

Banking Sector – December 2022

Steady economic growth and high interest rate regime to benefit banks

Sector Weighting:
Market Weight
Preview 4Q 2022**Top Picks and Rating Changes**

UAE's economy saw positive growth in 2022 as a result of robust expansion in both the oil and non-oil sectors. The strong economic growth is mainly driven by high energy prices, rising tourism demand, healthy demand in real estate, and solid recovery after the pandemic. However, the growing recession fear is expected to slow down economic growth in 2023. The UAE central bank revised its annual 2023 and 2022 growth estimates to 3.9% and 7.6% respectively in December 2022. On the other hand, the IMF expects the UAE's real GDP to grow 4.2% in 2023. Recently released PMI survey of UAE indicated a slowdown in economic activity in 4Q22 as compared to 3Q22. Headline PMI index fell from 56.6 in October 2022 to 54.2 in December 2022. Business and new order rose in December 2022 but at the slowest pace since September 2021. The export turned weak amid feeble external demand. Any reading above 50 indicates expansion while, a reading below 50 indicates contraction. Hiring by the private sector slowed down in 2022, however a dip in input cost to benefit consumers and non-oil sector. The non-oil sector is expected to grow by 3.5% in 2023 compared to 5.6% in 2022. The positive outlook of the economy boosted the credit growth in UAE banking sector initially in 2022, however corporates repayments and rising interest rates due to soaring inflation impacted the credit demand later in 2022.

Advances in UAE banking system rose 3.3% YOY to AED 1,655 Bn in September 2022 whereas deposits rose at a faster rate recording a healthy 12.6% YOY growth to AED 2,187 Bn in September 2022. Resultantly, the loan-to-deposit ratio declined from 79.3% in June 2022 to 75.7% in September 2022. The UAE banks held enough liquidity on their balance sheet which will help in expanding credit growth in 2022 and 2023. Recently, the Fed decreased its magnitude of interest rate hike after four straight hikes of 75 bps each since June 2022 as inflation eased. As the UAE's currency is pegged to the US dollar, the UAE banks recorded solid growth in profitability in the high-interest rate environment due to the positive interest rate sensitivity gap. Most of the UAE banks recorded growth in NIMs in 3Q22 due to an increase in asset yield driven by high benchmark rates and comparatively lower hike in the cost of funds.

The average cost-to-income ratio of UAE banks increased marginally from 38.3% in 2Q22 to 38.5% in 3Q22. Among the small-cap banks under coverage, UAB recorded the largest increase in the cost-to-income ratio by 1700 bps QOQ to 62.7% in 3Q22 followed by NBS, AJMANBANK, and DIB whereas RAKBANK recorded the highest decline of 437 bps QOQ to 40.7%. Among the large cap banks ADIB recorded the highest decline of 867 bps QOQ to 32.1% while FAB witnessed a 131 bps QOQ decline to 30.9% followed by ENBD and ADCB. Improving efficiency and digitalization remains one of the top agendas for the management of UAE banks.

The average annualized cost of risk inclined marginally from 0.90% in 2Q22 to 0.91% in 3Q22. Most of the banks under our coverage witnessed an increase in provisions during 3Q22. The banks witnessed healthy growth in corporate credit whereas NPLs also declined during the period. Capitalization of UAE banks stood strong with a CAR of 16.45% in 3Q22 as compared to 16.14% in 2Q22 significantly higher than the minimum regulatory requirement. UAE banks recorded a strong growth in profitability in 3Q22 and are expected to maintain the profitability growth in 4Q22 supported by high interest rates in the economy. 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) **ADIB** (Trades at 8.63/1.87x 2023E P/E and P/B multiple with a dividend yield of 3.6% and a Target Price (PT) of AED 11.00. ADIB added more than 93,000 customers with a robust cross-selling ratio of 1.5x in 9M22. The bank's CASA deposits stood strong at 74% in 3Q22 whereas capitalization stood healthy at a CAR of 17.9%. ADIB witnessed 83 bps QOQ rise in asset yield in 3Q22 due to high interest rate in the economy.
- 2) **RAKBANK** (Trades at 5.83x/0.80x 2023E P/E and P/B multiple with a dividend yield of 7.7% and a Target Price (PT) of AED 5.85. The bank's balance sheet is positively geared in the rising interest rate scenario. RAKBANK's asset quality improved with a low NPL ratio of 3.2% in 3Q22 along with more than 150% of coverage. Additionally, the bank's stage 2 loans improved to 3.3% in 3Q22, down from 3.6% in 2Q22. The bank's CASA deposits stood at 74.4% total deposits in 3Q22. RAKBANK's capitalization stood strong with a CAR of 17.0% in 3Q22.
- 3) **ENBD** (Trades at 5.94x/0.92x 2023E P/E and P/B multiple with a dividend yield of 5.4% and a Target Price (PT) of AED 17.00. The bank positively benefited from the rising interest rate scenario due to the positive interest rate sensitivity gap. The bank's rating is supported by more than 100% coverage of non-performing loans, healthy asset quality, low stage 2 loans and good deposit mix. The bank's profitability increased in spite of incurring AED 3 Bn worth of hyperinflation adjustments relating to its subsidiary Deniz bank.
- 4) **ADCB** (Trading at 8.60x/1.07x 2023E P/E and P/B multiple with a dividend yield of 5.6% and Target Price (TP) of AED11.60). The bank's 68% of its loans belong to the corporate sector that allows repricing in a rising interest rate scenario. ADCB's deposits rose significantly on a YTD basis. The bank's asset yield improved in 3Q22 whereas capitalization stood strong with a CAR of 15.44% in 3Q22.

Target price and rating

Co. Name	Target Price	CMP	Potential change	Rating
CBI	0.91	0.849	7.2%	HOLD
MASQ	105.00	97.00	8.2%	HOLD
NBS	1.90	1.93	-1.6%	HOLD
RAKBANK	5.85	4.52	29.4%	BUY
CBD	5.60	4.80	16.7%	BUY
ADCB	11.60	9.05	28.2%	BUY
ADIB	11.00	9.30	18.3%	BUY
DIB	7.00	5.65	23.9%	BUY
ENBD	17.00	12.95	31.3%	BUY
AJMANBANK	0.80	1.17	-31.6%	SELL
UAB	0.72	0.85	-15.3%	SELL

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Industry Themes

UAE central bank intends to increase Emiratisation in the financial sector to 45%

The Governor of the Central Bank of the UAE (CBUAE) stated that the percentage of UAE citizens employed in banks grew to 32% as of 3Q22, after evaluating the UAE banks expectations and success in the Emiratisation project. The Emiratisation in the UAE banking sector is anticipated to reach 45% by the end of FY2026. The CBUAE also emphasised the importance of exchange houses in the UAE's financial system and promoted mutual engagement with the banking industry in order to better assist financial consumers and transform financial infrastructure and national payment systems.

Emirates NBD of Dubai announced a change in leadership

Emirates NBD, Dubai's largest lender, announced a senior management restructuring as it prepares itself to expand in wealth, mergers and acquisitions, and venture capital. Marwan Hadi, will succeed Suvo Sarkar as group head of retail banking and wealth management, who will retire after a decade with Emirates NBD. Ahmed Al Qassim, who is presently the group head of corporate and institutional banking and a member of the bank's group executive committee, will take over as the group head of wholesale banking. Ammar Al-Haj is named company treasurer and global markets head. Aazar Ali Khwaja, who formerly served as group head of global markets and treasury, is named as DenizBank's group head of international and adviser to the Group CEO. While Neeraj Makin, who was formerly the senior executive vice president and group head for international and group strategy, will now be in charge of the bank's newly approved corporate venture capital fund.

UAE's Mashreq Bank sold USD 500 Mn in Tier 2 bonds

According to a bank document, United Arab Emirates, Mashreq Bank issued Tier 2 bond worth USD 500 Mn. The bonds will have a maturity of 10.25 years and are non-callable for 5.25 years, were offered at 7.95%. The yield declined from initial projection of around 8.25% and attracted bids of more than USD 1.4 Bn in demand. Mashreq's raised debt from the foreign debt market in July 2022 worth USD 300 Mn in Tier 1 notes, which generated lesser demand than expected.

Sharjah Islamic Bank subsidiary announced the sale of 318 commercial plots

The real estate arm of Sharjah Islamic Bank (SIB), Asas Real Estate Company, announced the beginning of sales for the second phase of the Al Rahmaniyah Commercial Lands project. This project comprises of 318 commercial plots totalling 1.2 Mn square feet. The project is strategically positioned in Sharjah's Rahmaniyah district, adjacent to Emirates Road, Sharjah Airport, and Sharjah University City, as well as government offices, schools, and the Rahmania Mall. Moreover, the project is anticipated to improve Sharjah's position as an excellent location for local and international investors and owners, who are drawn to the strong and diversified infrastructure backed by a robust legal system that protects the rights of owners, investors, and developers alike.

Dubai Islamic Bank sold USD 750 Mn in its first sustainable Sukuk

Dubai Islamic Bank sold USD 750 Mn of its first sustainable Islamic bond. The Sukuk, which will mature in five years, was sold for 155 bps over US Treasuries, down from an early guideline of 175 bps after demand exceeded USD 1.6 Bn. This debt sale is being arranged by Bank ABC, Dubai Islamic Bank, Emirates NBD Capital, First Abu Dhabi Bank, KFH Capital, HSBC, Sharjah Islamic Bank, and Standard Chartered. Despite volatile market condition, the gulf issuers drew attractive bids, whereas foreign bond sales dropped this year due to persistent volatility amid increase in rates.

UAE bank's income is estimated to rise USD 25 Bn as a result of digitalisation

UAE banks' income is expected to increase 52% to about USD 25 billion by FY2030, with digital transformation playing a key role in boosting operations and customer service. Furthermore, about 95% of financial transactions in the UAE are now conducted digitally, with mobile banking accounting for more than 90% of activity. According to the report, the percentage of cash in payments declined from 69% in FY2018 to 20% in FY2021, while the number of digital accounts increased to 51% in FY2021, up from 7% in FY2018.

UAE's ADCB shareholder exited Alexandria New Medical Center

UAE's Abu Dhabi Commercial Bank (ADCB) sold its entire 51.54% ownership in Alexandria Medical Services to a consortium led by Tawasol Holdings and LimeVest Partners in a mandatory tender offer (MTO). The transaction was executed on the Egyptian Stock Exchange. The Abu Dhabi Commercial Bank (ADCB) sold its share in Alexandria Medical Services for consideration EGP 393.32 Mn. The UAE bank sold 802.69 Mn shares at an average price of EGP 49 per share. The deal was executed by two brokers Prime Securities and Golden Hand for Securities Brokerage. ADCB received a stake in Alexandria Medical Services as a settlement of the bank dues to NMC Healthcare.

Emirates NBD issued USD 500 Mn 5-year bond

Emirates NBD, Dubai's largest bank, issued USD 500 Mn five-year notes, the first public debt offering in 2022, which received bids over USD 1Bn. The bond is issued at a premium of 155 basis points over US treasury yield. The issue is managed by Abu Dhabi Commercial Bank, Barclays, Emirates NBD Capital, HSBC, SMBC, and Standard Chartered Bank. The sale coincided with the issuance of bonds by Saudi Arabia and the Abu Dhabi sovereign wealth firm Mubadala. Bond issuance in the Gulf decreased considerably this year as the region benefits from strong oil prices, with all six Gulf Cooperation Council countries likely to post surpluses. Earlier in May 2021, Emirates NBD sold bonds in the public debt markets raising USD 750 Mn with additional Tier 1 bonds that are non-callable for six years.

Dubai Islamic Bank develops a green financing framework

Dubai Islamic Bank intends to finance social and environmental projects under a new Sustainable Support Framework. The framework will enable the lender to offer environmental and sustainability-linked Islamic bonds and loans to fund renewable energy, clean transportation, green buildings, and wastewater management projects, as well as to create job opportunities and affordable housing. The demand for ESG-linked finance generated increased investor interest in the Gulf and wider Middle East, with more opportunities to invest in projects related to sustainability and energy transition. COP27 and COP28, the next two major climate change conferences, will be held in Egypt and the United Arab Emirates, respectively.

Abu Dhabi Commercial Bank (ADCB) may exit from Abu Dhabi Commercial Properties

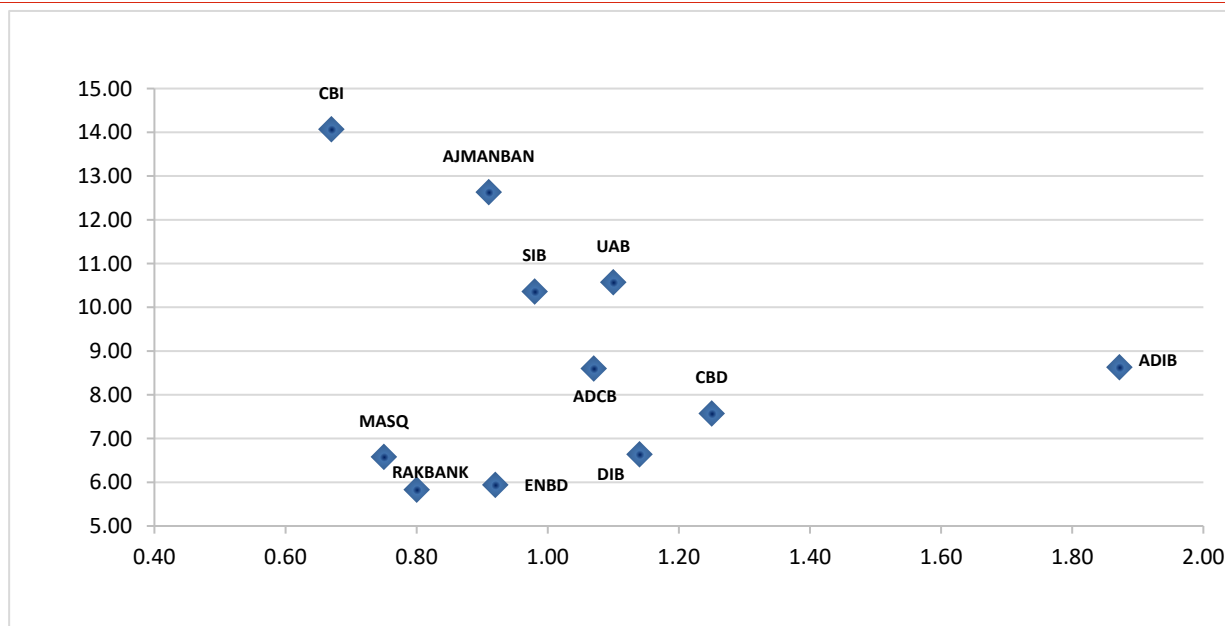
The UAE's third-largest lender by assets, Abu Dhabi Commercial Bank might sell its fully owned property management services business, Abu Dhabi Commercial Properties (ADCP). In accordance with Abu Dhabi Commercial Bank's strategy of focusing on core business growth, the bank is exploring the possibility of divesting its stake in ADCP. ADCP, one of the major property management service companies in the UAE, held a portfolio of over 2,000 buildings throughout the UAE, comprising over 57,000 commercial and residential units. This procedure may or may not result in a transaction.

Relative valuation and rating

Relative valuation

Based on our 2023 estimates, most of the UAE banks are trading below the average book value except CBD, ADCB, ADIB, DIB, and UAB. Also, most of the UAE banks are trading at single-digit PE multiple based on 2023 financials except CBI, NBS, AJMANBANK, and UAB. The PB ranges between 0.67x (CBI) and 1.87x (ADIB) and PE ranges between 5.83x (RAKBANK) and 14.10x (CBI) based on 2023 financial. The UAE banks under our coverage are trading at average PE and PB multiple of 8.86x and 1.04x based on 2023 financials.

FY23 PE (y-axis) vs. FY23 P/B (x-axis)



Source: FABS from co data

Market Weight

We remain MARKET WEIGHT with 6x BUY, 3X HOLD, and 2x SELL on the 11 UAE banks under our coverage. UAE systems' total net assets increased 10.3% YOY to AED 3,583 Bn in September 2022. The UAE banking sector's net advances rose 3.3% YOY to AED 1,655 Bn in September 2022. Customer deposits mobilisation increased by 12.6% YOY to AED 2,187 Bn in September 2022.

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Co. Name	Target Price	CMP	Potential change	Rating
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ADCB	11.60	9.05	28.2%	BUY
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DIB	7.00	5.65	23.9%	BUY
ENBD	17.00	12.95	31.3%	BUY
AJMANBANK	0.80	1.17	-31.6%	SELL
UAB	0.72	0.85	-15.3%	SELL

Source: FABS from co data

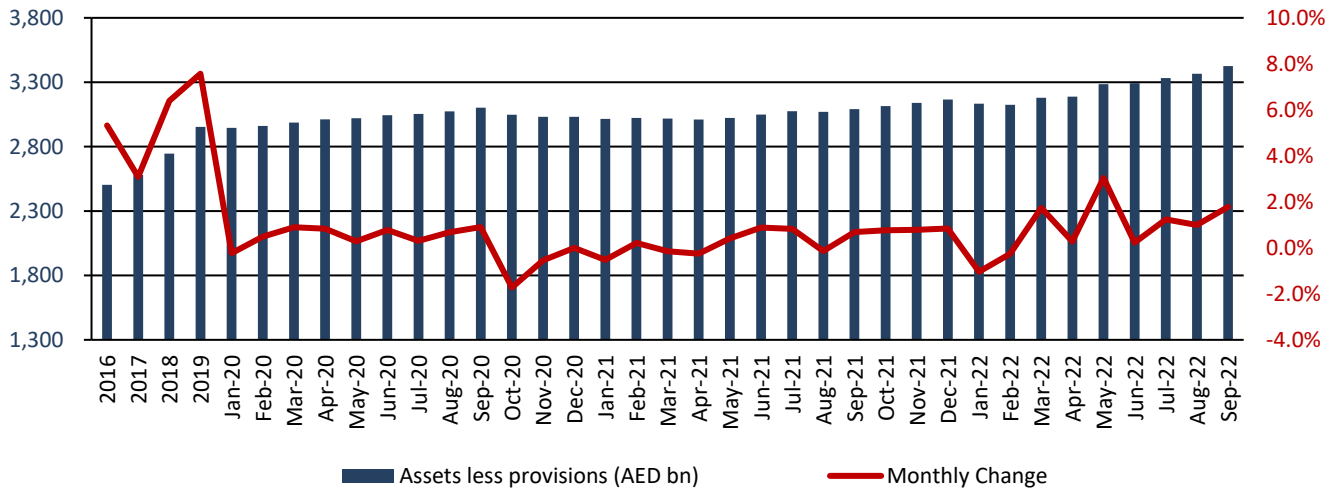
Banking indicators

1. Assets

Total net assets increased on a MOM basis in September 2022

UAE system's total net assets rose 1.69% on a MOM basis to AED 3,583 Bn in September 2022.

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



Source: FABS from CBUAE

FAB recorded the highest QOQ asset growth in 3Q22

FAB witnessed the highest total asset growth of 10.0% QOQ in 3Q22 totaling AED 1,145 Bn followed by CBI with 8.0% QOQ growth to 20.6 Bn. Additionally, RAKBANK and ADIB also recorded a healthy growth of 5.1% and 3.7% respectively on a QOQ basis. MASQ, NBS, AJMANBANK, DIB, and UAB bank yet again recorded a decline in total assets out of which, UAB's total assets declined the most by 4.6% QOQ to AED 14.1 Bn in 3Q22.

