

Banking Sector – June 2022

Strong economic growth and rising interest rate to boost profitability

Sector Weighting:
Market weight
Preview Note 2Q 2022

Top Picks and Rating Changes

The UAE's prompt response to the pandemic coupled with sustained supportive macroeconomic measures, and a resurgence in tourism and domestic activities tied to the postponed Expo 2020 are all helping to drive economic growth. Thus, the UAE economy bounced back from the pandemic and registered a real GDP growth of 3.8% in 2021 after declining in 2020. The economy is further expected to advance in 2022 supported by rising energy prices and the central bank expects real GDP to grow 5.4% in 2022.

Advances in the UAE banking sector rose 1.0% YOY to AED 1,620 Bn in February 2022 while deposits exceeded loans growth and rose 5.9% YOY to AED 1,988 Bn in February 2022. As a result, the loan-to-deposit ratio rose fell to 81.5% in February 2022 from 85.4% in February 2021. The UAE banks held plenty of liquidity on their balance sheet. In 2022, loan growth is expected to grow as a result of the UAE's economic expansion, although this will be moderated by the predicted rise in interest rates. The UAE banks are expected to grow in the mid-single digit in 2022. The Fed ended its accommodative monetary policy in March 2022 with a 25-bps rise in interest rates, followed by a 50-bps hike in May 2022 and a 75-bps boost in June 2022. As a result of the rising interest rate environment, the UAE banks' profitability is likely to improve since UAE currency is pegged to USD Dollar. The rise in interest rates will positively impact the UAE banks' NIM performance for banks with positive interest sensitivity gap and vice-versa. In an inclining interest rate scenario, the positive gap will push the NIM upwards. A positive gap happens when rate-sensitive assets are greater than interest-rate-sensitive liabilities. The majority of the UAE Banks have a positive gap. Hence, a rate hike will lead to greater assets being repriced at higher rates, thereby leading to higher assets yield than the incline in cost of funds. This will lead to higher funded income. The banks also registered strong growth in non-funded income led by an improvement in economic activity. We expect the UAE banks to record strong growth in operating income.

The average cost-to-income ratio of the UAE Banks increased to 42.8% in 1Q22 from 39.8% in 4Q21, mainly due to a hike in ratio across CBI, Ajman, FAB, Rak Bank, and ADCB, partially offset by a decline across all other banks. The cost-to-income ratio of CBI rose from 16.8% in 4Q21 to 63.6% in 1Q22 and Ajman from 37.6% in 4Q21 to 71.3% in 1Q22 and FAB from 25.1% in 4Q21 to 33.1% in 1Q22. While banks such as UAE, Mashreq, ENBD, and CBD registered a decline in cost-to-income ratio. Improving efficiency and digitalization remains one of the top agenda for the management agendas of UAE banks. The banks are also taking the additional initiative to improve efficiency, including reducing real estate footprint, transferring employees to lower-cost locations and aggressively implementing digitization initiatives.

The aggregate annualized cost of risk fell 29 bps QOQ to 0.84% in 1Q22, owing to improvement in economic condition. Banks are witnessing early signs of healthy growth in corporate credit demand. As a result, we expect non-performing loans to witness a moderate decline going forward and a decline in provisioning to help the net line. The banks in UAE remain well capitalized, with CET 1 ratio of 14.2% and a capital adequacy ratio of 17.2% in 4Q21. This is significantly higher than the minimum requirement. The UAE's banking sector's non-performing loans (NPL) ratio is expected to reduce to 2% in 2022, down from 8% in 2021. With the release of the 1Q22 results, it is apparent that the UAE banks have left the worst behind and are starting a period of solid asset and profit growth. The UAE's solid banking system contributes to the economy's economic momentum, and banks benefit from the underlying soundness of the operating environment.

Our top picks:

- 1) **ADCB** (Trading at 9.80x/0.94x 2022E P/E and P/B multiple with a dividend yield of 5.1% and Target Price (TP) of AED11.60). Net profit is expected to grow 14.0% to AED 6.0 Bn in 2022, up from AED 5.2 Bn in 2021. ADCB will also benefit from lower impairment charges due to the bank's strategy of increasing the share of financing to the government sector and also by de-risking the loan book.
- 2) **ENBD** (Trades at 7.25x/0.95x 2022E P/E and P/B multiple with a dividend yield of 4.62% and a Target Price (PT) of AED 17.00. The Net Profit is expected to grow 12.5% to AED 10.46 Bn in 2022. ENBD's balance sheet is positively geared in a rising interest rate scenario benefitting NIMs. The management raised NIM guidance from 2.55-2.65% to 2.70-2.80% in 2022.
- 3) **RAKBANK** (Trades at 7.7x/0.8x 2022E P/E and P/B multiple with a dividend yield of 6.0% and Target Price (TP) of AED 5.85). The asset quality of the bank improved as the non-performing loan showed a downward trend in 1Q22. The NPL ratio reduced from 4.1% in 2021 to 3.7% in 1Q22 with a healthy provisioning coverage ratio of 137.8%. The Bank is expected to benefit from rising interest rates as customer deposits rose 2.2% QOQ in 1Q22 with a CASA ratio of 74.3% in 1Q22. RAKBANK diversification strategy of increasing focus on wholesale business and increasing contribution from fee income such as, treasury, forex, bancassurance and asset management business.
- 4) **CBD** (Trades at 5.6x/0.9x 2022E P/E and P/B multiple with a dividend yield of 6.0% and Target Price (TP) of AED 5.60). We expect CBD's NIMs to grow from 2.07% in 1Q22 to 2.13% in 2022 due to the replacement of high-cost deposits and the positive interest rate sensitivity gap reported by the bank in FY2021. An increase in CASA deposits further supports this. The bank continues to experience strong growth in advances and expects to grow further, supported led by a rebound in economic activity.

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Industry Themes

Abu Dhabi Exchange signed a pact with MBank to provide IPO subscriptions

The Abu Dhabi Securities Exchange (ADX) signed a deal with UAE's first digital bank Al Maryah Community Bank (MBank), to smoothen the process to subscribe to initial public offerings and streamline the process to obtain a national investor number (NIN). According to the pact, MBank's customers will be able to digitally create NIN and subscribe to IPOs on ADX using the mobile app and internet channels. This practice is expected to increase market participation and provide access to registered investors on other UAE financial exchanges and upgrading the exchange's SAHMI application. The partnership will support ADX's efforts to improve customer centricity and market liquidity. With this cooperation, Al Maryah Community Bank can provide more innovative services through digital banking transformation.

UAE Central Bank raises interest rates

UAE Central Bank raised the Overnight Deposit Facility base rate by 75 basis points in June. The decision was taken after the US Federal Reserve Board decided to increase the interest on reserve balances by 75 basis points. On the other hand, UAE Central Bank decided to keep the borrowing rate on short-term liquidity through all standing credit facilities at 50 basis points over the base rate.

ADIB is offering the first-ever plot financing owing to increase land ownership

The Abu Dhabi Islamic Bank (ADIB) introduced its first-ever plot finance offering. The customers can use the financing to buy a plot of land for investment or homeownership. Both citizens and residents could use the option to acquire property or pay plot handover payments in order to possess freehold residential plots in prestigious residential communities. The new offering is in response to "increased demand" in land purchases from both nationals and locals. With property prices in the UAE growing since last year, more individuals are looking to buy land as an investment or to build their own homes. Buyers may anticipate financing of approximately the land plot cost, with early settlement penalties waived up to 30% of unpaid finance each year.

Digital bank Zand gets UAE regulatory approval

Zand will be the UAE's first totally digital bank, offering both retail and business products and services. The UAE central bank granted a license to Zand, a digital bank, allowing it to function as a completely autonomous commercial bank. According to the bank's chairman, Mohamed Alabbar, the move is an indication of the country's attitude toward financial technology and innovation. With a UAE license, we look forward to launching the bank's creative banking facilities and contributing to the UAE's tradition of innovation and economic success, as stated by Alabbar, the founder and Chairman of Emaar Properties.

FAB completed the merger with Bank Audi Egypt

FAB announced the completion of merger with Bank Audi Egypt's, which will include all of the bank's assets within Egypt operating under FAB's newly launched brand name "FABMISR". The new identity system integration is planned to be finished in the final quarter of this year. Customers will thereafter be able to undertake financial transactions and services throughout all FABMISR-branded branches. As a result of the formal merger, FABMISR will be one of the biggest foreign banking in Egypt, with assets over USD 10 billion and 69 branches and 207 ATMs. Hana Al Rostamani, Group CEO of FAB, stated the investment demonstrates FAB strong belief in the Egyptian economy and aligns with government objectives to improve the investment climate in all sectors.

Fitch Ratings confirmed RAKBANK's 'BBB+' rating with a stable outlook

Fitch Ratings confirmed the National Bank of Ras Al Khaimah's (RAKBANK) long-term issuer default rating (IDR) of 'BBB+' with a stable outlook. The rating shows a low risk of default and the ability to fulfill financial liabilities. It is worth noting that RAKBANK's net profit rose 50% YOY in 2021 to AED 758.3 Mn.

Mashreq Bank will continue to invest in worldwide expansion

Dubai-listed lender, Mashreq Bank, plans to continue investing in worldwide expansion. According to Group CEO in a report to the Dubai Financial Market, the bank is planning to boost capital flows between the UAE and China and develop an effective Hong Kong/Asian strategy. The bank's corporate-level strategy will continue to emphasize utilizing and expanding its digital capabilities as well as using AI technology and advanced analytics across both for front and back-end products. The bank reported considerable increases in operating profit for 2021, owing to a stronger loan book and lower impairments.

ADCB joins the UAE Trade Connect fintech consortium

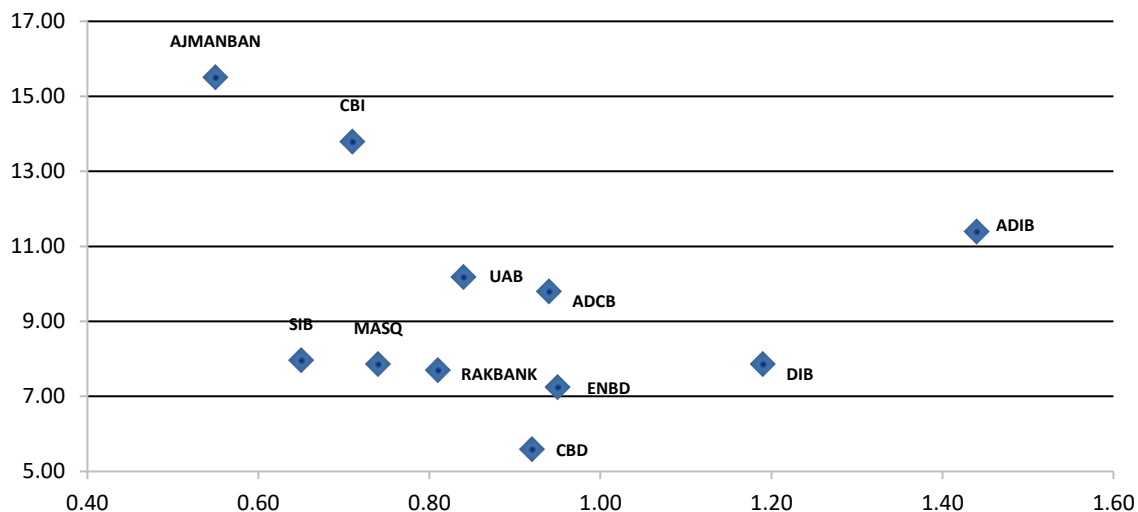
UAE Trade Connect (UTC) confirmed the addition of Abu Dhabi Commercial Bank (ADCB) to its consortium of top UAE institutions using its blockchain technology to assist de-risk trade finance. UTC is the financial blockchain platform of e& enterprise, formerly known as Etisalat Group, and is the UAE's first commercial blockchain platform. UTC's multi-award-winning platform intends to become the national trade finance platform, and it is already improving its ability to deliver detailed information on suspicious parts of invoices presented for funding.

Relative valuation and rating

Relative valuation

Based on our 2022 estimates, most of the UAE banks are trading below the book value except ADIB and DIB. Also, most of the UAE banks are trading at single-digit PE multiple based on 2022 financial except Sharjah Islamic Bank, Bank of Sharjah, ADCB, and Emirates NBD. The PB ranges between 0.55x (AJMANBAN) and 1.44x (ADIB) and PE ranges between 5.60x (CBD) and 15.51x (Ajman Bank) based on 2022 financial. The UAE banks are trading at average PE and PB multiple of 9.54x and 0.89x based on 2022 financial.

FY22 PE (y-axis) vs. FY22 P/B (x-axis)



Source: FABS from co data

Market Weight

We remain MARKET WEIGHT with 6x BUY, 1x ACCUMULATE, 2X HOLD and 2x SELL on the 11 UAE banks under our coverage. UAE systems' total net assets increased 3.23% YOY to AED3,282 Bn in February 2022. The UAE banking sector's net advances rose 1.0% YOY to AED1,620 Bn in February 2022. Customer deposits mobilisation increased by 5.9% YOY to AED1,988 Bn in February 2022.

Target price and rating				
Co. Name	TP	CMP	Potential change	Rating
CBI	0.80	1.10	-27.3%	SELL
MASQ	91.00	80.00	13.8%	ACCUMULATE
NBS	1.85	1.70	8.8%	HOLD
AJMANBANK	0.75	0.72	4.2%	HOLD
RAKBANK	5.85	4.50	30.0%	BUY
CBD	5.60	4.79	16.9%	BUY
ADCB	11.60	8.42	37.8%	BUY
ADIB	9.85	8.55	15.2%	BUY
DIB	7.00	5.51	27.0%	BUY
ENBD	17.00	12.40	37.1%	BUY
UAB	0.50	0.65	-23.1%	SELL

Source: FABS from co data

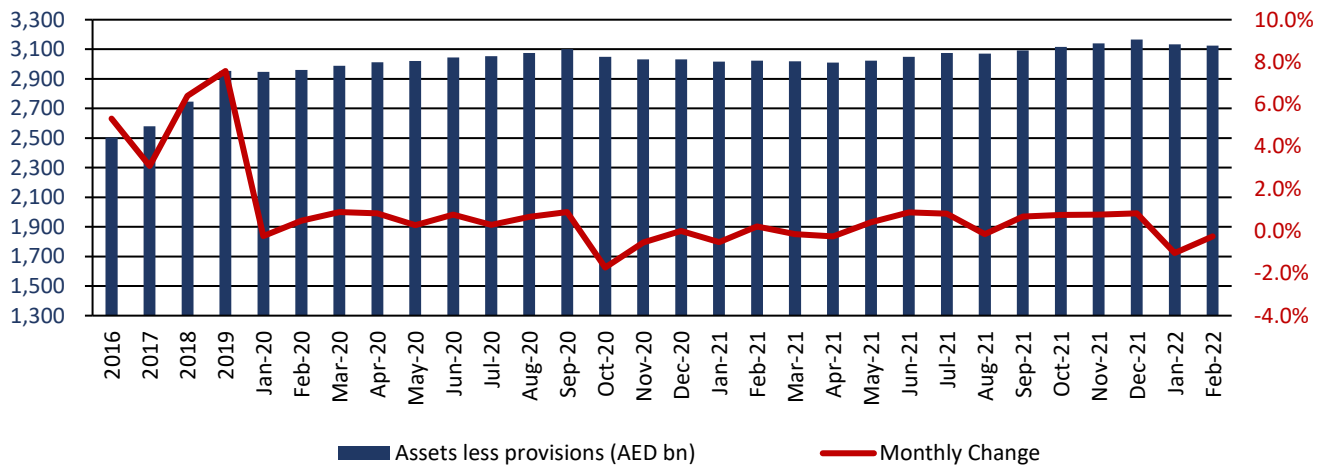
Banking indicators

1. Assets

Total net assets decreased on a MOM basis in February 2022

UAE system's total net assets fell 0.26% on a MOM basis to AED3,125 Bn in February 2022.

UAE banking system assets (AED bn) vs. Monthly change, 2016- FEB 2022



Source: FABS from CBUAE

Invest Bank witnessed the highest QOQ asset growth in 1Q22

Nine out of 13 banks recorded an increase in total assets during 1Q22. Invest recorded the highest growth in total assets which grew 5.8% QOQ to AED 10 bn followed by CBD rose 4.2 % QOQ to AED 119 Bn and RAKBANK grew 4.1% QOQ to AED 59 Bn in 1Q22. UAB recorded the lowest growth and declined 7.6% QOQ to AED 14 Bn in 1Q22.

Total assets: UAE Banks

(AED MM)	1Q21	2Q21	3Q21	4Q21	1Q22	QOQ Ch
BOS	37,088	37,699	38,499	NA	NA	NA
YOY change	15.3%	9.4%	10.7%	NA	NA	
CBI	15,970	17,053	17,495	20,774	20,858	0.4%
YOY change	-10.6%	-9.2%	-4.2%	21.2%	30.6%	
MASQ	162,253	172,763	169,561	177,054	182,581	3.1%
YOY change	-0.2%	-0.3%	-0.1%	11.7%	12.5%	
NBS	54,919	54,351	54,510	54,957	54,711	-0.4%
YOY change	11.5%	3.2%	2.2%	2.5%	-0.4%	
AJMANBANK	21,967	21,316	21,505	22,342	21,792	-2.5%
YOY change	-5.5%	-9.5%	-4.9%	3.9%	-0.8%	
RAKBANK	53,231	54,312	54,495	56,304	58,626	4.1%
YOY change	-10.9%	-0.1%	4.1%	6.7%	10.1%	
CBD	102,471	112,767	107,752	114,213	119,036	4.2%
YOY change	14.0%	20.4%	16.2%	17.3%	16.2%	
ADCB	395,819	416,290	432,061	440,278	445,677	1.2%

YOY change	-4.0%	2.5%	5.6%	7.1%	12.6%	
ADIB	130,694	130,608	133,382	136,868	138,583	1.3%
YOY change	6.5%	5.0%	4.9%	7.1%	6.0%	
DIB	291,711	293,782	289,389	279,082	287,226	2.9%
YOY change	5.5%	-0.3%	-3.3%	-3.6%	-1.5%	
ENBD	695,059	693,783	699,067	687,437	694,035	1.0%
YOY change	0.5%	-0.1%	1.0%	-1.5%	-0.1%	
UAB	14,419	14,549	14,267	15,180	14,021	-7.6%
YOY change	-18.2%	-12.9%	-20.7%	2.2%	-2.8%	
Invest	11,042	10,751	10,804	9,505	10,060	5.8%
YOY change	0.7%	-3.7%	NA	8.8%	-8.9%	
FAB	940,746	943,647	982,833	1,000,343	981,163	-1.9%
YOY change	12.6%	9.0%	2.9%	8.8%	4.3%	

Source: FABS from co data

FAB remained a leader in terms of market share in 4Q21

Despite registering a decline in market share and total assets, FAB remained a market leader by total assets. FAB market share dropped from 30.3% in 3Q21 to 30.1% in 1Q22 and total assets fell 1.9% QOQ to AED 981 Bn in 1Q22. ENBD, ADCB and DIB are ranked second, third and fourth in terms of market share. UAE large-cap banks witnessed a decline in the asset share in 4Q21 while the asset share of small-cap banks rose modestly in 4Q21. With regards to momentum across the 14 banks, an increase in its total asset share was recorded by CBD by 0.1% pp QOQ followed by MASQ by 0.1% pp QOQ and CBI by 0.1% pp QOQ.

