

## Banking Sector – July 2021

Banking industry is still affected by credit provisions

Sector Weighting:  
**NEUTRAL**  
Preview 2Q 2021

### Top Picks and Rating Changes

The UAE has a prosperous economy with solid fiscal and external positions, which supports the banking sector's foundations. The COVID-19 epidemic reduced oil prices, and ongoing pressure on the real estate industry has raised risks for UAE banks, resulting in a large increase in non-performing loans, which is expected to rise further if regulatory forbearance measures are withdrawn. As the UAE's economy recovers from the coronavirus epidemic, banks may expect better loan growth and lower provisioning costs. The government implements new laws, such as 100% foreign ownership of firms, the expansion of the 10-year golden visa program, and granting five-year visas to rich foreign retirees, all of which present substantial upside potential to earnings due to a more optimistic economic outlook. The UAE Central Bank (CBUAE) established a Targeted Economic Support Scheme (TESS), which offers zero-cost collateral funding to banks to keep loans flowing to the larger economy, which was established in March to help the UAE's economy during the epidemic. The plan, however, had little effect on credit risk in the banking system's balance sheet. More than 30% of resident deposits come from the public sector and government depositors. These organizations are anticipated to withdraw some deposits in 2021, but they do not expect any immediate liquidity difficulties for banks; thus the UAE's economic risk trend may be considered steady. Due to persistent oversupply, the residential real estate sector is projected to remain under pressure for at least another year, while demand-driven deficits will hamstring the tourist, hotel, and aviation sectors, as well as several commerce sectors. As a result, asset-quality metrics in UAE banks will continue to worsen over the next 12-24 months. Gross bank lending in the UAE dropped 1.3% month on month and 0.8% year on year in March 2021. This was the first annual decline in bank lending since at least 2015, and it partially reflected the high yearly base. As a result, annual loan growth is expected to remain moderate through the second quarter and into the third quarter of this year. Lending to the private sector fell 3.7% year over year in March, with loans to companies and the industrial sector down 1% month over month and 5.4 percent year over year. Eleven UAE national banks made a net profit of 7.74 billion dirhams (\$2 billion) in the quarter ended March 2021. Retail loans rose 0.2% year over year in March, the first gain in this category since November 2018. Lending to the government and (GREs) has also declined in recent months, down to 8.7% in March from an all-time high of 11% in March 2020. Loan growth to the public sector is expected to slow as the economy reopens in H2 2020. The profits of the six ADX-listed banks in Abu Dhabi were over 4 billion Dirhams. Despite the steep increase in risk costs and lower interest rates, banks are viewed as being able to handle the current macroeconomic problems due to their high capital buffers and solid profitability.

**Our top picks:** **i) ADCB** (Trades at 8.42x/0.76x 2021E P/E and P/B multiple with a high dividend yield of 4.8% and Target Price (TP) of AED8.50. ADCB has an A rating by the S&P and an A+ rating by Fitch. ADCB move to reduce excess liquidity in low-yielding overnight placement with the UAE Central Bank, resulting in greater emphasis on loans and investments in asset mix. **iii) DIB** (Trades on 6.42x/1.12x 2021F P/E and P/B multiple with a high dividend yield of 6.3% (2020: Dividend Yield is 4.2%) and Price Target (PT) at AED5.65. Net Funded income decreased by 11.4% YOY to AED1,604 mm in 1Q21 from AED1,810 mm in 1Q20. Impairment charges decreased by 49.3% to AED751 mm in 1Q21 as compared to AED1,483 mm in 1Q20. Dubai Islamic Bank continues to support itself through digital transformation and cost optimization. Compared to 1Q20, the Bank witnessed a 43% increase in mobile banking transactions in 1Q21. **iii) ENBD** (Trades on 9.60x/1.11x 2021E P/E and P/B multiple with a dividend yield of 3.0% and Target Price (TP) of AED16.10. Net profit rose by 11.7% YOY to AED2,322 mm in 1Q21 from AED2,079 mm in 1Q20. The cost-to-Income ratio improved in first quarter 2021 to 30.3% from 41.5% in the previous quarter.

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## Industry Themes

### 1) With Standardization and Harmonization Islamic Finance to Grow

Over the next 12 months, the Dubai Islamic Economy Development Center and its partners can make progress on a single global legal and regulatory system for Islamic finance. Depending on the result and implementation, such a system could assist in resolving the Islamic finance industry's decades-long lack of standardization and harmonization, slowing down some issuers in the past due to additional difficulties associated with complying with Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) requirements in the GCC. Despite all those difficulties the global Islamic finance industry is expected to rise by 10%-12% in 2021-2022 as Islamic banking assets grow in some GCC nations, Malaysia, and Turkey, and new Sukuk issuances outnumber maturing ones as liquidity remains abundant. Issuance volumes increased by 1.4% in the first quarter of 2021, if Sukuk re-openings are not included.

### 2) In 2020, the Assets of UAE Islamic Banks Increased by 5%

The Islamic financial industry in the UAE, which includes fully-fledged Islamic banks, Islamic windows, and Islamic financing firms, has total assets of 782 billion dirhams (\$213 billion), up 5% from last year and accounting for around 19% of the UAE's overall banking system assets. On the other hand, Islamic window assets at conventional banks decreased by 2.4%, amounting to around 5% of overall banking system assets. In 2020, the assets of the 17 conventional banks in the UAE with Islamic windows will total 166.2 billion dirhams. The assets of Islamic banks were mostly constituted of finance, accounting for roughly 65% of total assets. Financial assets accounted for roughly 11% of the total, with the rest made up of central bank balances, interbank lending, and other assets. In the United Arab Emirates, Islamic banks are mainly funded locally, with resident deposits accounting for around 93% of total deposits.

### 3) In April, the UAE Central Bank's gold reserves reached \$3.1 billion

The Central Bank of the UAE increased its gold reserves by 6.8%, or AED743 million, to AED11.56 billion in April 2021. After being evaluated at AED10.481 billion in February 2021, the bank's newest data announced on Thursday indicated a consistent rise in gold reserves for the second month in a row. The Bank's gold reserves account for a tiny portion of its overall foreign currency balance, which was AED393.78 billion in April 2021.

### 4) As the Economy Improves, Top UAE Banks Report Increased Profits

In the first quarter of this year, the top 10 banks in the UAE boosted their net income by 85% over the previous quarter. This rise was aided by a decrease in operational expenditures. The trend is expected to continue throughout 2021; meanwhile, the real estate market will continue to exert pressure on UAE banks. As a result, loans and advances from UAE banks continued to decrease in the 1Q21, falling by 0.7% from the previous quarter.

### 5) Due to the Economic Recovery and Strong Oil Prices, UAE Banks are in a Better Situation

Due to a strong rebound in the economy and property values, favorable oil prices, and strong domestic expenditure, the UAE banks are in a stronger position. The UAE's GDP is anticipated to rise by 2.3% in 2021 and 3.6% in 2022, after contracting by 6.2% in 2020, while the Purchasing Managers' Index (PMI) has been over 50.0 for the previous six months. This speaks well for the future of the local banking sector.

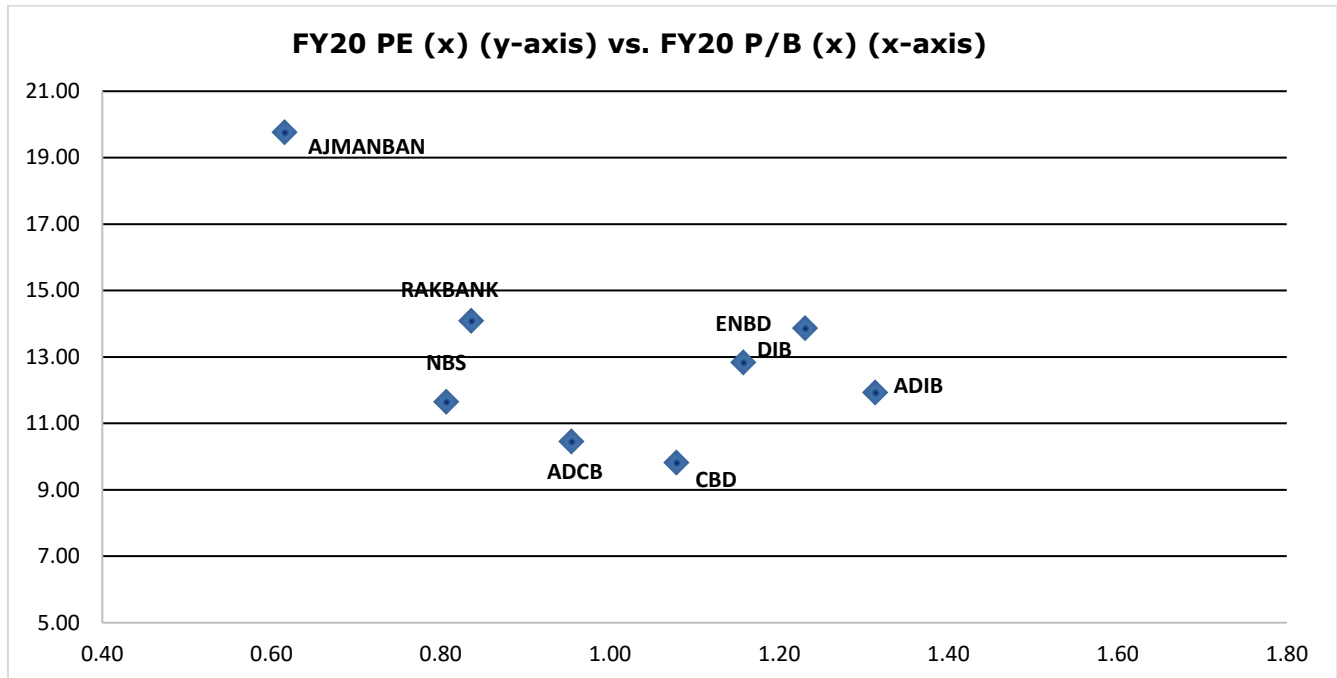
### 6) Total Bank Deposits in the UAE Have Decreased, According to the CBUAE

Due to a drop in resident deposits, overall bank deposits in the UAE fell by 0.2% in a month. As of the end of April 2021, the amount of money in bank accounts across the country totaled 1.877 trillion dirhams. According to the central bank, the decrease in deposits is due to a 0.7% drop in domestic depositors. Government-related enterprise (GRE) and non-banking financial institutions (NBFI) deposits both declined by 12.5% and 6.4%, respectively, causing resident deposits to fall. In April, the UAE's money supply aggregate M1 grew modestly by 0.3% to 644.4 billion dirhams. On the other side, the total money supply, M2, on the other side decreased 1.7% to 1.46 trillion dirhams, while m3 fell 0.1% to 1.76 trillion dirhams. After the year, gross bank assets, comprising bankers' acceptances and credit, increased by 1% to 3.169 trillion dirhams.

## Relative valuation and rating

### Relative valuation

The UAE banks under our coverage are trading in the 2021 PE range of 9.81x (CBD) and 19.77x (Ajman Bank). The 2020 PB ranges between 0.36x (CBI & BOS) and 1.31x (ADIB). The UAE banks are currently trading at average PE and PB multiple of 13.05x and 0.92x vis-a-vis the Saudi average of 19.54x (PE) and 2.19x (PB).



Source: FABS from Bloomberg

### Market Weight

We remain MARKET WEIGHT with 4x BUY, 5X HOLD, 0x REDUCE and 3x SELL on the 12 UAE banks under our coverage. UAE systems' total net assets declined by -0.06% YOY to AED3,012.29 billion in April 2021. The UAE banking sector's Net advances declined by -0.57% YOY to AED1,607 billion. Customer deposits mobilisation increased by 0.28% YOY to AED1,872 billion in April 2021.

### Target price and rating

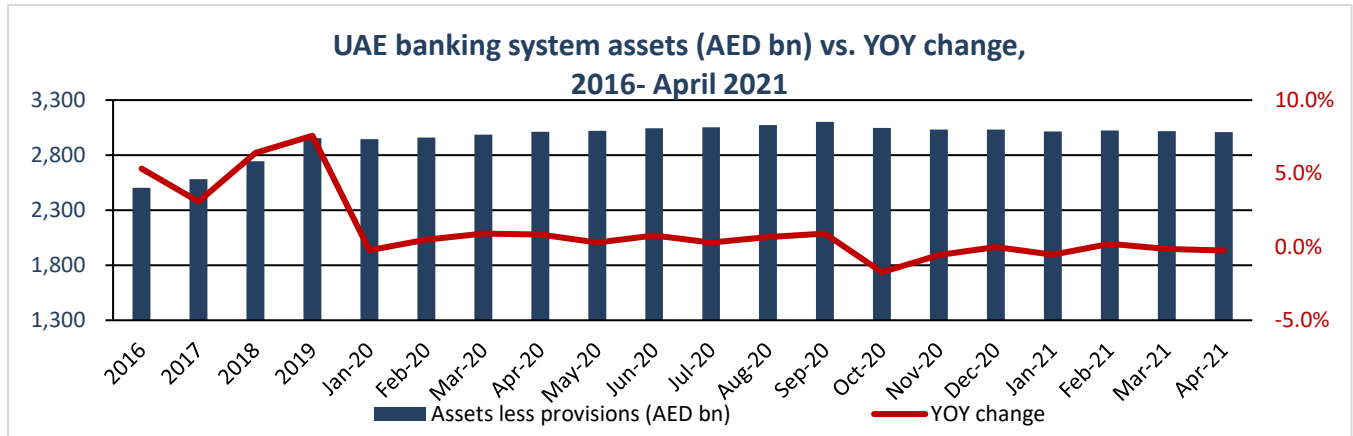
(AED)	Target Price	CMP	Potential change	Rating
BOS	0.13	0.55	-76.1%	SELL
CBI	0.56	0.70	-20.0%	SELL
MASQ	71.00	60.20	17.9%	BUY
NBS	1.60	1.48	8.1%	HOLD
AJMANBANK	0.78	0.73	6.7%	HOLD
RAKBANK	4.10	3.95	3.8%	HOLD
CBD	4.30	4.01	7.2%	HOLD
ADCB	8.50	6.78	25.4%	BUY
ADIB	5.65	5.40	4.6%	HOLD
DIB	5.65	4.72	19.7%	BUY
ENBD	16.10	13.25	21.5%	BUY
UAB	0.20	0.75	-73.2%	SELL

Source: FABS from co data

## Banking indicators update

### Total net assets decreased slightly on a MOM basis in April 2021

UAE system's total net assets decreased by 0.25% on a MOM basis to AED3,010.41 billion in April 2021.



Source: FABS from CBUAE

### CBD witnessed the highest QOQ asset growth in 1Q21

At an individual bank level, CBD recorded the fastest growth in assets to AED 102,471 mm (+5.2% QOQ) on a QOQ basis in 1Q21. This was followed by NBS, which increased to AED54,919 mm (2.5% QOQ) on a QOQ basis. CBI Bank recorded the lowest growth (-6.8% QOQ) to AED15,970 mm in 1Q21.

#### Total assets: 14 UAE banks

(AED MM)	1Q20	2Q20	3Q20	4Q20	1Q21	QOQ ch
BOS	32,166	34,450	34,769	36,143	37,088	2.6%
YOY change	6.8%	13.6%	11.3%	13.8%	15.3%	
CBI	17,866	18,784	18,269	17,141	15,970	-6.8%
YOY change	-16.1%	-9.9%	-9.7%	-8.0%	-10.6%	
MASQ	162,561	173,310	169,724	158,523	162,253	2.4%
YOY change	14.7%	27.0%	15.6%	-0.6%	-0.2%	
NBS	49,250	52,670	53,332	53,601	54,919	2.5%
YOY change	10.1%	19.0%	16.9%	15.5%	11.5%	
AJMANBANK	23,242	23,554	22,611	21,507	21,967	2.1%
YOY change	-0.8%	-0.6%	-6.9%	-9.0%	-5.5%	
RAKBANK	59,756	54,342	52,328	52,773	53,231	0.9%
YOY change	11.7%	-5.1%	-7.0%	-7.6%	-10.9%	
CBD	89,881	93,682	92,750	97,362	102,471	5.2%
YOY change	18.0%	19.4%	12.4%	10.6%	14.0%	
ADCB	412,192	406,235	409,262	411,156	395,819	-3.7%
YOY change	41.1%	-2.6%	0.6%	1.5%	-4.0%	
ADIB	122,712	124,418	127,116	127,816	130,694	2.3%
YOY change	-1.5%	-0.2%	2.3%	1.5%	6.5%	
DIB	276,421	294,797	299,303	289,556	291,711	0.7%
YOY change	22.0%	29.2%	30.2%	24.9%	5.5%	
ENBD	691,724	694,283	692,138	698,087	695,059	-0.4%
YOY change	31.6%	29.1%	2.5%	2.2%	0.5%	
UAB	17,626	16,709	17,982	14,849	14,419	-2.9%
YOY change	-13.6%	-14.7%	-8.7%	-22.4%	-18.2%	
Invest	10,966	11,166	NA	NA	NA	NA
YOY change	-9.8%	-4.5%	NA	NA	NA	
FAB	835,359	865,990	955,147	919,061	940,746	2.4%
YOY change	13.9%	11.7%	21.2%	11.8%	12.6%	

Source: FABS from co data

**FAB's market share has increased in 1Q21**

FAB continues to remain a leader in terms of market share with respect to assets, followed by ENBD and ADCB. With regards to momentum across the 13 banks, an increase in its total asset share was recorded by FAB 1.6% pp QOQ followed by ENBD by 0.6% pp QOQ and DIB by 0.4% pp QOQ.

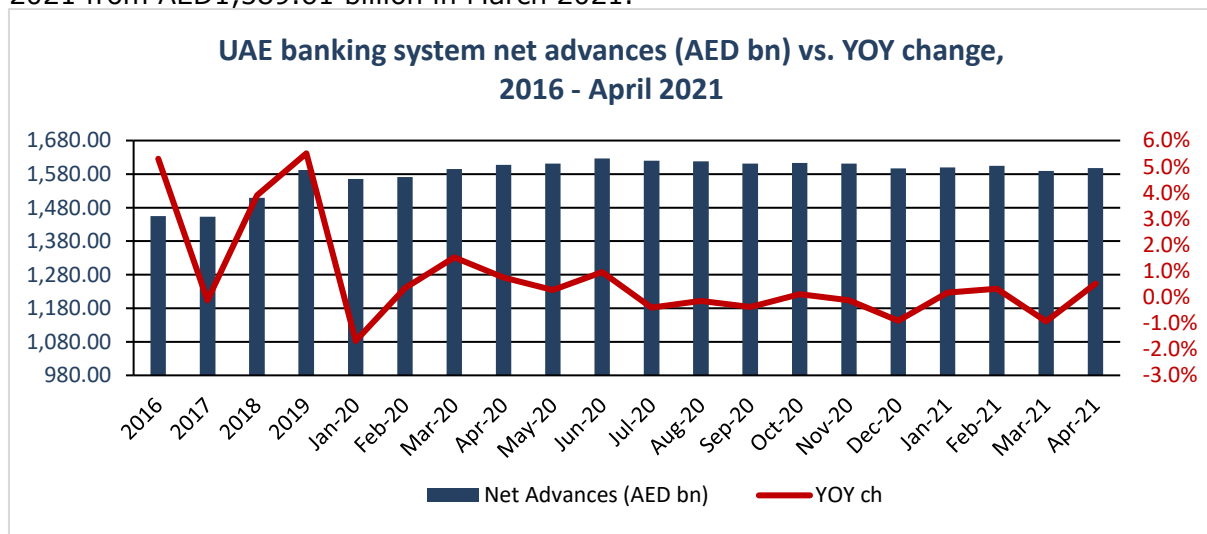
**Total assets share**

	1Q20	2Q20	3Q20	4Q20	1Q21	QOQ: pp
BOS	NA	1.1%	1.1%	1.2%	1.2%	0.1%
CBI	0.6%	0.6%	0.6%	0.6%	0.5%	0.0%
MASQ	5.3%	5.7%	5.5%	5.1%	5.4%	0.3%
NBS	1.6%	1.7%	1.7%	1.7%	1.8%	0.1%
AJMANBANK	0.8%	0.8%	0.7%	0.7%	0.7%	0.0%
RAKBANK	2.0%	1.8%	1.7%	1.7%	1.8%	0.1%
CBD	3.0%	3.1%	3.0%	3.1%	3.4%	0.3%
ADCB	13.5%	13.3%	13.2%	13.3%	13.1%	-0.1%
ADIB	4.0%	4.1%	4.1%	4.1%	4.3%	0.2%
DIB	9.1%	9.7%	9.6%	9.3%	9.7%	0.4%
ENBD	22.7%	22.8%	22.3%	22.5%	23.1%	0.6%
UAB	0.6%	0.5%	0.6%	0.5%	0.5%	0.0%
INVEST	0.4%	0.4%	NA	NA	NA	NA
FAB	27.4%	28.4%	30.8%	29.6%	31.2%	1.6%

Source: FABS from co data, CBUAE

**Advances grew by 0.5% MOM in April 2021**

CBUAE banking indicators show net advances increased by 0.5% MOM to AED1,597.90 billion in April 2021 from AED1,589.61 billion in March 2021.



Source: FABS from CBUAE

**CBD's advances grew fastest QOQ in 1Q21**

On an individual bank level, UAB and FAB lost the most in terms of advances formation momentum for 1Q21. UAB decreasing 5.7% QOQ to AED8,501 mm in 1Q21 from AED9,014 mm in 4Q20. FAB lost 2.2% QOQ to AED378,007 mm in 1Q21 from AED386,644 mm in 4Q20. Conversely, CBD's advances increased by 6.6% QOQ to AED69,598 mm from AED65,289 mm in 4Q20.

**Net advances: UAE banks**

(AED MM)	1Q20	2Q20	3Q20	4Q20	1Q21	QOQ ch
BOS	18,890	19,198	19,417	19,456	19,879	2.2%
YOY change	9.5%	6.8%	6.1%	9.7%	5.2%	
CBI	10,956	10,857	10,565	10,372	10,226	-1.4%
YOY change	-10.1%	-10.2%	-10.3%	-11.8%	-6.7%	
MASQ	78,285	76,464	73,942	71,533	75,797	6.0%
YOY change	12.1%	8.1%	2.5%	-6.1%	-3.2%	
NBS	28,216	29,078	29,536	29,269	29,327	0.2%
YOY change	15.3%	17.6%	16.3%	16.4%	3.9%	
AJMANBANK	17,641	17,763	17,231	16,961	16,982	0.1%
YOY change	6.8%	5.5%	-1.5%	-0.9%	-3.7%	
RAKBANK	34,320	32,554	30,421	30,041	30,518	1.6%
YOY change	4.6%	-3.1%	-12.0%	-13.1%	-11.1%	
CBD	62,335	63,420	62,980	65,289	69,598	6.6%
YOY change	20.3%	15.6%	11.7%	8.5%	11.7%	
ADCB	246,663	239,288	242,890	238,976	235,725	-1.4%
YOY change	45.9%	-4.7%	-2.7%	-3.6%	-4.4%	
ADIB	79,371	81,978	83,205	83,409	83,082	-0.4%
YOY change	1.6%	3.9%	5.0%	2.8%	4.7%	
DIB	180,197	200,298	197,436	196,689	196,181	-0.3%
YOY change	22.8%	33.3%	30.2%	30.3%	8.9%	
ENBD	443,010	442,910	442,305	443,541	436,102	-1.7%
YOY change	31.2%	31.2%	2.9%	1.4%	-1.6%	
UAB	11,172	10,370	10,005	9,014	8,501	-5.7%
YOY change	-10.6%	-16.2%	-20.0%	-22.1%	-23.9%	
INVEST	7,794	7,760	NA	NA	NA	NA
YOY change	-22.4%	-16.1%	NA	NA	NA	
FAB	381,833	384,578	388,800	386,644	378,007	-2.2%
YOY change	6.4%	5.1%	2.9%	-5.2%	-1.0%	

Source: FABS from co data

**Most banks' market share in advances remain broadly stable**

FAB witnessed a slight decrease of 0.3% pp QOQ in market share to 23.7% in 1Q21 from 24% in 4Q20. CBD and MASQ increased the most in the 1Q21 by 0.3% each. ENBD continued leading in market share to 27.3%, followed by FAB.