Total assets: UAE Banks

(AED MM)	3Q21	4Q21	1Q22	2Q22	3Q22	QOQ ch
BOS	38,499	NA	NA	NA	NA	NA
YOY change	10.7%	NA	NA	NA	NA	NA
CBI	17,495	20,774	20,858	19,088	20,622	8.0%
YOY change	-4.2%	21.2%	30.6%	11.9%	17.9%	
MASQ	169,561	177,054	182,581	188,644	187,587	-0.6%
YOY change	-0.1%	11.7%	12.5%	9.2%	10.6%	
NBS	54,510	54,957	54,711	56,068	54,595	-2.6%
YOY change	2.2%	2.5%	-0.4%	3.2%	0.2%	
AJMANBANK	21,505	22,342	21,792	21,150	20,569	-2.7%
YOY change	-4.9%	3.9%	-0.8%	-0.8%	-4.4%	
RAKBANK	54,495	56,304	58,626	60,758	63,832	5.1%
YOY change	4.1%	6.7%	10.1%	11.9%	17.1%	
CBD	107,752	114,213	119,036	117,537	117,531	0.0%
YOY change	16.2%	17.3%	16.2%	4.2%	9.1%	
ADCB	432,061	440,278	445,677	476,093	486,365	2.2%

YOY change	5.6%	7.1%	12.6%	14.4%	12.6%	
ADIB	133,382	136,868	138,583	141,944	147,209	3.7%
YOY change	4.9%	7.1%	6.0%	8.7%	10.4%	
DIB	289,389	279,082	287,226	282,218	274,856	-2.6%
YOY change	-3.3%	-3.6%	-1.5%	-3.9%	-5.0%	
ENBD	699,067	687,437	694,035	710,640	720,523	1.4%
YOY change	1.0%	-1.5%	-0.1%	2.4%	3.1%	
UAB	14,267	15,180	14,021	14,748	14,066	-4.6%
YOY change	-20.7%	2.2%	-2.8%	1.4%	-1.4%	
Invest	10,804	9,505	10,060	NA	NA	NA
YOY change	NA	8.8%	-8.9%	NA	NA	
FAB	982,833	1,000,343	981,163	1,042,281	1,146,355	10.0%
YOY change	2.9%	8.8%	4.3%	10.5%	16.6%	

Source: FABS from co data

FAB continues to remain market leader in total asset in 3Q22

Only three out of twelve bank's asset market share rose in 3Q22 on a QOQ basis. FAB continues to lead the asset market share with 32.0% share in 3Q22. FAB market share grew 1.78% QOQ and stood at 32.0% in 3Q22, the highest growth in market share among peers. Furthermore, CBI and RAKBANK market share rose 0.022% and 0.020% QOQ, respectively to 0.6% and 1.8% in 3Q22. DIB recorded the highest decline of 0.511% in 3Q22 with a 7.7% market share followed by 0.494% decline in ENBD's asset share to 20.1% in 3Q22. UAB's total asset share stood lowest at 0.4%.

Total assets share

	3Q21	4Q21	1Q22	2Q22	3Q22	QOQ: pp
BOS	1.2%	NA	NA	NA	NA	NA
CBI	0.5%	0.6%	0.6%	0.6%	0.6%	0.022%
MASQ	5.2%	5.3%	5.5%	5.5%	5.2%	-0.234%
NBS	1.7%	1.7%	1.6%	1.6%	1.5%	-0.102%
AJMANBANK	0.7%	0.7%	0.7%	0.6%	0.6%	-0.039%
RAKBANK	1.7%	1.7%	1.8%	1.8%	1.8%	0.020%
CBD	3.3%	3.4%	3.6%	3.4%	3.3%	-0.127%
ADCB	13.3%	13.3%	13.4%	13.8%	13.6%	-0.229%
ADIB	4.1%	4.1%	4.2%	4.1%	4.1%	-0.007%
DIB	8.9%	8.4%	8.6%	8.2%	7.7%	-0.511%
ENBD	21.5%	20.7%	20.8%	20.6%	20.1%	-0.494%
UAB	0.4%	0.5%	0.4%	0.4%	0.4%	-0.035%
INVEST	0.3%	0.3%	0.3%	NA	NA	NA
FAB	30.3%	30.1%	29.4%	30.2%	32.0%	1.776%

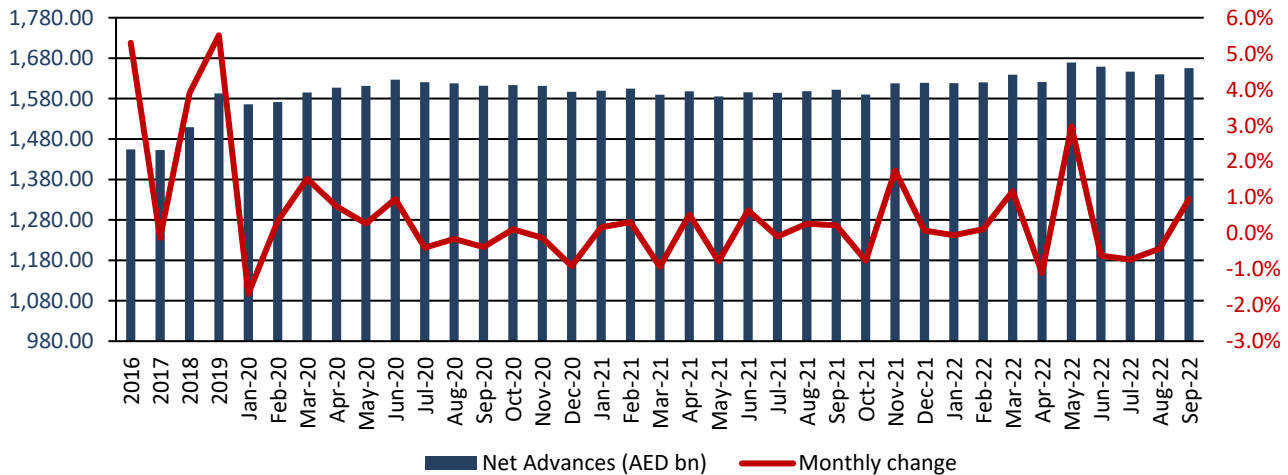
Source: FABS from co data, CBUAE

2. Advances

Advances rose MOM in September 2022

UAE banking system net advances rose 1.0% MOM to AED 1,655 Bn in September 3Q22 post three successive month of decline.

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



Source: FABS from CBUAE

CBI's advances grew the most on QOQ and YOY basis in 3Q22

CBI recorded a strong advances growth of 8.4% QOQ and 22.9% YOY to AED 13.0 Bn in 3Q22 followed by 6.6% QOQ growth in ADIB's advances to AED 98.4 Bn and 6.2% QOQ growth in NBS' advances to AED 30.6 Bn. Additionally, ADCB also recorded a healthy growth of 3.4% QOQ to AED 251.2 Bn in 3Q22 whereas MASQ, RAKBANK, and CBD witnessed a marginal advances growth. On the other hand, UAB recorded the highest decline in advances of 7.0% QOQ to AED 7.8 Bn in 3Q22. Additionally, AJMANBANK, DIB, ENBD, and FAB witnessed a decline in advances in 3Q22.

Net advances: UAE banks

(AED MM)	3Q21	4Q21	1Q22	2Q22	3Q22	QOQ ch
BOS	20,329	NA	NA	NA	NA	NA
YOY change	4.7%	NA	NA	NA	NA	
CBI	10,603	11,779	11,806	12,024	13,034	8.4%
YOY change	0.4%	13.6%	15.5%	19.3%	22.9%	
MASQ	76,982	81,486	86,295	89,676	91,326	1.8%
YOY change	4.1%	13.9%	13.9%	16.0%	18.6%	
NBS	29,551	29,009	29,906	28,830	30,612	6.2%
YOY change	0.1%	-0.9%	2.0%	-1.6%	3.6%	
AJMANBANK	15,814	14,924	14,346	13,502	13,386	-0.9%
YOY change	-8.2%	-12.0%	-15.5%	-15.6%	-15.4%	
RAKBANK	31,451	32,284	33,946	33,981	34,196	0.6%
YOY change	3.4%	7.5%	11.2%	9.4%	8.7%	
CBD	74,898	76,441	78,687	78,852	79,138	0.4%
YOY change	18.9%	17.1%	13.1%	6.5%	5.7%	
ADCB	241,912	244,282	245,797	242,913	251,202	3.4%

YOY change	-0.4%	2.2%	4.3%	2.1%	3.8%	
ADIB	85,403	89,043	91,169	92,286	98,356	6.6%
YOY change	2.6%	6.8%	9.7%	9.1%	15.2%	
DIB	192,756	186,691	190,715	194,359	187,231	-3.7%
YOY change	-2.4%	-5.1%	-2.8%	0.0%	-2.9%	
ENBD	438,318	422,272	425,351	424,987	419,063	-1.4%
YOY change	-0.9%	-4.8%	-2.5%	-3.0%	-4.4%	
UAB	8,035	8,213	7,884	8,374	7,788	-7.0%
YOY change	-19.7%	-8.9%	-7.2%	4.2%	-3.1%	
INVEST	6,382	5,930	5,621	NA	NA	NA
YOY change	-11.9%	-12.1%	-12.1%	NA	NA	
FAB	403,807	410,155	433,797	458,517	456,400	-0.5%
YOY change	3.9%	6.1%	14.8%	15.0%	13.0%	

Source: FABS from co data

FAB remains a leader in terms of advance market share in 3Q22

FAB's advances market share declined 0.1% QOQ but still remains the leader with 27.6% market share in 3Q22 closely followed by ENBD with a 25.3% market share. ADCB, DIB, ADIB, and MASQ are ranked third, fourth, fifth and sixth respectively in terms of advances market share. ADCB witnessed the highest advances market share growth on QOQ basis in 3Q22 with QOQ growth of 0.5% to 15.2% whereas DIB's market share declined the most 0.4% QOQ to 11.3% in 3Q22.

Advances market share

	3Q21	4Q21	1Q22	2Q22	3Q22	QOQ: pp
BOS	1.3%	NA	NA	NA	NA	NA
CBI	0.7%	0.7%	0.7%	0.7%	0.8%	0.1%
MASQ	4.8%	5.0%	5.3%	5.4%	5.5%	0.1%
NBS	1.8%	1.8%	1.8%	1.7%	1.8%	0.1%
AJMANBANK	1.0%	0.9%	0.9%	0.8%	0.8%	0.0%
RAKBANK	2.0%	2.0%	2.1%	2.0%	2.1%	0.0%
CBD	4.7%	4.7%	4.8%	4.8%	4.8%	0.0%
ADCB	15.1%	15.1%	15.0%	14.6%	15.2%	0.5%
ADIB	5.3%	5.5%	5.6%	5.6%	5.9%	0.4%
DIB	12.0%	11.5%	11.6%	11.7%	11.3%	-0.4%
ENBD	27.4%	26.1%	26.0%	25.6%	25.3%	-0.3%
UAB	0.5%	0.5%	0.5%	0.5%	0.5%	0.0%
INVEST	0.4%	0.4%	0.0%	NA	NA	NA
FAB	25.2%	25.3%	26.5%	27.6%	27.6%	-0.1%

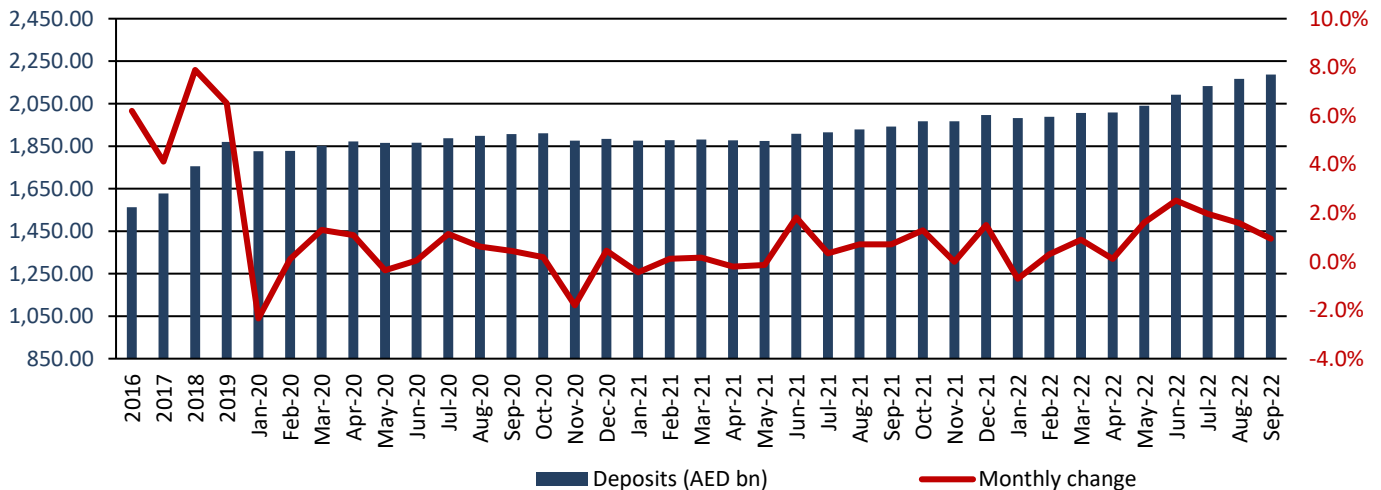
Source: FABS from co data

3. Customer Deposit

System customer deposit continued to expand on MOM basis since February 2022

The UAE system customer deposits grew 0.9% MOM to AED 2,187 Bn in September 2022.

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



Source: FABS from CBUAE

FAB witnessed the highest growth in customer deposits in 3Q22

During 3Q22, seven out of 12 banks witnessed a hike in customer deposits on QOQ basis. FAB reported the highest growth of 15.1% QOQ to AED 745.8 Bn in 3Q22 while CBI recorded the second highest growth of 8.4% QOQ to AED 12.2 Bn. RAKBANK, ADCB, ADIB, and ENBD recorded a healthy QOQ growth in deposits while MASQ's deposits rose marginally 0.1% in 3Q22. UAB and DIB's deposits declined the most by 12.1% QOQ and 7.8% QOQ in 3Q22. In addition, NBS, AJMANBANK, CBD's deposits fell 3.3%, 3.6%, and 3.6% QOQ respectively in 3Q22.

Customer deposits: UAE banks

(AED MM)	3Q21	4Q21	1Q22	2Q22	3Q22	QOQ ch
BOS	25,170	NA	NA	NA	NA	NA
YOY change	NA	NA	NA	NA	NA	NA
CBI	10,236	12,574	12,675	11,268	12,216	8.4%
YOY change	-4.0%	20.0%	27.7%	5.6%	19.3%	
MASQ	94,779	101,483	104,228	109,335	109,430	0.1%
YOY change	0.1%	15.0%	15.5%	14.6%	15.5%	
NBS	36,735	38,494	38,409	37,364	36,140	-3.3%
YOY change	12.7%	14.5%	8.3%	6.8%	-1.6%	
AJMANBANK	14,010	15,263	16,633	16,652	16,055	-3.6%
YOY change	-3.2%	7.3%	19.7%	20.0%	14.6%	
RAKBANK	36,988	37,647	38,458	39,552	40,255	1.8%
YOY change	8.1%	1.9%	5.4%	6.8%	8.8%	
CBD	75,812	82,722	82,808	84,827	81,778	-3.6%
YOY change	18.5%	18.6%	16.8%	6.3%	7.9%	

ADCB	255,753	265,052	261,891	292,262	302,262	3.4%
YOY change	5.0%	5.4%	9.7%	16.6%	18.2%	
ADIB	107,005	109,611	110,808	115,188	118,823	3.2%
YOY change	6.2%	8.2%	7.5%	9.5%	11.0%	
DIB	214,124	205,845	204,476	202,214	186,512	-7.8%
YOY change	-0.2%	0.0%	-4.5%	-7.4%	-12.9%	
ENBD	466,508	456,484	468,974	467,877	480,835	2.8%
YOY change	1.9%	-1.7%	2.2%	2.2%	3.1%	
UAB	10,328	10,406	10,120	10,517	9,241	-12.1%
YOY change	-26.8%	-7.5%	-6.6%	-1.2%	-10.5%	
INVEST	8,591	8,471	8,202	NA	NA	NA
YOY change	NA	18.5%	1.9%	NA	NA	
FAB	606,004	614,459	599,873	648,128	745,797	15.1%
YOY change	0.7%	13.6%	5.5%	12.7%	23.1%	

Source: FABS from co data

FAB's deposit market share increased the most in 3Q22

Only FAB and CBI recorded a rise in market share on a QOQ basis in 3Q22. FAB's deposit market share rose 3.12% QOQ to 34.1% in 3Q22 whereas CBI's share marginally increased 0.02% QOQ to 0.6%. All other banks' deposit market share declined on QOQ basis in 3Q22. DIB's deposits market share declined the most by 1.14% YOY to 8.5% in 3Q22 whereas ENBD witnessed a 0.38% decline in market share to 22.0%. UAB's market share stood the lowest at 0.4% in 3Q22 whereas FAB continues to remain a leader with 34.1% market share followed by ENBD with 22.0% and ADCB at 13.8%.

Deposits market share

	3Q21	4Q21	1Q22	2Q22	3Q22	QOQ: pp
BOS	1.3%	NA	NA	NA	NA	NA
CBI	0.5%	0.6%	0.6%	0.5%	0.6%	0.02%
MASQ	4.9%	5.1%	5.2%	5.2%	5.0%	-0.22%
NBS	1.9%	1.9%	1.9%	1.8%	1.7%	-0.13%
AJMANBANK	0.7%	0.8%	0.8%	0.8%	0.7%	-0.06%
RAKBANK	1.9%	1.9%	1.9%	1.9%	1.8%	-0.05%
CBD	3.9%	4.1%	4.1%	4.1%	3.7%	-0.32%
ADCB	13.2%	13.3%	13.1%	14.0%	13.8%	-0.15%
ADIB	5.5%	5.5%	5.5%	5.5%	5.4%	-0.07%
DIB	11.0%	10.3%	10.2%	9.7%	8.5%	-1.14%
ENBD	24.0%	22.9%	23.4%	22.4%	22.0%	-0.38%
UAB	0.5%	0.5%	0.5%	0.5%	0.4%	-0.08%
INVEST	0.4%	0.4%	0.0%	NA	NA	NA
FAB	31.2%	30.8%	29.9%	31.0%	34.1%	3.12%

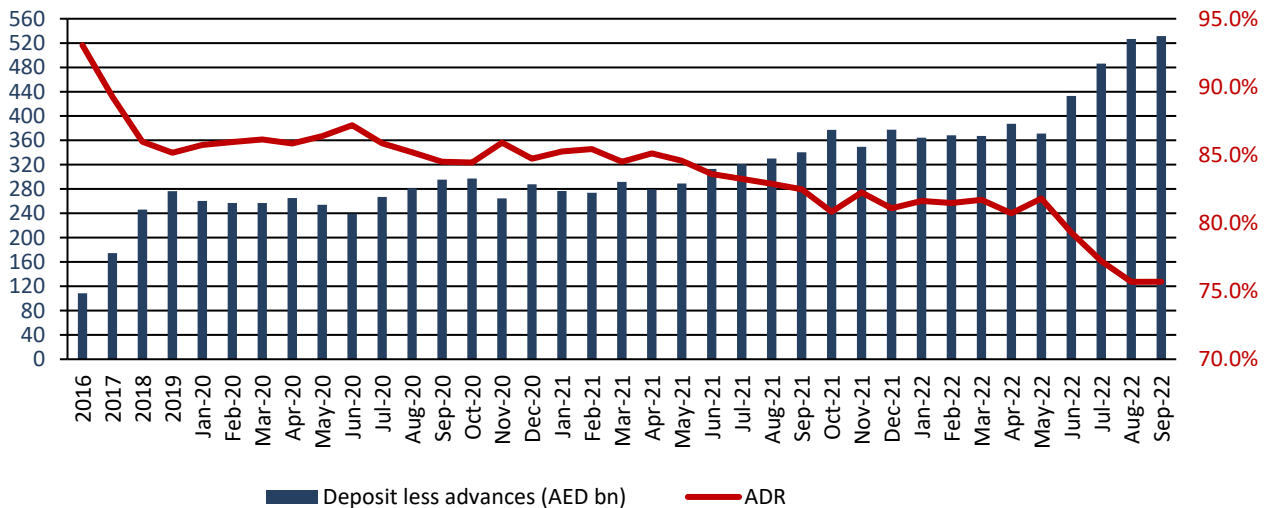
Source: FABS from co data

4. Liquidity

Liquidity in the UAE banking system

UAE banking system's Advances to Deposits Ratio (ADR) stood at 75.7% in September 2022. The bank's liquidity in actual figure by using deposits less advances as an equivalent indicator to measure liquidity rose from AED 526.9 Bn in August 2022 to AED 531.6 Bn in September 2022. The banking system ADR ratio remained the same in September 2022 as compared to the previous month.

