

## Banking Sector – October 2021

Sector Weighting:  
**NEUTRAL**  
**Preview 3Q 2021**

The asset quality of the UAE banks has stabilized overall after deteriorating in 2020

### Top Picks and Rating Changes

In the second quarter of 2021, the number of licensed commercial banks stayed at 58. The necessity for cost-cutting and digitization led to the closure of national branches, which fell from 534 at the end of 1Q21 to 522 at the end of 2Q21. At the same time, the number of bank workers dropped by 414 (1.3% QOQ) to 32,623 at the end of June 2021.

In the second quarter of 2021, Profitability and balance sheet indicators for the top 10 UAE banks improved significantly; resident deposits representing 88.2% of total deposits grew by 1% Y-o-Y, attributable mostly to an increase in government and private sector deposits. Meanwhile, non-resident deposits grew by 12.6% Y-o-Y, while private sector deposits increased by 3.8% Y-o-Y. At the end of Q2 2021, traditional banks had 77.6% of deposits, while Islamic banks held the remaining 22.4%. The overall assets of UAE banks grew by 0.6% year on year in the second quarter, while aggregate bank credit fell by 1.2% due to a contraction in the corporate lending portfolio. The total amount of lending in all other operations fell by 1.9% YOY. In 2Q21, credit growth picked up, especially in the corporate, retail, and SME sectors. After worsening in 2020, the asset quality of UAE banks has stabilized. Because of larger capital buffers, improved recoveries, and improved profitability, banks have demonstrated that they are better positioned than previously in handling stress on their balance sheets. Bank provisioning is lower, indicating a better credit outlook for the industry. The banking system's Advances to Stable Resources Ratio (ASRR) grew from 77.5% at the end of March 2021 to 77.7% at the end of June 2021, indicating that the banking sector's structural liquidity remained strong. Eligible Liquid Assets as a percentage of total liabilities decreased to 18.3%, far over the statutory minimum of 10%, indicating that the banking sector has a sufficient cushion. Bank liquid assets totaled AED 476.2 Bn at the end of the second quarter of 2021, up 10.1% YOY (AED 43.8 Bn higher compared to the end of June 2020). With an average Capital Adequacy Ratio (CAR) of 17.5%, Tier 1 Capital Ratio of 16.3%, and Common Equity Tier 1 ratio (CET 1) of 14.5%, the UAE banking sector remained adequately capitalized.

The monetary aggregate M1 increased by 2.7% from the previous quarter to AED 659.5 Bn, owing to a rise in monetary deposits. Due to an increase in both monetary deposits and currency in circulation, M1 increased by 18.3 percent year over year. The monetary aggregate M2 grew by just 0.1% QOQ to AED 1,488.5 Bn, due to an increase in M1, which was largely offset by a 1.9% (AED 16.2 Bn) drop in quasi-monetary deposits to AED 829.0 Bn.

As economic conditions continue to improve, the ROE has risen to 10.9% for the first time in five quarters, up from 13.3% in 4Q19. The key drivers for profitability growth were a +2.8% increase in operating income QOQ and lower impairment charges of -9.3%. After three consecutive quarters of decline, the L&A climbed by 1.9% QOQ. The number of mortgage issuances virtually doubled between December 2020 and June 2021, indicating that Dubai's mortgage market is improving.

The financial industry in the United Arab Emirates is still battling the pandemic. In these kinds of scenarios, forecasting is tough. However, Things appear to be improving; at the very least, the market is currently heading towards a steady domain. The sentiment is rising, and the economy's underlying fundamentals are also showing indications of improvement. The UAE's GDP growth is expected to be 2.1 percent this year, rising to 4.2 percent in 2022, according to the CBUAE. The second half of this year is projected to be far better than the first, with certain key sectors resuming their previous levels of stability. Furthermore, statistics on international investment flows into the UAE are quite encouraging.

**Our top picks:** **i) ENBD** (Trades on 9.62x/1.11x 2021E P/E and P/B multiple with a dividend yield of 3.0% and Target Price (TP) of AED16.10. Net profit rose by 22.4% YOY to AED2,459 Mn in 2Q21, up from AED2,009 Mn in 2Q20. The Impairments reduced significantly by 48.5% YOY to AED851 Mn in 2Q21 as compared to AED1,653 Mn in 2Q20. **ii) DIB** (Trades on 9.17x/1.18x 2021F P/E and P/B multiple with a high dividend yield of 6.1% (2020: Dividend Yield is 4.0%) and a revised Price Target (PT) at AED6.00. Net Funded income decreased by 1.6% YOY to AED1,643 Mn in 2Q21 as compared to AED1,670 Mn in 2Q20. Dubai Islamic Bank has showed resilience with strong growth in Non-Funded Income by 22% YOY to AED759 Mn in 2Q21, up from AED622 Mn in 2Q20. **iii) AJMANBANK** (Trades on 9.73x/0.54x 2021E P/E and P/B multiple with a dividend yield of 0% and Target Price (TP) of AED0.78. Non-Funded Income rose to AED61 Mn in 2Q21 compared to AED24 Mn in 2Q20 and the Total Operating Income increased significantly by 39.5% YOY to AED165 Mn in 2Q21 from AED119 Mn in 2Q20. Cost to Income (C/I) ratio decreased significantly to 39.8% in 2Q21 down from 54.2% in 2Q20.

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## Industry Themes

### **The Central Bank of the United Arab Emirates Has Released a Study on Emerging COVID-19 Financial Sector Vulnerabilities**

The Central Bank of the UAE has released a report titled "Typologies in the Financial Sector." The report's goal is to identify and raise awareness of emerging risks in the financial sector, allowing concerned supervisory authorities and financial institutions to remain vigilant and address these risks in a timely manner. The UAE's Financial Industry Regulatory Agency report listed the risks of money laundering and terrorist funding, fraud, bribery, corruption, charity, and catastrophe fraud, cyber-attacks, and foreign fraud (FII). According to the research, the risks generated from the typologies are expected to be pervasive across the financial industry. A rise in the usage of unregistered money service companies and a higher danger of cyber assaults are two of the concerns. The study details FIs' successful risk reduction, detection, and resolution strategies, as well as risk trend assessments. This study is part of our ongoing efforts to address money laundering and terrorism financing-related patterns and typologies that have emerged in the banking industry because of the COVID-19 pandemic. Even though these risks are still in their early phases, CBUAE has published this study as a crucial resource to help them keep on top of them and manage them.

### **COVID-19 Stimulus Measures Are Gradually Being Pulled Down by the UAE Central Bank**

The UAE's Central Bank will begin to progressively dismantle stimulus measures put in place to combat COVID-19's economic downturn. The UAE's financial system has been deemed stable, according to the national bank. The banking system's liquidity and capital buffers were adequate. To prevent limiting credit supply and economic growth, the CBUAE has announced the withdrawal of its Targeted Economic Support Scheme (TESS). There will be less need for exceptional relief measures as the economy moves into the next phase of its post-COVID recovery. Banks are expected to contribute to the revival of the economy by ensuring a steady flow of money to creditworthy retail and corporate borrowers. Meanwhile, depending on the speed of economic recovery and loan demand, the regulator may prolong regulatory relief measures that allow banks to retain smaller capital and liquidity buffers beyond the end of this year.

### **As the Economy Recovers, the ROE of Top UAE Banks Has Returned to Pre-Pandemic Levels**

In the second quarter of 2021, the UAE banking industry strengthened, with the top 10 lenders exhibiting a solid comeback in profitability and balance sheet indicators. Return on equity (ROE) was back to Q4 2019 levels, and loans and advances improved. After three consecutive quarters of decline, Dubai's L&A climbed by 1.9% QOQ. Between December 2020 and June 2021, the number of mortgages issued nearly doubled. The asset quality of UAE banks has also improved after worsening in 2020. Emirates NBD, Mashreq, and RAK Bank are three of the UAE's top ten largest banks, with coverage ratios of above 100%. Because of larger capital buffers, improved recoveries, and improved profitability, banks have demonstrated that they are better positioned than previously in handling stress on their balance sheets. Bank provisioning is lower, indicating a better credit outlook for the industry.

### **Emirates NBD and Emirates Airline have successfully signed a USD 750 million 5-year dual-tranche financing facility**

On September 30, 2021, Emirates NBD and Emirates Airline inked a USD 750 million 5-year Dual Tranche Financing Facility. The deal is still reasonably priced, and it is a first for Emirates Airline as a sales-receivable-backed financing structure, intending to diversify their liquidity pool. This demonstrates the Emirates NBD Group's commitment to helping Emirates, the region's leading airline, and the willingness. We look forward to contributing to Dubai's aim of being the world's most visited city by 2025.

## The central bank of the United Arab Emirates has demonstrated that digital currencies make cross-border transfers easier

The Central Bank of the UAE (CBUAE), in collaboration with the Bank for International Settlements (BIS) Innovation Hub Centre in Hong Kong, the Hong Kong Monetary Authority, the Bank of Thailand, and the People's Bank of China's Digital Currency Institute, has released the first Multiple CBDC Bridge (mBridge) Project report, marking a significant step forward in the international trade payment project. Based on distributed ledger technology, mBridge employs central bank digital currency (CBDC) for international cash transfers between member institutions. Early results from the Report show a considerable increase in cross-border fund transfer times, from days to seconds around the clock, as well as the potential to considerably lower correspondent banking expenses for customers while increasing bank interoperability and guaranteeing regulatory compliance.

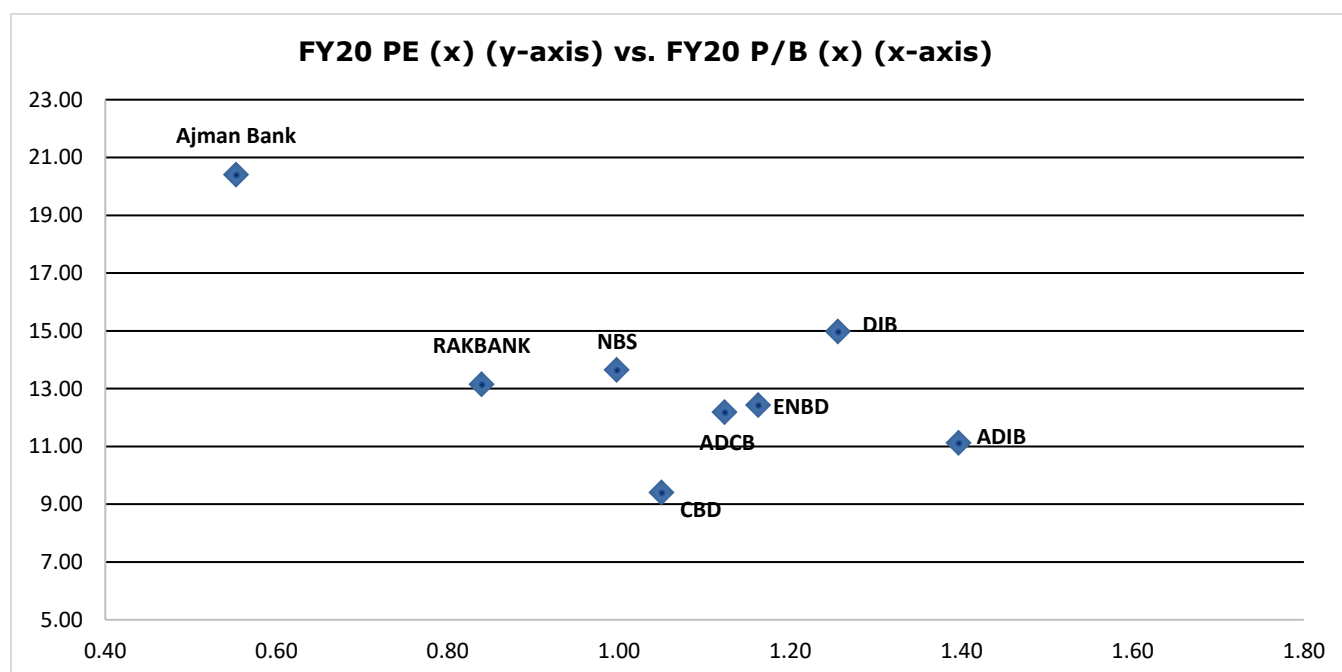
## As more people gain credit, personal loans in the UAE have risen to \$91.4 Bn

Personal loans in the UAE are gradually increasing following a slowdown last year when unemployment was high due to the coronavirus outbreak. In June 2021, the amount of loans given to citizens totalled 336.5 Bn UAE dirhams (\$91.4 Bn), up 3.6% from the previous year. Personal loans increased by 1.7% in March 2021 compared to March 2020. Gross credit, which includes loans to non-residents and non-banking financial entities, increased by 0.9% in April but was still down 1.2% from March.

## Relative valuation and rating

### Relative valuation

The UAE banks under our coverage are trading in the 2021 PE range of 9.4x (CBD) and 20.61x (Ajman Bank). The 2020 PB ranges between 0.34x (CBI & BOS) and 1.57x (INVESTB). The UAE banks are currently trading at average PE and PB multiple of 13.21x and 0.93x vis-a-vis the Saudi average of 20.8x (PE) and 2.39x (PB).



Source: FABS from Bloomberg

### Market Weight

We remain MARKET WEIGHT with 2x BUY, 1x ACCUMULATE, 6X HOLD, 1x REDUCE, and 2x SELL on the 12 UAE banks under our coverage. UAE systems' Total Net Assets increased by 0.7% YOY to AED3074.63 Bn in July 2021. The UAE banking sector's Net advances declined by 1.6% YOY to AED1,594.21 Bn. Customer deposits mobilisation increased by 1.5% YOY to AED1,915.12 Bn in July 2021.

#### Target price and rating

(AED)	Target Price	CMP	Potential change	Rating
BOS	<b>0.13</b>	0.53	-75.5%	SELL
CBI	<b>0.56</b>	0.65	-13.8%	REDUCE
MASQ	<b>71.00</b>	70.00	1.4%	HOLD
NBS	<b>1.90</b>	1.79	6.2%	HOLD
AJMANBANK	<b>0.78</b>	0.69	13.9%	ACCUMULATE
RAKBANK	<b>4.50</b>	3.95	3.8%	HOLD
CBD	<b>4.30</b>	4.03	6.7%	HOLD
ADCB	<b>8.50</b>	7.76	9.5%	HOLD
ADIB	<b>5.65</b>	5.60	0.9%	HOLD
DIB	<b>6.00</b>	4.93	21.7%	BUY
ENBD	<b>16.10</b>	13.45	19.7%	BUY
UAB	<b>0.20</b>	0.75	-73.2%	SELL

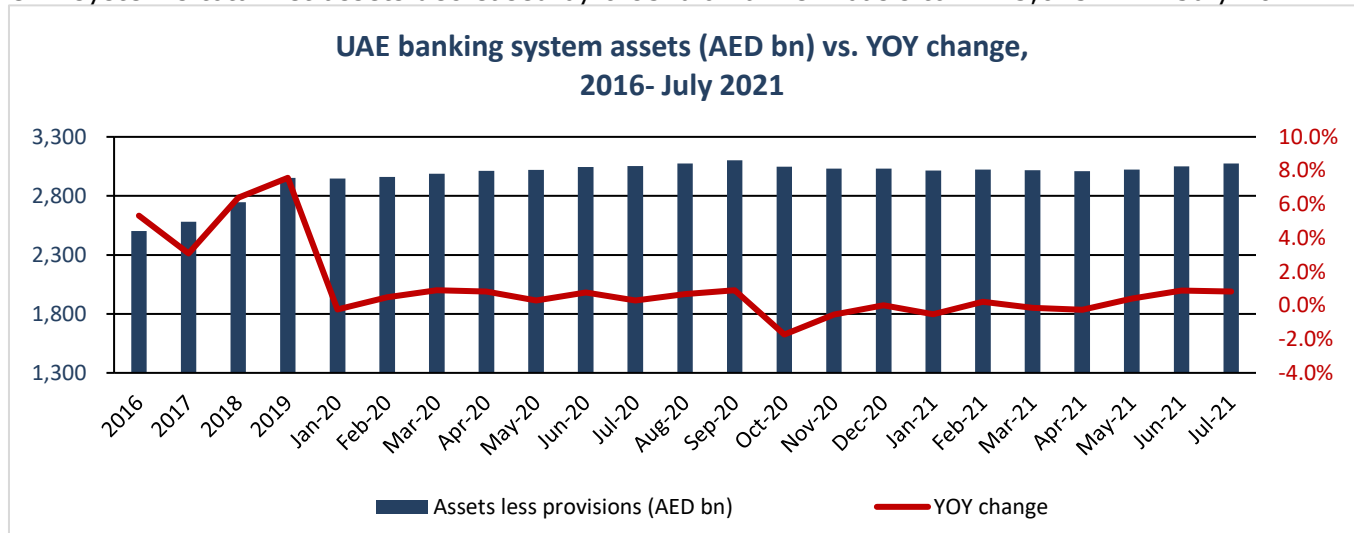
Source: FABS from co data

## Banking indicators

### 1. Assets

#### Total net assets increased on a MOM basis in July 2021

UAE system's total net assets decreased by 0.83% on a MOM basis to AED3,075 Bn in July 2021.



Source: FABS from CBUAE

#### CBD witnessed the highest QOQ asset growth in 2Q21

At an individual bank level, CBD recorded the largest growth in assets by 10% QOQ to AED 112,767 Mn in 2Q21. This was followed by CBI, which increased by 6.8% to AED17,053 Mn. AJMANBANK recorded the lowest growth of -3% QOQ to AED21,316 Mn in 2Q21.

Total assets: 14 UAE banks

(AED MN)	2Q20	3Q20	4Q20	1Q21	2Q21	QOQ ch
BOS	34,450	34,769	36,143	37,088	37,699	1.6%
YOY change	13.6%	11.3%	13.8%	15.3%	9.4%	
CBI	18,784	18,269	17,141	15,970	17,053	6.8%
YOY change	-9.9%	-9.7%	-8.0%	-10.6%	-9.2%	
MASQ	173,310	169,724	158,523	162,253	172,763	6.5%
YOY change	27.0%	15.6%	-0.6%	-0.2%	-0.3%	
NBS	52,670	53,332	53,601	54,919	54,351	-1.0%
YOY change	19.0%	16.9%	15.5%	11.5%	3.2%	
AJMANBANK	23,554	22,611	21,507	21,967	21,316	-3.0%
YOY change	-0.6%	-6.9%	-9.0%	-5.5%	-9.5%	
RAKBANK	54,342	52,328	52,773	53,231	54,312	2.0%
YOY change	-5.1%	-7.0%	-7.6%	-10.9%	-0.1%	
CBD	93,682	92,750	97,362	102,471	112,767	10.0%
YOY change	19.4%	12.4%	10.6%	14.0%	20.4%	
ADCB	406,235	409,262	411,156	395,819	416,290	5.2%
YOY change	-2.6%	0.6%	1.5%	-4.0%	2.5%	
ADIB	124,418	127,116	127,816	130,694	130,608	-0.1%
YOY change	-0.2%	2.3%	1.5%	6.5%	5.0%	
DIB	294,797	299,303	289,556	291,711	293,782	0.7%
YOY change	29.2%	30.2%	24.9%	5.5%	-0.3%	
ENBD	694,283	692,138	698,087	695,059	693,783	-0.2%

YOY change	29.1%	2.5%	2.2%	0.5%	-0.1%	
UAB	16,709	17,982	14,849	14,419	14,549	0.9%
YOY change	-14.7%	-8.7%	-22.4%	-18.2%	-12.9%	
Invest	11,166	NA	NA	11,042	NA	NA
YOY change	-4.5%	NA	NA	0.7%	NA	
FAB	865,990	955,147	919,061	940,746	943,647	0.3%
YOY change	11.7%	21.2%	11.8%	12.6%	9.0%	

Source: FABS from co data

### FAB's remain a leader in term of market share in 2Q21

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

#### Total assets share

	2Q20	3Q20	4Q20	1Q21	2Q21	QOQ: pp
BOS	1.1%	1.1%	1.2%	1.2%	1.2%	0.0%
CBI	0.6%	0.6%	0.6%	0.5%	0.6%	0.0%
MASQ	5.7%	5.5%	5.1%	5.4%	5.6%	0.2%
NBS	1.7%	1.7%	1.7%	1.8%	1.8%	-0.1%
AJMANBANK	0.8%	0.7%	0.7%	0.7%	0.7%	0.0%
RAKBANK	1.8%	1.7%	1.7%	1.8%	1.8%	0.0%
CBD	3.1%	3.0%	3.1%	3.4%	3.7%	0.3%
ADCB	13.3%	13.2%	13.3%	13.1%	13.5%	0.4%
ADIB	4.1%	4.1%	4.1%	4.3%	4.2%	-0.1%
DIB	9.7%	9.6%	9.3%	9.7%	9.6%	-0.1%
ENBD	22.8%	22.3%	22.5%	23.1%	22.6%	-0.5%
UAB	0.5%	0.6%	0.5%	0.5%	0.5%	0.0%
INVEST	0.4%	NA	NA	0.4%	NA	NA
FAB	28.4%	30.8%	29.6%	31.2%	30.7%	-0.6%

Source: FABS from co data, CBUAE

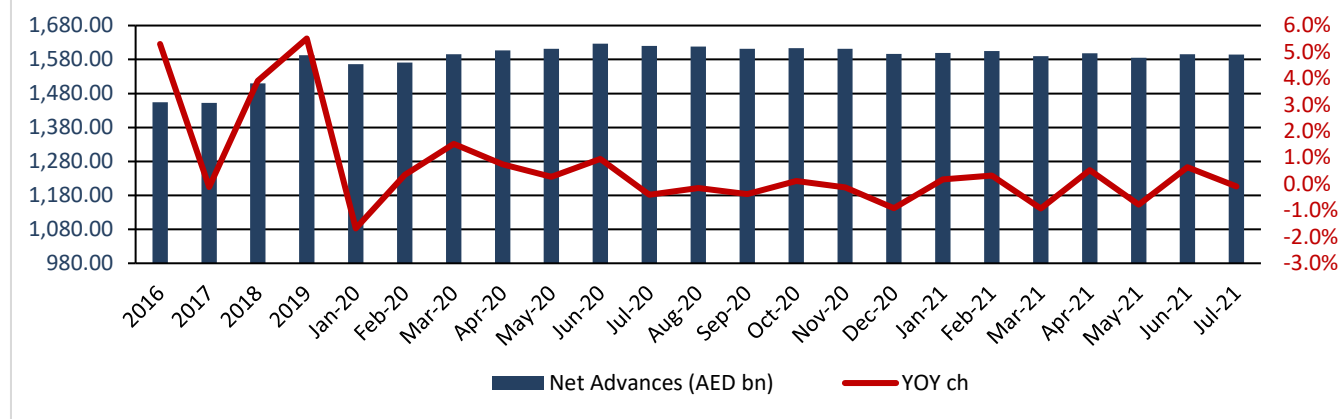
## 2. Advances

### Advances decreased slightly by 0.1% MOM in July 2021

CBUAE banking indicators show net advances decreased by 0.1% MOM to AED1,594 Bn in July 2021 from AED1,596 Bn in June 2021.



UAE banking system net advances (AED Bn) vs. YOY change, 2016 - July 2021



Source: FABS from CBUAE

### CBD's advances grew the most in QOQ basis in 2Q21

On an individual bank level, UAB and AJMANBANK lost the most in terms of advances formation momentum for 2Q21. UAB decreased by 5.5% QOQ to AED8,035 Mn in 2Q21 from AED8,501 Mn in 1Q21. AJMANBANK decreased by 5.8% QOQ to AED16,001 Mn in 2Q21 from AED16,982 Mn in 1Q21. On the other hand, CBD's advances increased by 6.4% QOQ to AED74,044 Mn from AED69,598 Mn in 1Q21.

#### Net advances: UAE banks

(AED MN)	2Q20	3Q20	4Q20	1Q21	2Q21	QOQ ch
BOS	19,198	19,417	19,456	19,879	20,191	1.6%
YOY change	6.8%	6.1%	9.7%	5.2%	5.2%	
CBI	10,857	10,565	10,372	10,226	10,082	-1.4%
YOY change	-10.2%	-10.3%	-11.8%	-6.7%	-7.1%	
MASQ	76,464	73,942	71,533	75,797	77,282	2.0%
YOY change	8.1%	2.5%	-6.1%	-3.2%	1.1%	
NBS	29,078	29,536	29,269	29,327	29,292	-0.1%
YOY change	17.6%	16.3%	16.4%	3.9%	0.7%	
AJMANBANK	17,763	17,231	16,961	16,982	16,001	-5.8%
YOY change	5.5%	-1.5%	-0.9%	-3.7%	-9.9%	
RAKBANK	32,554	30,421	30,041	30,518	31,063	1.8%
YOY change	-3.1%	-12.0%	-13.1%	-11.1%	-4.6%	
CBD	63,420	62,980	65,289	69,598	74,044	6.4%
YOY change	15.6%	11.7%	8.5%	11.7%	16.8%	
ADCB	239,288	242,890	238,976	235,725	237,814	0.9%
YOY change	-4.7%	-2.7%	-3.6%	-4.4%	-0.6%	
ADIB	81,978	83,205	83,409	83,082	83,700	0.7%
YOY change	3.9%	5.0%	2.8%	4.7%	2.1%	
DIB	200,298	197,436	196,689	196,181	194,290	-1.0%
YOY change	33.3%	30.2%	30.3%	8.9%	-3.0%	
ENBD	442,910	442,305	443,541	436,102	438,227	0.5%
YOY change	31.2%	2.9%	1.4%	-1.6%	-1.1%	
UAB	10,370	10,005	9,014	8,501	8,035	-5.5%
YOY change	-16.2%	-20.0%	-22.1%	-23.9%	-22.5%	

INVEST	7,760	NA	NA	6,744	NA	NA
YOY change	-16.1%	NA	NA	-13.5%	NA	
FAB	384,578	388,800	386,644	378,007	398,638	5.5%
YOY change	5.1%	2.9%	-5.2%	-1.0%	3.7%	

Source: FABS from co data

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

FAB witnessed an increase of 1.3% pp QOQ in market share to 25% in 2Q21 from 23.7% in 1Q21. ENBD continued leading in market share with 27.5% in market share, followed by FAB.