**Advances mkt share**

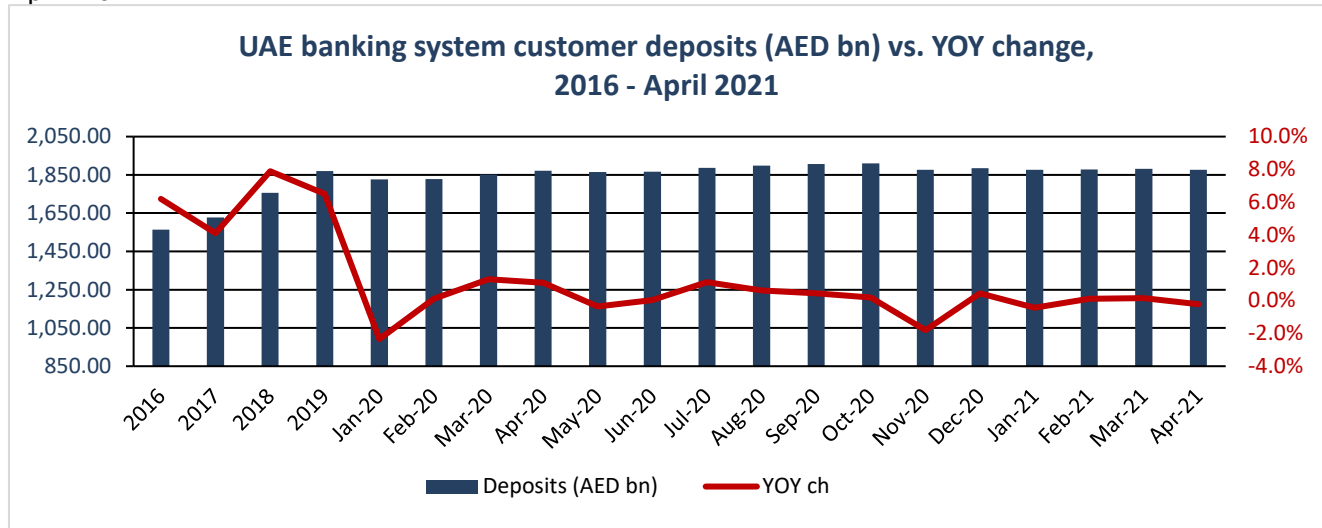
	1Q20	2Q20	3Q20	4Q20	1Q21	QOQ: pp
BOS	NA	1.2%	1.2%	1.2%	1.2%	0.0%
CBI	0.7%	0.7%	0.7%	0.6%	0.6%	0.0%
MASQ	4.8%	4.7%	4.6%	4.4%	4.7%	0.3%
NBS	1.7%	1.8%	1.8%	1.8%	1.8%	0.0%
AJMANBANK	1.1%	1.1%	1.1%	1.1%	1.1%	0.0%
RAKBANK	2.1%	2.0%	1.9%	1.9%	1.9%	0.0%
CBD	3.8%	3.9%	3.9%	4.1%	4.4%	0.3%
ADCB	15.2%	14.7%	15.1%	14.8%	14.8%	-0.1%
ADIB	4.9%	5.0%	5.2%	5.2%	5.2%	0.0%
DIB	11.1%	12.3%	12.3%	12.2%	12.3%	0.1%
ENBD	27.2%	27.2%	27.4%	27.5%	27.3%	-0.2%
UAB	0.7%	0.6%	0.6%	0.6%	0.5%	0.0%

INVEST	0.5%	0.5%	NA	NA	NA	NA
FAB	23.5%	23.6%	24.1%	24.0%	23.7%	-0.3%

Source: FABS from co data, CBUAE

### System customer deposit mobilization decreased MOM in April 2021

The UAE system customer deposits mobilization decreased by 0.2% MOM to AED1,877.22 billion in April 2021.



Source: FABS from CBUAE

### CBI's customer deposits decreased by 5.3% QOQ in 1Q21

CBI's customer deposits decreased by 5.3% QOQ in 1Q21 to AED9,929 mm from AED10,481 mm in 4Q20 followed by ADCB by 5%. NBS's customer deposits increased by 5.6% QOQ to AED35,476 mm in 1Q21 from AED33,608 mm in 4Q20, followed by FAB by 5.1%.

#### Customer deposits: UAE banks

(AED MM)	1Q20	2Q20	3Q20	4Q20	1Q21	QOQ ch
BOS	21,855	23,498	23,253	23,673	24,055	1.6%
YOY change	8.1%	13.1%	12.0%	11.0%	10.1%	
CBI	10,996	11,368	10,657	10,481	9,929	-5.3%
YOY change	-21.8%	-16.8%	-19.6%	-13.1%	-9.7%	
MASQ	88,496	98,555	94,716	88,261	90,205	2.2%
YOY change	9.7%	27.0%	12.6%	-3.0%	1.9%	
NBS	31,492	32,238	32,605	33,608	35,476	5.6%
YOY change	19.1%	14.3%	21.4%	23.0%	12.6%	
AJMANBANK	14,874	14,775	14,477	14,226	13,895	-2.3%
YOY change	-16.3%	-16.1%	-2.4%	-4.7%	-6.6%	
RAKBANK	37,800	35,059	34,205	36,944	36,479	-1.3%
YOY change	6.6%	-9.8%	-6.2%	0.3%	-3.5%	
CBD	63,900	65,319	64,000	69,751	70,902	1.7%
YOY change	17.0%	18.2%	8.4%	10.1%	11.0%	
ADCB	262,863	250,272	243,579	251,395	238,830	-5.0%
YOY change	42.5%	-8.3%	-7.2%	-4.1%	-9.1%	
ADIB	98,852	98,631	100,722	101,276	103,069	1.8%
YOY change	-1.8%	-1.2%	0.4%	-0.1%	4.3%	
DIB	199,867	206,521	214,642	205,925	214,001	3.9%
YOY change	25.5%	31.6%	31.7%	25.2%	7.1%	



ENBD	467,168	460,892	458,007	464,197	459,092	-1.1%
YOY change	30.0%	25.7%	-2.2%	-1.7%	-1.7%	
UAB	11,202	11,665	14,104	11,247	10,839	-3.6%
YOY change	-19.4%	-9.6%	10.6%	-11.3%	-3.2%	
INVEST	9,414	9,470	#N/A N/A	#N/A N/A	#N/A N/A	NA
YOY change	-13.6%	0.1%	NA	NA	NA	
FAB	497,126	518,654	601,768	540,882	568,331	5.1%
YOY change	14.9%	12.2%	26.2%	4.2%	14.3%	

Source: FABS from co data

### FAB's market share Increased the most

With regards to market share momentum, FAB gained 1.9% QOQ to 30.3% in 1Q21 from 28.4% in 4Q20, followed by DIB by 0.6%. ADCB market share decreased the most in the 1Q21 by 0.5%.

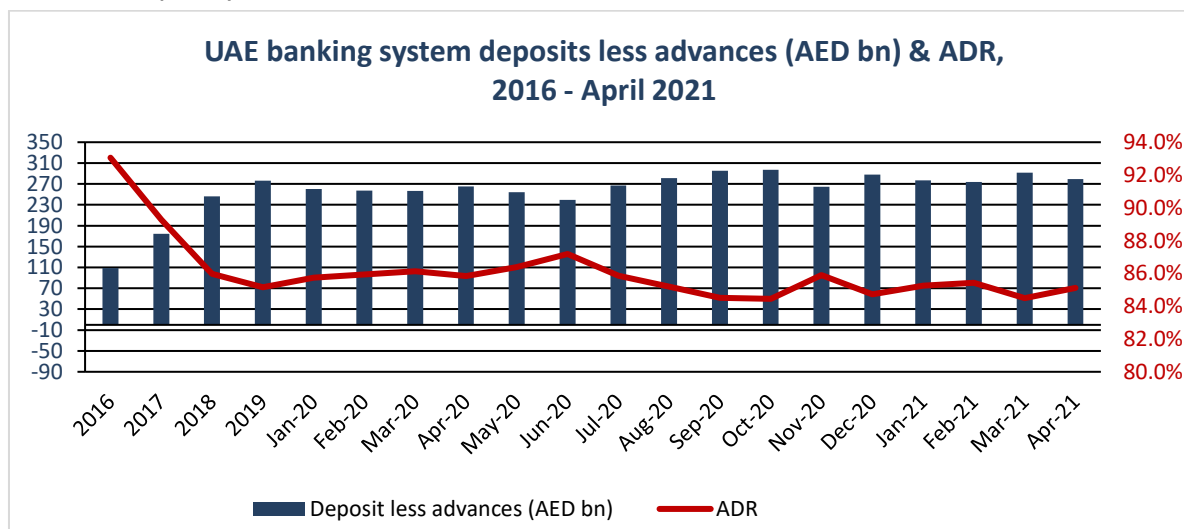
### Deposits market share

	1Q20	2Q20	3Q20	4Q20	1Q21	QOQ: pp
BOS	NA	1.3%	1.2%	1.2%	1.3%	0.0%
CBI	0.6%	0.6%	0.6%	0.5%	0.5%	0.0%
MASQ	4.8%	5.3%	5.0%	4.6%	4.8%	0.2%
NBS	1.7%	1.7%	1.7%	1.8%	1.9%	0.1%
AJMANBANK	0.8%	0.8%	0.8%	0.7%	0.7%	0.0%
RAKBANK	2.0%	1.9%	1.8%	1.9%	1.9%	0.0%
CBD	3.5%	3.5%	3.4%	3.7%	3.8%	0.1%
ADCB	14.2%	13.4%	12.8%	13.2%	12.7%	-0.5%
ADIB	5.3%	5.3%	5.3%	5.3%	5.5%	0.2%
DIB	10.8%	11.1%	11.3%	10.8%	11.4%	0.6%
ENBD	25.2%	24.7%	24.0%	24.3%	24.5%	0.1%
UAB	0.6%	0.6%	0.7%	0.6%	0.6%	0.0%
INVEST	0.5%	0.5%	NA	NA	NA	NA
FAB	26.8%	27.8%	31.6%	28.4%	30.3%	1.9%

Source: FABS from co data, CBUAE

### Liquidity in the UAE banking system

Advances to deposit ratio stood at 85% as of April 2021. The ratio continued to remain flat throughout the 1Q21. This view is validated by using deposits less advances as an equivalent indicator to measure liquidity.



Source: FABS from CBUAE

### FAB, ADIB, and RAKBANK top key liquidity metrics

We use three metrics to measure and rank the balance sheet liquidity of the 13 UAE banks under coverage. On an ADR basis, CBI gained the highest with 113.3% in 1Q21. DIB's deposit surplus rose to AED17,819 mm in 1Q21 from AED9,236 mm in 4Q20 followed by NBS to AED6,149 mm from AED4,340 mm in 4Q20. The bank with the highest deposit deficit is CBI, decreased by -370% QOQ in 1Q21 to deficit of AED296 mm.

#### ADR: UAE Banks

	1Q20	2Q20	3Q20	4Q20	1Q21	QOQ ch
BOS	94.9%	89.8%	91.8%	90.4%	90.9%	0.5%
CBI	108.0%	104.3%	106.9%	107.3%	113.3%	6.0%
MASQ	93.3%	81.8%	83.0%	87.6%	89.4%	1.8%
NBS	93.2%	93.9%	94.4%	90.9%	86.4%	-4.5%
AJMANBANK	124.9%	126.6%	124.8%	126.1%	129.6%	3.6%
RAKBANK	95.8%	98.6%	95.3%	87.2%	89.7%	2.6%
CBD	103.0%	102.2%	103.9%	99.0%	103.8%	4.8%
ADCB	97.3%	99.4%	103.7%	99.6%	103.5%	3.9%
ADIB	83.6%	86.7%	86.3%	86.3%	84.6%	-1.7%
DIB	93.8%	100.4%	95.4%	99.6%	95.8%	-3.8%
ENBD	101.6%	103.1%	104.0%	103.1%	102.9%	-0.2%
UAB	113.4%	101.9%	81.0%	94.9%	90.0%	-4.9%
INVEST	135.0%	135.2%	NA	NA	NA	NA
FAB	79.5%	76.9%	67.1%	74.3%	69.2%	-5.1%

Source: FABS from co data

#### Deposit surplus/-deficit

AED mm	1Q20	2Q20	3Q20	4Q20	1Q21	QOQ ch
BOS	2,964	4,300	3,836	4,217	4,175	-1.0%
CBI	39	511	93	110	-296	-370.4%
MASQ	10,211	22,092	20,774	16,728	14,408	-13.9%
NBS	3,276	3,160	3,069	4,340	6,149	41.7%
AJMANBANK	-2,767	-2,988	-2,754	-2,735	-3,087	12.9%
RAKBANK	3,481	2,506	3,784	6,903	5,962	-13.6%
CBD	4,797	5,132	4,253	6,226	3,068	-50.7%
ADCB	16,200	10,984	689	77,816	71,394	-8.3%
ADIB	19,481	16,653	17,517	17,867	19,987	11.9%
DIB	19,671	6,223	17,206	9,236	17,819	92.9%
ENBD	24,158	17,982	15,703	20,656	22,990	11.3%
UAB	1,517	1,295	4,098	2,233	2,338	4.7%
INVEST	1,620	1,710	NA	NA	NA	NA
FAB	172,499	193,449	275,136	216,676	260,664	20.3%

Source: FABS from co data

#### Percentage lent

AED mm	1Q20	2Q20	3Q20	4Q20	1Q21	QOQ ch
BOS	58.7%	55.7%	55.8%	53.8%	53.6%	-0.2%
CBI	61.3%	57.8%	57.8%	60.5%	64.0%	3.5%
MASQ	48.2%	44.1%	43.6%	45.1%	46.7%	1.6%
NBS	57.3%	55.2%	55.4%	54.6%	53.4%	-1.2%
AJMANBANK	75.9%	75.4%	76.2%	78.9%	77.3%	-1.6%

RAKBANK	57.4%	59.9%	58.1%	56.9%	57.3%	0.4%
CBD	69.4%	67.7%	67.9%	67.1%	67.9%	0.9%
ADCB	59.8%	58.9%	59.3%	58.1%	59.6%	1.4%
ADIB	64.7%	65.9%	65.5%	65.3%	63.6%	-1.7%
DIB	65.2%	67.9%	66.0%	67.9%	67.3%	-0.7%
ENBD	64.0%	63.8%	63.9%	63.5%	62.7%	-0.8%
UAB	63.4%	62.1%	55.6%	60.7%	59.0%	-1.7%
INVEST	71.1%	69.5%	NA	NA	NA	NA
FAB	45.7%	44.4%	40.7%	42.1%	40.2%	-1.9%

Source: FABS from co data

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

ADIB and FAB's ROE stood at 11.7% each in 1Q21, the highest compared to other banks, with an increase by 2.5% and 1.3% QOQ, respectively. Next is CBD at 11.2% with an increase of 0.5% QOQ. The bank with the lowest ROE for 1Q21 is UAB -35%, with a 1.9% QOQ increase.

#### ROE: UAE Banks

	1Q20	2Q20	3Q20	4Q20	1Q21	QOQ ch
BOS	-21.0%	-17.9%	-15.2%	-21.3%	-19.5%	1.8%
CBI	5.1%	4.3%	-0.6%	-1.4%	-6.9%	-5.5%
MASQ	9.2%	6.6%	3.1%	-6.2%	-8.5%	-2.2%
NBS	10.0%	9.0%	8.4%	7.1%	7.4%	0.4%
AJMANBANK	1.8%	1.5%	1.1%	2.1%	3.2%	1.2%
RAKBANK	14.0%	11.5%	9.1%	6.5%	6.2%	-0.3%
CBD	14.7%	12.5%	11.3%	10.7%	11.2%	0.5%
ADCB	10.0%	7.7%	7.3%	7.0%	9.8%	2.7%
ADIB	15.2%	12.4%	11.3%	9.2%	11.7%	2.5%
DIB	17.4%	15.0%	13.6%	10.1%	9.0%	-1.1%
ENBD	21.1%	16.0%	10.3%	8.6%	9.2%	0.6%
UAB	-29.2%	-32.7%	-36.8%	-36.9%	-35.0%	1.9%
INVEST	-64.1%	-38.2%	NA	NA	NA	NA
FAB	13.3%	11.6%	10.7%	10.4%	11.7%	1.3%

Source: FABS from co data

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

ADIB's ROA stands at 1.5% in 1Q21, highest in comparison to other UAE banks with a 0.3% QOQ increase. Followed by FAB, CBD, and ADCB with the same ROA of 1.2% and a 0.2% QOQ increase for ADCB; meanwhile, FAB and CBD remained stable. The bank with the lowest ROA is UAB -3.4%, with an increase of 0.6% QOQ.

#### ROA: UAE Banks

	1Q20	2Q20	3Q20	4Q20	1Q21	QOQ ch
BOS	-2.3%	-1.9%	-1.6%	-1.9%	-1.8%	0.2%
CBI	0.5%	0.4%	-0.1%	-0.2%	-0.8%	-0.6%
MASQ	1.2%	0.9%	0.4%	-0.8%	-1.0%	-0.2%
NBS	1.2%	1.0%	1.0%	0.8%	0.8%	0.0%
AJMANBANK	0.2%	0.2%	0.1%	0.2%	0.4%	0.1%
RAKBANK	1.7%	1.5%	1.3%	0.9%	0.8%	-0.1%
CBD	1.7%	1.4%	1.3%	1.2%	1.2%	0.0%
ADCB	1.1%	0.9%	0.9%	0.9%	1.2%	0.2%
ADIB	1.8%	1.6%	1.5%	1.3%	1.5%	0.3%
DIB	1.9%	1.7%	1.6%	1.3%	1.1%	-0.2%

ENBD	2.3%	1.8%	1.1%	1.0%	1.0%	0.0%
UAB	-3.2%	-3.9%	-4.1%	-3.9%	-3.4%	0.6%
INVEST	-5.0%	-4.7%	NA	NA	NA	NA
FAB	1.5%	1.3%	1.2%	1.2%	1.2%	0.0%

Source: FABS from co data

### RAKBANK's NIM declined the most compared to other banks

RAKBANK's Net Interest Margin (NIM) declined by 0.5% QOQ to 4.8% in 1Q21. Meanwhile, AJMANBANK's Net Interest Margin (NIM) increased the most by 0.1% QOQ in 1Q21 to 2.8%.

#### NIM: UAE Banks

	1Q20	2Q20	3Q20	4Q20	1Q21	QOQ ch
BOS	1.9%	1.7%	1.7%	2.5%	2.5%	0.0%
CBI	3.4%	3.2%	3.1%	3.1%	2.9%	-0.2%
MASQ	2.9%	2.9%	2.5%	2.2%	2.0%	-0.2%
NBS	2.0%	2.2%	2.1%	2.3%	2.2%	0.0%
AJMANBANK	2.5%	2.5%	2.4%	2.7%	2.8%	0.1%
RAKBANK	5.8%	5.7%	5.6%	5.3%	4.8%	-0.5%
CBD	2.8%	2.7%	2.5%	2.5%	2.3%	-0.2%
ADCB	3.4%	2.9%	2.8%	2.8%	2.6%	-0.2%
ADIB	4.2%	4.1%	3.9%	3.8%	3.7%	-0.1%
DIB	3.1%	2.9%	3.0%	3.0%	2.7%	-0.3%
ENBD	3.5%	3.6%	3.2%	3.1%	2.9%	-0.2%
UAB	1.3%	1.2%	1.0%	1.9%	1.8%	-0.1%
INVEST	1.4%	1.1%	NA	NA	NA	NA
FAB	2.3%	2.2%	2.1%	2.0%	2.0%	-0.1%

Source: FABS from co data

### CBI C/I ratio highest compared to other UAE banks

BOS's Cost to Income ratio increased the most on a QOQ basis to 47.7% in 1Q21 from -198.4% in 4Q20. The bank with the highest decline in C/I ratio is MASQ, with a decrease to 44% in 1Q21 from 90.1% in 4Q20.

#### Cost to Income: UAE bank

	1Q20	2Q20	3Q20	4Q20	1Q21	QOQ ch
BOS	69.0%	22.4%	24.4%	-198.4%	47.7%	246.2%
CBI	41.6%	46.4%	29.5%	54.5%	69.6%	15.0%
MASQ	41.5%	47.6%	55.2%	90.1%	44.0%	-46.1%
NBS	48.0%	47.1%	46.6%	95.3%	38.2%	-57.0%
AJMANBANK	49.0%	55.9%	46.2%	30.1%	45.5%	15.4%
RAKBANK	36.7%	37.5%	38.2%	45.0%	41.2%	-3.8%
CBD	24.5%	29.3%	28.5%	24.4%	27.5%	3.1%
ADCB	38.1%	34.9%	36.9%	35.0%	36.3%	1.3%
ADIB	49.5%	49.6%	45.0%	40.0%	45.6%	5.6%
DIB	34.5%	27.6%	30.2%	23.5%	27.4%	3.9%
ENBD	29.8%	34.0%	32.0%	41.5%	30.3%	-11.2%
UAB	50.6%	72.8%	80.4%	63.2%	45.1%	-18.1%
INVEST	72.6%	79.3%	NA	NA	NA	NA
FAB	29.6%	25.8%	28.0%	25.8%	30.1%	4.3%

Source: FABS from co data

### CBI's COR highest in 1Q21

CBI's Cost of Risk stood at 1.2% in 4Q20, which increased by 0.9% QOQ. UAB decreased the most in 1Q21 by 2.5% from 3.2% in 4Q20 to 0.6% in 1Q21.

#### Cost of risk: UAE Banks

	1Q20	2Q20	3Q20	4Q20	1Q21	QOQ ch
BOS	0.9%	0.4%	0.6%	1.7%	NA	NA
CBI	0.8%	0.7%	1.6%	0.3%	1.2%	0.9%
MASQ	0.5%	0.7%	0.8%	2.2%	0.9%	-1.3%
NBS	0.0%	0.2%	0.2%	0.3%	0.2%	-0.2%
AJMANBANK	0.4%	0.1%	0.4%	0.8%	0.3%	-0.4%
RAKBANK	1.3%	1.2%	1.2%	1.2%	1.1%	-0.1%
CBD	0.4%	0.4%	0.3%	0.5%	0.3%	-0.2%
ADCB	0.7%	0.3%	0.2%	0.4%	0.3%	-0.1%
ADIB	0.5%	0.4%	0.3%	0.4%	0.2%	-0.3%
DIB	0.8%	0.3%	0.3%	0.9%	0.4%	-0.6%
ENBD	0.5%	0.3%	0.5%	0.3%	0.4%	0.0%
UAB	1.4%	1.0%	1.5%	3.2%	0.6%	-2.5%
INVEST	0.9%	0.4%	NA	NA	NA	NA
FAB	0.2%	0.3%	0.1%	0.1%	0.1%	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 20.7% compared to other banks. However, on a QOQ basis, the CAR remained stable. This indicates that NBS is better positioned to withstand unforeseen losses or a financial downturn if occurred, Followed by ADIB with a CAR of 19.2% and a decrease of 0.2% QOQ. The bank with the lowest CAR is BOS with a CAR of 10.6%.

#### CAR: UAE Banks

	1Q20	2Q20	3Q20	4Q20	1Q21	QOQ ch
BOS	10.6%	10.8%	11.4%	10.7%	10.6%	-0.2%
CBI	16.2%	16.6%	15.7%	16.3%	15.8%	-0.5%
MASQ	15.9%	17.0%	17.4%	16.0%	14.4%	-1.6%
NBS	21.1%	21.2%	21.5%	20.7%	20.7%	0.0%
AJMANBANK	14.8%	15.4%	15.7%	16.0%	16.1%	0.1%
RAKBANK	16.1%	18.3%	19.4%	18.6%	18.1%	-0.6%
CBD	13.9%	14.0%	14.4%	16.7%	16.3%	-0.4%
ADCB	14.1%	16.3%	16.7%	17.2%	16.6%	-0.6%
ADIB	18.1%	18.2%	18.4%	19.4%	19.2%	-0.2%
DIB	16.5%	16.7%	17.3%	18.5%	17.1%	-1.4%
ENBD	17.9%	18.5%	19.1%	18.5%	19.0%	0.5%
UAB	11.8%	14.3%	14.0%	13.7%	14.2%	0.5%
INVEST	12.1%	11.9%	NA	NA	NA	NA
FAB	15.4%	16.4%	16.8%	16.5%	16.9%	0.4%

Source: FABS from co data

**Banking stock performance**

The UAE banking sector's stock performance for 2021 YTD has underperformed. UAB being the highest loser among the UAE banks with a decline of -12.0%, followed by MASQ with a decline of -11.3% and BOS with a decrease of -10.2%, while ENBD is the top-performing stock in UAE banks, increased by +28.6% YTD followed by FAB with an increase of 27.1%. Along with UAE, KSA and Qatar averaged YTD gains in 2021 by 4.2%, 27.3% and 7.4%, respectively.