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



Source: FABS from CBUAE

Top key liquidity metrics

We use three indicators to evaluate and rank the balance sheet liquidity of the 14 UAE banks under our coverage. The advances to deposit ratio of NBS rose the most to 7.5% QOQ to 84.7% in 3Q22 due to strong growth in advances and a decline in deposits. On the other hand, FAB witnessed the largest fall in ADR of 9.5% QOQ to 61.3% in 3Q22 due to a strong rise in deposits whereas, a marginal fall in advances. Except for RAKBANK, ENBD, and FAB, all other bank's recorded a rise in ADR ratio. FAB recorded the highest growth of 52.5% QOQ to a deposit surplus of AED 289.4 Bn in 3Q22 closely followed by ENBD with a 44.0% growth to a deposit surplus of AED 61.8 Bn. DIB witnessed the largest decline of 109.2% with a deposit deficit of 0.7 Bn in 3Q22. In terms of percentage lent, five out of twelve banks recorded a decline. RAKBANK, DIB, ENBD, UAB, and FAB's percentage lent declined in 3Q22 whereas the remaining bank's recorded positive growth during the period. DIB's percentage lent stood the most at 68.1% in 3Q22 whereas FAB's percentage lent stood the lowest at 39.8%.

ADR: UAE Banks

	3Q21	4Q21	1Q22	2Q22	3Q22	QOQ ch
BOS	80.8%	NA	NA	NA	NA	NA
CBI	103.6%	93.7%	93.1%	106.7%	106.7%	0.0%
MASQ	81.2%	80.3%	82.8%	82.0%	83.5%	1.4%
NBS	80.4%	75.4%	77.9%	77.2%	84.7%	7.5%
AJMANBANK	112.9%	97.8%	86.3%	81.1%	83.4%	2.3%
RAKBANK	85.0%	85.8%	88.3%	85.9%	84.9%	-1.0%

CBD	98.8%	92.4%	95.0%	93.0%	96.8%	3.8%
ADCB	94.6%	92.2%	93.9%	83.1%	83.1%	0.0%
ADIB	79.8%	81.2%	82.3%	80.1%	82.8%	2.7%
DIB	90.0%	90.7%	93.3%	96.1%	100.4%	4.3%
ENBD	94.0%	92.5%	90.7%	90.8%	87.2%	-3.7%
UAB	77.8%	78.9%	77.9%	79.6%	84.3%	4.7%
INVEST	74.3%	70.0%	68.5%	NA	NA	NA
FAB	66.6%	66.8%	72.3%	70.7%	61.2%	-9.5%

Source: FABS from co data

Deposit surplus/-deficit

AED, mm	3Q21	4Q21	1Q22	2Q22	3Q22	QOQ ch
BOS	4,841	NA	NA	NA	NA	NA
CBI	-366	795	870	-756	-818	8.2%
MASQ	17,796	19,997	17,933	19,659	18,104	-7.9%
NBS	7,183	9,485	8,503	8,534	5,528	-35.2%
AJMANBANK	-1,804	339	2,287	3,150	2,669	-15.3%
RAKBANK	5,536	5,364	4,512	5,571	6,060	8.8%
CBD	914	6,280	4,121	5,974	2,640	-55.8%
ADCB	13,841	20,770	16,094	49,350	51,060	3.5%
ADIB	21,602	20,568	19,639	22,901	20,467	-10.6%
DIB	21,367	19,155	13,761	7,855	-719	-109.2%
ENBD	28,190	34,211	43,623	42,890	61,772	44.0%
UAB	2,293	2,193	2,236	2,143	1,453	-32.2%
INVEST	2,209	2,540	2,581	NA	NA	NA
FAB	202,197	204,305	166,076	189,611	289,397	52.6%

Source: FABS from co data

Percentage lent

	3Q21	4Q21	1Q22	2Q22	3Q22	QOQ ch
BOS	52.8%	NA	NA	NA	NA	NA
CBI	60.6%	56.7%	56.6%	63.0%	63.2%	0.2%
MASQ	45.4%	46.0%	47.3%	47.5%	48.7%	1.1%
NBS	54.2%	52.8%	54.7%	51.4%	56.1%	4.7%
AJMANBANK	73.5%	66.8%	65.8%	63.8%	65.1%	1.2%
RAKBANK	57.7%	57.3%	57.9%	55.9%	53.6%	-2.4%
CBD	69.5%	66.9%	66.1%	67.1%	67.3%	0.2%
ADCB	56.0%	55.5%	55.2%	51.0%	51.6%	0.6%
ADIB	64.0%	65.1%	65.8%	65.0%	66.8%	1.8%
DIB	66.6%	66.9%	66.4%	68.9%	68.1%	-0.7%
ENBD	62.7%	61.4%	61.3%	59.8%	58.2%	-1.6%
UAB	56.3%	54.1%	56.2%	56.8%	55.4%	-1.4%
INVEST	59.1%	62.4%	55.9%	NA	NA	NA
FAB	41.1%	41.0%	44.2%	44.0%	39.8%	-4.2%

Source: FABS from co data

5. Profitability

FAB recorded the highest ROE among the peer group in 3Q22

FAB witnessed the highest growth in ROE of 951 bps QOQ to 24.3% in 3Q22 not only recording the highest growth but also the highest ROE among the banks under our coverage. ADIB, DIB, and MASQ are the other banks with following the highest ROE at 19.8%, 17.1% and 16.5% respectively in 3Q22. However, CBI and DIB recorded a decline in ROE by 52 bps QOQ and 7 bps QOQ to a ROE of 9.1% and 17.1% respectively in 3Q22.

ROE: UAE Banks

	3Q21	4Q21	1Q22	2Q22	3Q22	QOQ ch: bps
BOS	NA	NA	NA	NA	NA	NA
CBI	NA	4.9%	9.4%	9.7%	9.1%	-52
MASQ	NA	5.1%	7.7%	11.4%	16.1%	468
NBS	8.8%	8.8%	9.3%	10.2%	10.8%	54
AJMANBANK	3.4%	4.4%	4.5%	5.0%	5.5%	46
RAKBANK	7.5%	9.2%	10.2%	11.7%	13.1%	140
CBD	13.7%	13.4%	15.6%	16.0%	16.5%	46
ADCB	9.3%	9.9%	10.7%	11.2%	11.6%	44
ADIB	14.0%	15.0%	15.8%	17.3%	19.8%	253
DIB	11.1%	14.5%	16.2%	17.2%	17.1%	-7
ENBD	11.4%	12.3%	11.9%	13.2%	14.2%	104
UAB	NA	4.8%	6.0%	8.4%	9.6%	119
INVEST	NA	NA	NA	NA	NA	NA
FAB	12.5%	12.1%	14.7%	14.8%	24.3%	951

Source: FABS from co data

FAB and ADIB reported the highest ROA compared to other UAE banks

ADIB and FAB's ROA rose 30 bps and 100 bps QOQ to 2.2% and 2.5% respectively in 3Q22, the highest ROA compared to other UAE banks. Followed by DIB and MASQ's ROA which stood at 1.9% and 1.8% respectively in 3Q22. CBI is the only bank witnessing a fall in ROA recording a 6 bps QOQ decline to 1.2% in 3Q22. FAB and MASQ recorded the highest increase in ROA on QOQ basis in 3Q22.

ROA: UAE Banks

	3Q21	4Q21	1Q22	2Q22	3Q22	QOQ ch: bps
BOS	NA	NA	NA	NA	NA	NA
CBI	NA	0.6%	1.1%	1.2%	1.2%	-6
MASQ	NA	0.6%	0.9%	1.2%	1.8%	52
NBS	0.9%	0.9%	1.0%	1.1%	1.1%	7
AJMANBANK	0.4%	0.5%	0.5%	0.6%	0.7%	6
RAKBANK	1.1%	1.4%	1.5%	1.6%	1.8%	13
CBD	1.4%	1.4%	1.5%	1.5%	1.6%	8
ADCB	1.1%	1.2%	1.3%	1.3%	1.3%	1
ADIB	1.6%	1.7%	1.8%	1.9%	2.2%	30
DIB	1.1%	1.5%	1.7%	1.8%	1.9%	10
ENBD	1.2%	1.3%	1.3%	1.4%	1.5%	15
UAB	NA	0.5%	0.6%	0.9%	1.0%	10
INVEST	NA	NA	NA	NA	NA	NA
FAB	1.3%	1.3%	1.5%	1.5%	2.5%	100

Source: FABS from co data

6. Efficiency

Majority of the UAE Banks reported a rise in NIMs in 3Q22

All banks except CBI, ADCB, and FAB witnessed an increase in NIMs in 3Q22 driven by rise in benchmark rates. CBI witnessed the largest decline in NIMs which fell 97.9 bps QOQ to 2.3% followed by a 14.1 bps QOQ decline in ADCB's NIMs. On the other hand, ADIB recorded the highest rise in NIMs of 65.2 bps QOQ closely followed by AJMANBANK with 61.8 bps QOQ increase.

NIM: UAE Banks

	3Q21	4Q21	1Q22	2Q22	3Q22	QOQ ch: bps
BOS	2.7%	NA	NA	NA	NA	NA
CBI	2.8%	2.6%	2.0%	3.2%	2.3%	-97.9
MASQ	2.5%	2.5%	2.4%	2.8%	3.3%	52.8
NBS	1.9%	1.9%	2.0%	2.0%	2.0%	5.4
AJMANBANK	2.6%	2.8%	1.6%	2.0%	2.7%	61.8
RAKBANK	4.2%	4.1%	3.9%	3.9%	4.4%	44.2
CBD	2.3%	2.0%	2.1%	2.2%	2.8%	53.0
ADCB	2.3%	2.3%	2.1%	2.5%	2.4%	-14.1
ADIB	3.1%	2.5%	2.4%	2.7%	3.3%	65.2
DIB	2.6%	2.5%	2.7%	3.0%	3.2%	21.9
ENBD	2.4%	2.4%	2.4%	2.8%	3.3%	49.2
UAB	2.1%	1.8%	1.9%	2.1%	2.4%	25.4
INVEST	0.5%	0.9%	1.9%	NA	NA	NA
FAB	1.8%	1.8%	1.5%	1.6%	1.5%	-7.0

Source: FABS from co data

On the efficiency metrics, large-cap banks continue to maintain the leadership position

CBD, DIB, and ENBD yet again stayed the most efficient banks among the banks under our coverage in 3Q22 with a cost-to-income ratio below 30% closely followed by FAB recording a cost-to-income ratio of 30.9%. UAB, AJMANBANK, and CBI recorded the highest cost-to-income ratio of 62.7%, 51.5%, and 51.6% YOY in 3Q22 due to small nature of operation. In addition, UAB's cost-to-income ratio rose significantly from 45.7% in 2Q22 to 62.7% in 3Q22 whereas ADIB recorded the highest decline of 867 bps QOQ to 32.1% in 3Q22.

Cost to Income: UAE Banks

	3Q21	4Q21	1Q22	2Q22	3Q22	QOQ ch: bps
BOS	50.0%	NA	NA	NA	NA	NA
CBI	47.8%	35.2%	63.6%	53.6%	51.6%	-192
MASQ	48.4%	47.1%	42.8%	40.1%	39.1%	-104
NBS	36.6%	46.4%	35.3%	35.8%	38.6%	278
AJMANBANK	47.8%	37.9%	71.3%	51.2%	51.5%	31
RAKBANK	43.6%	46.8%	51.2%	45.1%	40.7%	-437
CBD	26.4%	30.5%	27.6%	27.3%	25.9%	-138
ADCB	34.9%	34.4%	38.1%	35.1%	35.4%	26
ADIB	39.2%	36.2%	40.9%	40.8%	32.1%	-867
DIB	24.9%	28.8%	28.3%	25.6%	26.2%	66
ENBD	34.0%	34.8%	31.1%	26.7%	27.4%	74
UAB	60.5%	56.1%	50.0%	45.7%	62.7%	1700
INVEST	156.8%	198.5%	80.2%	NA	NA	NA
FAB	24.8%	26.0%	33.1%	32.2%	30.9%	-131

Source: FABS from co data

RAKBANK and CBD's COR is stood highest in 3Q22

RAKBANK, CBD, CBI, and AJMANBANK reported a higher cost of risk compared to the other banks under our coverage in 3Q22. MASQ's cost of risk declined the most by 92 bps QOQO to 0.1% in 3Q22 followed by NBS and UAB recording a 65 bps and 49 bps QOQ decline respectively in 3Q22. ENBD and RAKBANK's cost of risk rose the most by 80 bps and 56 bps QOQ in 3Q22.

Cost of risk: UAE Banks

	3Q21	4Q21	1Q22	2Q22	3Q22	QOQ ch: bps
BOS	0.1%	NA	NA	NA	NA	NA
CBI	2.1%	-1.3%	0.6%	1.3%	1.4%	13
MASQ	3.1%	0.1%	1.3%	1.1%	0.1%	-92
NBS	0.9%	0.6%	0.8%	1.0%	0.4%	-65
AJMANBANK	1.1%	2.3%	0.0%	0.9%	1.3%	39
RAKBANK	2.7%	2.3%	1.5%	1.6%	2.1%	56
CBD	1.3%	1.2%	1.2%	1.1%	1.5%	38
ADCB	0.7%	0.8%	0.3%	0.8%	0.7%	-4
ADIB	1.7%	1.0%	0.5%	0.5%	0.5%	1
DIB	1.3%	0.6%	0.8%	1.1%	1.0%	-5
ENBD	1.1%	2.0%	1.2%	0.4%	1.2%	80
UAB	0.9%	1.1%	1.3%	0.7%	0.2%	-49
INVEST	3.5%	2.5%	1.5%	NA	NA	NA
FAB	0.8%	0.7%	0.4%	0.5%	0.6%	8

Source: FABS from co data

NBS yet again reported the highest CAR compared to other UAE banks

Majority of the banks reported a rise in CAR during 3Q22. Sharjah Islamic Bank (NBS) reported the highest Capital Adequacy Ratio (CAR) of 20.6% in 3Q22 as compared to other banks. DIB and ENBD recorded a healthy CAR of 18.6% and 18.5% respectively in 3Q22. Apart from UAB and CBI, all other banks under our coverage have recorded a CAR above 15.0% in 3Q22. MASQ witnessed the highest CAR growth of 169 bps QOQ while CBI recorded the largest decline of 61 bps QOQ in 3Q22.

CAR: UAE Banks

	3Q21	4Q21	1Q22	2Q22	3Q22	QOQ ch: bps-
BOS	10.8%	NA	NA	NA	NA	NA
CBI	15.2%	14.8%	14.9%	14.1%	13.5%	-61
MASQ	14.4%	14.5%	14.0%	13.5%	15.2%	169
NBS	21.2%	20.8%	19.9%	20.1%	20.6%	46
AJMANBANK	16.2%	15.9%	15.6%	15.7%	15.6%	-13
RAKBANK	17.8%	17.0%	16.5%	16.8%	16.9%	11
CBD	16.2%	15.8%	15.6%	15.4%	15.6%	16
ADCB	16.3%	16.0%	16.0%	15.2%	15.4%	22
ADIB	19.5%	18.6%	18.1%	18.0%	17.9%	-14
DIB	17.5%	17.1%	17.5%	17.9%	18.6%	70
ENBD	19.2%	18.3%	18.1%	18.0%	18.5%	54
UAB	13.6%	13.8%	14.3%	13.2%	13.5%	30
INVEST	10.0%	9.0%	9.0%	NA	NA	NA
FAB	15.9%	15.4%	15.9%	15.6%	16.1%	50

Source: FABS from co data

Banking stock performance

The majority of the UAE banks generated positive returns during 2022. Thus, the UAE banking outperformed KSA Banking and 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 14.7% and KSA Banking Sector 12.3% return in 2022. Among the UAE Banks, AJMAN BANK generated the highest return followed by MASQ, CBI, ADIB, UAB and MASQ. Both Sharjah Islamic bank and UAB generated 1% return during the period. BOS generated the lowest in the UAE Banking sector followed by AJMANBANK, FAB and ENBD.

27 MENA bank stocks: YE21 to 30th of December 2022

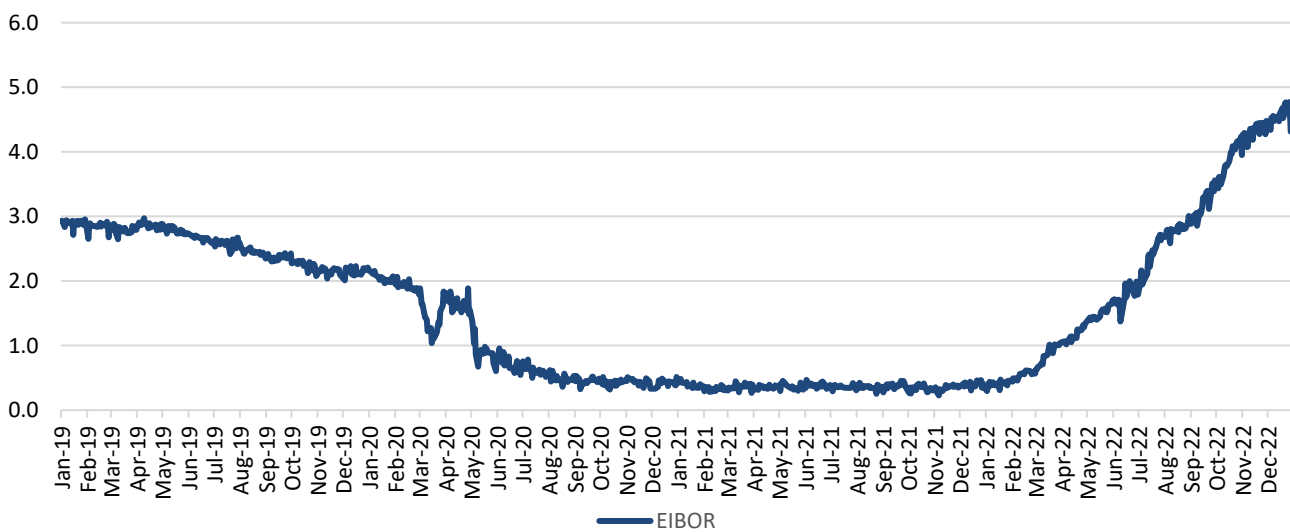
		UAE	KSA	Qatar	Egypt	Ranking
QIBK	4.2%			4.2%		18
MARK	-29.5%			-29.5%		30
CBD	17.0%	17.0%				13
MASQ	24.3%	24.3%				8
QNBK	-8.5%			-8.5%		24
UAB	26.3%	26.3%				7
NBS	4.1%	4.1%				19
CBQK	-24.3%			-24.3%		29
DSM	-8.1%					23
RJHI	-15.2%		-15.2%			26
TASI	-7.1%					22
ADI	20.3%					12
ALINMA	38.8%		38.8%			4
ALBI	27.9%		27.9%			6
BSFR	-11.3%		-11.3%			25
RAKBANK	9.1%	9.1%				16
DHBK	-37.2%			-37.2%		31
COMI	21.2%				21.2%	10
FAB	-6.2%	-6.2%				21
EGX30	22.2%					9
BOS	-22.6%	-22.6%				28
NCB	-19.3%		-19.3%			27
DFMGI	4.4%					17
ARNB	44.6%		44.6%			1
RIBL	20.6%		20.6%			11
CBI	39.4%	39.4%				3
ENBD	-0.9%	-0.9%				20
ADIB	37.2%	37.2%				5
DIB	10.4%	10.4%				14
AJMANBANK	43.2%	43.2%				2
ADCB	9.3%	9.3%				15
Average		14.7%	12.3%	-19.1%	21.2%	

FABS from Bloomberg

EIBOR

The Fed’s stance on monetary policy turned slightly moderated at the end of 2022, thus the magnitude of the hike decreased in December 2022. The Fed raised interest rates by seven times in 2022 to curb soaring inflation. After carrying out four straight 75 bps hike, the Fed finally decreased the magnitude of interest rate hike with a 50 bps rise in previous monetary policy on 14 December 2022. The easing of inflation led the Fed to decrease its intensity of interest rate hike. As the UAE’s currency is pegged to the USD dollar, CBUAE closely follows the Fed’s monetary policy. The UAE’s interbank rate (3-month EIBOR) rose to 4.31% on 30th December 2022. During 4Q22, EIBOR rates inclined 75.1 bps QOQ from 4.31% in 4Q22. The UAE banks positively benefit in the rising interest rate scenario due to the positive interest rate sensitivity gap.

