

Emirates NBD

Significant drop in Impairment Charges supported profitability

1Q21 results beat our estimates

Emirates NBD (ENBD) recorded a rise in Net profit by 11.7% YOY to AED2,322 mm in 1Q21 from AED2,079 mm in 1Q20, beating our estimate of AED1,761 mm. This increase was primarily due to a significant decrease in Impairment charges and Operating expenses, in addition to the increase in Non-Funded income.

P&L highlights

ENBD's Operating income decreased by 10.5% YOY in 1Q21 to AED6,163 mm, beating our forecast by 13.4%. This was mainly due to a decrease in Funded income by 18.8% to AED6,570 mm in 1Q21 compared to AED8,092 mm in 1Q20 in addition to the decline of 6.7% YOY in Fees and commissions to AED1,102 mm in 1Q21 from AED1,181 mm in 1Q20. Net funded income decreased by 17.2% YOY to AED4,088 mm in 1Q21 from AED4,936 mm in 1Q20, as the Funded income decreased by 18.8% YOY to AED6,570 mm in 1Q21 and in-line with our forecast. Funded expense has declined by 21.4% YOY to AED2,482 mm in 1Q21. At the same time, Non-funded income increased to AED2,075 mm in 1Q21 by 6.5% from AED1,948 mm in 1Q20. Operating expenses decreased by 8.8% YOY to AED1,868 mm in 1Q21, while the Cost-to-Income "C/I" increased by 55 bps to 30.3% from 29.8% in 1Q20. Impairment charges decreased significantly to AED1,763 mm in 1Q21 from AED2,558 mm in 1Q20, supporting the profitability.

Balance sheet highlights

ENBD's Net advances decreased by 1.6% YOY to AED436.1 bn in 1Q21 from AED443 bn in 1Q20. Whereas Customer deposits dropped by 1.7% YOY to AED459 bn in 1Q21 from AED467.1 in 1Q20. Thus, the ADR ratio climbed to 95% in 1Q21 from 94.8% in 1Q20. Total assets increased by 0.5% YOY to AED695 bn in 1Q21, and the Equity rose up by 3.5% YOY to AED72.2 bn in 1Q21 from AED69.8 bn in 1Q20.

Target price and rating

We maintained a BUY rating on ENBD, with a revised target price of AED16.1. The bank shows an improvement in Net Loans reflected in the 2% QoQ decrease in the Corporate loans repayment along with loans receiving support. The NPL portfolio showed a QoQ improvement of 0.1% reaching 6.1% in 1Q21 from 6.2% in 4Q20 and an increase of 0.6% as compared to 5.5% YoY, leading to an improvement in the coverage ratio

Rating : BUY

First Look Note – 1Q21

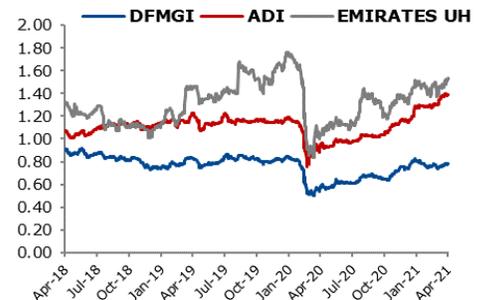
Sector: Banking

Recommendation

Current Price (28-Apr)	12.50
Target Price (AED)	16.10
Upside/Downside (%)	+28.8%

Stock Information

Market Cap (mm)	78,957.48
Paid Up Capital (mm)	6,316.60
52 Week High	12.50
52 Week Low	7.92
3M Avg. daily value (AED)	18,184,110



Financial Ratios

Dividend Yield (12m)	3.20
Dividend Pay-out (%)	40.05
Price-Earnings Ratio (x)	12.11
Price-to-Book Ratio (x)	1.09
Book Value (AED)	11.44
Return-on Equity (%)	9.20
Earning Per Share (AED)	1.03
Beta	1.22