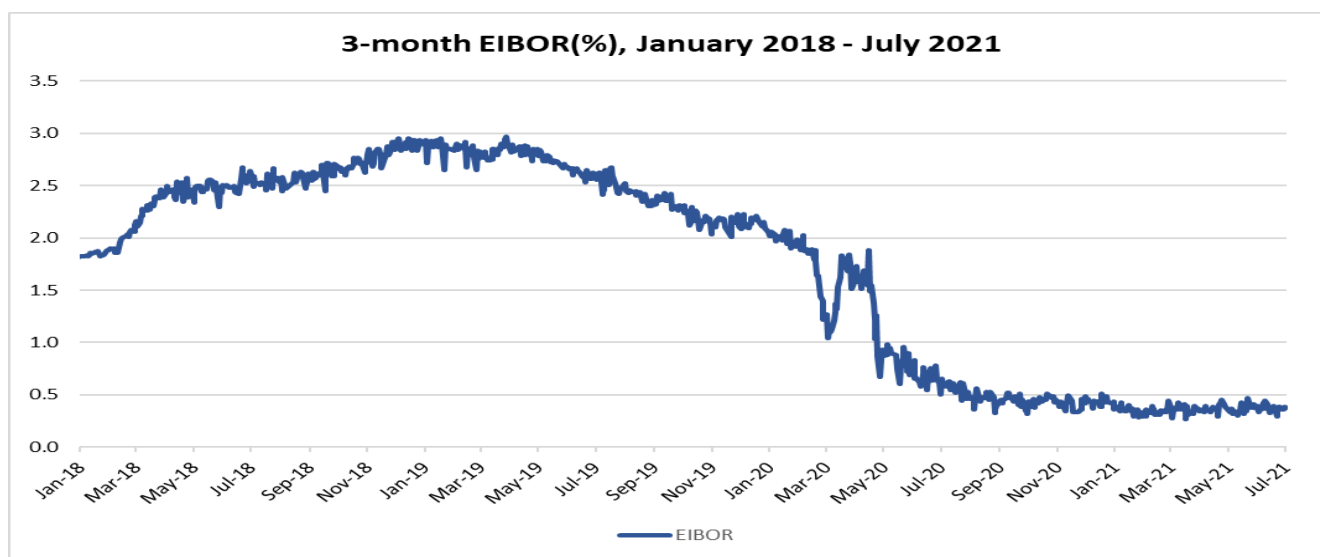
**27 MENA bank stocks: YE21 to 15<sup>th</sup> of July 2021, Ranked**

		UAE	KSA	Qatar	Egypt	Ranking
QIBK	-0.1%			-0.1%		23
MARK	-2.2%			-2.2%		24
CBD	1.8%	1.8%				20
MASQ	-11.3%	-11.3%				30
QNBK	1.4%			1.4%		21
UAB	-12.0%	-12.0%				31
NBS	12.1%	12.1%				14
CBQK	21.9%			21.9%		10
<b>DSM</b>	3.3%					18
RJHI	46.7%		46.7%			1
<b>TASI</b>	24.0%					9
<b>ADI</b>	40.3%					2
ALINMA	31.5%		31.5%			3
ALBI	27.0%		27.0%			8
BSFR	18.2%		18.2%			11
RAKBANK	1.3%	1.3%				22
DHBK	16.2%			16.2%		12
COMI	-4.5%				-4.5%	26
FAB	27.1%	27.1%				7
<b>EGX30</b>	-2.2%					25
BOS	-10.2%	-10.2%				29
NCB	29.2%					5
<b>DFM</b>	10.6%					16
ARNB	10.9%		10.9%			15
RIBL	29.5%		29.5%			4
CBI	-6.7%	-6.7%				28
ENBD	28.6%	28.6%				6
ADIB	16.0%	16.0%				13
DIB	3.0%	3.0%				19
AJMANBANK	-5.6%	-5.6%				27
ADCB	10.0%	10.0%				17
<b>Average</b>		<b>4.2%</b>	<b>27.3%</b>	<b>7.4%</b>	<b>-4.5%</b>	

FABS from Bloomberg

**3-months EIBOR touched a 0.3775% rate in July 2021.**

UAE’s 3-month EIBOR was reported at 0.3775% in July 2021, decreasing from the closing of 0.425% December 2020 of 0.425%. The federal reserve announced that they will keep the interest rates steady between 0 and 0.25% until 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. The Central Bank of the UAE (CBUAE) has decided to raise the Overnight Deposit Facility (ODF) Base Rate by 5 basis points to 15 basis points with effect from Thursday, June 17th. This decision was made in response to the US Federal Reserve Board's statement that it will raise the interest rate on excess reserves (IOER). The CBUAE's monetary policy is signalled by the Base Rate, which is tied to the IOER of the US Federal Reserve, which also gives overnight money market rates an effective interest rate floor. In addition, the CBUAE has decided to keep the cost for borrowing short-term liquidity from the CBUAE via all standing credit facilities at 50 basis points over the Base Rate.



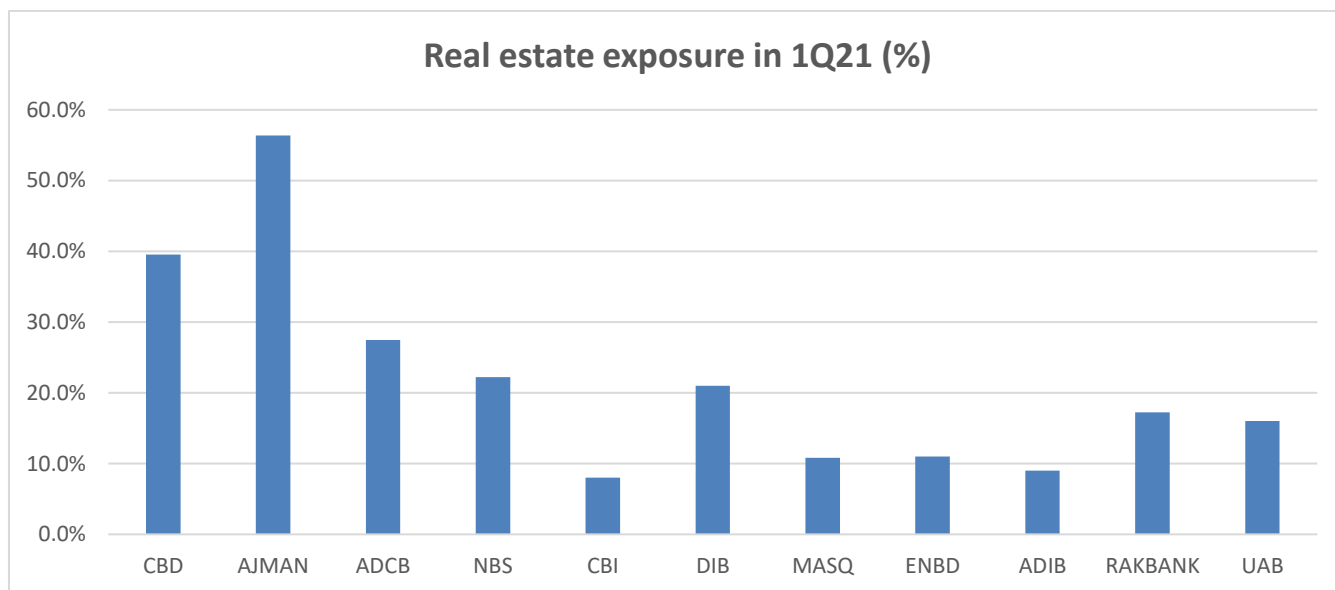
Source: FABS from Bloomberg

**Real Estate**

The UAE, particularly Dubai and Abu Dhabi, have become increasingly popular with international investors, and the real estate market has exploded in the 2000s. However, in recent years, the property market has underperformed. There are several causes for this, the most important of which being oversupply. A decline in oil prices has harmed the UAE's economy and real estate markets, notably in 2020 when prices became negative. Even though oil accounts for only 5% of Dubai's GDP, it significantly influences the whole economy. The UAE's major export product is oil, and the recent decline in oil prices has had a detrimental impact on the market.

The beginning of the COVID-19 pandemic has had the most substantial impact on worldwide economic activity. In 2020, global GDP is expected to have fallen by 3.3%, which is far lower than the worst-case scenarios predicted in the early phases of the epidemic. Worldwide GDP is predicted to grow by 6% in 2021, as global immunization programs continue to be implemented and economic and social mobility return to historic levels. This improved global economic background, along with the world's second-highest vaccination rate and the implementation of several residence visa programs, is expected to propel the UAE's economy forward at a rapid pace.

The UAE's real estate markets will benefit from the revival in economic activity and the resulting boost in corporate confidence. On the other hand, the epidemic has undoubtedly hastened already shifting fundamentals in sectors like offices, retail and industrial, and logistics. Other industries are expected to see longer-term impacts because of pandemics. The Pandemic is expected to have long-term effects on both demand and supply in the hotel industry, posing both problems and possibilities. Real estate assets such as cold storage facilities and data centers have experienced a spike in demand. The UAE property market is expected to show signs of weakness in 2021 as it recovers from the COVID-19 epidemic while still dealing with an overstock. Other problems continue to weigh on the market, putting downward pressure on prices. Oversupply, declining demand, a failing economy, and a strong local currency are some of the primary concerns.



Source: FABS from Bloomberg



**TESS Program and Lending**

The central bank of the United Arab Emirates has extended until mid-2022 certain stimulus measures put in place during 2020 to help the economy cope with COVID-19 outbreak. The Targeted Economic Support Scheme (TESS) assists banks in supporting firms and individuals affected by the pandemic with interim assistance. Financial institutions should prioritize financing to the most severely impacted sectors, enterprises, and families, as per CBUAE. The UAE's GDP shrank by 5.9% last year, according to the International Monetary Fund, as measures to contain the new coronavirus harmed important industries such as tourism and aviation. Until June 30 next year, banks will also be able to use a collateralized 50 billion dirham (\$13.61 billion) zero-cost liquidity facility. Non-performing loans in UAE banks now account for 10.6% of total loans, the highest level since 2005. According to the International Monetary Fund, the country's GDP would increase by 3.1 percent this year (IMF) Last year; banks were hampered by COVID-19 and reduced oil prices and a slow real estate industry, a key component of the UAE's GDP.

## 2Q21 preview: Emirates NBD (ENBD)

Higher Non-Funded income and lower expenses to support the bottom-line

CMP (AED): 13.25  
Potential Upside (%): +21.5%

12-m target price:  
**AED16.10**

Stock rating:  
**BUY**

### 2Q21 estimate

We estimate the Emirates NBD (ENBD) to post a 0.9% YOY increase in Net profit to AED2,026 mm in 2Q21 compared to AED2,009 mm in 2Q20, mainly due to the increase in Non-funded income in 2Q21. Net funded income is expected to decline by 4.4% YOY to AED4,178 mm in 2Q21 due to the decline by 3.9% YOY in the Funded income to AED6,727 mm compared to AED6,998 mm in 2Q20. Non-funded income is forecasted to increase by 20.8% YOY to AED1,661 mm in 2Q21, mainly driven by a predicted 52.3% rise in Fees and commissions to AED1,129 mm in 2Q21 compared to AED741 mm in 2Q20. Thus, Operating income (OI) would increase by 1.7% YOY to AED5,839 mm in 2Q21 as compared to AED5,744 mm in 2Q20. Bank's Operating expenses are likely to decline by 4.7% YOY to AED1,858 mm in 2Q21 as compared to AED1,951 mm in 2Q20, leading to a Cost-to-income (C/I) ratio of 31.8% in 2Q21. Impairment charges would rise by 7.2% to AED1,772 mm in 2Q21, compared to AED1,653 mm during 2Q20.

### 2021 forecast

ENBD is estimated to record a rise by 24.9% YOY in Net profit to AED8,695 mm in 2021 compared to AED6,960 mm in 2020, mainly due to an expected decline in Impairment charges. We expect Net Funded Income to decrease by 3.2% to AED16,929 mm in 2021 from AED17,487 mm in 2020. As we expect a rise in Non-Funded Income by 23.5% YOY to AED7,070 mm in 2021 compared to AED5,724 mm in 2020; this translates to an increase by 3.4% YOY in Operating Income to AED23,999 mm in 2021 compared to AED23,211 mm in 2020. Operating expenses are likely to fall by 5.6% YOY to AED7,415 mm, leading to a decrease by 295 bps in the Cost to income (C/I) ratio to 30.9% in 2021 from 33.8% in 2020. Impairment charges would decrease by 10.5% YOY to AED7,105 mm in 2021 compared to AED7,936 mm in 2020.

### 1Q21 Outturn

Emirates National Bank of Dubai (NBD) recorded a rise in Net profit by 11.7% YOY to AED2,322 mm in 1Q21 from AED2,079 mm in 1Q20, beating our estimate by 22.3%. This increase was primarily due to a significant decrease in Impairment charges and Operating expenses. ENBD's Operating income decreased by 10.5% YOY in 1Q21 to AED6,163 mm, beating our forecast by 15.1%. This was due to a decrease of 6.7% YOY in Fees and commissions to AED1,102 mm in 1Q21 from AED1,181 mm in 1Q20. While, Non-funded income increased to AED2,075 mm in 1Q21 by 6.5% from AED1,948 mm in 1Q20. Net funded income decreased by 17.2% YOY to AED4,088 mm in 1Q21 from AED4,936 mm in 1Q20, as the Funded income decreased by 18.8% YOY to AED6,570 mm in 1Q21, and Funded expenses decreased by 21.4% YOY to AED2,482 mm in 1Q21. Operating expenses decreased by 8.8% YOY to AED1,868 mm in 1Q21, while the Cost/Income "C/I" increased by 55 bps to 30.3% from 29.8% in 1Q20. Impairment charges decreased significantly to AED1,763 mm in 1Q21 from AED2,558 mm in 1Q20, supporting profitability. ENBD's Net advances decreased by 1.6% YOY to AED436.1 bn in 1Q21 from AED443 bn in 1Q20. At the same time, Customer deposits dropped by 1.7% YOY to AED459 bn in 1Q21 from AED467.1 in 1Q20. Thus, the ADR ratio climbed to 95% in 1Q21 from 94.8% in 1Q20. Total assets increased by 0.5% YOY to AED695 bn in 1Q21, and the Equity rose by 3.5% YOY to AED72.2 bn in 1Q21 from AED69.8 bn in 1Q20.

### Target price and recommendation

We maintain our BUY rating on ENBD, with a target price of AED16.1. The bank shows an improvement in Net Loans reflected in the 2% QOQ decrease in the corporate loan's repayment along with loans receiving support. The NPL portfolio showed a QOQ improvement of 0.1% reaching 6.1% in first-quarter 2021 from 6.2% in fourth-quarter 2020 and an increase of 0.6% as compared to 5.5% YoY leading to an improvement in the coverage ratio reaching 125.1% in first quarter of 2021 compared to 117.3% in fourth quarter 2020. The net cost of risk has also decreased in first quarter of 2021 to 158 bps as compared to 210bps in first quarter 2020 reflecting better economic sentiment and a stronger credit environment impact. LCR and ADR remained almost stable compared to the previous year at 165.1% and 95.1% respectively in the first quarter of 2021, showing the Group's continuing healthy liquidity position. NIM increased slightly by 4 bps reaching 2.46% as compared to 2.42% in fourth-quarter 2020 while decreasing by 56 bps as compared to 3.02% in first quarter 2020 despite the improvement in funding cost which was completely offset by lower interest rates leading to lower loan yields. During the first quarter of 2021, liquid assets recorded AED 88 bn, which is 14% of Total Liabilities and 19% of Total Deposits. Emirates NBD's 2021 term debt issuances of AED15.4 bn covers 90% of 2021 maturities. The Bank was the first to take the initiative in the GCC and issue an ESG-linked syndicated loan raising \$1.75 bn over 3-year funding and its interest will be benchmarked to the performance of similar ESG characteristics. Islamic financing remained stable during first quarter of 2021 while retail loans increased by 3% over the same period due to demand increase for personal and car loans as compared to pre COVID-19 volumes. In contrast, corporate loans decreased by 1% during first quarter 2021 and the decrease was spread over all sectors. Cost-to-Income ratio improved in first quarter 2021 to 30.3% from 41.5% in the previous quarter. The Capital Adequacy Ratio of ENBD has improved in first quarter 2021 reaching 19% as opposed to 17.9% last year and 18.5% in the last quarter of 2020; this shows that the bank's ability to face downturns and losses has increased and that was partially due to the decrease in Risk-Weighted Assets (RWA) from AED446.5 Bn in fourth quarter 2020 to AED 444.3 bn in first quarter 2021. The Bank's Capital ratios remained above the original minimum regulatory requirements of 11% for CET-1 ratio, 12.5% for Tier 1 ratio, and 14.5% for Capital Adequacy Ratio. Total Income from Islamic financing increased 12% in first quarter 2021 reaching AED574 bn as compared to AED 514 bn in fourth quarter 2020 given the improvement in Non-funded income by 51% driven by better market activity during the first quarter of 2021. Total assets decreased by 0.4% as compared to fourth quarter 2020 reaching AED 695.05 bn, Customer financing also showed a decrease of 1.6% reaching AED436 bn as compared to AED 443.5 bn as at year end 2020 whereas Customer deposits decreased by 1.7% to reach AED 459 bn as compared to AED 464.2 bn by end of 2020. Saving accounts witnessed an increase of 2%, representing 71% of customers' accounts in first quarter 2021 as compared to 69% in the previous quarter. The bank is currently trading at a P/B of 1.16X compared to its average peers of 0.92x. We maintain our BUY rating on this stock.

#### ENBD - Relative valuation

(at CMP)	2017	2018	2019	2020	2021F
P/E (x)	9.85	8.11	7.89	13.25	9.60
P/B (x)	1.54	1.40	1.16	1.13	1.11
Dividend yield	3.0%	3.0%	3.0%	3.0%	3.0%

FABS estimate and Co Data

**ENBD - P&L**

AED mm	2Q20	1Q21	2Q21F	YOY Ch	QOQ Ch	2020	2021F	Change
Funded income	6,998	6,570	6,727	-3.9%	2.4%	28,017	27,227	-2.8%
Funded expense	-2,629	-2,482	-2,549	-3.1%	2.7%	-10,530	-10,298	-2.2%
<b>Net funded income</b>	<b>4,369</b>	<b>4,088</b>	<b>4,178</b>	<b>-4.4%</b>	<b>2.2%</b>	<b>17,487</b>	<b>16,929</b>	<b>-3.2%</b>
Fees and commissions	741	1,102	1,129	52.3%	2.5%	3,655	4,574	25.2%
Trading gain/(loss)	86	60	61	-28.2%	2.7%	180	262	45.6%
Other Operating Income	548	914	470	-14.2%	-48.6%	1,889	2,234	18.2%
<b>Non-funded income</b>	<b>1,375</b>	<b>2,075</b>	<b>1,661</b>	<b>20.8%</b>	<b>-20.0%</b>	<b>5,724</b>	<b>7,070</b>	<b>23.5%</b>
<b>Operating income</b>	<b>5,744</b>	<b>6,163</b>	<b>5,839</b>	<b>1.7%</b>	<b>-5.3%</b>	<b>23,211</b>	<b>23,999</b>	<b>3.4%</b>
Operating expenses	-1,951	-1,868	-1,858	-4.7%	-0.5%	-7,856	-7,415	-5.6%
<b>Pre-provision profit</b>	<b>3,793</b>	<b>4,296</b>	<b>3,980</b>	<b>4.9%</b>	<b>-7.3%</b>	<b>15,354</b>	<b>16,584</b>	<b>8.0%</b>
Impairment	-1,653	-1,763	-1,772	7.2%	0.5%	-7,936	-7,105	-10.5%
<b>PBT</b>	<b>2,142</b>	<b>2,542</b>	<b>2,218</b>	<b>3.6%</b>	<b>-12.7%</b>	<b>7,430</b>	<b>9,517</b>	<b>28.1%</b>
Tax	-131	-220	-191	45.6%	-13.1%	-465	-819	76.1%
<b>Net profit attributable</b>	<b>2,009</b>	<b>2,322</b>	<b>2,026</b>	<b>0.9%</b>	<b>-12.7%</b>	<b>6,960</b>	<b>8,695</b>	<b>24.9%</b>

*FABS estimate & Co Data*
**ENBD - KPI**

AED mm	2Q20	1Q21	2Q21F	YOY Ch	QOQ Ch	2020	2021F	Change
Net FI/OI	76.1%	66.3%	71.6%	-450	523	75.3%	70.5%	-480
NIM	2.9%	2.5%	2.5%	-38	-6	2.7%	2.4%	-36
NIS	0.4%	0.4%	1.5%	104	103	2.7%	2.2%	-47
Fees & comms/OI	12.9%	17.9%	19.3%	643	147	15.7%	19.1%	331
Other non-funded/OI	9.5%	14.8%	8.0%	-149	-677	8.1%	9.3%	117
Trading/OI	1.5%	1.0%	1.1%	-44	8	0.8%	1.1%	32
Cost to income	34.0%	30.3%	31.8%	-213	153	33.8%	30.9%	-295
Impairment/PPP	43.6%	41.0%	44.5%	95	347	51.7%	42.8%	-884
Tax/PBT	6.1%	8.6%	8.6%	248	-4	6.3%	8.6%	235
NP/OI	35.0%	37.7%	34.7%	-27	-296	30.0%	36.2%	625
ROAE	3.1%	3.3%	2.4%	-61	-82	9.5%	10.9%	143
ROAA	0.3%	0.3%	0.3%	0	-8	1.0%	1.2%	14

*FABS estimate & Co Data*
**ENBD - BS Key items**

AED mm	2Q20	3Q20	4Q20	1Q21	2Q21F	YOY Ch
Net advances	442,910	442,305	443,541	436,102	436,630	-1.4%
<i>QOQ change</i>	0.0%	-0.1%	0.3%	-1.7%	0.12%	
Total Assets	694,283	692,138	698,087	695,059	708,121	2.0%
<i>QOQ change</i>	0.4%	-0.3%	0.9%	-0.4%	1.9%	
Customer Deposits	460,892	458,007	464,197	459,092	468,851	1.7%
<i>QOQ change</i>	-1.3%	-0.6%	1.4%	-1.1%	2%	
Total Equity	71,918	72,323	74,212	72,288	72,851	1.3%
<i>QOQ change</i>	3.0%	0.6%	2.6%	-2.6%	0.78%	

*FABS estimate & Co Data*

## 2Q21 preview: Dubai Islamic Bank (DIB)

Increase in Impairment charges could reduce profitability

CMP (AED): 4.72

Potential Upside (%): +19.7%

12-m target price:

**AED5.65**

Stock rating:

**BUY**

### 2Q21 estimate

Dubai Islamic Bank (DIB) is forecasted to post a decline by 2% YOY in Net profit to AED989 mm in 2Q21 from AED1,009 mm in 2Q20, mainly due to an expected increase in Impairment charges. We estimate the Net Funded Income to decline by 1.1% YOY to AED1,652 mm in 2Q21, due to the decrease by 12.8% and 32.9% YOY in the Funded income and the Funded expense, respectively. Fees and commissions are forecasted to decrease by 5.9% YOY to AED433 mm in 2Q21. While the Other non-funded income is expected to increase by 26.7% YOY to AED206 mm in 2Q21 from AED162 mm in 2Q20. Therefore, the Non-funded income is expected to increase by 2.6% YOY to AED638 mm in 2Q21 from AED622 mm in 2Q20. Resultantly, the Operating Income (OI) is likely to decline slightly by 0.1% YOY to AED2,290 mm in 2Q21 from AED2,292 mm in 2Q20. General and Administrative (G&A) are expected to marginally decline to AED631 mm in 2Q21 from AED632 mm in 2Q20. Thus, the Cost-to-income ratio is predicted to marginally increase to 27.6% in 2Q21. Impairment charges are likely to increase by 3.7% YOY to AED660 mm from AED637 mm in 2Q20.

### 2021 forecast

We forecast DIB's Net profit to climb by 62.1% YOY to AED5,338 mm in 2021 compared to AED3,294 mm in 2020, mainly due to the lower Impairment charges. We anticipate Net funded income to advance by 10.2% YOY to AED7,440 mm in 2021 from AED6,749 mm in 2020, mainly due to a decrease in Funded expense by 1.3% YOY to AED3,622 mm in 2021 from AED3,672 mm in 2020, and an increase in Funded Income by 6.2% YOY to AED11,063 mm in 2021 as compared to AED10,421 mm in 2020. While we forecast Non-funded income to increase by 14.8% YOY to AED3,124 mm in 2021 compared to AED2,721 mm in 2020, thus, Operating income would rise by 11.5% YOY to AED10,565 mm in 2021 from AED9,471 mm in 2020. The General & Administrative expenses are likely to increase by 5.2% YOY to AED2,870 mm in 2021 from AED2,728 mm compared to the last year in 2020. Thus, the Cost to income ratio would decline by 163 bps to 27.2% from 28.8% in 2020. Impairments charges are likely to decrease by 49% YOY to AED2,320 mm in 2021 as compared to AED 4,552 mm in 2020.

### 1Q21 outturn

Dubai Islamic Bank (DIB) recorded a drop in Net profit by 24% YOY to AED846 mm in 1Q21 from AED1,112 mm in 1Q20, missing our estimate by 30%. This decrease was primarily due to a drop in Operating income. DIB's Operating income decreased by 8.5% YOY in 1Q21 to AED2,226 mm, missing our forecast by 6.7%. This was due to a decline in Net Funded income which decreased by 11.4% YOY to AED1,604 mm in 1Q21 from AED1,810 mm in 1Q20. Moreover, the Funded income reduced by 24.2% YOY to AED2,226 mm in 1Q21, and Funded expenses decreased by 45% YOY to AED621 mm in 1Q21. At the same time, Non-funded income remains stable at AED621 mm in 1Q21. General expenses decreased by 27.1% YOY to AED612 mm in 1Q21, while the Cost/Income "C/I" deteriorated by 702 bps to 27.5% from 34.5% in 1Q20. Impairment charges decreased by 49.3% to AED751 mm in 1Q21 as compared to AED1,483 mm in 1Q20. DIB's Net financing increased by 8.9% YOY to AED196.18 bn in 1Q21 from AED180.19. bn in 1Q20. Customer deposits climbed by 7.1% YOY to AED214 bn in 1Q21 from AED199.86 bn in 1Q20. Total assets increased by 5.5% YOY to AED291.71 bn in 1Q21, and Shareholders' fund climbed by 2.5% YOY to AED27.89 bn in 1Q21 from AED27.22 bn in 1Q20.