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

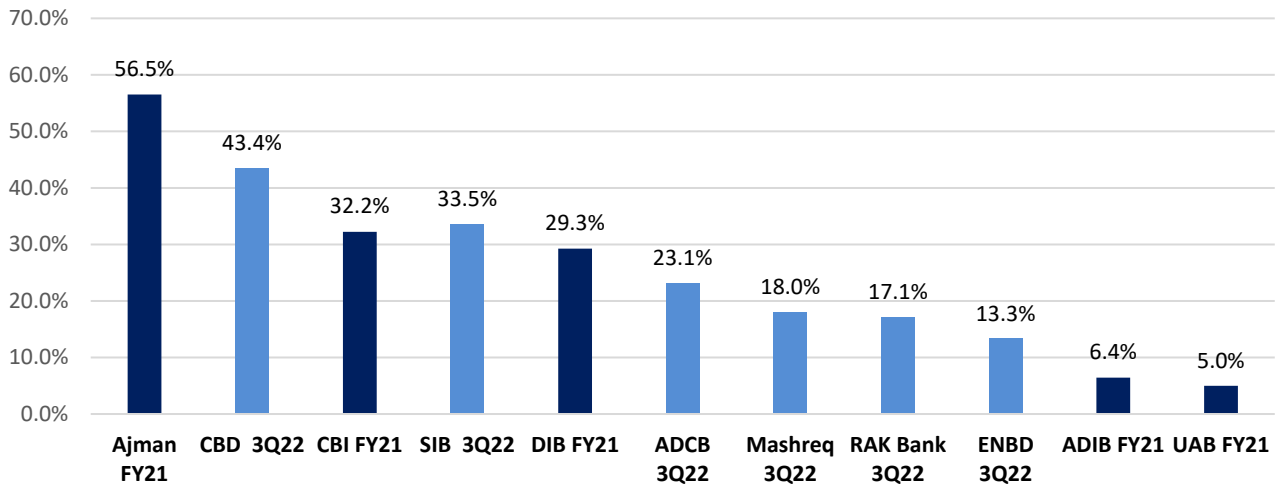


Source: FABS from Bloomberg

Real Estate

Real Estate sector in UAE continues to grow strongly in 2022. The number of real estate transactions increased from 83,982 in 2021 to 128,219 in 2022 whereas the transaction value rose from AED 299.9 Bn in 2021 to AED 430.3 Bn in 2022 in Dubai. The UAE’s bank credit to the construction and real estate sector declined 5.9% YOY to AED 308.342 Bn in 3Q22 leading to a fall in market share to 18.6% in 3Q22 as compared to 19.1% in 2Q22. Most of the banks have declined their exposure to the real estate sector. Out of all the banks under our coverage, Ajman remains the highest credit provider to the real estate sector followed by CBD, SIB, CBI, and DIB. Similarly, UAB had the lowest exposure in the real estate sector followed by ADIB, ENBD, RAK Bank, and Mashreq. In the below-given chart, we have provided disclosure of loans to the real estate loans as a percentage of total loans.

Real Estate Loans Exposure of Total Loans as FY2021 & 3Q22 (%)



Source: FABS from Bloomberg

4Q22 preview: Emirates NBD (ENBD)

A strong positive interest sensitivity gap to boost profitability

CMP (AED): 12.95

Potential Upside/(Downside) (%): **+31.30%**

12-m target price:

AED 17.00

Stock rating:

BUY

4Q22 Estimate

Emirates National Bank of Dubai (ENBD/the bank) is expected to record strong growth in net profit to AED 3,818 Mn in 4Q22, up from AED 2,012 Mn in 4Q21 driven by strong growth in net funded income and decline in impairments, partially offset by hike in operating expenses. Funded income is expected to grow 43.7% YOY to AED 9,420 Mn in 4Q22 due to a hike in asset yield. Similarly, the funded expense is expected to increase 47.6% YOY to AED 3,285 Mn in 4Q22 due to a hike in benchmark rates. Thus, net funded income is anticipated to grow 41.7% YOY to AED 6,135 Mn in 4Q22. Fee and commission income is anticipated to rise 19.3% YOY to AED 956 Mn in 4Q22 whereas other operating income is expected to decline 10.0% YOY to AED 1,241 Mn in 4Q22. Thus, non-funded income is estimated to decline 1.8% YOY to AED 2,154 Mn in 4Q22. As a result, operating income is likely to grow 27.1% YOY to AED 8,288 Mn in 4Q22. On the other hand, operating expenses are predicted to incline 5.8% YOY to AED 2,404 Mn in 4Q22 due to a hike in staff costs. Resultantly, the cost-to-income ratio will decline 584 bps YOY to 29.0% in 4Q22. Impairments are anticipated to decline 36.8% YOY to AED 1,378 Mn in 4Q22. In addition, the tax expense is expected to hike from AED 54 Mn in 4Q21 to AED 135 Mn in 4Q22 with an increase in profitability. The bank is expected to charge a hyperinflation adjustment of AED 550 Mn in 4Q22 impacting the bottom line.

2022 Forecast

ENBD is expected to report a 38.7% YOY hike in net profit to AED 12,892 Mn in 2022 due to growth in net funded income, non-funded income, and a decline in impairments, partially offset by hike in operating expenses. The bank's funded income is estimated to increase 23.6% YOY to AED 32,724 Mn in 2022 due to growth in advances and a rise in asset yield owing to interest rate hikes. Funded expense is expected to grow 15.7% YOY to AED 11,066 Mn in 2022 due to a hike in benchmark rates. Thus, net funded income is estimated to grow 28.0% YOY to AED 21,659 Mn in 2022. Furthermore, non-funded income is estimated to grow 35.2% YOY to AED 9,323 Mn in 2022 due to a hike in fee and commission income and other operating income, partially offset by a decline in trading income. As a result, operating income is expected to grow 30.1% YOY to AED 30,981 Mn in 2022. On the other hand, operating expenses are anticipated to increase 10.1% YOY to AED 8,801 Mn in 2022 due to a hike in staff costs and investments in digital platform. Impairments are expected to decline 21.4% YOY to AED 4,636 Mn in 2022 whereas tax charges are estimated to increase from AED 604 Mn in 2021 to AED 1,666 Mn in 2022. Additionally, the bank is expected to record a hyperinflation adjustment of AED 2,958 Mn in 2022.

3Q22 Outrun

ENBD's funded income grew 32.1% YOY to AED 9,192 Mn in 3Q22 due to credit growth and high asset yield. Funded expenses increased 23.9% YOY to AED 3,109 Mn in 3Q22 owing to high benchmark rates. Thus, net funded income rose 36.8% YOY to AED 6,083 Mn in 3Q22. NIMs rose 49 bps QOQ to 3.3% in 3Q22. Other operating income significantly rose from AED 379 Mn in 3Q21 to AED 1,388 Mn in 3Q22 whereas fee and commission income rose 16.6% YOY to AED 1,062 Mn. Thus, non-funded income increased from AED 1,313 Mn in 3Q21 to AED 2,404 Mn in 3Q22. As a result, operating income rose 47.3% YOY to AED 8,488 Mn in 3Q22. On the other hand, operating expenses rose 19.0% YOY to AED 2,327 Mn in 3Q22 which resulted in a 74 bps QOQ rise in cost to income ratio. Impairment charges rose 24.5% YOY to AED 1,377 Mn in 3Q22. In addition, tax expenses more than doubled from AED 194 Mn in 3Q21 to AED 466 Mn in 3Q22. The bank recorded hyperinflation adjustments of AED 538 Mn in 3Q22 due to the hyperinflationary economy in Turkey which affected the profits of its subsidiary DenizBank.

Target price and recommendation

We maintain our BUY rating on ENBD with a target price of AED 17.00. The bank recorded a strong 50.7% YOY growth in net profit to AED 3,776 Mn in 3Q22 in spite of incurring a hyperinflation charge of AED 538 Mn. ENBD's asset yield rose 81 bps QOQ to 5.0% in 3Q22 whereas the cost of funds rose 42 bps QOQ to 2.2% due to the positive interest rate sensitivity gap and a favourable deposit mix. The bank's NIMs increased 48 bps QOQ to 3.6% in 3Q22. ENBD's customer deposits rose 4.8% on a YTD basis to AED 480.8 Bn in 3Q22 while the CASA deposits as a percentage of total deposits rose to 63% recording an AED 18 Bn QOQ rise. The bank's advances to deposits ratio eased from 90.8% in 2Q22 to 87.2% in 3Q22 creating enough headroom for credit growth. The bank's asset quality improved 30 bps QOQ to 5.8% in 3Q22 due to continuous recoveries while the coverage ratio improved from 133.3% in 2Q22 to 142.6% in 3Q22. Furthermore, ENBD's stage 2 loans as a percentage of gross loans declined from 7.0% in 2Q22 to 6.6% in 3Q22 due to strong recoveries and writebacks. In addition, the bank's capitalization stood strong with a CET 1 ratio of 15.5% and CAR of 18.5% in 3Q22. Thus, based on our analysis, we maintain our BUY rating on the stock.

ENBD - Relative Valuation

(At CMP)	2018	2019	2020	2021	2022F
PE	7.56	7.65	12.85	9.32	6.30
PB	1.49	1.13	1.09	1.09	1.02
Dividend Yield	3.1%	3.1%	3.1%	3.9%	4.7%

FABS estimate & Co data
ENBD - P&L

AED mm	4Q21	3Q22	4Q22F	YOY Ch	QOQ Ch	2021	2022F	Change
Funded income	6,555	9,192	9,420	43.7%	2.5%	26,486	32,724	23.6%
Funded expense	-2,226	-3,109	-3,285	47.6%	5.7%	-9,561	-11,066	15.7%
Net funded income	4,329	6,083	6,135	41.7%	0.8%	16,925	21,659	28.0%
Fees and commissions	801	1,062	956	19.3%	-10.0%	3,836	4,017	4.7%
Trading gain/(loss)	13	-45	-43	-438.3%	-5.5%	151	-46	-130.4%
Other Operating Income	1,379	1,388	1,241	-10.0%	-10.6%	2,910	5,351	83.9%
Non-funded income	2,193	2,404	2,154	-1.8%	-10.4%	6,897	9,323	35.2%
Operating income	6,521	8,488	8,288	27.1%	-2.3%	23,822	30,981	30.1%
Operating expenses	-2,272	-2,327	-2,404	5.8%	3.3%	-7,992	-8,801	10.1%
Pre-provision profit	4,249	6,161	5,885	38.5%	-4.5%	15,830	22,180	40.1%
Impairment	-2,179	-1,377	-1,378	-36.8%	0.1%	-5,899	-4,636	-21.4%
PBT	2,070	4,784	4,507	117.7%	-5.8%	9,910	17,544	77.0%
Tax	-54	-466	-135	149.0%	-71.0%	-604	-1,666	175.8%
Net profit	2,016	4,318	4,372	116.8%	1.2%	9,306	15,878	70.6%
Hyperinflation	0	-538	-550	NM	2.2%	0	-2,958	NA
Net Profit adj for hyperinflation	2,016	3,780	3,822	89.6%	1.1%	9,306	12,920	38.8%
NCI	-4	-4	-4	-10.7%	1.5%	-8	-29	239.8%
Net profit attributable	2,012	3,776	3,818	89.8%	1.1%	9,298	12,892	38.7%

FABS estimate & Co Data
Emirates NBD - P&L KPI

	4Q21	3Q22	4Q22F	YOY	QOQ	2021	2022F	Change
Net FI/OI	66.4%	71.7%	74.0%	764	234	71.0%	69.9%	-114
NIM	2.4%	3.3%	3.3%	92	-1	2.5%	3.2%	70
NIS	2.1%	2.9%	2.8%	76	-4	2.2%	2.9%	67
Fees & comms/OI	12.3%	12.5%	11.5%	-75	-98	16.1%	13.0%	-314
Other non-funded/OI	21.1%	16.3%	15.0%	-617	-138	12.2%	17.3%	506
Trading/OI	0.2%	-0.5%	-0.5%	-71	2	0.6%	-0.1%	-78
Cost to income	34.8%	27.4%	29.0%	-584	158	33.5%	28.4%	-514
Impairment/PPP	51.3%	22.3%	23.4%	-2,787	107	37.3%	20.9%	-1,636
Tax/PBT	2.6%	9.7%	3.0%	38	-674	6.1%	9.5%	340
NP/OI	30.8%	44.5%	46.1%	1,521	157	39.0%	41.6%	258
ROAE	12.3%	14.2%	16.2%	385	195	12.5%	16.7%	421
ROAA	1.3%	1.5%	1.8%	44	23	1.3%	1.8%	48

FABS estimate & Co data

ENBD - BS Key items

	4Q21	1Q22	2Q22	3Q22	4Q22F	YOY
AED mm						
Net advances	422,272	425,351	424,987	419,063	423,389	0.3%
QOQ change	-3.7%	0.7%	-0.1%	-1.4%	1.0%	
Total Assets	687,437	694,035	710,640	720,523	729,285	6.1%
QOQ change	-1.7%	1.0%	2.4%	1.4%	1.2%	
Customer Deposits	456,484	468,974	467,877	480,835	485,537	6.4%
QOQ change	-2.1%	2.7%	-0.2%	2.8%	1.0%	
Total Equity	74,391	72,464	76,189	79,424	79,768	7.2%
QOQ change	-2.4%	-2.6%	5.1%	4.2%	0.4%	

FABS estimate & Co data

4Q22 preview: Dubai Islamic Bank (DIB)

Loan book diversification strategy to support revenue growth

CMP (AED): 5.65

Potential Upside/(downside) (%): **+23.9%**

12-m target price:

AED 7.00

Stock rating:

BUY

4Q22 estimate

Dubai Islamic Bank (DIB/the bank) is expected to record a 6.2% YOY growth in net profit to AED 1,393 Mn in 4Q22 driven by strong growth in net funded income partly offset by a decline in non-funded income, a hike in operating expenses, and higher impairments. Funded income is forecasted to grow 50.2% YOY to AED 3,344 Mn in 4Q22 mainly due to high asset yield. Similarly, the funded expense is anticipated to rise from AED 577 Mn in 4Q21 to AED 1,138 Mn in 4Q22 due to a hike in benchmark rates. Thus, net funded income is expected to grow 33.7% YOY to AED 2,206 Mn in 4Q22. Non-funded income is estimated to decline 20.1% YOY to AED 498 Mn in 4Q22 attributable to a decline in fees and commission income and a fall in other non-funded income. As a result, total operating income is likely to grow 19.0% YOY to AED 2,704 Mn in 4Q22. Operating expenses are anticipated to grow 7.9% YOY to AED 708 Mn in 4Q22 with a cost-to-income ratio of 26.2% in 4Q22 as compared to 28.8% in 4Q21. In addition, impairment charges are expected to hike significantly from AED 274 Mn in 4Q21 to AED 550 Mn in 4Q22.

2022 forecast

We estimate DIB's net profit to grow 24.9% YOY to AED 5,485 Mn in 2022 driven by strong growth in net funded income and a decline in impairments partially offset by a decline in non-funded income and a hike in operating expenses. Funded income is expected to increase 27.0% YOY to AED 11,448 Mn in 2022 owing to a rise in asset yield. Similarly, the funded expense is anticipated to grow 41.5% YOY to AED 3,358 Mn in 2022 due to a hike in benchmark rates. Thus, net funded income is estimated to grow 21.8% YOY to AED 8,090 Mn in 2022. Non-funded income is forecasted to decline 18.5% YOY to AED 2,267 Mn in 2022 mainly driven by an expected decline in other non-funded income. Thus, operating income is likely to grow 9.9% YOY to AED 10,356 Mn in 2022. Operating expenses are expected to increase 8.6% YOY to 2,748 Mn in 2022. Impairment charges are anticipated to decline 18.3% YOY to AED 2,000 Mn in 2022.

3Q22 outturn

Net funded income grew 20.7% YOY to AED 2,119 Mn in 3Q22 mainly due to an increase in funded income partially offset by rise in funded expenses. Funded income rose 33.1% YOY to AED 3,112 Mn in 3Q22 due to a 131 bps YOY growth in asset yield while funded expenses increased from AED 583 Mn to AED 994 Mn in 3Q22 due to a hike in benchmark rates. Thus, NIMs grew 65 bps YOY and 22 bps QOQ to 3.24% in 3Q22. However, non-funded income declined 35.4% YOY to AED 495 Mn in 3Q22 attributable to a fall in fee and commission income and other operating income. As a result, operating income rose 3.7% YOY to AED 2,613 Mn in 3Q22. In addition, operating expenses inclined 9.2% YOY to AED 685 Mn in 3Q22 owing to investments in the system and operational infrastructure which led to a 132 bps YOY hike in the cost-to-income ratio to 26.2% in 3Q22. Impairments fell from AED 676 Mn in 3Q21 to AED 502 Mn in 3Q22. Tax expenses rose significantly from AED 12 Mn in 3Q21 to AED 25 Mn in 3Q22 in line with growth in profitability.

Target price and recommendation

We maintain our BUY rating on DIB with a target price of AED 7.00. The net financing and sukuk investment of the Bank grew 3.3% YTD to AED 236 Bn. It also recorded AED 43 Bn growth in gross new financing and investment on a YTD basis. DIB further anticipates its loan book to grow 6.5% in FY2022 supported by a portfolio diversification strategy. DIB's Consumer portfolio recorded 4% growth on a YTD basis to AED 52 Bn in 3Q22 with a gross new consumer financing of AED 13 Bn on YTD basis in 3Q22. The Corporate portfolio benefitted from strong growth in the government and utility sector offset by a repayment due to strong liquidity. The Bank plans to grow its lending in the

low-risk segment such as government and GRE. DIB's net interest margin improved 65 bps YOY to 3.24% in 3Q22, owing to the rising interest rate scenario and decline in total deposits base. CASA balance remained solid despite the rising interest rate environment as CASA deposit now accounts for 42% of the overall deposit in 3Q22. DIB digital strategy continues to gain traction over the period on all parameters. This will lead to cost savings and higher customer engagement levels. Thus, the cost-to-income ratio stood at 26.2% in 3Q22. DIB's cost of risk declined 32 bps YOY to 1.01% in 3Q22 and it is further expected to remain at the same level in 2022. The asset quality of the bank improved as NPL ratio declined marginally from 6.35% in 3Q21 to 6.25% in 3Q22 with a healthy coverage ratio of 73.9%. The capitalization also remained healthy with a capital adequacy ratio of 18.6% and CET 1 ratio stood at 13.9% in 3Q22. Considering all these factors, we maintain our BUY rating on the stock.