Stock Performance

5 Days	5.04%
1 Months	13.64%
3 Months	5.93%
6 Months	31.58%
1 Year	53.00%
Month to Date (MTD)	8.70%
Quarter to Date (QTD)	8.70%
Year to Date (YTD)	21.36%

reaching 125.1% in 1Q21 compared to 117.3% in fourth quarter 2020. The net cost of risk has also decreased in the first quarter of 2021 to 158 bps compared to 210bps in 1Q20 reflecting better economic sentiment and a stronger credit environment impact. LCR and ADR remained almost stable compared to the previous year at 165.1% and 95.1% respectively in the first quarter of 2021, which shows the Group's continuing healthy liquidity position. NIM increased slightly by 4 bps reaching 2.46% as compared to 2.42% in fourth quarter 2020 while decreasing by 56 bps as compared to 3.02% in first quarter 2020 despite the improvement in funding cost which was completely offset by lower interest rates leading to lower loan yields. During the first quarter of 2021, liquid assets recorded AED 88 bn, which is 14% of Total Liabilities and 19% of Total Deposits. Emirates NBD's 2021 term debt issuances of AED15.4 bn cover 90% of 2021 maturities. The Bank was the first to take the initiative in the GCC and issue an ESG-linked syndicated loan raising \$1.75 Billion over 3-year funding, and its interest will be benchmarked to the performance of similar ESG characteristics. Islamic financing remained stable during the 1Q21 while retail loans increased by 3% over the same period due to demand increase for personal and car loans as compared to pre-COVID-19 volumes. In contrast, corporate loans decreased by 1% during 1Q21 and the decrease was spread over all sectors. The cost-to-Income ratio improved in 1Q21 to 30.3% from 41.5% in the previous quarter. The Capital Adequacy Ratio of ENBD has improved in 1Q21 reaching 19% as opposed to 17.9% last year and 18.5% in the last quarter of 2020; this shows that the bank's ability to face downturns and losses has increased and that was partially due to the decrease in Risk-Weighted Assets (RWA) from AED 446.5 Billion in fourth quarter 2020 to AED 444.3 Billion in first quarter 2021. The Bank's capital ratios remained above the original minimum regulatory requirements of 11% for CET-1 ratio, 12.5% for Tier 1 ratio, and 14.5% for Capital Adequacy Ratio. Total Income from Islamic financing increased 12% in 1Q21 reaching AED 574 Billion compared to AED 514 Billion in fourth quarter 2020 given the improvement in Non-funded income by 51% driven by better market activity the first quarter of 2021. Total assets decreased by 0.4% as compared to fourth quarter 2020, reaching AED 695.05 bn; customer financing also showed a decrease of 1.6%, reaching AED436 bn as compared to AED 443.5 bn as at year-end 2020 whereas Customer deposits decreased by 1.7% to reach AED 459 bn as compared to AED 464.2 bn by end of 2020. Saving accounts witnessed an increase of 2%, representing 71% of customers' accounts in 1Q21 as compared to 69% in the previous quarter. Based on our three valuation models, we maintain our BUY rating with a target price of AED16.10 with an expected P/B ratio of 1.16x.

ENBD - Relative valuation

(at CMP)	2017	2018	2019	2020	2021E
P/E (x)	9.29	7.65	7.44	12.50	9.69
P/B (x)	1.45	1.33	1.09	1.06	1.16
Dividend yield	3.2%	3.2%	3.2%	3.2%	3.2%