### Target price and rating

We maintain a BUY rating on Dubai Islamic Bank (DIB) with a target price of AED5.65. Dubai Islamic Bank continues to support itself through digital transformation and cost optimization. Compared to 1Q20, the Bank witnessed a 43% increase in mobile banking transactions in 1Q21. Similarly, internet banking transactions have surged by 57% in 1Q21. Profit in 1Q21 decreased by 24% YOY to AED846 mm. This was mainly due to a decrease in Net funded income and stationery Non funded income recorded by the Bank. The Net profit margin declined to 2.53% in 1Q21. The Bank improved its Cost-to-income ratio at 27.5%, which supported the Net profit. The Cost of risk declined to 1.01% in the 1Q21. The Balance sheet continued to grow, with Total assets amounting to AED292 bn. The Bank has maintained robust capitalization with Capital Adequacy Ratio (CAR) at 17.1%, well above the minimum required level. Furthermore, CET1 ratio improved to 12.3% in the 1Q21. The Return on Equity (ROE) decreased in 1Q21 to 9.6%. However, the Return on assets (ROA) remained stable at 1.2% in 1Q21. The Customer Deposits increased by 4% to AED214 bn in 1Q21 from the previous quarter. The CASA stood at AED85 bn and form 40% of overall deposits. The Wholesale portfolio drives the Customer Deposit portfolio by the business. Similarly, the Investment deposits drive the Deposit portfolio by type. The Net Financing to Deposit ratio, which signifies the liquidity levels of a bank, stood at 92% in the first quarter, a decline from the FY20. Net financing assets amount to 67% of the Total deployed funds. The LCR ratio stands at a healthy level of 127% and NSFR at 107%. The Financing portfolio continues to be dominated by the corporate sector, followed by Consumer and Real Estate. The Corporate financing sector increased to AED137 bn due to a decline in risk levels of sovereign financing. This impacted the yield on the funding, which was reduced to 2.77%. The Consumer portfolio continues to be driven by personal, auto, and home finance. The credit card total spends demonstrated healthy growth signifying consumer sentiment. Lastly, the real estate portfolio has remained within the guidance levels. The Non-Performing Financing increased by 50 bps mainly due to a big corporate and POCI. The Bank continues to maintain a conservative approach for provisioning with a provision level at AED8.7 bn. The Overall coverage ratio has remained well above 100% in 1Q21. The Provision coverage ratio reduced slightly by 2% to 74% in the first quarter. Total Equity has reduced by 2.5% to AED39 bn mainly due to a decrease in Tier 1 Sukuk. The Total Liabilities increased by 3% to AED252 bn, driven by growth in Customer Deposits. The Bank distributed a cash dividend of 20% after regulatory and shareholder approval in the 1Q21 and is expected to distribute 30% in 2021. Additionally, DIB has demonstrated a healthy level of dividend history compared to its peers. The bank is currently trading at a P/B of 1.23X compared to its average peers of 0.92x. Based on the above, we maintain our BUY rating.

### DIB - Relative valuation

(at CMP)	2017	2018	2019	2020	2021F
P/E (x)	6.84	6.60	6.88	12.50	6.42
P/B (x)	1.42	1.30	1.22	1.20	1.12
Dividend yield	9.5%	7.4%	7.4%	4.2%	6.3%

FABS estimate & Co Data

**DIB - P&L**

(iAED mm)	2Q20	1Q21	2Q21F	YOY Ch	QOQ Ch	2020	2021F	Change
Funded income	2,643	2,226	2,304	-12.8%	3.5%	10,421	11,063	6.2%
Funded expense	-973	-621	-653	-32.9%	5.0%	-3,672	-3,622	-1.3%
<b>Net funded income</b>	<b>1,670</b>	<b>1,604</b>	<b>1,652</b>	<b>-1.1%</b>	<b>3.0%</b>	<b>6,749</b>	<b>7,440</b>	<b>10.2%</b>
Fees & commissions	460	425	433	-5.9%	1.8%	1,646	1,842	12.0%
Other non-funded income	162	196	206	26.7%	5.0%	1,076	1,282	19.2%
<b>Non-Funded Income</b>	<b>622</b>	<b>621</b>	<b>638</b>	<b>2.6%</b>	<b>2.8%</b>	<b>2,721</b>	<b>3,124</b>	<b>14.8%</b>
<b>Operating income</b>	<b>2,292</b>	<b>2,226</b>	<b>2,290</b>	<b>-0.1%</b>	<b>2.9%</b>	<b>9,471</b>	<b>10,565</b>	<b>11.5%</b>
General expenses	-632	-612	-631	-0.1%	3.2%	-2,728	-2,870	5.2%
<b>Pre-provisioning profit</b>	<b>1,660</b>	<b>1,614</b>	<b>1,659</b>	<b>-0.1%</b>	<b>2.8%</b>	<b>6,743</b>	<b>7,694</b>	<b>14.1%</b>
Impairment charges	-636.7	-751.3	-660.2	3.7%	-12.1%	-4,552	-2,320	-49.0%
Gain on bargain purchase	0	0	0	NA	NA	1,015	0	NM
<b>Profit before tax</b>	<b>1,024</b>	<b>863</b>	<b>999</b>	<b>-2.4%</b>	<b>15.8%</b>	<b>3,206</b>	<b>5,374</b>	<b>67.6%</b>
Tax	-16	-10	-12	-27.1%	25.1%	-46	-47	2.0%
Profit before NCI	1,007	853	987	-2.0%	15.7%	3,160	5,327	68.6%
Non-controlling interests	2	-7	2	15.3%	NM	134	11	-91.8%
<b>Profit for the period</b>	<b>1,009</b>	<b>846</b>	<b>989</b>	<b>-2.0%</b>	<b>16.9%</b>	<b>3,294</b>	<b>5,338</b>	<b>62.1%</b>

*FABS estimate & Co Data*
**DIB - KPI**

AED mm	2Q20	1Q21	2Q21F	YOY Ch	QOQ Ch	2020	2021F	Change
Net FI/OI	72.9%	72.1%	72.1%	-73	3	71.3%	70.4%	-84
NIM	3.2%	2.7%	2.7%	-52	-2	3.1%	3.0%	-10
NIS	3.2%	2.7%	2.7%	-48	-2	3.1%	3.0%	-9
Fees & commissions/OI	20.1%	19.1%	18.9%	-117	-21	17.4%	17.4%	6
Other non-funded/OI	7.1%	8.8%	9.0%	190	18	11.4%	12.1%	78
Cost to income	27.6%	27.5%	27.6%	1	8	28.8%	27.2%	-163
Impairment/PPP	38.3%	46.6%	39.8%	145	-676	67.5%	30.2%	-3735
Tax/PBT	-0.2%	0.8%	-0.2%	-3	-103	-4.2%	-0.2%	404
NP/OI	44.0%	38.0%	43.2%	-85	516	34.8%	50.5%	1575
ROA	0.4%	0.3%	0.3%	-5	4	1.3%	1.8%	54
ROE	3.9%	2.2%	3.5%	-38	129	12.2%	18.0%	583

*FABS estimate & Co Data*
**DIB - key B/S items**

AED MM	2Q20	3Q20	4Q20	1Q21	2Q21F	YOY Ch
Net financings	200,298	197,436	196,689	196,181	198,640	-0.8%
QOQ change	11.2%	-1.4%	-0.4%	-0.3%	1.3%	
Total assets	294,797	299,303	289,556	291,711	295,330	0.2%
QOQ change	6.6%	1.5%	-3.3%	0.7%	1.2%	
Customer deposits	206,521	214,642	205,925	214,001	216,552	4.9%
QOQ change	3.3%	3.9%	-4.1%	3.9%	1.2%	
Shareholders' fund	28,240	29,043	28,606	27,898	28,432	0.7%
QOQ change	3.7%	2.8%	-1.5%	-2.5%	1.9%	

*FABS estimate & Co Data*

## 2Q21 preview: Abu Dhabi Islamic Bank (ADIB)

Expected rise in Non-funded income and lower Provisions to increase profit

CMP (AED): 5.40  
Potential upside (%): +4.6%

12-m target price:  
**AED5.65**

Stock rating:  
**HOLD**

### 2Q21 estimate

Abu Dhabi Islamic Bank (ADIB) is forecasted to post a 77.9% YOY increase in Net profit to AED565 mm in 2Q21 compared to AED318 mm in 2Q20, primarily due to an increase in Non-Funded Income and decline in Impairments. We anticipate Net funded income to increase by 3.1% YOY to AED826 mm in 2Q21 compared to AED802 mm in 2Q20. The increase is expected to be due to a decline in Depositors distribution by 29% YOY to AED92 mm in 2Q21 from AED129 mm in 2Q20. The Non-Funded Income is expected to increase by 21% YOY to AED560 mm in 2Q21 up from AED462 mm in 2Q20. It is mainly due to an expected increase by 18.5% YOY in Fees and Commissions and 23.1% YOY increase in Other Non-Funded Income. Thus, Operating Income is likely to rise by 9.6% YOY to AED1,386 mm in 2Q21 from AED1,264 mm in 2Q20, while the Operating expenses would increase by 6% to AED661 mm in 2Q21 from AED624 mm in 2Q20, the Cost-to-Income (C/I) ratio is predicted to decline by 163 Bps to 47.7% in 2Q21 compared to 49.3% in 2Q20. We expect Impairment charges to decline by 50.6% YOY to AED159 mm in 2Q21 compared to AED322 mm in 2Q20.

### 2021 forecast

ADIB's Net profit is expected to rise by 51.7% YOY to AED2,431 mm in 2021 as compared to AED1,603 mm in 2020, mainly due to the decline in Impairment charges and increases in Non-Funded Income. We expect Net funded income to decline by 1.5% YOY to AED3,273 mm in 2021 due to the decrease by 4.5% YOY in Funded Income to AED3,654 mm in 2021 compared to AED3,827 mm in the 2020. Also, the Non-funded income is estimated to rise by 11.7% YOY to AED2,272 mm in 2021, as compared to AED2,034 mm in 2020 led by an anticipated 22.6% increase in Other Non-Funded Income to AED1,277 mm, as compared to AED1,042 mm in 2020. Thus, the Operating income is forecasted to increase by 3.5% to AED5,545 mm in 2021 compared to the last year at AED5,358 mm. Operating expenses are expected to increase by 2.2% YOY to AED2,504 mm in 2021. Subsequently, the Cost-to-Income ratio is likely to decrease by 57 bps to 45.2% in 2021 as compared to 45.7% in 2020. Impairment charges would decrease by 54.1% YOY to AED603 mm in 2021 compared to AED1,314 mm in 2020.

### 1Q21 outturn

Abu Dhabi Islamic Bank reported a Net profit of AED607 mm in 1Q21 compared to a Net profit of AED269 mm in 1Q20, missing our estimate by 39.5%. This is mainly due to a high decrease in Financing impairment. The Net funded income decreased by 9.6% from AED868 mm in 1Q20 to AED784 mm in 1Q21. Income from Islamic financing to customers decreased by 15.4% from AED1,022 mm in 1Q20 to AED865 mm in 1Q21. Income from Institutions also decreased by 68.6% YOY to AED9 mm in 1Q21 from AED29 mm in 1Q20. Depositors' distribution has decreased by 50.9% to AED90 mm in 1Q21 from AED183 mm in 1Q20. Fees and Commissions increased by 14.3% to AED241 mm in 1Q21 from AED211 mm in 1Q20. Operating Income increased by 3.3% to AED1,336 mm in 1Q21 from AED1,292 mm in 1Q20. At the same time, the Operating expenses have decreased by 6.9% in 1Q21 to AED578 mm from AED621 mm in 1Q20. Moreover, financing impairment has decreased significantly by 63.3% YOY to AED147 mm in 1Q21 compared to AED401 mm in 1Q20, supporting the Net profit to advance. Net customer financing has increased by 4.7% YOY to AED 83.08 bn from AED79.37 bn. The Total Assets for the 1Q21 have increased by 6.5% to AED130.69 bn from AED 122.71 bn. Customer deposits have risen by 4.3% YOY to AED103.06 bn in 1Q21



compared to AED98.85 bn in 1Q20. Shareholders' fund has increased by 12.4% to AED15.06 bn in 1Q21 from AED13.4 bn in 1Q20.

### Target price and rating

We maintain our HOLD rating on ADIB with a revised target price of AED5.65. Abu Dhabi Islamic Bank (ADIB) is one of the leading Islamic banks in UAE. The Bank was ranked as no.1 amongst other top 500 banks in the list released by Forbes on the World's Best Banks. During the first quarter of 2021, ADIB reported a significant increase of 125% to AED608 mm in Net Profit as compared to the previous year. This was mainly due to an increase in the Bank's Revenues, a favorable decrease in the Operating expenses and Impairment expenses, signaling an optimistic economic outlook. As the economic activity showed signs of improvement, the Group Operating Income increased by 3.3% YOY in 1Q21 to AED1,336 mm from AED1,292 mm the previous year. However, the Net Funded Income decreased by 9.6% to AED784 mm in 1Q21 from AED868 mm in 1Q20 mainly due to the impact of low interest-rate environment leading to repricing. The Bank recorded a 29.9% increase in Other nonfunded income, which compensated for the impact from the low-interest-rate environment. The Other non-funded income contributes around 30% of the Total Revenue. Investment Income and Fees drove the increase and Commission income which grew by 63.5% and 14.3%, respectively, signaling an improving business outlook. The Operating expenses decreased by 6.9% to AED578 mm in 1Q21 from AED621 mm in 1Q20. This was driven by the Bank's cost optimization strategies and its digital capabilities incorporated by the Bank. Furthermore, the Cost-to-income ratio improved by 478 bps to 43.3% in 1Q21. The Net Profit Margin declined to 3.15% in 1Q21 from 3.8% in 1Q20. However, the margin is amongst the highest in the market. Similarly, the cost of funds for the Bank is the lowest compared to its peers. The customer base increased by 87,808 new customers because the Bank has maintained its strategy of focusing on long-term customer relationships and providing quality customer service. As of the divisional performances, ADIB functions through its three divisional groups, namely Retail, Wholesale, and Treasury. The Retail Group of the Bank is termed as a 'National Champion' and the main driver of growth for ADIB. The Net profit from the division improved by 1% to AED273 mm in 1Q21. The division is focused on sales of cards and finances. Furthermore, the Bank is undergoing automation to improve customer experience and operations. The Wholesale Group and Treasury Group recorded robust performance with 279% YOY and 121% YOY increase in Net profit. The improvement in the macroeconomic outlook is reflected in the Bank's Impairment charges which reduced by 63% to AED133.5 mm in 1Q21 from AED387 mm in 1Q20. The cost of risk improved by 130 bps to 0.6% in 1Q21 from 1.9% in 1Q20. The Non-Performing Assets stood at AED7.7 bn in 1Q21 as compared to AED6.5 bn because of the ongoing impact of COVID-19. The Non-performing assets ratio is stable at 8.9% in 1Q21. The Bank has maintained a prudent provisioning strategy as the provision coverage ratio stands at 112%. According to the UAE Central Bank Targeted Economic Support Scheme (TESS), the Bank allowed deferral payments worth AED1.76 bn along with other initiatives. The total assets grew by 6.5% to AED130.7 bn in 1Q21. Similarly, the Gross Customer Financing grew by 5.5% at AED87.2 bn, dominated by 11.2% growth in the corporate financing division. The Customer deposits grew by 4% to AED103.1 bn. The funding mix also improved with the CASA and STI constituting of 90% of the total deposits. Resultantly, the Customer financing to deposits ratio improved to 80.6% in 1Q21. The Bank has maintained its robust liquidity position as the Stable fund ratio stood at 84.4%, comfortably above the requirement. The Capital Adequacy ratio improved to 19.2% in 1Q21 from 18.08% in 1Q20. Similarly, all the capital ratios of the Bank are comfortably above the requirements. The Bank is currently focused on improving and deploying its digital capabilities. Around 78% of the customer base actively uses digital channels. 98% of the retail transactions carried on by the customers are undertaken via digital accounts. Amongst the new customers, around 52% opt to open accounts digitally. ADIB has plans to incorporate AI based initiatives to improve its performance and services provided to its customers. The bank is currently trading at a P/B of 1.31X compared to its average peers of 0.92x. Based on the above, we maintain our HOLD rating.

**ADIB - Relative valuation**

(at CMP)	2017	2018	2019	2020	2021E
P/E (x)	9.25	8.56	8.62	14.97	9.73
P/B (x)	1.69	1.53	1.38	1.37	1.22
Dividend yield	5.3%	5.0%	5.0%	3.8%	4.8%

FABS estimate & Co Data

**ADIB - P&L**

(AED MM)	2Q20	1Q21	2Q21F	YOY Ch	QOQ Ch	2020	2021F	Change
Institutions	14	9	13	-10.0%	41.4%	61	50	-18.3%
Islamic financings	916	865	905	-1.2%	4.6%	3,766	3,604	-4.3%
<b>Funded income</b>	<b>931</b>	<b>874</b>	<b>918</b>	<b>-1.4%</b>	<b>5.0%</b>	<b>3,827</b>	<b>3,654</b>	<b>-4.5%</b>
Depositors' distribution	-129	-90	-92	-29.0%	2.0%	-502	-381	-24.1%
<b>Net funded income</b>	<b>802</b>	<b>784</b>	<b>826</b>	<b>3.1%</b>	<b>5.4%</b>	<b>3,324</b>	<b>3,273</b>	<b>-1.5%</b>
Fees and commissions	206	241	244	18.5%	1.0%	992	995	0.3%
Other non-funded income	257	310	316	23.1%	2.0%	1,042	1,277	22.6%
<b>Non-Funded Income</b>	<b>462</b>	<b>551</b>	<b>560</b>	<b>21.0%</b>	<b>1.6%</b>	<b>2,034</b>	<b>2,272</b>	<b>11.7%</b>
<b>Operating income</b>	<b>1,264</b>	<b>1,336</b>	<b>1,386</b>	<b>9.6%</b>	<b>3.8%</b>	<b>5,358</b>	<b>5,545</b>	<b>3.5%</b>
Operating expenses	-624	-578	-661	6.0%	14.3%	-2,450	-2,504	2.2%
<b>Pre-provisioning income</b>	<b>641</b>	<b>757</b>	<b>725</b>	<b>13.2%</b>	<b>-4.2%</b>	<b>2,908</b>	<b>3,041</b>	<b>4.6%</b>
Financing impairment	-322	-147	-159	-50.6%	8.1%	-1,314	-603	-54.1%
<b>Profit before NCI</b>	<b>319</b>	<b>610</b>	<b>566</b>	<b>77.4%</b>	<b>-7.2%</b>	<b>1,594</b>	<b>2,438</b>	<b>53.0%</b>
NIC. & zakat	-2	-3	-1	-21.1%	-56.8%	9	-7	NM
<b>Net profit for period</b>	<b>318</b>	<b>607</b>	<b>565</b>	<b>77.9%</b>	<b>-7.0%</b>	<b>1,603</b>	<b>2,431</b>	<b>51.7%</b>

FABS estimate & Co Data

**ADIB - KPI**

	2Q20	1Q21	2Q21F	YOY Ch	QOQ Ch	2020	2021F	Change
Net FI/OI	63.4%	58.7%	59.6%	-380	89	62.0%	59.0%	-302
NIM	3.6%	3.2%	3.2%	-41	1	3.3%	3.2%	-13
NIS	3.7%	3.2%	3.2%	-42	1	3.4%	3.2%	-14
Fees & commissions/OI	16.3%	18.1%	17.6%	131	-49	18.5%	18.0%	-57
Other non-funded/OI	20.3%	23.2%	22.8%	249	-40	19.4%	23.0%	358
Cost to income	49.3%	43.3%	47.7%	-163	439	45.7%	45.2%	-57
Impairment/PPP	50.2%	19.4%	21.9%	-2827	250	45.2%	19.8%	-2536
NP/OI	25.1%	45.5%	40.8%	1564	-472	29.9%	43.8%	1393
ROAE	1.7%	3.2%	3.0%	125	-20	8.4%	12.2%	380
ROAA	0.3%	0.5%	0.4%	19	-3	1.3%	1.9%	62

FABS estimate & Co Data

**ADIB - Key B/S items**

(AED MM)	2Q20	3Q20	4Q20	1Q21	2Q21F	YOY Ch
Net customer financing	81,978	83,205	83,409	83,082	83,419	1.8%
QOQ change	3.3%	1.5%	0.2%	-0.4%	0.4%	
Total assets	124,418	127,116	127,816	130,694	127,884	2.8%
QOQ change	1.4%	2.2%	0.6%	2.3%	-2.2%	
Customer deposits	98,631	100,722	101,276	103,069	101,286	2.7%
QOQ change	-0.2%	2.1%	0.6%	1.8%	-1.7%	
Shareholders' funds (ex Tier 1)	13,748	14,205	14,396	15,069	14,416	4.9%
QOQ change	3%	3%	1%	4.7%	-4.3%	

FABS estimate & Co Data

## 2Q21 preview: RAKBANK

Decrease in both Funded and Non-Funded income could impact the bottom-line

CMP (AED): 3.95  
Potential upside (%): +3.8%

12-m target price:  
**AED 4.10**

Stock rating:  
**HOLD**

### 2Q21 estimate

RAKBANK is expected to report a decline by 10.6% YOY in Net profit to AED136 mm in 2Q21, compared to AED152 mm in 2Q20. This is due to a decrease in Net Funded Income. Interest income is expected to decline by 22.6% YOY to AED522 mm in 2Q21 from AED675 mm in 2Q20. Interest expense is forecasted to decline by 49.3% YOY to AED60 mm in 2Q21 from AED118 mm in 2Q20. Resultantly, the Net funded income is expected to decline by 14.7% YOY to AED568 mm from AED667 mm in 2Q20. Fees and commissions are expected to increase by 27.8% YOY to AED182 mm in 2Q21 from AED142 mm in 2Q20. Net operating income is expected to decline by 5.6% YOY to AED852 mm in 2Q21 compared to AED903 mm in 2Q20. We expect Operating expenses to increase by 0.7% YOY to AED341 mm in 2Q21 from AED339 mm in 2Q20. Thus, the Bank's Cost to Income (C/I) ratio is expected to increase to 248 bps this quarter to 40% from 37.5% in 2Q20. We estimate Impairment charges to fall by 8.8% YOY to AED375 mm in 2Q21 from AED411 mm in 2Q20.

### 2021 forecast

We forecast RAKBANK to post an advance by 16.1% YOY in Net profit to AED585 mm in 2021 from AED504 mm in 2020, mainly due to a decrease in Impairment charges. We forecast Interest income to decrease by 11.8% YOY to AED2,207 mm in 2021 from AED2,501 mm in 2020 as we expect a decrease by 38.2% YOY in Interest expense to AED252 mm in 2021 as compared to AED409 mm in 2020. Therefore, the Net Interest Income is expected to decline by 6.6% YOY to AED1,954 mm in 2021 from AED2,093 mm in 2020. We expect Non-funded income to increase by 13.1% YOY to AED1,174 mm in 2Q21, mainly due to the expected increase in Fees and commissions by 18.7% YOY to AED751 mm in 2Q21, as well as an increase in the Investment income by 69.3% YOY to AED152 mm from AED90 mm in 2Q20. As a result, Net Operating income would marginally decline by 0.1% YOY to AED3,560 mm from AED3,564 mm in 2Q20. While the Operating expenses are likely to increase by 2.7% YOY to AED1,434 mm from AED1,395 mm in 2020. Thus, the Cost-to-Income (C/I) ratio is expected to increase by 112 bps to 40.3% in 2021 from 39.2% in 2020. We estimate that Impairment charges would decline by 7.5% YOY to AED1,539 mm compared to AED1,663 mm in 2020.

### 1Q21 outturn

RAKBANK recorded a drop in Net profit by 26% YOY to AED113 mm in 1Q21 from AED153 mm in 1Q20, missing our estimate by 8.7%. This decrease was primarily due to a significant decrease in fees and commissions and operating income. RAKBANK's Operating income decreased by 20% YOY in 1Q21 to AED801 mm, missing our forecast by 3.7%. Other Non-funded income increased by 67.7% to AED30 mm in 1Q21 from AED18 mm in 1Q20. Moreover, Non-funded income decreased to AED269 mm in 1Q21 by 11.8% from AED305 mm in 1Q20. Net Funded income decreased by 23.6% YOY to AED532 mm in 1Q21 from AED696 mm in 1Q20. Furthermore, the Funded income decreased by 26.5% YOY to AED430 mm in 1Q21, and Funded expenses decreased by 8.2% YOY to AED101 mm in 1Q21. Operating expenses decreased by 10.2% YOY to AED330 mm in 1Q21 while the Cost/Income "C/I" increased by 452 bps to 41.2% from 36.7% in 1Q20. Impairment charges decreased significantly by 25.7% in 1Q21 to AED357 mm. RAKBANK's Net advances decreased by 11.1% YOY to AED30.51 bn in 1Q21 from AED34.32 bn in 1Q20. Whereas customer deposits dropped by 3.5% YOY to AED36.47 bn in 1Q21 from AED37.8 bn in 1Q20. Total assets decreased by 10.9% YOY to AED53.23 bn in 1Q21, and the equity increased to AED7.96 bn in 1Q21 compared to AED7.14 bn in 1Q20.