#### Advances mkt share

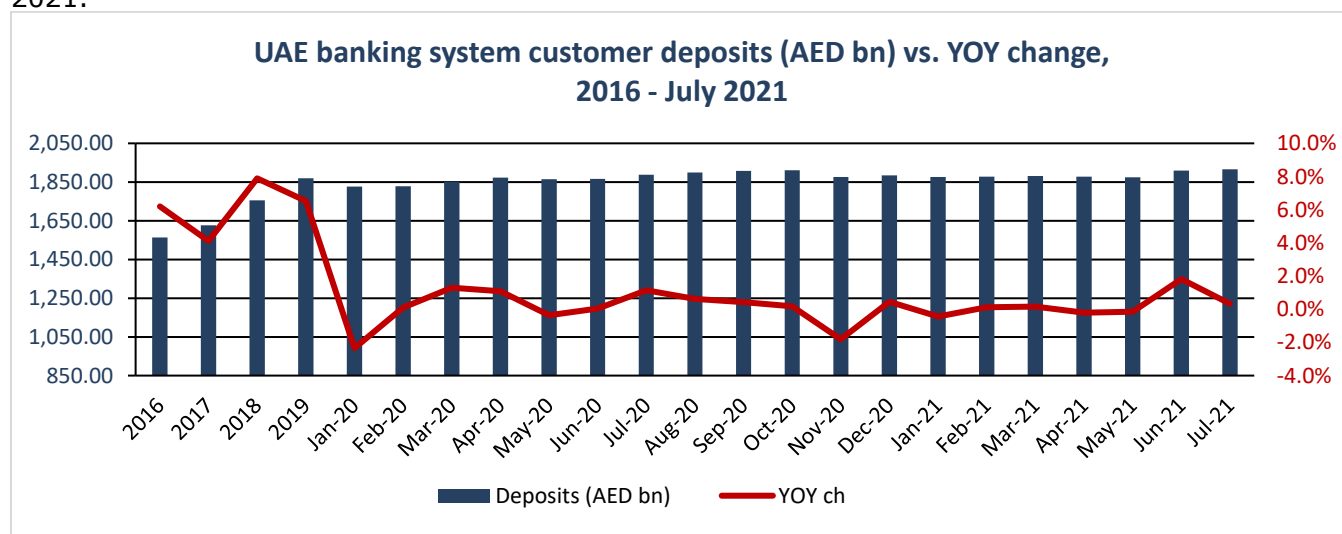
	2Q20	3Q20	4Q20	1Q21	2Q21	QOQ: pp
BOS	1.2%	1.2%	1.2%	1.2%	1.3%	0.0%
CBI	0.7%	0.7%	0.6%	0.6%	0.6%	0.0%
MASQ	4.7%	4.6%	4.4%	4.7%	4.8%	0.1%
NBS	1.8%	1.8%	1.8%	1.8%	1.8%	0.0%
AJMANBANK	1.1%	1.1%	1.1%	1.1%	1.0%	-0.1%
RAKBANK	2.0%	1.9%	1.9%	1.9%	1.9%	0.0%
CBD	3.9%	3.9%	4.1%	4.4%	4.6%	0.3%
ADCB	14.7%	15.1%	14.8%	14.8%	14.9%	0.2%
ADIB	5.0%	5.2%	5.2%	5.2%	5.3%	0.1%
DIB	12.3%	12.3%	12.2%	12.3%	12.2%	-0.1%
ENBD	27.2%	27.4%	27.5%	27.3%	27.5%	0.2%
UAB	0.6%	0.6%	0.6%	0.5%	0.5%	0.0%
INVEST	0.5%	NA	NA	0.4%	NA	NA
FAB	23.6%	24.1%	24.0%	23.7%	25.0%	1.3%

Source: FABS from co data, CBUAE

### 3. Customer Deposit

#### System customer deposit mobilization increased MOM in July 2021

The UAE system customer deposits mobilization decreased by 0.3% MOM to AED1,915 Bn in July 2021.



Source: FABS from CBUAE

### CBD's customer deposits increased the most in 2Q21

CBD's customer deposits increased by 12.6% QOQ to AED79,820 Mn in 2Q21 from AED70,902 Mn in 1Q21, followed by CBI by 7.5%. UAB's customer deposits decreased the most by 1.8% QOQ in 2Q21 to AED10,639 Mn from AED10,839 Mn in 1Q21 followed by NBS that decreased by 1.4%.

#### Customer deposits: UAE banks

(AED MN)	2Q20	3Q20	4Q20	1Q21	2Q21	QOQ ch
BOS	23,498	23,253	23,673	24,055	23,941	-0.5%
YOY change	13.1%	12.0%	11.0%	10.1%	1.9%	
CBI	11,368	10,657	10,481	9,929	10,670	7.5%
YOY change	-16.8%	-19.6%	-13.1%	-9.7%	-6.1%	
MASQ	98,555	94,716	88,261	90,205	95,433	5.8%
YOY change	27.0%	12.6%	-3.0%	1.9%	-3.2%	
NBS	32,238	32,605	33,608	35,476	34,992	-1.4%
YOY change	14.3%	21.4%	23.0%	12.6%	8.5%	
AJMANBANK	14,775	14,477	14,226	13,895	13,876	-0.1%
YOY change	-16.1%	-2.4%	-4.7%	-6.6%	-6.1%	
RAKBANK	35,059	34,205	36,944	36,479	37,027	1.5%
YOY change	-9.8%	-6.2%	0.3%	-3.5%	5.6%	
CBD	65,319	64,000	69,751	70,902	79,820	12.6%
YOY change	18.2%	8.4%	10.1%	11.0%	22.2%	
ADCB	250,272	243,579	251,395	238,830	250,564	4.9%
YOY change	-8.3%	-7.2%	-4.1%	-9.1%	0.1%	
ADIB	98,631	100,722	101,276	103,069	105,159	2.0%
YOY change	-1.2%	0.4%	-0.1%	4.3%	6.6%	
DIB	206,521	214,642	205,925	214,001	218,309	2.0%
YOY change	31.6%	31.7%	25.2%	7.1%	5.7%	
ENBD	460,892	458,007	464,197	459,092	457,886	-0.3%
YOY change	25.7%	-2.2%	-1.7%	-1.7%	-0.7%	
UAB	11,665	14,104	11,247	10,839	10,639	-1.8%
YOY change	-9.6%	10.6%	-11.3%	-3.2%	-8.8%	
INVEST	9,470	NA	NA	8,049	NA	NA
YOY change	0.1%	NA	NA	-14.5%	NA	
FAB	518,654	601,768	540,882	568,331	575,192	1.2%
YOY change	12.2%	26.2%	4.2%	14.3%	10.9%	

Source: FABS from co data

### CBD and ADCB's market share Increased the most in 2021

With regards to market share momentum, CBD and ADCB increased by 0.4% QOQ in 2Q21 from 3.8% to 4.2% and 12.7% to 13.1% respectively in 2Q21. FAB continues to remain a leader in terms of market share with respect to assets with 30%, followed by ENBD with 23.9% and ADCB 13.1%.

#### Deposits mkt share

	2Q20	3Q20	4Q20	1Q21	2Q21	QOQ: pp
BOS	1.3%	1.2%	1.2%	1.3%	1.3%	0.0%
CBI	0.6%	0.6%	0.5%	0.5%	0.6%	0.0%
MASQ	5.3%	5.0%	4.6%	4.8%	5.0%	0.2%
NBS	1.7%	1.7%	1.8%	1.9%	1.8%	-0.1%
AJMANBANK	0.8%	0.8%	0.7%	0.7%	0.7%	0.0%
RAKBANK	1.9%	1.8%	1.9%	1.9%	1.9%	0.0%
CBD	3.5%	3.4%	3.7%	3.8%	4.2%	0.4%

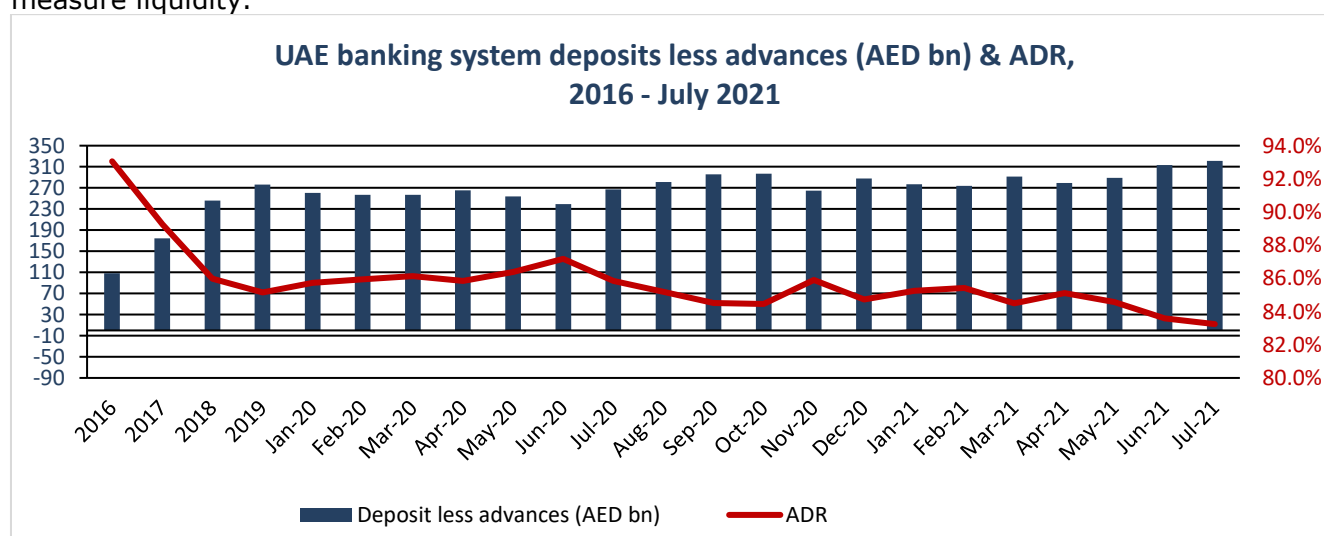
ADCB	13.4%	12.8%	13.2%	12.7%	13.1%	0.4%
ADIB	5.3%	5.3%	5.3%	5.5%	5.5%	0.0%
DIB	11.1%	11.3%	10.8%	11.4%	11.4%	0.0%
ENBD	24.7%	24.0%	24.3%	24.5%	23.9%	-0.5%
UAB	0.6%	0.7%	0.6%	0.6%	0.6%	0.0%
INVEST	0.5%	NA	NA	0.4%	NA	NA
FAB	27.8%	31.6%	28.4%	30.3%	30.0%	-0.2%

Source: FABS from co data, CBUAE

## 4. Liquidity

### Liquidity in the UAE banking system

Advances to deposit ratio stood at 83% as of July 2021. The ratio continued to remain flat throughout the 2Q21. This view is validated by using deposits less advances as an equivalent indicator to measure liquidity.



Source: FABS from CBUAE

### Top key liquidity metrics

We use three metrics to measure and rank the balance sheet liquidity of the 14 UAE banks under coverage. On an ADR basis, FAB increased the most by 3%, reaching 72.1% in 2Q21 compared to 69.2% in 1Q21. However, FAB deposit surplus decreased by 4.9% in 2Q21 to AED247,851 Mn from AED260,664 Mn in 1Q21. While the percentage lent has increased by 2.1% to 42.1% in 2Q21. CBI ADR has decreased the most by 8.8% to 104.6% in 2Q21 from 113.3% in 1Q21. The bank deposit increased to a surplus of AED589 Mn in 2Q21 from deficit of AED296 Mn in 1Q21. While the percentage lent decreased the most as well by 4.9% to 59.1% in 2Q21 from 64% in 1Q21.

#### ADR: UAE Banks

	2Q20	3Q20	4Q20	1Q21	2Q21	QOQ ch
BOS	89.8%	91.8%	90.4%	90.9%	92.8%	1.9%
CBI	104.3%	106.9%	107.3%	113.3%	104.6%	-8.8%
MASQ	81.8%	83.0%	87.6%	89.4%	86.5%	-2.9%
NBS	93.9%	94.4%	90.9%	86.4%	87.6%	1.1%
AJMANBANK	126.6%	124.8%	126.1%	129.6%	121.9%	-7.8%
RAKBANK	98.6%	95.3%	87.2%	89.7%	89.7%	0.0%
CBD	102.2%	103.9%	99.0%	103.8%	98.1%	-5.8%
ADCB	99.4%	103.7%	99.6%	103.5%	99.2%	-4.3%

ADIB	86.7%	86.3%	86.3%	84.6%	83.7%	-0.9%
DIB	100.4%	95.4%	99.6%	95.8%	93.1%	-2.7%
ENBD	103.1%	104.0%	103.1%	102.9%	103.7%	0.8%
UAB	101.9%	81.0%	94.9%	90.0%	87.6%	-2.4%
INVEST	135.2%	NA	NA	151.9%	NA	NA
FAB	76.9%	67.1%	74.3%	69.2%	72.1%	3.0%

Source: FABS from co data

#### Deposit surplus/-deficit

AED MN	2Q20	3Q20	4Q20	1Q21	2Q21	QOQ ch
BOS	4,300	3,836	4,217	4,175	3,750	-10.2%
CBI	511	93	110	-296	589	NM
MASQ	22,092	20,774	16,728	14,408	18,151	26.0%
NBS	3,160	3,069	4,340	6,149	5,700	-7.3%
AJMANBANK	-2,988	-2,754	-2,735	-3,087	-2,125	-31.2%
RAKBANK	2,506	3,784	6,903	5,962	5,964	0.0%
CBD	5,132	4,253	6,226	3,068	8,676	182.7%
ADCB	10,984	689	77,816	71,394	82,035	14.9%
ADIB	16,653	17,517	17,867	19,987	21,458	7.4%
DIB	6,223	17,206	9,236	17,819	24,020	34.8%
ENBD	17,982	15,703	20,656	22,990	19,660	-14.5%
UAB	1,295	4,098	2,233	2,338	2,604	11.4%
INVEST	1,710	NA	NA	1,306	NA	NA
FAB	193,449	275,136	216,676	260,664	247,851	-4.9%

Source: FABS from co data

#### Percentage lent

AED MN	2Q20	3Q20	4Q20	1Q21	2Q21	QOQ ch
BOS	55.7%	55.8%	53.8%	53.6%	53.6%	0.0%
CBI	57.8%	57.8%	60.5%	64.0%	59.1%	-4.9%
MASQ	44.1%	43.6%	45.1%	46.7%	44.7%	-2.0%
NBS	55.2%	55.4%	54.6%	53.4%	53.9%	0.5%
AJMANBANK	75.4%	76.2%	78.9%	77.3%	75.1%	-2.2%
RAKBANK	59.9%	58.1%	56.9%	57.3%	57.2%	-0.1%
CBD	67.7%	67.9%	67.1%	67.9%	65.7%	-2.3%
ADCB	58.9%	59.3%	58.1%	59.6%	57.1%	-2.4%
ADIB	65.9%	65.5%	65.3%	63.6%	64.1%	0.5%
DIB	67.9%	66.0%	67.9%	67.3%	66.1%	-1.1%
ENBD	63.8%	63.9%	63.5%	62.7%	63.2%	0.4%
UAB	62.1%	55.6%	60.7%	59.0%	55.2%	-3.7%
INVEST	69.5%	NA	NA	61.1%	NA	NA
FAB	44.4%	40.7%	42.1%	40.2%	42.2%	2.1%

Source: FABS from co data

## 5. Profitability

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

ADIB and FAB's ROE stood at 13% and 11.6% respectively in 2Q21, the highest compared to other banks, increasing by 1.4% QOQ for ADIB and decreasing for 0.1%% QOQ for FAB. Next is CBD at 11.5% with an increase of 0.2% QOQ. The bank with the lowest ROE for 2Q21 is BOS of -34.5%, with a 15% QOQ decrease.

#### ROE: UAE Banks

	2Q20	3Q20	4Q20	1Q21	2Q21	QOQ ch
BOS	-17.9%	-15.2%	-21.3%	-19.5%	-34.5%	-15.0%
CBI	4.3%	-0.6%	-1.4%	-6.9%	-5.7%	1.2%
MASQ	6.6%	3.1%	-6.2%	-8.5%	-8.5%	-0.1%
NBS	9.0%	8.4%	7.1%	7.4%	7.7%	0.3%
AJMANBANK	1.5%	1.1%	2.1%	3.2%	2.8%	-0.5%
RAKBANK	11.5%	9.1%	6.5%	6.2%	6.5%	0.4%
CBD	12.5%	11.3%	10.7%	11.2%	11.5%	0.2%
ADCB	7.7%	7.3%	7.0%	9.8%	9.5%	-0.2%
ADIB	12.4%	11.3%	9.2%	11.7%	13.0%	1.4%
DIB	15.0%	13.6%	10.1%	9.0%	8.4%	-0.6%
ENBD	16.0%	10.3%	8.6%	9.2%	9.5%	0.3%
UAB	-32.7%	-36.8%	-36.9%	-35.0%	-26.4%	8.6%
INVEST	-38.2%	NA	NA	NA	NA	NA
FAB	11.6%	10.7%	10.4%	11.7%	11.6%	-0.1%

Source: FABS from co data

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

ADIB's ROA stands at 1.7% in 2Q21, the highest in comparison to other UAE banks with a 0.1% QOQ increase. Followed by FAB, CBD, and ADCB with the same ROA of 1.2% remaining stable in 2Q21. The bank with the lowest ROA is BOS -3.2%, with a decrease of 1.4% QOQ.

#### ROA: UAE Banks

	2Q20	3Q20	4Q20	1Q21	2Q21	QOQ ch
BOS	-1.9%	-1.6%	-1.9%	-1.8%	-3.2%	-1.4%
CBI	0.4%	-0.1%	-0.2%	-0.8%	-0.6%	0.2%
MASQ	0.9%	0.4%	-0.8%	-1.0%	-1.0%	0.0%
NBS	1.0%	1.0%	0.8%	0.8%	0.8%	0.0%
AJMANBANK	0.2%	0.1%	0.2%	0.4%	0.3%	0.0%
RAKBANK	1.5%	1.3%	0.9%	0.8%	0.9%	0.1%
CBD	1.4%	1.3%	1.2%	1.2%	1.2%	0.1%
ADCB	0.9%	0.9%	0.9%	1.2%	1.2%	0.0%
ADIB	1.6%	1.5%	1.3%	1.5%	1.7%	0.1%
DIB	1.7%	1.6%	1.3%	1.1%	1.0%	0.0%
ENBD	1.8%	1.1%	1.0%	1.0%	1.1%	0.1%
UAB	-3.9%	-4.1%	-3.9%	-3.4%	-2.8%	0.6%
INVEST	-4.7%	NA	NA	NA	NA	NA
FAB	1.3%	1.2%	1.2%	1.2%	1.2%	0.0%

Source: FABS from co data

## 6. Efficiency

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

MASQ and RAKBANK's Net Interest Margin (NIM) declined by 0.2% QOQ to 2.7% and 4.6%, respectively in 2Q21. Meanwhile, UAB's and AJMANBANK's Net Interest Margin (NIM) increased the most by 0.1% QOQ in 2Q21 to 1.9% and 3% respectively.

#### NIM: UAE Banks

	2Q20	3Q20	4Q20	1Q21	2Q21	QOQ ch
BOS	1.7%	1.7%	2.5%	2.5%	2.5%	0.0%
CBI	3.2%	3.1%	3.1%	2.9%	2.7%	-0.2%
MASQ	2.9%	2.5%	2.2%	2.0%	2.0%	0.0%
NBS	2.2%	2.1%	2.3%	2.2%	2.3%	0.0%
AJMANBANK	2.5%	2.4%	2.7%	2.8%	3.0%	0.1%
RAKBANK	5.7%	5.6%	5.3%	4.8%	4.6%	-0.2%
CBD	2.7%	2.5%	2.5%	2.3%	2.3%	0.0%
ADCB	2.9%	2.8%	2.8%	2.6%	2.5%	0.0%
ADIB	4.1%	3.9%	3.8%	3.7%	3.6%	-0.1%
DIB	2.9%	3.0%	3.0%	2.7%	2.6%	-0.1%
ENBD	3.6%	3.2%	3.1%	2.9%	2.8%	-0.1%
UAB	1.2%	1.0%	1.9%	1.8%	1.9%	0.1%
INVEST	1.1%	NA	NA	NA	NA	NA
FAB	2.2%	2.1%	2.0%	1.9%	1.8%	-0.1%

Source: FABS from co data

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

UAB's Cost to Income ratio increased the most on a QOQ basis to 57.8% in 2Q21 from 45.1% in 1Q21. The bank with the highest decline in C/I ratio is CBI, with a decrease of 10.2% to 59.3% in 2Q21 from 69.6% in 1Q21.

#### Cost to Income: UAE bank

	2Q20	3Q20	4Q20	1Q21	2Q21	QOQ ch
BOS	22.4%	24.4%	-198.4%	47.8%	51.2%	3.4%
CBI	46.4%	29.5%	54.5%	69.6%	59.3%	-10.2%
MASQ	47.6%	55.2%	90.1%	44.0%	41.1%	-2.8%
NBS	44.8%	46.6%	95.3%	38.2%	40.3%	2.0%
AJMANBANK	55.9%	46.2%	30.1%	45.5%	39.8%	-5.6%
RAKBANK	37.5%	38.2%	45.0%	41.2%	41.3%	0.1%
CBD	29.3%	28.5%	24.4%	27.5%	24.0%	-3.5%
ADCB	34.9%	36.9%	35.0%	36.3%	33.4%	-2.9%
ADIB	49.6%	45.0%	40.0%	45.6%	45.5%	-0.1%
DIB	27.6%	30.2%	23.5%	27.4%	27.6%	0.2%
ENBD	34.0%	32.0%	41.5%	30.3%	35.3%	5.0%
UAB	72.8%	80.4%	63.2%	45.1%	57.8%	12.7%
INVEST	79.3%	NA	NA	51.5%	NA	NA
FAB	25.8%	28.0%	25.8%	30.1%	27.9%	-2.1%

Source: FABS from co data

### MASQ's COR highest in 2Q21

MASQ's Cost of Risk stood at 1% in 2Q21, which increased by 0.1% QOQ. UAB decreased the most in 2Q21 by 0.3% from 0.6% in 1Q21 to 0.3% in 2Q21.

#### Cost of risk: UAE Banks

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

Source: FABS from co data

### NBS has a higher CAR compared to other UAE banks

Sharjah Islamic Bank (NBS) has a higher Capital Adequacy Ratio (CAR) of 20.8% compared to other banks which increased by 0.1% in 2Q21. This indicates that NBS is better positioned to withstand unforeseen losses or a financial downturn if occurred, Followed by ADIB with a CAR of 19.1% and a decrease of 0.2% QOQ. The bank with the lowest CAR is BOS with a CAR of 10.7%.

#### CAR: UAE Banks

	2Q20	3Q20	4Q20	1Q21	2Q21	QOQ ch
BOS	10.8%	11.4%	10.7%	10.6%	10.7%	0.1%
CBI	16.6%	15.7%	16.3%	15.8%	14.7%	-1.1%
MASQ	17.0%	17.4%	16.0%	14.4%	14.0%	-0.5%
NBS	21.2%	21.5%	20.7%	20.7%	20.8%	0.1%
AJMANBANK	15.4%	15.7%	16.0%	16.1%	16.2%	0.1%
RAKBANK	18.3%	19.4%	18.6%	18.1%	17.8%	-0.3%
CBD	14.0%	14.4%	16.7%	16.3%	15.7%	-0.6%
ADCB	16.3%	16.7%	17.2%	16.6%	16.3%	-0.3%
ADIB	18.2%	18.4%	19.4%	19.2%	19.1%	-0.2%
DIB	16.7%	17.3%	18.5%	17.1%	17.0%	-0.1%
ENBD	18.5%	19.1%	18.5%	19.0%	18.7%	-0.3%
UAB	14.3%	14.0%	13.7%	14.2%	13.4%	-0.8%
INVEST	11.9%	NA	NA	11.2%	NA	NA
FAB	16.4%	16.8%	16.5%	16.9%	16.1%	-0.8%

Source: FABS from co data



### Banking stock performance

The UAE banking sector's stock performance for 2021 YTD has underperformed compared to KSA and Qatar Banking sector but overperformed Egypt Banking sector. CBI among the UAE banks with a decline of -13.3%, followed by AJMANBAN with a decline of -12.8% and UAB with a decrease of -12.0% and lastly BOS with 11.9%, while FAB is the top-performing stock in UAE banks, increased by +38.1% YTD followed by NBS with an increase of 37.1%. Along with UAE, KSA and Qatar averaged YTD gains in 2021 by 8.9%, 44.6% and 15.7%, respectively.