FABS estimate and Co data

ENBD - P&L

AED mm	1Q20	4Q20	1Q21	1Q21F	Var	YoY ch	QoQ Ch	2020	2021F	YoY Ch
Funded income	8,092	6,422	6,570	6,599	-0.4%	-18.8%	2.3%	28,017	27,650	-1.3%
Funded expense	-3,156	-2,378	-2,482	-2,458	1.0%	-21.4%	4.4%	-10,530	-10,279	-2.4%
Net funded income	4,936	4,044	4,088	4,141	-1.3%	-17.2%	1.1%	17,487	17,371	-0.7%
Fees and commissions	1,181	777	1,102	835	31.8%	-6.7%	41.7%	3,655	3,684	0.8%
Trading gain/(loss)	40	29	60	33	80.1%	51.4%	103.5%	180	186	3.5%
Other Operating Income	728	83	914	424	115.5%	25.5%	NM	1,889	1,761	-6.8%
Non-funded income	1,948	890	2,075	1,293	60.5%	6.5%	133.2%	5,724	5,632	-1.6%
Operating income	6,885	4,934	6,163	5,434	13.4%	-10.5%	24.9%	23,211	23,002	-0.9%
Operating expenses	-2,049	-2,047	-1,868	-1,875	-0.4%	-8.8%	-8.7%	-7,856	-7,656	-2.5%
Pre-provision profit	4,836	2,887	4,296	3,559	20.7%	-11.2%	48.8%	15,354	15,347	0.0%
Impairment	-2,558	-1,575	-1,763	-1,685	4.6%	-31.1%	11.9%	-7,936	-6,641	-16.3%
PBT	2,278	1,315	2,542	1,877	35.4%	11.6%	93.2%	7,430	8,721	17.4%
Tax	-197	3	-220	-115	90.1%	11.5%	NM	-465	-532	14.3%
Net profit attributable	2,079	1,316	2,322	1,761	31.8%	11.7%	76.5%	6,960	8,183	17.6%

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

AED mm	1Q20	4Q20	1Q21	YOY ch	QOQ ch	2020	2021F	YOY ch
Net FI/OI	71.7%	82.0%	66.3%	-537	-1,563	75.3%	75.5%	18
Net Interest Margin (NIM)	3.5%	3.1%	2.9%	-63	-25	3.1%	2.8%	-26
Net Interest Spread (NIS)	0.9%	0.6%	0.6%	-25	0	2.7%	2.4%	-34
Fees & comms/OI	17.2%	15.8%	17.9%	72	212	15.7%	16.0%	27
Other non-funded/OI	10.6%	1.7%	14.8%	425	1,314	8.1%	7.7%	-48
Trading/OI	0.6%	0.6%	1.0%	40	37	0.8%	0.8%	3
Cost to income	29.8%	41.5%	30.3%	55	-1,118	33.8%	33.3%	-57
Impairment/PPP	52.9%	54.6%	41.0%	-1,186	-1,351	51.7%	43.3%	-842
Tax/PBT	8.6%	-0.2%	8.6%	-1	884	6.3%	6.1%	-16
NP/OI	30.2%	26.7%	37.7%	747	1,100	30.0%	35.6%	559
ROAE	3.3%	1.8%	3.3%	-7	145	9.5%	11.0%	151
ROAA	0.3%	1.0%	0.3%	0	-67	1.0%	1.1%	14

FABS estimate & Co data
ENBD BS Key items

AED mm	1Q20	2Q20	3Q20	4Q20	1Q21	YOY ch
Net advances	443,010	442,910	442,305	443,541	436,102	-1.6%
QOQ change	1.3%	0.0%	-0.1%	0.3%	-1.7%	
Total Assets	691,724	694,283	692,138	698,087	695,059	0.5%
QOQ change	1.2%	0.4%	-0.3%	0.9%	-0.4%	
Customer Deposits	467,168	460,892	458,007	464,197	459,092	-1.7%
QOQ change	-1.1%	-1.3%	-0.6%	1.4%	-1.1%	
Total Equity	69,812	71,918	72,323	74,212	72,288	3.5%
QOQ change	-3.2%	3.0%	0.6%	2.6%	-2.6%	

FABS estimate & Co data

Research Rating Methodology:

Rating	Upside/Downside potential
BUY	>15%
ACCUMULATE	>10% to 15%
HOLD	10% to -5%
REDUCE	<-5%

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