in 2021 compared to AED261 Mn in 2020. Thus, the Cost-to-Income ratio would rise by 147 bps YOY to 44% in 2021 from 42.5% in 2020. Impairment charges are estimated to decline by 21.5% YOY to AED236 Mn in 2021 from AED 300 Mn in 2020.

3Q21 Outturn

Funded Income has declined by 16.3% YOY to AED175 Mn in 3Q21 from AED209 Mn in 3Q20. Funded Expenses declined by 43.9% YOY to AED56 Mn in 3Q21 from AED100 Mn in 3Q20. Resultantly, the Net Funded Income rose by 9% YOY to AED119 Mn compared to AED109 Mn in 3Q20. The Fees and Commissions have shown a significant growth reaching AED8 Mn in 3Q21 from AED3 Mn in 3Q20, while the Trading Income decreased by 34.5% YOY to AED22 Mn in 3Q21 from AED34 Mn in 3Q20. As a result, the Total Non-Funded Income decreased by 28.2% YOY to AED26 Mn in 3Q21 compared to AED36 Mn in 3Q20. Therefore, the Total Operating Income decreased insignificantly by 0.3% YOY to AED145 Mn in 3Q21. The Total Operating Expenses increased by 3.3% YOY to AED69 Mn from AED67 Mn in 2Q20. Thus, the Cost to Income ratio increased to 47.8% from 46.2% in 3Q20. Impairment charges have significantly decreased to AED47 Mn in 3Q21, as compared to AED65 Mn in 3Q20, increasing the bottom line. The Bank's Net Advances

declined by 8.2% YOY to AED15.8 Bn in 3Q21 from AED17.23 Bn in 3Q20. Whereas the Customer Deposits dropped by 3.2% YOY to AED14.01 Bn in 3Q21 from AED14.47 Bn in 3Q20. Similarly, the Total Assets have dropped by 4.9% YOY to AED21.5 Bn in 3Q21 from AED22.61 Bn in 3Q20, while the Total Equity rose by 3.3% YOY to AED2.59 Bn in 3Q21 compared to AED2.51 Bn in 3Q20.

Target price and recommendation

We maintain our HOLD rating on AJMANBANK with a revised target price of AED0.90. Ajman bank's Net Profit increased significantly in third quarter 2021 compared to the Net Profit recorded same period last year reaching AED28 Mn as compared to AED13 Mn due to the decrease in Funded Expenses from AED100 Mn in 3Q20 to AED56 Mn in 3Q21. Funded Income also decreased by 16.3% reaching AED175 Mn in 3Q21 as compared to AED209 Mn in 2Q20. Thus, Net Funded Income increased by 9% YOY to AED119 Mn in 3Q21 up from AED109 Mn in 3Q20. The bank's NIM has decreased to 3.1% in 3Q21 from 3.4% in 3Q20 while NIS dropped to 3.1% from 3.6% in 3Q20. Furthermore, ADR level decreased from 119% in 3Q20 to 112.9% in 3Q21 while both Loans and Deposits decreased in third quarter 2021 YOY by 8.2% and 3.2% respectively. Ajman bank's Return on Average Assets (ROAA) stood at 0.1% in 3Q21 while Return on Average Equity (ROAE) recorded 1.1% in 3Q21 from 0.5% in 3Q20, an increase by 60 bps due to the increase in Equity of the bank by 3.3% in 3Q21. The bank's Debt to Equity ratio (D/E) stood at 7.28x in 3Q21 as compared to 8x in 3Q20; this number indicates that the bank is still highly leveraged despite the witnessed decrease in Liabilities YOY. The bank reported a Capital Adequacy Ratio (CAR) of 16.23% in 3Q21 as compared to 16.02% as at end of 2020, above the minimum requirement of 10.5%, while Common Equity Tier 1 (CET1) recorded an increase to 15.07% from 14.86% as at end of 2020, also above the minimum required ratio 7%; both ratios indicate that the bank is healthy in terms of solvency and can face losses in the upcoming future without being at risk of becoming insolvent. Finally, the bank has been following a conservative dividend policy in order to increase capital from internal resources and to be able to meet its future growth forecasts. In 2020 the bank did not pay any dividend as opposed to AED 73.5 mm dividend approved and paid for the year ended 31 December 2019. Therefore, we maintain our HOLD rating on the stock.

AJMANBAN – Relative Valuation

(at CMP)	2017	2018	2019	2020	2021E
P/E (x)	10.88	8.64	21.49	33.52	11.97
P/B (x)	0.67	0.72	0.70	0.70	0.66
Dividend yield	4.2%	4.2%	0.0%	0.0%	0.0%

FABS Estimates & Co data

Ajman Bank – P&L

AED Mn	4Q20	3Q21	4Q21F	YOY Ch	QOQ Ch	2020	2021F	Change
Funded income	222	175	173	-22.0%	-1.0%	879	695	-20.9%
Funded expenses	-72	-56	-55	-23.2%	-1.1%	-435	-231	-46.8%
Net funded income	150	119	118	-21.5%	-0.9%	444	464	4.4%
Fees and commissions	6	8	25	NM	NM	49	91	86.6%
Trading income	28	22	20	-29.0%	-9.2%	109	91	-16.1%
Share of result of associate	7	-4	0	NM	NM	13	-7	NM
Total non-funded income	41	26	45	11.1%	73.0%	170	176	3.2%
Total operating income	191	145	163	-14.5%	12.3%	615	640	4.1%
Operating expenses	-53	-69	-69	31.6%	-0.1%	-261	-281	7.7%
Pre provision profit	138	76	94	-32.1%	23.8%	353	358	1.4%
Impairment	-300	-47	-61	-79.7%	28.8%	-300	-236	-21.5%
Net profit	-2	28	33	NM	15.4%	53	123	NM