DIB - Relative Valuation

(At CMP)	2018	2019	2020	2021	2022
P/E	7.65	7.99	14.50	10.40	7.27
P/B	1.51	1.42	1.39	1.30	1.27
Dividend yield	6.4%	6.4%	3.6%	4.5%	5.4%

FABS estimate

DIB - P&L

	4Q21	3Q22	4Q22F	YOY Ch	QOQ Ch	2021	2022F	Change
AED mm								
Funded income	2,226	3,112	3,344	50.2%	7.4%	9,013	11,448	27.0%
Funded expense	-577	-994	-1,138	97.3%	14.5%	-2,373	-3,358	41.5%
Net funded income (NFI)	1,649	2,119	2,206	33.7%	4.1%	6,639	8,090	21.8%
Fees & commissions	404	330	340	-15.9%	3.0%	1,655	1,576	-4.8%
Other non-funded income	219	165	158	-27.9%	-4.1%	1,127	691	-38.7%
Non-Funded Income	623	495	498	-20.1%	0.6%	2,782	2,267	-18.5%
Operating income	2,273	2,613	2,704	19.0%	3.4%	9,422	10,356	9.9%
General expenses	-656	-685	-708	7.9%	3.3%	-2,529	-2,748	8.6%
Pre-provisioning profit	1,617	1,928	1,996	23.4%	3.5%	6,892	7,609	10.4%
Impairment charges	-274	-502	-550	100.5%	9.5%	-2,448	-2,000	-18.3%
Profit before tax	1,343	1,426	1,446	7.7%	1.4%	4,444	5,608	26.2%
Tax	-6	-25	-29	395.4%	14.8%	-38	-90	137.2%
Profit before NCI	1,337	1,401	1,417	6.0%	1.2%	4,406	5,518	25.2%
Non-controlling interests	-25	-24	-24	NM	NM	-15	-33	121.8%
Profit for the period	1,311	1,377	1,393	6.2%	1.2%	4,391	5,485	24.9%

FABS estimate & Co Data

DIB - P&L KPI

	4Q21	3Q22	4Q22F	YOY Ch	QOQ Ch	2021	2022F	Change
Net FI/OI	72.6%	81.1%	81.6%	902	51	70.5%	78.1%	764
NIM	2.5%	3.2%	3.4%	93	16	2.5%	3.1%	59
NIS	2.4%	3.0%	3.2%	80	15	2.4%	2.9%	56
Fees & commissions/OI	17.8%	12.6%	12.6%	-522	-5	17.6%	15.2%	-235
Other non-funded/OI	9.6%	6.3%	5.8%	-380	-46	12.0%	6.7%	-530
Cost to income	28.8%	26.2%	26.2%	-268	-4	26.8%	26.5%	-31
Impairment/PPP	17.0%	26.1%	27.6%	1059	150	35.5%	26.3%	-923
NCI/PBT	1.9%	1.7%	1.7%	-21	-2	0.3%	0.6%	26
NP/OI	57.7%	52.7%	51.5%	-618	-115	46.6%	53.0%	635
ROAA	1.5%	1.9%	2.0%	44	4	1.5%	2.0%	42
ROAE	14.5%	17.1%	16.7%	212	-43	14.8%	17.1%	225

FABS estimate & Co Data

DIB - key B/S items

	4Q21	1Q22	2Q22	3Q22	4Q22F	YOY Ch
AED mm						
Net financings	186,691	190,715	194,359	187,231	190,970	2.3%
QOQ change	-3.1%	2.2%	1.9%	-3.7%	2.0%	
Total assets	279,082	287,226	282,218	274,856	278,662	-0.2%
QOQ change	-3.6%	2.9%	-1.7%	-2.6%	1.4%	
Customer deposits	205,845	204,476	202,214	186,512	198,044	-3.8%
QOQ change	-3.9%	-0.7%	-1.1%	-7.8%	6.2%	
Shareholders' fund	30,602	29,958	31,024	32,230	33,623	9.9%
QOQ change	2.6%	-2.1%	3.6%	3.9%	4.3%	

FABS estimate & Co Data

4Q22 preview: Abu Dhabi Islamic Bank (ADIB)

Strong advances growth and higher NIMs to boost bottom line

CMP (AED): 9.24

Potential upside/(downside) (%): **+18.30%**

12-m target price:

AED 11.00

Stock rating:

BUY

4Q22 estimate

Abu Dhabi Islamic Bank (the bank/ADIB) is expected to report healthy growth in net profit of 38.5% YOY to AED 1,008 Mn in 4Q22 mainly driven by a strong growth in net funded income and a decline in impairments partially offset by a sharp decline in non-funded income along with a hike in operating expenses. ADIB's funded income is anticipated to rise 53.5% YOY to AED 1,354 Mn in 4Q22 driven by a hike in asset yield and an 11.8% YOY hike expected in advances. Similarly, the funded expense is expected to grow more than double from AED 82 Mn in 4Q21 to AED 196 Mn in 4Q22 due to a hike in benchmark rates. Thus, the bank's net funded income is estimated to grow 44.7% YOY to AED 1,158 Mn in 4Q22. Furthermore, ADIB's non-funded income is anticipated to decline 19.5% YOY to AED 537 Mn in 4Q22 due to a 1.4% expected decline in fee and commission income to AED 265 Mn and 31.7% YOY decline in other non-funded income to AED 272 Mn in 4Q22. As a result, the bank's operating income is likely to grow 15.5% YOY to AED 1,695 Mn in 4Q22. ADIB's operating expenses are anticipated to increase 3.4% YOY to AED 549 Mn in 4Q22 due to investments in digitization. In addition, impairments are estimated to fall 34.4% YOY to AED 133 Mn in 4Q22.

2022 forecast

ADIB's net profit is estimated to grow 48.5% YOY to AED 3,459 Mn in 2022 driven by strong growth in net funded income and a decline in impairments somewhat offset by a rise in operating expenses. Funded income is expected to grow 21.8% YOY to AED 4,474 Mn in 2022 primarily due to strong growth in net advances and asset yield. Funded expense is forecasted to increase from 330 Mn in 2021 to 515 Mn in 2022 due to a hike in benchmark rates. Thus, Net funded income will grow 18.4% YOY to AED 3,959 Mn in 2022. Non-funded income is anticipated to grow marginally 1.7% YOY to AED 2,252 Mn in 2022 due to a 15.3% hike expected in fee and commission income partially offset by an 8.7% decline in other non-funded income. As a result, operating income is expected to grow 11.7% YOY to reach AED 6,211 Mn in 2022. On the other hand, operating expenses are expected to decline marginally 0.5% YOY to AED 2,248 Mn in 2022 mainly due to cost optimization. However, Impairments are estimated to decline 49.1% YOY to AED 486 Mn in 2022 increasing profitability.

3Q22 outturn

ADIB's funded income grew 23.7% YOY to AED 1,279 Mn in 3Q22 due to strong growth in interest-earning assets. Funded expenses increased from AED 76 Mn in 2021 to AED 147 Mn in 3Q22 due to high interest rates in the economy. Resultantly, net funded income rose 18.2% YOY to AED 1,132 Mn in 4Q22. Fees and commission income rose 14.0% YOY to AED 260 Mn in 3Q22 whereas other non-funded income inclined 8.9% YOY to AED 286 Mn in 3Q22 which resulted in an 11.2% YOY growth in non-funded income to AED 546 Mn. As a result, operating income increased 15.9% YOY to AED 1,678 Mn in 3Q22. Operating expenses declined marginally 5.0% YOY to AED 539 Mn in 3Q22 due to digital strategy and cost optimization initiatives undertaken by the bank. The cost-to-income ratio fell 867 bps QOQ 32.1% in 3Q22. Impairment charges declined 67.4% YOY to AED 125 Mn in 3Q22. Thus, ADIB's net profit rose more than double from AED 493 Mn in 3Q21 to AED 1,010 Mn in 3Q22.

Target price and recommendation

We maintain our BUY Rating on Abu Dhabi Islamic Bank with an unchanged target price of AED 11.00. The bank recorded the highest quarterly net profit of AED 1,010 Mn in 3Q22. The bank's advances rose 10.5% on a YTD basis to AED 98.4 Bn in 3Q22 and we further estimate it to grow owing to a strong economic outlook. ADIB's asset yield rose 83 bps QOQ to 3.73% in 3Q22 whereas the cost of funds increases 20 bps QOQ to 0.49% in 3Q22. Thus, NIMs rose 65 bps QOQ to 3.3% in 3Q22. The bank witnessed an 8.4% growth in deposits on a YTD basis in 3Q22 and the CASA ratio

rose to 74.0% in 3Q22 with AED 88.0 Bn of CASA deposits. The bank added more than 93,000 customers with a strong cross-selling ratio of 1.5x in 9M22. In addition, the bank earned AED 3.9 Mn in revenue from payment services and USD 154 Mn through asset management. The bank's digitally active customers increased from 67% in 2Q22 to 70% in 3Q22. ADIB's asset quality improved marginally from an NPL ratio of 8.4% in 2Q22 to 8.3% in 3Q22. In addition, NPL coverage ratio stood at 67.8% in 3Q22 while NPL coverage ratio along with collaterals stood strong at 122.4% in 3Q22. The bank's cost-to-income ratio improved from 55.5% in 2Q22 to 53.1% in 3Q22. On the other hand, the cost of risk increased from 0.4% in 3Q22 to 0.5% in 3Q22. The bank's capitalization stood strong with a CAR ratio of 17.9%, a CET I ratio of 16.8%, and a T1 ratio of 12.8% in 3Q22. Thus, based on our analysis, we assign a BUY rating on the stock.

ADIB - Relative valuation

	2018	2019	2020	2021	2022
(At CMP)					
PB	6.52	12.91	20.94	14.41	9.70
PE	2.59	2.34	2.33	2.12	2.12
Dividend yield	3.0%	3.0%	2.2%	3.4%	3.6%

FABS Estimates & Co Data
ADIB - P&L

	4Q21	3Q22	4Q22F	YOY Ch	QOQ Ch	2021	2022F	Change
AED MN	10	45	48	360.7%	6.1%	39	128	230.6%
Institutions	872	1,234	1,306	49.8%	5.8%	3,636	4,346	19.5%
Islamic financings	882	1,279	1,354	53.5%	5.8%	3,675	4,474	21.8%
Depositors' distribution	-82	-147	-196	138.8%	33.3%	-330	-515	56.0%
Net funded income	800	1,132	1,158	44.7%	2.3%	3,345	3,959	18.4%
Fees and commissions	269	260	265	-1.4%	2.0%	958	1,104	15.3%
Other non-funded income	398	286	272	-31.7%	-5.0%	1,257	1,147	-8.7%
Non-Funded Income	667	546	537	-19.5%	-1.7%	2,215	2,252	1.7%
Operating income	1,467	1,678	1,695	15.5%	1.0%	5,560	6,211	11.7%
Operating expenses	-531	-539	-549	3.4%	1.8%	-2,260	-2,248	-0.5%
Pre-provisioning income	936	1,139	1,146	22.4%	0.6%	3,300	3,963	20.1%
Financing impairment	-203	-125	-133	-34.4%	6.7%	-954	-486	-49.1%
Profit before NCI	733	1,014	1,012	38.2%	-0.2%	2,345	3,477	48.3%
NIC. & zakat	-4	-4	-4	-8.3%	-7.2%	-16	-18	12.9%
Net profit for the period	728	1,010	1,008	38.5%	-0.1%	2,329	3,459	48.5%

FABS estimate & Co Data
ADIB - KPI

	4Q22	3Q22	4Q22F	YOY Ch	QOQ Ch	2021	2022F	Change
Net FI/OI	54.5%	67.5%	68.3%	1,378	85	60.2%	63.7%	359
NIM	2.5%	3.3%	3.3%	77	-1	2.7%	2.9%	25
NIS	2.5%	3.2%	3.2%	72	-3	2.6%	2.9%	23
Fees & comms/OI	18.3%	15.5%	15.6%	-268	16	17.2%	17.8%	55
Other non-funded/OI	27.2%	17.1%	16.0%	-1,111	-101	22.6%	18.5%	-413
Cost to income	36.2%	32.1%	32.4%	-381	26	40.7%	36.2%	-446
Impairment/PPP	21.7%	11.0%	11.6%	-1,008	67	28.9%	12.3%	-1,666
NP/OI	49.6%	60.2%	59.5%	986	-66	41.9%	55.7%	1,380
ROAE	13.4%	18.3%	19.9%	648	161	13.7%	20.3%	653
ROAA	1.7%	2.2%	3.5%	178	131	1.8%	2.4%	66

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

	4Q21	1Q22	2Q22	3Q22	4Q22F	YOY Ch
AED MN						
Net advances	89,043	91,169	92,286	98,356	99,578	11.8%
QOQ change	4.3%	2.4%	1.2%	6.6%	1.2%	
Total assets	136,868	138,583	141,944	147,209	148,945	8.8%
QOQ change	2.6%	1.3%	2.4%	3.7%	1.2%	
Customer deposits	109,611	110,808	115,188	118,823	119,477	9.0%
QOQ change	2.4%	1.1%	4.0%	3.2%	0.6%	
Total shareholders' equity	15,793	15,119	15,638	16,407	15,854	0.4%
QOQ change	4.2%	-4.3%	3.4%	4.9%	-3.4%	

FABS estimate & Co Data

4Q22 preview: National Bank of Ras Al Khaimah (RAKBANK)

Strong asset quality and rising NIMs to improve profitability

CMP (AED): 4.52

Potential upside/(downside) (%): **+29.4%**

12-m target price:

AED 5.85

Stock rating:

BUY

4Q22 estimate

National Bank of Ras Al-Khaimah (RAKBANK/the bank) is expected to report a net profit of AED 402 Mn in 4Q22 as compared to AED 224 Mn in 4Q21 driven by solid growth in funded income and a decline in impairments, partially offset by a hike in operating expenses. Interest Income including income from Islamic financing is estimated to grow 48.2% YOY to AED 905 Mn in 4Q22 driven by healthy loan growth and strong asset yield. Interest expense is anticipated to rise from AED 63 Mn in 4Q21 to AED 170 Mn in 4Q22 due to a hike in benchmark rates. As a result, net funded income is expected to grow 34.2% YOY to AED 734 Mn in 4Q22. Total non-funded income is estimated to decline marginally 1.0% YOY to AED 243 Mn in 4Q22 mainly due to a sharp decline in gross insurance underwriting profit. Thus, net operating income is likely to rise 23.3% YOY to AED 977 Mn in 4Q22. Operating expenses are expected to rise 1.4% YOY to AED 376 Mn in 4Q22 due to the bank's initiative to invest for growth. In addition, impairments are forecasted to increase marginally 1.4% YOY to AED 200 Mn in 4Q22.

2022 forecast

RAKBANK's net profit is estimated to reach AED 1,285 Mn in 2022 as compared to AED 756 Mn in 2021. Net funded income including income from Islamic financing is expected to grow 14.9% YOY to AED 2,491 Mn in 2022 due to strong credit growth and an increase in asset yield partially offset by a rise in interest rates. Total non-funded income is expected to decline 11.1% YOY to AED 944 Mn in 2022 driven by an expected decline in gross insurance underwriting income, investment income, fee & commission income, and other operating income. As a result, net operating income is likely to grow 6.3% YOY to AED 3,434 Mn in 2022. Operating expenses are expected to rise 6.7% YOY to AED 1,489 Mn in 2022. On the other hand, impairments are expected to decline from AED 1,077 Mn in 2021 to AED 666 Mn in 2022.

3Q22 outturn

RAKBANK's interest income including income from financing grew 20.1% YOY to AED 791 Mn in 3Q22 driven by high asset yield. Similarly, interest expense rose from AED 61 Mn in 3Q21 to AED 138 Mn in 3Q22 due to high benchmark rates and changes in the borrowing mix. Thus, net funded income inclined 19.5% YOY to AED 653 Mn in 3Q22. NIMs rose 44 bps QOQ to 4.4% in 3Q22 due to the positively geared balance sheet in a rising interest rate scenario. Net Fees and Commissions declined marginally 4.6% YOY to AED 164 Mn in 3Q22 whereas other components of total non-funded income increased from AED 87 Mn in 3Q21 to AED 98 Mn in 3Q22 attributable to higher forex gains partially offset by a decline in investment income and other operating income. Resultantly, non-funded income grew marginally 1.3% YOY to AED 262 Mn in 3Q22. Thus, net operating income rose 13.6% YOY to AED 915 Mn in 3Q22. In addition, operating expenses grew 6.1% YOY to AED 373 Mn in 3Q22 due to rise in staff cost and card expenses partially offset by a reduction in marketing and IT expenses. The cost-to-income ratio improved 290 bps YOY to 40.7% in 3Q22. Impairments declined from AED 225 Mn in 3Q21 to AED 191 Mn in 3Q22 pushing up profits.

Target price and recommendation

We maintain our BUY rating on RAKBANK with a target price of AED 5.85. The Bank reported strong profitability growth in 3Q22 mainly driven by a rise in interest-earning assets and lower impairments. RAKBANK is further expected to maintain its performance in a rising interest rate environment due to a positive interest rate sensitivity gap. RAKBANK asset yield improved 77 bps QOQ to 4.88% in 3Q22 and the NIM improved 44 QOQ to 4.37% in 3Q22. The deposit base rose 8.8% YOY and 1.8% QOQ to AED 40.3 Bn in 3Q22 with a CASA ratio of 71.3% in 3Q22 which will support NIMs in the higher interest rate environment. RAKBANK also saw a significant increase in advances in its

Wholesale, Retail, and Business Banking segments. Net advances rose 8.7% YOY to AED 34.2 Bn in 3Q22. RakBank's asset quality is showing signs of improvement as the NPL ratio reduced to 3.2% in 3Q22 as compared to 3.6% in 2Q22 with a healthy provisioning coverage ratio of 156.1% in 3Q22. Capitalization remained strong with a total CAR of 16.9% and a CET ratio of 15.8% in 3Q22. Stage 2 loans as a percentage of gross loans fell from 4.0 % in 2Q22 to 3.3%. NPLs as percentages of gross loans fell from 3.6% in 2Q22 to 3.2% in 3Q22. Considering the aforementioned factors, we assign a 'BUY' rating to the stock.

RAKBANK - Relative valuation

(At CMP)	2018	2019	2020	2021	2022F
P/E (x)	8.30	6.92	15.04	10.02	5.89
P/B (x)	1.07	0.97	0.97	0.91	0.86
Dividend Yield	6.6%	6.6%	3.3%	5.0%	6.6%

FABS Estimates & Co Data
RAKBANK P&L

AED mm	4Q21	3Q22	4Q22F	YOY Ch	QOQ Ch	2021	2022F	Change
Interest income	497	657	758	52.5%	15.4%	1,972	2,441	23.8%
Interest expenses	-47	-114	-170	262.4%	49.8%	-197	-404	104.9%
Net interest income	450	543	588	30.6%	8.2%	1,774	2,036	14.8%
Income: Islamic financing	113	134	146	29.2%	9.3%	455	512	12.5%
Islamic profit distribution	-16	-25	0	NM	NM	-61	-57	-5.5%
Net Islamic financing income	97	109	146	51.0%	33.8%	394	454	15.3%
Net funded income	547	653	734	34.2%	12.5%	2,168	2,491	14.9%
Net fees and commissions	163	164	165	1.5%	0.9%	687	669	-2.6%
Foreign exchange gain	43	77	45	4.0%	-42.0%	161	182	13.5%
Gross insurance underwriting Profit	12	0	0	NM	NM	37	4	-89.4%
Investment Income	7	-2	7	2.2%	NM	80	4	-94.6%
Other operating income	20	23	25	25.0%	9.1%	97	84	-13.4%
Total non-funded income	245	262	243	-1.0%	-7.4%	1,062	944	-11.1%
Net operating income	792	915	977	23.3%	6.8%	3,231	3,434	6.3%
Operating expenses	-371	-373	-376	1.4%	0.9%	-1,396	-1,489	6.7%
Pre-provision profit	421	542	601	42.6%	10.8%	1,835	1,945	6.0%
Impairment	-198	-191	-200	1.4%	5.0%	-1,077	-666	-38.2%
Profit for the year	224	351	401	79.1%	14.0%	758	1,279	68.7%
Non-controlling interest	0	2	2	NM	0.8%	-2	6	NM
Net profit attributable	224	353	402	79.9%	13.9%	756	1,285	70.0%

FABS estimate & Co Data
RAKBANK - KPI

	4Q21	3Q22	4Q22	YOY Ch	QOQ Ch	2021	2022F	Change
Net FI/OI	69.0%	71.3%	75.1%	610	382	67.1%	72.5%	540
NIM	4.1%	4.4%	4.8%	69	44	4.2%	4.5%	32
NIS	4.0%	4.2%	4.5%	43	25	4.1%	4.1%	0
Fees & comms/OI	20.6%	17.9%	16.9%	-364	-99	21.3%	19.5%	-178
Foreign exchange gain/OI	5.4%	8.5%	4.6%	-85	-386	5.0%	5.3%	34
Other operating income/OI	2.6%	2.6%	2.6%	4	5	3.0%	2.4%	-56
Invst Income/OI	0.9%	-0.3%	0.7%	-15	98	2.5%	0.1%	-236
Cost to income	46.8%	40.7%	38.5%	-833	-225	43.2%	43.4%	16
Impairment/PPP	46.9%	35.2%	33.4%	-1357	-184	58.7%	34.2%	-2445
NP/OI	28.2%	38.6%	41.2%	1294	258	23.4%	37.4%	1401
ROAE	9.2%	13.1%	14.8%	557	171	9.4%	15.0%	566
ROAA	1.4%	1.8%	3.0%	162	121	1.4%	2.1%	73

FABS estimate & Co data
RAKBANK - Key B/S items

AED mm	4Q21	1Q22	2Q22	3Q22	4Q22F	YOY Ch
Net advances	32,284	33,946	33,981	34,196	34,991	8.4%
QOQ change	2.6%	5.1%	0.1%	0.6%	2.3%	
Total assets	56,304	58,626	60,758	63,832	65,188	15.8%
QOQ change	3.3%	4.1%	3.6%	5.1%	2.1%	
Customer deposits	37,647	38,458	39,552	40,255	41,166	9.3%
QOQ change	1.8%	2.2%	2.8%	1.8%	2.3%	
Total Equity	8,382	8,578	8,337	8,679	8,796	4.9%
QOQ change	2.9%	2.3%	-2.8%	4.1%	1.3%	

FABS estimate & Co data

4Q22 preview: Abu Dhabi Commercial Bank (ADCB)

Excess liquidity to drive loan growth and profitability

CMP (AED): 9.05

Potential Upside/(downside) (%): **+28.2%**

12-m target price:

AED 11.60

Stock rating:

BUY

4Q22 estimate

Abu Dhabi Commercial Bank's (ADCB) net profit is estimated to grow 18.9% YOY to AED 1,715 Mn in 4Q22 driven by strong growth in net funded income and a decline in impairments partially offset by a decline in non-funded income and a hike in operating expenses. We expect ADCB's funded income to grow 58.7% YOY to AED 4,474 Mn in 4Q22 due to a rise in interest-earning assets. Similarly, the funded expense is expected to increase from AED 570 Mn in 4Q21 to AED 1,874 Mn in 4Q22. Thus, net funded income is anticipated to grow 15.6% YOY to AED 2,601 Mn in 4Q22. NIMs are expected to rise 7 bps YOY to 2.3% in 4Q22. Furthermore, fees and commission income is forecasted to decline marginally 3.0% YOY to AED 503 Mn in 4Q22 whereas other operating income is estimated to decline 9.7% YOY to AED 459 Mn. Resultantly, non-funded income is estimated to decline 6.3% YOY to AED 962 Mn in 4Q22. As a result, operating income is likely to grow 8.7% YOY to AED 3,563 Mn in 4Q22. The cost-to-income ratio is expected to rise 96 bps YOY to 35.4% in 4Q22. On the other hand, operating expenses are predicted to hike 11.8% YOY to AED 1,261 Mn in 4Q22. In addition, impairments are anticipated to decline to AED 550 Mn in 4Q22, down from AED 669 Mn in 4Q21.