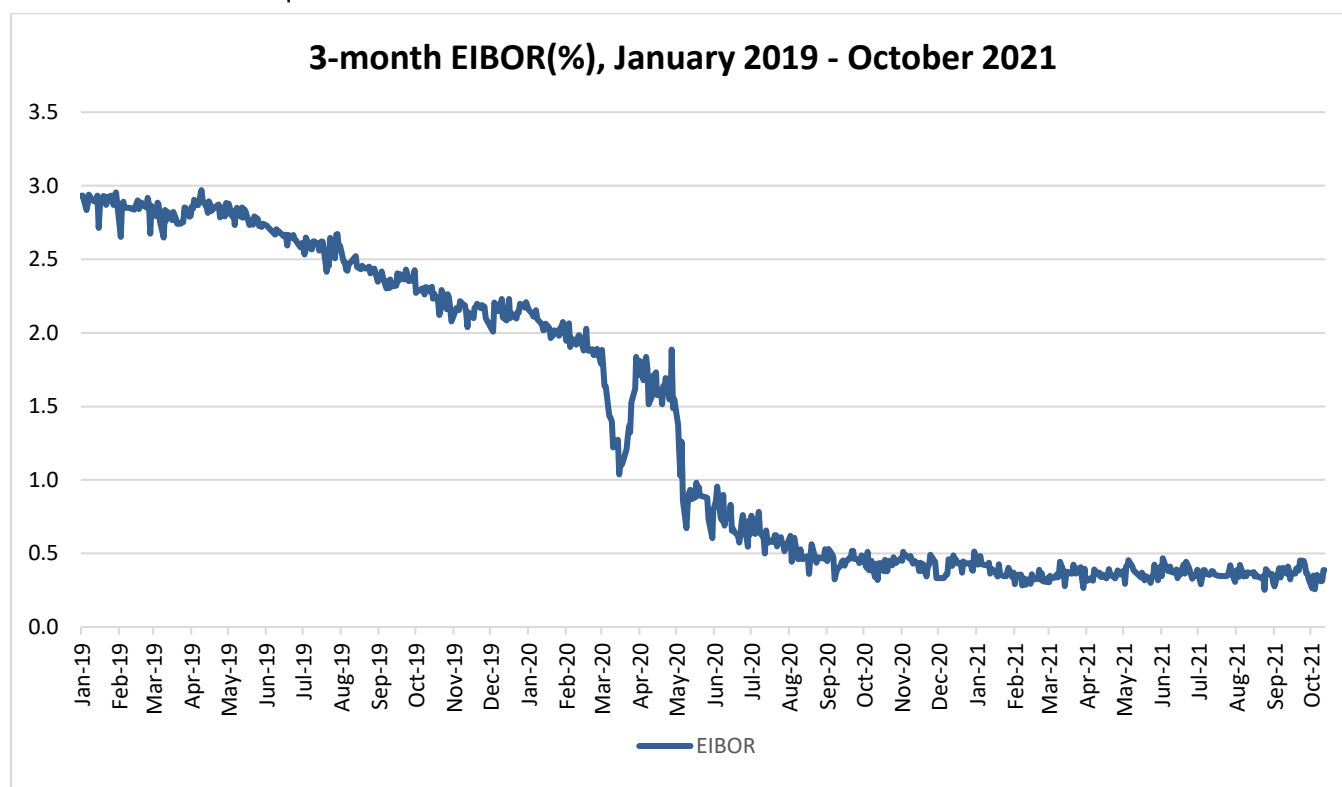
#### 27 MENA bank stocks: YE21 to 13<sup>th</sup> of October 2021, Ranked

		UAE	KSA	Qatar	Egypt	Ranking
QIBK	5.5%			5.5%		21
MARK	0.5%			0.5%		26
CBD	2.3%	2.3%				23
MASQ	3.1%	3.1%				22
QNBK	10.0%			10.0%		19
UAB	-12.0%	-12.0%				29
NBS	37.1%	37.1%				9
CBQK	39.1%			39.1%		6
<b>DSM</b>	11.2%					18
RJHI	82.9%		82.9%			1
<b>TASI</b>	33.8%					10
<b>ADI</b>	54.3%					2
ALINMA	52.4%		52.4%			3
ALBI	48.0%		48.0%			4
BSFR	30.7%		30.7%			11
RAKBANK	1.3%	1.3%				25
DHBK	23.4%			23.4%		14
COMI	2.0%				2.0%	24
FAB	38.1%	38.1%				8
<b>EGX30</b>	0.3%					27
BOS	-11.9%	-11.9%				28
NCB	47.6%					5
<b>DFM</b>	11.9%					17
ARNB	15.1%		15.1%			16
RIBL	38.6%		38.6%			7
CBI	-13.3%	-13.3%				31
ENBD	30.6%	30.6%				12
ADIB	19.8%	19.8%				15
DIB	7.2%	7.2%				20
AJMANBANK	-12.8%	-12.8%				30
ADCB	26.6%	26.6%				13
<b>Average</b>		<b>8.9%</b>	<b>44.6%</b>	<b>15.7%</b>	<b>2.0%</b>	

Source: FABS from Bloomberg

## EIBOR

UAE's 3-month EIBOR was reported at 0.3775% in July 2021, decreasing from the closing of December 2020 of 0.425%. The federal reserve announced that they will keep the interest rates steady between 0 and 0.25% until a noticeable recovery from COVID-19. The decline in EIBOR began in January 2020 and has been low since then. This is predicted to enhance liquidity in the UAE banking sector and allow cheaper borrowing for investors. The Central Bank of the UAE (CBUAE) has decided to raise the Overnight Deposit Facility (ODF) Base Rate by 5 basis points to 15 basis points with effect from Thursday, June 17th. This decision was made in response to the US Federal Reserve Board's statement that it will raise the interest rate on excess reserves (IOER). The CBUAE's monetary policy is signaled by the Base Rate, which is tied to the IOER of the US Federal Reserve, which also gives overnight money market rates an effective interest rate floor. In addition, the CBUAE has decided to keep the cost for borrowing short-term liquidity from the CBUAE via all standing credit facilities at 50 basis points over the Base Rate.

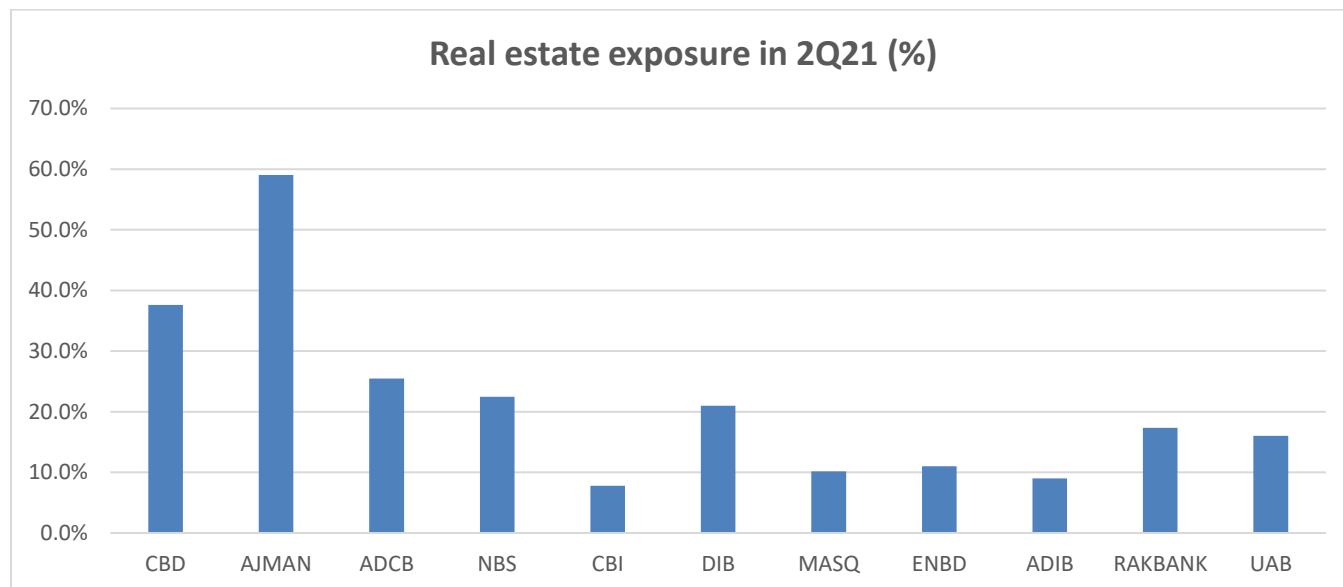


Source: FABS from Bloomberg

## Real Estate

In the first 12 months of the year, average residential property prices in Dubai increased by 4.4%, the biggest annual rise since February 2015. However, a sustained drop in rents signalled that the long-struggling industry will continue to struggle. Dubai rentals fell by 2.7% on average in the year ended in August, continuing a downward trend. The luxury segment of Dubai's property market has seen a boost following a sharp downturn due to COVID-19, thousands of villas and flats in Dubai were sold in the first nine months of the year, worth a total of 104.3 billion dirhams (\$28.4 billion), making 2021 the greatest year for property sales in four years. Between January and September 2021, the market saw a total of 43,299 transactions, which is more than 45% more than previous year's total. The amount of money exchanged in the last nine months was likewise at its highest level since 2017. Year-to-date, mortgage transactions are at an all-time high, and the year isn't even half through. The new data also revealed that most purchasers are still focusing on secondary or ready-to-move-in houses, even though the off-plan market is growing up.

The occupancy rate in the office market has increased, climbing to 78.8% in the third quarter of this year from 77.1% the previous quarter. In the third quarter, average rents in the prime and Grades A to C categories fell between 4.1% and 6.5% year over year. New entrants, such as foreign and local technology firms, fintech firms, and Chinese firms, have put downward pressure on prices. Prime and Grade A offices are in high demand from them



Source: FABS from Bloomberg

### TESS Program and Lending

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

### 3Q21 preview: Emirates NBD (ENBD)

Low Impairments expected to boost Net Profit

CMP (AED): 13.45

Potential Upside (%): +19.7%

12-m target price:

**AED16.10**

Stock rating:

**BUY**

### 3Q21 estimate

Emirates NBD (ENBD) is forecasted to report a 73.1% YOY increase in Net Profit to AED2,693 Mn in 3Q21, up from AED1,556 Mn in 3Q20. The Net Funded Income is expected to increase by 2.2% YOY to AED4,228 Mn in 3Q21, up from AED4,138 Mn in 3Q20. The Funded Income is expected to increase by 3% YOY to AED6,697 Mn in 3Q21, up from AED6,505 Mn in 3Q20. The Funded Expense is expected to increase by 4.3% YOY to AED2,469 Mn in 3Q21, up from AED2,367 Mn in 3Q20. The Non-Funded Income is expected to decline by 11.1% YOY to AED1,343 Mn in 3Q21, down from AED1,511 Mn in 3Q20. It is expected to be driven by 54% YOY decline in Other Operating Income to AED244 Mn in 3Q21, down from AED530 Mn in 3Q20. The Fees and Commissions are forecasted to increase by 9.2% YOY to AED1,043 Mn in 3Q21, up from AED955 Mn in 3Q20. The Trading Gain is expected to increase significantly to AED57 Mn in 3Q21, up from AED25 Mn in 3Q20. However, the decline in Other Operating Income is projected to outweigh the increase in other components of Non-Funded Income. As a result, the Operating Income is expected to decline by 1.4% YOY to AED5,572 Mn in 3Q21, down from AED5,648 Mn in 3Q20. The Operating Expenses are expected to increase by 5.9% YOY to AED1,917 Mn in 3Q21, up from AED1,810 Mn in 3Q20. The Pre-Provision Profit is expected to decline by 4.8% YOY to AED3,655 Mn in 3Q21, down from AED3,838 Mn in 3Q20. The Impairment charges are estimated to decline by 63.6% YOY to AED783 Mn in 3Q21, down from AED2,150 Mn in 3Q20. The expected decline in Impairment charges is likely to contribute positively to the Bank. As a result, the Net Profit is expected to improve strongly by 73.1% YOY to AED2,693 Mn in 3Q21, up from AED1,556 Mn in 3Q20.

### 2021 forecast

We forecast ENBD's Net Profit to increase robustly by 49.2% YOY to AED10,383 Mn in 2021, up from AED6,960 Mn in 2020. The Net Funded Income is expected to decline by 4.6% YOY to AED16,681 Mn in 2021, down from AED17,487 Mn in 2020. It is driven by 5.4% YOY decline in Funded Income to AED26,496 Mn in 2021, down from AED28,017 Mn in 2020. Similarly, the Funded Expense is likely to decline by 6.8% YOY to AED9,814 Mn in 2021, down from AED10,530 Mn in 2020. The Non-Funded Income is expected to increase by 6.7% YOY to AED6,106 Mn in 2021, up from AED5,724 Mn in 2020. It is likely to be driven by 15.7% YOY increase in Fees and Commissions to AED4,230 Mn in 2021, up from AED3,655 Mn in 2020. The Trading gains is expected to increase by 28% YOY to AED230 Mn in 2021, up from AED180 Mn in 2020. The Other Operating Income is likely to decline by 12.9% YOY to AED1,646 Mn in 2021, down from AED1,889 Mn in 2020. As a result, the Operating Income is expected to decline by 1.8% YOY to AED22,787 Mn in 2021, down from AED23,211 Mn in 2020. The Operating Expenses are likely to increase by 1.5% YOY to AED7,976 Mn in 2021, up from AED7,856 Mn in 2020. The decline in Impairment charges is likely to support the profitability in 2021. The Impairment charges are expected to fall by 49.1% YOY to AED4,040 Mn in 2021, down from AED7,936 Mn in 2020. As a result, the Net Profit is expected to increase by 49.2% YOY to AED10,383 Mn in 2021, up from AED6,960 Mn in 2020.

### 2Q21 Outturn

Emirates NBD reported a 7.1% YOY decline in Net Funded Income to AED4,060 Mn in 2Q21, down from AED4,369 Mn in 2Q20. It was mainly due to 8.5% YOY decline in Funded Income to AED6,404 Mn in 2Q21 as compared to AED6,998 Mn in 2Q20. Furthermore, the Funded Expense declined by 10.8% YOY to AED2,344 Mn in 2Q21 as compared to AED2,629 Mn in 2Q20. However, the strong decline in Funded Income outweighed the decline in Funded Expense and negatively impacted the Net Funded Income. The Non-Funded Income also declined by 4.2% YOY to AED1,316 Mn in 2Q21, down from AED1,375 Mn in 2Q20. It was mainly impacted by significant decline in Other Operating

Income by 56.3% YOY to AED239 Mn in 2Q21, from AED548 Mn in 2Q20. The Fees and Commissions increased by 37.9% YOY to AED1,022 Mn in 2Q21, from AED741 Mn in 2Q20. However, the Trading Gain decreased by 35.7% YOY to AED55 in 2Q21, from AED 86 in 2Q20. The decline in Net Funded Income, followed by the decline in the Non-Funded Income reduced the Operating Income of the Bank by 6.4% YOY to AED5,376 Mn in 2Q21, as compared to AED5,744 Mn in 2Q20. The Operating Expenses reduced by 2.8% YOY to AED1,896 Mn in 2Q21, down from AED1,951 Mn in 2Q20. The Impairments reduced significantly by 48.5% YOY to AED851 Mn in 2Q21 as compared to AED1,653 Mn in 2Q20 as the economy recovers from the impact of COVID-19. Due to the abovementioned changes, the Net Profit increased strongly by 22.4% YOY to AED2,459 Mn in 2Q21, up from AED2,009 Mn in 2Q20. The Net Advances decreased by 1.1% YOY to AED438.2 Bn in 2Q21, down from AED443 Bn in 2Q20. The Customer Deposits declined slightly by 0.7% YOY to AED458 Bn in 2Q21, down from AED461 Bn in 2Q20. As a result, the ADR ratio declined by 39 bps to 95.7% in 2Q21, as compared to 96.1% in 2Q20. The Total Assets declined slightly by 0.1% YOY to AED694 Bn in 2Q21. The Total Equity increased by 3.5% YOY to AED 74.4 Bn in 2Q21 as compared to AED 72 Bn in 2Q20. It was mainly supported by strong operating performance of 2Q21.

### Target price and recommendation

We maintain our BUY rating on ENBD, with a target price of AED16.10. Emirates NBD reported a robust operating performance in 2Q21 with a 22.4% YOY increase in Net Profit. However, it was mainly supported by the decline in the Impairments by 48.5% YOY to AED851 Mn in 2Q21, down from AED1,653 Mn in 2Q20. The Operating Income declined by 6.4% YOY to AED5,376 Mn in 2Q21, down from AED5,744 Mn in 2Q20. It was mainly impacted by lower NIM margins and decline in Non-Funded Income. The Non-Funded Income was 13% YOY lower for Denzi Bank. The YTD NIM contracted by 39 bps YOY as the improvement in funding cost outweighed the reduced Loan yields mainly due to lower interest rates and lower Denzi Bank Interest margins. The Loan yield decreased by 4 bps impacted by the EIBOR. Treasury yields contracted by 6 bps due to the Liquid assets at lower yields. The Denzi Bank margins are also down by 1 bps. The Bank continued to demonstrate healthy liquidity as the LCR stood at 158.8% and ADR declined slightly to 95.7% in 2Q21. The Bank has robust Liquid assets that cover 14% of Total Liabilities and 18% of Deposits. Furthermore, Denzi Bank issued a multi-currency syndicated loan of USD410 Mn to appeal to international investments. The Gross Loans have remained stable at AED475 Bn in 2Q21. However, the Retail lending has increased by 17.5% YOY to AED47 Bn in 2Q21, up from AED40 Bn in 2Q20. Islamic lending also increased by 5% YOY in 2Q21. Gross Loans of Denzi Bank declined by 9.2% YOY in 2Q21. The Deposit mix improved in 2Q21 as AED9 bn were allotted to CASA mix as compared to expensive Fixed Deposits. The CASA deposits stand at 58% of the Total Group Deposits. The credit quality remained stable in 2Q21 with the NPL ratio increased slightly by 0.1%. The Coverage ratio improved to 122.5% in 2Q21. Due to the improvement in the economic scenario, the Cost of risk improved by 114 bps in 2Q21. The Stage 1 and 2 ECL allowance stand at 2.7% of CRWA. The Fees and Commissions increased by 37.9% YOY mainly due to higher transactions, increase in income from Asset Management, Brokerage and Trade Finance. The Investment securities income improved significantly to AED63 Mn in 2Q21. The Bank initiated cost management exercises and reduced the Operating costs by 2.8% YOY in 2Q21. However, the Cost to Income ratio increased to 35.3% in 2Q21 as compared to 34% in 2Q20. It was mainly impacted due the lower Non-funded Income from Denzi Bank. The Capital Adequacy ratio are well above the minimum required level and stand at 18.7% in 2Q21. The CET-1 also is safely above at 15.6% in 2Q21. Based on our analysis, we maintain our BUY rating on this stock.

### ENBD - Relative valuation

(at CMP)	2017	2018	2019	2020	2021E
P/E (x)	9.99	8.23	8.01	13.45	9.76
P/B (x)	1.56	1.43	1.18	1.14	1.13
Dividend yield	3.0%	3.0%	3.0%	3.0%	3.0%

FABS estimate and Co Data

**ENBD - P&L**

AED MN	3Q20	2Q21	3Q21F	YOY ch	QOQ Ch	2020	2021F	Change
Funded income	6,505	6,404	6,697	3.0%	4.6%	28,017	26,496	-5.4%
Funded expense	-2,367	-2,344	-2,469	4.3%	5.3%	-10,530	-9,814	-6.8%
<b>Net funded income</b>	<b>4,138</b>	<b>4,060</b>	<b>4,228</b>	<b>2.2%</b>	<b>4.1%</b>	<b>17,487</b>	<b>16,681</b>	<b>-4.6%</b>
Fees and commissions	955	1,022	1,043	9.2%	2.0%	3,655	4,230	15.7%
Trading gain/(loss)	25	55	57	NM	3.2%	180	230	28.0%
Other Operating Income	530	239	244	-54.0%	2.0%	1,889	1,646	-12.9%
<b>Non-funded income</b>	<b>1,511</b>	<b>1,316</b>	<b>1,343</b>	<b>-11.1%</b>	<b>2.1%</b>	<b>5,724</b>	<b>6,106</b>	<b>6.7%</b>
<b>Operating income</b>	<b>5,648</b>	<b>5,376</b>	<b>5,572</b>	<b>-1.4%</b>	<b>3.6%</b>	<b>23,211</b>	<b>22,787</b>	<b>-1.8%</b>
Operating expenses	-1,810	-1,896	-1,917	5.9%	1.1%	-7,856	-7,976	1.5%
<b>Pre-provision profit</b>	<b>3,838</b>	<b>3,481</b>	<b>3,655</b>	<b>-4.8%</b>	<b>5.0%</b>	<b>15,354</b>	<b>14,812</b>	<b>-3.5%</b>
Impairment	-2,150	-851	-783	-63.6%	-8.0%	-7,936	-4,040	-49.1%
<b>PBT</b>	<b>1,696</b>	<b>2,599</b>	<b>2,848</b>	<b>67.9%</b>	<b>9.6%</b>	<b>7,430</b>	<b>10,707</b>	<b>44.1%</b>
Tax	-140	-137	-151	7.7%	10.4%	-465	-670	44.0%
<b>Net profit attributable</b>	<b>1,556</b>	<b>2,459</b>	<b>2,693</b>	<b>73.1%</b>	<b>9.5%</b>	<b>6,960</b>	<b>10,383</b>	<b>49.2%</b>

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

AED MN	3Q20	2Q21	3Q21F	YOY ch	QOQ ch	2020	2021F	Change
Net FI/OI	73.3%	75.5%	75.9%	263	37	75.3%	73.2%	-214
NIM	2.8%	2.5%	2.4%	-39	-1	2.7%	2.4%	-34
NIS	2.7%	2.4%	2.4%	-29	-1	2.7%	2.3%	-40
Fees & comms/OI	16.9%	19.0%	18.7%	181	-30	15.7%	18.6%	282
Other non-funded/OI	9.4%	4.4%	4.4%	-500	-7	8.1%	7.2%	-92
Trading/OI	0.5%	1.0%	1.0%	57	0	0.8%	1.0%	24
Cost to income	32.0%	35.3%	34.4%	235	-86	33.8%	35.0%	115
Impairment/PPP	56.0%	24.5%	21.4%	-3,459	-303	51.7%	27.3%	-2,441
Tax/PBT	8.3%	5.3%	5.3%	-296	4	6.3%	6.3%	0
NP/OI	27.5%	45.7%	48.3%	2,078	260	30.0%	45.6%	1,558
ROAE	2.3%	3.4%	3.6%	132	24	9.5%	10.8%	131
ROAA	0.2%	0.3%	0.4%	19	13	1.0%	1.2%	16

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

AED MN	3Q20	4Q20	1Q21	2Q21	3Q21F	Change
Net advances	442,305	443,541	436,102	438,227	442,609	0.1%
QOQ change	-0.1%	0.0%	-1.7%	0.49%	1.00%	
Total Assets	692,138	698,087	695,059	693,783	701,023	1.3%
QOQ change	-0.3%	0.0%	-0.4%	-0.2%	1.0%	
Customer Deposits	458,007	464,197	459,092	457,886	460,911	0.6%
QOQ change	-0.6%	0.0%	-1.1%	0%	1%	
Total Equity	72,323	72,323	72,288	74,445	77,138	6.7%
QOQ change	0.6%	0.0%	0.0%	2.98%	3.62%	

*FABS estimate & Co Data*



### 3Q21 preview: Dubai Islamic Bank (DIB)

Increase in Funded Income and Non-Funded Income support bottom line

CMP (AED): 4.93

Potential Upside (%): +21.7%

12-m target price:

**AED6.00**

Stock rating:

**BUY**

### 3Q21 estimate

Dubai Islamic Bank (DIB) is forecasted to report an increase by 5.3% YOY in Net Profit to AED1.05 Bn in 3Q21 from AED1 Bn in 3Q20, mainly due to a predicted increase in Net Funded Income and Operating Income. We estimate the Net Funded Income to increase by 4.5% YOY to AED1.65 Bn in 3Q21, due to the decrease by 7.7% in Funded Income to AED2.25 Bn in 3Q21 from AED2.43 Bn in 3Q20 outweighed by a decrease by 30.2% YOY in the Funded Expense to AED597 Mn in 3Q21 down from AED856 Mn in 3Q20. Fees and Commissions are forecasted to decrease by 5.1% YOY to AED422 Mn in 3Q21 from AED445 Mn in 3Q20. At the same time, the Other Non-Funded Income is expected to almost double by 95.2% YOY to AED362 Mn in 3Q21 from AED185 Mn in 3Q20. Therefore, the Non-Funded Income is expected to increase by 24.4% YOY to AED784 Mn in 3Q21 from AED630 Mn in 3Q20. Resultantly, the Operating Income (OI) is likely to rise by 10.2% YOY to AED2.43 Bn in 3Q21 from AED2.21 Bn in 3Q20. General Expenses are expected to decline by 2% to AED650 Mn in 3Q21 from AED664 Mn in 3Q20. Thus, the Cost-to-Income ratio is predicted to decrease by 333 bps to 26.7% in 3Q21 compared to 30% in 3Q20. Impairment charges are likely to increase by 35.7% YOY to AED720 Mn in 3Q21 from AED530 Mn in 3Q20.

### 2021 forecast

We forecast DIB's Net Profit to increase by 19.5% YOY to AED3.93 Bn in 2021 compared to AED3.29 Bn in 2020, mainly due to the lower Impairment charges. We anticipate Net Funded Income to fall by 3% YOY to AED6.54 Bn in 2021 from AED6.74 Bn in 2020, mainly due to a decrease in Funded Income by 13.9% to AED8.97 Bn in 2021 as compared to AED10.42 Bn in 2020. Funded Expense is forecasted to decrease by 34% YOY to AED2.42 Bn in 2021 from AED3.67 Bn in 2020. We forecast Non-Funded Income to increase by 7.9% YOY to AED2.93 Bn in 2021 compared to AED2.72 Bn in 2020, thus, Operating Income would marginally rise by YOY to AED9.48 Bn in 2021 from AED9.47 Bn in 2020. The General & Administrative expenses are likely to decrease by 6.2% YOY to AED2.55 Bn in 2021 from AED2.72 Bn compared to 2020. Thus, the Cost to Income ratio would decline by 182 bps to 27% from 28.8% in 2020. Impairments charges are likely to decrease significantly by 35.4% YOY to AED2.94 Bn in 2021 as compared to AED4.55 Bn in 2020.

### 2Q21 outturn

The Net Funded Income decreased by 1.6% YOY to AED1,643 Mn in 2Q21 as compared to AED1,670 Mn in 2Q20. It was mainly due to a significant decrease in Funded Income by 15.4% to AED2,236 Mn in 2Q21, down from AED2,643 Mn in 2Q20. However, the Funded Expense reduced by 39.1% YOY to AED592 Mn in 2Q21, down from AED973 Mn in 2Q20. The decrease in Funded Expense partially offset the decline in Funded Income. The Non-Funded Income increased robustly by 22% YOY to AED759 Mn in 2Q21, up from AED622 Mn in 2Q20. It was boosted by significant Other Non-Funded Income. The increase in Other Non-Funded Income outweighed the 10.8% YOY decrease in Fees and Commissions. As a result, the Operating Income was supported by 4.8% YOY to AED2,402 Mn in 2Q21, up from AED2,292 Mn in 2Q20. The General Expenses increased slightly by 0.4% YOY to AED634 Mn in 2Q21. However, the Cost to Income reduced by 116 bps to 26.4% in 2Q21. The Impairment charges increased significantly by 17.3% YOY to AED747 Mn in 2Q21, up from AED636.7 Mn in 2Q20. As a result, the Net Profit decreased slightly by 0.1% YOY to AED1,008 Mn in 2Q21. The Net Financing decreased by 3% YOY to AED194.3 Bn in 2Q21, down from AED200.3 Bn in 2Q20. The Customer Deposits increased robustly by 5.7% YOY to AED218.3 Bn in 2Q21, up from AED206.5 Bn

in 2Q20. The Total Equity increased by 1.5% YOY to AED28.7 Mn in 2Q21, up from AED28.2 Bn in 2Q20.