Total assets share

	1Q21	2Q21	3Q21	4Q21	QOQ: pp
BOS	1.2%	1.2%	1.2%	NA	NA
CBI	0.5%	0.6%	0.5%	0.6%	0.1%
MASQ	5.4%	5.6%	5.2%	5.3%	0.1%
NBS	1.8%	1.8%	1.7%	1.7%	0.0%
AJMANBANK	0.7%	0.7%	0.7%	0.7%	0.0%
RAKBANK	1.8%	1.8%	1.7%	1.7%	0.0%
CBD	3.4%	3.7%	3.3%	3.4%	0.1%
ADCB	13.1%	13.5%	13.3%	13.3%	-0.1%
ADIB	4.3%	4.2%	4.1%	4.1%	0.0%
DIB	9.7%	9.6%	8.9%	8.4%	-0.5%
ENBD	23.1%	22.6%	21.5%	20.7%	-0.8%
UAB	0.5%	0.5%	0.4%	0.5%	0.0%
INVEST	0.4%	0.3%	0.3%	0.3%	0.0%
FAB	31.2%	30.7%	30.3%	30.1%	-0.2%

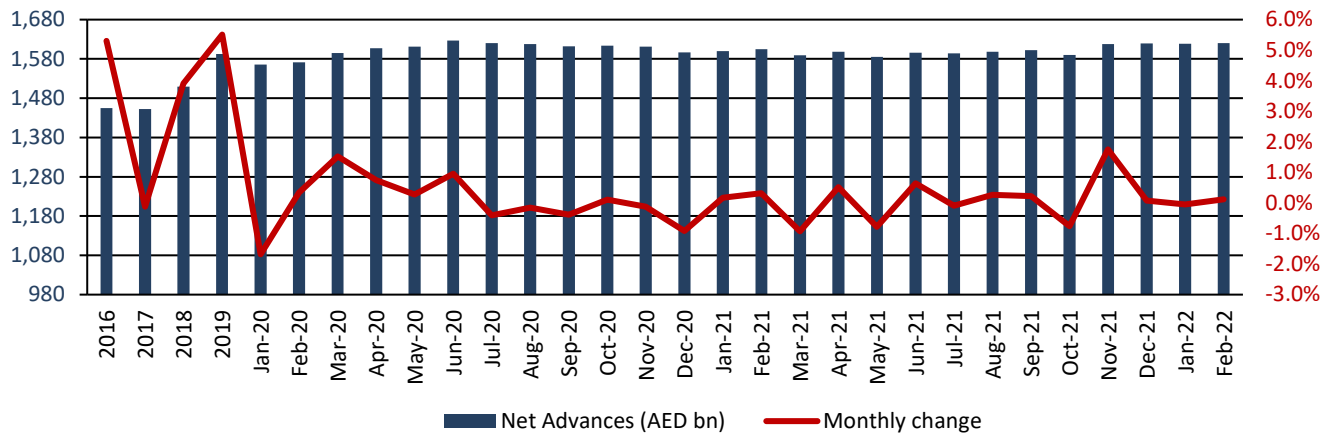
Source: FABS from co data, CBUAE

2. Advances

Advances increased MOM in February 2022

CBUAE banking indicators showed net advances grew 0.1% MOM to AED1,620 Bn in February 2022.

UAE banking system net advances (AED bn) vs. Monthly change, 2016 - FEB 2022



Source: FABS from CBUAE

MASQ's advances grew the most on QOQ basis in 1Q22

Most of the small cap banks registered a decline in advances during 1Q22. On an individual bank level, Invest Bank, UAB and AJMANBANK lost the most in terms of advances momentum formation in 1Q22. Invest Bank fell 5.2% QOQ to AED 5.6 Bn in 1Q22, UAB decreased 4.0% QOQ to AED 7.9 Bn and Ajman Bank declined 3.9% QOQ to AED 14.3 Bn in 1Q22. On the other hand, MASQ's advances rose 5.9% QOQ to AED 86.3 Bn in 1Q22 followed by FAB which rose 5.8% QOQ to AED 434 Bn in 1Q22.

Net advances: UAE banks

(AED MM)	1Q21	2Q21	3Q21	4Q21	1Q22	QOQ Ch
BOS	19,879	20,191	20,329	NA	NA	NA
YOY change	5.2%	5.2%	4.7%	NA	NA	
CBI	10,226	10,082	10,603	11,779	11,806	0.2%
YOY change	-6.7%	-7.1%	0.4%	13.6%	15.5%	
MASQ	75,797	77,282	76,982	81,486	86,295	5.9%
YOY change	-3.2%	1.1%	4.1%	13.9%	13.9%	
NBS	29,327	29,292	29,551	29,009	29,906	3.1%
YOY change	3.9%	0.7%	0.1%	-0.9%	2.0%	
AJMANBANK	16,982	16,001	15,814	14,924	14,346	-3.9%
YOY change	-3.7%	-9.9%	-8.2%	-12.0%	-15.5%	
RAKBANK	30,518	31,063	31,451	32,284	33,946	5.1%
YOY change	-11.1%	-4.6%	3.4%	7.5%	11.2%	
CBD	69,598	74,044	74,898	76,441	78,687	2.9%
YOY change	11.7%	16.8%	18.9%	17.1%	13.1%	
ADCB	235,725	237,814	241,912	244,282	245,797	0.6%
YOY change	-4.4%	-0.6%	-0.4%	2.2%	4.3%	

ADIB	83,082	83,700	84,419	88,252	90,224	2.2%
YOY change	4.7%	2.1%	1.5%	5.8%	8.6%	
DIB	196,181	194,290	192,756	186,691	190,715	2.2%
YOY change	8.9%	-3.0%	-2.4%	-5.1%	-2.8%	
ENBD	436,102	438,227	438,318	422,272	425,351	0.7%
YOY change	-1.6%	-1.1%	-0.9%	-4.8%	-2.5%	
UAB	8,501	8,035	8,035	8,213	7,884	-4.0%
YOY change	-23.9%	-22.5%	-19.7%	-8.9%	-7.2%	
INVEST	6,744	6,395	6,382	5,930	5,621	-5.2%
YOY change	-13.5%	NA	-11.9%	-12.1%	-12.1%	
FAB	378,007	398,638	403,807	410,155	433,797	5.8%
YOY change	-1.0%	3.7%	3.9%	6.1%	14.8%	

Source: FABS from co data

ENBD remains a leader in terms of advance market share in 4Q21

ENBD remains a leader in terms of market share despite a fall in share by 1.3% QOQ to 26.1% in 4Q21. ENBD's advance and deposits market share both fell followed by FAB with a market share of 25.3% in 4Q21. MASQ market share increased the most 0.2% pp QOQ to 5.0%, followed by ADIB whose market share grew 0.2% pp QOQ to 5.5% in 4Q21.

Advances mkt share

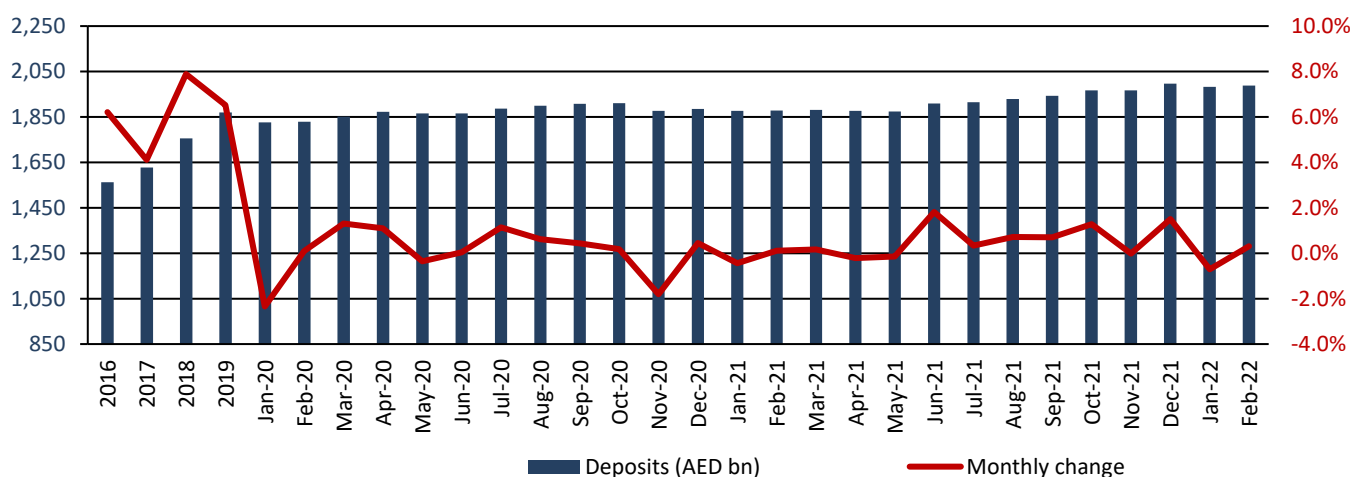
	1Q21	2Q21	3Q21	4Q21	QOQ: pp
BOS	1.2%	1.3%	1.3%	NA	NA
CBI	0.6%	0.6%	0.7%	0.7%	0.1%
MASQ	4.7%	4.8%	4.8%	5.0%	0.2%
NBS	1.8%	1.8%	1.8%	1.8%	-0.1%
AJMANBANK	1.1%	1.0%	1.0%	0.9%	-0.1%
RAKBANK	1.9%	1.9%	2.0%	2.0%	0.0%
CBD	4.4%	4.6%	4.7%	4.7%	0.0%
ADCB	14.8%	14.9%	15.1%	15.1%	0.0%
ADIB	5.2%	5.3%	5.3%	5.5%	0.2%
DIB	12.3%	12.2%	12.0%	11.5%	-0.5%
ENBD	27.3%	27.5%	27.4%	26.1%	-1.3%
UAB	0.5%	0.5%	0.5%	0.5%	0.0%
INVEST	0.4%	0.4%	0.4%	0.4%	0.0%
FAB	23.7%	25.0%	25.2%	25.3%	0.1%

3. Customer Deposit

System customer deposit mobilization increased MOM in February 2022

The UAE system customer deposits mobilization increased 0.3% MOM to AED 1,988 Bn in February 2022.

UAE banking system customer deposits (AED bn) vs. Monthly change, 2016 - FEB 2022



Source: FABS from CBUAE

AJMANBANK's customer deposits increased the most in 1Q22

Six out of 11 banks showed a decline in deposits on QOQ basis during 1Q22. Invest bank deposit declined the most 3.2% QOQ to AED 8,202 Mn in 1Q22 followed UAB's which fell 2.8% QOQ to AED 10,120 Mn in 1Q22 and FAB which inched down 2.4% QOQ to AED 600 Bn in 1Q22. Other banks deposit fell marginally in 1Q22. AJMANBANK's customer deposits rose the most 9.0% QOQ to AED16,633 Mn in 1Q22, followed by ENBD and MASQ which grew 2.7% each to AED 469 bn and AED 104 Bn, respectively in 1Q22.

Customer deposits: UAE banks

(AED MM)	1Q21	2Q21	3Q21	4Q21	1Q22	QOQ Ch
BOS	24,055	23,941	25,170	NA	NA	NA
YOY change	10.1%	1.9%	NA	NA	NA	
CBI	9,929	10,670	10,236	12,574	12,675	0.8%
YOY change	-9.7%	-6.1%	-4.0%	20.0%	27.7%	
MASQ	90,205	95,433	94,779	101,483	104,228	2.7%
YOY change	1.9%	-3.2%	0.1%	15.0%	15.5%	
NBS	35,476	34,992	36,735	38,494	38,409	-0.2%
YOY change	12.6%	8.5%	12.7%	14.5%	8.3%	
AJMANBANK	13,895	13,876	14,010	15,263	16,633	9.0%
YOY change	-6.6%	-6.1%	-3.2%	7.3%	19.7%	
RAKBANK	36,479	37,027	36,988	37,647	38,458	2.2%
YOY change	-3.5%	5.6%	8.1%	1.9%	5.4%	
CBD	70,902	79,820	75,812	82,722	82,808	0.1%
YOY change	11.0%	22.2%	18.5%	18.6%	16.8%	
ADCB	238,830	250,564	255,753	265,052	261,891	-1.2%

YOY change	-9.1%	0.1%	5.0%	5.4%	9.7%	
ADIB	103,069	105,159	107,005	109,611	110,808	1.1%
YOY change	4.3%	6.6%	6.2%	8.2%	7.5%	
DIB	214,001	218,309	214,124	205,845	204,476	-0.7%
YOY change	7.1%	5.7%	-0.2%	0.0%	-4.5%	
ENBD	459,092	457,886	466,508	456,484	468,974	2.7%
YOY change	-1.7%	-0.7%	1.9%	-1.7%	2.2%	
UAB	10,839	10,639	10,328	10,406	10,120	-2.8%
YOY change	-3.2%	-8.8%	-26.8%	-7.5%	-6.6%	
INVEST	8,049	NA	NA	8,471	NA	NA
YOY change	-14.5%	NA	NA	NA	NA	
FAB	568,331	575,192	606,004	614,459	599,873	-2.4%
YOY change	14.3%	10.9%	0.7%	13.6%	5.5%	

Source: FABS from co data

CBD's deposits market share increased the most in 4Q21

Large-cap banks such as FAB, ENBD and DIB witnessed a decline in market share which is taken over by mid-cap banks in UAE. Among the large caps only ADCB market rose marginally 0.1% QOQ to 13.3% in 4Q21. CBD market increased the most 0.24% QOQ to 4.14% in 4Q21 followed by MASQ which rose 0.20% QOQ to 5.1% in 4Q21. FAB continues to remain a leader with a market share of 30.8%, followed by ENBD with 22.9% and ADCB at 13.3%.

Deposits mkt share

	1Q21	2Q21	3Q21	4Q21	QOQ: pp
BOS	1.3%	1.3%	1.3%	NA	NA
CBI	0.5%	0.6%	0.5%	0.6%	0.1%
MASQ	4.8%	5.0%	4.9%	5.1%	0.2%
NBS	1.9%	1.8%	1.9%	1.9%	0.0%
AJMANBANK	0.7%	0.7%	0.7%	0.8%	0.0%
RAKBANK	1.9%	1.9%	1.9%	1.9%	0.0%
CBD	3.8%	4.2%	3.9%	4.1%	0.2%
ADCB	12.7%	13.1%	13.2%	13.3%	0.1%
ADIB	5.5%	5.5%	5.5%	5.5%	0.0%
DIB	11.4%	11.4%	11.0%	10.3%	-0.7%
ENBD	24.5%	23.9%	24.0%	22.9%	-1.2%
UAB	0.6%	0.6%	0.5%	0.5%	0.0%
INVEST	0.4%	0.4%	0.4%	0.4%	0.0%
FAB	30.3%	30.0%	31.2%	30.8%	-0.4%

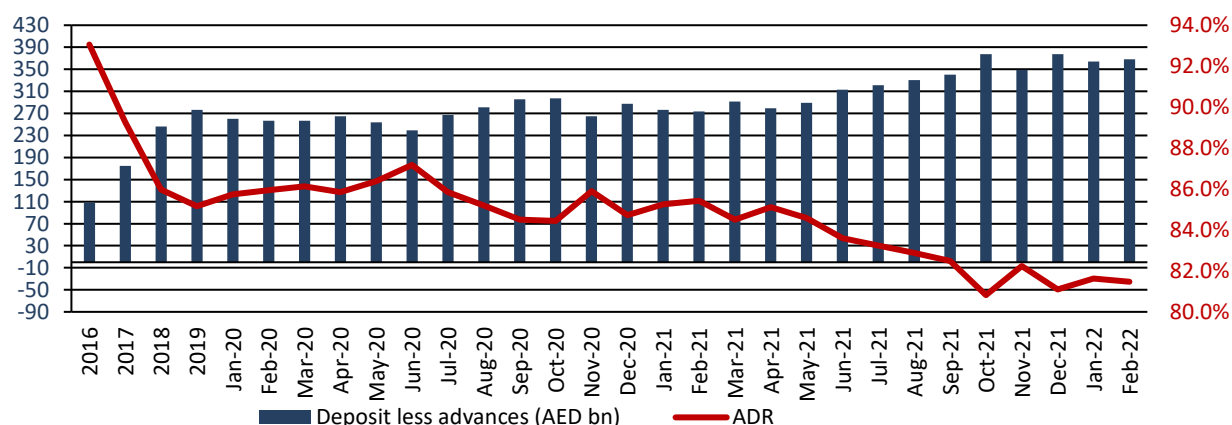
Source: FABS from co data, CBUAE

4. Liquidity

Liquidity in the UAE banking system

Advances to deposit ratio stood at 81% as of February 2022. This view is validated by using deposits less advances as an equivalent indicator to measure liquidity. In February 2022, eligible liquid asset ratio rose 0.2% MOM to 19.8% in February 2022.

UAE banking system deposits less advances (AED bn) & ADR, 2016 - FEB 2022



Source: FABS from CBUAE

Top key liquidity metrics

We use three metrics to measure and rank the balance sheet liquidity of the 14 UAE banks under coverage. Advances to deposit ratio of FAB increased the most 5.6% QOQ to 72.3% in 1Q22 due to increases in advances while decline in deposits. Ajman registered the largest decline in ADR ratio which fell 11.5% QOQ to 86.3% in 1Q22 due to a decline in advances and an increase in deposits. Most of the bank recorded a decline in deposit surplus except ENBD, CBI, Ajman and UAB. ENBD recorded the highest increase in deposit surplus, followed by Invest Bank, UAB and CBI in terms of actual amount. Seven out of 13 banks recorded a decline in percentage lent. Among them larger banks ENBD, DIB, ADCB and CBD recorded a decline. While FAB, ADIB and Mashreq recorded a growth during the period.