### Target price and rating

We maintain our HOLD rating on RAKBANK with a target price of AED4.10. RAKBANK one of UAE's top banks is well-positioned to keep on helping customers recover after the COVID-19 pandemic despite the road to full recovery being tough. The bank's top priority is to put customers' interests and demands first and the deepening of the relationships throughout better digital capabilities and platforms. RAKBANK showed a solid performance during the first quarter 2021 highlighted by improvement in asset quality revealed by the further decrease in provisions for credit loss compared to last quarter 2020 by AED 20.1 mm and an overall year-on-year decrease AED 123.4 mm. Net credit losses to average loans and advances stood at 4.5% in first quarter 2021 compared to 5.3% by the end of 2020 with a slight increase in non-performing loans to gross loans ratio to reach 5.4% compared to 5.2% last quarter 2020. The assets showed a decrease by AED 6.5 bn reaching AED 53.2 compared to AED 59.8 bn in first quarter 2020 while increasing 0.9% compared to the end of year 2020 by AED 458.4 mm from AED 52.8 bn. The decrease in assets from last year is mainly driven by the decrease in the gross loans and advances, which decreased by AED 3.5 bn and cash and central bank balances decreasing as well by AED 2.2 mm by the end of first quarter 2021. Customer deposits declined both on a quarter-on-quarter and a year-on-year basis mainly due to decrease in time deposits mitigated partially by an increase in CASA deposits. Despite the decrease in Capital Adequacy Ratio (CAR) from 18.6% to 18.1% it is still above the requirements set by the regulations and the bank is still considered fairly maintain good liquidity levels. The advances to stable resources witnessed a comfortable increase reaching 85.5% as compared to 80.6% by the end of 2020. The bank will keep on carefully watching its spending on capital items and operating expenses in view of the pertaining economic situation without jeopardizing the bank's franchise value; this strategy is witnessed in the decrease in CAPEX to AED 13.4 mm as compared to AED 18.3 mm in first quarter 2020. Nevertheless, the bank will increase its spending to further shift towards digitalizing its services and improving the e-banking services to its customers and the bank will be switching to digital banking to follow the growing demand of UAE residents. Return on Equity (ROE) is still following a decreasing trend reaching 5.9% in first quarter 2021 as compared to 7.7% in first quarter 2020. Return on Assets (ROA) remained stable in 2021 as compared to year end 2020 at 0.9% with a decrease by 0.2% as opposed to 1.1% in first quarter 2020. The profitability of the bank as reflected in net income decreased by 25.8% to reach AED 113.9 mm as compared to AED 153.5 mm in first quarter 2020. This decrease was mainly due to the 20% decrease in total income by AED 200.3 mm reaching AED 800.9 mm in 2021 as compared to AED 1 bn in first quarter 2020; net interest income from Islamic financing decreased by 23.6% reaching AED 531.7 mm and non-interest income decreased by 11.8% on a year-on-year basis as well. Operating profit before impairment and provisions also decreased by 25.7% reaching AED 470.9 mm as compared to AED 633.9 mm in first quarter 2020. The cost to income ratio is higher than last year reaching 41.2% in first quarter 2021 as compared to 36.7% same period last year and 39.2% by end of 2020. The bank is currently trading at a P/B of 0.84X compared to its average peers of 0.92x. Based on the above, we maintain our HOLD rating.

#### RAKBANK - Relative valuation

(at CMP)	2017	2018	2019	2020	2021F
PE (x)	8.23	7.31	6.08	13.17	11.29
P/B (x)	0.85	0.93	0.85	0.85	0.79
Dividend yield	7.6%	7.6%	7.6%	3.8%	5.8%

FABS Estimates & Co Data

**RAKBANK - P&L**

AED mm	2Q20	1Q21	2Q21F	YOY Ch	QOQ Ch	2020	2021F	Change
Interest income	675	486	522	-22.6%	7.5%	2,501	2,207	-11.8%
Interest expenses	-118	-56	-60	-49.3%	7.5%	-409	-252	-38.2%
<b>Net interest income</b>	<b>557</b>	<b>430</b>	<b>463</b>	<b>-17.0%</b>	<b>7.5%</b>	<b>2,093</b>	<b>1,954</b>	<b>-6.6%</b>
Income: Islamic financing	149	117	123	-17.3%	5.0%	555	505	-9.2%
Islamic profit distribution	-39	-16	-17	-56.0%	10.0%	-123	-73	-40.5%
<b>Net Islamic financing income</b>	<b>109</b>	<b>101</b>	<b>106</b>	<b>-3.4%</b>	<b>4.2%</b>	<b>433</b>	<b>431</b>	<b>-0.3%</b>
<b>Net funded income</b>	<b>667</b>	<b>532</b>	<b>568</b>	<b>-14.7%</b>	<b>6.9%</b>	<b>2,526</b>	<b>2,386</b>	<b>-5.5%</b>
Net fees and commissions	142	172	182	27.8%	5.5%	633	751	18.7%
Foreign exchange gain	39	27	29	-25.6%	10.0%	188	124	-34.1%
Gross insurance underwriting Profit	15	3	4	-70.4%	30.0%	53	21	-61.1%
Investment Income	13	38	38	NM	0.5%	90	152	69.3%
Other operating income	27	30	31	14.3%	5.0%	76	127	68.5%
<b>Total non-funded income</b>	<b>236</b>	<b>269</b>	<b>284</b>	<b>20.2%</b>	<b>5.5%</b>	<b>1,038</b>	<b>1,174</b>	<b>13.1%</b>
<b>Net operating income</b>	<b>903</b>	<b>801</b>	<b>852</b>	<b>-5.6%</b>	<b>6.4%</b>	<b>3,564</b>	<b>3,560</b>	<b>-0.1%</b>
Operating expenses	-339	-330	-341	0.7%	3.3%	-1,395	-1,434	2.7%
<b>Pre-provision profit</b>	<b>564</b>	<b>471</b>	<b>511</b>	<b>-9.3%</b>	<b>8.6%</b>	<b>2,169</b>	<b>2,126</b>	<b>-2.0%</b>
Impairment	-411	-357	-375	-8.8%	5.0%	-1,663	-1,539	-7.5%
<b>Profit for the year</b>	<b>153</b>	<b>114</b>	<b>137</b>	<b>-10.8%</b>	<b>19.8%</b>	<b>505</b>	<b>588</b>	<b>16.3%</b>
Non-controlling interest	-1	-1	-1	-40.2%	0.0%	-2	-3	59.2%
<b>Net profit attributable</b>	<b>152</b>	<b>113</b>	<b>136</b>	<b>-10.6%</b>	<b>19.9%</b>	<b>504</b>	<b>585</b>	<b>16.1%</b>

FABS Estimates & Co Data

**RAKBANK - KPI**

AED mm	2Q20	1Q21	2Q21F	YOY Ch	QOQ Ch	2020	2021F	Change
Net FI/OI	73.8%	66.4%	66.7%	-715	29	70.9%	67.0%	-384
NIM	5.7%	5.1%	4.9%	-74	-10	5.4%	5.1%	-24
NIS	5.6%	5.0%	4.9%	-72	-10	5.3%	5.1%	-23
Fees & comms/OI	15.7%	21.5%	21.3%	556	-18	17.8%	21.1%	334
Trading/OI	1.4%	4.7%	4.4%	299	-26	2.5%	4.3%	175
Cost to income	37.5%	41.2%	40.0%	248	-120	39.2%	40.3%	112
Impairment/PPP	72.9%	75.8%	73.3%	45	-250	76.7%	72.4%	-433
NP/OI	16.8%	14.1%	15.9%	-90	180	14.1%	16.4%	230
ROAE	2.1%	1.4%	1.7%	-38	26	6.4%	7.2%	77
ROAA	0.3%	0.2%	0.3%	-1	4	0.9%	1.1%	16

FABS Estimates & Co Data

**RAKBANK - Key B/S items**

AED mm	2Q20	3Q20	4Q20	1Q21	2Q21F	YOY Ch
Net advances	32,554	30,421	30,041	30,518	29,876	-8.2%
QOQ change	-5.1%	-6.6%	-1.2%	1.6%	-2.5%	
Total assets	54,342	52,328	52,773	53,231	52,677	-3.1%
QOQ change	-9.1%	-3.7%	0.9%	0.9%	-1.9%	
Customer deposits	35,059	34,205	36,944	36,479	35,448	1.1%
QOQ change	-7.3%	-2.4%	8.0%	-1.3%	-5.0%	
Total Equity	7,512	7,705	7,845	7,960	8,096	7.8%
QOQ change	5.1%	2.6%	1.8%	1.5%	1.1%	

FABS Estimates & Co Data

## 2Q21 preview: Abu Dhabi Commercial Bank (ADCB)

Higher Non-Funded income to support the profitability

CMP (AED): 6.78  
Potential Upside (%): +25.4%

12-m target price:  
**AED 8.50**

Stock rating:  
**BUY**

### 2Q21 estimate

Abu Dhabi Commercial Bank (ADCB) Net profit is expected to increase to AED1,384 mm in 2Q21 from AED1,228 mm in 2Q20. This is mainly due to a rise in Non-funded income. Funded income is estimated to decline by 5.1% YOY to AED3,342 mm in 2Q21 compared to AED3,523 mm in 2Q20. Funded expense is expected to decline by 10.5% YOY to AED1,053 mm in 2Q21 from AED1,177 mm in 2Q20. Resultantly, the Net funded income would decline by 2.4% YOY to AED2,289 mm from AED2,347 mm in 2Q20. Fees and commissions would rise by 32.8% YOY to AED413 mm in 2Q21 from AED311 mm in 2Q20. Other operating income is expected to increase by 58.4% YOY to AED449 mm from AED284 mm in 2Q20. As a result, the Non-funded income is expected to rise by 45% YOY to AED862 mm in 2Q21 from AED594 mm in 2Q20. Resultantly, the Operating income is expected to rise by 7.2% YOY to AED3,151 mm in 2Q21 from AED2,941 mm in 2Q20. The Operating expenses would increase by 1.4% YOY to AED1,039 mm in 2Q21 from AED1,025 mm in 2Q20. The Cost to income ratio would decline by 188 bps to 33% in 2Q21 from 34.9% in 2Q20. Impairment charges would rise by 4.3% YOY to AED697 mm from AED668 mm in 2Q20.

### 2021 forecast

We forecast ADCB to post a Net profit of AED5,663 mm in 2021 compared to AED3,806 mm in 2020, mainly due to a rise in Non-funded income and a decrease in Impairment charges. We expect Net funded income to increase by 1.2% YOY to AED9,899 mm in 2021 from AED9,783 in 2020. Funded Income is predicted to increase by 2% YOY to AED14,347 mm in 2021 compared to AED14,065 mm in 2020. The Non-funded income is estimated to rise by 36.2% YOY to AED3,661 mm in 2021, as compared to AED2,688 mm in 2020, led by an anticipated 20% increase in Fees and commissions to AED1,861 mm, as compared to AED1,551 mm in 2020. Thus, the Operating income would climb by 8.7% to AED13,560 mm in 2021 compared to 2020 at AED12,471 mm. Operating expenses would decline by 5.8% YOY to AED4,262 mm in 2021. Subsequently, the Cost-to-Income ratio is likely to decrease by 487 Bps to 31.4% as compared to 36.3% in 2020. Impairment charges would decrease by 12.5% to AED3,494 mm in 2021 compared to AED3,993 mm during the same period in 2020.

### 1Q21 outturn

Abu Dhabi Commercial Bank (ADCB) reported a significant increase in Net profit of AED1,121 mm in 1Q21, beating our estimate by 21.1% to AED926 mm. This is mainly due to a significant decline in Impairment charges of AED891 mm. Funded income decreased by 38% YOY to AED2,724 mm in 1Q21 from AED4,395 mm in 1Q20. Funded expense significantly decreased by 62.3% YOY to AED605 mm in 1Q21 from AED1,606 mm in 1Q20. Resultantly, the Net funded income decreased by 24% YOY to AED2,119 mm in 1Q21 from AED2,789 mm in 1Q20. Fees and commissions increased by 2.7% YOY to AED443 mm in 1Q21 from AED431 mm in 1Q20. Other operating income rose to AED359 from AED255 mm in 1Q20. Therefore, the Non-funded income increased by 16.9% YOY to AED802 mm in 1Q21 from AED687 mm in 1Q20. Operating income decreased by 15.9% YOY to AED2,922 mm in 1Q21 from AED3,476 mm in 1Q20. Operating expense decreased by 20% YOY to AED1,061 mm in 1Q21 from AED1,325 mm in 1Q20. Impairments decreased by 62.6% YOY to AED704 mm in 1Q21 from AED1,882 mm in 1Q20, helping profit to advance. ADCB's Net loans have decreased by 4.4% to AED235.72 bn in 1Q21 from AED246.66 bn in 1Q20. Total assets decreased by 4% YOY to AED395.81 bn in 1Q21 compared to AED412.19 bn in 1Q20. Total shareholders' equity

increased to AED55.71 bn in 1Q21 from AED48.5 bn in 1Q20. Customer deposits recorded a drop by 9.1% to AED238.83 bn compared to AED262.86 bn in 1Q20.

### Target price and recommendation

We maintain our BUY rating on ADCB, with a revised target price of AED8.50, ADCB had implemented a new five-year growth strategy based on digital transformation and their additional cost control measures and acceleration. On track to exceed 2021 synergy target of AED1 bn, ADCB continued improvement in the Cost to income (C/I) ratio. Despite a continuous drop in the interest rates and COVID-19, ADCB recorded a strong increase in Net profit-driven by an aggressive Cost discipline. The Bank showed a marked improvement in Cost of risk ratio at 0.84% in 1Q21. In first quarter of 2021, the loan to deposit ratio stood at 98.7% compared to 93.8% in 1Q20. Further, the Net interest margin (NIM) for 1Q21 remains slightly lower than that in 1Q20, as interest income has decreased to AED2.119 bn, this was partially offset by 17% rise YOY in the Non-interest income to AED802 mm. ADCB's Common equity tier 1 capital ratio stood at 13.39%, as Risk-Weighted Assets have increased to AED312.1 bn compared to AED306.4 bn in 1Q20. However, despite the pandemic, they have decreased their impairment allowances by 63% YOY and 25% QOQ. The bank's Non-performing loan ratio stood at 6.53% in 1Q21. The operating profit before Impairments of ADCB has decreased by 13%, due to the COVID-19 situation. The Bank's Liquidity ratio stood at 29.3% in 1Q21. ADCB has an A rating by the S&P and an A+ rating by Fitch. ADCB move to reduce excess liquidity in low-yielding overnight placement with the UAE Central Bank, resulting in greater emphasis on loans and investments in asset mix. In 1Q21, the Bank recorded significant provisions and interest in suspense (AED 1.656 bn) on NMC, Finabl and other NMC associated companies. The Bank is comfortable with these provisioning levels, which are in line with independent assessments on value and recoverability. NMC adopted a three-year business plan and outperforming its financial projections on Revenue and EBITDA metrics. ADCB, together with a syndicate of lenders, participated in a US\$ 325 million Administration Funding Facility (AFF) to ensure operational continuity of NMC and to pave the way for restructuring. The bank is currently trading at a P/B of 0.95X compared to its average peers of 0.92x. Based on the above, we assign a BUY rating.

### ADCB - Relative valuation

	2017	2018	2019	2020	2021E
(at CMP)					
P/E (x)	8.53	7.58	9.61	13.37	8.42
P/B (x)	1.25	1.23	0.96	0.94	0.76
Dividend yield	6.2%	6.7%	5.6%	4.0%	4.8%

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**ADCB - P&L**

AED mm	2Q20	1Q21	2Q21F	YOY Ch	QOQ Ch	2020	2021F	Change
Funded income	3,523	2,724	3,342	-5.1%	22.7%	14,065	14,347	2.0%
Funded expense	-1,177	-605	-1,053	-10.5%	74.0%	-4,282	-4,447	3.9%
<b>Net funded income</b>	<b>2,347</b>	<b>2,119</b>	<b>2,289</b>	<b>-2.4%</b>	<b>8.0%</b>	<b>9,783</b>	<b>9,899</b>	<b>1.2%</b>
Fees & commissions	311	443	413	32.8%	-6.9%	1,551	1,861	20.0%
Other operating income	284	359	449	58.4%	25.1%	1,137	1,800	58.2%
<b>Non funded income</b>	<b>594</b>	<b>802</b>	<b>862</b>	<b>45.0%</b>	<b>7.4%</b>	<b>2,688</b>	<b>3,661</b>	<b>36.2%</b>
<b>Operating income</b>	<b>2,941</b>	<b>2,922</b>	<b>3,151</b>	<b>7.2%</b>	<b>7.9%</b>	<b>12,471</b>	<b>13,560</b>	<b>8.7%</b>
Operating expenses	-1,025	-1,061	-1,039	1.4%	-2.0%	-4,526	-4,262	-5.8%
<b>Pre-provision profit</b>	<b>1,916</b>	<b>1,861</b>	<b>2,112</b>	<b>10.2%</b>	<b>13.5%</b>	<b>7,945</b>	<b>9,298</b>	<b>17.0%</b>
Impairments	-668	-704	-697	4.3%	-1.0%	-3,993	-3,494	-12.5%
<b>Operating profit after impairment</b>	<b>1,248</b>	<b>1,157</b>	<b>1,415</b>	<b>13.4%</b>	<b>22.3%</b>	<b>3,952</b>	<b>5,805</b>	<b>46.9%</b>
Share of profit of assoc.	11	2	4	-64.3%	88.3%	18	19	3.5%
<b>Profit before tax</b>	<b>1,259</b>	<b>1,159</b>	<b>1,419</b>	<b>12.7%</b>	<b>22.4%</b>	<b>3,970</b>	<b>5,823</b>	<b>46.7%</b>
Overseas tax expense	-28.8	-27.5	-25	-13.8%	-9.9%	-120	-118	-2.0%
Loss from discontinued operations	-3.2	-10.4	-8	NM	-23.6%	-41	-39	-5.0%
Non-controlling interest	2	0	-2	NM	NM	-3	-3	9.4%
<b>Profit for the period</b>	<b>1,228</b>	<b>1,121</b>	<b>1,384</b>	<b>12.7%</b>	<b>23.5%</b>	<b>3,806</b>	<b>5,663</b>	<b>48.8%</b>

FABS Estimates & Co Data

**ADCB - P&L KPI**

AED mm	2Q20	1Q21	2Q21F	YOY CH	QOQ CH	2020	2021F	Change
Net FI/OI	79.8%	72.5%	72.6%	-714	11	78.4%	73.0%	-544
NIM	4.2%	3.4%	3.4%	-73	-1	3.7%	3.7%	4
NIS	4.1%	3.4%	3.4%	-70	0	3.6%	3.7%	5
Fees & comms/OI	10.6%	15.2%	13.1%	253	-208	12.4%	13.7%	129
Other non-funded/OI	9.6%	12.3%	14.3%	461	196	9.1%	13.3%	415
Cost to income	34.9%	36.3%	33.0%	-188	-332	36.3%	31.4%	-487
Impairment/PPP	34.9%	37.8%	33.0%	-188	-482	50.3%	37.6%	-1268
Tax/PBT	2.3%	2.4%	1.7%	-54	-63	3.0%	2.0%	-101
NP/OI	41.8%	38.4%	43.9%	216	556	30.5%	41.8%	1125
ROAE	2.3%	2.2%	2.5%	13	31	6.8%	9.5%	271
ROAA	0.3%	0.3%	0.3%	4	6	0.9%	1.3%	41

FABS Estimates & Co Data

**ADCB - Key B/S items**

AED mm	2Q20	3Q20	4Q20	1Q21	2Q21F	YOY ch
Net advances	239,288	242,890	238,976	235,725	244,950	2.4%
QOQ change	-3.0%	1.5%	-1.6%	-1.4%	3.9%	
Total assets	406,235	409,262	411,156	395,819	421,435	3.7%
QOQ change	-1.4%	0.7%	0.5%	-3.7%	6.5%	
Customer deposits	250,272	243,579	251,395	238,830	256,498	2.5%
QOQ change	-4.8%	-2.7%	3.2%	-5.0%	7.4%	
Total shareholders' equity	52,986	55,019	56,597	55,719	59,676	12.6%
QOQ change	9.2%	3.8%	2.9%	-1.6%	7.1%	

FABS Estimates & Co Data



## 2Q21 First Look: Mashreq Bank

Higher Provisions put more pressure on the bottom-line

CMP (AED): 60.20  
Potential upside (%): +17.90%

12-m target price:  
**AED 71.00**

Stock rating:  
**BUY**

### 2Q21 First look note

Mashreq Bank reported a drop in Net profit by 50% to AED42 mm in 2Q21 compared to AED85 mm in the same period in 2020, lower than our estimate of AED54 mm. This was mainly due to the significant increase in Impairment Charges. The Funded Income decreased by 10.3% to AED1,058 mm in 2Q21 from AED1,179 mm in 2Q20, and the Income from Islamic Financing has also decreased by 28.6% to AED111 mm in 2Q21 from AED156 mm in 2Q20. Interest Expense and Distribution to Depositors in Islamic Finance has decreased by 31% to AED426 mm in 2Q21 from AED618 mm in 2Q20. Thus, the Net Funding income has increased by 3.5% YOY to AED743 mm compared to AED717 mm in 2Q20. The Operating income for the 2Q21 was AED1,461 mm that increased by 11.7% from AED1,308 mm in 2Q20. Operating expenses decreased slightly by 3.5% YOY in 2Q21 to AED601 mm from AED623 mm in 2Q20. The Cost-to-income ratio has improved by 645 bps to 41.1% from 47.6% in 2Q20. Impairment has significantly increased by 37.9% YOY in 2Q21 to AED785 mm compared to AED570 mm in 2Q20, which reducing the profitability.

### 2Q21 estimate

Mashreq bank (MASQ) is forecasted to record a Net profit of AED54 mm in 2Q21 due to higher Net funded income. We expect the Net funded income to increase by 9.2% YOY to AED784 mm in 2Q21 from AED 717 mm in 2Q21, as we estimate the Total other operating income to increase by 35.2% YOY to AED798 mm in 2Q21, led by a significant increase by 62.1% YOY in Fees and commission income to AED494 mm from AED305 mm in 2Q20. Total operating income is predicted to increase by 21% YOY to AED1,582 mm in 2Q21 from AED1,308 mm in 2Q20, and the Operating expenses are assumed to rise by 12.2% YOY to AED699 mm in 2Q21 compared to AED623 mm in 2Q20. Thus, the Cost-to-Income (C/I) ratio is predicted to fall by 345 bps to 44.2% in 2Q21 compared to 47.6% in 2Q20.

### 2021 forecast

We expect MASQ to record a Net profit of AED277 mm in 2021 compared to a Net loss of AED1,278 mm in 2020; this is mainly due to the increase in Net Funded Income and Fees and commission. Net funded income is anticipated to increase by 12% YOY to AED2,997 mm as compared to AED2,676 mm in 2020, due to the decrease by 25.7% YOY in Interest expense to AED4,156 mm in 2021 as compared to AED2,111 mm in 2020 and the decrease by 30.7% YOY in Distribution to depositors – Islamic products to AED188 mm from AED271 mm in 2020. Total Other Operating income would rise by 18.6% YOY to AED2,932 mm in 2021 from AED2,472 mm in 2020, mainly due to an increase by 30.8% YOY in Net Fee and commission income to AED1,595 mm from AED1,220 mm in 2020. Therefore, the Total operating income is predicted to rise by 15.1% to AED5,928 mm in 2021 from AED5,148 mm in 2020 while Operating expenses are expected to marginally decrease by 18.2% YOY to AED2,408 mm in 2021 compared to AED2,945 mm in 2020. Subsequently, the Cost-to-Income (C/I) ratio would decrease by 1,658 bps to 40.6% in 2021 as compared to 57.2% in 2020.

### 1Q21 outturn

Mashreq reported a drop in Net profit to AED43 mm in 1Q21 compared to AED450, beating our estimate of Net loss of AED89 mm. This was mainly due to the significant increase in Impairments. Interest Income decreased by 23.6% to AED1,013 mm in 1Q21 from AED1,327 mm 1Q20, while Income from Islamic Financing has decreased by 29.8% to AED110 in 1Q21 from AED157 mm in

1Q20. Interest Expense and Distribution to Depositors in Islamic Finance has decreased to AED377 and AED49 mm, respectively in 1Q21. Overall Net Funding income has decreased by 10.7% YOY to AED698 mm compared to AED782 mm in 1Q20. The Operating income for the 1Q21 was AED1,409 mm that decreased by 7.5% from AED1,523 mm in 1Q20. Operating income has decreased by 7.5% YOY to AED1,409 mm in 1Q21 from AED1,523 mm in 1Q20. Operating expenses decreased slightly by 1.9% YOY in 1Q21 to AED620 mm from AED632 mm in 1Q20. The Cost to income ratio has declined by 248 bps to 44% from 41.5% in 1Q20. Impairment has significantly increased by 73.9% YOY in 1Q21 to AED711 mm compared to AED409 mm in 1Q20, reducing profitability. Net advances have decreased by 3.2% YOY to AED75.7 bn from AED78.2 bn in 1Q20. Whereas, Total Assets have declined slightly by 0.2% YOY to AED162.2 bn in 1Q21. While the Customer deposits have increased by 1.9% to AED90.2 bn in 1Q21 compared to AED88.4 bn in 1Q20. Total equity declined by 9.4% YOY to AED19.6 bn from AED21.6 bn in 1Q20.