### Target price and rating

We maintain our BUY rating on DIB, with a revised target price of AED6.00. The Bank has maintained resilience with a 0.1% YOY decrease in Net Profit to AED1,008 Mn in 2Q21. The Bank reported strong growth in Non-Funded Income; however, the significant increase in Impairment charges negatively impacted the Net Profit in 2Q21. The Bank operates mainly via five segments – Consumer, Corporate, Treasury, Real estate development & Others. The Corporate Segment is the largest in terms of size of the portfolio, followed by Consumer and Treasury. The Corporate Portfolio is sub-divided into several segments, mainly Real estate (30%) and Services (15%). The Gross corporate financing remained stable at AED150 Bn in 2Q21 despite increase in Prepayments. The Net Operating revenue stood at AED1,578 Mn in 1H21. The portfolio has consistently maintained diversification and is mainly invested in low-risk sectors that are likely to pick up in pace. The Income from Fees and Commissions and Net Funded Income has declined by 9% YOY in 1H21 as compared to 1H20. The Yield on Funding has declined strongly by 130 bps to 2.7% in 1H21 as compared to 4% in 1H20. The CASA deposits mix has remained stable for the corporate segment in 2Q21, as compared to 2Q20. The Customer deposits have increased by 9.6% YOY for the segment. The Consumer segment witnessed a 9% YOY increase in Consumer Financing to AED51 Bn in 2Q21. It was mainly due to 22% YOY growth in new Home Financing. The portfolio of the segment is divided into four sub-parts – Home Finance (42%), Personal Finance (37%), Auto Finance (17%), Cards (4%). The Income from Fees and Commissions and Net Funded Income declined by 13.6% in 1H21 as compared to 1H20. The yield to financing also declined to 5.62% in 1H21, as compared to 6.38% in 1H20. The CASA deposit mix has remained stable in 2Q21. The segment witnessed marginal growth in Customer Deposits to AED93 Bn in 1H21. The growth in Treasury segment in 2Q21 majorly contributed to the Bank's overall performance. The Revenue from the segment increased by 29% YOY to AED996 Mn in 1H21, as compared to AED770 Mn in 2Q20. Both Fees and Commissions and Net Funded Income increased by 32% YOY and 27% YOY in 1H21. The Gross financing and Sukuk investments increased by 9% YOY to AED42 Bn. The increase in portfolio size is despite the implications of COVID-19. The CASA Deposits mix has changed significantly with increase of 63% YOY in Savings account and a decline of 70% YOY in current account in 1H21. The NPF ratio has declined by 10 bps QOQ to 6.3% to 6.3% in 1H21 mainly due stable Asset growth. The Overall Coverage ratio stood at 103% in 1H21, above 100%. The Cost of risk declined to 1.03% in 1H21, down from 1.37% in FY20. The Bank has improved its Liquidity position by increasing LCR up to 152% in 1H21 compared to 129% in 1H20. The Net Stable Funding Ratio improved to 107% in 1H21. The ADR ratio declined substantially by 799 bps to 89% in 2Q21 as compared to 97% in 2Q20. It was mainly due to increase in Customer Deposits by 5.7% YOY and decline in Net Financing by 3% YOY. The overall CASA deposits stand at AED90 Bn and comprise of 41% of the Total Deposits. Wholesale banking is the main contributor for the overall growth in Deposits. The Capital Adequacy Ratio (CAR) stood at 17% and the CET1 ratio stood at 12.3%, both stable and above the minimum requirements of the regulators. We assign a BUY Rating.

### DIB - Relative valuation

(at CMP)	2017	2018	2019	2020	2021E
P/E (x)	7.11	6.86	7.16	13.00	9.15
P/B (x)	1.47	1.35	1.27	1.25	1.18
Dividend yield	9.1%	7.1%	7.1%	4.0%	6.1%

FABS Estimates & Co data



**DIB - P&L**

AED MN	3Q20	2Q21	3Q21F	YOY Ch	QOQ Ch	2020	2021F	Change
Funded income	2,438	2,236	2,250	-7.7%	0.7%	10,421	8,971	-13.9%
Funded expense	-856	-592	-597	-30.2%	0.8%	-3,672	-2,425	-34.0%
<b>Net funded income (NFI)</b>	<b>1,582</b>	<b>1,643</b>	<b>1,653</b>	<b>4.5%</b>	<b>0.6%</b>	<b>6,749</b>	<b>6,546</b>	<b>-3.0%</b>
Fees & commissions	445	410	422	-5.1%	2.8%	1,646	1,673	1.7%
Other non-funded income	185	349	362	95.2%	3.8%	1,076	1,262	17.3%
<b>Non-Funded Income</b>	<b>630</b>	<b>759</b>	<b>784</b>	<b>24.4%</b>	<b>3.3%</b>	<b>2,721</b>	<b>2,935</b>	<b>7.9%</b>
<b>Operating income</b>	<b>2,212</b>	<b>2,402</b>	<b>2,437</b>	<b>10.2%</b>	<b>1.5%</b>	<b>9,471</b>	<b>9,481</b>	<b>0.1%</b>
General expenses	-664	-634	-650	-2.0%	2.5%	-2,728	-2,558	-6.2%
<b>Pre-provisioning profit</b>	<b>1,548</b>	<b>1,768</b>	<b>1,787</b>	<b>15.4%</b>	<b>1.1%</b>	<b>6,743</b>	<b>6,923</b>	<b>2.7%</b>
Impairment charges	-530.4	-747.0	-720.0	35.7%	-3.6%	-4,552	-2,941.3	-35.4%
Gain on bargain purchase	0	0	0	NA	NA	1,015	0	-100.0%
<b>Profit before tax</b>	<b>1,018</b>	<b>1,021</b>	<b>1,067</b>	<b>4.9%</b>	<b>4.5%</b>	<b>3,206</b>	<b>3,982</b>	<b>24.2%</b>
Tax	-11	-11	-12	5.8%	12.9%	-46	-43	-6.2%
Profit before NCI	1,007	1,011	1,055	4.8%	4.4%	3,160	3,939	24.7%
Non-controlling interests	-2	-3	3	NM	NM	134	-3	NM
<b>Profit for the period</b>	<b>1,005</b>	<b>1,008</b>	<b>1,058</b>	<b>5.3%</b>	<b>5.0%</b>	<b>3,294</b>	<b>3,936</b>	<b>19.5%</b>

FABS estimate & Co Data

**DIB - KPI**

	3Q20	2Q21	3Q21F	YOY Ch	QOQ Ch	2020	2021F	Change
Net FI/OI	71.5%	68.4%	67.8%	-368	-57	71.3%	69.0%	-222
NIM	3.2%	2.9%	2.8%	-36	-4	3.1%	2.7%	-40
NIS	3.2%	2.9%	2.9%	-33	-3	3.1%	2.8%	-34
Fees & commissions/OI	20.1%	17.1%	17.3%	-279	23	17.4%	17.6%	27
Other non-funded/OI	8.4%	14.5%	14.9%	647	33	11.4%	13.3%	195
Cost to income	30.0%	26.4%	26.7%	-333	27	28.8%	27.0%	-182
Impairment/PPP	34.3%	42.2%	40.3%	603	-196	67.5%	42.5%	-2502
Tax/PBT	0.2%	0.3%	-0.3%	-46	-56	-4.2%	0.1%	432
NP/OI	45.4%	41.9%	43.4%	-201	148	34.8%	41.5%	673
ROAA	0.4%	0.3%	0.4%	-3	1	1.3%	1.3%	6
ROAE	3.7%	3.5%	3.6%	-9	8	12.2%	13.4%	121

FABS estimate & Co Data

**DIB - Key B/S items**

AED MN	3Q20	4Q20	1Q21	2Q21	3Q21	Change
Net financings	197,436	196,689	196,181	194,290	192,416	-2.5%
QOQ change	-1.4%	-0.4%	-0.3%	-1.0%	-1.0%	
Total assets	299,303	289,556	291,711	293,782	299,511	0.1%
QOQ change	1.5%	-3.3%	0.7%	0.7%	1.9%	
Customer deposits	214,642	205,925	214,001	218,309	222,705	3.8%
QOQ change	3.9%	-4.1%	3.9%	2.0%	2.0%	
Shareholders' fund	29,043	28,606	27,898	28,664	29,457	1.4%
QOQ change	2.8%	-1.5%	-2.5%	2.7%	2.8%	

FABS estimate & Co Data

### 3Q21 preview: Abu Dhabi Islamic Bank (ADIB)

Expected decrease in Impairments to support the profits

CMP (AED): 5.6

Potential upside (%): +0.9%

12-m target price:

**AED5.65**

Stock rating:

**HOLD**

#### 3Q21 estimate

Abu Dhabi Islamic Bank (ADIB) is forecasted to increase by 5% YOY in Net profit to AED560 Mn in 3Q21 compared to AED533 Mn in 3Q20, primarily due to a decline in Impairments. We expect Net Funded Income to decrease by 1.9% YOY to AED811 Mn in 3Q21 compared to AED827 Mn in 3Q20; this is due to a decline in Depositors distribution by 14.4% YOY to AED82 Mn in 3Q21 from AED96 Mn in 3Q20. The Non-Funded Income is expected to decrease by 6% YOY to AED516 Mn in 3Q21 down from AED549 Mn in 3Q20. It is mainly due to an expected fall by 25.4% YOY in Fees and Commissions outweighing the increase by 17.4% YOY increase in Other Non-Funded Income. Thus, Operating Income is likely to also decrease by 3.5% YOY to AED1.32 Bn in 3Q21 from AED1.37 Bn in 3Q20, while the Operating Expenses would decrease by 6.1% to AED576 Mn in 3Q21 from AED614 Mn in 3Q20, the Cost-to-Income (C/I) ratio is predicted to decline by 119 Bps to 43.4% in 3Q21 compared to 44.6% in 3Q20. We expect Impairment charges to decline by 24% YOY to AED187 Mn in 3Q21 compared to AED245 Mn in 2Q20.

#### 2021 forecast

ADIB's Net profit is expected to rise by 40.6% YOY to AED2.25 Bn in 2021 as compared to AED1.6 Bn in 2020 mainly due to the decline in Impairment charges. We expect Net Funded Income to decrease by 3.2% YOY to AED3.21 Bn in 2021 due to the decrease by 7.1% YOY in Funded Income to AED3.55 Bn in 2021 compared to AED3.82 Bn in the 2020. Also, the Non-Funded Income is estimated to increase by 3.6% YOY to AED2.1 Bn in 2021, as compared to AED2 Bn in 2020 led by an anticipated 13.7% increase in Other Non-Funded Income to AED1.18 Bn compared to AED1 Bn in 2020. Thus, the Operating Income will marginally decrease by 0.6% to AED5.32 Bn in 2021 compared to last year at AED5.35 Bn. Operating Expenses are expected to decrease by 5.9% YOY to AED2.3 Bn in 2021 from AED2.45 Bn in 2020. Subsequently, the Cost-to-Income ratio is likely to decrease by 241 bps to 43.3% in 2021 as compared to 45.7% in 2020. Impairment charges would decrease by 43.1% YOY to AED748 Mn in 2021 compared to AED1.31 Bn in 2020.

#### 2Q21 outturn

The Net Funded Income stood stable with an increase by 0.1% YOY to AED803 Mn in 2Q21. It was mainly due to 34.9% YOY decline in Income from Institutions that resulted in 5% YOY decline in Funding Income. Furthermore, the Depositors distribution decreased by 36.7% YOY to AED82 Mn in 2Q21. The Non-Funded Income grew by 9.4% YOY to AED506 Mn in 2Q21, up from AED462 Mn in 2Q20. It was positively impacted by 6.9% YOY increase in Fees and Income and 11.4% increase in Other Non-Funded Income. The increase boosted the Operating Income which increased by 3.5% YOY to AED1,309 Mn in 2Q21. The Impairments reduced significantly by 27.4% YOY to AED233 Mn in 2Q21 as compared to AED322 Mn in 2Q20. The Net Profit improved by 57.7% YOY to AED501 Mn in 2Q21, up from AED318 Mn in 2Q20. The Net Customer Funding increased by 2.1% YOY to AED83.7 Bn in 2Q21 as compared to AED81.9 Bn in 2Q20. The Total Assets increased by 5% YOY to AED131 Bn in 2Q21, up from AED124.4 Bn in 2Q20. The Customer Deposits increased robustly by 6.6% YOY to AED105 Bn in 2Q21, up from AED98.6 Bn in 2Q20.

### Target price and rating

We maintain our HOLD rating on ADIB, with a target price of AED5.65. Abu Dhabi Islamic Bank (ADIB) is a leading Islamic Bank in the region. The Bank has demonstrated a strong rebound in its profitability with a 57.7% YOY increase in Net Profit. The Funded Income declined by 5% YOY to AED884 Mn in 2Q21, down from AED931 Mn in 2Q20. It was mainly due to decline in Income from Financial Institutions and Islamic Financing by 35% YOY and 4.5% YOY in 2Q21. The Net Funding Income remained stable and increased slightly by 0.1% YOY to AED803 Mn in 2Q21. It was supported by a strong decline in Depositors Distribution by 36.7% YOY to AED82 Mn in 2Q21, down from AED129 Mn in 2Q20. The Non-Funded Income increased by 9.4% YOY to AED506 Mn in 2Q21, up from AED462 Mn in 2Q20. The Income mainly included higher investments that increased by 24% YOY, cards and income from forex transactions that increased by 28% YOY in 2Q21. The Fees and Commissions were positively impacted by Cards Income that increased by 71% YOY in 2Q21. The Operating Income increased by 3.5% YOY to AED1,309 Mn in 2Q21, up from AED1,264 Mn in 2Q20. It was mainly due to the surge in Non-Funded Income as economic scenarios improved. The Operating Expenses declined by 8.6% YOY to AED570 Mn in 2Q21, down from AED624 Mn in 2Q20. It was mainly due to an effective cost control strategy and benefits derived from digitalization of several operations initiated by the Bank. The Bank reduced Infrastructure, staff, and General Administrative costs and implemented plans to enhance its digital platform. The Cost to Income ratio improved by 576 bps to 43.6% in 2Q21, down from 49.3% in 2Q20. The Impairments declined by 27.4% YOY to AED233 Mn in 2Q21, down from AED322 Mn in 2Q20, which further supported the profitability. As a result, the cost to risk ratio declined to 0.9%. The Impairments mainly relate the Bank's Wholesale Banking section, followed by Retail and Others. The Net Profit increased by 57.7% YOY to AED501 Mn in 2Q21, up from AED318 Mn in 2Q20. The NIM and NIS both declined by 44 bps and 46 bps to 3.2% in 2Q21 due to lower Interest margins. As of 2Q21, the Bank has up to 70% digitally active users and increased consistently. The NPA increased by 8.2% YOY to AED7,786 Mn in 2Q21 as compared to AED7,195 Mn in 2Q20. However, the NPA coverage ratio with collateral has improved to 115.2%. The Digital sales declined to 41% 2Q21 as compared to 54% in 2Q20. However, the digital program is highly ranked in UAE's customer ratings. The digital payments have consistently increased to 99.5% in 2Q21 from 99% in 2Q20. The Bank continues to maintain a healthy Balance Sheet and with a steady increase in its Average Earning Assets. The Customer Financing has improved to AED83.7 Bn in 2Q21 as compared to AED82 Bn in 2Q20. Customer Financing mostly comprises of Retail segment with 54.1% composition in 2Q21, followed by 37.9% in Wholesale segment. The Customer Deposits grew by 6.6% YOY demonstrating strong customer loyalty. Around 76.2% are CASA deposits in 2Q21 and 69.9% are Retail Deposits. The Bank's Capital Adequacy Ratio stood at 19.1% in 2Q21, above the minimum requirement level. The Bank currently trades at a PB multiple of 1.04X. Therefore, we maintain a HOLD rating.

### ADIB - Relative valuation

(at CMP)	2017	2018	2019	2020	2021E
P/E (x)	9.56	8.84	8.91	15.47	9.08
P/B (x)	1.74	1.58	1.43	1.42	1.04
Dividend yield	5.1%	4.9%	4.9%	3.7%	4.6%

FABS Estimates & Co data

**ADIB - P&L**

(AED MN)	3Q20	2Q21	3Q21F	YOY Ch	QOQ Ch	2020	2021F	Change
Institutions	10	9	10	-1.2%	5.0%	61	39	-36.7%
Islamic financings	913	875	884	-3.2%	1.0%	3,766	3,517	-6.6%
<b>Funded income</b>	<b>923</b>	<b>884</b>	<b>894</b>	<b>-3.2%</b>	<b>1.0%</b>	<b>3,827</b>	<b>3,555</b>	<b>-7.1%</b>
Depositors' distribution	-96	-82	-82	-14.1%	1.0%	-502	-337	-32.9%
<b>Net funded income</b>	<b>827</b>	<b>803</b>	<b>811</b>	<b>-1.9%</b>	<b>1.0%</b>	<b>3,324</b>	<b>3,218</b>	<b>-3.2%</b>
Fees and commissions	301	220	224	-25.4%	2.0%	992	922	-7.1%
Other non-funded income	248	286	292	17.4%	2.0%	1,042	1,184	13.7%
<b>Non-Funded Income</b>	<b>549</b>	<b>506</b>	<b>516</b>	<b>-6.0%</b>	<b>2.0%</b>	<b>2,034</b>	<b>2,106</b>	<b>3.6%</b>
<b>Operating income</b>	<b>1,376</b>	<b>1,309</b>	<b>1,327</b>	<b>-3.5%</b>	<b>1.4%</b>	<b>5,358</b>	<b>5,324</b>	<b>-0.6%</b>
Operating expenses	-614	-570	-576	-6.1%	1.0%	-2,450	-2,306	-5.9%
Pre-provisioning income	762	739	751	-1.5%	1.7%	2,908	3,018	3.8%
Financing impairment	-245	-233	-187	-24.0%	-20.0%	-1,314	-748	-43.1%
<b>Profit before NCI</b>	<b>517</b>	<b>505</b>	<b>565</b>	<b>9.2%</b>	<b>11.7%</b>	<b>1,594</b>	<b>2,270</b>	<b>42.4%</b>
NIC. & zakat	16	-4	-5	NM	1.8%	9	-16	NM
<b>Net profit for period</b>	<b>533</b>	<b>501</b>	<b>560</b>	<b>5.0%</b>	<b>11.8%</b>	<b>1,603</b>	<b>2,254</b>	<b>40.6%</b>

FABS estimate & Co Data

**ADIB - KPI**

	3Q20	2Q21	3Q21F	YOY Ch	QOQ Ch	2020	2021F	Change
Net FI/OI	60.1%	61.4%	61.1%	103	-22	62.0%	60.4%	-160
NIM	3.5%	3.2%	3.2%	-30	-4	3.3%	3.2%	-17
NIS	3.5%	3.2%	3.2%	-31	-4	3.4%	3.2%	-18
Fees & commissions/OI	21.9%	16.8%	16.9%	-495	10	18.5%	17.3%	-121
Other non-funded/OI	18.0%	21.8%	22.0%	392	13	19.4%	22.2%	281
Cost to income	44.6%	43.6%	43.4%	-119	-16	45.7%	43.3%	-241
Impairment/PPP	32.2%	31.6%	24.8%	-735	-674	45.2%	24.8%	-2041
NP/OI	38.8%	38.3%	42.2%	344	392	29.9%	42.3%	1242
ROAE	2.9%	2.6%	2.9%	2	24	8.4%	11.6%	322
ROAA	0.4%	0.4%	0.4%	1	4	1.3%	1.8%	49

FABS estimate & Co Data

**ADIB - Key B/S items**

(AED MN)	3Q20	4Q20	1Q21	2Q21	3Q21F	Change
Net customer financing	83,205	83,409	83,082	83,700	83,424	0.3%
QOQ change	1.5%	0.2%	-0.4%	0.7%	-0.3%	
Total assets	127,116	127,816	130,694	130,608	130,377	2.6%
QOQ change	2.2%	0.6%	2.3%	-0.1%	-0.2%	
Customer deposits	100,722	101,276	103,069	105,159	102,979	2.2%
QOQ change	2.1%	0.6%	1.8%	2.0%	-2.1%	
Shareholders' funds (ex Tier 1)	14,205	14,396	15,069	14,773	15,196	7.0%
QOQ change	3%	1%	4.7%	-2.0%	2.9%	

FABS estimate & Co Data

## 3Q21 preview: National Bank of Ras Al Khaimah (RAKBANK)

Lower Provisions to support the earnings

CMP (AED): 3.95

Potential upside (%): +3.8%

12-m target price:

**AED 4.50**

Stock rating:

**HOLD**

### 3Q21 estimate

RAKBANK is forecasted to report an increase by 74.1% YOY in Net Profit to AED228 Mn in 3Q21, compared to AED131 Mn in 3Q20. This is due to a decrease in Impairment charges. Interest Income is expected to decline by 10.2% YOY to AED518 Mn in 3Q21 from AED576 Mn in 3Q20. Interest Expenses is expected to decline by 38.1% YOY to AED52 Mn in 3Q21 from AED84 Mn in 3Q20. Resultantly, the Net Funded Income is expected to decline by 5.4% YOY to AED466 Mn from AED492 Mn in 3Q20. Fees and Commissions are expected to increase by 21.4% YOY to AED192 Mn in 3Q21 from AED158 Mn in 3Q20. Net Operating Income is expected to slightly increase by 2.1% YOY to AED871 Mn in 3Q21 compared to AED853 Mn in 3Q20. We expect Operating Expenses to increase by 10.6% YOY to AED360 Mn in 3Q21 from AED326 Mn in 3Q20. Thus, the Bank's Cost to Income (C/I) ratio is expected to increase to 319 bps this quarter to 41.4% from 38.2% in 3Q20. We estimate Impairment charges to fall significantly by 28.6% YOY to AED282 Mn in 3Q21 from AED395 Mn in 3Q20.

### 2021 forecast

We forecast RAKBANK to report a significant increase by 58% YOY in Net profit to AED796 Mn in 2021 from AED504 Mn in 2020, mainly due to a decrease in Impairment charges. We forecast Interest Income to decrease by 19.1% YOY to AED2.02 Bn in 2021 from AED2.5 Bn in 2020 as we expect a significant fall by 48.6% YOY in Interest Expense to AED210 Mn in 2021 as compared to AED409 Mn in 2020. Therefore, the Net Interest Income is expected to decline by 13.3% YOY to AED1.81 Bn in 2021 from AED2.09 Bn in 2020. We expect Non-Funded Income to increase by 13.7% YOY to AED1.18 Bn in 2Q21, mainly due to the expected increase in Fees and Commissions by 16.8% YOY to AED739 Mn in 2Q21 as well as an increase in the Investment Income by 49.2% YOY to AED133 Mn from AED90 Mn in 2Q20. As a result, Net Operating Income would decline by 4.7% YOY to AED3.39 Bn in 2021 from AED3.56 Bn in 2Q20. Operating Expenses are forecasted to marginally increase by 0.4% YOY to AED1.4 Bn from AED1.39 Bn in 2020. Thus, the Cost-to-Income (C/I) ratio is expected to increase by 208 bps to 41.2% in 2021 from 39.2% in 2020. We estimate that Impairment charges would decline by 28% YOY to AED1.19 Bn compared to AED1.66 Bn in 2020.

### 2Q21 outturn

RAKBANK's Net Operating Income decreased by 7.9% YOY in 2Q21 to AED832 Mn from AED 903 Mn in 2Q20. Other Operating Income decreased by 37.6% to AED17 Mn in 2Q21 from AED27 Mn in 2Q20. Moreover, Non-Funded Income increased to AED289 Mn in 2Q21 by 22.3% from AED236 Mn in 2Q20. Net Funded Income decreased by 18.5% YOY to AED543 Mn in 2Q21 from AED667 Mn in 2Q20. Furthermore, the Net Interest Income decreased by 20.3% YOY to AED444 Mn in 2Q21, and Interest Expenses decreased significantly by 58.4% YOY to AED49 Mn in 2Q21 from AED 118 Mn in 2Q20. Operating Expenses slightly increased by 1.3% YOY to AED343 Mn in 2Q21 from AED 339 Mn in 2Q20, while the Cost-to-Income ratio "C/I" increased by 374 bps to 41.3% from 37.5% in 2Q20. Impairment Charges decreased significantly by 27.8% in 2Q21 to AED297 Mn. RAKBANK's Net Advances decreased by 4.6% YOY to AED31.06 Bn in 2Q21 from AED32.55 Bn in 2Q20. Whereas Customer Deposits increased by 5.6% YOY to AED37.27 Bn in 2Q21 from AED35.06 Bn in 2Q20. Total Assets decreased by 0.1% YOY to AED54.31 Bn in 2Q21 from AED 54.34 Bn in 2Q20, and the Equity increased by 5.5% to AED7.92 Bn in 2Q21 compared to AED7.51 Bn in 2Q20.