2022 forecast

ADCB's net profit is expected to grow 21.4% YOY to AED 6,364 Mn in 2022 driven by a rise in net funded income, growth in non-funded income, and a decline in impairments partially offset by a hike in operating expenses. Funded income is forecasted to grow 35.6% YOY to AED 15,082 Mn in 2022 mainly due to growth in interest-earning assets and a hike in asset yield. Similarly, the funded expense is estimated to increase significantly from AED 2,258 Mn in 2021 to AED 5,206 Mn in 2022 due to a hike in benchmark rates. Thus, net funded income will grow 11.4% YOY to AED 9,876 Mn in 2022. Non-funded income is estimated to increase 6.8% YOY to AED 3,627 Mn in 2022 as we expect a 5.0% growth in fees and commission income to AED 1,994 Mn and a 9.2% rise in other operating income to AED 1,633 Mn in 2022. As a result, operating income is likely to grow 10.2% YOY to AED 13,504 Mn in 2022. Operating expenses are expected to grow 13.9% YOY to AED 4,847 Mn in 2022 attributable to investments in digital technology and regulatory compliance. Impairment charges are anticipated to decline 19.3% YOY to AED 2,136 Mn in 2022 increasing profitability.

3Q22 outturn

ADCB's net profit rose 24.7% YOY to AED 1,591 Mn in 3Q22 mainly due to a strong growth in net funded income and non-funded income partially offset by a rise in operating expenses and impairments. Funded income increased 58.3% YOY to AED 4,338 Mn in 3Q22 due to strong growth in asset yield. Similarly, funded expenses rose from AED 561 Mn in 3Q21 to AED 1,780 Mn in 3Q22 due to high benchmark rates. Thus, net funded income grew 17.4% YOY to AED 2,558 Mn in 3Q22. NIMs declined 11 bps QOQ to 2.4% in 3Q22. Fee and commission income rose 14.3% YOY to AED 499 Mn in 3Q22 whereas other operating income increased from AED 290 Mn in 3Q21 to AED 453 Mn in 3Q22. Thus, non-funded income rose significantly 31.1% YOY to AED 952 Mn in 3Q22. As a result, operating income rose 20.8% YOY to AED 3,510 Mn in 3Q22. On the other hand, operating expenses hiked 22.5% YOY to AED 1,241 Mn in 3Q22 due to investments in technology. Cost-to-income ratio inclined 26 bps YOY to 35.4% in 3Q22. Impairments rose 6.7% YOY to AED 636 Mn in 3Q22.

Target price and recommendation

We maintain our BUY rating on Abu Dhabi Commercial Bank (ADCB) with a target price of AED 11.60. The bank recorded a strong 24.7% YOY growth in net profit to AED 1,591 Mn in 3Q22 owing to the rising interest rate scenario. ADCB's asset yield rose 65 bps QOQ to 4.2% in 3Q22 whereas the cost of funds increased 83 bps QOQ to 1.9% in 3Q22. The bank's NIMs declined 11 bps QOQ in 3Q22, however we expect the NIMs to rise as the excess liquidity will get deployed in the form of loans. ADCB recorded 2.8% growth in net advances on a YTD basis to AED 251.2 Bn in 3Q22 and the bank further expects the credit growth to stay healthy in the near term. ADCB's deposits rose 14.0% on YTD basis to AED 302.3 Bn in 3Q22 providing strong liquidity support. The bank's CASA as a percentage of total deposits stood at 53% totaling AED 160 Bn in 3Q22 which provides low-cost borrowings. In addition, the bank's 68% of loan profile consists of corporate loans which makes it's easier for the bank to reprice the loans. The bank's cost of risk marginally declined from 0.79% in 2Q22 to 0.73% in 3Q22. Furthermore, the ADCB's cost-to-income ratio is expected to decline 27 bps QOQ to 35.1% in 4Q22. ADCB's asset quality improved marginally 13 bps QOQ to 5.46% in 3Q22 with a strong coverage ratio of 140%. Moreover, the bank's capitalization stood healthy with a CET 1 ratio of 12.6% and CAR of 15.44% in 3Q22, above the regulatory limits. Thus, based on our analysis, we assign a BUY rating on the stock.

ADCB - Relative valuation

(At CMP)	2018	2019	2020	2021	2022F
PE	9.96	12.62	17.57	12.27	9.80
PB	1.62	1.12	1.10	1.05	1.03
Dividend Yield	5.1%	4.2%	3.0%	4.1%	5.1%

FABS Estimates & Co Data
ADCB - P&L

AED mm	4Q21	3Q22	4Q22F	YOY Ch	QOQ Ch	2021	2022F	Change
Funded income	2,820	4,338	4,474	58.7%	3.1%	11,121	15,082	35.6%
Funded expense	-570	-1,780	-1,874	229.0%	5.3%	-2,258	-5,206	130.6%
Net funded income	2,250	2,558	2,601	15.6%	1.7%	8,864	9,876	11.4%
Fees & commissions	519	499	503	-3.0%	1.0%	1,899	1,994	5.0%
Other operating income	508	453	459	-9.7%	1.2%	1,496	1,633	9.2%
Non funded income	1,027	952	962	-6.3%	1.1%	3,396	3,627	6.8%
Operating income	3,277	3,510	3,563	8.7%	1.5%	12,259	13,504	10.2%
Operating expenses	-1,128	-1,241	-1,261	11.8%	1.6%	-4,257	-4,847	13.9%
Pre-provision profit	2,149	2,269	2,302	7.1%	1.5%	8,002	8,657	8.2%
Impairments	-669	-636	-550	-17.7%	-13.6%	-2,646	-2,136	-19.3%
Operating profit after impairment	1,480	1,632	1,752	18.4%	7.3%	5,356	6,521	21.8%
Share of profit of assoc.	1	-1	-1	-318.6%	0.0%	8	-6	NM
Profit before tax	1,481	1,631	1,750	18.2%	7.3%	5,363	6,515	21.5%
Overseas tax expense	-29	-41	-35	21.3%	-15.5%	-100	-141	41.2%
Loss from discontinued operations	-4	2	0	NM	NM	-16	-10	-41.4%
Non-controlling interest	-5	0	0	NM	NM	-6	-1	-89.7%
Net profit	1,443	1,591	1,715	18.9%	7.8%	5,241	6,364	21.4%

ADCB - P&L KPI

	4Q21	3Q22	4Q22F	YOY Ch	QOQ Ch	2021	2022F	Change
Net FI/OI	68.7%	72.9%	73.0%	433	11	72.3%	73.1%	84
NIM	2.3%	2.4%	2.4%	11	1	2.3%	2.3%	7
NIS	2.2%	2.1%	2.2%	1	4	2.2%	2.2%	1
Fees & comms/OI	15.8%	14.2%	14.1%	-171	-7	15.5%	14.8%	-73
Other non-funded/OI	15.5%	12.9%	12.9%	-263	-4	12.2%	12.1%	-11
Cost to income	34.4%	35.4%	35.4%	96	3	34.7%	35.9%	117
Impairment/PPP	31.1%	28.0%	23.9%	-722	-415	33.1%	24.7%	-840
Tax/PBT	1.9%	2.5%	2.0%	5	-54	1.9%	2.2%	30
NP/OI	44.0%	45.3%	48.1%	411	281	42.8%	47.1%	438
ROAE	9.9%	11.6%	11.8%	191	21	10.1%	11.8%	171
ROAA	1.2%	1.3%	1.9%	74	68	1.2%	1.4%	13

FABS estimate & Co Data

ADCB- Key BS Items

	4Q21	1Q22	2Q22	3Q22	4Q22F	YOY Ch
AED mm						
Net advances	244,282	245,797	242,913	251,202	256,217	4.9%
QOQ Change	1.0%	0.6%	-1.2%	3.4%	2.0%	
Total assets	440,278	445,677	476,093	486,365	494,783	12.4%
QOQ Change	1.9%	1.2%	6.8%	2.2%	1.7%	
Customer deposits	265,052	261,891	292,262	302,262	319,060	20.4%
QOQ Change	3.6%	-1.2%	11.6%	3.4%	5.6%	
Total equity	59,360	57,352	57,866	58,869	60,584	2.1%
QOQ Change	2.1%	-3.4%	0.9%	1.7%	2.9%	

FABS estimate & Co Data

4Q22 preview: Mashreq Bank (MASQ)

Positively geared balance sheet to benefit profitability

CMP (AED): 97.00

Potential upside/(downside) (%): **+8.2%**

12-m target price:

AED 105.00

Stock rating:

HOLD

4Q22 estimate

We expect Mashreq Bank (MASQ/the bank) to witness a 10.0% YOY growth in net profit to AED 811 Mn in 4Q22 mainly driven by strong growth in net funded income partially offset by a hike in operating expenses. MASQ's funded income is expected to grow 64.5% YOY to AED 2,026 Mn in 4Q22 driven by a hike in benchmark rates and net advances. Net advances rose 12.1% on a YTD basis in 3Q22 and are further expected to grow due to healthy credit demand in the economy. Resultantly, Net funded income is anticipated to grow 51.1% YOY to AED 1,224 Mn in 4Q22. Similarly, total other operating income is estimated to grow marginally 1.9% YOY to AED 7116 Mn in 4Q22. As a result, total operating income is likely to grow 28.3% YOY to AED 1,935 Mn in 4Q22. General and administrative expenses are anticipated to rise 11.3% YOY to AED 792 Mn in 4Q22. In addition, impairment charges are expected to reach AED 296 Mn in 4Q22, up from AED 24 Mn in 4Q21. Share of profit attributable to non-controlling interest holders is expected to grow 4.6% YOY to AED 20 Mn in 4Q22.

2022 forecast

MASQ's net profit is expected to grow significantly to AED 3,391 Mn in 2022, up from AED 1,002 Mn in 2021. Funded income is predicted to grow 41.8% YOY to AED 6,703 Mn in 2022 whereas interest expense is anticipated to increase 42.6% YOY to AED 2,148 Mn. Thus, net funded income is expected to grow 41.6% YOY to AED 4,314 Mn in 2022 due to rising interest rates in the economy. Total other income is anticipated to rise 7.4% YOY to AED 2,965 Mn in 2022 mainly due to a rise in fee and commission income along with other operating income. Resultantly, operating income is expected to incline 25.4% YOY to AED 7,278 Mn in 2022. In addition, general and administrative expenses are likely to decline 12.7% YOY to AED 2,956 Mn in 2022. Impairment charges are anticipated to decline significantly from AED 2,059 Mn in 2021 to AED 790 Mn in 2022 primarily due to effective credit management.

2Q22 outturn

Mashreq Bank's net profit rose from AED 180 Mn in 3Q21 to AED1,181 Mn in 3Q22. MASQ's funded income rose 60.8% YOY to AED 1,934 Mn in 3Q22 whereas interest expenses rose 69.8% YOY to AED 710 Mn in 3Q22. Similarly, net funded income rose 56.7% YOY to AED 1,246 Mn in 3Q22 whereas NIMs also increased 89 bps YOY and 53 bps QOQ to 3.3% in 3Q22. Net fee and commission income grew 11.7% YOY to AED 404 Mn in 3Q22 while other operating income increased 59.3% YOY to AED 369 Mn in 3Q22. As a result, total other income rose significantly by 25.6% to AED 795 Mn in 3Q22. Thus, operating income grew 42.9% YOY to AED 2,041 Mn in 3Q22. General and administrative expenses rose 15.4% YOY to AED 797 Mn in 3Q22. Impairment charges fell significantly from AED 538 Mn in 3Q21 to AED 28 Mn in 3Q22.

Target price and recommendation

We maintain our rating to HOLD on Mashreq Bank with a target price of AED 105.00. The bank reported strong results in 3Q22 mainly due to a decline in provision expense and anticipate this momentum to continue in FY2022. MASQ's NPLs fell from AED 5.2 Bn in 2Q22 to AED 4.3 Bn in 3Q22 due to higher recoveries in NPLs as compared to addition of fresh slippages. However, stage 2 loans rose from 5.5% in 2Q22 to 6.0% in 3Q22. The coverage of the NPLs remain abundant at 140.1% in 3Q22 compared to 126.7% in 2Q22. The buffer against loan losses will shield the Bank from an unexpected rise in loan losses. MASQ's risk-weighted assets declined from AED 160.9 Bn in 2Q22 to AED 155.9 Bn in 3Q22 due to a decline in credit risk assets. MASQ recorded healthy growth in advances in 3Q22 and expects this momentum to continue in 4Q22. It is expected to benefit from a rising interest rate scenario due to the positive interest rate sensitivity gap and low-cost CASA

deposits make up 64.2% of total deposits in 3Q22. MASQ also maintains a stable funding profile largely funded by customer deposits reflecting a strong franchise. However, change in liability mix, repricing of deposits and rise in increase in loan-to-deposit ratio will slow expansion of NIMs going forward. Thus, considering all these factors we assign a HOLD rating on the stock.

MASQ- Relative Valuation

(At CMP)	2018	2019	2020	2021	2022E
P/B (x)	0.97	0.90	1.00	0.96	0.82
P/E (x)	9.45	9.42	NA	19.42	5.74
Dividend Yield	4.1%	4.1%	NA	1.0%	2.1%

FABS estimate & Co Data
MASQ - P&L

AED mm	4Q21	3Q22	4Q22F	YOY Ch	QOQ Ch	2021	2022F	Change
Interest income	1,094	1,755	1,829	67.2%	4.3%	4,252	6,055	42.4%
Income from Islamic financing	138	179	196	42.6%	9.5%	475	649	36.5%
Funded income	1,231	1,934	2,026	64.5%	4.7%	4,727	6,703	41.8%
Interest expense	-380	-621	-710	87.0%	14.3%	-1,506	-2,148	42.6%
Distribution to depositors	-41	-67	-92	121.1%	36.2%	-176	-242	37.6%
Net funded income	810	1,246	1,224	51.1%	-1.7%	3,045	4,314	41.6%
Net Fee and commission income	397	404	412	4.0%	2.0%	1,577	1,747	10.8%
Inc. from investment securities	3	23	23	NM	NM	177	49	-72.2%
Other operating income, net	299	369	276	-7.4%	-25.0%	1,007	1,169	16.1%
Total other OI	698	795	711	1.9%	-10.6%	2,761	2,965	7.4%
Total operating income	1,508	2,041	1,935	28.3%	-5.2%	5,806	7,278	25.4%
General & admin. Exps	-711	-797	-792	11.3%	-0.7%	-2,623	-2,956	12.7%
Pre provision profit	797	1,243	1,144	43.4%	-8.0%	3,183	4,322	35.8%
Allowances for impairment, net	-24	-28	-296	NM	NM	-2,059	-790	-61.6%
Overseas income tax expense	-17	-14	-17	-1.1%	17.9%	-49	-58	18.4%
Non-controlling interests	-19	-20	-20	4.6%	1.5%	-74	-83	13.6%
Net Profit	737	1,181	811	10.0%	-31.3%	1,002	3,391	238.4%

MASQ - KPI

	4Q21	3Q22	4Q22	YOY Ch	QOQ Ch	2021	2022F	Change
Net FI/OI	53.7%	61.0%	63.3%	953	222	52.5%	59.3%	681
NIM	2.5%	3.3%	3.3%	80	-3	2.4%	3.1%	70
NIS	2.5%	3.3%	3.4%	88	10	2.4%	3.1%	76
Fees & comms/OI	26.3%	19.8%	21.3%	-499	150	27.2%	24.0%	-316
Trading/OI	0.2%	1.1%	1.2%	97	6	3.0%	0.7%	-237
Cost to income	47.1%	39.1%	40.9%	-624	183	45.2%	40.6%	-456
Impairment/PPP	3.0%	2.3%	25.9%	2,285	2,356	64.7%	18.3%	-4,640
NP/OI	48.9%	57.9%	41.9%	-696	-1,595	17.3%	46.6%	2,933
ROAE	5.1%	16.1%	15.2%	1,011	-92	5.1%	15.4%	1,039
ROAA	0.6%	1.8%	1.8%	121	3	0.6%	1.8%	125

FABS estimate & Co Data
MASQ - key BS items

AED mm	4Q21	1Q22	2Q22	3Q22	4Q22	YOY Ch
Net advances	81,486	86,295	89,676	91,326	93,525	14.8%
QOQ changes	5.9%	5.9%	3.9%	1.8%	2.4%	
Total assets	177,054	182,581	188,644	187,587	190,784	7.8%
QOQ changes	4.4%	3.1%	3.3%	-0.6%	1.7%	
Customer deposits	101,483	104,228	109,335	109,430	115,041	13.4%
QOQ changes	7.1%	2.7%	4.9%	0.1%	5.1%	
Total equity	20,228	20,369	20,220	22,111	24,793	22.6%
QOQ changes	4.3%	0.7%	-0.7%	9.4%	12.1%	

FABS estimate & Co Data

4Q22 preview: Sharjah Islamic Bank (SIB)

High NPLs and low provisions might pressurize the profit margin

CMP (AED): 1.93

Potential upside/(downside) (%): **-1.6%**

12-m target price:

AED 1.90

Stock rating:

HOLD

4Q22 Estimate

Sharjah Islamic Bank's (SIB/the bank) net profit is forecasted to reach AED 186 Mn in 4Q22 as compared to AED 56 Mn in 4Q21 due to an expected growth in net funded income and a decline in operating expenses partially offset by a hike in provisions and a fall in non-funded income. Funded income is expected to grow 26.3% YOY to AED 515 Mn in 4Q22 driven by healthy growth in advances and high asset yield. Similarly, funded expenses are expected to increase significantly from AED 126 Mn in 4Q21 to AED 200 Mn in 4Q22 due to high benchmark rates. Additionally, the bank is not expected to incur any profit expense on Sukuk in 4Q22 as compared to AED 173 Mn in 4Q21. Thus, net funded income will grow 11.7% YOY to AED 315 Mn in 4Q22. Furthermore, the bank's non-funded income is anticipated to decline 6.6% YOY to AED 81 Mn in 3Q22 due to an expected decline in net fee and commission income. As a result, total operating income is likely to grow 7.4% YOY to AED 395 Mn in 4Q22. In addition, the bank's G&A expenses are expected to decline 7.9% YOY to AED 157 Mn in 4Q22. However, impairments are anticipated to increase marginally 5.6% YOY to AED 52 Mn in 4Q22.