ADR: UAE Banks

	1Q21	2Q21	3Q21	4Q21	1Q22	QOQ Ch
BOS	90.9%	92.8%	80.8%	NA	NA	NA
CBI	113.3%	104.6%	103.6%	93.7%	93.1%	-0.5%
MASQ	89.4%	86.5%	81.2%	80.3%	82.8%	2.5%
NBS	86.4%	87.6%	80.4%	75.4%	77.9%	2.5%
AJMANBANK	129.6%	121.9%	112.9%	97.8%	86.3%	-11.5%
RAKBANK	89.7%	89.7%	85.0%	85.8%	88.3%	2.5%
CBD	103.8%	98.1%	98.8%	92.4%	95.0%	2.6%
ADCB	103.5%	99.2%	94.6%	92.2%	93.9%	1.7%
ADIB	84.6%	83.7%	78.9%	80.5%	81.4%	0.9%
DIB	95.8%	93.1%	90.0%	90.7%	93.3%	2.6%
ENBD	102.9%	103.7%	94.0%	92.5%	90.7%	-1.8%
UAB	90.0%	87.6%	77.8%	78.9%	77.9%	-1.0%
INVEST	83.8%	79.6%	74.3%	70.0%	68.5%	-1.5%
FAB	69.2%	72.1%	66.6%	66.8%	72.3%	5.6%

Source: FABS from co data

Deposit surplus/-deficit

AED, mm	1Q21	2Q21	3Q21	4Q21	1Q22	QOQ Ch
BOS	4,175	3,750	4,841	NA	NA	NA
CBI	-296	589	-366	795	870	9.3%
MASQ	14,408	18,151	17,796	19,997	17,933	-10.3%
NBS	6,149	5,700	7,183	9,485	8,503	-10.3%
AJMANBANK	-3,087	-2,125	-1,804	339	2,287	575.0%
RAKBANK	5,962	5,964	5,536	5,364	4,512	-15.9%
CBD	3,068	8,676	914	6,280	4,121	-34.4%
ADCB	71,394	82,035	13,841	20,770	16,094	-22.5%
ADIB	19,987	21,458	22,586	21,359	20,583	-3.6%
DIB	17,819	24,020	21,367	19,155	13,761	-28.2%
ENBD	22,990	19,660	28,190	34,211	43,623	27.5%
UAB	2,338	2,604	2,293	2,193	2,236	2.0%
INVEST	1,306	NA	NA	NA	NA	NA
FAB	260,664	247,851	202,197	204,305	166,076	-18.7%

Source: FABS from co data

Percentage lent

	1Q21	2Q21	3Q21	4Q21	1Q22	QOQ Ch
BOS	53.6%	53.6%	52.8%	NA	NA	NA
CBI	64.0%	59.1%	60.6%	56.7%	56.6%	-0.1%
MASQ	46.7%	44.7%	45.4%	46.0%	47.3%	1.2%
NBS	53.4%	53.9%	54.2%	52.8%	54.7%	1.9%
AJMANBANK	77.3%	75.1%	73.5%	66.8%	65.8%	-1.0%
RAKBANK	57.3%	57.2%	57.7%	57.3%	57.9%	0.6%
CBD	67.9%	65.7%	69.5%	66.9%	66.1%	-0.8%
ADCB	59.6%	57.1%	56.0%	55.5%	55.2%	-0.3%
ADIB	63.6%	64.1%	63.3%	64.5%	65.1%	0.6%
DIB	67.3%	66.1%	66.6%	66.9%	66.4%	-0.5%
ENBD	62.7%	63.2%	62.7%	61.4%	61.3%	-0.1%
UAB	59.0%	55.2%	56.3%	54.1%	56.2%	2.1%
INVEST	61.1%	NA	NA	NA	NA	NA
FAB	40.2%	42.2%	41.1%	41.0%	44.2%	3.2%

Source: FABS from co data

5. Profitability

DIB reported the highest ROE among the peer group

DIB's ROE rose 170 bps QOQ to 16.2% in 1Q22, the highest compared to other banks. This is followed by ADIB which rose 70 bps QOQ to 15.6% and FAB by 251 bps QOQ to 14.7% Ajman Bank reported the lowest ROE which grew 10 bps QOQ to 4.5% in 1Q22.

ROE: UAE Banks

	1Q21	2Q21	3Q21	4Q21	1Q22	QOQ Ch: bps
BOS	NA	NA	NA	NA	NA	NA
CBI	NA	NA	NA	4.9%	9.4%	450
MASQ	NA	NA	NA	5.1%	7.7%	260
NBS	5.5%	5.9%	6.7%	6.7%	7.1%	40
AJMANBANK	3.2%	2.8%	3.4%	4.4%	4.5%	10
RAKBANK	5.9%	6.4%	7.5%	9.2%	10.2%	100
CBD	10.7%	12.0%	12.4%	12.7%	13.8%	110
ADCB	9.5%	11.1%	9.9%	10.9%	11.3%	40
ADIB	13.3%	14.3%	14.0%	14.9%	15.6%	70
DIB	10.8%	10.8%	11.1%	14.5%	16.2%	170
ENBD	10.0%	10.4%	11.4%	12.3%	13.2%	90
UAB	NA	NA	NA	4.7%	6.0%	130
INVEST	NA	NA	NA	NA	NA	NA
FAB	10.8%	11.5%	12.5%	12.1%	14.7%	251

Source: FABS from co data

ADIB and DIB's reported the highest ROA compared to other UAE banks

ADIB and DIB's ROA stood at 1.7% each in 1Q22, highest in comparison to other UAE banks. Followed by FAB's ROA of 1.5% with a rise of 27 bps QOQ. RAKBANK also reported a ROA of 1.5% and ENBD ROA stood at 1.5% during 1Q22.

ROA: UAE Banks

	1Q21	2Q21	3Q21	4Q21	1Q22	QOQ Ch: bps
BOS	NA	NA	NA	NA	NA	NA
CBI	NA	NA	NA	0.6%	1.1%	50
MASQ	NA	NA	NA	0.6%	0.9%	30
NBS	0.8%	0.8%	0.9%	0.9%	1.0%	10
AJMANBANK	0.4%	0.3%	0.4%	0.5%	0.5%	0
RAKBANK	0.9%	0.9%	1.1%	1.4%	1.5%	10
CBD	1.1%	1.2%	1.2%	1.3%	1.3%	0
ADCB	1.1%	1.4%	1.2%	1.3%	1.3%	0
ADIB	1.5%	1.6%	1.6%	1.7%	1.7%	0
DIB	1.0%	1.0%	1.1%	1.5%	1.7%	20
ENBD	1.0%	1.1%	1.2%	1.3%	1.4%	10
UAB	NA	NA	NA	0.5%	0.6%	10
INVEST	NA	NA	NA	NA	NA	NA
FAB	1.1%	1.2%	1.3%	1.3%	1.5%	27

Source: FABS from co data

6. Efficiency

Majority of the banks reported a marginal decline in NIMs

Seven out of 13 banks reported a decline in NIMs during 1Q22, mainly due to rise in competition and increase in benchmark interest rates. Among the large banks, FAB reported the largest decline in NIMs during 1Q22 followed by ADCB and DIB. Ajman reported the biggest drop in NIMs during 1Q22 followed by CBI, Rak Bank and MASQ.

NIM: UAE Banks

	1Q21	2Q21	3Q21	4Q21	1Q22	QOQ Ch: bps
BOS	2.5%	2.5%	2.7%	NA	NA	NA
CBI	2.8%	2.9%	2.8%	2.6%	2.1%	-50
MASQ	2.5%	2.5%	2.6%	2.7%	2.6%	-10
NBS	2.2%	2.2%	2.2%	2.3%	2.4%	10
AJMANBANK	2.3%	2.0%	2.3%	2.5%	1.4%	-110
RAKBANK	4.2%	4.2%	4.2%	4.1%	3.9%	-20
CBD	2.3%	2.2%	2.3%	2.0%	2.1%	10
ADCB	2.3%	2.5%	2.3%	2.3%	2.1%	-20
ADIB	2.6%	2.6%	3.1%	2.5%	2.4%	-10
DIB	2.4%	2.4%	2.6%	2.5%	2.7%	20
ENBD	2.2%	2.2%	2.4%	2.4%	2.4%	0
UAB	1.7%	2.3%	2.1%	1.8%	1.9%	10
INVEST	3.1%	1.3%	0.5%	0.9%	1.9%	100
FAB	1.9%	1.8%	1.8%	1.8%	1.5%	-27

Source: FABS from co data

Large-cap banks continue to lead on the efficiency parameters

CBD, DIB and FAB continue to remain the most efficient bank among the peer group. cost-to-income ratio consistently remained below 30% mark over the period. Followed by ADCB, ADIB and ENBD. Mid and small-cap banks continue to report higher cost-to-income ratio.

Cost to Income: UAE Banks

	1Q21	2Q21	3Q21	4Q21	1Q22	QOQ Ch: bps
BOS	47.8%	51.2%	50.0%	NA	NA	NA
CBI	61.2%	55.7%	47.8%	35.2%	63.6%	2840
MASQ	44.0%	41.1%	48.4%	47.1%	42.8%	-430
NBS	38.2%	40.3%	36.6%	46.4%	35.3%	-1110
AJMANBANK	46.2%	39.8%	47.8%	37.9%	71.3%	3340
RAKBANK	41.2%	41.3%	43.6%	46.8%	51.2%	440
CBD	26.9%	25.4%	26.4%	30.5%	27.6%	-290
ADCB	36.3%	33.4%	34.9%	34.4%	38.1%	370
ADIB	44.3%	43.6%	39.2%	36.2%	40.9%	470
DIB	27.5%	26.4%	24.9%	28.8%	28.3%	-50
ENBD	30.3%	35.3%	34.0%	34.8%	30.8%	-400
UAB	45.1%	57.8%	60.5%	56.1%	50.0%	-610
INVEST	51.5%	90.3%	156.8%	198.5%	80.2%	-11830
FAB	30.1%	27.9%	24.8%	26.0%	33.3%	732

Source: FABS from co data

RAKBANK and INVEST BANK's COR is highest in 1Q22

The majority of the banks reported a decline in cost of risk, especially the large-cap banks due to improving macroeconomic fundamentals. RAKBANK's and INVEST BANK's cost of risk stood at 1.5% each in 1Q22, which declined 80 and 100 bps QOQ, respectively in 1Q22. CBI's COR rose the most by 190 bps in 1Q22 to 0.6% in 1Q22.

Cost of risk: UAE Banks

	1Q21	2Q21	3Q21	4Q21	1Q22	QOQ Ch: bps
BOS	0.0%	0.2%	0.1%	NA	NA	NA
CBI	5.5%	1.2%	2.1%	-1.3%	0.6%	190
MASQ	4.3%	4.7%	3.1%	0.1%	1.3%	120
NBS	0.6%	1.0%	0.9%	0.6%	0.8%	20
AJMANBANK	1.3%	1.6%	1.1%	2.3%	0.0%	-230
RAKBANK	4.4%	3.6%	2.7%	2.3%	1.5%	-80
CBD	1.2%	1.5%	1.3%	1.2%	1.2%	0
ADCB	1.1%	1.1%	1.0%	1.1%	0.5%	-60
ADIB	0.6%	1.1%	1.7%	1.0%	0.5%	-50
DIB	1.5%	1.5%	1.3%	0.6%	0.8%	20
ENBD	1.6%	0.8%	1.1%	2.0%	1.2%	-80
UAB	2.6%	1.2%	0.9%	1.1%	1.3%	20
INVEST	2.0%	1.6%	3.5%	2.5%	1.5%	-100
FAB	0.5%	0.6%	0.8%	0.7%	0.4%	-22

Source: FABS from co data

*Cost of risk calculation is not annualized

NBS has the highest CAR compared to other UAE banks

Majority of the banks reported a decline CAR during 1Q22. Sharjah Islamic Bank (NBS) reported the highest Capital Adequacy Ratio (CAR) of 19.9% compared to other banks which fell 90 bps QOQ in 1Q22. Followed by ADIB and ENBD with a CAR of 18.1% each in 1Q22. Invest Bank report the lowest CAR among all the banks under coverage.

CAR: UAE Banks

	1Q21	2Q21	3Q21	4Q21	1Q22	QOQ Ch: bps
BOS	10.6%	10.7%	10.8%	NA	NA	NA
CBI	15.8%	14.7%	15.2%	14.8%	14.9%	10
MASQ	14.4%	14.0%	14.4%	14.5%	14.0%	-50
NBS	20.7%	20.8%	21.2%	20.8%	19.9%	-90
AJMANBANK	16.1%	16.2%	16.2%	15.9%	15.6%	-30
RAKBANK	18.1%	17.8%	17.8%	17.0%	16.5%	-50
CBD	16.2%	15.7%	16.2%	15.8%	15.6%	-20
ADCB	16.6%	16.3%	16.3%	16.0%	16.0%	0
ADIB	19.2%	19.1%	19.5%	18.6%	18.1%	-50
DIB	17.1%	17.0%	17.5%	17.1%	17.5%	40
ENBD	19.0%	18.7%	19.2%	18.3%	18.1%	-20
UAB	14.2%	13.4%	13.6%	13.8%	14.3%	50
INVEST	11.0%	11.0%	10.0%	9.0%	9.0%	0
FAB	16.9%	16.1%	15.9%	15.4%	15.9%	50

Source: FABS from co data

Banking stock performance

The majority of the UAE banks generated negative returns during 2022. Thus, the UAE banking underperformed KSA Banking Sector while outperforming the Qatar Banking Sector. The UAE banking Sector generated higher average return compared to the DFM Index, while a lower return as compared ADX Index. The UAE Banking Sector generated an average return of 4.9% and KSA Banking Sector 20.0% return year-to-date. Among the UAE Banks, CBI generated the highest return followed by ADIB, CBD, DIB and MASQ. RAK Bank share price remain unchanged. BOS generated the lowest in the UAE Banking sector followed by NBS, Ajman, SIB, ENBD, UAB, ADCB, and FAB.

27 MENA bank stocks: YE21 to 18th of July 2022

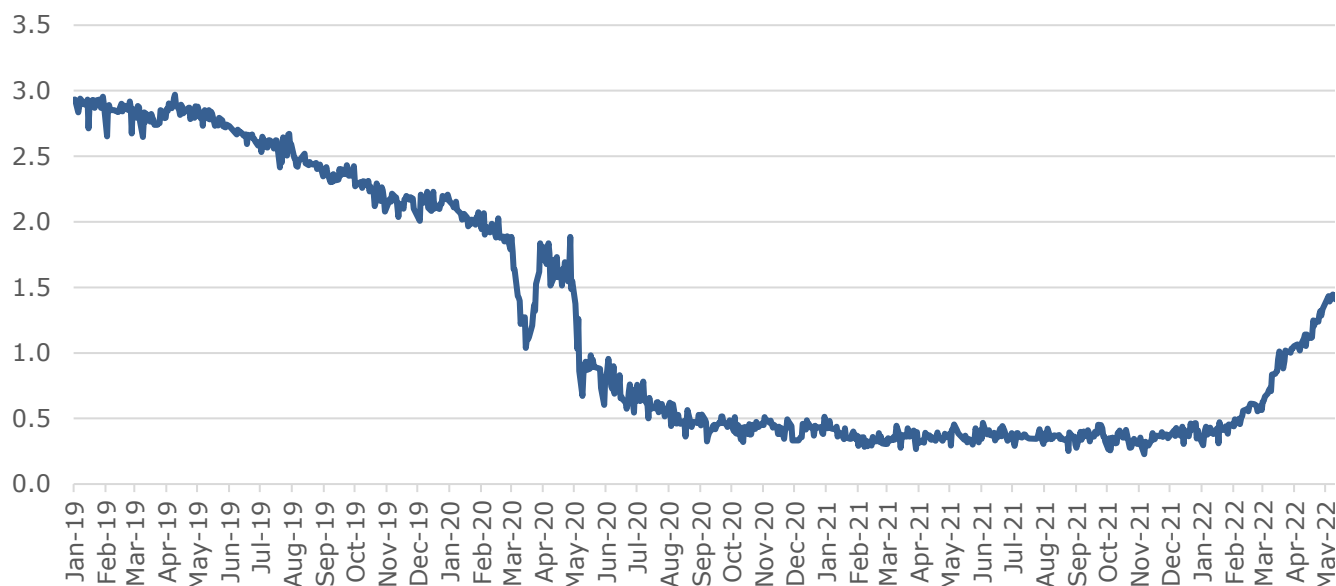
		UAE	KSA	Qatar	Egypt	Ranking
QIBK	25.6%			25.6%		6
MARK	-15.2%			-15.2%		28
CBD	9.9%	9.9%				8
MASQ	0.6%	0.6%				15
QNBK	-4.6%			-4.6%		22
UAB	-3.4%	-3.4%				21
NBS	-14.4%	-14.4%				26
CBQK	-0.5%			-0.5%		17
DSM	3.7%					12
RJHI	-7.4%		-7.4%			23
TASI	1.5%					14
ADI	9.0%					9
ALINMA	43.6%		43.6%			2
ALBI	26.0%		26.0%			5
BSFR	6.0%		6.0%			10
RAKBANK	0.0%	0.0%				16
DHBK	-23.3%			-23.3%		29
COMI	-31.1%				-31.1%	31
FAB	-0.7%	-0.7%				18
EGX30	-25.6%					30
BOS	-14.5%	-14.5%				27
NCB	5.9%		5.9%			11
DFM	-1.0%					19
ARNB	31.7%		31.7%			4
RIBL	34.1%		34.1%			3
CBI	80.6%	80.6%				1
ENBD	-8.1%	-8.1%				24
ADIB	23.7%	23.7%				7
DIB	2.4%	2.4%				13
AJMANBANK	-11.7%	-11.7%				25
ADCB	-1.3%	-1.3%				20
		4.9%	20.0%	-3.6%	-31.1%	

FABS from Bloomberg

EIBOR

The Fed ended its accommodative monetary policy in March 2022 with a 25-bps hike in fed fund rate, followed by a 50-bps hike in May 2022 and a 75 bps in June 2022. The currency of the UAE is pegged to the US dollar and the UAE central banks closely follows the monetary policy of the US. Due to this increase in interest rates, the UAE's Interbank Offered Rate (3-month EIBOR) rose more than 151 bps during the year 2022 and stood at 1.877% as of 30 June 2022. EIBOR rates rose 85 bps during 2Q22 as compared to 1Q22. Increase in interest rates will make the increase the interest cost for investors.

3-month EIBOR (%), January 2019 - June 2022

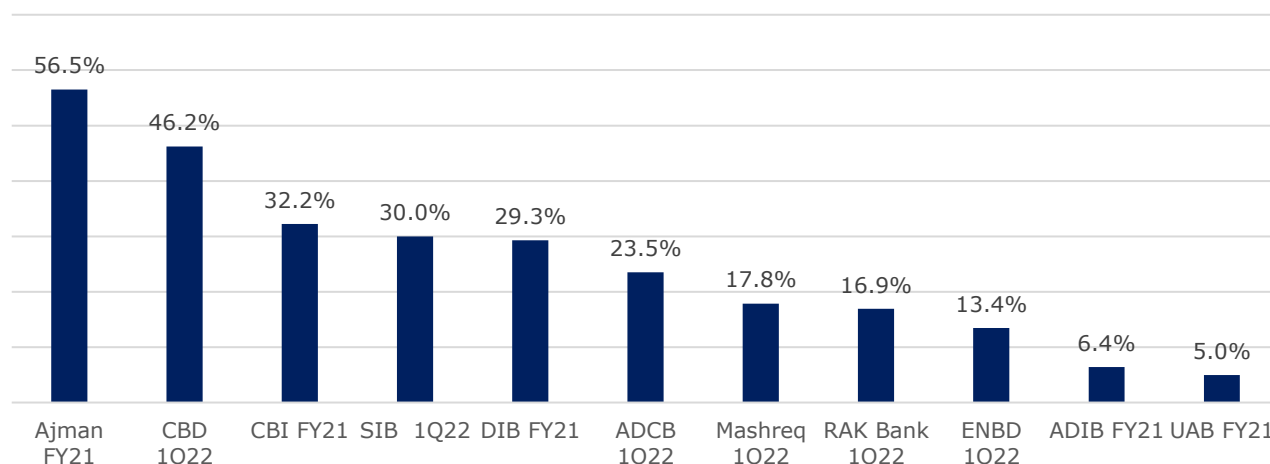


Source: FABS from Bloomberg

Real Estate

The Real Estate sector of Dubai is back in the limelight as it recovered post Covid-19 pandemic, which caught the attention of investors around the globe. The real estate market in Dubai recorded 83,982 transactions valued at AED 300 Bn in 2021. Number of transactions grew 63.6% and value of transaction registered a growth of 70.8% in 2021. Number of transaction and value continue to grow in 2022 and during 1H2022 registered 54,270 transaction worth AED 177 Bn compared to 39,409 transaction worth AED 141 Bn during 1H21. The UAE is well known for its excellent governance drove investors to the market. The government took prompt steps to control spread pandemic by vaccinating citizens at a rapid pace coupled with Dubai hosting Expo 2020 attracted new investors to invest in Dubai real estate market. The bank credit to the construction and real estate sector fell marginally 0.2% YOY to AED 326.7 Bn in 4Q21 with a market share of 20.2% in 4Q21 compared to 20.5% in 3Q21. All banks remain cautious in extending credit to the sector. Among 13 banks under our coverage, Ajman has highest exposure to the real sector followed by CBD, CBI, SIB and DIB. UAB has lowest exposure to the real estate sector followed by ADIB, ENBD and Rak Bank. In the below, we have provided disclosure of loans to the real estate loans as percentage of total loans.