### Target price and rating

We maintain our HOLD rating on RAKBANK with a revised target price of AED4.50. RAKBANK showed a solid performance during the second quarter of 2021 highlighted by an improvement in Income which reported an increase after many periods of falling trend since the beginning of the global COVID-19 pandemic. One main point is the increase in the Deposits that is a positive sign. Net Profit was up by almost 26% to AED 191 Mn in 2Q21 from AED 152 Mn in 2Q20. Net Operating Income recorded AED 832 Mn down by 7.9% from AED 903 Mn and down by 3.9% from 1Q20. Operating Expenses for 2Q21 increased by 1.3% YOY in 2Q21 compared to 2Q20 while the bank's Cost-to-Income ratio increased to 41.3% from 37.5% at the end of the same quarter in 2020 given the decrease in Total Income. It is worth noting that the Provisions for the 2Q21 were the lowest for many years now, decreasing by AED 114.4 Mn due to very good results and a better portfolio specially in the credit cards and personal loans. This demonstrates that the bank is rebounding with the economy in UAE and the strong consumer confidence since the beginning of the year. Total Assets have marginally decreased by 0.1% YOY to AED 54.3 Bn from AED 54.34 Bn in 2Q20 and they were up by 2.9% as compared to end of year. Nevertheless, Gross Loans and Advances were down by 3.9% in 2Q21 at AED 33.2 Bn and up by 3.1% year to date from AED 32.55 Bn in 2Q20. The Non-Performing Loans ratio has increased to 5.1% in 2Q21 compared to 4.5% in the same period in 2020 but a marginal decrease was reported compared to the end of year 2020 ratio of 5.2%. The bank is well provisioned against these Non-Performing Loans with a Coverage ratio of 127.7%. Deposits followed an upward trend by 5.6% as compared to same period last year at AED 37 Bn from AED 35 Bn in 2Q20 with the main increase reported in the Time Deposits account for AED 623 Mn while being offset by a decrease of AED 540 Mn in CASA and Call Deposits. The bank's Capital Adequacy Ratio (CAR) stood at 17.8% from 18.6% as at year end 2020 and Common Equity Tier 1 (CET1) ratio was 16.7% in 2Q21 from 17.5% as at end of the previous year. Despite the marginal decrease, the ratios are still way above the requirements set by the regulators and the bank still maintains good liquidity levels with a Regulatory Eligible Liquid Assets ratio of 9.6% by end of 2Q21 and Advances to stable resources ratio of 83.7% as compared to 80.6% as at end of 2020 but below the 85.5% ratio of 1Q21. Return on Average Equity (ROAE) stood at 2.4% in 2Q21 witnessing an increase by 33 bps YOY compared to 2.1% in 2Q20 and an increase of 97 bps compared to last quarter and Return on Average Assets (ROAA) marginally increased in 2Q21 as compared to same period last year end 2020 to 0.4% from 0.3% respectively, an increase by 9 bps. The bank is rated Baa1 with a negative outlook by Moody's in July 2021, whereas it is rated BBB+ with a stable outlook by Fitch in May 2021. Moreover, the stock is trading at an PB multiple of 0.84x, leading us to our HOLD rating.

### RAKBANK - Relative valuation

(at CMP)	2017	2018	2019	2020	2021E
PE (x)	8.23	7.31	6.08	13.17	8.40
P/B (x)	0.85	0.93	0.85	0.85	0.81
Dividend yield	7.6%	7.6%	7.6%	3.8%	5.8%

FABS Estimates & Co data

**RAKBANK - P&L**

AED MN	3Q20	2Q21	3Q21F	YOY Ch	QOQ Ch	2020	2021F	Change
Interest income	576	493	518	-10.2%	5.0%	2,501	2,024	-19.1%
Interest expenses	-84	-49	-52	-38.1%	6.0%	-409	-210	-48.6%
<b>Net interest income</b>	<b>492</b>	<b>444</b>	<b>466</b>	<b>-5.4%</b>	<b>4.9%</b>	<b>2,093</b>	<b>1,814</b>	<b>-13.3%</b>
Income: Islamic financing	131	112	115	-12.0%	3.0%	555	465	-16.3%
Islamic profit distribution	-23	-13	-17	-24.5%	31.5%	-123	-62	-49.8%
<b>Net Islamic financing income</b>	<b>109</b>	<b>99</b>	<b>98</b>	<b>-9.4%</b>	<b>-0.7%</b>	<b>433</b>	<b>403</b>	<b>-6.9%</b>
<b>Net funded income</b>	<b>601</b>	<b>543</b>	<b>564</b>	<b>-6.2%</b>	<b>3.9%</b>	<b>2,526</b>	<b>2,217</b>	<b>-12.2%</b>
Net fees and commissions	158	180	192	21.4%	6.3%	633	739	16.8%
Foreign exchange gain	50	49	50	-0.9%	1.0%	188	177	-5.9%
Gross insurance underwriting Profit	10	13	12	24.4%	-9.8%	53	43	-19.6%
Investment Income	21	29	33	57.3%	14.2%	90	133	49.2%
Other operating income	13	17	20	57.9%	18.2%	76	88	17.1%
<b>Total non-funded income</b>	<b>251</b>	<b>289</b>	<b>307</b>	<b>21.9%</b>	<b>6.1%</b>	<b>1,038</b>	<b>1,180</b>	<b>13.7%</b>
<b>Net operating income</b>	<b>853</b>	<b>832</b>	<b>871</b>	<b>2.1%</b>	<b>4.7%</b>	<b>3,564</b>	<b>3,398</b>	<b>-4.7%</b>
Operating expenses	-326	-343	-360	10.6%	5.0%	-1,395	-1,401	0.4%
<b>Pre-provision profit</b>	<b>527</b>	<b>489</b>	<b>510</b>	<b>-3.1%</b>	<b>4.4%</b>	<b>2,169</b>	<b>1,997</b>	<b>-7.9%</b>
Impairment	-395	-297	-282	-28.6%	-5.0%	-1,663	-1,197	-28.0%
<b>Profit for the year</b>	<b>132</b>	<b>192</b>	<b>228</b>	<b>73.0%</b>	<b>19.0%</b>	<b>505</b>	<b>799</b>	<b>58.1%</b>
Non-controlling interest	-1	-1	-1	-43.8%	-39.5%	-2	-3	85.1%
<b>Net profit attributable</b>	<b>131</b>	<b>191</b>	<b>228</b>	<b>74.1%</b>	<b>19.3%</b>	<b>504</b>	<b>796</b>	<b>58.0%</b>

FABS estimate & Co Data

**RAKBANK - KPI**

	3Q20	2Q21	3Q21F	YOY Ch	QOQ Ch	2020	2021F	Change
Net FI/OI	70.5%	65.3%	64.8%	-572	-49	70.9%	65.3%	-560
NIM	5.6%	4.7%	4.6%	-100	-11	5.4%	4.6%	-75
NIS	5.5%	4.6%	4.5%	-98	-11	5.3%	4.6%	-72
Fees & comms/OI	18.5%	21.7%	22.0%	350	34	17.8%	21.8%	400
Trading/OI	2.5%	3.5%	3.8%	133	32	2.5%	3.9%	142
Cost to income	38.2%	41.3%	41.4%	319	14	39.2%	41.2%	208
Impairment/PPP	74.9%	60.7%	55.2%	-1971	-547	76.7%	60.0%	-1672
NP/OI	15.4%	23.0%	26.2%	1082	321	14.1%	23.4%	930
ROAE	1.7%	2.4%	2.8%	111	43	6.4%	10.0%	361
ROAA	0.2%	0.4%	0.4%	16	5	0.9%	1.4%	53

FABS estimate & Co data

**RAKBANK - Key B/S items**

AED MN	3Q20	4Q20	1Q21	2Q21	3Q21F	Change
Net advances	30,421	30,041	30,518	31,063	32,418	6.6%
QOQ change	-6.6%	-1.2%	1.6%	1.8%	4.4%	
Total assets	52,328	52,773	53,231	54,312	56,799	8.5%
QOQ change	-3.7%	0.9%	0.9%	2.0%	4.6%	
Customer deposits	34,205	36,944	36,479	37,027	39,579	15.7%
QOQ change	-2.4%	8.0%	-1.3%	1.5%	6.9%	
Total Equity	7,705	7,845	7,960	7,924	8,150	5.8%
QOQ change	2.6%	1.8%	1.5%	-0.5%	2.9%	

FABS estimate & Co data

### 3Q21 preview: Abu Dhabi Commercial Bank (ADCB)

Higher operating Income supports the increase in the bottom line

CMP (AED): 7.76  
Potential Upside (%): +9.5%

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

Stock rating:  
**HOLD**

#### 3Q21 estimate

Abu Dhabi Commercial Bank (ADCB) Net Profit is expected to increase to AED1.47 Bn in 3Q21 from AED1.36 Bn in 3Q20, an increase by 8.3%. This increase is mainly due to a rise in the Non-Funded Income. Funded Income is estimated to decline by 6.2% YOY to AED2.92 Bn in 3Q21 compared to AED3.11 Bn in 3Q20. Funded Expense is also expected to decline by 29.6% YOY to AED584 Mn in 3Q21 from AED830 Mn in 3Q20. Resultantly, the Net Funded Income would increase by 2.3% YOY to AED2.33 Bn in 3Q21 from AED2.28 Bn in 3Q20. Fees and Commissions would rise by 32.5% YOY to AED497 Mn in 3Q21 from AED375 Mn in 3Q20. Other Operating Income is expected to increase by 14.7% YOY to AED380 Mn in 3Q21 from AED331 Mn in 2Q20. As a result, the Non-Funded Income is expected to rise by 24.2% YOY to AED877 Mn in 3Q21 from AED706 Mn in 3Q20. Resultantly, the Operating Income is expected to rise by 7.5% YOY to AED3.21 Bn in 3Q21 from AED2.99 Bn in 3Q20. The Operating Expenses would decrease by 2.9% YOY to AED1.07 Bn in 3Q21 from AED1.10 Bn in 3Q20. The Cost to Income ratio would decline by 356 bps to 33.3% in 3Q21 from 36.9% in 3Q20. Impairment charges would rise by 28.6% YOY to AED648 Mn in 3Q21 from AED504 Mn in 3Q20.

#### 2021 forecast

We forecast ADCB to report a Net Profit of AED5.46 Bn in 2021 compared to AED3.8 Bn in 2020, an increase by 43.7%, mainly due to a rise in Non-Funded Income and a decrease in Impairment charges. We expect Net Funded Income to decrease by 6.4% YOY to AED9.15 Bn in 2021 from AED9.78 Bn in 2020. Funded Income is predicted to decrease by 18.5% YOY to AED11.46 Bn in 2021 compared to AED14.06 Bn in 2020. The Non-Funded Income is estimated to rise by 27% YOY to AED3.41 Bn in 2021, as compared to AED2.68 Bn in 2020, led by an anticipated 25.6% increase in Fees and Commissions to AED1.94 Bn in 2021 as compared to AED1.55 Bn in 2020. Thus, the Operating Income would increase slightly by 0.8% to AED12.57 Bn in 2021 compared to AED12.47 Bn in 2020. Operating Expenses would decline by 4.6% YOY to AED4.31 Bn in 2021 from AED4.52 Bn in 2020. Subsequently, the Cost-to-Income ratio is likely to decrease by 194 Bps to 34.4% as compared to 36.3% in 2020. Impairment charges would decrease by 32.7% to AED2.68 Bn in 2021 compared to AED3.99 Bn in 2020.

#### 2Q21 outturn

Funded income decreased by 19.5% YOY to AED2,837 Mn in 2Q21 from AED3,523 Mn in 2Q20. Funded expense significantly decreased by 55.6% YOY to AED522 Mn in 2Q21 from AED1,177 Mn in 2Q20. Resultantly, the Net funded income decreased by 1.3% YOY to AED2,315 Mn in 2Q21 from AED2,347 Mn in 2Q20. Fees and commissions significantly increased by 61.2% YOY to AED501 Mn in 2Q21 from AED311 Mn in 2Q20. Other operating income rose by 19.6% YOY to AED339 Mn in 2Q21 from AED284 Mn in 2Q20. Therefore, the Non-funded income increased by 41.3% YOY to AED840 Mn in 2Q21 from AED594 Mn in 2Q20. Thus, Operating income increased by 7.3% YOY to AED3,155 Mn in 2Q21 from AED2,941 Mn in 2Q20. Operating expense increased by 2.9% YOY to AED1,055 Mn in 2Q21 from AED1,025 Mn in 2Q20. Impairments increased by 1.4% YOY to AED678 Mn in 2Q21 from AED668 Mn in 2Q20. Finally, the Net Profit increased by 14.1% to AED1,402 Mn in 2Q21 from AED 1,228 Mn in 2Q20. ADCB's Net advances have decreased by 0.6% YOY to AED237.81 Bn in 2Q21 from AED239.28 Bn in 2Q20. Total Assets increased by 2.5% YOY to AED416.29 Bn in 2Q21 compared to AED406.23 Bn in 2Q20. Total shareholders' equity increased by 7.8% YOY to AED57.1 Bn in 2Q21 from AED52.98 Bn in 2Q20. Customer deposits recorded a marginal increase by 0.1% to AED250.56 Bn compared to AED250.27 Bn in 2Q20.



### Target price and recommendation

We revise our rating to HOLD rating on ADCB, with a target price of AED8.50. ADCB had implemented previously a new five-year growth strategy based on digital transformation and their additional cost control measures and acceleration. This has been witnessing a good progress through acceleration of digital transformation with an increasing number of digital active customers standing at 633K registrations in 2Q21 from 523K in 2Q20 and with the numbers of digital transactions rising as well reaching 23.3 Mn transaction as compared to 18.5 Mn transactions same period last year. ADCB continued improving the Cost to income (C/I) ratio with a decrease of 290 bps to 33.4% in 2Q21 from 36.3% in 1Q21 despite the low interest rate environment caused by lower cost of fund and merger synergies along with other efficient operations. The bank also increased its lending mainly by lending to the government and the public sector enterprises when the exposure to real estate is still following a decreasing trend it fell by 26% of gross loans despite having a well-diversified loan portfolio with an LTV of 80%. ADCB recorded a strong increase by 25% from previous quarter in Net profit in 2Q21 reaching AED 1,402 Mn from AED 1,121 Mn in 1Q21 and an increase of 14% YOY from AED 1,227 Mn in 2Q20 with both a significant increase in fee income by 61% YOY and net interest income increasing QOQ by 9% reaching AED 2,315 Mn but still lower as compared to 2Q20 by 1%. This increase in net profit was supported by higher revenues and the continuous decrease in costs and better digital transformation progress as compared to previous periods. Interest expense has been decreasing reaching AED 522 Mn in 2Q21. Non-interest income has increase by 5% QOQ and 421% YOY standing at AED 840 Mn in 2Q21. Nevertheless, operating expenses were slightly up by 3% as compared to last year same period at AED 1,055 Mn from AED 1,025 Mn in 2Q20 but witnessed a decrease as compared to last quarter from AED 1,061 Mn. In second quarter of 2021, the loan to deposit ratio stood at 94.9% compared to 95.6% in second quarter of 2020. Customer deposits increased by 5% QOQ to AED 251 Bn due to the increase in CASA deposits while net loans increased by 1% to reach AED 238 Bn in 2Q21 but still below last year's figure by 0.5% better than the industry witnessing a decrease of 2% in net loans as compared to same period last year. Further, the Net interest margin (NIM) for 2Q21 remains lower than that in 2Q20, standing at 3.5% as compared to 4.2%, and Net Interest Spread (NIS) is also lower at 3.4% from 4.1% in 2Q20. ADCB's Common equity tier 1 capital ratio stood at 13.2% down from 13.9% as at end of year 2020, as Risk Weighted Assets have increased to AED326.8 Bn compared to AED306.4 bn in December 2020. The bank's Non-performing loan ratio has been following a decreasing trend and it currently stood at 5.86% in 2Q21 with a provision coverage ratio of 145% up from 151% as at end of December 2020. The Bank's Liquidity ratio stood at 30.4% in 2Q21 down from 31.2% in December 2020 with a liquidity coverage ratio of 127.6% as compared to 156.8% in December 2020 but still above the UAE central bank requirement of 70%. The stock is currently trading at an attractive valuation with P/B of 1.06x. Therefore, we assign a HOLD rating on the stock.

### ADCB - Relative valuation

(at CMP)	2017	2018	2019	2020	2021E
P/E (x)	9.81	8.72	11.06	15.39	10.06
P/B (x)	1.43	1.42	1.10	1.08	0.92
Dividend yield	5.4%	5.9%	4.8%	3.4%	4.2%

FABS Estimates & Co data

**ADCB - P&L**

AED MN	3Q20	2Q21	3Q21F	YOY Ch	QOQ Ch	2020	2021F	Change
Funded income	3,114	2,837	2,922	-6.2%	3.0%	14,065	11,464	-18.5%
Funded expense	-830	-522	-584	-29.6%	11.9%	-4,282	-2,308	-46.1%
<b>Net funded income</b>	<b>2,285</b>	<b>2,315</b>	<b>2,338</b>	<b>2.3%</b>	<b>1.0%</b>	<b>9,783</b>	<b>9,157</b>	<b>-6.4%</b>
Fees & commissions	375	501	497	32.5%	-0.8%	1,551	1,947	25.6%
Other operating income	331	339	380	14.7%	12.0%	1,137	1,466	28.9%
<b>Non funded income</b>	<b>706</b>	<b>840</b>	<b>877</b>	<b>24.2%</b>	<b>4.4%</b>	<b>2,688</b>	<b>3,413</b>	<b>27.0%</b>
<b>Operating income</b>	<b>2,991</b>	<b>3,155</b>	<b>3,214</b>	<b>7.5%</b>	<b>1.9%</b>	<b>12,471</b>	<b>12,570</b>	<b>0.8%</b>
Operating expenses	-1,102	-1,055	-1,071	-2.9%	1.5%	-4,526	-4,319	-4.6%
<b>Pre-provision profit</b>	<b>1,888</b>	<b>2,100</b>	<b>2,144</b>	<b>13.5%</b>	<b>2.1%</b>	<b>7,945</b>	<b>8,251</b>	<b>3.9%</b>
Impairments	-504	-678	-648	28.6%	-4.4%	-3,993	-2,685	-32.7%
<b>Operating profit after impairment</b>	<b>1,384</b>	<b>1,422</b>	<b>1,496</b>	<b>8.1%</b>	<b>5.2%</b>	<b>3,952</b>	<b>5,566</b>	<b>40.8%</b>
Share of profit of assoc.	14	3	5	-63.2%	44.3%	18	16	-13.4%
<b>Profit before tax</b>	<b>1,398</b>	<b>1,426</b>	<b>1,501</b>	<b>7.4%</b>	<b>5.3%</b>	<b>3,970</b>	<b>5,582</b>	<b>40.6%</b>
Overseas tax expense	-28.1	-19	-20	-29.7%	3.0%	-120	-84	-30.2%
Loss from discontinued operations	-4.1	-4	-6	48.1%	43.7%	-41	-29	-29.8%
Non-controlling interest	-5	0	0	-90.1%	NM	-3	-2	-44.3%
<b>Profit for the period</b>	<b>1,361</b>	<b>1,402</b>	<b>1,475</b>	<b>8.3%</b>	<b>5.2%</b>	<b>3,806</b>	<b>5,468</b>	<b>43.7%</b>

FABS estimate & Co Data

**ADCB - P&L KPI**

AED MN	3Q20	2Q21	3Q21F	YOY Ch	QOQ Ch	2020	2021F	Change
Net FI/OI	76.4%	73.4%	72.7%	-366	-65	78.4%	72.8%	-560
NIM	3.9%	3.5%	3.5%	-46	1	3.7%	3.4%	-22
NIS	3.9%	3.4%	3.5%	-43	2	3.6%	3.4%	-22
Fees & comms/OI	12.5%	15.9%	15.5%	292	-42	12.4%	15.5%	306
Other non-funded/OI	11.1%	10.8%	11.8%	74	106	9.1%	11.7%	254
Cost to income	36.9%	33.4%	33.3%	-356	-14	36.3%	34.4%	-194
Impairment/PPP	26.7%	32.3%	30.2%	354	-204	50.3%	32.5%	-1771
Tax/PBT	2.0%	1.3%	1.3%	-69	-3	3.0%	1.5%	-153
NP/OI	45.5%	44.4%	45.9%	36	143	30.5%	43.5%	1298
ROAE	2.5%	2.5%	2.6%	8	3	6.8%	9.5%	268
ROAA	0.3%	0.3%	0.4%	2	1	0.9%	1.3%	37

FABS estimate & Co Data

**ADCB Key B/S items**

(AED MN)	3Q20	4Q20	1Q21	2Q21	3Q21F	Change
Net advances	242,890	238,976	235,725	237,814	242,017	-0.4%
QOQ change	1.5%	-1.6%	-1.4%	0.9%	1.8%	
Total assets	409,262	411,156	395,819	416,290	432,787	5.7%
QOQ change	0.7%	0.5%	-3.7%	5.2%	4.0%	
Customer deposits	243,579	251,395	238,830	250,564	257,407	5.7%
QOQ change	-2.7%	3.2%	-5.0%	4.9%	2.7%	
Total shareholders' equity	55,019	56,597	55,719	57,104	59,633	8.4%
QOQ change	3.8%	2.9%	-1.6%	2.5%	4.4%	

FABS estimate & Co Data

### 3Q21 preview: Mashreq Bank (MASQ)

Higher Net-Funded income to boost the profitability

CMP (AED): 70.00

Potential upside (%): +1.4%

12-m target price:

**AED71.00**

Stock rating:

**HOLD**

#### 3Q21 estimate

Mashreq bank (MASQ) is forecasted to record a Net Profit of AED77 Mn in 3Q21 a significant increase compared to reported losses of AED183 Mn in 3Q20. This is mainly due to higher Net Funded Income. We expect the Net Funded Income to increase by 35.4% YOY to AED759 Mn in 3Q21 from AED561 Mn in 3Q20. It is likely to be driven by 19.6% YOY decline in Interest Expense to AED407 Mn in 3Q21, down from AED507 Mn in 3Q20. While the Interest Income is expected to increase by 9.6% YOY to AED1.1 Bn in 3Q21, up from AED1 Bn in 3Q20. We estimate the Total Operating Income to increase by 31% YOY to AED1.49 Bn in 3Q21 from AED1.14 Bn in 3Q20, led by a significant increase by 61.1% YOY in Income from Investment Securities to AED109 Mn in 3Q21, up from AED67 Mn in 3Q20 and an increase by 34.7% YOY in Fees and Commission Income to AED381 Mn in 3Q21 from AED283 Mn in 3Q20. Total Other Operating Income is also predicted to increase by 26.7% YOY to AED734 Mn in 3Q21 from AED579 Mn in 3Q20, and the Operating Expenses are assumed to fall by 2.7% YOY to AED612 Mn in 3Q21 compared to AED629 Mn in 3Q20. Thus, the Cost-to-Income (C/I) ratio is predicted to fall drastically by 1417 bps to 41% in 3Q21 compared to 55.2% in 3Q20.

#### 2021 forecast

We expect MASQ to record a Net profit of AED217 Mn in 2021 compared to a Net loss of AED1.27 Bn in 2020, this is mainly due to the increase in Net Funded Income and Fees and Commission Income. Net Funded Income is anticipated to increase by 11.7% YOY to AED2.98 Bn as compared to AED2.67 Bn in 2020, due to the decrease by 25% YOY in Interest Expense to AED1.58 Bn in 2021 as compared to AED2.11 Bn in 2020 and the decrease by 31.8% YOY in Distribution to depositors – Islamic products to AED185 Mn in 2021 from AED271 Mn in 2020. Total Other Operating Income would rise by 17.9% YOY to AED2.91 Bn in 2021 from AED2.47 Bn in 2020, mainly due to an increase by 30.5% YOY in Net Fee and Commission Income to AED1.59 Bn from AED1.22 Bn in 2020. Therefore, the Total Operating Income is predicted to rise by 14.7% to AED5.91 Bn in 2021 from AED5.14 Bn in 2020 while Operating Expenses are expected to decrease by 16.3% YOY to AED2.46 Bn in 2021 compared to AED2.94 Bn in 2020. Subsequently, the Cost-to-Income (C/I) ratio would decrease by 1545 bps to 41.8% in 2021 as compared to 57.2% in 2020.

#### 2Q21 outturn

MASQ's Interest Income has decreased by 10.3% YOY to AED1,058 Mn in 2Q21 from AED1,179 Mn in 2Q20, whereas Income from Islamic Financing has decreased by 28.6% YOY to AED111 Mn in 2Q21 from AED156 Mn in 2Q20. Interest Expense and Distribution to Depositors in Islamic Finance have decreased by 30.5% and 35.3% YOY to AED383 Mn and AED43 Mn, respectively in 2Q21. As a result, Net Funded Income has increased by 3.5% YOY to AED743 Mn, as compared to AED717 Mn in 2Q20. Net Fees and Commission Income has increased by 21.3% YOY to AED369 Mn from AED305 Mn in 2Q20. Similarly, Other Income has increased by 27% YOY to AED243 Mn in 2Q21, as compared to AED191 Mn in 2Q20. Therefore, the Total Operating Income has increased by 11.7% YOY to AED1,461 Mn in 2Q21 from AED1,308 Mn in 2Q20. While the Operating expenses decreased by 3.5% YOY to AED601 Mn from AED623 Mn in 2Q20. Thus, the Cost to income ratio has declined by 645 bps to 41.1% from 47.6% in 2Q20. Impairment has increased by 37.9% YOY in 2Q21 to AED785 Mn compared to AED570 Mn in 2Q20, reducing the profitability. Net Advances have increased by 1.07% YOY to AED77.28 Bn from AED76.46 Bn in 2Q20. While, Total Assets have declined slightly by 0.32% YOY to AED172.76 Bn in 2Q21 from AED173.31 Bn in 2Q20. Whereas, the Customer Deposits have decreased by 3.16% to AED95.43 Bn in 2Q21 compared to AED98.55 Bn in 2Q20. Total Equity declined by 8.6% YOY to AED20.06 Bn from AED21.96 Bn in 2Q20.