FABS estimate & Co data

Ajman Bank - KPI

AED MN	4Q20	3Q21	4Q21F	YOY Ch	QOQ Ch	2020	2021F	Change
Net FI/OI	78.7%	82.0%	72.4%	-637	-969	72.3%	72.5%	23
NIM	2.8%	3.1%	2.9%	7	-20	2.9%	2.9%	6
NIS	2.9%	3.1%	2.9%	0	-20	2.9%	2.9%	2
Fees & comms/OI	3.1%	19.0%	5.7%	260	-1334	7.9%	14.2%	630
Trading/OI	14.8%	15.2%	12.3%	-249	-291	17.7%	14.3%	-344
Cost to income	27.6%	47.8%	42.5%	1490	-530	42.5%	44.0%	147
Impairment/PPP	101.8%	62.6%	65.2%	-3660	253	84.9%	65.8%	-1914
NP/OI	-1.3%	19.5%	20.0%	2131	52	8.7%	19.2%	1050
ROAE	-0.1%	1.1%	1.3%	136	16	2.1%	4.8%	263
ROAA	0.0%	0.1%	0.1%	16	2	0.2%	0.6%	32

FABS estimate & Co data

Ajman Bank - Key B/S items

AED MN	4Q20	1Q21	2Q21	3Q21	4Q21F	YOY Ch
Net advances	16,961	16,982	16,001	15,814	17,099	0.8%
QOQ change	-1.6%	0.1%	-5.8%	-1.2%	8.1%	
Total assets	21,507	21,967	21,316	21,505	22,203	3.2%
QOQ change	-4.9%	2.1%	-3.0%	0.9%	3.2%	
Customer deposits	14,226	13,895	13,876	14,010	14,637	2.9%
QOQ change	-1.7%	-2.3%	-0.1%	1.0%	4.5%	
Total equity	2,503	2,511	2,575	2,598	2,650	5.9%
QOQ change	-0.5%	0.4%	2.5%	0.9%	2.0%	

FABS estimate & Co data

3Q21 preview: Commercial Bank International (CBI)

Lower Impairments help increase profitability

CMP (AED): 0.65
Potential downside (%): +7.7%

12-m target price:
AED 0.70

Stock rating:
HOLD

3Q21 estimate

The Commercial Bank International (CBI) is forecasted to increase its Net Profit to AED31 Mn in 4Q21, up from AED23 Mn in 4Q20. The Net Funded Income is expected to increase by 9.5% YOY to AED98 Mn in 4Q21, up from AED90 Mn in 4Q20. The Funded Income is likely to decline by 5% YOY to AED132 Mn in 4Q21, down from AED139 Mn in 4Q20. The Funded Expenses are expected to decline by 23.4% YOY to AED46 Mn in 4Q21, down from AED60 Mn in 4Q20. The Non-Funded Income is expected to decline by 11.4% YOY to AED34 Mn in 4Q21, down from AED38 Mn in 4Q20, mainly driven by 41.1% YOY decline in the Other Operating Income to AED6 Mn in 4Q21, down from AED10 Mn in 4Q20. We estimate the Fees and Commissions to remain stable at AED28 Mn in 4Q21. Total Operating Income is likely to rise by 3.2% YOY to AED132 Mn in 4Q21, up from AED128 Mn in 4Q20. The Operating Expenses is likely to increase by 43.2% YOY to AED76 Mn in 4Q21, up from AED53 Mn in 4Q20. The Pre-Provision Profit is likely to decline by 24.7% YOY to AED57 Mn in 4Q21, down from AED75 Mn in 4Q20. Thus, the Cost to income ratio would increase to 57.1% in 4Q21, up from 41.1% in 4Q20. Impairment Charges are likely to decline by 47.7% YOY to AED26 Mn in 4Q21, down from AED50 Mn in 4Q20.

2021 forecast

We forecast CBI's Net Profit to increase significantly to AED12 Mn in 2021, up from Net Loss of AED27 Mn in 2020. The Net Funded Income is expected to decline by 9.5% YOY to AED378 Mn in 2021, down from AED418 Mn in 2020. The Funded Income is expected to decline by 22.8% YOY to AED515 Mn in 2021, down from AED667 Mn in 2020. The Income from Islamic Financing is likely to increase by 23.8% YOY to AED51 Mn in 2021, down from AED41 Mn in 2020. The Funded Expenses are likely to decline by 34.2% YOY to AED181 Mn in 2021, down from AED275 Mn in 2020. The Non-Funded Income is likely to decline by 46% YOY to AED174 Mn in 2021, down from AED323 Mn in 2020. The Fees and Commissions are likely to decline by 18.9% YOY to AED118 Mn in 2021. The Other Operating Income is likely to decline by 68.4% YOY to AED56 Mn in 2021, down from AED177 Mn in 2020. Therefore, the Operating income would decline by 25.4% YOY to AED552 Mn in 4Q21, down from AED740 Mn in 4Q20. The Operating Expenses are likely to increase by 15.1% YOY to AED304 Mn in 2021, up from AED264 Mn in 2020. Thus, the Cost to income ratio increase to 55.1% in 4Q21, up from 35.7% in 4Q20. The Impairment charges are likely to decline by 39.8% YOY to AED263 Mn in 2021, down from AED437 Mn in 2020.