### Target price and recommendation

We revised our rating on MASQ to BUY with a target price of AED71.00. Mashreq is one of the leading financial institutions in the UAE; while it maintains its challenging outlook for first quarter 2021 it is cautiously optimistic for the second half of the year. In view of the global situation and COVID-19 pandemic the bank witnessed a decrease in revenues by 10.7% on a year-on-year basis reaching AED 698 mm as compared to AED 782 mm in first quarter 2020 while rising 13.2% as compared to last quarter of 2020's figure of AED 616 mm. The bank's Net Income improved vastly as compared to last quarter 2020 offsetting the AED 1.63 bn losses and recording an AED 43 mm profit still below last's year's comparable period profit of AED 450 mm; the 2021 profit is mainly due to the decrease in impairment charges from fourth quarter 2020 by 58.5% falling to AED 711 mm in first quarter 2021 from AED 1.7 bn. Deposits showed a growth of 2.2% reaching AED 90.2 mm year to date as compared to AED 88.5 mm in first quarter 2020. Liquidity coverage ratio stood at 133% while Loan to Deposits ratio (LTD) decreased from 88.46% in first quarter 2020 to 84.03% in first quarter 2021 but still considered acceptable and better than last quarter's LTD of 81%. The bank's financials remain stable as shown by the Capital Adequacy Ratio (CAR) of 14.4% and Tier 1 ratio of 13.3% and maintaining a liquidity of 28.8%. Total Assets increased by 2.4% and loans and advances increased by 6% to reach AED 75.8 mm from AED 71.5 mm during last quarter of 2020. The ROA improved to 0.21 from -0.88 last quarter of 2020 but still below its levels reached before the global pandemic; ROE also increased from last quarter to reach 0.9 as compared to -6.24 but is still below it is 8.47 figure reached last year at the end of first quarter 2020. Finally, it is worth noting that the EPS is once again positive reading 0.24 above last quarter's negative value of -9.18, all the factors stated above lead us to maintain our BUY rating on the stock.

### MASQ – Relative Valuation

(at CMP)	2017	2018	2019	2020	2021F
P/E (x)	5.21	5.19	5.18	-8.36	44.26
P/B (x)	0.52	0.53	0.50	0.55	0.51
Dividend yield	6.6%	6.6%	6.6%	0.0%	0.0%

FABS Estimates & Co Data

**MASQ - P&L**

AED mm	2Q20	1Q21	2Q21	2Q21F	Var.	YOY ch	QOQ ch	2019	2020	2021F
Interest income	1,179	1,013	1,058	1,145	-8%	-10.3%	4.4%	5,881	4,515	4,300
Income from Islamic financing	156	110	111	121	-8%	-28.6%	0.9%	754	543	454
Interest expense	-551	-377	-383	-429	-11%	-30.5%	1.7%	-2,618	-2,111	-1,568
Distribution to depositors – Islamic products	-67	-49	-43	-53	-19%	-35.3%	-11.5%	-310	-271	-188
<b>Net funded income</b>	<b>717</b>	<b>698</b>	<b>743</b>	<b>784</b>	<b>-5%</b>	<b>3.5%</b>	<b>6.4%</b>	<b>3,707</b>	<b>2,676</b>	<b>2,997</b>
Net Fee and commission income	305	449	369	494	-25%	21.3%	-17.7%	1,365	1,220	1,595
Inc. from investment securities	95	29	105	43	147%	11.4%	268.4%	150	321	355
Other income, net	191	234	243	262	-7%	27.0%	4.0%	772	931	980
Total other OI	591	711	718	798	-10%	21.6%	0.9%	2,287	2,472	2,931
<b>Total operating income</b>	<b>1,308</b>	<b>1,409</b>	<b>1,461</b>	<b>1,582</b>	<b>-8%</b>	<b>11.7%</b>	<b>3.6%</b>	<b>5,994</b>	<b>5,148</b>	<b>5,928</b>
General & admin. Exps	-623	-620	-601	-699	-14%	-3.5%	-3.0%	-2,623	-2,945	-2,408
Operating exps	-623	-620	-601	-699	-14%	-3.5%	-3.0%	-2,623	-2,945	-2,408
<b>Pre provision profit</b>	<b>685</b>	<b>789</b>	<b>860</b>	<b>883</b>	<b>-3%</b>	<b>25.4%</b>	<b>8.9%</b>	<b>3,371</b>	<b>2,203</b>	<b>3,520</b>
Allowances for impairment, net	-570	-711	-785	-789	0%	37.9%	10.5%	-1,212	-3,357	-3,100
Overseas income tax expense	-10	-14	-12	-16	-26%	14.7%	-14.9%	-23	-52	-56
Non-controlling interests	-20	-21	-20	-25	-20%	-2.8%	-7.7%	-71	-73	-87
<b>Net Profit</b>	<b>85</b>	<b>43</b>	<b>42</b>	<b>54</b>	<b>-21%</b>	<b>-50.1%</b>	<b>-1.4%</b>	<b>2,065</b>	<b>-1,278</b>	<b>277</b>

FABS estimate & Co data

**MASQ – KPI**

AED mm	2Q20	1Q21	2Q21	YOY Ch	QOQ Ch	2020	2021F	Change
Net FI/OI	54.8%	49.5%	50.8%	-400	133	52.0%	50.6%	-142
NIM	2.9%	2.2%	2.3%	-62	6	2.4%	2.7%	31
NIS	2.9%	2.3%	2.4%	-52	6	2.5%	2.8%	31
Fees & comms/OI	23.3%	31.9%	25.3%	200	-657	23.7%	26.9%	322
Trading/OI	7.2%	2.0%	7.2%	-2	518	6.2%	6.0%	-25
Cost to income	47.6%	44.0%	41.1%	-645	-284	57.2%	40.6%	-1,658
Impairment/PPP	83.1%	90.1%	91.4%	825	132	152.3%	88.1%	-6,427
NP/OI	6.5%	3.1%	2.9%	-359	-15	-24.8%	4.7%	2950
ROAE	0.4%	0.21%	0.2%	-18	0	-6.1%	1.3%	741
ROAA	0.1%	0.03%	0.03%	-2	0	-0.8%	0.2%	95

FABS Estimates & Co Data

## 2Q21 preview: Sharjah Islamic Bank (NBS)

Higher Income and better performance to improve bottom-line

CMP (AED): 1.48  
Potential upside (%): +8.1%

12-m target price:  
**AED 1.60**

Stock rating:  
**HOLD**

### 2Q21 estimate

Sharjah Islamic Bank (NBS) is expected to report an increase by 82.3% YOY in the Net profit to AED179 mm in 2Q21 from AED98 mm in 2Q20. This is due to having no profit expenses on sukuks in 2Q21 compared to AED36 mm in 2Q20. Income from finance and leasing is expected to increase by 0.3% YOY to AED431 mm in 2Q21 from AED430 mm in 2Q20. Depositors' share of profit would increase by 2.3% YOY to AED160 mm in 2Q21. Thus, the Net funded income is expected to rise by 13.8% YOY to AED278 mm in 2Q21. Fees and Commissions are expected to increase by 37.7% YOY to AED83 mm in 2Q21 from AED60 mm in 2Q20. Total operating income is expected to rise by 18.6% YOY to AED355 mm in 2Q21 from AED299 mm in 2Q20. We estimate Provisions to fall by 31.9% YOY to AED46 mm in 2Q21 from AED68 mm in 2Q20. We expect General and Administrative expenses to slightly decrease by 2.6% YOY to AED130 mm in 2Q21 from AED134 mm in 2Q20. Therefore, the Cost to income ratio would decline by 799 bps to 36.7% in 2Q21 from 44.7% in 2Q20.

### 2021 forecast

We forecast NBS to post a 79.2% increase in Net profit to AED727 mm in 2021, mainly due to a fall in Provisions, General & Administrative expenses, and profit expense on Sukuks, as well as the slight increase in the Income from financing and leasing. We anticipate Net funded income to increase by 13.2% to AED1,103 mm in 2021 from AED974 mm in 2020, mainly due to an increase by 1.4% YOY in Income from financing and leasing to AED1,752 mm in 2021 from AED1,728 mm in 2020 and an increase by 12.4% YOY in Depositors share of profit to AED649 mm in 2021 from AED577 mm in 2020. We forecast Fees and commissions to increase by 35.1% to AED337 mm in 2021 compared to AED249 mm in 2020, thus, Total operating income (OI) would rise by 17.7% YOY to AED1,440 mm in 2021 from AED1,223 mm in 2020. The General & Administrative expenses are likely to decrease by 7.7% YOY to AED518 mm in 2021 from AED561 mm in 2020. As a result, the Cost to income ratio would decline by 989 bps to 36% compared to 45.9% in 2020. Provisions are likely to fall by 24.2% to AED194 mm in 2021 from AED 256 mm in 2020.

### 1Q21 outturn

Sharjah Islamic Bank (NBS) recorded a rise in Net profit by 6.8% YOY to AED164 mm in 1Q21 from AED154 mm in 1Q20, beating our estimate of SAR83 mm. This increase was primarily due to a decrease in G&A expenses. NBS's Operating income increased by 13.7% YOY in 1Q21 to AED344 mm from AED302 mm in 1Q20. This was due to a significant increase in the total of Non-funded income to AED80 mm in 1Q21 from AED78 mm in 1Q20. Moreover, Net funded income increased to AED263 mm in 1Q21 by 17.6% from AED224 mm in 1Q20. General & Administrative expenses decreased by 2.6% YOY to AED131 mm in 1Q21 while the Cost to Income "C/I" improved by 642 bps to 38.2% from 45% in 1Q20. Provisions charges increased significantly to AED48 mm in 1Q21 from AED14 mm in 1Q20. Overall, the profitability recorded in 1Q21 increased as compared to same period 2020. NBS's Net advances increased by 3.9% YOY to AED29.32 bn in 1Q21 from AED28.21 bn in 1Q20. Customer deposits have increased by 12.6% YOY to AED35.47 bn in 1Q21 from AED31.49 bn in 1Q20. While the ADR ratio dropped to 82.7% in 1Q21 from 89.6% in 1Q20. Total assets increased by 11.5% YOY to AED54.91 bn in 1Q21 from AED 49.25 bn in 1Q20, and equity rose by 1.02% YOY to AED7.49 bn in 1Q21 from AED7.41 bn in 1Q20.

**Target price and recommendation**

We revise our rating on NBS to HOLD with a target price of AED1.60. As a result of Covid-19 outbreak, lower oil prices, and lower profit assets, Sharjah Islamic Bank (NBS) recorded a decrease by 25.6% in Net profit of AED406 mm for the year ended 31 December 2020 compared to AED546 mm in the same period in 2019. That drop was due to an increase of 164.4% in Provisions to AED256 mm for the year 2020 from AED97 mm in 2019. Due to the economic slowdown caused by Covid-19 outbreak, more Provisions were taken as prudent forward-looking, which leads to a Provision coverage. We noticed a strong level of bank Liquid assets at 20.9%, for the year 2020 although NBS fears liquidity shortage. Moreover, Investment securities climbed by 33% to reach AED7.7 bn as on 31 December 2020 compared to AED5.8 bn in the same period in 2019. NPL ratio, Coverage ratio, Capital Adequacy Ratio, and the Advances-to-Deposit ratio (ADR) stands at 4.89%, 93.7%, 20.71% and 87.1%, respectively, at the end of the year 2020. Return on Average Assets (ROAA) stands at 0.1% in 4Q20. While return on Average Equity (ROAE) stands at 0.7% in 4Q20. Furthermore, Earnings Per Share (EPS) stands at AED 0.13/share at the end of 2020. In addition, Net investment in Islamic financing of the Group increased by 16.4% to reach AED29.3 bn at the end of the year 2020. In line with management's strategic objectives, Investment in Islamic financing to Customer Deposits stands at 87.1%. Focusing on sovereign exposures, Sharjah Islamic Bank continued to improve its Investment in the Islamic financing book. NBS's Board of Directors has approved a cash dividend of 8% of the capital for the year 2020 (Cash Dividend of 6.1%). The bank is currently trading at a P/B of 0.81X compared to its average peers of 0.92x. Based on the above, we assign a HOLD rating.

**NBS – Relative Valuation**

(at CMP)	2017	2018	2019	2020	2021F
P/E (x)	8.63	9.14	8.63	11.38	6.27
P/B (x)	0.83	0.85	0.80	0.79	0.52
Dividend yield	5.4%	5.4%	3.4%	5.4%	5.4%

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**NBS – P&L**

AED mm	2Q20	1Q21	2Q21F	YOY Ch	QOQ Ch	2020	2021F	Change
Income from fin. & Leasing	430	419	431	0.3%	3.0%	1,728	1,752	1.4%
Depositors' share of profit	-156	-156	-160	2.3%	2.6%	-577	-649	12.4%
Profit expense on Sukuks	-36	0	0	NM	NM	-177	0	NM
<b>Net funded income</b>	<b>238.8</b>	<b>263</b>	<b>272</b>	<b>13.8%</b>	<b>3.2%</b>	<b>974</b>	<b>1,103</b>	<b>13.2%</b>
Fees and commissions	60	80	83	37.7%	3.0%	249	337	35.1%
<b>Total non-funded income</b>	<b>60.2</b>	<b>80</b>	<b>83</b>	<b>37.7%</b>	<b>3.0%</b>	<b>249</b>	<b>337</b>	<b>35.1%</b>
<b>Total operating income</b>	<b>299.0</b>	<b>344</b>	<b>355</b>	<b>18.6%</b>	<b>3.2%</b>	<b>1,223</b>	<b>1,440</b>	<b>17.7%</b>
General & admin. Expenses	-134	-131	-130	-2.6%	-1.1%	-561	-518	-7.7%
<b>Pre provision profit</b>	<b>165.5</b>	<b>212</b>	<b>225</b>	<b>35.7%</b>	<b>5.8%</b>	<b>662</b>	<b>921</b>	<b>39.2%</b>
Provisions	-68	-48	-46	-31.9%	-4.2%	-256	-194	-24.2%
Income from subsidiary cos.	0	0	0	NM	NM	0	0	NM
<b>Net profit</b>	<b>98</b>	<b>164</b>	<b>179</b>	<b>82.3%</b>	<b>8.8%</b>	<b>406</b>	<b>727</b>	<b>79.2%</b>

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**NBS – KPI**

AED mm	2Q20	1Q21	2Q21F	YOY CH	QOQ Ch	2020	2021F	Change
Net FI/OI	79.9%	76.6%	76.6%	-324	4	79.6%	76.6%	-301
NIM	2.7%	2.3%	2.3%	-38	-1	2.3%	2.4%	7
NIS	2.7%	2.3%	2.3%	-38	0	2.3%	2.4%	11
Fees & comms/OI	20.1%	23.4%	23.4%	324	-4	20.4%	23.4%	301
Cost to income	44.7%	38.2%	36.7%	-799	-158	45.9%	36.0%	-989
Provisions/PPP	40.8%	22.6%	20.5%	-2,031	-215	38.7%	21.1%	-1760
NP/OI	32.8%	47.8%	50.4%	1,760	258	33.2%	50.5%	1733
ROAE	1.5%	2.2%	2.3%	83	13	5.3%	8.8%	349
ROAA	0.2%	0.3%	0.3%	13	2	0.8%	1.3%	50

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**NBS – Key BS Items**

AED mm	2Q20	3Q20	4Q20	1Q21	2Q21F	YOY Ch
Net advances	29,078	29,536	29,269	29,327	30,000	3.2%
QOQ change	3.1%	1.6%	-0.9%	0.2%	2.3%	
Total assets	52,670	53,332	53,601	54,919	55,123	4.7%
QOQ change	6.9%	1.3%	0.5%	2.5%	0.4%	
Customer deposits	32,238	32,605	33,608	35,476	34,617	7.4%
QOQ change	2.4%	1.1%	3.1%	5.6%	-2.4%	
Total equity	7,535	7,644	7,645	7,492	7,759	3.0%
QOQ change	1.6%	1.4%	0.0%	-2.0%	3.6%	

FABS Estimates & Co Data

## 2Q21 preview: Commercial Bank of Dubai (CBD)

Increase in Funded and Non-Funded income could help profitability

CMP (AED): 4.01  
Potential downside (%): +7.2%

12-m target price:

**AED 4.30**

Stock rating:

**HOLD**

### 2Q21 forecast

Commercial Bank of Dubai (CBD) is expected to report a 56.2% YOY increase in Net profit to AED336 mm in 2Q21 compared to a Net profit of AED215 mm in 2Q20, mainly due to the higher Net funded income which is estimated to rise by 12% YOY to AED498 mm in 2Q21 from AED445 mm in 2Q20, due to the decrease by 8.6% YOY in Funded income to AED664 mm in 2Q21 and a decline by 41.2% YOY in Funded expense to AED166 mm from AED282 mm in 2Q20. Total Non-funded income is predicted to significantly increase by 27.9% YOY to AED269 mm in 2Q21 from AED210 mm in 2Q20, mainly due to an expected increase by 45.2% YOY in Fees and commissions to AED191 mm compared to AED131 mm in 2Q20. As a result, the Total operating income would increase by 17.1% YOY to AED767 mm in 2Q21 from AED655 mm in 2Q20. General & Administrative expenses are assumed to rise by 5.9% YOY to AED202 mm in 2Q21. Thus, the Cost to Income (C/I) ratio is forecasted to decrease by 99 bps to 27.3% in 2Q21 from 28.3% in 2Q20.

### 2021 forecast

CBD's Net profit is anticipated to rise by 12.8% YOY to AED1,264 mm in 2021, primarily due to an expected decrease in Impairment and Allowance. Net funded income is estimated to increase by 9% YOY to AED2,056 mm in 2021 from AED1,887 in 2020, due to the expected increase by 4.4% YOY in Funded income to AED2,991 mm in 2021 as well as the decrease by 4.4% YOY in Funded expenses to AED935 mm in 2021. Total Non-funded income is forecasted to decline by 6.9% YOY to AED1,011 mm in 2021, led by 48.8% YOY decrease in Other Non-funded income to AED109 mm in 2021 from AED213 mm in 2020. We expect the operating income to increase by 3.2% YOY to AED3,067 mm in 2021. While the General & Administrative expenses are expected to slightly increase by 2.2% YOY to AED796 mm in 2021. Thus, the Cost-to-Income ratio is estimated to decline by 28 bps YOY to 26.9% in 2021 from 27.2% in 2020. Impairment charges are likely to be lower in 2021 by 453 Bps YOY at 44% in 2021 as compared to 48.5% in 2020. We expect the NIM to remain under pressure and decrease by 39 Bps in 2021 and stand at 5% compared to 5.4% in 2020.

### 1Q21 Outturn

Commercial Bank of Dubai (CBD) reported a Net profit of AED325 mm in 1Q21, which is a slight increase of 3% YOY, beating our estimate by 24.3%. That was mainly due to a drop in the Impairment allowances on loans and Islamic financing as a decrease in the Operating expenses. The Net funded income decreased slightly by 1.8% YOY in 1Q21 to AED476 mm from AED485 mm in 1Q20, led by a decrease in Funded income by 18.5% YOY to AED633 mm from AED776 mm in 1Q20. Funded expense has also decreased by 46.3% in 1Q21 to AED157 mm compared to AED292 mm in 1Q20. Total operating income decreased by 4.2% YOY to AED729 mm from AED761 mm in 1Q20. One of the major components of the operating income, is Net Fees and Commission Income which decreased by 10% in 1Q21 to AED182 mm. Additionally, Impairment allowances on loans and Islamic financing has dropped by 19.3% YOY in 1Q21 to AED205 mm from AED254 mm in 1Q20. While the Impairment allowances on AFS Investment reported a significant increase to AED13 mm in 1Q21 from AED5 mm in 1Q20. Operating Expenses decreased by 2.7% YOY to AED196 mm from AED201 mm in 1Q20. Other operating expenses like Depreciation and amortization has significantly decreased by 61.4% YOY to AED7 mm in 1Q21 compared to AED18 mm in 1Q20. The Cost to income ratio has increased by 42 bps to stand at 26.9% in 1Q21 from 26.5% in 1Q20. CBD's Net advances have increased by 11.7% YOY to AED69.5 bn compared to AED62.3 bn in 1Q20. In addition, Total Assets have increased

by 14% to AED102.4 bn in 1Q21 compared to AED89.8 bn in 1Q20. Moreover, Customer deposits have increased by 11% YOY to AED70.9 bn from AED63.9 bn in 1Q20. Total Equity has increased by 30.2% YOY to AED12.6 bn in 1Q21.

### Target price and recommendation

We maintain our HOLD rating on CBD with a revised target price of AED4.30. Commercial Bank of Dubai (CBD) one of the top banks in UAE is striving on continuously working on supporting its clients as the economy emerges from the COVID-19 pandemic witnessing an upward trend in business activity among some sectors. Despite a decrease in revenues by 3% driven by low interest rates, the bank recorded revenues of AED 731 mm in first quarter 2021 as compared to AED 757 mm in last quarter of 2020. Operating expenses followed the same decreasing trend as revenues and reached AED 196 mm as compared to AED 201 mm same period last year registering a drop of 3% on a year-on-year comparison; this change has led to an increase in net profit by 3.1% in first quarter of 2021 reaching AED 325 mm as compared to AED 315 mm over same period 2020. This increase is mainly due to the decrease in impairment charges by AED 36 mm with a decrease in staff expenses by AED 7 mm and an increase in gain from investments by AED 13 mm primarily from sales of Fair Value Fixed Income Securities. The bank maintains its capital strength as capital ratios are well above the regulatory requirements despite the decrease in ratios as compared to year end 2020; CAR ratio decreased to 16.25% as compared to 16.65% by the end of 2020 and the Common Equity Tier 1 (CET1) ratio decreased to 12.44% as at end of first quarter 2021 from 12.71% as at year end 2020. Advances to Deposits ratio (ADR) increased to 98.2% at the end of first quarter 2021 from 93.6% at end of year 2020 indicating a good sign with both loans and deposits increasing as the COVID-19 restrictions start loosening. Loans kept their increasing trend since 2018 reaching AED 69.6 mm in 2021 first quarter from AED 65.29 end of 2020 with deposits following the same trend and reaching AED 70.1 mm as compared to AED 69.75 mm by the end of year 2020. Return on Equity (ROE) reached 12.38% in first quarter 2021 from 10.69% at end of 2020 with an increase of 16% and Return on Assets (ROA) witnessed an increase of 8% from 1.21% in 2020 to 1.3% in first quarter 2021. It is worth noting the slight decrease in the Non-Performing Loans ratio (NPL) from 6.77% at end of 2020 to 6.62% at the end of first quarter 2021. Finally, the cost of risk is still high but shows some signs of improvement by decreasing to 1.07% as at the end of first quarter 2021 compared to 1.51% by the end of year 2020. The stock is currently trading at P/B of 1.08x, higher than the peers average of 0.92x leading us to assign a HOLD rating.