Real Estate Loans Exposure of Total Loans as FY2021 & 1Q22 (%)



Source: FABS from Bloomberg

TESS Program and Lending

United Arab Emirates central bank (CBUAE) launched a Targeted Economic Support Scheme (TESS) to help bank to provide temporary aid to companies and individuals affected by the crises. CBUAE belief that the sector no longer required re-enforcement and the CBUAE is on track to move on second and final phase of TESS program. Central Bank extended its TESS measure until 30th June 2022, to support country's economy. Approximately 95% of banks already relinquished their TESS quotas; banks must now transition from the support period to the forward phase. Since pandemic UAE government and CBUAE provided AED 388 Bn as an economic stimulus to overcome credit crunch challenges. Banks will continue to be eligible to access a collateralised AED 50 Bn Zero-cost liquidity facility until June 2022.

Interest rate sensitivity (IRS) gap indicates positive outlook for NIMs

An interest rate gap measures a bank's exposure to interest rate risk. IRS gaps capture the difference in the value of assets and liabilities that re-price over certain periods. It is the gap between rate-sensitive assets and rate-sensitive liabilities. Fed ended its loose monetary policy in March 2022 with a hike of interest rates by 25 basis points followed by a hike of 50 bps during its May 2022 meeting and 75 bps in the June 2022 meeting. As a result, the Central Bank of UAE also started raising benchmark interest rates.

The UAE banks' profitability is expected to be positively impacted under the rising interest rate scenario. Subsequently, the banks' NIM performance is likely to vary led by the rise in interest rates. Generally, in an inclining interest rate scenario, the positive gap will push the NIM upwards and vice versa. A positive gap happens when rate-sensitive assets are greater than interest-rate-sensitive liabilities. Hence, a rate hike will lead to greater assets getting repriced to higher rates, thereby, leading to higher assets yield than the incline in cost of funds. We have categorized the banks under our coverage in different periods to determine the positive/ negative gap for each of them and to gauge which banks' NIMs will benefit or worsen from a rate hike (data as per FY21 annual reports).

The faster the repricing of IRS assets, the better it is for the bank in an inclining interest rate environment. Commercial Bank of Dubai and Commercial Bank International will benefit the most amongst its peers followed by United Arab Bank and Mashreq bank, since they have the highest proportion of IRS assets due for repricing within three months, thus, in the near-term these will

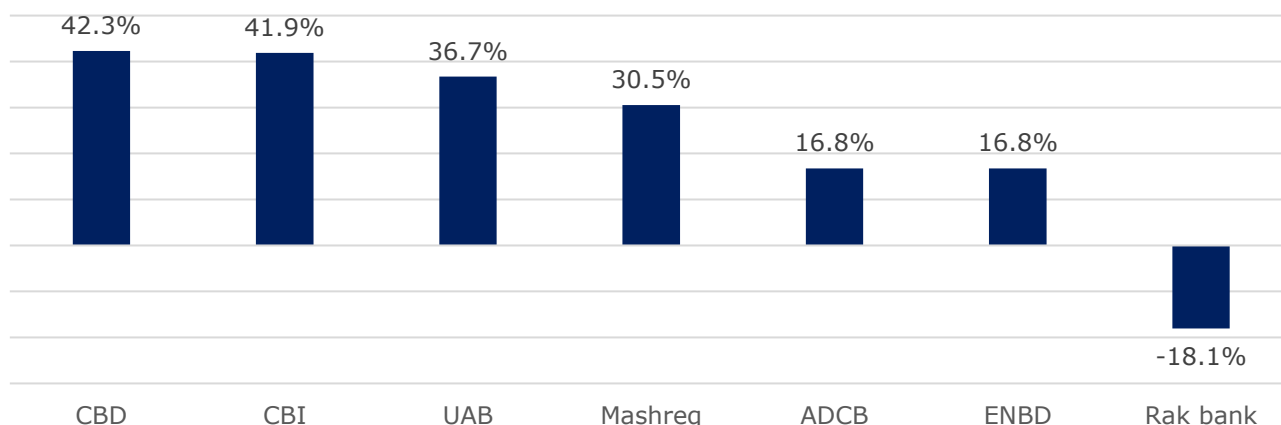
benefit most on asset yields with the hike in interest rates. While Rak bank will be negatively impacted by interest rate hikes since the bank liability will reprice faster as compared to assets during the three-month duration.

For a six month to 12-month period, the cumulative IRS gap for Mashreq bank has the highest positive gap at 27% of total assets. Other than that, UAB, Emirate NBD, CBD, and ADCB are the banks also hold a positive gap. Rak bank held a negative IRS gap at 14.4% of total assets as of 2021. Thus, if the banks maintain the existing risk management strategies, then Mashreq will benefit the most from a Fed rate hike, while Rak Bank's NIMs will be negatively impacted. The non-interest-bearing gap means the difference between non-interest-bearing assets and liabilities. The below data indicates all banks have a negative non-interest-bearing gap. Mashreq held the highest amount of CASA deposit at 35.7% of total assets and expected to benefit the most followed by ADCB, ENBD, CBD, Rak Bank and UAB. In an inclining interest rate environment, Mashreq will benefit the most as liabilities will not get repriced at higher rates thereby positively impacting the NIM.

The above analysis is purely based on the interest rate risk currently faced by the banks. It does not consider the loan growth, ability to generate funds at lower cost, utilization of off-balance sheet items such as derivatives or significant change in risk management strategies. The above data indicates Rak bank will be most negatively impacted by impending Fed rate hikes, while Mashreq and CBD will gain the most.

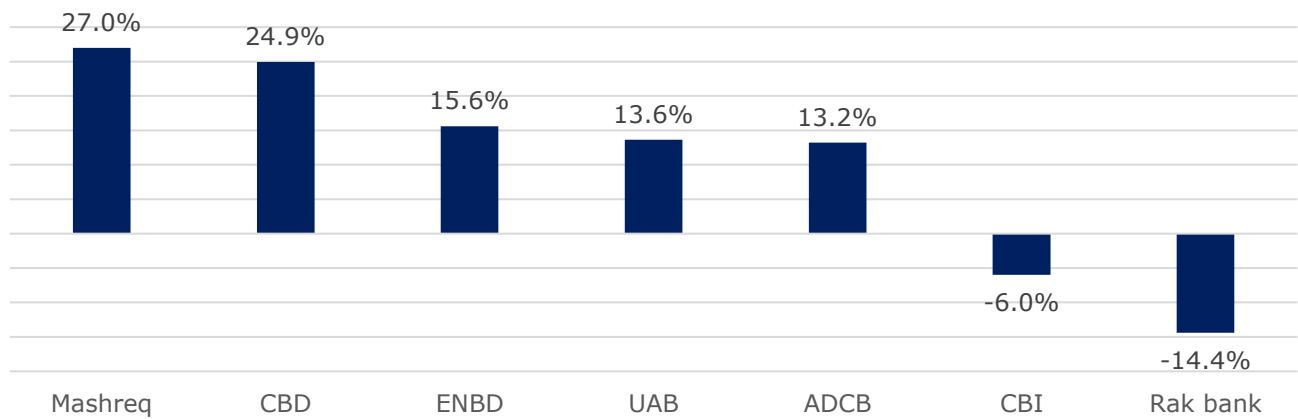
The Islamic Banks in our coverage don't present interest sensitivity table. Instead of this, the banks presented a table to showcase impact of the interest rate increase on their profitability. The majority of Islamic banks provided data on how interest rate hikes will affect the profitability assuming a 50-bps hike in interest rate. All four Islamic banks under our coverage such as ADIB, DIB, CBD, and AJMAN will be positively impacted by rise in interest rates.

Sensitivity Gap 3 months as % of total Assets



Source: FABS from co data

Sensitivity Gap 6-12 months as % of total Assets



Source: FABS from co data

2Q22 preview: Emirates NBD (ENBD)

Favorable deposit mix & strong economic momentum to support the bottom-line

CMP (AED): 12.40

Potential Upside/(Downside) (%): **+37.1%**

12-m target price:

AED 17.00

Stock rating:

BUY

2Q22 Estimate

Emirates National Bank of Dubai (ENBD) net profit is forecasted to grow 9.3% YOY to AED 2,688 Mn in 2Q22 primarily due to an increase in funded and non-funded income partially offset by an increase in provisions. Funded income is expected to grow 1.6% YOY to AED 6,504 Mn in 2Q22. While funded expense is expected to decline 8.4% YOY to AED 2,148 Mn in 2Q22 driven by a higher proportion of CASA deposits. Similarly, fee and commission income is anticipated to decline 9.1% YOY to AED 929 Mn in 2Q22 due to the continued depreciation of Turkish Lira. As a result, operating income will grow 15.1% YOY to AED 6,186 Mn in 2Q22. Operating expense is likely to increase 4.4% YOY to AED 1,980 Mn in 2Q22 driven by an increase in hiring staff costs. Impairments is anticipated to increase 58.2% YOY to AED 1,370 Mn in 2Q22.

2022 Forecast

We forecast ENBD's net profit to increase 12.5% YOY to AED 10,461 Mn in 2022 driven by a decline in funded expenses due to the higher CASA balance and decline in impairment expense. Funded income is expected to fall marginally from 0.6% to AED 26,332 Mn in 2022. Similarly, the funded expense will likely decline 8.8% to AED 8,760 Mn in 2022 due to high CASA balances. Fees and Commission are anticipated to fall 4.6% YOY to AED 3,659 Mn in 2022 impacted by continued Turkish Lira depreciation. Other operating income is expected to rise 18.0% to AED 3,435 Mn in 2022 followed by strong performance in the FX and derivative segment. Non-funded income is likely to grow 3.5% to AED 7,136 Mn in 2022. Thus, operating income is expected to rise 3.9% to AED 24,750 Mn in 2022. Impairments expense is anticipated to decline from AED 5,899 Mn in 2021 to AED 5,478 Mn in 2022. Rise in tax expenses from AED 604 Mn in 2021 to AED 752 Mn in 2022 to dent profitability.

1Q22 Outrun

ENBD net profit rose 18.1% YOY to AED 2,741 Mn in 1Q22 primarily due to a decline in impairment charge somewhat offset by increase in operating expense and tax expense. The bank reported net funded income rose 4.1% YoY to AED 4,256 Mn in 1Q22 mainly driven by a 14% YoY decrease in funded expense owing to a decline in deposits cost which fell 9 basis point (bps) YOY. Furthermore, funded income decreased 2.7% YOY to AED 6,391 Mn in 1Q22 due to a decline in loan yield on higher retail loans. On the other hand, non-funded income increased 2.1% YOY to AED 2,118 Mn. Whereas, the Fees and Commissions income declined 16.5% YoY to AED 920 Mn. Trading gain decreased 83.1% YoY to AED 10 Mn in 1Q22. Therefore, operating income increased 3.4% YOY to AED 6,374 Mn in 1Q22. Similarly, operating expenses increased by 5.2% YoY to AED 1,965 Mn in 1Q22 due to an increase in staff costs. Impairments decreased significantly 20.3% YoY to AED 1,404 Mn in 1Q22 and NPL ratio rose marginally from 6.3% in 4Q20 to 6.4% in 1Q22.

Target price and recommendation

We assign a "BUY" rating on Emirates National Bank of Dubai (ENBD) with a revised target price of AED 17.00. The bank balance sheet is positively geared in a rising interest rate scenario. This means greater amount of assets priced at a higher rate as compared to liabilities benefitting NIMs. ENBD also revised its NIM guidance from 2.55-2.65% earlier to 2.70-2.80% after 1Q2022 results. The bank deposit mix also improved in 1Q22 with AED 18 Bn QOQ increase in CASA deposits replacing high-cost time deposits. CASA stood at 64% of total deposits during 1Q22. This too positions ENBD well in a rising interest rate scenario. ENBD is also expected to benefit from economic recovery in UAE amid higher oil prices. The bank is seeing early signs of a green shot in the revival of credit demand from corporates. We expect non-performing to witness a moderate decline going forward and

provisioning to decline helping net line. Provisioning buffer also shield bank from any rise in loan losses. Given all these aforementioned factors leading us to maintain our positive rating on the stock.

ENBD - Relative Valuation

(At CMP)	2018	2019	2020	2021	2022F
PE	7.06	7.14	12.00	8.70	7.25
PB	1.39	1.05	1.02	1.02	0.95
Dividend Yield	3.34	3.33	3.33	4.17	4.62

FABS estimate & Co data

ENBD - P&L

AED mm	2Q21	1Q22	2Q22F	YOY Ch	QOQ Ch	2021	2022F	Change
Funded income	6,404	6,391	6,504	1.6%	1.8%	26,486	26,332	-0.6%
Funded expense	-2,344	-2,135	-2,148	-8.4%	0.6%	-9,561	-8,718	-8.8%
Net funded income	4,060	4,256	4,356	7.3%	2.3%	16,925	17,614	4.1%
Fees and commissions	1,022	920	929	-9.1%	1.0%	3,836	3,659	-4.6%
Trading gain/(loss)	55	10	10	-81.4%	1.0%	151	41	-72.8%
Other Operating Income	239	1,189	891	272.7%	-25.0%	2,910	3,435	18.0%
Non-funded income	1,316	2,118	1,830	39.0%	-13.6%	6,897	7,136	3.5%
Operating income	5,376	6,374	6,186	15.1%	-3.0%	23,822	24,750	3.9%
Operating expenses	-1,896	-1,965	-1,980	4.4%	0.7%	-7,992	-8,058	0.8%
Pre-provision profit	3,481	4,410	4,207	20.9%	-4.6%	15,830	16,692	5.4%
Impairment	-851	-1,404	-1,347	58.2%	-4.1%	-5,899	-5,478	-7.1%
PBT	2,599	3,005	2,860	10.1%	-4.8%	9,910	11,213	13.1%
Tax	-137	-260	-172	25.5%	-33.9%	-604	-752	24.5%
Net profit attributable	2,459	2,741	2,688	9.3%	-1.9%	9,298	10,461	12.5%

FABS estimate & Co Data

Emirates NBD - P&L KPI

	2Q21	1Q22	2Q22F	YOY	QOQ	2021	2022F	Change
Net FI/OI	75.5%	66.8%	70.4%	-510	364	71.0%	71.2%	12
NIM	2.2%	2.4%	2.4%	19	4	2.5%	2.6%	12
NIS	1.9%	2.1%	2.1%	22	3	2.2%	2.4%	16
Fees & comms/OI	19.0%	14.4%	15.0%	-400	59	16.1%	14.8%	-132
Other non-funded/OI	4.4%	18.6%	14.4%	996	-424	12.2%	13.9%	166
Trading/OI	1.0%	0.2%	0.2%	-86	1	0.6%	0.2%	-47
Cost to income	35.3%	30.8%	32.0%	-326	118	33.5%	32.6%	-99
Impairment/PPP	24.5%	31.9%	32.0%	755	16	37.3%	32.8%	-444
Tax/PBT	5.3%	8.6%	6.0%	74	-265	6.1%	6.7%	61
NP/OI	45.7%	43.0%	43.5%	-227	46	39.0%	42.3%	324
ROAE	10.4%	13.2%	13.5%	305	24	12.5%	13.5%	102
ROAA	1.1%	1.4%	1.4%	33	2	1.3%	1.5%	15

FABS estimate & Co data

ENBD - BS Key items

AED mm	2Q21	3Q21	4Q21	1Q22	2Q22F	YOY Ch
Net advances	438,227	438,318	422,272	425,351	427,477	-2.5%
QOQ change	0.5%	0.0%	-3.7%	0.7%	0.5%	
Total Assets	693,783	699,067	687,437	694,035	698,617	0.7%
QOQ change	-0.2%	0.8%	-1.7%	1.0%	0.7%	
Customer Deposits	457,886	466,508	456,484	468,974	459,653	0.4%
QOQ change	-0.3%	1.9%	-2.1%	2.7%	-2.0%	
Total Equity	74,445	76,232	74,391	72,464	75,152	0.9%
QOQ change	3.0%	2.4%	-2.4%	-2.6%	3.7%	

FABS estimate & Co data

2Q22 preview: Dubai Islamic Bank (DIB)

Positive interest rate sensitivity gap benefits profitability

CMP (AED): 5.51

Potential Upside/(downside) (%): +27.0%

12-m target price:

AED 7.00

Stock rating:

BUY

2Q22 estimate

Dubai Islamic Bank net profit is forecasted to grow 24.6% YOY to AED 1,262 Mn in 2Q22 due to increase in funded income and decline impairment charges offset by decline in non-funded income and rise in operating expenses. Funded income is anticipated to increase 6.1% YOY to AED 2,360 Mn in 2Q22 mainly due to growth in interest-bearing finances and rise in yield. On the other hand, funded expense will decline 2.8% YOY to AED 575 Mn in 2Q22 due to increase in low-cost deposits. As a result, net funded income is expected to rise 9.4% YOY to AED 1,784 Mn in 2Q22. Non-funded income is expected to decline 23.3% YOY to AED 591 Mn in 2Q22 driven by a decline in other operating income partially offset by increase in fees and commission income. Total operating income is anticipated to decline 1.1% YOY to AED 2,376 Mn in 2Q22. Operating expenses is expected to grow 4.8% YOY from AED 665 Mn in 2Q22 with a cost-to-income ratio of 28.0% in 2Q22. Impairment expense is expected to decline 43% YOY to AED 426 Mn in 2Q22.

2022 forecast

We forecast DIB's net profit to increase 16.3% to AED 5,109 Mn in 2022 due to increase in net funded income and a decrease in impairment charges partially offset by decline in non-funded income and rise in operating expense. Funded income is expected grow 6.2% to AED 9,568 Mn in 2022 primarily due to increase in asset yield and growth in loans. On the other hand, funded expense is expected to decline 1.4% AED 2,340 Mn in 2022. As a result, net funded income is expected to rise 8.9% to AED 7,227 Mn in 2022. Non-funded income is expected to fall 15.3% to AED 2,358 Mn in 2022 due to decline in other operating income somewhat offset by increase in fees and commission income. Consequently, total operating income is expected to grow 1.7% to AED 9,585 Mn in 2022. Operating expenses is expected to increase 5.0% to AED 2,655 Mn in 2022. Impairment expense is anticipated to decline from AED 2,488 Mn in 2021 to AED 1,789 Mn in 2022.