3Q21 outturn

The Bank recorded a decrease by 18.7% YOY in the Funded Income to AED126 Mn in 3Q21, down from AED155 Mn in 3Q20. The Funded Expenses reduced favourably by 42.4% YOY to AED41 Mn in 3Q21, down from AED70 Mn in 3Q20. However, the reduction in Funded expenses impacted the Net Funded Income to rose by 3.9% YOY to AED96 Mn in 3Q21 compared to AED93 Mn in 3Q20. Fees and Commissions increased by 1.5% YOY to AED25 Mn in 3Q21 from AED24.6 Mn in 3Q20. While the Other Operating Income decreased by 74.2% YOY to AED37 Mn in 3Q21, as compared to AED143 Mn in 3Q20. As a result, the Total Non-funded income reduced by 63.1% YOY to AED62 Mn in 3Q21, down from AED167 Mn in 3Q20. Therefore, the Total Operating Income was impacted due to the unfavourable outcome and declined by 39.2% YOY to AED158 Mn in 3Q21 from AED260 Mn in 3Q20. The Operating Expenses increased by 11% YOY to AED76 Mn in 3Q21, up from AED68 Mn in 3Q20. Resultantly, the Cost to income ratio increased to 47.8% from 26.2% in 3Q20. The Impairment charges have significantly decreased by 70.5% YOY to AED58 Mn in 3Q21, as compared to AED196 Mn in 3Q20. The Net Advances marginally increased to AED10.6 Bn in 3Q21, as compared to AED10.57 Bn in 3Q20. The Total assets decreased by 4.2% YOY to AED17.5 Bn in 3Q21 from AED18.27 Bn in 3Q20. Similarly, the Customer Deposits decreased by 4% YOY to

AED10.24 Bn in 3Q21, as compared to AED10.66 Bn in 3Q20. While the Total equity increased by 1% YOY to AED2.45 Bn in 3Q21, up from AED2.42 Bn in 3Q20.

Target price and recommendation

We maintain our HOLD rating on CBI with target price of AED0.70. Commercial Bank International (CBI), a UAE growing Islamic Banking business, listed on the Abu Dhabi Securities Exchange with a rating of BBB+ on the long-term BY Fitch. CBI is proceeding in the recovery phase following the disruption period caused by COVID-19 global pandemic while keeping their focus on customers' satisfaction. As a result of this continued effort and improvement, the bank has witnessed a significant increase in Net Profit to AED25 Mn in 3Q21 up from a loss of AED66 Mn in 3Q20. This was mainly due to a decrease in Interest Expense by 42.4% reaching AED40.52 Mn in 3Q21 from AED70.41 Mn in 3Q20 and a substantial decrease in Impairment Losses on Financial and Non-financial assets from AED 187.5 Mn and AED8.5 Mn respectively in 3Q20 down to only AED57.7 Mn and nil, respectively in 3Q21. Net Operating Income witnessed a significant increase by 18% QOQ from AED133 Mn in 2Q21 to AED158 Mn in 3Q21 with Net operating expenses increasing by 2% QOQ to AED75.5 Mn in 3Q21 up from AED74 Mn in 2Q21. Nevertheless, Operating Profit reached AED82 Mn at the end of 3Q21 from AED59 Mn in 2Q21, an increase by 40% QOQ. The profitability ratios such as Return on Average Equity (ROAE) and Return on Average Assets (ROAA) stood at 1% and 0.1% respectively in 3Q21. Similarly, the Cost-to-Income ratio increased to 47.8% in 3Q21 as compared to 26.2% in 3Q20. The bank maintains capital strength with Capital Adequacy Ratio (CAR) standing at 14.86% in 3Q21, although below the 16.3% in 3Q20 and despite its decreasing trend, it is still above the regulatory requirements. Customers Deposits have witnessed a decrease by 4% YOY reaching AED 10.23 Bn in 3Q21 from AED 10.66 Bn in 3Q20 while Loans and Advances have insignificantly increased by 0.4% YOY from AED10.56 Bn in 3Q20 to AED10.6 Bn in 3Q21. The Loans to Deposits ratio have increased to 103.6% in 3Q21 down from 99.1% during the same period last year. Net Interest Margin (NIM) decreased in 3Q21 to 3% from 3.4% in 3Q20, same as Net Interest Spread (NIS) decreasing from 3.5% last year same period to 3% in 3Q21. Based on the above, we assign a HOLD Rating on the stock.

CBI – Relative Valuation

(at CMP)	2017	2018	2019	2020	2021E
P/E (x)	7.47	5.12	9.70	NM	NM
P/B (x)	0.51	0.52	0.51	0.52	0.41

FABS Estimates & Co Data

CBI - P&L

AED MN	4Q20	3Q21	4Q21F	YOY Ch	QOQ Ch	2020	2021F	Change
Funded income	139	126	132	-5.0%	5.0%	667	515	-22.8%
Income from Islamic financing & invest. assets	13	13	13	3.3%	5.8%	41	51	23.8%
Funded expenses	-60	-41	-46	-23.4%	14.0%	-275	-181	-34.2%
Depositors' share of profits	-2	-2	-2	-38.5%	-30.6%	-15	-7	-57.3%
Net funded income	90	96	98	9.5%	2.1%	418	378	-9.5%
Fees and commissions	28.0	25.0	28.0	-0.3%	12.0%	146	118	-18.9%
Other operating income, net	10	37	6	-41.1%	-83.2%	177	56	-68.4%
Total non-funded income	38	62	34	-11.4%	-44.7%	323	174	-46.0%
Total operating income	128	158	132	3.2%	-16.2%	740	552	-25.4%
Operating expenses	-53	-76	-76	43.2%	0.0%	-264	-304	15.1%
Pre provision profit	75	82	57	-24.7%	-31.0%	476	248	-47.9%
Impairment (total)	-50	-58	-26	-47.7%	-54.7%	-437	-263	-39.8%
Share of results of associates	-2	0	0	NM	NA	-5	0	NM
Non-controlling interests	0	1	0	NM	NM	-61	2	NM
Net profit	23	25	31	31.6%	21.4%	-27	-12	-54.9%