2022 Forecast

SIB's net profit is expected to grow 46.8% YOY to AED 754 Mn in 2022 driven by strong growth in net funded income and non-funded income along with decline in provisions. The bank's funded income is estimated to grow 13.7% YOY to AED 1,884 Mn in 2022 due to strong loan growth and high asset yield. Similarly, the bank's funded expense is anticipated to hike 21.5% YOY to AED 685 Mn in 2022 driven by high benchmark rates. The bank is not expected to record any profit expense on Sukuk in 2022 as compared to AED 173 Mn in 2021. Resultantly, the net funded income is expected to grow 9.7% YOY to AED 1,200 Mn in 2022. The bank's non-funded income is anticipated to grow 4.1% YOY to AED 347 Mn in 2022 driven by a decline in net fee and commission income and a fall in FX gains partially offset by strong growth in investment income and other income. As a result, SIB's total operating income is expected to grow 8.4% YOY to AED 1,546 Mn in 2022. Furthermore, the bank's G&A expenses are anticipated to rise marginally 0.2% YOY to AED 578 Mn in 2022. Provisions are expected to fall 12.4% YOY to AED 214 Mn in 2022.

3Q22 Outrun

SIB's funded income increased 18.4% YOY to AED 490 Mn in 3Q22 due to growth in asset yield and strong loan growth. Funded expenses increased 37.8% YOY to AED 193 Mn in 3Q22 driven by high benchmark rates. The bank's asset yield rose 37 bps QOQ whereas the cost of funds inclined 36 bps QOQ to 3.93% and 1.66% respectively in 3Q22. This resulted in a 5 bps QOQ hike in NIMs to 2.01% in 3Q22. Thus, net funded income rose 8.6% YOY to AED 298 Mn in 3Q22. The bank's non-funded income witnessed a sharp fall of 16.2% YOY to AED 82 Mn in 3Q22. As a result, total operating income rose marginally 2.1% YOY to AED 379 Mn in 3Q22. Furthermore, the bank's G&A expenses rose 7.4% YOY to AED 146 Mn in 3Q22. SIB's cost-to-income ratio improved significantly by 784 bps QOQ to 38.6% in 3Q22. In addition, the bank's provisions fell from AED 67 Mn in 3Q21 to AED 26 Mn in 3Q22.

Target Price and recommendation

We maintain our HOLD rating on SIB with an unchanged target price of AED 1.90. SIB recorded a robust 24.1% YOY growth in net profit during 9M22 mainly due to marginal growth in net advances. Around 42.8% of SIB's total advances are allocated to government entities while, 27.1% is made up of real estate and construction sector in 3Q22. The bank benefitted from the rise in interest rates and a strong performance in the real estate sector. Although the asset yield increased significantly

in 3Q22, NIMs rose marginally by 5 bps QOQ to 2.0% due to a rise in the cost of funds. SIB enjoys steady deposits from the government of Sharjah and large public enterprises. Similarly, the bank CASA deposits rose steadily and stood at 43.4% of total deposits which provides cushion against higher cost of funds. However, the proportion of stage 2 loans as compared to gross loans declined from 8.2% in 2Q22 to 6.6% in 3Q22 mainly due to the transfer of AED 446.6 Mn loans from Stage 2 to Stage 3. As a result, SIB's NPL ratio increased from 5.8% in 2Q22 to 6.4% in 3Q22. The provision coverage ratio declined from 83.9% in 2Q22 to 73.3% in 3Q22 which provides a low buffer against the NPLs. Moreover, due to the decline in provisioning in the current quarter the bank might need to increase its provisioning in the next quarter. In addition, SIB's CET1 and Tier 1 capital ratios stood strong at 14.7% and 19.4%, respectively in 3Q22 as compared to 14.4% and 19.0% in 2Q22. Thus, looking at the considering mentioned factors, we maintain our HOLD rating on the stock.

SIB - Relative valuation

(At CMP)	2018	2019	2020	2021	2022F
PE (x)	10.16	10.84	14.58	11.52	7.84
PB (x)	1.10	1.04	1.02	1.01	1.03
Dividend Yield	4.0%	2.5%	4.2%	4.2%	4.2%

FABS estimate & Co Data

Sharjah Islamic Bank

AED mm	4Q21	3Q22	4Q22F	YOY Ch	QOQ Ch	2021	2022F	Change
Income from fin. & Leasing	407	490	515	26.3%	5.0%	1,658	1,884	13.7%
Funded expense	-126	-193	-200	59.2%	3.9%	-564	-685	21.5%
Profit expense on Sukuks	-173	0	0	NM	NM	-173	0	NM
Net funded income	282	298	315	11.7%	5.6%	1,094	1,200	9.7%
Total non-funded income	87	82	81	-6.6%	-0.9%	333	347	4.1%
Total operating income	368	379	395	7.4%	4.2%	1,427	1,546	8.4%
General & admin. Expenses	-171	-146	-157	-7.9%	7.6%	-577	-578	0.2%
Pre provision profit	197	233	238	20.6%	2.1%	850	968	13.9%
Provisions	-50	-26	-52	5.6%	98.7%	-245	-214	-12.4%
Net profit	56	207	186	233.1%	-10.2%	514	754	46.8%

FABS estimate & Co Data

SIB - KPI

	4Q21	3Q22	4Q22F	YOY Ch	QOQ Ch	2021	2022F	Change
Net FI/OI	76.5%	78.5%	79.5%	305	106	76.7%	77.6%	92
NIM	1.9%	2.0%	2.2%	28	16	1.9%	2.0%	14
NIS	3.7%	2.3%	2.4%	-130	14	2.5%	2.3%	-22
Fees & comms/OI	0.0%	11.6%	10.7%	1067	-96	19.0%	15.5%	-348
Cost to income	46.4%	38.6%	39.8%	-659	125	40.4%	37.4%	-304
Provisions/PPP	25.2%	11.3%	22.0%	-313	1072	28.8%	22.1%	-664
NP/OI	15.1%	54.5%	46.9%	3180	-756	36.0%	48.8%	1278
ROAE	8.8%	10.8%	13.1%	430	228	6.7%	9.9%	318
ROAA	0.9%	1.1%	1.4%	43	24	0.9%	1.4%	42

FABS estimate & Co Data

SIB - Key BS Items

AED mm	4Q21	1Q22	2Q22	3Q22	4Q22F	YOY Ch
Net advances	29,009	29,906	28,830	30,612	31,130	7.3%
QOQ change	-1.8%	3.1%	-3.6%	6.2%	1.7%	
Total assets	54,957	54,711	56,068	54,595	55,346	0.7%
QOQ change	0.8%	-0.4%	2.5%	-2.6%	1.4%	
Customer deposits	38,494	38,409	37,364	36,140	36,710	-4.6%
QOQ change	4.8%	-0.2%	-2.7%	-3.3%	1.6%	
Total equity	7,695	7,513	7,619	7,644	7,583	-1.4%
QOQ change	-0.2%	-2.4%	1.4%	0.3%	-0.8%	

FABS estimate & Co Data

4Q22 preview: Commercial Bank of Dubai (CBD)

Positively geared balance sheet to support bottom line

CMP (AED): 4.80

Potential upside/ (downside) (%): **+16.7%**

12-m target price:

AED 5.60

Stock rating:

BUY

4Q22 estimate

Commercial Bank of Dubai's (The bank/CBD) net profit is expected to increase 21.7% YOY to AED 455 Mn in 4Q22 primarily due to robust growth in net funded income, partially offset by a hike in operating expenses and a marginal decline in non-funded income. A positively geared balance sheet is expected to increase the bank's funded income by 55.3% YOY to AED 1020 Mn in 4Q22. Similarly, the funded expense is anticipated to rise more than double from AED 146 Mn in 4Q21 to AED 303 Mn in 4Q22. Fee and commission income is predicted to fall 7.5% YOY to AED 184 Mn in 4Q22 whereas trading income is expected to hike 33.5% YOY to AED 87 Mn in 4Q22 likely to result in a marginal decline in total non-funded income of 2.7% YOY AED 272 Mn. Resultantly, operating income is expected to grow 25.3% YOY to AED 989 Mn in 4Q22. On the other hand, operating expenses are estimated to grow 16.6% YOY to AED 281 Mn in 4Q22 driven by a 16.7% YOY rise in G&A expenses mainly due to increased digital, technology, and governance initiatives. Impairments are estimated to grow 32.9% YOY to AED 285 Mn in 4Q22.

2022 forecast

CBD's net profit is expected to grow 22.5% YOY to AED 1,777 Mn in 2022 mainly due to strong growth in net funded income. Funded income is estimated to grow 30.8% YOY to AED 3,518 Mn in 2022 mainly driven by strategic diversification out of the real estate sector along with strong loan growth in the economy whereas funded expenses are anticipated increase from AED 611 Mn in 2021 to AED 948 Mn in 2022 because of the rising interest rate scenario. CBD's net advances rose 3.5% on YTD basis in 3Q22 to AED 79.1 Bn which contributed positively to the bank's top line. In addition, the demand for personal and business loans in UAE is accelerating whereas strong growth in the oil and gas sector will positively impact the bank's financials. Fees and commission income is expected to grow 3.8% YOY to AED 770 Mn in 2022. Thus, non-funded income is likely to grow 3.7% YOY to AED 1,134 Mn in 2022. Resultantly, total operating income is expected to increase 16.8% YOY to AED 3,705 Mn in 2022. Operating expenses are anticipated to increase significantly by 16.9% YOY to AED 1,011 Mn in 2022 due to investments in digital, technology, and governance initiatives. Furthermore, Impairments are anticipated to decline 13.7% YOY to AED 1,025 Mn in 2022.

3Q22 outturn

CBD's net funded income rose 40.6% YOY to AED 1,003 Mn in 3Q22 due to growth in asset yield whereas funded expenses rose from AED 156 Mn in 3Q21 to AED 283 Mn in 3Q22 owing to a rise in interest rates. Thus, net funded income rose 29.1% YOY to AED 642 Mn in 3Q22. Thus, asset yield rose to 3.85% in 3Q22 resulting in a 53 bps QOQ hike in NIMs to 2.77% in 3Q22. Total non-funded income increased marginally 3.0% YOY to AED 266 Mn in 3Q22 due to healthy growth in fee and commission income partially offset by a decline in other non-funded income. As a result, operating income rose 20.8% YOY to AED 986 Mn in 3Q22. On the other hand, operating expenses inclined significantly 18.8% YOY to AED 730 Mn in 3Q22 driven by rise in G&A expenses and depreciation charges. Cost to income ratio declined 138 bps YOY to 25.9% in 3Q22. Impairments rose 20.2% YOY to AED 292 Mn in 3Q22. Thus, net profit increased 21.1% YOY to AED 456 Mn in 3Q22.

Target price and recommendation

We maintain our BUY rating on CBD with a target price of AED 5.60. The bank recorded a strong growth in net profit in 3Q22 driven by a positively geared balance sheet. CBD's asset yield rose 81 bps QOQ to 3.85% in 3Q22 whereas the cost of funds rose 30 bps QOQ to 1.21%. As a result, CBD's NIMs rose 53 bps QOQ 2.77% in 3Q22. CBD's deposits rose declined marginally 1.1% on a YTD basis to 81.8 Bn in 3Q22 out of which 40.5% of deposits belong to the corporate sector. CBD's asset quality improved from an NPL ratio of 7.0% in 2021 to 6.8% in 3Q22. In addition, the coverage ratio rose from 62.6% in 2021 to 74.9% in 3Q22. The bank maintained a healthy capitalization with a CET 1

ratio of 12.1% and CAR of 15.6% in 3Q22. CBD recorded a loan-to-deposit ratio of 96.8% in 3Q22 with very low room for credit growth. The bank's CASA ratio improved and stood at 51.0% as a percentage of total deposits in 3Q22. The bank is continuously diversifying its portfolio from corporate and real estate to other sectors. In addition, CBD's stage 2 loans declined from 9.0% in 2021 to 8.3% in 3Q22 due to improved asset quality. Thus, considering above mentioned factors, we assign a BUY rating on the stock.

CBD - Relative valuation

(At CMP)	2018	2019	2020	2021	2022
PB	11.71	9.60	12.00	10.21	7.57
PE	1.54	1.40	1.32	1.18	1.25
Dividend yield	4.3%	4.3%	4.2%	5.4%	6.3%

FABS Estimates & Co Data
CBD - P&L

AED MN	4Q21	3Q22	4Q22F	YOY Ch	QOQ Ch	2021	2022F	Change
Funded income	657	1,003	1,020	55.3%	1.7%	2,689	3,518	30.8%
Funded expense	-146	-283	-303	106.6%	6.9%	-611	-948	55.1%
Net funded income	510	720	717	40.6%	-0.4%	2,078	2,571	23.7%
Fees and commissions	199	179	184	-7.5%	3.0%	742	770	3.8%
Trading income	65	86	87	33.5%	1.5%	288	330	14.6%
Other non-funded income	15	1	0	-99.7%	-95.8%	63	34	-46.4%
Total non-funded income	279	266	272	-2.7%	2.2%	1,094	1,134	3.7%
Total operating income	790	986	989	25.3%	0.3%	3,171	3,705	16.8%
General and administrative expenses	-233	-246	-272	16.7%	10.4%	-835	-976	16.8%
Depreciation and amortization	-8	-9	-9	14.2%	0.0%	-30	-35	18.4%
Operating Expenses	-241	-255	-281	16.6%	10.0%	-865	-1,011	16.9%
Pre provision profit	548	730	708	29.1%	-3.1%	2,306	2,694	16.8%
Impair allow. on loans & adv and Islamic fin	-214	-292	-285	32.9%	-2.7%	-902	-1,025	13.7%
Recoveries	50	30	32	-37.0%	6.1%	75	135	79.7%
Impairment allowances on AFS investment	-15	-12	0	NM	NM	-41	-30	-26.3%
Share of profit of assoc	4	0	0	NM	NM	12	4	-64.7%
Net Profit	374	456	455	21.7%	-0.1%	1,451	1,777	22.5%

FABS estimate & Co Data
CBD - KPI

	4Q21	3Q22	4Q22	YOY Ch	QOQ Ch	2021	2022F	Change
Net FI/OI	64.6%	73.0%	72.5%	791	-50	65.5%	69.4%	386
NIM	2.0%	2.8%	2.7%	70	-2	2.2%	2.46%	29
NIS	2.0%	2.6%	2.6%	66	-2	2.1%	2.3%	21
Fees & comms/OI	25.2%	18.2%	18.6%	-660	49	23.4%	20.8%	-262
Other non-funded/OI	8.3%	8.7%	8.8%	54	10	9.1%	8.9%	-18
Cost to income	30.5%	25.9%	28.4%	-211	251	27.3%	27.3%	2
Impairment/PPP	32.6%	37.6%	35.7%	313	-192	37.6%	34.2%	-344
NP/OI	47.4%	46.2%	46.0%	-134	-19	45.7%	48.0%	223
ROAE	13.3%	16.5%	16.4%	304	-11	13.1%	15.9%	274
ROAA	1.3%	1.6%	1.5%	19	-1	1.8%	1.9%	13

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

AED MN	4Q21	1Q22	2Q22	3Q22	4Q22	YOY Ch
Net advances	76,441	78,687	78,852	79,138	79,796	4.4%
QOQ change	2.1%	2.9%	0.2%	0.4%	0.8%	
Total assets	114,213	119,036	117,537	117,531	119,249	4.4%
QOQ change	6.0%	4.2%	-1.3%	0.0%	1.5%	
Customer deposits	82,722	82,808	84,827	81,778	84,042	1.6%
QOQ change	9.1%	0.1%	2.4%	-3.6%	2.8%	
Total shareholders' equity	13,567	12,996	13,121	13,387	13,253	-2.3%
QOQ change	2.2%	-4.2%	1.0%	2.0%	-1.0%	

FABS estimate & Co Data
4Q22 preview: Ajman Bank (AJMANBAN)

Poor asset quality to pressurize profitability

CMP (AED): 1.17

Potential upside/(downside) (%): **-31.6%**

12-m target price:

AED 0.80

Stock rating:

SELL

4Q22 estimate

Ajman Bank (AJMANBANK/the bank) is expected to report a significant decline in net profit to AED 12 Mn in 4Q22 as compared to AED 26 Mn in 4Q21 primarily due to a fall in net funded income, a decline in non-funded income, and a sharp rise in operating expenses partially offset by a decline in impairments. The bank's funded income is estimated to grow 10.1% YOY to AED 203 Mn in 4Q22 due to growth in asset yield. Similarly, the funded expense is anticipated to increase from AED 56 Mn in 4Q21 to AED 84 Mn in 4Q22 driven by a hike in benchmark rates. Thus, net funded income is forecasted to decline 7.5% YOY to AED 119 Mn in 4Q22. Non-funded income is anticipated to fall 16.1% YOY to AED 53 Mn in 4Q22 mainly driven by a 12.7% expected decline in fees and commission income to AED 35 Mn and a 27.1% estimated decline in income from investment securities. As a result, total operating income is likely to decline 10.4% YOY to AED 172 Mn in 4Q22. Operating expenses are expected to hike 22.9% YOY to AED 89 Mn in 4Q22. In addition, impairment charges are predicted to decline from AED 93 Mn in 4Q21 to AED 71 Mn in 4Q22 pushing up the profitability of the bank.

2022 forecast

We expect Ajman bank's net profit to increase 6.9% YOY to AED 124 Mn in 2022, up from AED 116 Mn in 2021 mainly due to a strong growth in total non-funded income and an expected decline in impairment charges partially offset by a decline in net funded income. Funded income is anticipated to decline 6.8% YOY to AED 658 Mn in 2022 mainly due to the expected decline in the bank's Islamic finance. While funded expense is expected to increase 18.9% YOY to AED 276 Mn in 2022. Thus, net funded income is expected to decline 19.7% YOY to AED 382 Mn in 2022. As a result, NIMs are expected to decline 34 bps YOY to 2.2% in 2022. Furthermore, non-funded income is forecasted to rise 19.7% YOY to AED 232 Mn in 2022, mainly driven by the expected growth of 44.7% YOY in Fees and Commissions income to AED 153 Mn in 2022, offsetting the decline in income from investment security by 18.2% YOY to AED 79 Mn in 2022. Therefore, the total operating income is likely to decline 8.1% YOY to AED 614 Mn in 2022. Operating expenses are predicted to increase 20.0% YOY to AED 341 Mn in 2022. Thus, the cost-to-income ratio is expected to rise significantly to 55.6% in 2022 as compared to 42.6% in 2021. Impairment charges are estimated to decline to AED 149 Mn in 2022 from AED 267 Mn in 2021.

3Q22 outturn

Ajman bank reported a 33.4% YOY growth in net profit to AED 38 Mn in 3Q22 driven by strong growth in non-funded income and a decline in impairments partially offset by a fall in net funded income and a hike in operating expenses. The bank's funded income grew 5.9% YOY to AED 185 Mn in 4Q22 due to growth in asset yield. Similarly, funded expenses rose 36.1% YOY to AED 76 Mn in 3Q22 due to a change in the borrowing mix. Thus, net funded income rose fell 8.4% YOY to AED 109 Mn in 3Q22. Total non-funded income more than doubled from AED 26 Mn in 3Q21 to AED 61 Mn in 3Q22 mainly due to a significant rise in fees and commission income from AED 8 Mn in 3Q21 to AED 39 Mn in 3Q22. As a result, operating income rose 16.9% YOY to AED 61 169 Mn in 3Q22. Furthermore, operating expenses inclined 26.1% YOY to AED 87 Mn in 3Q22 due to a rise in G&A expenses and staff cost. Thus, the cost-to-income ratio increased 373 bps YOY to 51.5% in 3Q22. In addition, impairment charges declined 6.2% YOY to AED 44 Mn in 3Q22.

Target price and recommendation

We revise our rating on AJMANBANK from HOLD to SELL with a target price of AED 0.80. The Bank's asset quality worsened further as the NPL ratio rose from 11.2% in 2Q22 to 17.1% in 3Q22. As a result, the coverage also dipped from 40.0% in 2Q22 to 28.0% in 3Q22. Stage 2 loans remain elevated at 26.6% in 3Q22 indicating worsening asset quality. AJMANBANK might need to set aside more income to cover losses from bad loans which could impact bottom line. In addition, for the last

seven quarters, the Bank continued to reduce its financing portfolio from AED 16.6 Bn in 3Q21 to AED 14.0 Bn in 3Q22. The decline in financing portfolio also led to a decline in financing income during the forecasted period. However, NIMs of the bank rose 62 bps QOQ to 2.7% in 3Q22. Furthermore, the recent change in borrowing mix and decline in high-cost liability is expected to benefit NIMs. Customer deposit rose 14.6% YOY to AED 16.0 Bn in 3Q22 with an increase in CASA deposit to 30.6% in 3Q22. Thus, considering the above-mentioned factors, we assign a SELL rating on the stock.