1Q22 outturn

Net funded income rose 9.5% YOY to AED 1,755 Mn in 1Q22. The improvement was mainly due to increase in funded income which rose 3.6% YOY to AED 2,304 Mn and decline in funded expense 11.7% YOY to AED 549 Mn. Growth in funded income was led by robust growth in financing asset by AED 16 Bn on YTD basis. Decline in funded expense is supported by strong growth in CASA deposit of 3.2% on YTD basis and made up 45% of total customer deposits. Non-Funded Income increased 14.5% YOY to AED 712 Mn in 1Q22. The improvement was mainly due to an increase in net fees and commissions which rose 15.7% YOY to AED 492 Mn in 1Q22. Growth in fee and commission driven by growth from consumer segment offset by decline from corporate segment. As a result, total operating income increased 10.9% YOY to AED 2,467 Mn in 1Q22. General expenses increased by 14.1% YOY to AED 698 Mn in 1Q22. Thus, cost-to-income ratio increased to 28.3% in 1Q22 from 27.5% in 1Q21. Impairment charges significantly declined by 44.5% YOY to AED 417 Mn in 1Q22. Thus, net profit rose from AED 860 Mn in 1Q21 to AED 1,360 Mn in 1Q22.

Target price and recommendation

We revise our rating to BUY on DIB with a target price of AED 7.00. The bank's net interest margin is expected to benefit in a rising interest rate environment due to the positive interest rate sensitivity gap. In a rising interest rate scenario, the positive gap will push the NIM upwards and vice versa. A positive gap happens when rate-sensitive assets are greater than rate-sensitive liabilities. DIB also maintains a stable funding profile largely funded by customer deposits reflecting a strong franchise. Low-cost CASA deposits make up 45% of total deposits in 1Q22. NIMs improved 28 basis point (bps)

YOY and 18 bps QOQ to 2.66% in 1Q22 and further expected 20 bps to 2.71% in FY2022. The bank is expected to maintain healthy balance sheet growth rate through deeper penetration of the existing customer base. Additionally, asset quality is also anticipated to remain stable in 2022 given improving macroeconomic outlook. However, the bank's exposure to Russian asset and high stage 2 loans will keep valuation in check in the near-term leading us to maintain BUY rating.

DIB - Relative Valuation

(At CMP)	2018	2019	2020	2021	2022
P/E	7.7	8.0	14.6	10.5	7.87
P/B	1.5	1.4	1.4	1.3	1.19
Dividend yield	6.3%	6.3%	3.6%	4.5%	4.5%

FABS estimate

DIB - P&L

	2Q21	1Q22	2Q22F	YOY Ch	QOQ Ch	2021	2022F	Change
AED mm								
Funded income	2,223	2,304	2,360	6.1%	2.4%	9,013	9,568	6.2%
Funded expense	-592	-549	-575	-2.8%	4.8%	-2,373	-2,340	-1.4%
Net funded income (NFI)	1,631	1,755	1,784	9.4%	1.7%	6,639	7,227	8.9%
Fees & commissions	410	492	423	3.0%	-14.1%	1,655	1,758	6.3%
Other non-funded income	361	220	169	-53.3%	-23.3%	1,127	599	-46.9%
Non-Funded Income	771	712	591	-23.3%	-16.9%	2,782	2,358	-15.3%
Operating income	2,402	2,467	2,376	-1.1%	-3.7%	9,422	9,585	1.7%
General expenses	-634	-698	-665	4.8%	-4.7%	-2,529	-2,655	5.0%
Pre-provisioning profit	1,768	1,770	1,711	-3.2%	-3.3%	6,892	6,929	0.5%
Impairment charges	-747	-417	-426	-43.0%	2.1%	-2,448	-1,789	-26.9%
Profit before tax	1,021	1,352	1,285	25.9%	-5.0%	4,444	5,141	15.7%
Tax	-11	-7	-13	20.9%	72.2%	-38	-46	21.7%
Profit before NCI	1,011	1,345	1,272	25.9%	-5.4%	4,406	5,094	15.6%
Non-controlling interests	3	15	0	-100.0%	-100.0%	-15	15	-196.9%
Profit for the period	1,013	1,360	1,272	25.6%	-6.4%	4,391	5,109	16.3%

FABS estimate & Co Data

DIB - P&L KPI

	2Q21	1Q22	2Q22F	YOY Ch	QOQ Ch	2021	2022F	Change
Net FI/OI	67.9%	71.1%	75.1%	721	397	70.5%	75.4%	493
NIM	2.4%	2.7%	2.7%	26	0	2.5%	2.7%	20
NIS	2.3%	2.5%	2.6%	23	1	2.4%	2.6%	19
Fees & commissions/OI	17.1%	19.9%	17.8%	71	-215	17.6%	18.3%	78
Other non-funded/OI	15.0%	8.9%	7.1%	-792	-182	12.0%	6.3%	-572
Cost to income	26.4%	28.3%	28.0%	158	-30	26.8%	27.7%	86
Impairment/PPP	42.2%	23.6%	24.9%	-1736	132	35.5%	25.8%	-970
NCI/PBT	-0.3%	-1.1%	NM	NA	NA	0.3%	-0.3%	-63
NP/OI	42.2%	55.1%	53.6%	1138	-155	46.6%	53.3%	669
ROAA	1.0%	1.7%	1.8%	74	6	1.5%	1.8%	24
ROAE	10.8%	16.2%	16.8%	603	66	14.8%	15.9%	103

FABS estimate & Co Data

DIB - key B/S items

	2Q21	3Q21	4Q21	1Q22	2Q22F	YOY Ch
AED mm						
Net financings	194,290	192,756	186,691	190,715	193,461	-0.4%
QOQ change	-1.0%	-0.8%	-3.1%	2.2%	1.4%	
Total assets	293,782	289,389	279,082	287,226	290,141	-1.2%
QOQ change	0.7%	-1.5%	-3.6%	2.9%	1.0%	
Customer deposits	218,309	214,124	205,845	204,476	202,739	-7.1%
QOQ change	2.0%	-1.9%	-3.9%	-0.7%	-0.8%	
Shareholders' fund	28,664	29,816	30,602	29,958	31,318	9.3%
QOQ change	2.7%	4.0%	2.6%	-2.1%	4.5%	

FABS estimate & Co Data

2Q22 preview: Abu Dhabi Islamic Bank (ADIB)

Lower impairment charges to improve bottom-line

CMP (AED): 8.55

Potential upside/(downside) (%): +15.2%

12-m target price:

AED 9.85

Stock rating:

BUY

2Q22 estimate

We anticipate ADIB's net profit to increase 38.5% YOY to AED 685 Mn in 1Q22 due to a decline in impairment charge and increase in non-funded income partially offset by increase in operating expenses. Net funded income is expected to increase 3.9% YOY to AED 919 Mn in 1Q22 due to increase in loan book partially offset by a decline in asset yield. Asset yield is falling mainly due to heated competition in retail loans. Funded expense is likely to rise 13.6% YOY to AED 93 Mn in 1Q22 due to rise in benchmark interest rates. Thus, net funded income is anticipated to increase 2.9% to AED 827 Mn in 1Q22. Non-funded income is likely to rise by a strong 19.6% YOY to AED 605 Mn in 1Q22 due to increase in fees and commission and other income. Total operating income is likely to increase 9.4% YOY to AED 1,431 Mn in 1Q22. Operating expenses is expected to grow 3.1% YOY to AED 587 Mn in 1Q22. Impairment expense is expected to decline from AED 233 Mn in 2Q21 to AED 155 Mn in 1Q22 supporting net line.

2022 forecast

We forecast ADIB's net profit to increase 15.1% YOY to AED 2,699 Mn in 2022 due to a decline in impairment charge and increase in non-funded income partially offset by increase in operating expenses. Net funded income is expected to increase 3.3% YOY to AED 3,794 Mn in 2022 due to increase in loan book partially offset by a decline in asset yield. Asset yield is falling mainly due to heated competition in retail loans. Funded expense is likely to rise 16.4% YOY to AED 384 Mn in 2022 due to increase in benchmark interest rates. Thus, net funded income is anticipated to increase 2.0% to AED 3,410 Mn in 2022. Non-funded income is likely to rise 5.9% YOY to AED 2,345 Mn in 2022 due to increase in fees and commission. Total operating income is likely to increase 3.5% YOY to AED 5,755 Mn in 2022. We estimate operating expenses to increase to AED 2,388 Mn in 2022. Impairment expense is expected to reduce from AED 954 Mn in 2021 to AED 668 Mn in 2022 supporting profitability.

1Q22 outturn

ADIB net profit rose 17.8% YOY to AED 715 Mn in 1Q22 primarily due to solid growth in non-funded income and significant decline in provisions. Funded income including income from Islamic financing grew marginally 0.2% YoY to AED 876 Mn in 1Q22. This was mainly due to 9.0% growth in interest-bearing assets, partially offset by a marginal decline in assets yield due to growth in financing to government, public sector enterprises, private banking and retail segment. Funded expenses fell by 3.2% YoY to AED 87 Mn in 1Q22 as the bank recorded growth CASA deposit in retail segment. Thus, net funded income grew marginally 0.6% YoY to AED 789 Mn in 1Q22. Net Fee and Commission income grew significantly 19.3% YoY to AED 288 Mn in 1Q22. Other non-funded income, including components such as investment income and foreign exchange, grew 7.2% YoY to AED 332 Mn in 1Q22. Resultantly, net operating Income grew 5.5% YOY to AED 1,409 Mn in 1Q22. Operating expenses fell 2.5% to AED 577 million in 1Q22. This was mainly driven by the efficacy of digital strategy and cost initiative taken by bank which included optimizing branch network, renegotiation of premises leases and natural staff attrition. Cost-to-Income ratio "C/I" declined to 40.9% in 1Q22, up from 44.3% in 1Q21 due to decline in operating expenses and rise in operating income. Impairment charges decline significantly 15.1% YOY to AED 113 Mn in 1Q22, supporting the increase in bottom-line.

Target price and recommendation

We maintain our BUY rating on ADIB, with a target price of AED 9.85. ADIB delivered robust financial results in 1Q22 and expects the performance to continue in FY2022 supported by rebound in the UAE economic growth, improving business environment and record energy prices. The bank net profit is

expected to grow 15.1% in FY2022. Overall revenues of the bank were supported by the addition of new customers of approximately 30,000 during 1Q22, evidencing ADIB's emphasis on long-term customer relationships and the delivery of superior customer service. Non-funded income is projected to maintain a healthy growth rate with an improving economic outlook. It is also emphasizing to grow non-funded income by investing into capital-light businesses such as asset and wealth management space. The rising interest rate scenario is expected to be a drawback for the bank due to the negative interest rate gap. The bank's balance sheet is negatively geared in the rising interest rate scenario. This means a greater amount of liabilities priced at a higher rate as compared to assets affects NIMs. However, an increase in CASA deposits should somewhat offset the impact of negative gearing. NPL ratio stood at 8.8% with a provision coverage ratio of 59.5%. While stage 2 loans rose from 8.3% in 4Q21 to 8.5% in 1Q22 might create pressure on profitability in case, loans turn non-performing. Considering the aforementioned factors, we maintain our BUY rating on the stock.

ADIB - Relative valuation

(At CMP)	2018	2019	2020	2021	2022
PB	13.3	13.2	23.1	14.7	11.4
PE	1.7	1.6	1.6	1.5	1.4
Dividend yield	3.3%	3.3%	2.4%	3.7%	3.9%

FABS Estimates & Co Data

ADIB - P&L

AED MN	2Q21	1Q22	2Q22F	YOY Ch	QOQ Ch	2021	2022F	Change
Institutions	9	12	19	107.4%	56.4%	39	77	100.1%
Islamic financings	875	864	900	2.8%	4.2%	3,636	3,717	2.2%
Funded income	884	876	919	3.9%	4.9%	3,675	3,794	3.3%
Depositors' distribution	-82	-87	-93	13.6%	6.7%	-330	-384	16.4%
Net funded income	803	789	827	2.9%	4.7%	3,345	3,410	2.0%
Fees and commissions	220	288	290	31.6%	0.5%	958	1,114	16.2%
Other non-funded income	286	332	315	10.3%	-5.0%	1,257	1,231	-2.0%
Non-Funded Income	506	620	605	19.6%	-2.4%	2,215	2,345	5.9%
Operating income	1,309	1,409	1,431	9.4%	1.6%	5,560	5,755	3.5%
Operating expenses	-570	-577	-587	3.1%	1.8%	-2,260	-2,388	5.7%
Pre-provisioning income	739	832	844	14.2%	1.4%	3,300	3,368	2.1%
Financing impairment	-233	-113	-155	-33.4%	37.1%	-954	-668	-30.0%
Profit before NCI	505	719	689	36.2%	-4.2%	2,345	2,700	15.1%
NIC. & zakat	-4	-4	-4	-12.6%	4.6%	-1	-1	-41.0%
Net profit for the period	501	715	685	36.7%	-4.3%	2,344	2,699	15.1%

FABS estimate & Co Data

ADIB - KPI

	2Q21	1Q22	2Q22F	YOY Ch	QOQ Ch	2021	2022F	Change
Net FI/OI	61.4%	56.0%	57.7%	-361	174	60.2%	59.3%	-91
NIM	2.6%	2.4%	2.5%	-11	8	2.7%	2.5%	-14
NIS	2.6%	2.4%	2.5%	-11	8	2.6%	2.5%	-14
Fees & comms/OI	16.8%	20.4%	20.2%	341	-21	17.2%	19.4%	212
Other non-funded/OI	21.8%	23.6%	22.0%	19	-152	22.6%	21.4%	-121
Cost to income	43.6%	40.9%	41.0%	-251	10	40.7%	41.5%	84
Impairment/PPP	31.6%	13.6%	18.4%	-1,318	479	28.9%	19.8%	-909
NP/OI	38.3%	50.8%	47.8%	955	-292	42.2%	46.9%	473
ROAE	13.4%	18.5%	17.9%	442	-66	11.8%	12.9%	114
ROAA	1.5%	2.1%	2.0%	42	-12	1.8%	1.9%	13

FABS estimate & Co Data

ADIB - Key B/S items

AED MN	2Q21	3Q21	4Q21	1Q22	2Q22F	YOY Ch
Net advances	84,559	85,403	89,043	91,169	93,444	10.5%
QOQ change	0.5%	1.0%	4.3%	2.4%	2.5%	
Total assets	130,608	133,382	136,868	138,583	141,225	8.1%
QOQ change	-0.1%	2.1%	2.6%	1.3%	1.9%	
Customer deposits	105,159	107,005	109,611	110,808	113,577	8.0%
QOQ change	2.0%	1.8%	2.4%	1.1%	2.5%	
Total shareholders' equity	14,773	15,163	15,793	15,119	15,562	5.3%
QOQ change	-2.0%	2.6%	4.2%	-4.3%	2.9%	

FABS estimate & Co Data

2Q22 preview: National Bank of Ras Al Khaimah (RAKBANK)

Positioned favorably in a rising interest rate scenario

CMP (AED): 4.50

Potential upside/(downside) (%): +30.0%

12-m target price:

AED 5.85

Stock rating:

BUY

2Q22 estimate

National Bank of Ras Al-Khaimah (RAKBANK) is forecasted to report a net profit of AED 273 Mn in 2Q22 compared to AED 191 Mn in 2Q21 due to a decline in impairment and supported by an increase in interest rates partially offset by a decline in non-funded income. Interest Income is anticipated to grow 3.7% YOY to AED 627 Mn in 2Q22 due to an increase in loan book and further supported by an increase in asset yields. Interest expense is expected to grow 13.7% YOY to AED 70 Mn in 2Q22 driven by an increase in benchmark interest rates. Resultantly, net funded income is expected to increase 2.5% YOY to AED 557 Mn in 2Q22. Total non-funded income is expected to decline 17.6% YOY to AED 238 Mn in 2Q22 primarily due to a decline in other operating income and fees and commission income. Thus, total operating income is expected to decline 4.5% YOY to AED 795 Mn in 2Q22. Operating expense is anticipated to grow 1.9% YOY to AED 350 Mn in 2Q22 with a cost-to-income ratio of 41.3% in 2Q21 to 44.0% in 2Q22. Impairment charges is anticipated to decline to AED 172 Mn in 2Q22 from AED 297 Mn in 2Q21.

2022 forecast

We forecast RAKBANK's net profit to increase 29.3% to AED 978 Mn in 2022. Net funded income including, income from Islamic assets is anticipated to grow 4.6% to AED 2,537 Mn in 2022 mainly due to increase in interest rates and expected increase in financing activities of the bank. Non-funded income is expected to decline 13.8% YOY to AED 916 Mn in 2022 mainly due to a decline in other operating and investment income. Consequently, total operating income is expected to decrease slightly from AED 3,231 Mn in 2021 to AED 3,161 Mn in 2022. Operating expense is anticipated to grow 3.4% to AED 1,443 Mn in 2022. Impairment expense is anticipated to decrease from AED 1,077 Mn in 2021 to AED 739 Mn in 2022 driving profitability.

1Q22 outturn

The Bank reported a significant increase in net profit to AED 219 Mn in 1Q22 primarily driven by lower impairment charges partially offset by a decline in non-funded income. Interest income including the income from financing increased 0.7% YOY to AED 607 Mn in 1Q22 due to strong growth in interest-bearing assets both on YOY and QOQ basis. This is despite a fall in asset yield due to a change in the asset mix. On the other hand, interest expense decreased 6.4% YOY to AED 67 Mn in 1Q22 driven by an increase in higher cost of funds. Resultantly, the net funded income grew 1.6% YOY to AED 540 Mn in 1Q22. Fees and commission income slightly declined 0.6% YOY to AED 171 Mn in 1Q22. Other components of non-funded income declined significantly from AED 97 Mn in 1Q21 to AED 16 Mn in 1Q22 due to a decline in forex and derivative income and investment income. The decline was recorded mainly due to a one-time trading loss recorded in the proprietary book due to a rise in interest rates which impacted outstanding bonds and derivative positions. Resultantly, the non-funded income decreased 30.7% YOY to AED 187 Mn in 1Q22. Therefore, the net operating income declined 9.2% YOY to AED 727 Mn in 1Q22. Net operating expenses increased 12.9% YOY to AED 372 Mn in 1Q22. Impairments declined significantly from AED 357 Mn in 1Q21 to AED 134 Mn in 1Q22.

Target price and recommendation

We maintain our BUY rating on RAKBANK with an unchanged target price of AED 5.85. The Bank is expected to benefit from rising interest rates as customer deposits rose 2.2% QOQ in 1Q22 with a CASA ratio of 74.3% in 1Q22. The asset quality of the bank improved as the non-performing loan showed a downward trend in 1Q22. The NPL ratio reduced from 4.1% in FY2021 to 3.7% in 1Q22 and provisioning coverage stood at 137.8% excluding, collaterals against any bad loans. Provisioning buffer will help the bank to position itself strongly against any unforeseen losses in the loan portfolio.

The bank maintained a strong capitalization ratio with a CET 1 ratio of 15.4%. We also like RAKBANK diversification strategy of increasing focus on wholesale business and increasing contribution from fee income such as, treasury, forex, bancassurance and asset management business. Considering the aforementioned factors, we assign a BUY rating on the stock.