FABS Estimates & Co Data

CBI – KPI

	4Q20	3Q21	4Q21F	YOY Ch	QOQ Ch	2020	2021F	Change
AED MN								
Net FI/OI	70.0%	60.9%	74.2%	424	1,329	56.4%	68.5%	1205
NIM	3.3%	3.0%	3.1%	-18	11	3.4%	3.2%	-20
NIS	3.4%	3.0%	3.1%	-29	11	3.5%	3.3%	-20
Fees & comms/OI	21.9%	15.8%	21.1%	-74	531	19.7%	21.4%	172
Trading/OI	8.1%	23.3%	4.7%	-350	-1,861	23.9%	10.1%	-1377
Cost to income	41.1%	47.8%	57.1%	1,593	924	35.7%	55.1%	1937
Impairment/PPP	43.6%	70.1%	38.2%	-542	-3,190	84.0%	97.8%	1384
NP/OI	18.2%	16.0%	23.2%	499	716	-3.7%	-2.2%	146
ROAE	-1.1%	-0.8%	-0.5%	55	29	-1.1%	-0.5%	61
ROAA	-0.1%	-0.1%	-0.1%	4	5	-0.2%	-0.1%	8

FABS Estimates & Co Data

CBI - Key BS Items

	4Q20	1Q21	2Q21	3Q21	4Q21F	YOY Ch
AED MN						
Net advances	10,372	10,226	10,082	10,603	10,200	-1.7%
QOQ Change	-1.8%	-1.4%	-1.4%	5.2%	-3.8%	
Total assets	17,129	15,970	17,053	17,495	17,485	2.1%
QOQ Change	-6.2%	-6.8%	6.8%	2.6%	-0.1%	
Customer deposits	10,481	9,929	10,670	10,236	10,919	4.2%
QOQ Change	-1.7%	-5.3%	7.5%	-4.1%	6.7%	
Total equity	2,491	2,393	2,420	2,445	2,485	-0.2%
QOQ Change	2.9%	-3.9%	1.1%	1.0%	1.6%	

FABS Estimates & Co Data

4Q21 preview: United Arab Bank (UAB)

Increase in Operating Income and decline in Impairments expected to Increase Profits

CMP (AED): 0.673
Potential downside (%): -40.6%

12-m target price:

AED0.40

Stock rating:

SELL

4Q21 estimate

United Arab Bank (UAB) is forecasted to improve its Net Profit significantly to AED22 Mn in 4Q21, up from Net Loss of AED302 Mn in 4Q20. It is expected to be driven by a strong increase in Net Interest Income by 8.1% YOY to AED75 Mn in 4Q21, up from AED69 Mn in 4Q20. The Interest Income is expected to decline by 10.8% YOY to AED125 Mn in 4Q21, down from AED141 Mn in 4Q20. However, the decline in Interest Expense of 29.1% YOY to AED51 Mn in 4Q21, down from AED72 Mn in 4Q20. The Total Non-Funded Income is expected to increase by 1.1% YOY to AED32 Mn in 4Q21. As a result, the Total Operating Income is expected to increase by 5.9% YOY to AED107 Mn in 4Q21, up from AED101 Mn in 4Q20. The General and Administrative expenses are likely to decline by 0.9% YOY to AED63 Mn in 4Q21. The Pre-Provision Profit is expected to increase by 17.4% YOY to AED44 Mn in 4Q21, up from AED37 Mn in 4Q20. The Impairments are expected to decline strongly to AED22 Mn in 4Q21, down from AED339 Mn in 4Q20. As a result, the Net Profit is expected to increase significantly to AED22 Mn in 4Q21, up from Net Loss of AED302 Mn in 4Q20.

2021 forecast

The Net Profit is likely to increase strongly to AED66 Mn in 2021, up from Net Loss of AED667 Mn in 2020. The Net Interest Income is expected to decline by 1.3% YOY to AED290 Mn in 2021, down from AED293 Mn in 2020. The Interest Income is expected to decline by 27.2% YOY to AED467 Mn in 2021, down from AED642 Mn in 2020. The Interest Expense is likely to decline by 56.6% YOY to AED151 Mn in 2021, down from AED349 Mn in 2020. The Total Non-Funded Income is expected to increase strongly by 40.3% YOY to AED154 Mn in 2021, down from AED109 Mn in 2020. It is likely to be driven by Other Non-Funded Income with a 78.8% YOY increase to AED90 Mn in 2021, up from AED50 Mn in 2020. As a result, the Total Operating Income is expected to increase by 10% YOY to AED443 Mn in 2021, up from AED403 Mn in 2020. The General and Administrative expenses are likely to decline by 7.2% YOY to AED243 Mn in 2021, down from AED262 Mn in 2020. As a result, the Pre-Provision Profit is likely to strongly increase by 41.9% YOY to AED200 Mn in 2021, up from AED141 Mn in 2020. The Impairment charges is likely to decline by 83.5% YOY to AED134 Mn in 2021, down from AED808 Mn in 2020. As a result, the Net Profit is expected to increase significantly to AED66 Mn in 2021, up from Net Loss of AED667 Mn in 2020.