#### CBD - Relative valuation

(at CMP)	2017	2018	2019	2020	2021F
P/E (x)	11.14	9.78	8.02	10.03	8.91
P/B (x)	1.24	1.22	1.10	1.05	0.93
Dividend yield	4.4%	5.2%	5.2%	5.0%	5.0%

FABS Estimates & Co Data



**CBD - P&L**

AED mm	2Q20	1Q21	2Q21F	YOY Ch	QOQ Ch	2020	2021F	Change
Funded income	727	633	664	-8.6%	5.0%	2865	2991	4.4%
Funded expense	-282	-157	-166	-41.2%	6.1%	-979	-935	-4.4%
<b>Net funded income</b>	<b>445</b>	<b>476</b>	<b>498</b>	<b>12.0%</b>	<b>4.6%</b>	<b>1887</b>	<b>2056</b>	9.0%
Fees and commissions	131	182	191	45.2%	5.0%	651	677	4.0%
Trading income	52	63	55	6.1%	-13.2%	222	225	1.3%
Other non-funded income	27	8	23	-14.1%	NM	213	109	-48.8%
<b>Total non-funded income</b>	<b>210</b>	<b>252</b>	<b>269</b>	<b>27.9%</b>	<b>6.5%</b>	<b>1086</b>	<b>1011</b>	-6.9%
<b>Total operating income</b>	<b>655</b>	<b>729</b>	<b>767</b>	<b>17.1%</b>	<b>5.3%</b>	<b>2972</b>	<b>3067</b>	3.2%
General and administrative expenses	-191	-189	-202	5.9%	7.0%	-779	-796	2.2%
Depreciation and amortization	-6	-7	-7	20.6%	0.6%	-28	-28	0.4%
<b>Operating Expenses</b>	<b>-185</b>	<b>-196</b>	<b>-209</b>	<b>13.0%</b>	<b>6.8%</b>	<b>-807</b>	<b>-824</b>	2.1%
<b>Pre provision profit</b>	<b>470</b>	<b>533</b>	<b>558</b>	<b>18.8%</b>	<b>4.7%</b>	<b>2165</b>	<b>2243</b>	3.6%
Impair allow. on loans & adv and Islamic fin	-239	-205	-226	-5.4%	10.0%	-1065	-995	-6.6%
Recoveries	-9	8	8	NM	2.2%	29	32	8.6%
Impairment allowances on AFS investment	-8	-13	-6	-23.3%	-52.7%	-15	-24	56.2%
Share of profit of assoc	1	2	2	NM	-6.0%	6	8	33.5%
<b>Profit before NCI</b>	<b>215</b>	<b>325</b>	<b>336</b>	<b>56.2%</b>	<b>3.5%</b>	<b>1120</b>	<b>1264</b>	12.8%
Non-controlling interest	0	0	0	NM	NM	0	0	NA
<b>Net profit</b>	<b>215</b>	<b>325</b>	<b>336</b>	<b>56.2%</b>	<b>3.5%</b>	<b>1120</b>	<b>1264</b>	<b>12.8%</b>

FABS Estimates & Co Data

**CBD - KPI**

AED mm	2Q20	1Q21	2Q21F	YOY Ch	QOQ Ch	2020	2021F	Change
Net FI/OI	67.9%	65.4%	65.0%	-296	-39	63.5%	67.0%	356
NIM	4.4%	4.8%	4.5%	8	-33	5.4%	5.0%	-39
NIS	4.4%	4.8%	4.5%	12	-33	5.4%	5.0%	-36
Fees & comms/OI	20.0%	24.9%	24.8%	480	-7	21.9%	22.1%	18
Trading/OI	7.9%	6.8%	7.2%	-75	33	7.5%	7.3%	-13
Cost to income	28.3%	26.9%	27.3%	-99	38	27.2%	26.9%	-28
Impairment/PPP	54.3%	39.4%	40.1%	-1419	74	48.5%	44.0%	-453
NP/OI	32.9%	44.6%	43.8%	1096	-80	37.7%	41.2%	352
ROAE	2.2%	2.9%	3.1%	94	21	9.7%	10.1%	45
ROAA	0.2%	0.3%	0.3%	10	1	1.2%	1.3%	5

FABS Estimates & Co Data

**CBD - Key B/S items**

AED mm	2Q20	3Q20	4Q20	1Q21	2Q21F	YOY ch
Net advances	63,420	62,980	65,289	69,598	67,888	7.0%
QOQ ch	1.7%	-0.7%	3.7%	6.6%	2.0%	
Total assets	93,682	92,750	97,362	102,471	98,975	5.6%
QOQ ch	4.2%	-1.0%	5.0%	5.2%	2.0%	
Customer deposits	65,319	64,000	69,751	70,902	69,532	6.4%
QOQ ch	2.2%	-2.0%	9.0%	1.7%	-0.2%	
Total equity	10,186	10,526	12,954	12,623	11,320	11.1%
QOQ ch	5.1%	3.3%	23.1%	-2.6%	2.6%	

FABS Estimates & Co Data

## 2Q21 preview: Ajman Bank

Increase in Net Funded and Non-Funded Income could support the earnings

CMP (AED): 0.73  
Potential upside (%): 6.7%

12-m target price:  
**AED0.78**

Stock rating:  
**HOLD**

### 2Q21 estimate

Ajman Bank (AJMANBANK) is expected to report a slight increase by 2% in Net profit to AED39 mm in 2Q21 from AED38 mm in 2Q20. This is mainly due to a rise in Net funded income and Non-funded income. Funded income is expected to slightly decrease by 3.9% YOY to AED207 mm in 2Q21 from AED216 mm in 2Q20. Funded expense is expected to decline by 43.8% YOY to AED68 mm in 2Q21 from AED122 mm in 2Q20. Resultantly, the Net funded income is anticipated to increase by 47.6% YOY to AED139 mm in 2Q21 from AED94 mm in 2Q20. Total Non-funded income is anticipated to almost double YOY to AED48 mm in 2Q21 as the fees and commission income, Trading income and share of result of associate are all forecasted to increase significantly in 2Q20. Therefore, Total Operating income is estimated to rise by 57.6% YOY to AED187 mm in 2Q21 compared to AED119 mm in 2Q20. Whereas the Operating expenses are forecasted to increase by 25.6% to AED81 mm in 2Q21 from AED 64 mm in 2Q20. Thus, the Cost-to-income (C/I) ratio is expected to decline by 1,102 bps to 43.2% in 2Q21 compared to 54.2% in 2Q20. Impairment charges are estimated to significantly increase to AED67 mm in 2Q21 from AED16 mm in 2Q20.

### 2021 forecast

We estimate AJMANBANK's Net profit to significantly increase to AED183 mm in 2021 from a Net profit of AED53 mm in 2020, mainly due to an increase in both Net funded income and Non-funded income and a decline in the Impairment charges. Funded income is estimated to rise by 6.2% YOY to AED934 mm in 2021 from AED879 mm in 2020. Funded expense is expected to decline by 5.5% YOY to AED411 mm in 2021 from AED435 mm in 2020. Resultantly, the Net funded income is estimated to increase by 17.7% YOY to AED523 mm in 2021 from AED444 mm in 2020. Non-funded income is anticipated to rise by 14.8% to AED196 mm in 2021 from AED170 mm in 2020, led by the expected increase by 2.1% YOY in Fees and commissions income to AED50 mm from AED49 mm in 2020, in addition to an increase by 8.5% YOY in the Trading income to AED118 mm in 2021 from AED109 mm in 2020. Therefore, the Total operating income would increase by 16.9% YOY to AED719 mm in 2021 while the Operating expenses would slightly decrease by 1.1% to AED258 mm in 2021 compared to AED261 mm in 2020. Thus, the Cost-to-income ratio would decline by 656 bps YOY to 35.9% in 2021 from 42.5% in 2020. Impairment charges are estimated to decline by 7.4% YOY to AED278 mm in 2021.

### 1Q21 Outturn

Ajman bank reported a significant increase in Net profit to AED31 mm in 1Q21 from AED5 mm in 1Q20, beating our estimate by 16.4%. This is mainly attributed to a decline in both Impairment charges and Funded expenses. Funded income declined by 21.6% YOY to AED182 mm in 1Q21 from AED232 mm in 1Q20. Funded expenses declined by 57.8% YOY to AED60 mm in 1Q21 from AED141 mm in 1Q20. Resultantly, the Net funded income rose by 34.5% YOY to AED122 mm from AED91 mm in 1Q20. Fees and Commissions declined by 29.5% YOY to AED26 mm in 1Q21 from AED37 mm in 1Q20. Trading income declined by 31.6% YOY to AED20 mm in 1Q21 from AED29 mm in 1Q20. Total Operating income rose by 3.8% YOY to AED166 mm from AED160 mm in 1Q20. Total operating expenses declined slightly by 0.5% YOY to AED76.8 mm from AED77.2 mm in 1Q20. Impairment charges have declined by 25.7% YOY to AED58 mm in 1Q21 from AED78 mm in 1Q20, supporting the profit. The bank's Cost to Income ratio declined to 46.2% in 1Q21 from 48.2% in 1Q20, which is a positive attribute. The Bank's Net Advances declined by 3.7% YOY to AED16.9 bn in 1Q21 from

AED17.6 bn in 1Q20. whereas the Customer Deposits dropped by 6.6% YOY to AED13.8 bn in 1Q21 from AED14.8 in 1Q20. Therefore, the ADR ratio rose by 361 bps to 122.2% in 1Q21 from 118.6% in 1Q20. Total assets have dropped by 5.5% YOY to AED21.9 bn in 1Q21, while the Total Equity rose by 6.5% YOY to AED2.5 bn in 1Q21 compared to AED2.3 bn in 1Q20.

### Target price and recommendation

We maintain our HOLD rating on AJMANBANK with a target price of AED0.78. Ajman bank's Net profit improved tremendously in first quarter 2021 by more than 5.7x. The Net profit recorded the same period last year reaching AED 31 mm compared to AED 5 mm despite the decrease in funded income from AED 232 mm in first quarter 2020 to AED 182 mm same period 2021. This was mainly due to the decrease in funded expenses by almost 58%, reaching AED 60 mm in first quarter 2021 (dropped to only 33% of funded income) as compared to AED 141 mm in first quarter 2020 (61% of funded income). The bank's NIM has decreased to 2.9% in 1Q21 from 3.5% in 1Q20 while NIS dropped to 2.9% from 3.7% in 1Q20. Furthermore, ADR level increased from 118.6% in 1Q20 to 122.2% in 1Q21 while both loans and deposits decreased in first quarter 2021 on a year-on-year comparison by 3.7% and 6.6% respectively. Ajman bank's Return on Average Assets (ROAA) stood at 0.1% in 1Q21 as compared to 0.02% in 1Q20, this increase is mainly due by the higher net income in 1Q21 which increased significantly as discussed above. Return on Average Equity (ROAE) recorded 1.3% in 1Q21 from 0.2% in 1Q20, an increase by 110 bps due to better bank performance in 1Q21. The bank's net debt to equity ratio stood at 7.75x in 1Q21 as compared to 8.86x in 1Q20; this number indicates that the bank is still highly leveraged despite the witnessed decrease on a year-on-year basis. The bank reported a Capital Adequacy Ratio (CAR) of 16.08% in 1Q21 as compared to 16.02% in 1Q20, above the minimum requirement of 10.5%, while Common Equity Tier 1 recorded a slight increase to 14.92% from 14.86% 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	2021F
P/E (x)	9.56	7.59	18.87	29.44	8.18
P/B (x)	0.59	0.63	0.62	0.62	0.58
Dividend yield	4.8%	4.8%	0.0%	0.0%	0.0%

FABS Estimates & Co data

**AJMANBAN – P&L**

	2Q20	1Q21	2Q21F	YOY Ch	QOQ Ch	2020	2021F	Change
AED mm								
Funded income	216	182	207	-3.9%	14.0%	879	934	6.2%
Funded expenses	-122	-60	-68	-43.8%	15.0%	-435	-411	-5.5%
<b>Net funded income</b>	<b>94</b>	<b>122</b>	<b>139</b>	<b>47.6%</b>	<b>13.5%</b>	<b>444</b>	<b>523</b>	<b>17.7%</b>
Fees and commissions	3	26	12	NM	-55.1%	49	50	2.1%
Trading income	18	20	29	61.7%	46.7%	109	118	8.5%
Share of result of associate	3	-2	7	95.0%	NM	13	27	NM
<b>Total non-funded income</b>	<b>24</b>	<b>44</b>	<b>48</b>	<b>95.9%</b>	<b>9.2%</b>	<b>170</b>	<b>196</b>	<b>14.8%</b>
<b>Total operating income</b>	<b>119</b>	<b>166</b>	<b>187</b>	<b>57.6%</b>	<b>12.4%</b>	<b>615</b>	<b>719</b>	<b>16.9%</b>
Operating expenses	-64	-76.8	-80.8	25.6%	5.2%	-261	-258	-1.1%
<b>Pre provision profit</b>	<b>54</b>	<b>90</b>	<b>106</b>	<b>95.6%</b>	<b>18.5%</b>	<b>353</b>	<b>460</b>	<b>30.3%</b>
Impairment	-16	-58	-67	NM	15.0%	-300	-278	-7.4%
<b>Net profit</b>	<b>38</b>	<b>31</b>	<b>39</b>	<b>2.0%</b>	<b>24.9%</b>	<b>53</b>	<b>183</b>	<b>NM</b>

FABS Estimates & Co data

**AJMANBAN - KPI**

	2Q20	1Q21	2Q21F	YOY Ch	QOQ Ch	2020	2021F	Change
AED mm								
Net FI/OI	79.4%	73.6%	74.4%	-502	74	72.3%	72.8%	50
NIM	0.6%	2.9%	3.2%	268	32	2.9%	3.4%	51
NIS	3.6%	3.0%	3.3%	-38	29	2.9%	3.4%	46
Fees & comms/OI	2.4%	7.9%	6.5%	408	-143	7.9%	6.9%	-100
Trading/OI	15.3%	12.0%	15.7%	40	367	17.7%	16.5%	-127
Cost to income	54.2%	46.2%	43.2%	-1102	-292	42.5%	35.9%	-656
Impairment/PPP	29.3%	65.0%	63.1%	3381	-190	84.9%	60.3%	-2457
NP/OI	32.3%	18.8%	20.9%	-1140	210	8.7%	25.4%	1673
ROAE	1.5%	1.3%	1.6%	2	27	2.1%	7.0%	491
ROAA	0.2%	0.1%	0.2%	2	4	0.2%	0.8%	60

FABS Estimates & Co data

**AJMANBAN - BS key items**

	2Q20	3Q20	4Q20	1Q21	2Q21F	YOY Ch
AED mm						
Net advances	17,763	17,231	16,961	16,982	16,041	-9.7%
QOQ change	0.7%	-3.0%	-1.6%	0.1%	-5.5%	
Total assets	23,554	22,611	21,507	21,967	21,028	-10.7%
QOQ change	1.3%	-4.0%	-4.9%	2.1%	-4.3%	
Customer deposits	14,775	14,477	14,226	13,895	13,835	-6.4%
QOQ change	-0.7%	-2.0%	-1.7%	-2.3%	-0.4%	
Total equity	2,489	2,515	2,503	2,511	2,546	2.3%
QOQ change	5.6%	1.0%	-0.5%	0.4%	1.4%	

FABS Estimates & Co data

## 2Q21 preview: Commercial Bank International (CBI)

Higher Impairments and lower Net funded & Non-Funded income reduce profitability

CMP (AED): 0.70  
Potential downside (%): -20.0%

12-m target price:  
**AED 0.56**

Stock rating:  
**REDUCE**

### 2Q21 estimate

Commercial Bank International (CBI) is expected to report a Net loss of AED85 mm in 2Q21 from a Net profit of AED6 mm in 2Q20. This is mainly due to an expected decrease in the Net funded income and an increase in the Impairment charges. Funded income is expected to decline by 18.3% YOY to AED141 mm in 2Q21 from AED172 mm in 2Q20. Funded expense is estimated to decline by 15.5% YOY to AED54 mm in 2Q21 from AED64 mm in 2Q20. Resultantly, the Net funded income is expected to decline by 12.9% YOY to AED99 mm in 2Q21 from AED113 mm in 2Q20. Fees and commissions are estimated to decline by 37% YOY to AED33 mm in 2Q21 from AED52 mm in 2Q20. Total Non-funded income is expected to decline by 33.8% YOY to AED41 mm in 2Q21 from AED62 mm in 2Q20. Total operating income is expected to decline by 20.4% YOY to AED140 mm in 2Q21 from AED175 mm in 2Q20. Thus, the Cost to Income (C/I) ratio is expected to rise by 1,384 bps to 53.7% in 2Q21 from 39.8% in 2Q20. Impairment charges are expected to rise by 51.7% YOY to AED150 mm in 2Q21 from AED99 mm in 2Q20.

### 2021 forecast

We forecast CBI to post a Net loss of AED252 mm in 2021, compared to a Net loss of AED27 mm in 2020. Funded income is expected to decline by 12.1% YOY to AED586 mm in 2021 from AED667 mm in 2020. Funded expense is expected to fall by 18.4% YOY to AED224 mm in 2021 from AED275 mm in 2020. Therefore, the Net funded income is expected to decrease by 2% YOY to AED409 mm in 2021 from AED418 mm in 2020. Fees and commissions are estimated to decrease by 7.8% YOY to AED135 mm in 2021 from AED146 mm in 2020. Other operating income is expected to decline by 79.6% YOY to AED36 mm in 2021 from AED177 mm in 2020. Resultantly, the Total non-funded income would decline by 47.1% YOY to AED171 mm in 2021 compared to AED323 mm in 2020. Thus, the Total operating income is estimated to decline by 21.6% YOY to AED580 mm in 2021. We expect Operating expenses to increase by 9% YOY to AED288 mm in 2021 from AED264 mm in 2020. CBI's Cost to income ratio would increase to 49.6% from 35.7% in 2020. Impairment charges are expected to increase by 24.8% YOY to AED545 mm in 2021 from AED437 mm in 2020.

### 1Q21 outturn

Commercial Bank International (CBI) reported a Net Loss of AED96.1 mm in 1Q21, down from Net Profit of AED10.1 mm in 1Q20. The Bank performed lower than our estimate. This was mainly attributed to a decline in the Revenue. The Bank recorded a 35.3% YOY decrease in Funded Income to AED129 mm in 1Q21, from AED200 mm in 1Q20. The Funded Expenses reduced favourably by 38% YOY to AED49.9 mm in 1Q21, from AED80.4 mm in 1Q20. However, the reduction in Funded Income impacted the Net Funded Income to decline by 25.9% to AED90.5 mm in 1Q21, compared to AED122 mm in 1Q20. The Fees and Commissions decreased by 25.6% YOY to AED30.8 mm in 1Q21, down from AED41.4 mm in 1Q20. Similarly, the Other Operating Income decreased by 41.2% YOY to AED38.6 mm in 1Q21, as compared to AED54.6 mm in 1Q20. As a result, the Total Non-Funding Income reduced by 29.4% YOY to AED38.6 mm in 1Q21, as compared to AED54.6 mm in 1Q20. The Total Operating Income was impacted due to the unfavourable outcome and declined by 27% YOY to AED129 mm in 1Q21, as compared to AED176.7 mm in 1Q20. The Operating Expenses increased by 7.4% YOY to AED78.9 mm in 1Q21, up from AED73.5 mm in 1Q20. Resultantly, the Pre-Provision profit decreased by 51.4% YOY to AED50.1 mm in 1Q21, as compared to AED103.2 mm in 1Q20. The Impairment charges have increased by 60.2% YOY to AED147.4 mm in 1Q20 as compared to

AED92.1 mm in 1Q20, due to the bank's exposure to current macroeconomic climate. Due to above mentioned changes, the Bank recorded a Net Loss of AED96.1 mm in 1Q21, down from a Net Profit of AED10.1 mm in 1Q20. The Net Advances declined by 6.7% YOY to AED10.2 bn in 1Q21, as compared to AED10.9 bn in 1Q20. The Total Assets decreased by 10.6% YOY to AED16 bn in 1Q21, down from AED18 bn in 1Q20. Similarly, the Customer Deposits also decreased by 14.2% YOY to AED9.4 bn in 1Q21, compared to AED11 bn in 1Q20. The Total Equity decreased by 3.6% YOY to AED2.4 bn in 1Q21, from AED2.5 bn in 1Q20. The Bank's Accumulated losses increased significantly in 1Q21, as compared to 1Q20.

### Target price and recommendation

We revised our rating on CBI to SELL with a target price of AED0.56. Commercial Bank International (CBI) has five subsidiaries through which it operates and provides services. The business model in UAE mainly includes commercial banking services via its branches. CBI reported a Net Loss of AED96.1 mm in 1Q21, as compared to a Net Profit of AED10.1 mm in 1Q20. This was mainly due to decrease in income from operations that generate Net Funded and Non-Funded Income. The Bank operates through five segments: Wholesale Banking, Retail Banking, Treasury, Real Estate, and Others. Around 70% of the Revenue was contributed by its largest segment – Wholesale Banking. The Treasury segment contributed 18.5% of the Total Revenue of the Bank, followed by Retail Banking. Revenue from all segments, except for Treasury, reduced in 1Q21 from 1Q20. Revenue from Treasury increased by 43% YOY to AED23.9 mm in 1Q21, up from AED16.7 mm in 1Q20. This was mainly driven by increase in Net Interest Income from external customers. The Wholesale Banking segment recorded the highest Impairment charges of all the segments, in line with its level of operations. The segment recorded a Net Loss of AED125.3 mm in 1Q21, as compared to a Net Profit of AED14.1 mm in 1Q20. Overall, the underperformance of the Wholesale segment impacted the Group's performance to report a Net Loss in 1Q21. The profitability ratios such as Return on Average Equity and Average Assets reduced to negative 4% and 0.6% in 1Q21. The Operating Expenses increased by 7.4% YOY to AED78.9 mm in 1Q21, up from AED73.5 mm in 1Q20. Similarly, the Cost-to-Income ratio increased to 61.2% in 1Q21, as compared to 41.6% in 1Q20. The CET1 ratio reduced to 11.33% in 1Q21, down from 11.95%. Furthermore, the Capital Adequacy Ratio (CAR) reduced to 15.8% in 1Q21, down from 16.3% in 1Q20, however, above the minimum regulatory requirements. The decline in capital ratios was mainly due to reduction in the Bank's Total Capital base. The Customer Deposits decreased by 14.2% YOY to AED9.4 bn in 1Q21, from AED11 bn in 1Q20. The CASA mix remained the same in 1Q21 as compared to the previous year. The Time Deposits consist of around 69% of the Total Customer Deposits. The Net advances decreased by 6.7% in 1Q21. The Loans and Advances is dominated by Loans for Wholesale Lending segment. The decline is mainly due to the ECL allowance recorded by the Bank, in line with the given macroeconomic environment. We maintain a SELL Rating on the stock.

### CBI – Relative Valuation

(at CMP)	2017	2018	2019	2020	2021F
P/E (x)	8.05	5.51	10.45	-43.75	-4.67
P/B (x)	0.61	0.63	0.60	0.62	0.54

FABS Estimates & Co Data

**CBI - P&L**

AED mm	2Q20	1Q21	2Q21F	YOY CH	QOQ ch	2020	2021F	Change
Funded income	172	129	141	-18.3%	9.0%	667	586	-12.1%
Income from Islamic financing & invest. assets	9	13	13	42.2%	5.0%	41	54	32.1%
Funded expenses	-64	-50	-54	-15.5%	8.1%	-275	-224	-18.4%
Depositors' share of profits	-5	-1	-2	-65.6%	10.0%	-15	-7	-56.9%
<b>Net funded income</b>	<b>113</b>	<b>90</b>	<b>99</b>	<b>-12.9%</b>	<b>8.9%</b>	<b>418</b>	<b>409</b>	<b>-2.0%</b>
Fees and commissions	52	31	33	-37.0%	6.0%	146	135	-7.8%
Other operating income, net	10	8	9	-18.1%	10.0%	177	36	-79.6%
<b>Total non-funded income</b>	<b>62</b>	<b>39</b>	<b>41</b>	<b>-33.8%</b>	<b>6.8%</b>	<b>323</b>	<b>171</b>	<b>-47.1%</b>
<b>Total operating income</b>	<b>175</b>	<b>129</b>	<b>140</b>	<b>-20.4%</b>	<b>8.3%</b>	<b>740</b>	<b>580</b>	<b>-21.6%</b>
Operating expenses	-70	-79	-75	7.3%	-5.0%	-264	-288	9.0%
<b>Pre provision profit</b>	<b>106</b>	<b>50</b>	<b>65</b>	<b>-38.7%</b>	<b>29.2%</b>	<b>476</b>	<b>292</b>	<b>-38.6%</b>
Impairment (total)	-99	-147	-150	51.7%	1.7%	-437	-545	24.8%
Share of results of associates	-1	0	0	NM	NM	-5	0	NM
Non-controlling interests	0	1	0	NM	NM	-61	1	NM
<b>Net profit</b>	<b>6</b>	<b>-96</b>	<b>-85</b>	<b>NM</b>	<b>NM</b>	<b>-27</b>	<b>-252</b>	<b>NM</b>

FABS Estimates & Co Data

**CBI - KPI**

AED mm	2Q20	1Q21	2Q21F	YOY CH	QOQ ch	2020	2021F	Change
Net FI/OI	64.5%	70.1%	70.5%	600	41	56.4%	70.6%	1417
NIM	3.6%	3.1%	3.8%	23	73	3.4%	3.4%	-6
NIS	3.7%	3.0%	3.7%	9	76	3.5%	3.4%	-6
Fees & comms/OI	29.6%	23.9%	23.4%	-618	-51	19.7%	23.2%	348
Trading/OI	5.9%	6.0%	6.1%	17	9	23.9%	6.2%	-1765
Cost to income	39.8%	61.2%	53.7%	1,384	-751	35.7%	49.6%	1394
Impairment/PPP	82.7%	272.6%	217.2%	13,453	-5,533	84.0%	174.9%	9087
NP/OI	3.3%	-74.5%	-60.9%	-6,417	1,358	-3.7%	-43.5%	-3977
ROAE	0.2%	-3.9%	-3.5%	-378	40	-1.1%	-10.6%	-954
ROAA	0.0%	-0.6%	-0.5%	-49	10	-0.2%	-1.4%	-127

FABS Estimates & Co Data

**CBI - Key BS Items**

AED mm	2Q20	3Q20	4Q20	1Q21	2Q21F	YOY CH
Net advances	10,857	10,565	10,372	10,226	10,735	-1.1%
QOQ Change	-0.9%	-2.7%	-1.8%	-1.4%	5.0%	
Total assets	18,784	18,269	17,140.7	15,970	17,747	-5.5%
QOQ Change	5.1%	-2.7%	-6.2%	-6.8%	11.1%	
Customer deposits	11,368	10,657	10,481	9,432	11,040	-2.9%
QOQ Change	3.4%	-6.2%	-1.7%	-10.0%	11.2%	
Total equity	2,487	2,421	2,429	2,393	2,317	-6.9%
QOQ Change	0.2%	-2.7%	0.3%	-1.5%	-3.2%	

FABS Estimates & Co Data

## 2Q21 preview: United Arab Bank (UAB)

Decline in Impairment and cost optimization support the increase in Profit

CMP (AED): 0.75

Potential downside (%): -73.2%

12-m target price:

**AED0.20**

Stock rating:

**SELL**

### 2Q21 estimate

United Arab Bank (UAB) is expected to report a Net profit of AED5 mm in 2Q21 compared to a Net loss of AED89 mm in 2Q20, mainly due to a rise in Fees and commissions and decline in Impairments and G&A expenses. Interest income is expected to decline by 25.9% YOY to AED121 mm in 2Q21 from AED163 mm in 2Q20. Interest expense is expected to decline by 48.1% YOY to AED45 mm in 2Q21 from AED87 mm in 2Q20. Resultantly, the Net interest income is estimated to marginally decline by 0.4% YOY to AED75 mm in 2Q21 from AED76 mm in 2Q20. Fees and commissions would significantly rise to AED14 mm in 2Q21 from AED7 mm in 2Q20. We expect the Other non-funded income to significantly increase to AED20 mm in 2Q21 from AED7 mm in 2Q20. As a result, the Total non-funded income is expected to significantly increase to AED39 mm in 2Q21 from AED18 mm in 2Q20. Therefore, the Total Operating Income is expected to rise by 15.2% YOY to AED107 mm in 2Q21 from AED93 mm in 2Q20. General and Administrative expenses are estimated to decline by 23.2% YOY to AED52 mm in 2Q21 from AED68 mm in 2Q20. The Cost to income ratio is estimated to decline by 2,426 bps YOY to 48.5% in 2Q21 compared to a 72.8% in 2Q20. We predict the Impairment charges to decrease by 56.3% YOY to AED50 mm in 2Q21 from AED114 mm in 2Q20.