RAKBANK - Relative valuation

(At CMP)	2018	2019	2020	2021	2022F
P/E (x)	8.3	6.9	15.0	10.0	7.7
P/B (x)	1.1	1.0	1.0	0.9	0.8
Dividend Yield	6.7%	6.7%	3.3%	5.0%	6.0%

FABS Estimates & Co Data

RAKBANK P&L

AED mm	2Q21	1Q22	2Q22F	YOY Ch	QOQ Ch	2021	2022F	Change
Interest income	605	607	627	3.7%	3.3%	2,426	2,537	4.6%
Interest expenses	-62	-67	-70	13.7%	5.5%	-258	-292	13.0%
Net funded income	543	540	557	2.5%	3.0%	2,168	2,245	3.6%
Net fees and commissions	180	171	171	-5.0%	0.1%	687	680	-1.0%
Foreign exchange gain	49	-14	32	-35.0%	NA	161	105	-34.6%
Gross insurance underwriting Profit	13	5	5	-59.1%	0.0%	37	22	-41.5%
Investment Income	29	8	12	-60.0%	38.5%	80	34	-57.7%
Other operating income	17	16	18	4.0%	10.6%	97	74	-23.2%
Total non-funded income	289	187	238	-17.6%	27.6%	1,062	916	-13.8%
Net operating income	832	727	795	-4.5%	9.3%	3,231	3,161	-2.2%
Operating expenses	-343	-372	-350	1.9%	-6.1%	-1,396	-1,443	3.4%
Pre-provision profit	489	355	445	-8.9%	25.5%	1,835	1,718	-6.4%
Impairment	-297	-134	-172	-42.0%	28.0%	-1,077	-739	-31.3%
Profit for the year	192	220	273	42.1%	24.0%	758	978	29.0%
Non-controlling interest	-1	-1	0	NA	NA	-2	-1	NM
Net profit attributable	191	219	273	42.9%	24.5%	756	978	29.3%

FABS estimate & Co Data

RAKBANK - KPI

	2Q21	1Q22	2Q22F	YOY Ch	QOQ Ch	2021	2022F	Change
Net FI/OI	65.3%	74.3%	70.1%	478	-428	67.1%	71.0%	391
NIM	4.2%	3.9%	3.9%	-30	1	4.2%	4.0%	-19
NIS	4.1%	3.8%	3.8%	-30	1	4.1%	3.9%	-18
Fees & comms/OI	21.7%	23.5%	21.5%	-12	-198	21.3%	21.5%	25
Foreign exchange gain/OI	6.0%	-2.0%	4.0%	-190	600	5.0%	3.3%	-165
Other operating income/OI	2.0%	2.2%	2.2%	18	3	3.0%	2.4%	-64
Invst Income/OI	3.5%	1.1%	1.5%	-202	31	2.5%	1.1%	-141
Cost to income	41.3%	51.2%	44.0%	275	-723	43.2%	45.7%	246
Impairment/PPP	60.7%	37.9%	38.7%	-2203	74	58.7%	43.0%	-1564
NP/OI	23.0%	30.2%	34.3%	1138	418	23.4%	30.9%	752
ROAE	6.4%	10.2%	10.9%	452	67	9.4%	11.1%	170
ROAA	0.9%	1.5%	2.4%	146	89	1.4%	1.7%	27

FABS estimate & Co data

RAKBANK - Key B/S items

AED mm	2Q21	3Q21	4Q21	1Q22	2Q22	YOY Ch
Net advances	31,063	31,451	32,284	33,946	34,770	11.9%
QOQ change	1.8%	1.2%	2.6%	5.1%	2.4%	
Total assets	54,312	54,495	56,304	58,626	59,656	9.8%
QOQ change	2.0%	0.3%	3.3%	4.1%	1.8%	
Customer deposits	37,027	36,988	37,647	38,458	39,966	7.9%
QOQ change	1.5%	-0.1%	1.8%	2.2%	3.9%	
Total Equity	7,924	8,149	8,382	8,578	8,851	11.7%
QOQ change	-0.5%	2.8%	2.9%	2.3%	3.2%	

FABS estimate & Co data

2Q22 preview: Abu Dhabi Commercial Bank (ADCB)

Lower provisions and de-risking of advances to support Profitability

CMP (AED): 8.42

Potential Upside/(downside) (%): +37.8%

12-m target price:

AED 11.60

Stock rating:

BUY

2Q22 estimate

Abu Dhabi Commercial Bank (ADCB) net profit is estimated to grow 5.3% YOY at AED 1,476 Mn in 2Q22 mainly due to decline in impairment charges and operating expenses partially offset increase in funded expenses. Net funded income is expected to decrease 7.2% YOY to AED 2,785 Mn in 2Q22 due to increase in funded expenses and decline in funded income due to de-risking of the loan book. Funded expense is likely to increase 21.9% YOY at AED 637 Mn in 2Q22 mainly due to higher benchmark rates. We expect funded income to decline marginally 1.9% YOY to AED 2,785 Mn in 2Q22, mainly due to increase in benchmark rates partially offset by de-risking loan book. Non-funded income is likely to decline marginally 0.7% YOY to AED 834 Mn in 2Q22 mainly due to lower other operating income partially offset by incline in fee & commission income. The bank invested across businesses to support growth in business benefits of which we could see in coming quarters. We anticipate banks operating expenses to decline 12.4% YOY in 2Q22 to AED 924 Mn. Thus, improving the cost-to-income ratio to 31.0% 2Q22 as compared to 33.4% in 2Q21. Due to improving economic conditions and higher recoveries by bank we estimate impairment cost to decline significantly 18.3% YOY to AED 553 Mn in 2Q22, supporting bottom-line.

2022 forecast

We forecast ADCB's Net profit to rise by 23.4% YOY to AED 6,470 Mn in 2022 mainly due to increase in funded income, decline in operating expenses and impairment partially offsetting increase in funded expenses. Net funded income is expected to increase by 3.4% YOY at AED 11,503 Mn as we expect bank loan-book to increase and due to increase assets yield due to increase in assets yield. Funded expenses is likely to increase to 17.3 % YOY to AED 2,647 Mn due to increase in benchmark rates. Thus, net funded income is anticipated to increase marginally by 0.1% YOY to AED 8,856 Mn. Non-funded income is expected to decline marginally by 0.7% YOY to AED 3,372 Mn in 2022 mainly due to lower income from other operating incomes partially offset by incline in fee & commission income by 12.0% YOY to AED 2,128 Mn. The operating expenses is expected to decrease by 5.4% YOY to AED 4,025 Mn in 2022. Resulting in improvement of Cost to income ratio to 32.7% in 2022. The impairment charges are expected to decline significantly by 38.1% YOY to AED 1,638 Mn in 2022. We expect such significant decline due to improved economic conditions supported by both Oil and Non-Oil sectors as well as higher recoveries by bank.

1Q22 outturn

The Bank achieved solid growth at start of 2022 as net profit rose 32.3% YOY to AED 1,484 Mn in 1Q22 mainly attributed due to a significant decline in impairment charge somewhat offset by an increase in operating expense. Funded income rose 1.0% YOY to AED 2,751 Mn due to significant increase in interest-bearing asset by 9.0% YOY in 1Q22, partially offset by a decline in yield due to a change in borrowing mix. While funded expense fell marginally 0.1% YOY to AED 630 Mn in 1Q22 as benchmark interest rates rose sequentially by 4 basis point. Non-funded income fell 1.6% YOY to AED 789 Mn due to decline in trading and other operating income, offset by rise in fee and commission income by 14.6% YOY to AED 487 Mn in 1Q22. This was mainly due to increase in loan processing fees and trade finance commission income. As a result, net operating income rose marginally 0.5% YOY to AED 2,936 Mn in 1Q22. Similarly, operating expenses grew 5.4% YOY to AED 1,118 Mn in 1Q22 due to a rise in compensation costs and additional investment in the growth of the business. Resultantly, the cost-to-income ratio rose to 38.1% in 1Q22, up from 36.3% in 1Q21. Impairment charges declined significantly 58.2% YOY to AED 294 Mn in 1Q22 due to improved economic conditions and higher recoveries.

Target price and recommendation

We revise our rating on (ADCB) to BUY with a target price of AED 11.60. ADCB maintained strong performance in 1Q22 while de-risking the loan portfolio. The de-risking of loan led the bank to reduce its exposure to real estate loans to 23% in 1Q22 and increase exposure to government and public sector to 26% in 1Q22. The bank's net interest margin benefits in a rising interest rate environment due to a positive interest rate sensitivity gap. We anticipate the non-funded income is expected to maintain healthy growth rate due to improvement in the UAE economic outlook. Moreover, corporate loan accounts for 73% of the bank total portfolio. Thus, the bank enjoys competitive advantage amongst peers as it would be able to reprice higher portion of loan during rising interest rate without lag. ADCB will also benefit from lower impairment charges due to the bank's strategy of increasing the share of financing to the government sector. It estimates the cost of risk will amount to 80 basis points in FY2022. ADCB also benefits from healthy funding mix, CASA deposits comprise 58% of total customer deposits, while total deposits rose 10% YOY basis in 1Q22. The bank maintains a strong liquidity position with LCR of 126%, a liquidity ratio of 31%, and a loan to deposit ratio of 98.0%. ADCB is also able to maintain its capital ratio to meet regulatory requirements, with CAR at 16.02 % and CET1 ratio of 13.03% as of 1Q22. Additionally, asset quality is also anticipated to remain stable in 2022 given the recovery in both oil and non-oil sector of the UAE economy. Considering these factors, we revise our rating to BUY.

ADCB - Relative valuation

(At CMP)	2018	2019	2020	2021	2022F
PE	9.32	11.82	16.45	11.49	9.80
PB	1.51	1.05	1.03	0.98	0.94
Dividend Yield	5.5%	4.5%	3.2%	4.4%	5.1%

FABS Estimates & Co Data

ADCB - P&L

AED mm	2Q21	1Q22	2Q22F	YOY Ch	QOQ Ch	2021	2022F	Change
Funded income	2,837	2,751	2,785	-1.9%	1.2%	11,121	11,338	2.0%
Funded expense	-522	-604	-637	21.9%	5.3%	-2,258	-2,638	16.9%
Net funded income	2,315	2,146	2,148	-7.2%	0.1%	8,864	8,700	-1.8%
Fees & commissions	501	487	526	5.0%	8.0%	1,899	2,128	12.0%
Other operating income	339	302	308	-9.2%	2.0%	1,496	1,244	-16.9%
Non funded income	840	789	834	-0.7%	5.7%	3,396	3,372	-0.7%
Operating income	3,155	2,936	2,982	-5.5%	1.6%	12,259	12,072	-1.5%
Operating expenses	-1,055	-1,118	-924	-12.4%	-17.3%	-4,257	-3,950	-7.2%
Pre-provision profit	2,100	1,818	2,058	-2.0%	13.2%	8,002	8,122	1.5%
Impairments	-678	-294	-553	-18.3%	88.1%	-2,646	-2,038	-23.0%
Operating profit after impairment	1,422	1,524	1,504	5.8%	-1.3%	5,356	6,085	13.6%
Share of profit of assoc.	3	2	2	-41.5%	0.0%	8	8	5.9%
Profit before tax	1,426	1,526	1,506	5.6%	-1.3%	5,363	6,093	13.6%
Overseas tax expense	-19	-29	-30	57.1%	4.8%	-100	-120	20.6%
Loss from discontinued operations	-4	-14	0	-100.0%	-100.0%	-16	0	NA
Non-controlling interest	0	0	0	-110.3%	0.0%	-6	0	NA
Net profit	1,402	1,484	1,476	5.3%	-0.5%	5,241	5,973	14.0%

ADCB - P&L KPI

	2Q21	1Q22	2Q22F	YOY Ch	QOQ Ch	2021	2022F	Change
Net FI/OI	73.4%	73.1%	72.0%	-108	72.3%	72.1%	-23	73.4%
NIM	2.5%	2.1%	2.1%	-2	2.3%	2.1%	-17	2.5%
NIS	2.4%	2.0%	2.0%	-2	2.2%	2.0%	-16	2.4%
Fees & comms/OI	15.9%	16.6%	17.6%	104	15.5%	17.6%	213	15.9%
Other non-funded/OI	10.8%	10.3%	10.3%	4	12.2%	10.3%	-190	10.8%
Cost to income	33.4%	38.1%	31.0%	-707	34.7%	32.7%	-201	33.4%
Impairment/PPP	32.3%	16.2%	26.9%	1071	33.1%	25.1%	-798	32.3%
Tax/PBT	1.3%	1.9%	2.0%	12	1.9%	2.0%	11	1.3%
NP/OI	44.4%	50.5%	49.5%	-104	42.8%	49.5%	672	44.4%
ROAE	11.1%	11.3%	11.3%	0	10.1%	10.9%	86	11.1%
ROAA	1.4%	1.3%	1.3%	-3	1.2%	1.3%	8	1.4%

FABS estimate & Co Data

ADCB- Key BS Items

AED mm	2Q21	3Q21	4Q21	1Q22	2Q22F	YOY Ch
Net advances	237,814	241,912	244,282	245,797	249,484	4.9%
QOQ Change	0.9%	1.7%	1.0%	0.6%	1.5%	
Total assets	416,290	432,061	440,278	445,677	453,196	8.9%
QOQ Change	5.2%	3.8%	1.9%	1.2%	1.7%	
Customer deposits	250,564	255,753	265,052	261,891	271,323	8.3%
QOQ Change	4.9%	2.1%	3.6%	-1.2%	3.6%	
Total equity	57,104	58,161	59,360	57,352	58,828	3.0%
QOQ Change	2.5%	1.9%	2.1%	-3.4%	2.6%	

FABS estimate & Co Data

2Q22 preview: Mashreq Bank (MASQ)

Positively geared balance sheet likely to benefit profitability

CMP (AED): 80.00

Potential upside/(downside) (%): +13.8%

12-m target price:

AED 91.00

Stock rating:

ACCUMULATE

2Q22 estimate

Mashreq Bank is forecasted to witness an increase in its net profit from AED 42 Mn in 2Q21 to AED 554 Mn in 2Q22. The performance is likely to be improved due to a strong increase in funded income which rose 12.3% YOY to AED 1,313 Mn in 2Q22 due to consecutive interest rate hikes. Interest expense is expected to grow 1.8% YOY to AED 434 Mn in 2Q22. Interest expense is expected to increase gradually as compared to interest income because of low-cost CASA deposits which account for 64.6% of total client deposits in 1Q22. Total non-funded income is expected to decline 10.9% YOY to AED 640 Mn in 2Q22. Fees and Commissions are expected to increase to AED 391 Mn in 2Q22, up from AED 369 Mn in 2Q21. As a result, total operating income is likely to improve to AED 1,519 Mn in 2Q22, up from AED 1,461 Mn in 2Q21. G&A expense is expected to increase 6.1% YOY to AED 638 Mn in 2Q22. Allowance for impairments is expected to decrease significantly 64.5% YOY to AED 279 in 2Q22, due to economic recovery and decline in non-performing loans.

2022 forecast

We forecast Mashreq Bank's net profit to more than doubled to AED 2,039 Mn in 2022. Net funded income is expected to increase by 16.9% YOY to AED 3,561 Mn in 2022. It is likely due to a 13.1% increase in interest income to AED 5,348 Mn in 2022 benefiting from the rising interest rate scenario. Similarly, the interest expense is expected to increase 6.3% to AED 1,787 Mn in 2022. Total operating income is likely to improve by 6.1% to AED 6,159 Mn in 2022 due to a positive effect of an increase in interest rates partially offset by a decline in non-funded income. Operating expenses is expected to fall marginally from AED 2,623 Mn in 2021 to AED 2,600 Mn in 2022. Provision charges is expected to fall 34.0% to AED 1,358 Mn in 2022, due to lower provisions against non-performing loans due to the economic recovery.

1Q22 outturn

In 1Q22, the bank's funded income which includes interest income and income from Islamic financing increased 10.6% YOY to AED 1,243 Mn. Interest Expense and Distribution to Depositors in Islamic Finance decreased 2.8% YOY to AED 414 Mn in 1Q22 due to a shift in favorable deposit mix on both QOQ and YOY basis. As a result, net funded income increased 18.8 % YOY to AED 829 Mn in 1Q22. Net fees and commissions increased 1.1% YOY to AED 454 Mn in 1Q22. Other operating income increased 12.4% YOY to AED 263 Mn in 1Q22. As a consequence, overall non-funded income increased 3.3% YOY to AED 735 Mn in 1Q22. As a result of the favorable results, overall operating income climbed 11.0% YOY to AED 1,564 Mn in 1Q22. Operating expenditures increased 8.0% YOY to AED 670 Mn in 1Q22. The cost-to-income ratio declined from 44.0% in 1Q21 to 42.8% in 1Q22 as operating income increased faster than expenses. Impairment costs decreased dramatically from AED 711 Mn in 1Q21 to AED 252 Mn in 1Q22 due to recoveries on previously written-off loans.

Target price and recommendation

We revise our rating on Mashreq Bank from BUY to ACCUMULATE with an unchanged target price of AED 91.00. The rating is revised as share price moved up 5.3% since our last rating. We expect the bank NIM to benefit from a positive interest rate sensitivity gap which is likely to move up in a rising interest rate environment. In a rising interest rate environment, the positive gap will drive the NIM higher, and vice versa. A positive gap occurs when rate-sensitive assets exceed rate-sensitive liabilities. MASQ also exhibited a consistent financing profile, which is mostly supported by client deposits, indicating a robust franchise. As of 1Q22, low-cost CASA deposits accounted for 64.6% of total deposits. Due to significant recoveries, we expect MASQ's NPL ratio to settle at lower levels. Overall, the NPL ratio fell from 6.2% in 4Q21 to 5.5% in 1Q22. Total provision coverage remained good at 126%, compared to 124% in 4Q21. The buffer against loan loss will shield the bank from an

unexpected rise in loan losses. Considering all these factors, we assign an ACCUMULATE rating on the stock.