3Q21 outturn

The Bank recorded a decline by 19.8% YOY in the Interest Income to AED117 Mn in 3Q21, as compared to AED146 Mn in 3Q20. Whereas the Interest Expense declined by 46.7% YOY to AED45 Mn in 3Q21, down from AED85 Mn in 3Q20. As a result, the Net Interest Income increased by 17.4% YOY to AED72 Mn in 3Q21, up from AED61 Mn in 3Q20. Moreover, Fees and commissions income have decreased by 8.2% YOY to AED10 Mn in 3Q21 from AED11 Mn in 3Q20. Exchange income has remained stable at AED4 Mn in 3Q21. While the Other Non-funded income strongly increased to AED14 Mn in 3Q21, up from AED7 Mn in 3Q20. Resultantly, the Total Non-funded income has increased by 27% YOY to AED28 Mn in 3Q21, as compared to AED22 Mn in 3Q20. Therefore, the Total Operating income increased by 19.9% YOY to AED100 Mn in 3Q21, up from AED84 Mn in 3Q20. Furthermore, the General & admin expenses declined by 9.7% YOY to AED61 Mn in 3Q21 from AED67 Mn in 3Q20. Thus, the Cost to income ratio has declined to 60.5% from 80.4% in 3Q20. In addition, the Impairment charges significantly decreased by 87.4% YOY to

AED22 Mn in 3Q21, as compared to AED172 Mn in 3Q20. Bank's Net advances have decreased by 19.7% YOY to AED8.03 Bn in 3Q21 from AED10 Bn in 3Q20. Similarly, the Total assets decreased by 20.7% YOY to AED14.27 Bn in 3Q21, as compared to AED17.98 Bn in 3Q20. The Customer Deposits dropped by 26.8% YOY to AED10.33 Bn in 3Q21, from AED14.1 Bn in 3Q20. Whereas, the Total equity reduced by 10.2% YOY to AED1.5 Bn in 3Q21, down from AED1.67 Bn in 3Q20.

Target price and recommendation

We maintain our SELL rating with a target price of AED0.40. United Arab Bank (UAB) has been working on strengthening its core businesses while maintaining its banking fundamentals in place and restructuring the cost base as efficiently as possible. The Bank's strategy has led to strong performance since the beginning of 2021 to date reporting a Net Profit of AED44.7 Mn in 9M21 as opposed to losses for AED365 Mn in 9M20. Net Profit also increased QOQ in 3Q21 by 7% to AED17.8 Mn compared to AED16.7 Mn in 2Q21 due to the successful execution of the bank's strategy to strengthen its core businesses, decreasing the cost base while maintaining its key fundamentals. This healthy performance of UAB was mainly due to an increase by 11% YOY in Total Income reaching AED336.5 Mn during 9M21 as compared to AED302.5 Mn in 9M20. In 3Q21 Total Income also increased by almost 20% reaching AED100.2 Mn up from AED83.5 Mn in 3Q20. Operating Expenses, on the other hand, decreased by 9% YOY reporting AED180.3 Mn in 9M21 compared to AED198.6 Mn in 9M20 and a fall of 9.67% in 3Q21 for AED60.6 Mn compared to AED67.1 Mn in 3Q20 as the Bank continues to rationalize its cost base by optimizing staff costs and eliminating unnecessary G&A expenses. Operating Profit increased tremendously by 50% reaching AED156.2 Mn in 9M21 from AED103.9 Mn in 9M20 and in 3Q21 it has reached AED39.6 Mn compared to AED16.4 Mn in 3Q20. Provision Charges dropped substantially by 76% reaching AED111.5 Mn in 9M21 as compared to AED468.8 Mn in 9M20 given the Bank's focus on higher asset quality and given the increasing recoveries. UAB's Balance Sheet has also significantly improved with the main focus on quality assets and managing the cost of funds leading it to higher CASA/Total Deposits ratio of 27% in 3Q21 as compared to 26% as at end of 2020. Customers Deposits represent 81% of Total Liabilities as compared to 84% in December 2020 proving that they are still the bank's key source of funds. It is worth noting that the Loans to Deposit (LTD) ratio decreased to 77.8% in September 2021 as compared to 80.1% in December 2020 underpinning a strong funding profile. Non-Performing Loans (NPL) percentage decreased slightly to 15.4% in 3Q21 as compared to 15.7% as at end of 2020 with a decrease in coverage ratio from 99% in December 2020 to 82% in 3Q21 given the new downgrades on accounts which will be provisioned going forward. The Cost of Risk decreased to 1.7% in 3Q21 from 5.7% in 3Q20. The Cost to Income ratio improved to 54% in 3Q21, from 66% 3Q20. The Capital Adequacy ratio (CAR) stood at 13.6% in 3Q21, down from 14 % in 3Q20, above the applicable regulatory requirements of 11.5%. The CET 1 ratio and Tier 1 ratio, both, decreased to 12.5% in 3Q21 from 12.9% in 3Q20. Furthermore, the Bank maintained its liquidity profile as the Advances to Stable Resources and Eligible Liquid Assets ratio stood at 77.4% and 14.7%, respectively. UAB has recorded a positive return on profitability as Return on Average Assets (ROAA) and Return on Average Equity (ROAE) stood at 0.4% and 4.1%, respectively, in 3Q21. The Total Assets decreased by 21% YOY to AED14.26 Bn in 3Q21, from AED17.98 Bn in 3Q20. This was mainly due to reduction in Net Advances by 20% from AED10Bn to AED 8.03 Bn in 3Q21. The overall asset mix has remained stable as compared to the previous year, with Net Advances constituting around 56% of the Total Assets. To note that the bank did not declare any dividends for FY2020. Based on the above, We maintain our SELL rating on UAB.