Ajman Bank - Relative valuation

	2018	2019	2020	2021	2022F
(At CMP)					
P/E (x)	12.23	29.36	46.40	21.33	19.96
P/B (x)	1.01	0.99	0.99	0.94	0.98
Dividend Yield	3.0%	3.0%	NM	NM	NM

FABS Estimates & Co Data

Ajman Bank - P&L

AED mn	4Q21	3Q22	4Q22F	YOY Ch	QOQ Ch	2021	2022F	Change
Funded income	185	185	203	10.1%	9.7%	706	658	-6.8%
Funded expenses	-56	-76	-84	50.5%	10.8%	-232	-276	18.9%
Net funded income	128	109	119	-7.5%	9.0%	474	382	-19.4%
Fees and commissions	40	39	35	-12.7%	-10.0%	106	153	44.7%
Income from Investment Securities	25	22	18	-27.1%	-17.8%	96	79	-18.2%
Share of result of associate	-2	0	0	NM	NM	-8	0	NM
Total non-funded income	63	61	53	-16.1%	-12.8%	194	232	19.7%
Total operating income	191	169	172	-10.4%	1.2%	668	614	-8.1%
Operating expenses	-73	-87	-89	22.9%	2.0%	-285	-341	20.0%
Pre provision profit	119	82	82	-30.6%	0.3%	384	273	-28.9%
Impairment	-93	-44	-71	-23.6%	59.4%	-267	-149	-44.4%
Net profit	26	38	12	-55.6%	-69.3%	116	124	6.9%

FABS estimate & Co Data

Ajman Bank - KPI

	4Q21	3Q22	4Q22F	YOY Ch	QOQ Ch	2021	2022F	Change
Net FI/OI	67.1%	64.3%	69.2%	211	494	71.0%	62.2%	-877
NIM	2.8%	2.7%	2.5%	-31	-12	2.6%	2.2%	-34
NIS	2.9%	2.8%	3.1%	18	25	2.6%	2.4%	-23
Fees & comms/OI	20.9%	22.9%	20.4%	-56	-254	15.9%	25.0%	911
Invst Securities/OI	12.8%	12.8%	10.4%	-240	-241	14.4%	12.8%	-158
Cost to income	37.9%	51.5%	52.0%	1405	42	42.6%	55.6%	1299
Impairment/PPP	78.1%	54.1%	86.0%	789	3188	69.7%	54.5%	-1522
NP/OI	13.6%	22.2%	6.7%	-687	-1550	17.4%	20.2%	283
ROAA	0.5%	0.7%	0.6%	7	-7	0.5%	0.6%	4
ROAE	4.4%	5.5%	4.9%	50	-57	4.5%	4.8%	30

FABS estimate & Co Data

Ajman Bank - Key B/S items

AED mn	4Q21	1Q22	2Q22	3Q22	4Q22F	YoY Ch
Net advances	14,924	14,346	13,502	13,386	13,823	-7.4%
QOQ change	-5.6%	-3.9%	-5.9%	-0.9%	3.3%	
Total assets	22,342	21,792	21,150	20,569	21,111	-5.5%
QOQ change	3.9%	-2.5%	-2.9%	-2.7%	2.6%	
Customer deposits	15,263	16,633	16,652	16,055	16,290	6.7%
QOQ change	8.9%	9.0%	0.1%	-3.6%	1.5%	
Total equity	2,635	2,592	2,526	2,507	2,518	-4.4%
QOQ change	1.4%	-1.6%	-2.5%	-0.8%	0.5%	

FABS estimate & Co Data

4Q22 preview: Commercial Bank International (CBI)

Improvement in asset quality to boost profitability

CMP (AED): 0.849

Potential upside/(downside) (%): **7.2%**

12-m target price:

AED 0.91

Stock rating:

HOLD

4Q22 estimate

Commercial Bank International (CBI/the bank) is forecasted to report a net profit of AED 28 Mn in 4Q22, down from AED 165 Mn in 4Q21. The decline in net profit is mainly attributable to a fall in net funded income, a decline in non-funded income, and a hike in operating expenses. Funded income is expected to grow 29.4% YOY to AED 169 Mn in 4Q22 driven by strong credit growth. We expect the net advances to grow 4.4% QOQ and 15.6% YOY to AED 13.6 Bn in 4Q22. Income from Islamic financing is estimated to rise 4.3% YOY to 13 Mn in 4Q22. Funded expense is expected to increase from AED 47 Mn in 4Q21 to AED 91 Mn in 4Q22 due to high-interest rates in the economy. Thus, net funded income is anticipated to decline 6.0% YOY to AED 90 Mn in 4Q22. Total non-funded income is anticipated to decline from AED 115 Mn in 4Q21 to AED 60 Mn in 4Q22 owing to a 30.8% YOY expected decline in fee and commission income and a 53.5% YOY decline expected in other operating income. As a result, total operating income is likely to decline 28.5% YOY to AED 151 Mn in 4Q22. Operating expenses are predicted to rise 1.6% YOY to AED 75 Mn in 4Q22 with a cost-to-income ratio of 50.0%. Furthermore, impairments are anticipated to reach AED 50 Mn in 4Q22.

2022 forecast

CBI's net profit is expected to decline 22.1% YOY to AED 957 Mn in 2022 mainly due to a hike in operating expenses and a decline in non-funded income partially offset by growth in net funded income. Funded income is estimated to grow 20.9% YOY to AED 620 Mn in 2022 whereas income from Islamic financing is expected to decline 8.1% to AED 46 Mn. Funded expense is expected to rise from 178 Mn in 2021 to AED 250 Mn in 2022. Thus, net funded income is expected to grow 4.9% YOY to AED 395 Mn in 2022. Total non-funded income is expected to decline 16.3% YOY to AED 213 Mn in 2022 driven by a 27.6% decline expected in fee and commission income and a 6.3% decline anticipated in other operating income. Resultantly, operating income is likely to decline marginally 3.6% YOY to AED 608 Mn in 2022. Operating expense is anticipated to rise 8.2% YOY to AED 328 Mn in 2022. In addition, impairments are expected to decline 21.8% YOY to AED 154 Mn in 2022.

3Q22 outturn

CBI's funded income inclined 23.6% YOY to AED 156 Mn in 3Q22 driven by strong growth in advances. Similarly, funded expenses increased from AED 43 Mn in 3Q21 to AED 77 Mn in 3Q22 primarily due to the high cost of funds driven by a hike in benchmark rates. The bank's asset yield declined in 3Q22 mainly due to an increase in wholesale lending activity. Thus, NIMs declined 98 bps QOQ to 2.3% in 3Q22. Thus, net funded income fell 6.1% YOY to AED 90 Mn in 3Q22. Fee and commission income declined 18.9% YOY to AED 20 Mn in 3Q22. However, other operating income more than doubled from AED 37 Mn in 3Q21 to AED 78 Mn in 3Q22, resulting in a 59.3% YOY hike in total non-funded income. As a result, total operating income increased 19.5% YOY to AED 189 Mn in 3Q22. On the other hand, operating expenses hiked 28.9% YOY to AED 97 Mn in 3Q22 pushing up the cost-to-income ratio from 47.8% in 3Q21 to 51.6% in 3Q22. Impairment charges declined 20.1% YOY to AED 46 Mn in 3Q22. In addition, the share of profit of non-controlling interest turned positive to AED 34 Mn in 3Q22 from a loss of AED 1 Mn in 3Q21.

Target price and recommendation

We revise our rating on CBI from REDUCE to HOLD with a revised target price of AED 0.91. The bank's losses narrowed in the Wholesale and Retail Banking segment during 9M22 due to decline in provision and higher other income. The asset yield declined 33.8 bps YOY to AED 4.2% in 3Q22 driven by an increase in wholesale lending. On the other hand, CBI's cost of funds rose 71.5 bps YOY to 2.14% in 3Q22. Thus, NIMs declined 97.9 bps YOY to AED 2.1% in 3Q22. The bank's NPL ratio improved from 16.9% in 2Q22 to 15.7% in 3Q22. CBI's stage 2 loans as a percentage of total loans marginally improved to 7.9% in 3Q22 as compared to 13.0% in 3Q22. However, lower coverage

makes wary about decline in profit when the Bank plan to increase coverage. We believe the Bank held enough collateral against these loans which will mitigate losses arising from this loss. The banks capitalization stood at a CET 1 capital ratio of 9.5%, AT1 capital ratio of 12.4%, and a total capital ratio of 13.5% in 3Q22. This indicates the bank might require to raise capital in the medium-term to grow loan book. Thus, based on our analysis, we assign a HOLD rating on the stock.

CBI-Relative valuation

(At CMP)	2018	2019	2020	2021	2022F
PE	6.55	13.30	NM	12.13	15.58
PB	0.76	0.73	0.75	0.71	0.70

FABS estimate & Co Data
CBI - P&L

AED mm	4Q21	3Q22	4Q22F	YOY Ch	QOQ Ch	2021	2022F	Change
Funded income	131	156	169	29.4%	8.4%	513	620	20.9%
Inc from Islamic fin & invest assets	12	11	13	4.3%	11.4%	50	46	-8.1%
Funded expenses	-47	-77	-91	96.0%	18.7%	-178	-250	40.4%
Net funded income	96	90	90	-6.0%	0.0%	376	395	4.9%
Fees and commissions	31	20	21	-30.8%	5.0%	121	88	-27.3%
Other operating income, net	84	78	39	-53.5%	-50.0%	133	125	-6.3%
Total non-funded income	115	98	60	-47.4%	-38.7%	255	213	-16.3%
Total operating income	211	189	151	-28.5%	-20.1%	631	608	-3.6%
Operating expenses	-74	-97	-75	1.6%	-22.7%	-303	-328	8.2%
Pre provision profit	137	91	75	-44.9%	-17.4%	328	280	-14.6%
Impairment	39	-46	-50	NM	7.7%	-197	-154	-21.8%
Non-controlling interests	11	34	-2	NM	NM	9	31	252.3%
Net profit	165	11	28	-83.2%	152.6%	122	95	-22.1%

FABS estimate & Co Data
CBI - P&L KPI

	4Q21	3Q22	4Q22F	YOY Ch	QOQ Ch	2021	2022F	Change
Net FI/OI	45.6%	47.9%	60.0%	1,437	1,209	59.6%	64.9%	529
NIM	2.5%	2.3%	2.1%	-37	-15	2.5%	2.3%	-18
NIS	2.3%	2.1%	1.9%	-39	-14	2.3%	2.1%	-18
Fees & comms/OI	14.6%	10.7%	14.1%	-47	338	19.2%	14.5%	-472
Trading/OI	39.8%	41.4%	25.9%	-1390	-1,546	21.2%	20.6%	-57
Cost to income	35.2%	51.6%	50.0%	1483	-163	48.0%	53.9%	592
Impairment/PPP	-28.8%	50.6%	66.0%	9476	1,542	60.2%	55.1%	-510
NP/OI	78.2%	5.8%	18.3%	-5984	1,253	19.3%	15.6%	-371
ROAE	4.9%	9.1%	7.5%	252	-168	4.9%	3.7%	-119
ROAA	0.6%	1.2%	0.7%	4	-49	0.6%	0.4%	-19

FABS estimate & Co Data
CBI- Key BS Items

AED mm	4Q21	1Q22	2Q22	3Q22	4Q22F	YOY Ch
Net advances	11,779	11,806	12,024	13,034	13,614	15.6%
QOQ Change	11.1%	0.2%	1.8%	8.4%	4.4%	
Total assets	20,774	20,858	19,088	20,622	21,415	3.1%
QOQ Change	18.7%	0.4%	-8.5%	8.0%	3.8%	
Customer deposits	12,574	12,675	11,268	12,216	13,299	5.8%
QOQ Change	22.8%	0.8%	-11.1%	8.4%	8.9%	
Total equity	2,545	2,567	2,532	2,543	2,571	1.0%
QOQ Change	6.6%	0.9%	-1.4%	0.4%	1.1%	

FABS estimate & Co Data

4Q22 preview: United Arab Bank (UAB)

Negative loan and deposit growth to impact profitability

CMP (AED): 0.85

Potential upside/(downside) (%): **-15.3%**

12-m target price:

AED 0.72

Stock rating:

SELL

4Q22 estimate

United Arab Bank (UAB) is expected to report a 54.2% YOY rise in net profit to AED 39 Mn in 4Q22 mainly due to strong growth in net interest income, decline in impairments, and fall in operating expenses partially offset by a decline in non-funded income. Funded income is estimated to increase 51.4% YOY to AED 165 Mn in 4Q22 due to high asset yield. Similarly, the funded expense is expected to increase from AED 46 Mn in 4Q21 to AED 78 Mn in 4Q22 due to a hike in benchmark rates. Thus, net funded income is expected to grow 39.1% YOY to AED 87 Mn in 4Q22. Fee and commission income is expected to decline 5.8% YOY to AED 12 Mn in 4Q22 whereas other non-funded income is anticipated to fall from AED 32 Mn in 4Q21 to AED 8 Mn in 4Q22. Thus, the non-funded income is expected to decline from AED 50 Mn in 4Q21 to AED 25 Mn in 4Q22. As a result, the operating income is likely to decline marginally 0.7% YOY to AED 112 Mn in 4Q22. The bank's operating expenses are anticipated to decline 11.8% YOY to AED 56 Mn in 4Q22. In addition, impairments are anticipated to decline 29.4% YOY to AED 17 Mn in 4Q22.

2022 forecast

UAB's net profit is estimated to increase more than double to AED 158 Mn in 2022, up from AED 70 Mn in 2021 driven by an increase in net interest income and a decline in impairments partially offset by a fall in non-funded income. UAB's funded income is expected to increase 17.2% YOY to AED 560 Mn in 2022 due to rise in asset yield whereas funded expense is predicted to decline 24.1% YOY to AED 249 Mn in 2022. Thus, net interest income is expected to grow 12.1% YOY to AED 312 Mn in 2022. Furthermore, total non-funded income is anticipated to decline 11.7% YOY to AED 152 Mn in 2022 driven by a decline in other non-funded income partially offset by a rise in fee and commission income and exchange income. Resultantly, total operating income is expected to grow 3.0% YOY to AED 463 Mn in 2022. In addition, operating expenses are estimated to decline marginally 1.6% YOY to AED 240 Mn in 2022. Impairments are anticipated to fall from AED 136 Mn in 2021 to AED 65 Mn in 2022.

3Q22 outturn

UAB's funded income rose 32.2% YOY to AED 155 Mn in 3Q22 due to high asset yield whereas funded expense rose from AED 45 Mn in 3Q21 to AED 71 Mn in 3Q22 due to high benchmark rates. Resultantly, net funded income grew 16.0% YOY to AED 83 Mn in 3Q22. NIMs rose 31 bps QOQ to 2.38% in 3Q22. Furthermore, non-funded income fell 12.1% YOY to AED 25 Mn in 3Q22 mainly due to a 40.4% decline in other non-funded income partially offset by a 10.4% rise in fee and commission income and 21.6% growth in exchange income. As a result, total operating income increased 8.0% YOY to AED 108 Mn in 3Q22. In addition, operating expenses rose 12.1% YOY to AED 68 Mn in 3Q22. The cost-to-income ratio rose significantly from 45.7% in 2Q22 to 62.7% in 3Q22 due to a fall in operating income. Impairment charges fell significantly from AED 22 Mn in 3Q21 to AED 5 Mn in 3Q22 due to strong recoveries and a focus on high quality assets. Thus, net profit doubled from AED 18 Mn in 3Q21 to AED 36 Mn in 3Q22.

Target price and recommendation

We maintain our SELL rating on United Arab Bank with a target price of AED 0.72. The bank's net advances declined 5.2% on YTD basis to AED 7.9 Bn in 3Q22. UAB's deposits declined 11.2% YOY to AED 9.2 Bn in 3Q22 due to the outflow of term deposits. The bank's CASA ratio as a percentage of gross loans stood at 31% in 3Q22. As a result, the cost of funds rose 60 bps QOQ to AED 2.36% in 3Q22. However, the asset yield improved 86 bps QOQ to AED 4.42% in 3Q22 due to a hike in interest rates. The bank's asset quality marginally reduced 30 bps QOQ to 10.3% in 3Q22. Nevertheless, the coverage ratio improved from 77% in 2Q22 to 81% in 3Q22 and stood at 123% including collaterals. Furthermore, the bank might increase provisions against the stage 2 loans to

increase the buffer against these loans. The bank's loan-to-deposit ratio increased from 80% in 2Q22 to 84% in 3Q22. UAB's cost of risk significantly declined from 0.8% in 2Q22 to 0.1% in 3Q22 mainly due to the bank's focus on high quality assets and strong recoveries. The bank's capitalization improved marginally on a QOQ basis but still stays weak with a CAR of 13.5%, Tier 1 ratio of 12.3%, and CET 1 ratio of 12.3% in 3Q22. Thus, based on our analysis, we assign a SELL rating to the stock.

UAB - Relative valuation

(At CMP)	2018	2019	2020	2021	2022F
PE	22.70	NA	NA	24.98	11.08
PB	0.69	0.81	1.21	1.16	1.23

FABS Estimates & Co Data

UAB - P&L

AED mm	4Q21	3Q22	4Q22F	YOY Ch	QOQ Ch	2021	2022F	Change
Interest income	109	155	165	51.4%	6.7%	478	560	17.2%
Interest expense	-46	-71	-78	68.2%	8.7%	-200	-249	24.1%
Net interest income	63	83	87	39.1%	5.0%	278	312	12.1%
Fees and commissions	12	12	12	-5.8%	2.0%	47	51	7.8%
Exchange income	5	5	5	-0.2%	1.0%	19	20	6.3%
Other non-funded income	32	8	8	-76.2%	-5.0%	106	81	-23.6%
Total non-funded income	50	25	25	-50.5%	-0.5%	172	152	-11.7%
Total operating income	113	108	112	-0.7%	3.7%	450	463	3.0%
General & admin. Expenses	-63	-68	-56	-11.8%	-17.6%	-244	-240	-1.6%
Pre provision profit	50	40	56	13.4%	39.8%	206	223	8.5%
Impairment	-24	-5	-17	-29.4%	274.8%	-136	-65	-52.0%
Net profit	25	36	39	54.2%	9.7%	70	158	125.5%

UAB - P&L KPI

	4Q21	3Q22	4Q22F	YOY Ch	QOQ Ch	2021	2022F	Change
Net FI/OI	55.5%	76.9%	77.8%	2,230	94	61.8%	67.3%	547
NIM	1.7%	2.4%	2.6%	85	17	1.9%	2.2%	33
NIS	1.5%	2.1%	2.2%	73	15	1.7%	2.0%	33
Fees & comms/OI	11.0%	10.7%	10.5%	-56	-18	10.5%	11.0%	49
Exchange income/OI	4.8%	5.0%	4.8%	3	-13	4.2%	4.3%	13
Cost to income	56.1%	62.7%	49.8%	-626	-1,294	54.2%	51.8%	-242
Impairment/PPP	48.8%	11.3%	30.4%	-1,840	1,905	65.9%	29.1%	-3,677
NP/OI	22.5%	33.0%	34.9%	1,244	191	15.6%	34.2%	1,856
ROAE	4.7%	10.4%	22.9%	1,823	1,251	4.7%	10.8%	606
ROAA	0.5%	1.0%	2.3%	177	125	0.5%	1.1%	61

FABS estimate & Co Data

UAB- Key BS Items

AED mm	4Q21	1Q22	2Q22	3Q22	4Q22F	YOY Ch.
Net advances	8,213	7,884	8,374	7,788	7,734	-5.8%
QOQ Change		2.2%	-4.0%	6.2%	-7.0%	-0.7%
Total assets	15,180	14,021	14,748	14,066	14,166	-6.7%
QOQ Change		6.4%	-7.6%	5.2%	-4.6%	0.7%
Customer deposits	10,406	10,120	10,517	9,241	9,443	-9.3%
QOQ Change		0.8%	-2.8%	3.9%	-12.1%	2.2%
Total equity	1,512	1,501	1,402	1,383	1,422	-5.9%
QOQ Change		0.9%	-0.7%	-6.6%	-1.3%	2.8%

FABS estimate & Co Data

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