MASQ- Relative Valuation

(At CMP)	2018	2019	2020	2021	2022E
P/B (x)	0.80	0.75	0.83	0.79	0.74
P/E (x)	7.79	7.77	NA	16.01	7.87
Dividend Yield	5.0%	5.0%	NA	1.3%	2.5%

FABS estimate & Co Data

MASQ - P&L

AED mm	2Q21	1Q22	2Q22F	YOY Ch	QOQ Ch	2021	2022F	Change
Interest income	1,058	1,120	1,189	12.4%	6.2%	4,252	4,846	14.0%
Income from Islamic financing	111	123	124	11.7%	1.0%	475	502	5.7%
Funded income	1,169	1,243	1,313	12.3%	5.7%	4,727	5,348	13.1%
Interest expense	(383)	(373)	(390)	1.7%	4.5%	(1,506)	(1,611)	7.0%
Distribution to depositors – Islamic products	(43)	(41)	(45)	3.0%	8.8%	(176)	(176)	0.0%
Net funded income	743	829	879	18.3%	6.0%	3,045	3,561	16.9%
Net Fee and commission income	369	454	391	5.7%	-14.0%	1,577	1,649	4.6%
Inc. from investment securities	105	18	18	-83.1%	0.0%	177	71	-59.6%
Other operating income, net	243	263	231	-4.8%	-12.0%	1,007	877	-12.9%
Total other OI	718	735	640	-10.9%	-12.9%	2,761	2,598	-5.9%
Total operating income	1,461	1,564	1,519	4.0%	-2.9%	5,806	6,159	6.1%
General & admin. Exps	(601)	(670)	(638)	6.1%	-4.8%	(2,623)	(2,600)	-0.9%
Pre provision profit	860	894	881	2.5%	-1.5%	3,183	3,559	11.8%
Allowances for impairment, net	(785)	(252)	(279)	-64.5%	10.5%	(2,059)	(1,358)	-34.0%
Overseas income tax expense	(12)	(12)	(30)	151.2%	154.4%	(49)	(90)	84.1%
Non-controlling interests	(20)	(24)	(18)	-7.0%	-23.3%	(74)	(72)	-1.8%
Net Profit	42	606	554	1206.8%	-8.6%	1,002	2,039	103.4%

MASQ - KPI

	2Q21	1Q22	2Q22F	YOY Ch	QOQ Ch	2021	2022F	Change
Net FI/OI	50.8%	53.0%	57.9%	703	486	52.5%	57.8%	537
NIM	2.5%	2.6%	2.7%	18	2	2.6%	2.7%	9
NIS	2.5%	2.7%	2.7%	21	0	2.7%	2.8%	8
Fees & comms/OI	25.3%	29.0%	25.7%	42	-332	27.2%	26.8%	-38
Trading/OI	7.2%	1.1%	1.2%	-604	3	3.0%	1.2%	-189
Cost to income	41.1%	42.8%	42.0%	85	-83	45.2%	42.2%	-297
Impairment/PPP	91.4%	28.2%	31.6%	-5,975	343	64.7%	38.2%	-2,651
NP/OI	2.9%	38.8%	36.5%	3,356	-230	17.3%	33.1%	1,584
ROAE	-9.0%	7.7%	10.1%	1,911	235	5.1%	9.7%	465
ROAA	-1.0%	0.9%	1.1%	215	25	0.6%	1.1%	48

FABS estimate & Co Data

MASQ - key BS items

	2Q21	3Q21	4Q21	1Q22	2Q22F	YOY Ch
AED mm						
Net advances	77,282	76,982	81,486	86,295	86,754	12.3%
QOQ changes	2.0%	-0.4%	5.9%	5.9%	0.5%	
Total assets	172,763	169,561	177,054	182,581	188,020	8.8%
QOQ changes	6.5%	-1.9%	4.4%	3.1%	3.0%	
Customer deposits	95,433	94,779	101,483	104,228	106,611	11.7%
QOQ changes	5.8%	-0.7%	7.1%	2.7%	2.3%	
Total equity	20,067	20,165	21,024	21,206	21,801	8.6%
QOQ changes	2.1%	0.5%	4.3%	0.9%	2.8%	

FABS estimate & Co Data

2Q22 preview: Sharjah Islamic Bank (SIB)

Decline in high cost deposit to benefit NIMs and aid profitability

CMP (AED): 1.70

Potential upside/(downside) (%): +8.82%

12-m target price:

AED 1.85

Stock rating:

HOLD

2Q22 Estimate

Sharjah Islamic Bank (SIB) net profit is forecasted to grow 33.9% YOY to AED 168 Mn in 2Q22 due to increase in net funded income and a decline in provision partially offset by a decline in operating expenses. Funded income is anticipated to grow 6.8% YOY to AED 446 Mn due to an increase in net loans and rise in asset yield because of rising interest rates. Net Funded income is likely to increase 8.6% YOY to AED 298 Mn in 2Q22. Further, non-funded income is anticipated to fall marginally 1.0% YOY to AED 69 Mn in 2Q22. As a result, operating income will rise 6.7% YOY to AED 366 Mn in 2Q22. Operating expense will increase marginally 0.6% YOY to AED 139 Mn in 2Q22. Impairment charge will fall from AED 80 Mn in 2Q21 to AED 60 Mn in 2Q22.

2022 Forecast

We forecast SIB's net profit to increase 27.9% to AED 657 Mn in 2022, driven by an increase in net funded income partially offset by a decline in non-funded income and provision charges. Funded income is expected to grow 9.1% to AED 1,808 Mn in 2022. Funded expense is forecasted to increase 7.5% to AED 606 Mn in 2022 due to increase in benchmark rates. As a result, net funded income is expected to increase 9.9% to AED 1,202 Mn in 2022. On the other hand, non-funded income is likely to decline 11.8% to AED 294 Mn in 2022 due to an expected decrease in other income partially offset by a stable income from Fees and commissions. Resultantly, operating income will increase 4.8% to AED 1,496 Mn in 2022. Operating expense is expected to rise from AED 577 Mn in 2021 to AED 585 Mn in 2022. Impairments are forecasted rise marginally from AED 245 Mn in 2021 to AED 254 Mn in 2022.

1Q22 Outrun

SIB net profit grew 13.9% YOY to AED 187 Mn in 1Q22 primarily due to an increase in funded and non-funded income, partially offset by an increase in provisions. Funded income grew 4.0% YOY to AED 435 Mn in 1Q22 due to 0.9% QOQ growth in interest earning asset, partially offset by a marginal decline in yield. Funded expense fell 9% YOY to AED 142 Mn in 1Q22 as the cost of funds declined due to a change in the borrowing mix. Therefore, net funded income rose 11.6% YoY to AED 294 Mn and NIM rose 18 basis point YOY (bps) to 2.38% in 1Q22. Non-funded income grew 12.5% YOY to AED 91 Mn in 1Q22. As a result, total operating income grew 11.8% YOY to AED 384 Mn in 1Q22. Furthermore, operating expenses remained under control and rose 3.3% YOY to AED 136 Mn in 1Q22. Thus, cost-to-income ratio declined from 38.2% in 1Q21 to 35.3% in 1Q22. Impairment charges rose 28.0% YOY to AED 61 Mn in 1Q22 impacting net profit.

Target Price and recommendation

We maintain our HOLD rating on SIB with a revised target price of AED 1.85. Despite the challenges posed by COVID-19, the bank reported a significant growth in profitability in 1Q22. NIM improved from 2.3% 1Q21 to 2.4% in 1Q22 and is expected to benefit further during 2022. SIB enjoyed steady access to deposits from the government of Sharjah and cash-rich related public enterprises due to its strong relationship with them. Top 20 depositors (government and public sector enterprises) amounted to 36% of total deposits in FY2021. The steady flow of low-cost customer deposits will continue to rise due to an increase in oil prices and rise in economic activity. SIB's NPL ratio is stable at 5% while the coverage ratio remains almost unchanged at 91%. It also held collateral against bad loans of AED 630.5 Mn in FY2021 provides some comfort. However, stage 2 loans stood at 7.3% in 1Q22 make us wary about increase in bad loans in the forecasted period. In absence of any major provisioning buffer against stage 2 loans might impact SIB's bottom line in the forecasted period leading us to assign a HOLD rating on the stock.

SIB - Relative valuation

(At CMP)	2018	2019	2020	2021	2022F
PE (x)	8.99	9.60	12.91	10.20	7.97
PB (x)	0.97	0.70	0.69	0.68	0.65
Dividend Yield	4.5%	2.8%	4.7%	4.7%	4.7%

FABS estimate & Co Data

Sharjah Islamic Bank

AED mm	2Q21	1Q22	2Q22F	YOY Ch	QOQ Ch	2021	2022F	YOY Ch
Income from fin. & Leasing	417	435	446	6.8%	2.4%	1,658	1,808	9.1%
Funded expense	-142	-142	-147	3.3%	3.9%	-564	-606	7.5%
Net funded income	275	294	298	8.6%	1.6%	1,094	1,202	9.9%
Total non-funded income	69	91	68	-1.0%	-25.0%	333	294	-11.8%
Total operating income	343	384	366	6.7%	-4.7%	1,427	1,496	4.8%
General & admin. Expenses	-138	-136	-139	0.6%	2.5%	-577	-585	1.4%
Pre provision profit	205	248	227	10.7%	-8.6%	850	911	7.1%
Provisions	-80	-61	-60	-24.3%	-1.8%	-245	-254	3.8%
Net profit	125	187	168	33.9%	-10.3%	514	657	27.9%

FABS estimate & Co Data

SIB - KPI

	2Q21	1Q22	2Q22	YOY Ch	QOQ Ch	2021	2022F	Change
Net FI/OI	80.0%	76.4%	81.5%	143	502	76.7%	80.4%	370
NIM	2.2%	2.4%	2.4%	17	3	2.2%	2.4%	12
NIS	3.0%	3.2%	3.2%	22	1	3.3%	3.2%	-8
Fees & comms/OI	0.0%	19.3%	0.0%	0	-1933	19.0%	0.0%	-1900
Cost to income	40.3%	35.3%	38.0%	-229	266	40.4%	39.1%	-133
Provisions/PPP	38.9%	24.7%	26.6%	-1232	184	28.8%	27.9%	-90
NP/OI	36.5%	48.7%	45.8%	931	-287	36.0%	43.9%	794
ROAE	5.9%	7.1%	7.6%	171	53	6.7%	8.4%	166
ROAA	0.8%	1.0%	1.1%	95	29	0.9%	1.2%	22

FABS estimate & Co Data

SIB - Key BS Items

AED mm	2Q21	3Q23	4Q21	1Q22	2Q22F	YOY Ch
Net advances	29,292	29,551	29,009	29,906	30,453	4.0%
QOQ change	-0.1%	0.9%	-1.8%	3.1%	1.8%	
Total assets	54,351	54,510	54,957	54,711	55,307	1.8%
QOQ change	-1.0%	0.3%	0.8%	-0.4%	1.1%	
Customer deposits	34,992	36,735	38,494	38,409	40,503	15.7%
QOQ change	-1.4%	5.0%	4.8%	-0.2%	5.5%	
Total equity	7,615	7,708	7,695	7,513	7,725	1.4%
QOQ change	1.6%	1.2%	-0.2%	-2.4%	2.8%	

FABS estimate & Co Data

2Q22 preview: Commercial Bank of Dubai (CBD)

Lower impairment and favorable funding mix to improve Performance

CMP (AED): 4.79

Potential upside/ (downside) (%): +16.9%

12-m target price:

AED 5.60

Stock rating:

BUY

2Q22 estimate

We estimate Commercial Bank of Dubai's (CBD) net profit to increase 24.2% YOY to AED 436 Mn in 2Q22 due to increase in funded income, decline in provision partially offset by decline in non-funded income. Net funded income will grow 5.4% YOY to AED 563 Mn in 2Q22 due to increase in loan book offset by decline in asset yield and funded expense. Total non-funded income is expected to decline 7.6% YOY to AED 281 Mn in 2Q22 due to decline in trading and other operating income. Thus, total operating income will rise marginally from AED 837 Mn in 2Q21 to AED 843 Mn in 1Q22. We expect operating expenses to increase 12.7% YOY to AED 240 as the bank continues to focus upon investing in digitization, risk management, government initiatives and increased compliance cost. While we expect impairment expenses to decline 42.2% YOY to AED 212 million due to improvement in economic conditions and rise in recoveries supporting net line.

2022 forecast

We forecast CBD's net profit to grow 19.4% to AED 1,732 Mn in 2022. Net funded income is expected to grow 9.0% YOY to AED 2,265 Mn in 2022 due to increase in interest bearing asset offset by decline in cost of funds. Non-funded income is expected to increase 6.3% YOY to AED 1,163 Mn in 2022 due to rise in fees and commission income partially offset by decline in other operating income. Total operating income is likely to grow 8.1% YOY to AED 3,428 Mn in 2022. We estimate operating expense to increase to AED 968 Mn in 2022 from AED 865 million in 2021 amounting to cost-to-income ratio of 28.2% in 2022 compared to 27.3% in 2021. Impairment charges is expected to reduce from AED 902 Mn in 2021 to AED 728 Mn in 2022.

1Q22 outturn

CBD funded income rose 9.5% YoY to AED 693 million in 1Q22. It was mainly driven due robust growth in interest-bearing assets by 16.9% YoY, partially offset by decline in assets yield. Funded expenses fell 4.3% YoY to AED 150 million in 1Q22 due to favorable deposit mix. Resultantly, net funded income grew 14.1% YoY to AED 543 million in 1Q22. Similarly, non-funded income grew 23.8% YoY to AED 312 million in 1Q22 mainly due to increase in income from fee and commission income, trading income and other non-funded income. Fee and commission income rose significantly by 22.1% YoY to AED 222 million in 1Q22 due to uplift in business activity associated with higher volumes across all segments. Thus, net operating income grew 17.4% YoY to AED 856 million in 1Q22, up from AED 729 million in 1Q21. Furthermore, the bank's operating expenses grew 20.5% YoY to AED 236 million mainly driven by increased of bank's investment in digitization, risk management, government initiatives and increased compliance cost and incentives associated with improved performance. This led to increase in cost-to-income ratio which rose to 27.6% in 1Q22 from 26.9% in 1Q21. Impairment charges rose 8.7% YoY to AED 223 million in 1Q22, partially offset by increase in recoveries which stood at AED 49 million in 1Q22 compared to AED 8 Mn in 1Q21, leading to a decline in net impairment charges by AED 24 million. Thus, CBD net income rose 32.7% YOY to AED 431 Mn in 1Q22.

Target price and recommendation

We maintain our BUY rating on CBD with a target price of AED 5.60. CBD is expected to deliver a robust performance in FY2022 supported by a rebound in UAE economic growth, improving business sentiment and record energy prices. We expect NIMs to further from 2.07% in 1Q22 to 2.13% in FY2022 due to replacement of high-cost deposit and positive interest rate sensitivity gap as reported by the bank in FY2021. CASA ratio stood at 46.8% during 1Q22 compared to 45.2% during 4Q21. The bank continues to experience strong growth in advances and expect to grow further supported led by rebound in economic activity. Additionally, asset quality is also anticipated to remain stable in 2022 given improving macroeconomic outlook. Provision coverage ratio is enough to cover for loan

losses in the near-term. However, capitalisation is only adequate for the time-being as loan growth exceeded internal cash generation historically requiring CBD to look for external source of funding. The bank CET 1 ratio stood at 12.0% during 1Q22 just enough for the time-being and might need to raise capital in the near-term. Considering all these factors, we assign BUY rating on the stock.

CBD - Relative valuation

(At CMP)	2018	2019	2020	2021	2022
PB	11.5	9.4	11.8	10.0	5.6
PE	1.4	1.3	1.0	1.0	0.9
Dividend yield	4.4%	4.4%	6.0%	5.8%	6.0%

FABS Estimates & Co Data

CBD - P&L

AED MN	2Q21	1Q22	2Q22F	YOY Ch	QOQ Ch	2021	2022F	Change
Funded income	686	693	720	5.0%	3.9%	2,689	2,911	8.3%
Funded expense	-152	-150	-158	3.5%	5.2%	-611	-646	5.7%
Net funded income	534	543	563	5.4%	3.6%	2,078	2,265	9.0%
Fees and commissions	203	222	208	2.6%	-6.0%	742	853	14.9%
Trading income	74	79	60	-18.3%	-23.8%	288	261	-9.4%
Other non-funded income	27	12	12	-55.2%	2.0%	63	49	-22.3%
Total non-funded income	304	312	281	-7.6%	-10.2%	1,094	1,163	6.3%
Total operating income	837	856	843	0.7%	-1.5%	3,171	3,428	8.1%
General and administrative expenses	-206	-228	-232	12.6%	1.8%	-835	-935	12.0%
Depreciation and amortization	-7	-8	-8	13.9%	0.0%	-30	-33	10.4%
Operating Expenses	-213	-236	-240	12.7%	1.7%	-865	-968	11.9%
Pre provision profit	624	620	603	-3.4%	-2.7%	2,306	2,460	6.7%
Impair allow. on loans & adv and Islamic fin	-289	-223	-167	-42.2%	-25.2%	-902	-728	-19.2%
Net Profit	351	431	436	24.2%	1.1%	1,451	1,732	19.4%

FABS estimate & Co Data

CBD - KPI

	2Q21	1Q22	2Q22F	YOY Ch	QOQ Ch	2021	2021F	Change
Net FI/OI	63.7%	63.5%	66.7%	299	324	65.5%	66.1%	56
NIM	2.2%	2.1%	2.1%	-11	3	2.2%	2.13%	-4
NIS	2.1%	2.0%	2.0%	-10	3	2.4%	2.1%	-33
Fees & comms/OI	24.2%	25.9%	24.7%	46	-119	23.4%	24.9%	147
Other non-funded/OI	8.8%	9.2%	7.1%	-166	-209	9.1%	7.6%	-147
Cost to income	25.4%	27.6%	28.5%	303	89	27.3%	28.2%	96
Impairment/PPP	44.4%	30.9%	27.7%	-1674	-322	37.6%	29.6%	-802
NP/OI	41.9%	50.4%	51.7%	981	131	37.7%	45.7%	805
ROAE	13.3%	15.6%	15.3%	201	-30	13.1%	14.7%	163
ROAA	1.3%	1.5%	1.5%	19	2	1.8%	1.9%	8

FABS estimate & Co Data

CBD - Key B/S items

AED MN	2Q21	3Q21	4Q21	1Q22	2Q22F	YOY Ch
Net advances	74,044	74,898	76,441	78,687	79,277	7.1%
QOQ change	6.4%	1.2%	2.1%	2.9%	0.8%	
Total assets	112,767	107,752	114,213	119,036	120,015	6.4%
QOQ change	10.0%	-4.4%	6.0%	4.2%	0.8%	
Customer deposits	79,820	75,812	82,722	82,808	83,429	4.5%
QOQ change	12.6%	-5.0%	9.1%	0.1%	0.8%	
Total shareholders' equity	12,966	13,275	13,567	12,996	13,432	3.6%
QOQ change	24.4%	2.4%	2.2%	-4.2%	3.4%	

FABS estimate & Co Data

2Q22 preview: Ajman Bank (AJMANBAN)

Sharp decline in corporate banking income will impact profitability

CMP (AED): 0.72

Potential upside/(downside) (%): +4.2%

12-m target price:

AED 0.75

Stock rating:

HOLD

2Q22 estimate

Ajman Bank expects net profit to decline 3.9% YOY to AED 29 Mn in 2Q22 led by a decline in both funded and non-funded income partially offset by decline in impairment charges. Net funded income will decline 36.1% YOY to AED 67 Mn in 2Q22 due to decline in loan book and asset yield. Non-funded income will also decline 17.5% YOY to AED 50 Mn in 2Q22 due to decline in income from investment securities. Thus, total operating income is expected to decline to fall by 29.2% YOY to AED 117 Mn in 2Q22. Operating expense is anticipated to grow by 5.1% YOY to AED 69 Mn in 2Q22. While impairment charges is expected to decline from AED 69 Mn in 2Q21 to AED 18 Mn in 2Q22 supporting bottom line.

2022 forecast

We estimate Ajman Bank's net profit to decline 18.5% to AED 95 Mn in 2022 mainly due to a decline in net funded income and rise in operating expenses partially offset by decline in provisions for loan losses. Funded income is estimated to decrease by 31.9% to AED 481 Mn in 2022, mainly due to significant decline in interest bearing assets. While funded expense is expected to decline 6.8% to AED 216 Mn in 2022 due to decline in interest bearing liabilities which is partially offset by increase in benchmark rates. Resultantly, net funded income will decline 44.2% to AED 265 Mn in 2022. Non-Funded Income is anticipated to rise 7.0% to AED 207 Mn in 2022, led by the expected increase in fees and commissions offset by decline in income from investment securities. Therefore, total operating income would decline 29.3% to AED 472 Mn in 2022. Operating expenses is anticipated to increase 4.8% to AED 298 Mn in 2022, mainly due to increase in staff cost. Thus, the cost-to-income ratio would increase significantly to 63.1% in 2022 from 42.3% in 2021. Impairment charge is estimated to decline from AED 267 Mn in 2021 to AED 79 Mn in 2022.