UAB - Relative valuation

(at CMP)	2017	2018	2019	2020	2021F
P/E (x)	79.65	16.83	NM	NM	20.94
P/B (x)	0.51	0.55	0.64	0.95	0.90

FABS Estimates & Co Data

UAB- P&L

AED MN	4Q20	3Q21	4Q21F	YOY Ch	QOQ Ch	2020	2021F	Change
Interest income	141	117	125	-10.8%	7.2%	642	467	-27.2%
Interest expense	-72	-45	-51	-29.1%	12.4%	-349	-151	-56.6%
Net interest income	69	72	75	8.1%	3.9%	293	290	-1.3%
Fees and commissions	12	10	11	-7.6%	2.0%	42	45	6.9%
Exchange income	4	4	5	28.0%	17.3%	17	19	9.5%
Other non-funded income	16	14	16	0.6%	19.0%	50	90	78.8%
Total non-funded income	32	28	32	1.1%	12.5%	109	154	40.3%
Total operating income	101	100	107	5.9%	6.3%	403	443	10.0%
General & admin. Expenses	-63	-61	-63	-0.9%	3.9%	-262	-243	-7.2%
Pre provision profit	37	40	44	17.4%	10.1%	141	200	41.9%
Impairment	-339	-22	-22	-93.5%	1.2%	-808	-134	-83.5%
Net profit	-302	18	22	-107.1%	21.0%	-667	66	109.9%

FABS estimate & Co Data
UAB- KPI

AED MN	4Q20	3Q21	3Q21F	YOY Bps	QOQ Bps	2020	2021F	Change
Net FI/OI	68.5%	71.6%	70.0%	142	-164	72.8%	65.3%	-748
NIM	2.0%	2.3%	2.4%	40	18	2.1%	2.6%	50
NIS	1.9%	2.3%	2.4%	56	18	1.9%	2.6%	62
Fees & comms/OI	11.5%	10.4%	10.0%	-146	-43	10.5%	10.2%	-29
Trading/OI	4.0%	4.4%	4.8%	84	45	4.2%	4.2%	-2
Cost to income	63.1%	60.5%	59.1%	-402	-140	65.0%	54.9%	-1,014
Impairment/PPP	913.8%	55.0%	50.6%	-86,318	-443	573.8%	66.8%	-50,701
NP/OI	-300.4%	17.8%	20.2%	32,058	244	-165.6%	15.0%	18,060
ROAE	-33.9%	-13.9%	4.3%	3,819	1,816	-36.9%	4.4%	4,135
ROAA	-3.7%	-1.5%	0.4%	416	192	-3.9%	0.4%	438

FABS estimate & Co Data
UAB- Key B/S item

AED MN	4Q20	1Q21	2Q21	3Q21	4Q21F	Change
Net advances	9,014	8,501	8,035	8,035	8,032	-10.9%
QOQ Change	-9.9%	-5.7%	-5.5%	0.0%	0.0%	
Total assets	14,849	14,419	14,549	14,267	14,708	-1.0%
QOQ Change	-17.4%	-2.9%	0.9%	-1.9%	3.1%	
Customer deposits	11,247	10,839	10,639	10,328	10,661	-5.2%
QOQ Change	-20.3%	-3.6%	-1.8%	-2.9%	3.2%	
Total equity	1,455	1,435	1,497	1,499	1,537	5.6%
QOQ Change	-12.8%	-1.3%	4.3%	0.2%	2.5%	

FABS estimate & Co Data

4Q21 preview: Bank of Sharjah (BOS)

Loss on monetary position likely to impact profitability

CMP (AED): 0.605
Potential Upside (%): -50.4%

12-m target price:
AED0.30

Stock rating:
SELL

4Q21 estimate

Bank of Sharjah (BOS) is forecasted to witness a drop in its Net Loss to AED427 Mn in 4Q21, up from AED785Mn in 4Q20. Their performance is likely to be subdued due to strong decline in Net Interest Income driven by 35.3% YOY decline in Interest Income to AED337 Mn in 4Q21, down from AED521 Mn in 4Q20. The Interest Expense is expected to decrease by 19.8% YOY to AED194 Mn in 4Q21, down from AED241 Mn in 4Q20. The Total Non-Funded Income is expected to increase robustly to AED87 Mn in 4Q21, up from loss of AED373 Mn in 4Q20. It was mainly due to improvement in Other Operating Income to AED2 Mn in 4Q21, up from losses of AED421 Mn in 4Q20. As a result, the Total Operating Income is likely to improve significantly to AED230 Mn in 4Q21, up from loss of AED94 Mn in 4Q20. The Net Operating Income is expected to improve strongly to AED186 Mn in 4Q21, up from Net Loss of AED448 Mn in 4Q20. The General and Administrative expenses are expected to decline by 20.8% YOY to AED145 Mn in 4Q21, down from AED183 Mn in 4Q20. The Loss on monetary position is expected to hit the 4Q21 performance further. As a result, the Net Loss is expected to stand at AED427 Mn in 4Q21, down from AED785 Mn in 4Q20.