### Target price and recommendation

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

### MASQ – Relative Valuation

(at CMP)	2017	2018	2019	2020	2021E
P/E (x)	6.06	6.03	6.02	-9.72	57.38
P/B (x)	0.61	0.62	0.58	0.64	0.62
Dividend yield	5.7%	5.7%	5.7%	0.0%	0.5%

FABS Estimates & Co data

### MASQ - P&L

AED MN	3Q20	2Q21	3Q21F	YOY Ch	QOQ Ch	2020	2021F	Change
Interest income	1,004	1,058	1,100	9.6%	4.0%	4,515	4,310	-4.5%
Income from Islamic financing	133	111	112	-15.6%	1.0%	543	447	-17.8%
Interest expense	-507	-383	-407	-19.6%	6.2%	-2,111	-1,583	-25.0%
Distribution to depositors – Islamic products	-70	-43	-46	-34.0%	6.4%	-271	-185	-31.8%
<b>Net funded income</b>	<b>561</b>	<b>743</b>	<b>759</b>	<b>35.4%</b>	<b>2.3%</b>	<b>2,676</b>	<b>2,989</b>	<b>11.7%</b>
Net Fee and commission income	283	369	381	34.7%	3.0%	1,220	1,591	30.5%
Inc. from investment securities	67	105	109	61.1%	3.0%	321	355	10.6%
Other income, net	229	243	245	6.9%	0.8%	931	969	4.1%
Total other OI	579	718	734	26.7%	2.2%	2,472	2,915	17.9%
<b>Total operating income</b>	<b>1,140</b>	<b>1,461</b>	<b>1,494</b>	<b>31.0%</b>	<b>2.3%</b>	<b>5,148</b>	<b>5,905</b>	<b>14.7%</b>
General & admin. Exps	-629	-601	-612	-2.7%	1.9%	-2,945	-2,465	-16.3%
<b>Pre provision profit</b>	<b>511</b>	<b>860</b>	<b>881</b>	<b>72.4%</b>	<b>2.5%</b>	<b>2,203</b>	<b>3,439</b>	<b>56.1%</b>
Allowances for impairment, net	-665	-785	-770	15.9%	-2.0%	-3,357	-3,085	-8.1%
Overseas income tax expense	-12	-12	-12	6.3%	2.1%	-52	-51	-1.7%
Non-controlling interests	-18	-20	-22	19.4%	10.0%	-73	-87	19.6%
<b>Net Profit</b>	<b>-183</b>	<b>42</b>	<b>77</b>	<b>NM</b>	<b>82.2%</b>	<b>-1,278</b>	<b>217</b>	<b>NM</b>

FABS estimate & Co Data

**MASQ - KPI**

AED MN	3Q20	2Q21	3Q21F	YOY Ch	QOQ Ch	2020	2021F	Change
Net FI/OI	49.2%	50.8%	50.8%	164	0	52.0%	50.6%	-136
NIM	2.7%	2.3%	2.5%	-24	17	2.4%	2.6%	21
NIS	2.7%	2.3%	2.5%	-18	19	2.5%	2.7%	23
Fees & comms/OI	24.8%	25.3%	25.5%	70	19	23.7%	26.9%	326
Trading/OI	5.9%	7.2%	7.3%	136	5	6.2%	6.0%	-22
Cost to income	55.2%	41.1%	41.0%	-1417	-15	57.2%	41.8%	-1,545
Impairment/PPP	130.0%	91.4%	87.4%	-4263	-399	152.3%	89.7%	-6,265
NP/OI	-16.1%	2.9%	5.2%	2123	227	-24.8%	3.7%	2,849
ROAE	-0.8%	0.2%	0.4%	120	16	-6.0%	1.1%	709
ROAA	-0.1%	0.02%	0.04%	16	2	-0.8%	0.1%	93

*FABS estimate & Co data*

**MASQ - Key B/S items**

AED MN	3Q20	4Q20	1Q21	2Q21	3Q21F	Change
Net advances	71,533	71,533	75,797	77,282	78,171	9.3%
QOQ change	-3.3%	0.0%	6.0%	2.0%	1.2%	
Total assets	169,724	158,523	162,253	172,763	181,510	6.9%
QOQ change	-2.1%	-6.6%	2.4%	6.5%	5.1%	
Customer deposits	94,716	88,261	90,205	95,433	99,791	5.4%
QOQ change	-3.9%	-6.8%	2.2%	5.8%	4.6%	
Total equity	21,727	20,188	19,652	20,067	20,595	-5.2%
QOQ change	-1.1%	-7.1%	-2.7%	2.1%	2.6%	

*FABS estimate & Co data*



### 3Q21 preview: Sharjah Islamic Bank (NBS)

Higher Operating Income and decline in Provisions to boost Profits

CMP (AED): 1.79

Potential upside (%): +6.15%

12-m target price:

**AED 1.90**

Stock rating:

**HOLD**

#### 3Q21 estimate

Sharjah Islamic Bank (NBS) is forecasted to report a 42.7% YOY increase in Net Profit to AED146 Mn in 3Q21, up from AED102 Mn in 3Q20. The Net Funded Income is expected to increase by 14.8% YOY to AED271 Mn in 3Q21, up from AED236 Mn in 3Q20. The Income from Financing and Leasing is expected to increase slightly by 0.6% YOY to AED430 Mn in 3Q21. The Depositor's share of Profit is expected to increase by 10.5% YOY to AED159 Mn in 3Q21, up from AED144 Mn in 3Q20. The Profit Expense on Sukuks is expected to decline significantly to nil, down from AED48 Mn in 3Q20. The Non-Funded Income is expected to decline slightly by 0.3% YOY to AED71 Mn in 3Q21. It is driven by 0.3% YOY decline in Fees and Commissions to AED71 in 3Q21. As a result, the Operating Income is expected to increase by 11.3% YOY to AED341 Mn in 3Q21, up from AED307 Mn in 3Q20. The General and Administrative Expenses are likely to increase by 4.1% YOY to AED140 Mn in 3Q21, up from AED134 Mn in 3Q20. Resultantly, the Pre-Provision Profit is expected to increase by 16.9% YOY to AED202 Mn in 3Q21, up from AED172 Mn in 3Q20. The Provisions are expected to decline by 20.5% YOY to AED56 Mn in 3Q21, down from AED70 Mn in 3Q20. As a result, the Net Profit is expected to increase by 42.7% YOY to AED146 Mn in 3Q21, up from AED102 Mn in 3Q20.

#### 2021 forecast

We forecast NBS's Net Profit to increase by 48.1% YOY to AED601 Mn in 2021, up from AED406 Mn in 2020. The Net Funded Income is expected to increase by 11.7% YOY to AED1,088 Mn in 2021, up from AED974 Mn in 2020. The Income from Financing and Leasing is likely to decrease by 1.1% YOY to AED1,708 Mn in 2021. The Depositors share of profits is expected to increase by 7.5% YOY to AED621 Mn in 2021, up from AED577 Mn in 2020. The Profit Expense on Sukuks is likely to decline significantly to nil in 2021, down from AED177 Mn in 2020. Resultantly, the Net Funded Income is likely to increase by 11.7% YOY in 2021. The Non-Funded Income is expected to increase strongly by 17.4% YOY to AED292 Mn in 2021, up from AED249 Mn in 2020. As a result, the Operating Income is expected to increase by 12.8% YOY to AED1,380 Mn in 2021, up from AED1,223 Mn in 2020. The General & Administrative Expenses are likely to decline by 1.9% YOY to AED551 Mn in 2021, down from AED561 Mn in 2020. The Provisions are expected to decline by 10.8% YOY to AED228 Mn in 2021, down from AED256 Mn in 2020. As a result, the Net Profit is expected to increase strongly by 48.1% YOY to AED601 Mn in 2021, up from AED406 Mn in 2020.

#### 2Q21 outturn

The Net Funded Income increased by 15.1% YOY to AED275 Mn in 2Q21, up from AED239 Mn in 2Q20. This was mainly due to reduction in Depositor's share of profits by 8.7% YOY to AED142 Mn in 2Q21 as compared to AED156 Mn in 2Q20. Furthermore, the Profit on expense for Sukuks were nil in 2Q21. The decline in expenses outweighed the 3% YOY decline in Income from investment. The Non-Funded income increased by 13.9% YOY to AED69 Mn in 2Q21, up from AED60 Mn in 2Q20. It comprises of Fees, commission, and Other Income. Resultantly, the Operating Profit grew by 14.9% YOY to AED343 Mn in 2Q21, up from AED299 Mn in 2Q20 due to healthy growth in Net Funded and Non-Funded Income on a year-on-year basis. The Provisions increased significantly by 18.2% YOY to AED80 Mn in 2Q21 as compared to AED68 Mn in 2Q20. The Net Profit increased by 27.9% YOY to AED125 Mn in 2Q21 up from AED98 Mn in 2Q20. The Net Advances increased slightly by 0.7% YOY to AED29.3 Bn in 2Q21, up from AED29.1 Bn in 2Q20. The Customer Deposits grew strongly by 8.5% YOY to AED35 Bn in 2Q21 as compared to AED32 Bn in 2Q20. Similarly, Total Assets increased by 3.2% YOY to AED54 bn in 2Q21.

### Target price and recommendation

We revise our rating to Hold with a target price of AED1.90. Sharjah Islamic Bank (NBS) reported a robust 27.9% YOY increase in Net Profit to AED125 Mn in 2Q21 as compared to AED98 Mn in 2Q20. The performance was strong despite the COVID-19 pandemic, its repercussions and the 18.2% YOY increase in the Provisions reported by the Group. The Total Operating Income increased materially by 14.9% YOY to AED343 Mn in 2Q21. The Group's main activities are divided into four segments namely Government and Corporate, Retail, Investment & Treasury, Hospitality, brokerage, and real estate. The Total operating Income is mainly contributed by the Government & Corporate segment and comprises of 56.4% of the Total. The General & Administrative expenses increased by 3.6% YOY to AED138 Mn in 2Q21 up from AED134 Mn in 2Q20. As a result, the Cost-to-Income ratio decreased by 437 bps to 40.3% in 2Q21, as compared to 44.7% in 2Q20. The Group reported significant increase in its Provisions by 18.2% YOY to AED80 Mn in 2Q21, up from AED68 Mn in 2Q20. It was mainly due to the Bank's reassessed scenario to provide for the uncertainty related to the ECLs. The NIM & NIS both declined by 37 bps to 2.3% to 2Q21 down from 2.7% in 2Q20. The Group pursues stable growth in the financial position and strategizes initiatives accordingly. As a result, the Total Assets increased by 3.2% YOY to AED54 Bn in 2Q21. The Net Investment in Islamic Financing comprises of a significant 54% of the Group's asset composition. It increased slightly by 1% YOY to AED29.3 Bn in 2Q21. The High-Quality Liquid Assets (HQLA) increased by 20% YOY to AED13 bn in 2Q21 up from AED11 Bn in 2Q20. The Customer Deposits increased notably by 8.5% YOY to AEDAED35 bn in 2Q21, a result of strong relations and customer loyalty for the Group. The Group follows conservative risk approach and strict risk framework to maintain its asset quality. As a result, the NPL ratio stood at 5.08% in 2Q21. The same framework improved the coverage ratio that stands at 94.8% in 2Q21. The Annualized return on average shareholders (ROAE) increased slightly by 15 bps to 1.7% in 2Q21. The Annualized return on average assets (ROAA) remained stable at 0.2% in 2Q21. The Capital Adequacy ratio (CAR) improved slightly 20.78%. Based on our analysis above, we assign a REDUCE rating.

### NBS – Relative Valuation

(at CMP)	2017	2018	2019	2020	2021F
P/E (x)	10.56	11.18	10.56	13.92	9.28
P/B (x)	1.01	1.04	0.98	0.96	0.72
Dividend yield	4.4%	4.4%	2.8%	4.4%	4.4%

FABS Estimates & Co Data

### NBS – P&L

AED MN	3Q20	2Q21	3Q21F	YOY ch	QOQ ch	2020	2021F	change
Income from fin. & Leasing	427	417	430	0.6%	3.0%	1,728	1,708	-1.1%
Depositors' share of profit	-144	-142	-159	10.5%	11.7%	-577	-621	7.5%
Profit expense on Sukuks	-48	0	0	-100.0%	NA	-177	0	NM
<b>Net funded income</b>	<b>236</b>	<b>275</b>	<b>271</b>	<b>14.8%</b>	<b>-1.5%</b>	<b>974</b>	<b>1,088</b>	<b>11.7%</b>
Fees and commissions	71	69	71	-0.3%	3.0%	249	292	17.4%
Total non-funded income	71	69	71	-0.3%	3.0%	249	292	17.4%
Total operating income	307	343	341	11.3%	-0.6%	1,223	1,380	12.8%
General & admin. Expenses	-134	-138	-140	4.1%	1.0%	-561	-551	-1.9%
<b>Pre provision profit</b>	<b>172</b>	<b>205</b>	<b>202</b>	<b>16.9%</b>	<b>-1.7%</b>	<b>662</b>	<b>829</b>	<b>25.3%</b>
Provisions	-70	-80	-56	-20.5%	-30.0%	-256	-228	-10.8%
<b>Net profit</b>	<b>102</b>	<b>125</b>	<b>146</b>	<b>42.7%</b>	<b>16.3%</b>	<b>406</b>	<b>601</b>	<b>48.1%</b>

FABS Estimates & Co Data



**NBS – KPI**

	3Q20	2Q21	3Q21F	YOY ch	QOQ ch	2020	2021F	Change
AED MN								
Net FI/OI	76.9%	80.0%	79.3%	241	-72	79.6%	78.8%	-8
NIM	2.7%	2.4%	2.4%	-23	2	2.3%	2.3%	-0.1
NIS	2.7%	2.4%	2.4%	-24	3	2.3%	2.3%	0.1
Fees & comms/OI	23.1%	20.0%	20.7%	-241	72	20.4%	21.2%	8
Cost to income	43.8%	40.3%	40.9%	-282	65	45.9%	39.9%	-60
Provisions/PPP	40.8%	38.9%	27.7%	-1,306	-1,120	38.7%	27.5%	-111
NP/OI	33.3%	36.5%	42.7%	939	622	33.2%	43.6%	104
ROAE	1.4%	1.7%	1.9%	54	24	5.3%	7.8%	25
ROAA	0.2%	0.2%	0.3%	6	4	0.8%	1.1%	3

*FABS Estimates & Co Data*
**NBS – Key BS Items**

	3Q20	4Q20	1Q21	2Q21	3Q21F	Change
AED MN						
Net advances	29,536	29,269	29,327	29,292	29,585	0.2%
QOQ Change	2%	-1%	0%	0%	1%	
Total assets	53,332	53,601	54,919	54,351	54,964	3.1%
QOQ Change	1%	1%	2%	-1%	1%	
Customer deposits	32,605	33,608	35,476	34,992	35,342	8.4%
QOQ Change	1%	3%	6%	-1%	1%	
Total equity	7,644	7,645	7,492	7,615	7,761	1.5%
QOQ Change	1%	0%	-2%	2%	1.9%	

*FABS Estimates & Co Data*

### 3Q21 preview: Commercial Bank of Dubai (CBD)

Increase in Operating Income likely to boost profitability

CMP (AED): 4.03

Potential downside (%): +6.7%

12-m target price:

**AED 4.30**

Stock rating:

**HOLD**

#### 3Q21 forecast

Commercial Bank of Dubai (CBD) is forecasted to increase its Net Profit by 40.5% YOY to AED401 Mn in 3Q21, up from AED285 Mn in 3Q20. The Net Funded Income is expected to increase by 30.4% YOY to AED578 Mn in 3Q21, up from AED443 Mn in 3Q20. The Funded Expense is likely to decline by 25.7% YOY to AED163 Mn in 3Q21, down from AED219 Mn in 3Q20. The Funded Income is expected to increase by 11.8% YOY to AED741 Mn in 3Q21, up from AED663 Mn in 3Q20. The Non-Funded Income is expected to increase by 27.8% YOY to AED321 Mn in 3Q21, up from AED251 Mn in 3Q20. It is likely to be driven by Fees and Commissions with 29.9% YOY increase to AED215 Mn in 3Q21, up from AED166 Mn in 3Q20. The Trading Income is expected to increase by 29.6% YOY to AED78 Mn in 3Q21, up from AED60 Mn in 3Q20. The Other Non-Funded Income increased by 9.1% YOY to AED28 Mn in 3Q21, up from AED25 Mn in 3Q20. The Operating Income is expected to increase by 29.4% YOY to AED899 Mn in 3Q21, up from AED695 Mn in 3Q20. The General and Administrative Expenses are likely to increase by 8.2% YOY to AED212 Mn in 3Q21, up from AED196 Mn in 3Q20. The Operating Expenses are likely to increase by 7% YOY to AED219 Mn in 3Q21, up from AED205 Mn in 3Q20. The Pre-Provision Profit is expected to increase by 38.8% YOY to AED680 Mn in 3Q21, up from AED490 Mn in 3Q20. The Impairment Allowances are expected to increase by 37% YOY to AED295 Mn in 3Q21, up from AED215 Mn in 3Q20. The Profit from NCI is expected to increase to AED1 Mn in 3Q21. As a result, the Net Profit is expected to increase by 40.5% YOY to AED401 Mn in 3Q21, up from AED285 Mn in 3Q20.

#### 2021 forecast

We forecast CBD's Net Profit to increase by 34.8% YOY to AED1,510 Mn in 2021, up from AED1,120 Mn in 2020. The Net Funded Income is expected to increase by 16.3% YOY to AED2,195 Mn in 2021, up from AED1,887 Mn in 2020. It is expected to be driven by 34.3% YOY decline in Funded Expenses to AED643 Mn in 2021, down from AED979 Mn in 2020. The Non-Funded Income is expected to increase slightly by 1% YOY to AED1,096 Mn in 2021. The Fees and Commissions are likely to increase by 26.8% YOY to AED826 Mn in 2021, up from AED651 Mn in 2020. The Trading Income is expected to decline by 31.3% YOY to AED266 Mn in 2021, down from AED387 Mn in 2020. The Other Non-Funded Income is expected to decline by 89.9% YOY to AED5 Mn in 2021, down from AED48 Mn in 2020. The Operating Income is likely to increase by 10.7% YOY to AED3,291 Mn in 2021, up from AED2,972 Mn in 2020. The General and Administrative expenses are likely to increase by 5.9% YOY to AED825 Mn in 2021, up from AED779 Mn in 2020. The Operating Expenses are likely to increase by 5.8% YOY to AED854 Mn in 2021, down from AED807 Mn in 2020. The Pre-Provision Profit is expected to increase by 12.6% YOY to AED2,437 Mn in 2021, up from AED2,165 Mn in 2020. The Impairment Charges are likely to increase by 2.4% YOY to AED1,089 Mn in 2021, up from AED1,063 Mn in 2020. The Recoveries are expected to increase by 90.3% YOY and Share of Profit of associates are expected to increase significantly. As a result, the Net Profit is expected to increase by 34.8% YOY to AED1,510 Mn in 2021, up from AED1,120 Mn in 2020.

#### 2Q21 Outturn

Bank's Funded Income has decreased by 5.6% YOY to AED686 Mn in 2Q21 from AED727 Mn in 2Q20. Whereas the Funded Expense has decreased by 46% YOY to AED152 Mn in 2Q21, as compared to AED282 Mn in 2Q20. As a result, the Net Funded Income has increased by 20% YOY to AED534 Mn from AED445 Mn in 2Q20. Fees and Commissions increased by 54.7% YOY to AED203 Mn in 2Q21 from AED131 Mn in 2Q20. Similarly, the Trading Income has shown a growth by 42.2% YOY to AED74 Mn in 2Q21 compared to AED52 Mn in 2Q20. Therefore, the Total Non-Funded Income has increased 44.6% YOY to AED304 Mn from AED210 Mn in 2Q20. Thus, the Total Operating Income increased by 27.9% YOY to AED837 Mn from AED655 Mn in 2Q20. Total Operating Expenses including

(General & Administrative, Depreciation and Amortization) increased by 15.2% YOY to AED213 Mn in 2Q21 from AED185 Mn in 2Q20. Resultantly, the Cost to Income ratio (C/I) has declined by 282 bps to 25.4% in 2Q21. Additionally, Impairment Allowances on loans and Islamic Financing has increased by 20.9% YOY in 2Q21 to AED289 Mn from AED239 Mn in 2Q20. CBD's Net Advances have increased by 16.8% YOY to AED74.04 Bn compared to AED63.42 Bn in 2Q20. In addition, Total Assets have increased by 20.4% YOY to AED112.76 Bn in 2Q21 compared to AED93.68 Bn in 2Q20. Moreover, Customer Deposits have increased by 22.2% YOY to AED79.82 Bn from AED65.31 Bn in 2Q20. Total Equity has also increased by 27.3% YOY to AED12.96 Bn in 2Q21, as compared to AED10.18 Bn in 2Q20.

### Target price and recommendation

We maintain a HOLD rating on CBD with a target price of AED4.30. Commercial Bank of Dubai (CBD) has been always determined to achieve good financial results regardless of the situation while becoming an employer of choice by supporting its employees, encouraging a high-performance culture and retaining and recruiting talented nationals. CBD is also focused on the customer base and has been shifting more towards digitalization to better serve its customers. Net Profit has increased in 1H21 by 27.5% reaching AED 676 Mn from AED 530 Mn in 1H21 and Revenues showed an improvement by 11% as well from AED 1,412 Mn in first half of 2020 compared to AED 1,572 Mn during first half of 2021. The increase was mainly due to lower Funded Expense by 46% reaching AED 152 Mn in 2Q21 from AED 282 Mn in 2Q20 despite the lower Funded Income by 5.6% to AED 686 Mn in 2Q21 from AED 727 Mn in 2Q20 and higher Non-Funded Income by 44.6% reaching AED 304 Mn in 2Q21 from AED 210 Mn in 2Q20. The bank is maintaining a healthy and strong Balance sheet reflected in an increase in the Assets to reach AED 112.76 Bn in 2Q21 from AED 97.36 Bn by end of 2020. Net Loans have increased from AED 65.28 Bn as at end of 2020 to AED 74.04 Bn at the end of first half 2021 with Non-Performing Loan ratio decreasing to 6.44% from 6.77% as at end of 2020 and provisions marginally decreasing from 5.45% in December 2020 to 5.42% in 2Q21. Customer Deposits have increased significantly from AED 69.75 Bn as at end of 2020 to AED 79.82 Bn in 2Q21 showing stable funding and supporting the loan growth with the Loans to Deposits (LTD) ratio slightly decreasing from 93.6% in December 2020 to 92.8% in June 2021. The highest increase in Deposits came from the corporate sector from AED 35.55 Bn as at end of 2020 to AED 42.48 Bn as at end of 2Q21, with COVID-19 global pandemic effects fading and with the economy rebounding after the decrease it witnessed within the last couple of years. The bank is still showing capital strength despite the decrease in Capital Adequacy Ratio (CAR) by 96 bps to 15.69% in 2Q21 from 16.65% as at end of previous year but still above the minimum requirement of 13% set by regulators. Common Equity Tier 1 (CET1) ratio has also decreased reaching 12.04% in 2Q21 from 12.71% as at end of 2020 but also above the requirement of 9.5%. Net Interest Margin (NIM) remained almost stable in 1H21 at 2.05% as compared to 2% same period last year with Cost of Fund decreasing from 1.52% in 2Q20 to 0.74% in 2Q21. Return on Equity (ROE) reached 12.67% in 1H21 an increase by 195 bps as compared to same period last year and higher than 12.38% in first quarter 2021 and Return on Assets (ROA) slightly increased by 8 bps to 1.29% in 1H21 as compared to end of the previous year. It is worth noting the solid operating performance achieved by CBD in 2Q21 with Operating Profit increasing by 13.4% to AED 1,163 Mn in 1H21 as compared to same period last year with the Cost-to-Income ratio decreasing by 135 bps to 26.01% as compared to 1H21. Finally, the Cost of Risk is showing some signs of improvement by decreasing to 1.21% as at end of second quarter 2021 as compared to 1.51% by end of year 2020. The stock is currently trading at P/B of 1.05x, leading us to maintain a HOLD rating.

### CBD - Relative valuation

(at CMP)	2017	2018	2019	2020	2021E
P/E (x)	11.19	9.83	8.06	10.08	7.48
P/B (x)	1.24	1.23	1.11	1.05	0.85
Dividend yield	4.3%	5.1%	5.1%	5.0%	5.0%

FABS Estimates & Co Data

**CBD - P&L**

AED MN	3Q20	2Q21	3Q21F	YOY Ch	QOQ Ch	2020	2021F	Change
Funded income	663	686	741	11.8%	8.0%	2,865	2,838	-1.0%
Funded expense	-219	-152	-163	-25.7%	7.0%	-979	-643	-34.3%
<b>Net funded income</b>	<b>443</b>	<b>534</b>	<b>578</b>	<b>30.4%</b>	<b>8.3%</b>	<b>1,887</b>	<b>2,195</b>	<b>16.3%</b>
Fees and commissions	166	203	215	29.9%	6.0%	651	826	26.8%
Trading income	60	74	78	29.6%	5.8%	387	266	-31.3%
Other non-funded income	25	27	28	9.1%	3.0%	48	5	-89.9%
<b>Total non-funded income</b>	<b>251</b>	<b>304</b>	<b>321</b>	<b>27.8%</b>	<b>5.7%</b>	<b>1,086</b>	<b>1,096</b>	<b>1.0%</b>
<b>Total operating income</b>	<b>695</b>	<b>837</b>	<b>899</b>	<b>29.4%</b>	<b>7.3%</b>	<b>2,972</b>	<b>3,291</b>	<b>10.7%</b>
General and administrative expenses	-196	-206	-212	8.2%	3.0%	-779	-825	5.9%
Depreciation and amortization	-9	-7	-7	-18.5%	2.0%	-28	-29	3.8%
<b>Operating Expenses</b>	<b>-205</b>	<b>-213</b>	<b>-219</b>	<b>7.0%</b>	<b>3.0%</b>	<b>-807</b>	<b>-854</b>	<b>5.8%</b>
<b>Pre provision profit</b>	<b>490</b>	<b>624</b>	<b>680</b>	<b>38.8%</b>	<b>8.8%</b>	<b>2,165</b>	<b>2,437</b>	<b>12.6%</b>
Impair allow. on loans & adv and Islamic fin	-215	-289	-295	37.0%	2.0%	-1,063	-1,089	2.4%
Recoveries	11	12	13	15.5%	3.0%	24	45	90.3%
Impairment allowances on AFS investment	0	0	0	NA	3.0%	-17	-14	-17.9%
Share of profit of assoc.	0	4	4	NA	3.0%	6	15	143.2%
<b>Profit before NCI</b>	<b>285</b>	<b>351</b>	<b>401</b>	<b>40.6%</b>	<b>14.2%</b>	<b>1,120</b>	<b>1,510</b>	<b>34.8%</b>
Non-controlling interest	0	0	1	NA	NA	0	0	NM
<b>Net profit</b>	<b>285</b>	<b>351</b>	<b>401</b>	<b>40.5%</b>	<b>14.1%</b>	<b>1,120</b>	<b>1,510</b>	<b>34.8%</b>

FABS Estimates & Co Data

**CBD - KPI**

AED MN	3Q20	2Q21	3Q21F	YOY Ch	QOQ Ch	2020	2021F	Change
Net FI/OI	63.8%	63.7%	64.3%	47	56	63.5%	64.4%	91
NIM	5.1%	4.6%	4.4%	-68	-18	5.4%	4.1%	-128
NIS	5.1%	4.6%	4.4%	-69	-18	5.4%	4.1%	-127
Fees & comms/OI	23.9%	24.2%	23.9%	9	-30	21.9%	24.2%	231
Trading/OI	8.7%	8.1%	8.0%	-67	-10	7.5%	7.8%	34
Cost to income	29.5%	25.4%	24.4%	-511	-104	27.2%	25.1%	-211
Impairment/PPP	41.7%	44.4%	41.6%	-8	-281	48.5%	41.5%	-708
NP/OI	41.1%	41.9%	44.6%	350	268	37.7%	44.3%	662
ROAE	2.8%	3.0%	3.4%	56	32	9.7%	11.5%	186
ROAA	0.3%	0.3%	0.4%	6	4	1.2%	1.4%	18

FABS Estimates & Co Data

**CBD - Key B/S items**

AED MN	3Q20	4Q20	1Q21	2Q21	3Q21F	Change
Net advances	62,980	65,289	69,598	74,044	75,525	19.9%
QOQ Change	-0.7%	3.7%	6.6%	6.4%	2.0%	
Total assets	92,750	97,362	102,471	112,767	115,485	24.5%
QOQ Change	-1.0%	5.0%	5.2%	10.0%	2.4%	
Customer deposits	64,000	69,751	70,902	79,820	81,416	27.2%
QOQ Change	-2.0%	9.0%	1.7%	12.6%	2.0%	
Total equity	10,526	12,954	12,623	12,966	13,366	27.0%
QOQ Change	3.3%	23.1%	-2.6%	2.7%	3.1%	

FABS Estimates & Co Data

### 3Q21 preview: Ajman Bank (AJMANBAN)

Increase in Non-Funded Income supports the bottom-line

CMP (AED): 0.69  
Potential upside (%): 13.9%

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

Stock rating:  
**ACCUMULATE**

#### 3Q21 estimate

Ajman Bank (AJMANBANK) is expected to report a significant increase in Net Profit to AED39 Mn in 3Q21 from AED13 Mn in 3Q20. This is mainly due to a rise in Non-Funded Income. Funded Income is expected to decrease by 18.7% YOY to AED170 Mn in 3Q21 from AED209 Mn in 3Q20. Funded Expense is expected to decline by 37.1% YOY to AED63 Mn in 3Q21 from AED100 Mn in 3Q20. Resultantly, the Net Funded Income is anticipated to decrease by 1.9% YOY to AED107 Mn in 3Q21 from AED109 Mn in 3Q20. Total Non-Funded Income is forecasted to significantly increase by 73.5% YOY to AED63 Mn in 3Q21 up from AED36 Mn in 3Q20 as the Fees and Commissions are forecasted to increase significantly to reach AED33 Mn in 3Q21 compared to only AED3 Mn in 3Q20, whereas the trading income is expected to decrease to AED30 Mn in 3Q21 down from AED34 Mn in 3Q20. Therefore, Total Operating Income is estimated to rise by 16.9% YOY to AED170 Mn in 3Q21 compared to AED145 Mn in 3Q20. On the other hand, the Operating Expenses are forecasted to decrease by 2.8% to AED65 Mn in 3Q21 from AED67 Mn in 3Q20. Thus, the Cost-to-Income (C/I) ratio is expected to decline by 780 bps to 38.4% in 3Q21 compared to 46.2% in 3Q20. Impairment charges are estimated to remain the same at AED65 Mn in 3Q21.