1Q22 outturn

Ajman Bank's net funded income declined by 44.2% YOY to AED 68 million in 1Q22. It was dragged down by a 31.7% decrease in funded income to AED 124 million in 1Q22 due to significant decline in asset yield. Furthermore, funded expenses decreased by 6.0% YOY to AED 56 million in 1Q22 due to optimisation of liability and change in borrowing mix. Non-funded income rose from AED 44 Mn in 1Q21 to AED 56 million in 1Q22 mainly due to increase in fees and commission income somewhat offset by a decline in investment income. Thus, total operating income fell 25.5% YoY to AED 124 million in 1Q22, primarily due to decline in net funded income. Operating expenses rose 15.1% YOY to AED 88 million in 1Q22 primarily due to increase in staff costs. Cost-to-income ratio worsened from 46.2% in 1Q21 to 71.3% in 1Q22. Impairments reduced significantly from AED 58 Mn in 1Q21 to AED 2 Mn in 1Q22. Consequently, net profit rose 8.3% YoY to AED 34 million in 1Q22.

Target price and recommendation

We maintain HOLD rating on Ajman Bank with a revised target price of AED 0.75. The bank is expected to benefit from the rising interest rate scenario due to a positive interest rate gap. The banks' balance sheet is positively geared in a rising interest rate scenario. This means a greater amount of assets priced at a higher rate as compared to liabilities benefitting NIMs. In addition, the recent change in borrowing mix and decline in high-cost liability to further benefit NIMs. Ajman NPL declined from 11.3% in 4Q21 to 9.0% in 1Q22 mainly due to the write-off of bad loans. Coverage of the bad loans remained weak at 44.8% in 1Q22, however, the bank held collateral worth AED 948 Mn against bad loans in 4Q21. Furthermore, an increase in stage 2 loans from 20.5% in 4Q21 to 24.4% in 1Q22 might create pressure on profitability in case, loans turn non-performing. We might revise the rating once we have more granular information regarding the decline in asset yield in

1Q22.

Ajman Bank - Relative valuation

(At CMP)	2018	2019	2020	2021	2022F
P/E (x)	7.21	17.92	27.96	12.71	15.51
P/B (x)	0.60	0.58	0.59	0.56	0.55
Dividend Yield	5.0%	5.0%	NA	NA	NA

FABS Estimates & Co Data

Ajman Bank - P&L

AED mn	2Q21	4Q21	2Q22F	YOY Ch	QOQ Ch	2021	2022F	Change
Funded income	165	124	121	-26.5%	-2.4%	706	481	-31.9%
Funded expenses	-60	-56	-54	-9.8%	-2.7%	-232	-216	-6.8%
Net funded income	105	68	67	-36.1%	-2.2%	474	265	-44.2%
Fees and commissions	31	37	32	0.5%	-15.0%	106	134	26.3%
Income from Investment Securities	30	18	19	-36.6%	1.3%	96	73	-23.5%
Share of result of associate	0	0	0	NA	NA	-8	0	-100.0%
Total non-funded income	61	56	50	-17.5%	-9.6%	194	207	7.0%
Total operating income	165	124	117	-29.2%	-5.5%	668	472	-29.3%
Operating expenses	-66	-88	-69	5.1%	-21.6%	-285	-298	4.8%
Pre provision profit	100	36	48	-51.9%	34.5%	384	174	-54.6%
Impairment	-69	-2	-18	-73.2%	NA	-267	-79	-70.3%
Net profit	31	34	29	-3.9%	-13.4%	116	95	-18.5%

FABS estimate & Co Data

Ajman Bank - KPI

	2Q21	1Q22A	2Q22F	YOY Ch	QOQ Ch	2021	2022F	Change
Net FI/OI	63.2%	55.1%	57.1%	-612	193	71.0%	56.1%	-1491
NIM	2.2%	1.5%	1.5%	-67	1	2.6%	1.5%	-103
NIS	2.2%	1.6%	1.7%	-53	6	3.2%	2.2%	-99
Fees & comms/OI	19.0%	30.0%	27.0%	798	-301	15.9%	28.4%	1249
Invst Securities/OI	17.8%	14.9%	16.0%	-186	108	14.4%	15.6%	119
Cost to income	39.8%	71.3%	59.1%	1929	-1217	42.6%	63.1%	2055
Impairment/PPP	69.3%	4.7%	38.6%	-3066	3399	69.7%	45.6%	-2412
NP/OI	18.5%	27.4%	25.1%	661	-229	17.4%	20.1%	266
ROAA	0.6%	0.6%	0.5%	-2	-7	0.5%	0.4%	-9
ROAE	4.8%	5.2%	4.5%	-30	-69	4.5%	3.6%	-94

FABS estimate & Co Data

Ajman Bank - Key B/S items

AED mn	2Q21	3Q21	4Q21	1Q22A	2Q22F	YoY Ch
Net advances	16,001	15,814	14,924	14,346	14,059	-12.1%
QOQ change	-5.8%	-1.2%	-5.6%	-3.9%	-2.0%	
Total assets	21,316	21,505	22,342	21,792	21,497	0.8%
QOQ change	-3.0%	0.9%	3.9%	-2.5%	-1.4%	
Customer deposits	13,876	14,010	15,263	16,633	16,278	17.3%
QOQ change	-0.1%	1.0%	8.9%	9.0%	-2.1%	
Total equity	2,575	2,598	2,635	2,592	2,621	1.8%
QOQ change	2.5%	0.9%	1.4%	-1.6%	1.1%	

FABS estimate & Co Data

2Q22 preview: Commercial Bank International (CBI)

High NPLs and weak capitalization lead us to maintain SELL rating

CMP (AED): 1.10

Potential upside/(downside) (%): -27.3%

12-m target price:

AED 0.80

Stock rating:

SELL

2Q22 estimate

Commercial Bank International (CBI) is forecasted to report a marginal increase in net profit of AED 29 Mn in 2Q22 compared to a profit of AED 28 Mn in 2Q21 mainly due to a decline in the provision and operating expenses. Funded income is expected to increase marginally 0.9% YOY to AED 129 Mn in 2Q22 due to better asset yields. Funded expense is expected to increase by 12.7% YOY to AED 52 Mn in 2Q22. Resultantly, net funded income will decline 4.9% YOY to AED 89 Mn in 2Q22. Non-funded income is expected to decline to AED 37 Mn in 2Q22 driven by a decline in fees & commission income partially offset by increase in other operating income. As a result, total operating income is likely to decline 5.3% YOY to AED 126 Mn in 2Q22. Operating expenses will decline 6.5% YOY to AED 69 Mn in 2Q22 with a cost-to-income ratio of 55.0% in 2Q22 to decline marginally from 55.7% in 2Q21 to 55.0% in 2Q22 compared to 55.7% in 2Q21. Impairments will decline by 6.4% to AED 30 Mn in 1Q22 supporting profitability.

2022 forecast

We forecast CBI's net profit to increase 13.8% to AED 139 Mn in 2022 due to a decline in the provision and operating expenses. Funded income is expected to grow 1.5% to AED 571 Mn in 2022 primarily due to rise in benchmark interest rates. Similarly, the funded expense is expected to rise 18.6% to AED 211 Mn in 2022. Thus, net funded income is expected to fall 5.8% to AED 354 Mn in 2022. Non-funded income will decline 27.8% to AED 184 Mn in 2022 mainly due to one-time gain recognized in 2021 which is not expected to be repeated in 2022. Consequently, total operating income will fall 14.6% to AED 538 Mn in 2022. Operating expenses is expected to fall 7.2% to AED 281 Mn in 2022. Impairment expense will decline from AED 197 Mn in 2021 to AED 128 Mn in 2022 boosting the net line.

1Q22 outturn

The bank's funded income which includes Islamic financing declined 3.2% YOY to AED 137 Mn in 1Q22 mostly due to pressure on asset yield. Funded expense rose marginally 0.7% YOY to AED 52 Mn in 1Q22, owing mostly to an increase in benchmark rates. As a result, net funded income declined 5.3% YOY to AED 86 Mn in 1Q22. Fees and commissions fell 31.5% YOY to AED 21 Mn in 1Q22. Other operating income fell to AED 4 Mn in 1Q22 from AED 8 Mn in 1Q21. As a result, overall non-funded income fell 34.9% YOY to AED 25 Mn in 1Q22. As a result of the adverse performance, overall operating income fell 14.2% YOY to AED 111 Mn in 1Q22. Operating costs decreased 10.7% YOY to AED 70 Mn in 1Q22. Due to a decrease in operational income, the cost-to-income ratio increased from 61.2% in 1Q21 to 63.6% in 1Q22. Impairment costs declined significantly from AED 147 Mn 1Q21 to AED 20 Mn 1Q22 due to recoveries on previously written-off loans.

Target price and recommendation

We assign a SELL rating to CBI with a target price of AED 0.80. CBI NPLs were showing early signs of stabilization post pandemic. However, NPLs rose from 17.9% in 4Q21 to 19.2% in 1Q22 mainly due to slippages in wholesale banking division. Coverage of stage 3 assets dipped marginally from 41.7% in 4Q21 to 39.8% in 1Q22. Although, the bank held collateral worth AED 2,179 Mn against NPLs in 4Q21 after including, collaterals NPLs will be fully covered against loss. However, falling net interest margin and low capitalization levels remain an area of concern for the bank. CBI CET 1 ratio stood at 10.7% in 1Q22 compared to regulatory requirement of 7.0%. Low capitalization might pressurize the bank to raise money through equity issuance diluting value for existing shareholders. Considering all these factors, we assign a SELL rating on the stock.

CBI-Relative valuation

(At CMP)	2018	2019	2020	2021	2022F
PE	8.48	17.21	NM	15.69	13.80
PB	0.80	0.77	0.79	0.75	0.71

FABS estimate & Co Data
CBI - P&L

AED mm	2Q21	1Q22	2Q22F	YOY Ch	QOQ Ch	2021	2022F	Change
Funded income	127	126	129	1.9%	2.5%	513	526	2.5%
Inc from Islamic fin & invest assets	12	11	11	-9.8%	-1.4%	50	45	-9.2%
Funded expenses	-46	-52	-52	12.7%	0.0%	-178	-211	18.6%
Net funded income	93	86	89	-4.9%	3.5%	376	354	-5.8%
Fees and commissions	35	21	31	-10.0%	47.5%	121	111	-8.6%
Other operating income, net	5	4	6	20.0%	52.2%	133	73	-45.2%
Total non-funded income	40	25	37	-6.2%	48.3%	255	184	-27.8%
Total operating income	133	111	126	-5.3%	13.6%	631	538	-14.6%
Operating expenses	-74	-70	-69	-6.5%	-1.8%	-303	-281	-7.2%
Pre provision profit	59	40	57	-3.8%	40.6%	328	258	-21.5%
Impairment	-32	-20	-30	-6.4%	50.3%	-197	-126	-36.4%
Non-controlling interests	-1	-1	-2	223.1%	223.1%	9	-7	-175.4%
Net profit	28	21	29	4.2%	37.0%	122	139	13.8%

FABS estimate & Co Data
CBI - P&L KPI

	2Q21	1Q22	2Q22F	YOY Ch	QOQ Ch	2021	2022F	Change
Net FI/OI	70.1%	77.3%	70.4%	27	-691	59.6%	65.8%	620
NIM	2.9%	2.1%	2.2%	-74	6	2.5%	2.2%	-37
NIS	2.7%	2.0%	2.0%	-71	6	2.4%	2.1%	-33
Fees & comms/OI	26.1%	19.1%	24.8%	-129	569	19.2%	20.6%	137
Trading/OI	3.8%	3.6%	4.8%	102	123	21.2%	13.6%	-757
Cost to income	55.7%	63.6%	55.0%	-70	-862	48.0%	52.2%	416
Impairment/PPP	53.6%	48.8%	52.2%	-145	335	60.2%	48.8%	-1142
NP/OI	21.0%	19.2%	23.1%	210	393	19.3%	25.7%	643
ROAE	-4.7%	9.4%	9.3%	1,406	-5	4.9%	5.3%	40
ROAA	-0.7%	1.1%	1.1%	182	0	0.6%	0.7%	2

FABS estimate & Co Data
CBI- Key BS Items

AED mm	2Q21	3Q21	4Q21	1Q22A	2Q22F	YOY Ch
Net advances	10,082	10,603	11,779	11,806	12,013	19.2%
QOQ Change	-1.4%	5.2%	11.1%	0.2%	1.8%	
Total assets	17,053	17,495	20,774	20,858	21,067	23.5%
QOQ Change	6.8%	2.6%	18.7%	0.4%	1.0%	
Customer deposits	10,670	10,236	12,574	12,675	12,943	21.3%
QOQ Change	7.5%	-4.1%	22.8%	0.8%	2.1%	
Total equity	2,361	2,386	2,545	2,567	2,596	10.0%
QOQ Change	1.2%	1.1%	6.6%	0.9%	1.1%	

FABS estimate & Co Data

2Q22 preview: United Arab Bank (UAB)

Undiversified business model constraint growth

CMP (AED): 0.65

Potential upside/(downside) (%): -23.1%

12-m target price:

AED 0.50

Stock rating:

SELL

2Q22 estimate

UAB net profit is estimated double to AED 34 Mn in 2Q22 due to increase in non-funded income offset by decline in funded income. Funded income will decline 12.3% YOY to 113 Mn in 2Q22 due to decline in interest bearing assets. Funded expenses will increase due to increase in benchmark rates. Thus, net funded income is anticipated to decline 14.9% YOY to AED 67 Mn in 2Q22. Non-funded income is likely to more than double from AED 25 Mn in 2Q21 to AED 51 Mn in 2Q22. On the other hand, operating expenses is anticipated to decline 5.8% YOY to AED 57 Mn as bank continue to manage rationalization of cost through optimizing staff cost, avoiding non-essential general and administrative expenses and branch rationalization. Impairment charges is expected to increase 3.0% YOY to AED 28 Mn in 2Q22.

2022 forecast

We forecast UAB's net profit to rise significantly 87.5% to AED 132 Mn in 2022 mainly due to increase in non-funded income partially offset by increase in funded expenses. Funded income is likely to fall marginally 0.4% to AED 451 Mn in 2022 mainly due to decline in interest bearing assets. We expect funded expenses to rise 18.3% to AED 180 Mn in 2022 due to increase in benchmark yield. Thus, net funded income is anticipated to decline 3.5% in 2022. Non-funded income is likely to increase by a strong 26.0% YOY to AED 133 Mn in 2022 mainly due to increase in other non-funded income. On the other hand, operating expenses is expected to decline 6.1% to AED 229 Mn in 2022 as bank continue to manage rationalization of cost through optimizing staff cost, avoiding non-essential G&A expense and branch rationalization. Impairment charges is expected to decrease 18.0% YoY to AED 111 Mn in 2022.

1Q22 outturn

UAB's funded income declined 6.4% YOY to AED 144 Mn in 1Q22 as interest bearing assets decline by 3.8% YOY and 2.5% QOQ. Similarly, funded expenses fell significantly by 18.5 YOY to AED 47 Mn in 1Q22, somewhat offsetting decline in funded income. Non-funded income fell 26.7% YOY to AED 50 Mn, primarily due to significant decline in other operating income which declined 37.2% YOY to AED 33 Mn in 1Q22. As a result, net operating income declined 11.7% YOY to AED 117 Mn in 1Q22. Similarly, operating expenses declined marginally 1.9% YOY to AED 58 Mn in 1Q22, mainly due to bank's efforts in rationalization of cost through optimizing staff cost, avoiding non-essential general and administrative expenditure and branch rationalization. Resultantly, cost-to-income ratio rose to 50.0% in 1Q22, up from 45.1% in 1Q21. Impairments charges decline significantly 55.2% YOY to AED 28 million in 1Q22, mainly due to bank's focus on higher quality of assets, and remediation and recovery efforts.

Target price and recommendation

We maintain our SELL rating on United Arab Bank (UAB) with a target price of AED 0.50. UAB is a small franchise in UAE mainly catering to wholesale and retail banking services. It is more focused on wholesale banking and derived ~79% of total operating income in 2021. UAB's NPL ratio stood at 12.4% in 1Q22 while provisional coverage ratio at 73.2%. Stage 2 assets stood at 7.3% of total gross loans in 1Q22. Nevertheless, coverage for stage 3 loans is almost fully provided including, collaterals provided against non-performing loans. We remain concerned about the bank ability to maintain NIMs due to its growing reliance on high-cost funding including, interbank funding. Further, the small franchise and undiversified business model also constraints fee income generation. The bank capital buffer also remains weak and the CET1 ratio stood at 13.1% limiting growth. Considering aforementioned factors, we assign SELL rating on the stock.

UAB - Relative valuation

(At CMP)	2018	2019	2020	2021	2022F
PE	17.36	NA	NA	19.10	10.19
PB	0.53	0.62	0.92	0.89	0.84

FABS Estimates & Co Data
UAB - P&L

AED mm	2Q21	1Q22	2Q22F	YOY Ch	QOQ Ch	2021	2022F	Change
Interest income	131	114	113	-13.4%	-0.1%	451	451	-0.1%
Interest expense	-52	-47	-46	-11.1%	-1.3%	-152	-180	18.3%
Net interest income	79	67	67	-14.9%	0.7%	278	268	-3.5%
Fees and commissions	13	12	13	1.3%	2.0%	47	51	9.4%
Exchange income	5	5	5	-0.5%	1.0%	19	19	-0.4%
Other non-funded income	8	33	33	334.6%	1.0%	106	133	26.0%
Total non-funded income	25	50	51	103.1%	1.3%	172	204	18.5%
Total operating income	104	117	118	13.4%	1.0%	450	472	4.9%
General & admin. Expenses	-60	-58	-57	-5.8%	-3.2%	-244	-229	-6.1%
Pre provision profit	44	58	61	39.6%	5.1%	206	243	17.9%
Impairment	-27	-28	-28	3.0%	0.2%	-136	-111	-18.0%
Net profit	17	30	33	99.2%	9.6%	70	132	87.5%

UAB - P&L KPI

	2Q21	1Q22	2Q22F	YOY Ch	QOQ Ch	2021	2022F	Change
Net FI/OI	76.1%	57.2%	57.1%	-1,895	-12	61.8%	56.8%	-497
NIM	2.3%	1.9%	1.9%	-31	4	1.9%	1.9%	3
NIS	2.0%	1.7%	1.8%	-29	4	1.7%	1.8%	8
Fees & comms/OI	12.1%	10.7%	10.8%	-129	11	10.5%	10.9%	45
Exchange income/OI	4.5%	4.0%	4.0%	-55	0	4.2%	4.0%	-21
Cost to income	57.8%	50.0%	48.0%	-976	-205	54.2%	48.5%	-570
Impairment/PPP	62.0%	47.9%	45.7%	-1,625	-223	65.9%	45.8%	-2,010
NP/OI	16.1%	26.0%	28.2%	1,216	223	15.6%	27.9%	1,229
ROAE	4.6%	8.1%	8.8%	422	71	4.7%	8.5%	372
ROAA	0.5%	0.8%	0.9%	48	10	0.5%	0.9%	43

FABS estimate & Co Data
UAB- Key BS Items

AED mm	2Q21	3Q21	4Q21	1Q22	2Q22F	YOY Ch
Net advances	8,035	8,035	8,213	7,884	7,792	-3.0%
QOQ Change	-5.5%	0.0%	2.2%	-4.0%	-1.2%	
Total assets	14,549	14,267	15,180	14,021	14,411	-0.9%
QOQ Change	0.9%	-1.9%	6.4%	-7.6%	2.8%	
Customer deposits	10,639	10,328	10,406	10,120	10,468	-1.6%
QOQ Change	-1.8%	-2.9%	0.8%	-2.8%	3.4%	
Total equity	1,497	1,499	1,512	1,501	1,534	2.5%
QOQ Change	4.3%	0.2%	0.9%	-0.7%	2.2%	

FABS estimate & Co Data

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