2021 forecast

We forecast BOS's Net Loss to increase to AED1,727 Mn in 2021, up from Net Loss of AED655 Mn in 2020. The Net Interest Income is expected to decline by 2.3% YOY to AED556 Mn in 2021, down from AED569 Mn in 2020. It is likely due to 9.9% YOY decline in Interest Income to AED1,290 Mn in 2021, down from AED1,431 Mn in 2020. Similarly, the Interest Expense is expected to decline by 14.9% YOY to AED733 Mn in 2021, down from AED861 Mn in 2020. The Total Operating Income is likely to improve by 35% YOY to AED895 Mn in 2021, up from AED663 Mn in 2020. It is likely to be driven by strong Total Non-Funded Income with a strong increase to AED339 Mn in 2021, up from AED93 Mn in 2020. The Net Operating Income is expected to increase significantly to AED764 Mn in 2021, up from loss of AED81 Mn in 2020. However, the Loss on monetary position is expected to increase strongly to AED1,941 Mn in 2021, up from AED577 Mn in 2020. As a result, the Net loss is likely to increase to AED1,727 Mn in 2021, up from AED655 Mn in 2020.

3Q21 outturn

The Bank recorded an increase by 23.3% YOY in the Interest Income to AED351 Mn in 3Q21, up from AED285 Mn in 3Q20. The Interest Expense reduced by 6.1% YOY to AED181 Mn in 3Q21, down from AED192 Mn in 3Q20. Therefore, the Net Funded Income strongly increased by 84.3% YOY to AED170 Mn in 3Q21, as compared to AED92 Mn in 3Q20. The Net Fees and Commissions significantly increased to AED57 Mn in 3Q21 from AED24 Mn in 3Q20. While, the Exchange Profit has decreased by 55.1% YOY to AED2 Mn in 3Q21, down from AED5 Mn in 3Q20. Other Operating Income has significantly declined by 89.9% YOY to AED20 Mn, down from AED196 Mn in 3Q20. As a result, the Total Non-Funded Income reduced by 52.7% YOY to AED111 Mn in 3Q21, as compared to AED235 Mn in 3Q20. Thus, the Total Operating Income declined by 14.1% YOY to AED282 Mn in 3Q21, down from AED328 Mn in 3Q20. Net Impairment has decreased by 74.5% YOY to AED33 Mn in 3Q21 from AED130 Mn in 3Q20. Resultantly, the Net Operating Income rose by 25.5% YOY to AED249 Mn in 3Q21. General & Admin Expenses have increased by 71.6% YOY to AED137 Mn in 3Q21, up from AED80 Mn in 3Q20. As a result, the Profit before Discontinued Operations decreased by 8.8% YOY to AED108 Mn in 3Q21, as compared to AED118 Mn in 3Q20. Discontinued Operations have reported a negative of AED914 Mn in 3Q21, reducing the profitability. Furthermore, the Tax expense increased to AED27 Mn in 3Q21, up from AED8 Mn in 3Q20. The Net Advances increased by 4.7% YOY to AED20.33 Bn in 3Q21, as compared to AED19.42 Bn in 3Q20. The Total Assets increased by 10.7% YOY to AED38.5 Bn in 3Q21 from AED34.77 Bn in 3Q20. Customer Deposits also increased by 8.2% YOY to AED25.17 Bn in 3Q21, as

compared to AED23.25 Bn in 3Q20. Similarly, the Total Equity rose by 15.8% YOY to AED3.76 Bn in 3Q21 from AED3.25 Bn in 3Q20.

Target price and recommendation

We assign a SELL rating on Bank of Sharjah with a target price of AED0.30. Since the beginning of the global COVID-19 pandemic in 2020, the situation has been challenging. Bank of Sharjah (BOS) despite the COVID-19 effects has demonstrated a resilient performance and stable operations throughout the period. The group's Balance Sheet has been strong and still following a stable trend with Assets increasing from AED 36.14 Bn as at the end of 2020 to AED 38.5 Bn in 3Q21, an increase by 6.52% since beginning of the year while maintaining a high quality of the Assets by following a disciplined approach to lending, recovery and funding while expanding their portfolio wisely. Total Equity increased by 19% as well from AED 3.16 Bn as at end of previous year to AED 3.77 Bn in 3Q21. Customer Deposits have increased by 6.32% reaching AED25.17 Bn in 3Q21 from AED 23.67 Bn as at end of the year; Net Loans and Advances have increased by 4.48% reaching AED 20.32 Bn as compared to AED 19.45 Bn as at end of 2020 while Loans to Deposits slightly decreased as a ratio from 82% as of December 31, 2020, to 81% by end of 3Q21. The Non-Performing Loans ratio (NPL) increased to 14.34% in 3Q21 up from 12.68% same period last year with the NPL coverage ratio decreasing to 64.5% down from 71.65% same period last year. Cost-to-Income ratio has increased drastically from 29% last year by end of third quarter to 50% by end of third quarter 2021. The bank is incurring Losses of AED1,300 Mn in 9M21 mainly due to hyperinflation effect despite the increase in Net Interest Income in 9M21 reaching AED413Mn as compared to AED290 Mn in 3Q20, an increase by 42.41%. The consolidated Profit for the Group excluding the hyperinflation effect would result in a Net Profit of AED175 Mn in 9M21 as compared to AED128 Mn in 9M20. Total Operating Income decreased by 12.15% YOY due to a significant decrease in Other Operating Income dropping to AED665 Mn in 9M21 from AED757 Mn in 9M20. The group's operations in Lebanon through Emirates Lebanon Bank (ELBank) have been witnessing some challenging political and economic situations since the beginning of the revolution in October 2019. It is worth noting despite the whole situation, the Operating Income before Impairments and application of the hyperinflation accounting standards of ELBank remains stable in comparison to last year's results. The Group has also abided by the Banque Du Liban (BDL) circular requiring increase by 20% of the bank's equity of its subsidiary in Lebanon prior to June 30, 2020. Net Interest Margin (NIM) stood at 1.78% by end of 3Q21 as compared to 1.93% same period last year. Return on Average Equity (ROAE) and Return on Average Assets (ROAA) including the hyperinflation effect are both negative at 46.02% and 4.5% due to the reported loss in the period but if we ignore the hyperinflation effect due to the extreme circumstances, the ROE will become 7.43% and ROA 0.62%. The Capital Adequacy Ratio (CAR) of the bank stood at 10.81% as at end of 3Q21 and Tier 1 Capital Ratio stood at 9.62% both still above the minimum requirements set by the regulators. At the Annual General Meeting, the Shareholders approved no Cash Dividend distribution for the year ending December 2020. The stock currently trades at a PB multiple of 0.39x. Therefore, we assign a SELL rating on the stock.