#### 2021 forecast

We estimate AJMANBANK's Net Profit to significantly increase to AED148 Mn in 2021 from a Net profit of AED53 Mn in 2020, mainly due to an increase in Non-Funded Income and a decline in the Impairment charges. Funded Income is estimated to decrease by 21.5% YOY to AED690 Mn in 2021 down from AED879 Mn in 2020. Funded Expense is also expected to decline by 43.2% YOY to AED247 Mn in 2021 from AED435 Mn in 2020. Resultantly, the Net Funded Income is estimated to marginally decrease by 0.2% YOY to AED443 Mn in 2021 from AED444 Mn in 2020. Non-Funded Income is anticipated to rise by 36.8% to AED233 Mn in 2021 from AED170 Mn in 2020, led by the expected significant increase YOY in Fees and Commissions to AED126 Mn up from AED49 Mn in 2020, in addition to the slight increase by 0.7% YOY in the Trading income to AED110 Mn in 2021 from AED109 Mn in 2020. Therefore, the Total Operating Income would increase by 10% YOY to AED676 Mn in 2021 while the Operating Expenses would decrease by 5.1% to AED275 Mn in 2021 compared to AED261 Mn in 2020. Thus, the Cost-to-Income ratio would decline by 190 bps YOY to 40.6% in 2021 from 42.5% in 2020. Impairment charges are estimated to decline by 15.5% YOY to AED254 Mn in 2021 from AED 300 Mn in 2020.

#### 2Q21 Outturn

Funded Income has declined by 23.6% YOY to AED165 Mn in 2Q21 from AED216 Mn in 2Q20. Funded Expenses declined by 50.5% YOY to AED60 Mn in 2Q21 from AED122 Mn in 2Q20. Resultantly, the Net Funded Income rose by 11% YOY to AED105 Mn compared to AED94 Mn in 2Q20. While, the Fees and Commissions have shown a significant growth reaching AED31 Mn in 2Q21 from AED3 Mn in 2Q20. Similarly, the Trading Income increased by 63% YOY to AED30 Mn in 2Q21 from AED18 Mn in 2Q20. As a result, the Total Non-Funded Income significantly increased to AED61 Mn in 2Q21 compared to AED24 Mn in 2Q20. Therefore, the Total Operating Income rose by 39.5% YOY to AED165 Mn in 2Q21 from AED119 Mn in 2Q20. Whereas the Total Operating Expenses increased by 2.5% YOY to AED65.9 Mn from AED64 Mn in 2Q20. Thus, the Cost to Income ratio declined to 39.8% from 54.2% in 2Q20. Impairment charges have significantly increased to AED69 Mn in 2Q21, as compared to AED16 Mn in 2Q20, reducing the profit. The Bank's Net Advances declined by 9.9% YOY to AED16 Bn in 2Q21 from AED17.7 Bn in 2Q20. Whereas the Customer Deposits dropped by 6.1%



YOY to AED13.8 Bn in 2Q21 from AED14.7 Bn in 2Q20. Similarly, the Total Assets have dropped by 9.5% YOY to AED21.3 Bn in 2Q21 from AED23.55 Mn in 2Q20, while the Total Equity rose by 3.4% YOY to AED2.5 Bn in 2Q21 compared to AED2.4 Bn in 2Q20.

### Target price and recommendation

We revise our rating to ACCUMULATE on AJMANBANK with a target price of AED0.78. Ajman bank's Net Profit decreased in second quarter 2021 by 20.4% compared to the Net Profit recorded same period last year reaching AED31 Mn as compared to AED38 Mn due to the decrease in Funded Income from AED216 Mn in 2Q20 to AED165 Mn in 2Q21. Funded Expenses decreased by almost 51% reaching AED60 Mn in 2Q21, constituting 36% of Funded Income, as compared to AED122 Mn in 2Q20, 56% of Funded Income. The bank's NIM has decreased to 3.1% in 2Q21 from 3.5% in 2Q20 while NIS dropped to 3.1% from 3.6% in 2Q20. Furthermore, ADR level decreased from 120.2% in 2Q20 to 115.3% in 2Q21 while both Loans and Deposits decreased in second quarter 2021 YOY by 9.9% and 6.1% respectively. Ajman bank's Return on Average Assets (ROAA) stood at 0.1% in 2Q21 recorded 1.2% in 2Q21 from 1.5% in 2Q20, a decrease by 32 bps also due to the slight decrease in performance of the bank in 2Q21. The bank's Debt to Equity ratio (D/E) stood at 7.27x in 2Q21 as compared to 8.46x in 2Q20; this number indicates that the bank is still highly leveraged despite the witnessed decrease YOY. The bank reported a Capital Adequacy Ratio (CAR) of 16.15% in 2Q21 as compared to 16.02% as at end of 2020, above the minimum requirement of 10.5%, while Common Equity Tier 1 (CET1) recorded a slight increase to 15% from 14.86% as at end of 2020, also above the minimum required ratio 7%; both ratios indicate that the bank is healthy in terms of solvency and can face losses in the upcoming future without being at risk of becoming insolvent. Finally, the bank has been following a conservative dividend policy in order to increase capital from internal resources and to be able to meet its future growth forecasts. In 2020 the bank did not pay any dividend as opposed to AED 73.5 Mn dividend approved and paid for the year ended 31 December 2019. Therefore, we maintain our Accumulate rating on the stock.

### AJMANBAN – Relative Valuation

(at CMP)	2017	2018	2019	2020	2021E
P/E (x)	8.83	7.01	17.44	27.20	9.71
P/B (x)	0.54	0.58	0.57	0.57	0.54
Dividend yield	5.1%	5.1%	0.0%	0.0%	0.0%

FABS Estimates & Co data

### Ajman Bank – P&L

AED MN	3Q20	2Q21	3Q21F	YOY Ch	QOQ Ch	2020	2021F	Change
Funded income	209	165	170	-18.7%	3.0%	879	690	-21.5%
Funded expenses	-100	-60	-63	-37.1%	4.1%	-435	-247	-43.2%
<b>Net funded income</b>	<b>109</b>	<b>105</b>	<b>107</b>	<b>-1.9%</b>	<b>2.4%</b>	<b>444</b>	<b>443</b>	<b>-0.2%</b>
Fees and commissions	3	31	33	NM	5.0%	49	126	NM
Trading income	34	30	30	-11.1%	1.2%	109	110	0.7%
Share of result of associate	0	0	0	NM	NM	13	-2	-119.3%
<b>Total non-funded income</b>	<b>36</b>	<b>61</b>	<b>63</b>	<b>73.5%</b>	<b>3.2%</b>	<b>170</b>	<b>233</b>	<b>36.8%</b>
<b>Total operating income</b>	<b>145</b>	<b>165</b>	<b>170</b>	<b>16.9%</b>	<b>2.7%</b>	<b>615</b>	<b>676</b>	<b>10.0%</b>
Operating expenses	-67	-66	-65	-2.8%	-1.2%	-261	-275	5.1%
<b>Pre provision profit</b>	<b>78</b>	<b>100</b>	<b>105</b>	<b>33.8%</b>	<b>5.2%</b>	<b>353</b>	<b>402</b>	<b>13.7%</b>
Impairment	-65	-69	-65	0.1%	-5.2%	-300	-254	-15.5%
<b>Net profit</b>	<b>13</b>	<b>30.6</b>	<b>39.3</b>	<b>NM</b>	<b>28.6%</b>	<b>53</b>	<b>148</b>	<b>NM</b>

FABS estimate & Co data

**Ajman Bank - KPI**

AED MN	3Q20	2Q21	3Q21F	YOY Ch	QOQ Ch	2020	2021F	Change
Net FI/OI	75.1%	63.2%	63.0%	-1208	-19	72.3%	65.5%	-675
NIM	3.4%	3.1%	3.1%	-37	1	2.9%	2.9%	5
NIS	3.6%	3.1%	3.1%	-54	0	2.9%	2.9%	0
Fees & comms/OI	1.8%	15.9%	19.0%	1718	313	7.9%	18.6%	1067
Trading/OI	23.1%	17.8%	17.6%	-554	-25	17.7%	16.2%	-150
Cost to income	46.2%	39.8%	38.4%	-780	-148	42.5%	40.6%	-190
Impairment/PPP	83.5%	69.3%	62.5%	-2105	-684	84.9%	63.1%	-2175
NP/OI	8.9%	18.5%	23.1%	1426	467	8.7%	21.9%	1321
ROAE	0.5%	1.2%	1.5%	102	34	2.1%	5.7%	360
ROAA	0.1%	0.1%	0.2%	13	5	0.2%	0.7%	44

FABS estimate & Co data

**Ajman Bank - Key B/S items**

AED MN	3Q20	4Q20	1Q21	2Q21	3Q21F	change
Net advances	17,231	16,961	16,982	16,001	16,682	-3.2%
QOQ change	-3.0%	-1.6%	0.1%	-5.8%	4.3%	
Total assets	22,611	21,507	21,967	21,316	21,654	-4.2%
QOQ change	-4.0%	-4.9%	2.1%	-3.0%	1.6%	
Customer deposits	14,477	14,226	13,895	13,876	14,252	-1.6%
QOQ change	-2.0%	-1.7%	-2.3%	-0.1%	2.7%	
Total equity	2,515	2,503	2,511	2,575	2,615	4.0%
QOQ change	1.0%	-0.5%	0.4%	2.5%	1.5%	

FABS estimate & Co data



## 3Q21 preview: Commercial Bank International (CBI)

Lower Impairments help increase profitability

CMP (AED): 0.65  
Potential downside (%): -13.8%

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

Stock rating:  
**REDUCE**

### 3Q21 estimate

The Commercial Bank International (CBI) is forecasted to increase its Net Profit significantly to AED36 Mn in 3Q21, up from Net Loss of AED66 Mn in 3Q20. The Net Funded Income is expected to increase by 4% YOY to AED96 Mn in 3Q21, up from AED93 Mn in 3Q20. The Funded Income is likely to decline by 14.2% YOY to AED133 Mn in 3Q21, down from AED155 Mn in 3Q20. The Income from Islamic Financing is expected to increase by 13% YOY to AED13 Mn in 3Q21, up from AED11 Mn in 3Q20. The Funded Expenses are expected to decline strongly by 31.6% YOY to AED48 Mn in 3Q21, down from AED70 Mn in 3Q20. The Non-Funded Income is expected to decline by 74.7% YOY to AED42 Mn in 3Q21, down from AED167 Mn in 3Q20. The Fees and Commissions is expected to increase by 49.3% YOY to AED37 Mn in 3Q21, up from AED25 Mn in 3Q20. The Other Operating Income is expected to decline by 96.1% YOY to AED6 Mn in 3Q21, down from AED143 Mn in 3Q20. Total Operating Income is likely to decline by 46.6% YOY to AED139 Mn in 3Q21, down from AED260 Mn in 3Q20. The Operating Expenses is likely to increase by 9.9% YOY to AED75 Mn in 3Q21, up from AED68 Mn in 3Q20. The Pre-Provision Profit is likely to decline by 66.7% YOY to AED64 Mn in 3Q21, down from AED192 Mn in 3Q20. The Impairment Charges are likely to decline by 85.6% YOY to AED28 Mn in 3Q21, down from AED196 Mn in 3Q20. The Non-controlling Interests are likely to decline to AED0, down from AED61 Mn in 3Q20. As a result, the Net profit is expected to increase significantly to AED36 Mn in 3Q21, up from Net Loss of AED66 Mn in 3Q20.

### 2021 forecast

We forecast CBI's Net Profit to increase significantly to AED12 Mn in 2021, up from Net Loss of AED27 Mn in 2020. The Net Funded Income is expected to decline by 8.9% YOY to AED380 Mn in 2021, down from AED418 Mn in 2020. The Funded Income is expected to decline by 20.8% YOY to AED528 Mn in 2021, down from AED667 Mn in 2020. The Income from Islamic Financing is likely to increase by 24% YOY to AED51 Mn in 2021, down from AED41 Mn in 2020. The Funded Expenses are likely to decline by 29.9% YOY to AED193 Mn in 2021, down from AED275 Mn in 2020. The Non-Funded Income is likely to decline by 48.7% YOY to AED165 Mn in 2021, down from AED323 Mn in 2020. The Fees and Commissions are likely to decline by 3.6% YOY to AED141 Mn in 2021. The Other Operating Income is likely to decline by 86.1% YOY to AED25 Mn in 2021, down from AED177 Mn in 2020. The Operating Expenses are likely to increase by 14.8% YOY to AED303 Mn in 2021, up from AED264 Mn in 2020. The Pre-Provision Profit is likely to decline by 49.1% YOY to AED242 Mn in 2021, down from AED476 Mn in 2020. The Impairment charges are likely to decline by 46.8% YOY to AED232 Mn in 2021, down from AED437 Mn in 2020. As a result, the Net Profit is expected to increase significantly to AED12 Mn in 2021, up from Net Loss of AED27 Mn in 2020.

### 2Q21 outturn

The Bank recorded a decrease by 26.3% YOY in the Funded Income to AED127 Mn in 2Q21 from AED172 Mn in 2Q20. The Funded Expenses reduced favourably by 30.4% YOY to AED44 Mn in 2Q21 from AED64 Mn in 2Q20. However, the reduction in Funded Income impacted the Net Funded Income to fall by 17.6% YOY to AED93 Mn in 2Q21 compared to AED113 Mn in 2Q20. The Fees and Commissions decreased by 33.2% YOY to AED35 Mn in 2Q21 from AED52 Mn in 2Q20. Similarly, the Other Operating Income decreased by 51.2% YOY to AED5 Mn in 2Q21, as compared to AED10 Mn in 2Q20. As a result, the Total Non-funded income reduced by 36.2% YOY to AED40 Mn in 2Q21, as compared to AED62 Mn in 2Q20. The Total Operating Income was impacted due to the unfavourable outcome and declined by 24.2% YOY to AED133 Mn in 2Q21 from AED175 Mn in 2Q20. The Operating Expenses increased by 6% YOY to AED74 Mn in 2Q21 from AED70 Mn in 2Q20. Resultantly, the Pre-Provision profit decreased by 44.2% YOY to AED59 Mn in 2Q21, as compared to AED106 Mn in 2Q20.

The Impairment charges have significantly decreased by 68% YOY to AED32 Mn in 2Q21, as compared to AED99 Mn in 2Q20. The Net Advances declined by 7.1% YOY to AED10.08 Bn in 2Q21, as compared to AED10.85 Bn in 2Q20. The Total Assets decreased by 9.2% YOY to AED17.05 Bn in 2Q21 from AED18.78 Bn in 2Q20. Similarly, the Customer Deposits also decreased by 6.1% YOY to AED10.67 Bn in 2Q21, as compared to AED11.37 Bn in 2Q20. The Total Equity decreased by 2.7% YOY to AED2.42 Bn in 2Q21 from AED2.48 Bn in 2Q20.

### Target price and recommendation

We maintain a REDUCE rating on CBI with a target price of AED0.56. Commercial Bank International (CBI) has been focusing on the health of its clients and employees as the effects of COVID-19 global pandemic were decreasing and economies worldwide were recovering from its severe impacts. As a result of this continued effort and improvement the bank has witnessed a significant increase in Net Profit to AED 28 Mn in 2Q21 from AED 6 Mn in 2Q20 and from a loss of AED 96 Mn in 1Q21. This was mainly due to a decrease in Interest Expense by 30.4% reaching AED 44 Mn in 2Q21 from AED 64 Mn in 2Q20 and a substantial decrease in Impairment Losses on Financial Assets by 69% from AED 87 Mn in 2Q20 to AED 27 Mn in 2Q21 and a significant decrease by 58% in Impairment Loss on Non-financial assets from AED 12 Mn in 2Q20 down to only AED 5 Mn in 2Q21. Net operating income witnessed a significant decrease by 24.2% from AED 175 Mn in 2Q20 to AED 133 Mn in 2Q21 with Net operating expenses increasing by 6% to AED 75 Mn in 2Q21 from AED 70 Mn in 2Q20. Nevertheless, Operating Profit reached AED 59 Mn at the end of 2Q21 from AED 106 Mn in 2Q20, a decrease by 44.2% YOY. The profitability ratios such as Return on Average Equity (ROE) and Return on Average Assets (ROA) increased to 1.1% and 0.2% respectively in 2Q21. Similarly, the Cost-to-Income ratio increased by 1589 bps YOY to 55.7% in 2Q21 as compared to 39.8% in 2Q20. The bank maintains capital strength with Capital Adequacy Ratio (CAR) standing at 14.7% although below the levels of the previous quarter and despite following a decreasing trend it is still above the regulatory requirements. Customers deposits have witnessed a decrease by 6.1% reaching AED 10.7 Bn in 2Q21 from AED 11.3 Bn in 2Q20 while Loans and Advances have decreased by 7.1% from AED 10.8 Bn in 2Q20 to AED 10.1 Bn in 2Q21. The Loans to Deposits ratio have decreased to 95.2% in 2Q21 down from 97.9% during the same period last year. Net Interest Margin (NIM) decreased in 2Q21 to 2.9% from 3.6% in 2Q20, a decrease by 64 bps, same as Net Interest Spread (NIS) decreasing from 3.7% last year same period to 2.9% 2Q21, a decrease by 80 bps. We maintain a REDUCE Rating on the stock.

### CBI – Relative Valuation

(at CMP)	2017	2018	2019	2020	2021F
P/E (x)	7.47	5.12	9.70	-40.63	-4.33
P/B (x)	0.56	0.58	0.56	0.57	0.50

FABS Estimates & Co Data

**CBI - P&L**

AED MN	3Q20	2Q21	3Q21F	YOY CH	QOQ ch	2020	2021F	Change
Funded income	155	127	133	-14.2%	5.0%	667	528	-20.8%
Income from Islamic financing & invest. assets	11	12	13	13.0%	5.0%	41	51	24.0%
Funded expenses	-70	-44	-48	-31.6%	8.6%	-275	-193	-29.9%
Depositors' share of profits	-4	-1	-1	-58.3%	2.0%	-15	-6	-61.8%
<b>Net funded income</b>	<b>93</b>	<b>93</b>	<b>96</b>	<b>4.0%</b>	<b>3.4%</b>	<b>418</b>	<b>380</b>	<b>-8.9%</b>
Fees and commissions	25	35	37	49.3%	6.0%	146	141	-3.6%
Other operating income, net	143	5	6	-96.1%	10.0%	177	25	-86.1%
<b>Total non-funded income</b>	<b>167</b>	<b>40</b>	<b>42</b>	<b>-74.7%</b>	<b>6.5%</b>	<b>323</b>	<b>165</b>	<b>-48.7%</b>
<b>Total operating income</b>	<b>260</b>	<b>133</b>	<b>139</b>	<b>-46.6%</b>	<b>4.3%</b>	<b>740</b>	<b>546</b>	<b>-26.3%</b>
Operating expenses	-68	-74	-75	9.9%	1.0%	-264	-303	14.8%
<b>Pre provision profit</b>	<b>192</b>	<b>59</b>	<b>64</b>	<b>-66.7%</b>	<b>8.4%</b>	<b>476</b>	<b>242</b>	<b>-49.1%</b>
Impairment (total)	-196	-32	-28	-85.6%	-10.8%	-437	-232	-46.8%
Share of results of associates	-1	0	0	NM	NM	-5	0	-100.0%
Non-controlling interests	-61	1	0	NM	NM	-61	2	NM
<b>Net profit</b>	<b>-66</b>	<b>28</b>	<b>36</b>	<b>NM</b>	<b>27.8%</b>	<b>-27</b>	<b>12</b>	<b>NM</b>

*FABS Estimates & Co Data*
**CBI - KPI**

AED MN	3Q20	2Q21	3Q21F	YOY Ch	QOQ Ch	2020	2021F	Change
Net FI/OI	35.7%	70.1%	69.5%	3,382	-63	56.4%	69.7%	1328
NIM	3.4%	2.9%	3.0%	-39	6	3.4%	3.3%	-19
NIS	3.5%	2.9%	3.0%	-54	4	3.5%	3.3%	-19
Fees & comms/OI	9.5%	26.1%	26.5%	1,701	43	19.7%	25.8%	608
Trading/OI	54.9%	3.8%	4.0%	-5,083	21	23.9%	4.5%	-1935
Cost to income	26.2%	55.7%	53.9%	2,775	-176	35.7%	55.6%	1990
Impairment/PPP	97.8%	45.5%	37.8%	-6,005	-774	84.0%	86.3%	233
NP/OI	-25.6%	21.0%	25.7%	5,130	473	-3.7%	2.2%	585
ROAE	-2.7%	1.1%	1.4%	412	31	-1.1%	0.5%	157
ROAA	-0.3%	0.2%	0.2%	55	5	-0.2%	0.1%	22

*FABS Estimates & Co Data*
**CBI - Key BS Items**

AED MN	3Q20	4Q20	1Q21	2Q21	3Q21F	Change
Net advances	10,565	10,372	10,226	10,082	10,141	-4.0%
QOQ Change	-2.7%	-1.8%	-1.4%	-1.4%	0.6%	
Total assets	18,269	17,141	15,970	17,053	17,241	-5.6%
QOQ Change	-2.7%	-6.2%	-6.8%	6.8%	1.1%	
Customer deposits	10,657	10,481	9,929	10,670	10,784	1.2%
QOQ Change	-6.2%	-1.7%	-5.3%	7.5%	1.1%	
Total equity	2,421	2,491	2,393	2,420	2,456	1.4%
QOQ Change	-2.7%	2.9%	-3.9%	1.1%	1.5%	

*FABS Estimates & Co Data*

### 3Q21 preview: United Arab Bank (UAB)

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

CMP (AED): 0.75

Potential downside (%): -73.2%

12-m target price:

**AED0.20**

Stock rating:

**SELL**

#### 3Q21 estimate

United Arab Bank (UAB) is forecasted to improve its Net Profit significantly to AED25 Mn in 3Q21, up from Net Loss of AED156 Mn in 3Q20. The Net Interest Income is expected to increase strongly by 47.7% YOY to AED90 Mn in 3Q21, up from AED61 Mn in 3Q20. It is likely to be driven by 49.8% YOY decline in Interest Expense to AED42 Mn in 3Q21, down from AED85 Mn in 3Q20. The Interest Income is also expected to decline by 9% YOY to AED 133 Mn in 3Q21, down from AED146 Mn in 3Q20. The Total Non-Funded Income is expected to increase by 24.5% YOY to AED28 Mn in 3Q21, up from AED22 Mn in 3Q20. It is likely to be driven by growth in Other Non-Funded Income by 50.9% YOY to AED10 Mn in 3Q21, up from AED7 Mn in 3Q20. The Fees and Commissions are expected to increase by 13.9% YOY to AED13 Mn in 3Q21, up from AED11 Mn in 3Q20. The Exchange Income is expected to increase by 12% YOY to AED5 Mn in 3Q21, up from AED4 Mn in 3Q20. As a result, the Operating Income is expected to increase by 32.9% YOY to AED111 Mn in 3Q21, up from AED84 Mn in 3Q20, majorly supported by increase in Net Interest Income. The General and Administrative Expenses are likely to decrease by 8.7% YOY to AED61 Mn in 3Q21, down from AED67 Mn in 3Q20. As a result, the Cost to Income ratio is expected to decrease to 55.2% in 3Q21, down from 80.4% in 3Q20 significantly. The Impairment charges are expected to decline strongly by 85.8% YOY to AED25 Mn in 3Q21, down from AED172 Mn in 3Q20. As a result, the Net Profit is expected to rebound back to Net Profit of AED25 Mn in 3Q21, up from Net Loss of AED156 Mn in 3Q20.