### 2021 forecast

We forecast UAB to post a Net profit of AED60 mm in 2021 compared to a Net loss of AED667 mm in 2020, mainly due to a rise in Fees and commissions and decline in Impairments and G&A expenses. Interest income is expected to decline by 23.3% YOY to AED492 mm in 2021 compared to AED642 mm in 2020. We anticipate that the Interest expense to decrease by 47.3% YOY to AED184 mm in 2021 from AED349 mm in 2020. Fees and commissions would rise by 29.6% YOY to AED55 mm in 2021 compared to AED42 mm in 2020. We expect Other non-funded income to increase significantly to AED119 mm from AED50 mm in 2Q20. While the General and Admin expenses are expected to decline by 17.4% YOY to AED216 mm in 2021 from AED262 mm in 2020. Thus, UAB's Cost-to-income ratio is expected to decline by 1,939 bps YOY to 45.7% in 2021 compared to a 65% in 2020. Impairment charges are expected to decline by 75.6% YOY to AED197 mm in 2021 from AED808 mm in 2020.

### 1Q21 outturn

United Arab Bank (UAB) reported a Net Profit of AED10.2 mm in 1Q21 after reporting a Net Loss for six consecutive quarters. The Bank performed significantly better than our estimate mainly due to strong performance in Total non-funded income that increased by 80.4% YOY to AED68.2 mm in 1Q21, from AED37.8 mm in 1Q20. The Bank recorded a 40.5% YOY decline in Interest Income to AED114.8 mm in 1Q21, compared to AED192.8 mm in 1Q20. The Interest Expense also declined by 60.1% YOY to AED42 mm in 1Q21, from AED105.2 mm in 1Q20. The Bank strategized to optimize its cost and managed to reduce expenses. However, the Net Interest Income declined by 26.8% YOY to AED64.1 mm in 1Q21, from AED87.7 mm in 1Q20. This was aided by robust growth in Other Non-funded income which contributes around 77% to the Total Non-funded Income. The composition has increased steadily as the Bank has implemented strategies to focus on core business. Resultantly, the Total Operating Income has increased by 5.5% YOY to AED132.3 mm in 1Q21, as compared to AED125.5 mm in 1Q20. The General & Administrative expenses decreased by 6.2% YOY to AED59.6 mm in 1Q21, from AED63.6 mm in 1Q20. The decrease was due to the Bank's strategy to streamline its costs. The Impairment charges reduced by 65.7% YOY to AED62.5 mm in 1Q21, from AED182



mm in 1Q20. The Net Profit was favourably impacted with better-than-expected performance for the first quarter of 2021, signalling a positive outlook for the coming quarters. The Net advances decreased by 23.9% YOY to AED8.5 bn in 1Q21, down from AED11.2 bn in 1Q20. Resultantly, the Total Assets decreased by 18.2% YOY to AED14.4 bn in 1Q21, as compared to AED17.6 bn in 1Q20. The Customer Deposits decreased by 3.2% YOY to AED10.8 bn in 1Q21, from AED11.2 bn in 1Q20. The Total Equity reduced by 12.3% YOY to AED1.4 bn in 1Q21, from 1.6bn in 1Q20. The Net Profit for the quarter supported the Accumulative losses in the Total Equity.

### Target price and recommendation

We maintain a SELL rating with a target price of SAR0.20. United Arab Bank (UAB) is a public company based in the Emirate of Sharjah. The Bank mainly operates in one geographical area, the Middle East. The Bank has recorded a Net Profit of AED10.2 mm in 1Q21, after reporting Net losses for six consecutive quarters. The Bank's strategy to improve the profitability was focused on its core business, management of cost and its fundamentals. The Bank mainly operates through two segments, Wholesale Banking and Retail Banking. Around 70% of the Net Interest Income is contributed by the Wholesale Banking segment of the Bank, balance 30% from Retail Segment. The Net Interest Income from both the divisions has reduced by 31% YOY and 16% YOY respectively. The Bank has managed to implement its turnaround strategy as the Wholesale segment recorded a Net Profit of AED19.53 mm in 1Q21, up from Net Loss of AED99.706 mm in 1Q20, that contributed to the Banks overall performance. The Net Loss from Retail segment reduced by 54% to negative AED9.3 mm in 1Q21, from negative AED20.24 mm in 1Q20. This was mainly due to reduction in Operating Expenses and Impairment charges. Resultantly, the Cost to Income ratio improved by 550 bps to 45.1% in 1Q21, from 50.6% 1Q20. The Bank reduced Impairment charges by 65.7% YOY to AED62.5 mm in 1Q21, from AED182 mm in 1Q20. This was driven by the strategy to focus on the quality of assets and strengthen the balance sheet. The Cost of Risk also improved to 2.9% in 1Q21, from 6.2% in 1Q20. The Bank's proactive focus to exit its riskier assets supported the reduction in NPL ratio to 12.2% in 1Q21, down from 13.3% in 1Q20. The Bank increased its Coverage ratio to 105.2% in 1Q21, up from 90.4% in 1Q20. This was due to the prudent approach with the problem loans that improved the overall asset quality. The Capital Adequacy ratio (CAR) stood at 14.2% in 1Q21, up by 240 bps from 1Q20. The Bank maintained the CAR above the minimum required level of 11.5%. The CET 1 ratio and Tier 1 ratio, both, improved to 13% respectively, from 10.6%, respectively. Furthermore, the Bank maintained its liquidity profile as the Advances to Stable Resources and Eligible Liquid Assets ratio stood at 78.9% and 15.1%, respectively. The Loans to Deposit ratio stood at 78% as UAB maintained a strong funding profile. The CASA stood at 26%, as a result reduced the cost of funds. The Bank increased its Coverage ratio to 105.2% in 1Q21, up from 90.4% in 1Q20. UAB has recorded a positive return on profitability as ROAA and ROAE stood at 0.3% and 2.9%, respectively, in 1Q21. The Total Assets have reduced by 18.2% YOY to AED14.4 bn in 1Q21, from AED17.6 bn in 1Q20. This was mainly due to reduction in Net Advances. The overall asset mix has remained stable as compared to the previous year, with Net advances constituting around 59% of the Total Assets. The Customer Deposits are the main source of funds for the Bank and represent 83% of the Total Liabilities, signaling an increase in concentration from the previous year. The medium-term borrowings were paid before maturity in June 2020, to strategize management of balance sheet and funds available. We maintain a SELL rating for UAB.

### UAB - Relative valuation

(at CMP)	2017	2018	2019	2020	2021F
P/E (x)	88.41	18.68	-3.25	-2.33	25.76
P/B (x)	0.56	0.61	0.71	1.06	1.07

FABS Estimates & Co Data

**UAB - P&L**

AED mm	2Q20	1Q21	2Q21F	YOY Ch	QOQ Ch	2020	2021F	Change
Interest income	163	115	121	-25.9%	5.0%	642	492	-23.3%
Interest expense	-87	-42	-45	-48.1%	7.8%	-349	-184	-47.3%
<b>Net interest income</b>	<b>76</b>	<b>73</b>	<b>75</b>	<b>-0.4%</b>	<b>3.4%</b>	<b>293</b>	<b>281</b>	<b>-4.2%</b>
Fees and commissions	7	12	14	NM	21.2%	42	55	29.6%
Exchange income	4	4	5	12.6%	5.0%	17	19	9.7%
Other non-funded income	7	52	20	NM	-61.8%	50	119	NM
<b>Total non-funded income</b>	<b>18</b>	<b>68</b>	<b>39</b>	<b>NM</b>	<b>-43.5%</b>	<b>109</b>	<b>193</b>	<b>76.1%</b>
<b>Total operating income</b>	<b>93</b>	<b>132</b>	<b>107</b>	<b>15.2%</b>	<b>-18.8%</b>	<b>403</b>	<b>474</b>	<b>17.6%</b>
General & admin. Expenses	-68	-60	-52	-23.2%	-12.6%	-262	-216	-17.4%
<b>Pre provision profit</b>	<b>25</b>	<b>73</b>	<b>55</b>	<b>NM</b>	<b>-23.9%</b>	<b>141</b>	<b>258</b>	<b>82.9%</b>
Impairment	-114	-62	-50	-56.3%	-20.0%	-808	-197	75.6%
<b>Net profit</b>	<b>-89</b>	<b>10</b>	<b>5</b>	<b>NM</b>	<b>-47.9%</b>	<b>-667</b>	<b>60</b>	<b>NM</b>

FABS Estimates & Co Data

**UAB - KPI**

AED mm	2Q20	1Q21	2Q21F	YOY Ch	QOQ Ch	2020	2021F	Change
Net FI/OI	81.1%	55.1%	70.1%	-1,099	1,506	72.8%	59.3%	-1,350
NIM	2.3%	2.0%	2.1%	-19	8	2.1%	2.4%	28
NIS	2.0%	2.0%	2.1%	11	10	1.9%	2.4%	44
Fees & comms/OI	7.2%	8.7%	13.0%	585	430	10.5%	11.6%	107
Trading/OI	4.3%	3.3%	4.2%	-10	96	4.2%	3.9%	-29
Cost to income	72.8%	45.1%	48.5%	-2,426	344	65.0%	45.7%	-1,939
Impairment/PPP	450.6%	86.0%	90.4%	-36,026	443	573.8%	76.7%	-49,715
NP/OI	-95.5%	7.7%	4.9%	10,041	-276	-165.6%	12.7%	17,831
ROAE	-5.7%	0.7%	0.3%	605	-33	-36.9%	4.0%	4,096
ROAA	-0.6%	0.1%	0.0%	67	-3	-3.9%	0.4%	431

FABS Estimates & Co Data

**UAB - BS key items**

AED mm	2Q20	3Q20	4Q20	1Q21	2Q21F	YOY Ch
Net advances	10,370	10,005	9,014	8,501	8,726	-15.9%
QOQ Change	-7.2%	-3.5%	-9.9%	-5.7%	2.7%	
Total assets	16,709	17,982	14,849	14,419	14,907	-10.8%
QOQ Change	-5.2%	7.6%	-17.4%	-2.9%	3.4%	
Customer deposits	11,665	14,104	11,247	10,839	11,261	-3.5%
QOQ Change	4.1%	20.9%	-20.3%	-3.6%	3.9%	
Total equity	1,773	1,669	1,455	1,435	1,440	-18.8%
QOQ Change	8.4%	-5.9%	-12.8%	-1.3%	0.4%	

FABS Estimates & Co Data

## 2Q21 preview: Bank of Sharjah (BOS)

Profitability hindered from the decrease in Exchange Income

CMP (AED): 0.55  
Potential Upside (%): -76.1%

12-m target price:  
**AED0.13**

Stock rating:  
**SELL**

### 2Q21 estimate

Bank of Sharjah (BOS) is expected to report a Net loss of AED49 mm in 2Q21 compared to a Net profit of AED182 mm in 2Q20. This is mainly due to a significant decline in Exchange profit. Interest income is expected to rise by 2.8% YOY to AED311 mm in 2Q21 from AED303 mm in 2Q20. Interest expense is expected to decline by 7% YOY to AED192 mm in 2Q21 from AED207 mm in 2Q20. Resultantly, the Net interest income is estimated to rise by 24% YOY to AED119 mm in 2Q21 from AED96 mm in 2Q20. Fees and commissions would increase to AED45 mm in 2Q21 from AED19 mm in 2Q20. While the Exchange income would significantly decline 99.2% YOY to AED1 mm from AED145 mm in 2Q20. Other operating income is expected to decline by 81.2% YOY to AED12 mm in 2Q21 from AED65 mm in 2Q20. As a result, Total non-funded income is expected to decline by 70.6% YOY to AED71 mm in 2Q21 from AED241 mm in 2Q20. Therefore, Total Operating income would decrease by 43.7% YOY to AED190 mm compared to AED337 mm in 2Q20. General and admin expenses are estimated to rise by 10.7% YOY to AED83 mm in 2Q21 from AED75 mm in 2Q20. Therefore, the Cost to income ratio is expected to rise significantly to 43.8% in 2Q21 from 22.3% in 2Q20.

### 2021 forecast

We forecast Bank of Sharjah to post a Net loss of AED85 mm in 2021 compared to a Net loss of AED655 mm in 2020, mainly due to a significant increase in Non-funded income. Interest income is expected to decrease by 10.8% YOY to AED1,277 mm in 2021 from AED1,431 mm in 2020. Interest expense is estimated to decline by 8.4% YOY to AED789 mm compared to AED861 mm in 2020. Resultantly, the Net interest income is expected to decline by 14.3% YOY to AED488 mm in 2021. Net Fees and commissions would increase by 78.9% YOY to AED190 mm in 2021 from AED106 mm in 2020. Exchange profit is expected to decline by 96.9% YOY to AED5 mm in 2021 from AED156 mm in 2020. While the Other operating income would significantly rise to AED52 mm from a negative of AED149 mm in 2020. Therefore, the Non-funded income is estimated to increase significantly to AED296 mm in 2021 compared to AED93 mm in 2020. As a result, Total Operating income is expected to rise by 18.2% YOY to AED784 mm in 2021 from AED663 mm in 2020. Net Impairment is expected to fall to Zero. General and Admin expenses would decline by 17.8% YOY to AED330 mm compared to AED401 mm in 2020. Cost to income ratio is expected to significantly decrease to 42% in 2021 from 60.5% in 2020.

### 1Q21 outturn

Bank of Sharjah (BOS) reported a 25.1% YOY decline to a Net loss of AED122 mm in 1Q21 from a Net loss of AED163 mm in 1Q20. This is mainly due to significant decrease in Impairment charges. Interest income decreased by 8.2% YOY to AED296 mm in 1Q21 from AED323 mm in 1Q20. Interest expense declined by 17.1% YOY to AED183 mm in 1Q21 compared to AED221 mm in 1Q20. Resultantly, the Net interest income increased by 11.2% YOY to AED113 mm in 1Q21 from AED102 mm in 1Q20. Fees and commissions increased by 45.6% YOY to AED42 mm in 1Q21 from AED29 mm in 1Q20. Other operating income rose by 12.2% YOY to AED13 from AED11 mm in 1Q20. Whereas the Exchange profit has increased to AED1 mm in 1Q21 from a Negative AED2 mm in 1Q20. Therefore, the Non-funded income has significantly increased to AED67 mm in 1Q21 from a Negative of AED10 mm in 1Q20. Operating income significantly increased by 96.1% YOY to AED180 mm in 1Q21 from AED92 mm in 1Q20. General and admin expenses increased by 34.5% YOY to AED85 mm in 1Q21 from AED63 mm in 1Q20. Impairments significantly decreased to AED0.11 mm in 1Q21 from AED184 mm in 1Q20. Bank's Net Financing has increased by 5.2% YOY to AED19.87 bn compared to AED18.89 bn in 1Q20. Total assets increased by 15.3% YOY to AED37.08 bn in 1Q21 compared to AED32.16 bn in 1Q20. Customer deposits increased by 10.1% YOY to AED24.05 bn in 1Q21 from

AED21.85 bn in 1Q20. Whereas the Total liabilities increased by 15.9% to AED33.77 bn from AED29.15 bn in 1Q20. Total equity increased by 10.4% YOY to AED3.3 bn in 1Q21 compared to AED2.9 bn in 1Q20.

### Target price and recommendation

We revised our rating on BOS to SELL with a revised target price of AED0.13. Bank of Sharjah and despite all challenging environments, demonstrated resilient performance supported by the healthy fundamentals of the bank. The group's operations in Lebanon, through "Emirates Lebanon Bank SAL" continues to witness exceptional events stemming from political and economic instability since beginning of the revolution of 17 October 2019 and the group is in compliance with BDL circulars and has increased the equity by 20% before 30 June 2020. It is worth noting that the operating income before impairment and application of hyperinflation, EL bank remains in line with last year's comparable results. The group's balance sheet remains healthy with total assets reaching AED37.09 bn compared to AED36.14 bn as at the end of 2020 an increase of 3% QOQ. Total equity increased by 5% reaching AED3.32 bn from AED3.17 bn as at end of December 2020. The bank remained healthy as a result of the disciplined approach to lending, recovery and funding with acceptable liquidity and a strong capital position reflected through customer deposits for AED24.05 bn increasing by 2% from AED23.67 bn as at end of 2020. Loans and advances increased by 2% reaching AED19.8 bn in 1Q21 while total customers' deposits also increased by 2% to AED 24.05 bn and loans to deposits ratio increased slightly from 82% end of 2020 to 83% as at 1Q21. Cost to income dropped to 48% in 1Q21 from 62% same period last year. The bank recorded net profit on AED89 mm in 1Q21 before the hyperinflation effect as compared to losses of AED163 mm for the same period 2020 whereas after accounting for the hyperinflation effect, the bank recorded losses of AED122 mm in 1Q21. Operating income almost doubled reaching AED180 mm in 1Q21 from AED92 mm in 1Q20. The bank's Return on Assets (ROA) and Return on Equity (ROE) stood at 1.32% and 14.73% respectively in 1Q21 a decline from 1.84% and 21.05% respectively as at end of 2020. Non-performing loans increased compared to the end of year 2020 from 12.68% to 13.38% with impaired loan coverage ratio decreasing in 1Q21 to 67.9% from 71.65% as of December 2020. Capital Adequacy Ratio (CAR) maintained a good level at 10.56% compared to 10.71% as at the end of 2020 and Tier 1 capital ratio slightly decreased to 9.38% from 9.52%. The stock is currently trading at a P/B multiple of 0.4x, lower to the peer average of 0.9x. Therefore, we assign a REDUCE rating on the stock.

### BOS – Relative Valuation

(at CMP)	2016	2017	2018	2019	2020F
P/E (x)	4.50	9.00	-2.35	-1.80	-13.91
P/B (X)	0.29	0.32	0.40	0.38	0.38

FABS Estimates & Co data

**BOS - P&L**

AED mm	2Q20	1Q21	2Q21F	YOY Ch	QOQ Ch	2020	2021F	Change
Interest Income	303	296	311	2.8%	5.0%	1,431	1,277	-10.8%
Interest expense	-207	-183	-192	-7.0%	5.0%	-861	-789	-8.4%
<b>Net interest income</b>	<b>96</b>	<b>113</b>	<b>119</b>	<b>24.0%</b>	<b>5.0%</b>	<b>569</b>	<b>488</b>	<b>-14.3%</b>
Net fees and commission income	19	42	45	NM	9.0%	106	190	78.9%
Exchange profit	145	1	1	-99.2%	10.0%	156	5	-96.9%
(Loss)/gain on investments	13	12	12	-5.2%	2.0%	-20	49	NM
Other Operating Income	65	13	12	-81.2%	-2.0%	-149	52	NM
<b>Total non-funded income</b>	<b>241</b>	<b>67</b>	<b>71</b>	<b>-70.6%</b>	<b>5.7%</b>	<b>93</b>	<b>296</b>	<b>NM</b>
<b>Total operating income</b>	<b>337</b>	<b>180</b>	<b>190</b>	<b>-43.7%</b>	<b>5.3%</b>	<b>663</b>	<b>784</b>	<b>18.2%</b>
Net impairment loss on financial assets	-76	0	0	NM	NM	-744	0	NM
<b>Net operating income</b>	<b>261</b>	<b>180</b>	<b>190</b>	<b>-27.3%</b>	<b>5.2%</b>	<b>-81</b>	<b>784</b>	<b>NM</b>
Other Non-Operating income	0	0	0	NM	NM	449	0	NM
General & admin. Expenses	-75	-85	-83	10.7%	-2.0%	-401	-330	-17.8%
Amortisation of intangible assets	0	-1	-1	NM	2.0%	-4	-5	20.1%
<b>Profit before discontinued operations</b>	<b>186</b>	<b>94</b>	<b>105</b>	<b>-43.5%</b>	<b>11.7%</b>	<b>-38</b>	<b>449</b>	<b>NM</b>
Discontinued operations	0	-201	-150	NM	-25.5%	-577	-501	-13.1%
<b>Profit before tax</b>	<b>186</b>	<b>-107</b>	<b>-45</b>	<b>NM</b>	<b>-58.3%</b>	<b>-615</b>	<b>-52</b>	<b>-91.5%</b>
Income tax expense - overseas	-5	-15	-4	-1.3%	-70.4%	-52	-34	-35.3%
Non-controlling interest	0	0	0	NM	NM	12	0	-98.1%
<b>Net profit attributable</b>	<b>182</b>	<b>-122</b>	<b>-49</b>	<b>NM</b>	<b>-59.7%</b>	<b>-655</b>	<b>-85</b>	<b>-87.0%</b>

*FABS Estimates & Co data*
**BOS - P&L KPI**

AED mm	2Q20	1Q21	2Q21F	YOY Ch	QOQ Ch	2020	2021F	Change
Net FI/OI	28.4%	62.8%	62.6%	3419	-16	85.9%	62.2%	-2365
NIM	2.1%	3.0%	3.1%	98	-304	3.0%	2.3%	-68
NIS	2.9%	3.7%	3.8%	87	-368	3.8%	3.0%	-79
Fees & comms/OI	5.5%	23.1%	23.9%	1840	82	16.1%	24.3%	823
Other non-funded/OI	71.6%	37.2%	37.4%	-3419	16	14.1%	37.8%	2365
Cost to income	22.3%	47.1%	43.8%	2154	-325	60.5%	42.0%	-1846
Impairment/PPP	29.0%	-0.1%	0.0%	-2897	12	289.1%	0.0%	-28913
NP/OI	54.0%	-67.6%	-25.9%	-7989	4173	-98.8%	-10.9%	8789
ROAE	5.2%	-3.9%	-1.5%	-670	235	-20.9%	-2.7%	1818
ROAA	0.6%	-0.4%	-0.1%	-70	22	-1.9%	-0.2%	170

*FABS Estimates & Co data*
**BOS - Key B/S items**

(AED MM)	2Q20	3Q20	4Q20	1Q21	2Q21F	YOY Ch
Net advances	19198	19417	19456	19879	20493	6.8%
QOQ change	1.6%	1.1%	0.2%	2.2%	3.1%	
Total assets	34450	34769	36143	37088	37893	10.0%
QOQ change	7.1%	0.9%	4.0%	2.6%	2.2%	
Customer deposits	23498	23253	23673	24055	24706	5.1%
QOQ change	7.5%	-1.0%	1.8%	1.6%	2.7%	
Total shareholders' equity	3174	3248	3157	3308	3298	3.9%
QOQ change	5.9%	2.3%	-2.8%	4.8%	-0.3%	

*FABS Estimates & Co data*

**FAB Securities Contacts:**

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**Research Analysts**

Ahmad Banihani	+971-2 -6161629	<a href="mailto:ahmad.banihani@Bankfab.com">ahmad.banihani@Bankfab.com</a>
Shiv Prakash	+971-2 -6161628	<a href="mailto:shiv.prakash@Bankfab.com">shiv.prakash@Bankfab.com</a>

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Abu Dhabi Office	+971-2 -6161600
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