BOS - Relative valuation

(at CMP)	2017	2018	2019	2020	2021F
P/E (x)	5.00	10.00	NM	NM	NM
P/B (x)	0.33	0.35	0.44	0.42	0.38

FABS Estimates & Co Data

BOS - P&L

AED MN	4Q20	3Q21	4Q21F	YOY Ch	QOQ Ch	2020	2021F	Change
Interest Income	521	351	337	-35.3%	-4.0%	1431	1290	-9.9%
Interest expense	-241	-181	-194	-19.8%	7.2%	-861	-733	-14.9%
Net interest income	279	170	143	-48.8%	-15.9%	569	556	-2.3%
Net fees and commission income	35	57	55	56.9%	-2.7%	106	196	84.0%
Exchange profit	8	2	6	-28.3%	170.2%	156	14	-90.9%
(Loss)/gain on investments	4	33	24	NM	-26.9%	-20	92	-550.9%
Other Operating Income	-421	20	2	NM	-88.5%	-149	37	-124.8%
Total non-funded income	-373	111	87	NM	-21.6%	93	339	262.6%
Total operating income	-94	282	230	NM	-18.1%	663	895	35.0%
Net impairment loss on financial assets	-354	-33	-44	-87.6%	33.0%	-744	-131	-82.4%
Net operating income	-448	249	186	NM	-25.0%	-81	764	-1037.6%
Other Non-Operating income	449	0	0	-NM	#DIV/0!	449	0	-100.0%
General & admin. Expenses	-183	-137	-145	-20.8%	5.9%	-401	-469	16.9%
Amortisation of intangible assets	-4	-4	-4	-2.2%	2.0%	-4	-11	153.0%
Profit before discontinued operations	-186	108	37	-120.1%	-65.2%	-38	284	-855.3%
Loss on monetary position	-577	-914	-450	-22.0%	-50.8%	-577	-1941	236.4%
Profit before tax	-763	-807	-413	-45.9%	-48.9%	-615	-1657	169.6%
Income tax expense - overseas	-32	-27	-14	-55.6%	-46.3%	-52	-70	35.6%
Non-controlling interest	11	0	0	-98.9%	62.4%	12	1	-95.3%
Net profit attributable	-785	-833	-427	-45.6%	-48.8%	-655	-1,727	163.7%

FABS estimate & Co Data
BOS - KPI

AED MN	4Q20	3Q21	4Q21F	YOY Ch	QOQ Ch	2020	2021F	Change
Net FI/OI	-297.4%	60.4%	62.1%	35948	168	85.9%	62.1%	-2375
NIM	3.0%	3.6%	3.4%	36	-18	3.0%	2.7%	-34
NIS	3.7%	4.2%	2.8%	-92	-146	3.8%	3.3%	-47
Fees & comms/OI	-37.3%	20.1%	23.9%	6116	379	16.1%	21.9%	582
Other non-funded/OI	397.4%	39.6%	37.9%	-35948	-168	14.1%	37.9%	2375
Cost to income	-194.7%	48.6%	62.9%	25766	1428	60.5%	52.4%	-813
Impairment/PPP	-126.1%	23.5%	23.6%	14966	9	289.1%	31.6%	-25750
NP/OI	834.9%	-296.0%	2.6%	-83232	29854	-98.8%	-192.9%	-9408
ROAE	-21.6%	-63.1%	-51.1%	-2957	1199	-20.9%	-52.8%	-3193
ROAA	-1.9%	-5.9%	-4.7%	-277	119	-1.9%	-4.6%	-262

FABS estimate & Co Data
BOS - Key B/S items

AED MN	4Q20	1Q21	2Q21	3Q21	4Q21F	YOY Ch
Net advances	19456	19879	20191	20329	21625	11.1%
QOQ change	0.2%	2.2%	1.6%	0.7%	6.4%	
Total assets	36143	37088	37699	38499	39731	9.9%
QOQ change	4.0%	2.6%	1.6%	2.1%	3.2%	
Customer deposits	23673	24055	23941	25170	26277	11.0%
QOQ change	1.8%	1.6%	-0.5%	5.1%	4.4%	
Total shareholders' equity	3157	3308	3439	3759	3380	7.1%
QOQ change	-2.8%	4.8%	4.0%	9.3%	-10.1%	

FABS estimate & Co Data

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