#### 2021 forecast

We forecast UAB's Net Profit to increase significantly to AED89 Mn in 2021, up from Net Loss of AED667 Mn in 2020. The Net Interest Income is expected to increase by 6.4% YOY to AED312 Mn in 2021, up from AED293 Mn in 2020. It is likely to be driven by decline in Interest Expense by 52.4% YOY to AED166 Mn in 2021, down from AED349 Mn in 2020. Similarly, the Interest Income is expected to decline by 20.8% YOY to AED508 Mn in 2021, down from AED642 Mn in 2020. The Non-Funded Income is likely to increase strongly by 43.9% YOY to AED157 Mn in 2021, up from AED109 Mn in 2020. It is likely to be driven by Other Non-Funded Income by 75.2% YOY to AED88 Mn in 2021, up from AED50 Mn in 2020. The Fees and Commissions are likely to increase by 19.2% YOY to AED50 Mn in 2021, up from AED42 Mn in 2020. Similarly, the Exchange Income is expected to increase by 12.6% YOY to AED19 Mn in 2021, up from AED17 Mn in 2020. As a result, the Operating Income is expected to increase by 16.6% YOY to AED470 Mn in 2021, up from AED403 Mn in 2020. The General and Administrative expenses are likely to decrease by 6.9% YOY to AED244 Mn in 2021, down from AED262 Mn in 2020. The Cost to Income ratio is expected to decline to 51.9% in 2021, down from 65% in 2020. The Impairment charges are expected to decrease by 83.1% YOY to AED136 Mn in 2021, down from AED808 Mn in 2020. As a result, the Net Profit is expected to increase significantly to AED89 Mn in 2021, up from Net Loss of AED667 Mn in 2020.

#### 2Q21 outturn

The Bank recorded a decline by 20.9% YOY in the Interest Income to AED124 Mn in 2Q21, compared to AED157 Mn in 2Q20. The Interest Expense also declined by 48.2% YOY to AED38 Mn in 2Q21 from AED73 Mn in 2Q20. As a result, the Net Interest Income increased by 14.1% YOY to AED86 Mn in 2Q21 from AED76 Mn in 2Q20. Moreover, Fees and commissions have significantly increased by 86.8% YOY to AED13 Mn in 2Q21 from AED7 Mn in 2Q20. Whereas the Exchange income has increased by 16.4% YOY to AED5 Mn in 2Q21, compared to AED4 Mn in 2Q20. Similarly, the Other Non-funded income increased by 10.9% YOY to AED8 Mn in 2Q21. Resultantly, the Total Non-funded income has increased by 41.1% YOY to AED25 Mn in 2Q21, compared to AED18 Mn in 2Q20. Therefore, Total Operating income increased by 11.4% YOY to AED104 Mn from AED93 Mn in 2Q20.

While the General & admin expenses declined by 11.5% YOY to AED60 Mn in 2Q21 from AED68 Mn in 2Q20. Thus, the Cost to income ratio has declined to 57.8% from 72.8% in 2Q20. In addition, the Impairment charges significantly decreased by 76.2% YOY to AED27 Mn in 2Q21, compared to AED114 Mn in 2Q20. Bank's Net advances have decreased by 22.5% YOY to AED8.03 Bn in 2Q21 from AED10.37 Bn in 2Q20. Similarly, the Total Assets decreased by 12.9% YOY to AED14.54 Bn in 2Q21, as compared to AED16.7 Bn in 2Q20. The Customer Deposits dropped by 8.8% YOY to AED10.63 Bn in 2Q21, from AED11.66 Bn in 2Q20. The Total Equity reduced by 15.6% YOY to AED1.49 Bn in 2Q21, from AED1.77 Bn in 2Q20.

### Target price and recommendation

We maintain our SELL rating with a target price of SAR0.20. United Arab Bank (UAB) has been working on strengthening its core businesses while maintaining its banking fundamentals in place and restructuring the cost base as efficiently as possible. The Bank's strategy has led to strong performance since the beginning of 2021 till date reporting a Net Profit in 1H21 of AED26.9 Mn as opposed to losses in 1H20 for AED208.9 Mn. Net Profit also increased QOQ in 2Q21 by 64% to AED16.7 Mn as compared to AED10.2 Mn in 1Q21. This healthy performance of UAB was mainly due to an increase by 8% YOY in Total Income reaching AED236.4 Mn as at 1H21 as compared to AED219 Mn in 1H20 and in 2Q21 Total Income also increased by 11.34% reaching AED104 Mn as compared to AED93.4 Mn in 2Q20. Operating Expenses, on the other hand, decreased by 11.5% YOY reporting AED60.1 Mn in 2Q21 compared to AED67.9 Mn in 2Q20 and a fall of 9% as at 1H21 for a total of AED119.7 Mn compared to AED131.5 Mn as at 1H20. Operating Profit increased tremendously by 73% reaching AED43.9 Mn in 2Q21 from AED25.4 Mn in 2Q20. Provision Charges dropped substantially by 70% reaching AED90 Mn in 1H21 as compared to AED296 Mn in 1H20 given the Bank's focus on higher asset quality and given the increasing recoveries. UAB's Balance Sheet also witnessed a strengthening with the bank deploying various tactical initiatives to efficiently manage the cost of funds leading it to higher CASA/Total Deposits ratio of 29% as compared to 26% as at end of 2020. Customers Deposits represent 82% of Total Liabilities as compared to 84% in December 2020 proving that they are still the bank's key source of funds. It is worth noting that the Loans to Deposit (LTD) ratio decreased to 75.5% in June 2021 as compared to 80.1% in December 2020 underpinning a strong funding profile. Non-Performing Loans (NPL) percentage increased slightly to 16.7% in 2Q21 as compared to 15.7% as at end of 2020 with a decrease in coverage ratio from 99% in December 2020 to 82% in 2Q21 given the new downgrades on accounts which will be provisioned going forward. The Cost of Risk decreased to 2.1% in 2Q21 from 5.3% in 2Q20. The Cost to Income ratio improved to 57.8% in 2Q21, from 72.8% 2Q20. The Capital Adequacy ratio (CAR) stood at 13.4% in 2Q21, down by 90 bps from 14.3% in 2Q20, above the applicable regulatory requirements of 11.5%. The CET 1 ratio and Tier 1 ratio, both, decreased to 12.3% in 2Q21 from 13.2% in 2Q20. Furthermore, the Bank maintained its liquidity profile as the Advances to Stable Resources and Eligible Liquid Assets ratio stood at 76% and 17.3%, respectively. UAB has recorded a positive return on profitability as Return on Average Assets (ROAA) and Return on Average Equity (ROAE) stood at 0.4% and 3.7%, respectively, in 2Q21, both figures above the 1Q21 and 2Q20 levels. The Total Assets decreased by 13% YOY to AED14.54 Bn in 2Q21, from AED16.7 Bn in 2Q20. This was mainly due to reduction in Net Advances by 23% from AED10.37 Bn to AED 8.03 Bn in 2Q21. The overall asset mix has remained stable as compared to the previous year, with Net Advances constituting around 55% of the Total Assets. The Bank declared no dividends for FY2020, in 1H21. Finally, we maintain a SELL rating on UAB.

### UAB - Relative valuation

(at CMP)	2017	2018	2019	2020	2021F
P/E (x)	88.41	18.68	-3.25	-2.33	17.22
P/B (x)	0.56	0.61	0.71	1.06	0.99

FABS Estimates & Co Data



**UAB- P&L**

AED MN	3Q20	2Q21	3Q21F	YOY Ch	QOQ Ch	2020	2021F	Change
Interest income	146	124	133	-9.0%	7.0%	642	508	-20.8%
Interest expense	-85	-38	-42	-49.8%	12.8%	-349	-166	-52.4%
<b>Net interest income</b>	<b>61</b>	<b>86</b>	<b>90</b>	<b>47.7%</b>	<b>4.5%</b>	<b>293</b>	<b>312</b>	<b>6.4%</b>
Fees and commissions	11	13	13	13.9%	3.0%	42	50	19.2%
Exchange income	4	5	5	12.0%	5.0%	17	19	12.6%
Other non-funded income	7	8	10	50.9%	30.9%	50	88	75.2%
<b>Total non-funded income</b>	<b>22</b>	<b>25</b>	<b>28</b>	<b>24.5%</b>	<b>11.9%</b>	<b>109</b>	<b>157</b>	<b>43.9%</b>
<b>Total operating income</b>	<b>84</b>	<b>104</b>	<b>111</b>	<b>32.9%</b>	<b>6.7%</b>	<b>403</b>	<b>470</b>	<b>16.6%</b>
General & admin. Expenses	-67	-60	-61	-8.7%	2.0%	-262	-244	-6.9%
<b>Pre provision profit</b>	<b>16</b>	<b>44</b>	<b>50</b>	<b>NM</b>	<b>13.0%</b>	<b>141</b>	<b>226</b>	<b>60.3%</b>
Impairment	-172	-27	-25	-85.8%	-10.0%	-808	-136	-83.1%
<b>Net profit</b>	<b>-156</b>	<b>17</b>	<b>25</b>	<b>NM</b>	<b>50.4%</b>	<b>-667</b>	<b>89</b>	<b>NM</b>

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

AED MN	3Q20	2Q21	3Q21F	YOY Bps	QOQ Bps	2020	2021F	Change
Net FI/OI	73.2%	76.1%	74.9%	170	-119	72.8%	66.5%	-636
NIM	2.1%	2.2%	2.5%	34	33	2.1%	2.8%	71
NIS	2.0%	2.2%	2.5%	47	31	1.9%	2.8%	84
Fees & comms/OI	13.6%	12.1%	11.7%	-194	-41	10.5%	10.7%	24
Trading/OI	5.3%	4.5%	4.4%	-83	-7	4.2%	4.1%	-14
Cost to income	80.4%	57.8%	55.2%	-2,511	-251	65.0%	51.9%	-1,310
Impairment/PPP	1050.5%	62.0%	49.3%	-100,114	-1,261	573.8%	60.4%	-51,347
NP/OI	-186.7%	16.1%	22.7%	20,940	660	-165.6%	19.0%	18,469
ROAE	-7.4%	1.0%	1.6%	901	55	-36.9%	5.9%	4,286
ROAA	-0.8%	0.1%	0.2%	98	5	-3.9%	0.6%	453

*FABS estimate & Co Data*
**UAB- key B/S item**

AED MN	3Q20	4Q20	1Q21	2Q21	3Q21F	Change
Net advances	10,005	9,014	8,501	8,035	7,875	-21.3%
QOQ Change	-3.5%	-9.9%	-5.7%	-5.5%	-2.0%	
Total assets	17,982	14,849	14,419	14,549	14,540	-19.1%
QOQ Change	7.6%	-17.4%	-2.9%	0.9%	-0.1%	
Customer deposits	14,104	11,247	10,839	10,639	10,533	-25.3%
QOQ Change	20.9%	-20.3%	-3.6%	-1.8%	-1.0%	
Total equity	1,669	1,455	1,435	1,497	1,522	-8.8%
QOQ Change	-5.9%	-12.8%	-1.3%	4.3%	1.7%	

*FABS estimate & Co Data*

### 3Q21 preview: Bank of Sharjah (BOS)

Improvement in Funded Income and cost optimization to support Net profit

CMP (AED): 0.53  
Potential Upside (%): -75.5%

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

Stock rating:  
**SELL**

#### 3Q21 estimate

Bank of Sharjah (BOS) is forecasted to witness Net Loss of AED140 Mn in 3Q21, down from Net Profit of AED110 Mn in 3Q20. The Net Interest Income is expected to increase by 47.7% YOY to AED136 Mn in 3Q21, up from AED92 Mn in 3Q20. It is expected to be driven by 12.7% YOY increase in Interest Income to AED321 Mn in 3Q21, up from AED285 Mn in 3Q20. The Interest Expense is likely to decline by 4.1% YOY to AED184 Mn in 3Q21, down from AED192 Mn in 3Q20. The Total Non-Funded Income is expected to decline by 66.3% YOY to AED79 Mn in 3Q21, down from AED235 Mn in 3Q20 strongly. It is expected to be driven by 98.3% YOY decline in Other Operating Income to AED3 Mn in 3Q21, down from AED196 Mn in 3Q20. However, the Net Fees and Commissions is expected to increase by 93.7% YOY to AED47 Mn in 3Q21, up from AED24 Mn in 3Q20. The Exchange Profit is likely to increase by 10.4% YOY to AED5 Mn in 3Q21. The Gain on investments is expected to increase significantly to AED24 Mn in 3Q21, up from AED10 Mn in 3Q20. As a result, the Operating Income is expected to decrease by 34.2% YOY to AED216 Mn in 3Q21, down from AED328 Mn in 3Q20. The Net Impairment loss on financial assets is expected to decline by 62.3% YOY to AED49 Mn in 3Q21, down from AED130 Mn in 3Q20. The General and Administrative Expenses are expected to increase by 29.1% YOY to AED103 Mn in 3Q21, up from AED80 Mn in 3Q20. The Loss on monetary position is expected to increase significantly to AED188 Mn in 3Q21 and is likely to contribute to the negative profitability level in 3Q21. As a result, the Net Loss is expected to increase significantly to AED140 Mn in 3Q21, down from Net Profit of AED110 Mn in 3Q20.

#### 2021 forecast

We forecast BOS's Net Loss to increase by 9.2% YOY to AED715 Mn in 2021, up from AED655 Mn in 2020. The Net Interest Income is expected to decline by 8.2% YOY to AED523 Mn in 2021, down from AED569 Mn in 2020. It is likely to be driven by 14.4% YOY decline in Interest Expense to AED737 Mn in 2021, down from AED861 Mn in 2020. The Interest Income is expected to decline by 12% YOY to AED1,260 Mn in 2021, down from AED1,431 Mn in 2020. The Total Non-Funded Income is expected to increase significantly to AED301 Mn in 2021, up from AED93 Mn in 2020. The Net Fees and Commissions is expected to increase by 67.9% YOY to AED179 Mn in 2021, up from AED106 Mn in 2020. The Exchange profit is expected to decline significantly by 88.9% YOY to AED17 Mn in 2021, down from AED156 Mn in 2020. The Gain on investments is expected to increase significantly to AED83 Mn in 2021, up from Loss on Investments of AED20 Mn in 2020. The Other Operating Income is expected to increase significantly to AED22 Mn in 2021, up from loss of AED149 Mn in 2020. The Operating Income is expected to increase by 24.3% YOY to AED824 Mn in 2021, up from AED663 Mn in 2020. The Net Impairment loss on financial assets is expected to decline by 80.2% YOY to AED147 Mn in 2021, down from AED744 Mn in 2020. The Other Non-Operating Income is expected to decline significantly in 2021. The General and Administrative Expenses are likely to decline slightly by 1.8% YOY to AED394 Mn in 2021, down from AED401 Mn in 2020. The Loss on Monetary position is expected to increase by 61.8% YOY to AED934 Mn in 2021, up from AED577 Mn in 2020. As a result, the Net Loss is expected to increase by 9.2% YOY to AED715 Mn in 2021, up from AED655 Mn in 2020.

#### 2Q21 outturn

The Bank recorded an increase by 1% YOY in the Interest Income to AED306 Mn in 2Q21 from AED303 Mn in 2Q20. The Interest Expense reduced by 15% YOY to AED176 Mn in 2Q21 from AED207 Mn in 2Q20. Therefore, the Net Funded Income increased by 35.4% YOY to AED130 Mn in 2Q21 compared to AED96 Mn in 2Q20. The Net Fees and Commissions significantly increased to AED43 Mn in 2Q21 from AED19 Mn in 2Q20. While, the Exchange Profit has significantly decreased by 96.6% YOY to AED5 Mn in 2Q21, as compared to AED145 Mn in 2Q20. Other Operating Income has



significantly declined by 96.4% YOY to AED2 Mn from AED65 Mn in 2Q20. As a result, the Total Non-Funded Income reduced by 69.7% YOY to AED73 Mn in 2Q21, as compared to AED241 Mn in 2Q20. Thus, the Total Operating Income declined by 39.8% YOY to AED203 Mn in 2Q21 from AED337 Mn in 2Q20. Net Impairment has decreased by 28.5% YOY to AED54 Mn in 2Q21 from AED76 Mn in 2Q20. Resultantly, the Net Operating Income declined by 43.1% YOY to AED149 Mn in 2Q21. General & Admin Expenses have increased by 35.7% YOY to AED102 Mn in 2Q21 from AED75 Mn in 2Q20. As a result, the Profit before Discontinued Operations decreased by 76% YOY to AED45 Mn in 2Q21, as compared to AED186 Mn in 2Q20. Discontinued Operations have reported a negative of AED375 Mn in 2Q21, reducing the profitability. The Net Advances increased by 5.2% YOY to AED20.19 Bn in 2Q21, as compared to AED19.19 Bn in 2Q20. The Total Assets increased by 9.4% YOY to AED37.69 Bn in 2Q21 from AED34.45 Bn in 2Q20. Customer Deposits also increased by 1.9% YOY to AED23.94 Bn in 2Q21, as compared to AED23.49 Bn in 2Q20. Similarly, the Total Equity rose by 8.4% YOY to AED3.43 Bn in 2Q21 from AED3.17 Bn in 2Q20.

### **Target price and recommendation**

We maintain a SELL rating on Bank of Sharjah with a target price of AED0.13. Since the beginning of the global COVID-19 pandemic in 2020 and the situation has been challenging. Bank of Sharjah (BOS) despite the COVID-19 effects has demonstrated a resilient performance and stable operations throughout the period. The group's Balance Sheet has been strong and still following a stable trend with Assets increasing from AED 36.14 Bn as at end of 2020 to AED 37.7 Bn in 2Q21, an increase of 4% since beginning of the year while maintaining a high quality of the Assets by following a disciplined approach to lending, recovery and funding while expanding their portfolio wisely. Total Equity increased by 9% as well from AED 3.16 Bn as at end of previous year to AED 3.45 Bn in 2Q21. Customer Deposits have increased moderately by 1% reaching AED 23.94 Bn in 2Q21 from AED 23.67 Bn as at end of the year; Net Loans and Advances have increased by 4% reaching AED 20.1 Bn as compared to AED 19.45 Bn as at end of 2020 while Loans to Deposits have also increased as a ratio from 82% as of December 31, 2020, to 84% by end of 2Q21. Cost-to-Income ratio has increased drastically from 22% last year by end of second quarter to 50% by end of second quarter 2021. The bank is incurring Losses of AED 345 Mn in 2Q21 mainly due to Discontinued Operations of AED 375 Mn and due to hyperinflation effect despite the increase in Net Interest Income in 2Q20 reaching AED 130 Mn as compared to AED 96 Mn in 2Q20, an increase by 35.4%. The consolidated Profit for the Group excluding the hyperinflation effect would result in a Net Profit of AED 120 Mn in 2Q21 as compared to AED 18 Mn in 2Q20. Total Operating Income decreased by 39.8% YOY due to a significant decrease in Other Operating Income dropping to AED 2 Mn in 2Q21 from AED 65 Mn in 2Q20. General and Administrative Expenses also increased by 35.7% YOY reaching AED 102 Mn in 2Q21 from AED 75 Mn in 2Q20. The group's operations in Lebanon through Emirates Lebanon Bank (ELBank) have been witnessing some challenging political and economic situations since the beginning of the revolution in October 2019. It is worth noting despite the whole situation, the Operating Income before Impairments and application of the hyperinflation accounting standards of ELBank remains stable in comparison to last year's results. The Group has also abided by the Banque Du Liban (BDL) circular requiring increase by 20% of the bank's equity of its subsidiary in Lebanon prior to June 30, 2020. Net Interest Margin (NIM) stood at 3.2% by end of 2Q21 as compared to 2.1% same period last year and Net Interest Spread (NIS) stood at 3.8% in 2Q21 as compared to 2.9% in 2Q20. Return on Average Equity (ROAE) and Return on Average Assets (ROAA) including the hyperinflation effect are both negative at 10.4% and 1% due to the reported loss in the period but if we ignore the hyperinflation effect due to the extreme circumstances, the ROE will become 7.82% and ROA 0.64%. The Capital Adequacy Ratio (CAR) of the bank stood at 10.68% as at end of 2Q21 and Tier 1 Capital Ratio stood at 9.49% both still above the minimum requirements set by the regulators. Non-Performing Gross Loans ratio of the group stood at 14.01% as compared to 12.68% as at the end of 2020 with the Coverage ratio decreasing from 71.65% by the end of 2020 to 64.79% in 2Q21. The stock currently trades at a PB multiple of 0.39x. Therefore, we maintain a SELL rating on the stock.

**BOS – Relative Valuation**

(at CMP)	2016	2017	2018	2019	2020F
P/E (x)	4.52	9.03	-2.36	-1.81	-1.67
P/B (X)	0.29	0.32	0.40	0.38	0.34

FABS Estimates & Co data

**BOS - P&L**

AED MN	3Q20	2Q21	3Q21F	YOY Ch	QOQ Ch	2020	2021F	Change
Interest Income	285	306	321	12.7%	5.0%	1431	1260	-12.0%
Interest expense	-192	-176	-184	-4.1%	5.0%	-861	-737	-14.4%
<b>Net interest income</b>	<b>92</b>	<b>130</b>	<b>136</b>	<b>47.7%</b>	<b>5.0%</b>	<b>569</b>	<b>523</b>	<b>-8.2%</b>
Net fees and commission income	24	43	47	93.7%	10.0%	106	179	67.9%
Exchange profit	5	5	5	10.4%	10.0%	156	17	-88.9%
(Loss)/gain on investments	10	23	24	NM	2.0%	-20	83	NM
Other Operating Income	196	2	3	-98.3%	40.4%	-149	22	NM
<b>Total non-funded income</b>	<b>235</b>	<b>73</b>	<b>79</b>	<b>-66.3%</b>	<b>8.4%</b>	<b>93</b>	<b>301</b>	<b>NM</b>
<b>Total operating income</b>	<b>328</b>	<b>203</b>	<b>216</b>	<b>-34.2%</b>	<b>6.3%</b>	<b>663</b>	<b>824</b>	<b>24.3%</b>
Net impairment loss on financial assets	-130	-54	-49	-62.3%	-10.0%	-744	-147	-80.2%
<b>Net operating income</b>	<b>198</b>	<b>149</b>	<b>167</b>	<b>-15.8%</b>	<b>12.2%</b>	<b>-81</b>	<b>677</b>	<b>NM</b>
Other Non-Operating income	0	0	0	NM	NM	449	0	NM
General & admin. Expenses	-80	-102	-103	29.1%	1.0%	-401	-394	-1.8%
Amortisation of intangible assets	0	-2	-2	NM	2.0%	-4	-7	63.5%
<b>Profit before discontinued operations</b>	<b>118</b>	<b>45</b>	<b>62</b>	<b>-47.6%</b>	<b>38.2%</b>	<b>-38</b>	<b>276</b>	<b>NM</b>
Loss on monetary position	0	-375	-188	NM	-50.0%	-577	-934	61.8%
<b>Profit before tax</b>	<b>118</b>	<b>-331</b>	<b>-126</b>	<b>NM</b>	<b>-61.9%</b>	<b>-615</b>	<b>-658</b>	<b>7.0%</b>
Income tax expense - overseas	-8	-14	-14	82.1%	1.0%	-52	-58	11.4%
Non-controlling interest	0	0	0	-53.4%	1.0%	12	1	-94.9%
<b>Net profit attributable</b>	<b>110</b>	<b>-345</b>	<b>-140</b>	<b>NM</b>	<b>-59.4%</b>	<b>-655</b>	<b>-715</b>	<b>9.2%</b>

FABS estimate & Co Data

**BOS - KPI**

AED MN	3Q20	2Q21	3Q21F	YOY Ch	QOQ Ch	2020	2021F	Change
Net FI/OI	28.2%	64.0%	63.2%	3506	-74	85.9%	63.4%	-2246
NIM	2.0%	3.2%	3.4%	137	19	3.0%	2.5%	-50
NIS	2.7%	3.8%	4.0%	130	21	3.8%	3.2%	-63
Fees & comms/OI	7.4%	21.0%	21.8%	1438	74	16.1%	21.7%	563
Other non-funded/OI	71.8%	36.0%	36.8%	-3506	74	14.1%	36.6%	2246
Cost to income	24.3%	50.3%	47.8%	2342	-249	60.5%	47.8%	-1268
Impairment/PPP	52.4%	54.8%	44.2%	-820	-1068	289.1%	34.8%	-25431
NP/OI	33.7%	-169.9%	-64.9%	-9863	10492	-98.8%	-86.8%	1199
ROAE	3.1%	-10.4%	-4.3%	-739	615	-20.9%	-22.4%	-148
ROAA	0.3%	-1.0%	-0.4%	-72	57	-1.9%	-1.9%	4

FABS estimate & Co Data

**BOS - Key B/S items**

AED MN	3Q20	4Q20	1Q21	2Q21	3Q21F	Change
Net advances	19417	19456	19879	20191	20595	6.1%
QOQ change	1.1%	0.2%	2.2%	1.6%	2.0%	
Total assets	34769	36143	37088	37699	38325	10.2%
QOQ change	0.9%	4.0%	2.6%	1.6%	1.7%	
Customer deposits	23253	23673	24055	23941	24592	5.8%
QOQ change	-1.0%	1.8%	1.6%	-0.5%	2.7%	
Total shareholders' equity	3248	3157	3308	3439	3299	1.6%
QOQ change	2.3%	-2.8%	4.8%	4.0%	-4.1%	

FABS estimate & Co Data

**FAB Securities Contacts:**


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**Research Analysts**

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

**Sales & Execution**

Trading Desk Abu Dhabi Head Office	+971-2 -6161777
	+971-2 -6161700/1
Institutional Desk	+971-4 -5658395
Sales and Marketing	+971-2 -6161703

**Customer Service**

Abu Dhabi Office	+971-2 -6161600	<a href="#">Online Trading Link</a>
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by "Banker Middle East"



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2016, 2017, 2019 and 2020  
by "IFA"



Best Brokerage in the UAE  
2016 By "Global Investor/  
ISF ME Awards"



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Best New Mobile Application  
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Best Equity Finance Company  
in UAE 2016  
by "IFA"