



UAE Banks: Keep calm and carry on

- Growing UAE economy should provide the necessary impetus for the UAE banks to grow locally, whilst the option to expand globally remains open
- UAE banks remain undervalued within the wider GCC market despite better-than-expected performance in FY23, as the impact of the new UAE corporate tax and NIMs contraction as a result of fall in interest rates worry investors
- We remain optimistic on UAE banks as we see earnings to stabilize at current levels after absorbing the impact of UAE corporate tax in FY24 and NIM contraction in FY25; maintain 'Buy' on FAB, ENBD and ADCB, and 'Hold' on ADIB and DIB

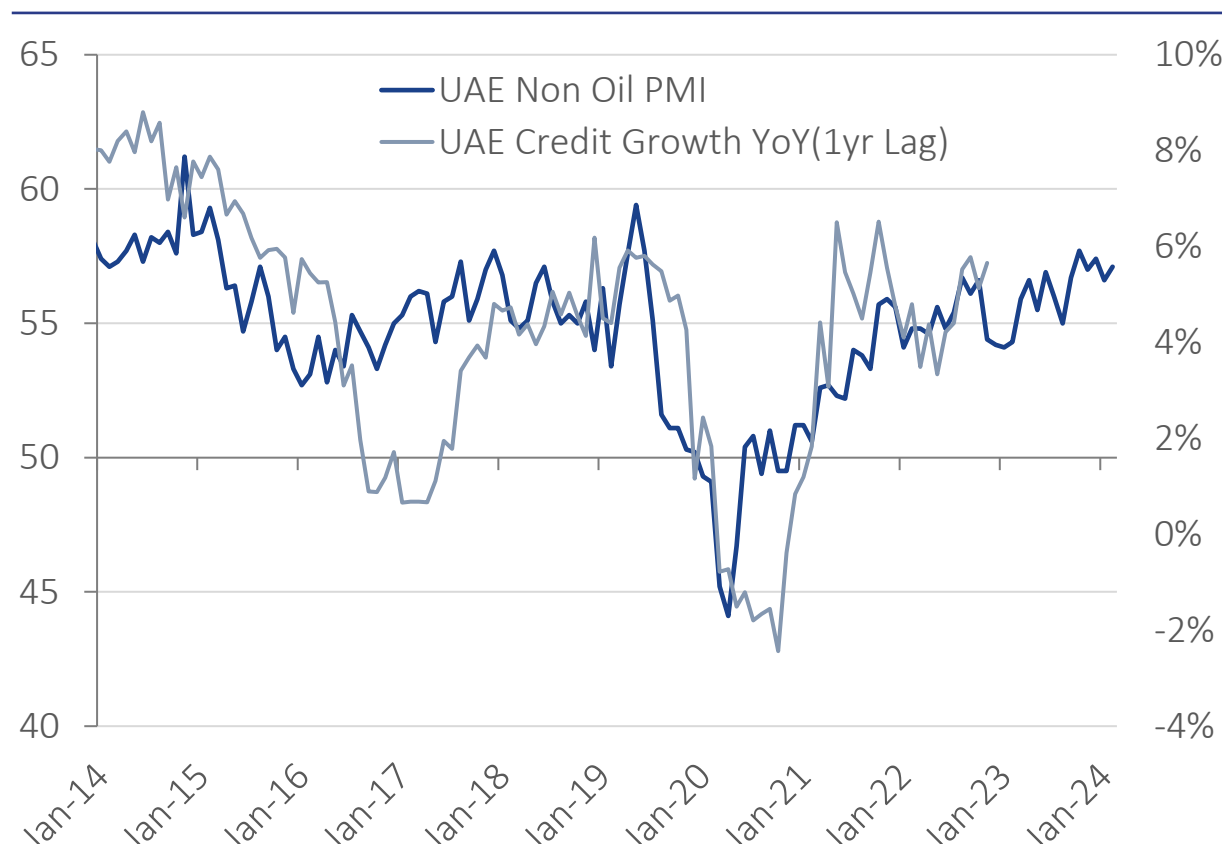
UAE economy is expected to grow by 3.9% in FY24 and 4.0% in FY25 (Bloomberg estimates), higher than the average of the last 10yr of 2.8%, highest in the GCC, and just a tad lower than fast-growing economies of the world like India (6.9%) and China (4.6%). We believe the growing UAE economy should continue to provide the necessary impetus for the UAE banks to grow locally and maintain their core earnings, mitigating the negative impact of the new UAE corporate tax in FY24. The impact of NIM contraction is more likely to be visible in FY25 as the US FED starts to cut interest rates in 2H24 and into FY25. We expect UAE banks to see a gross credit growth of about 5% in FY24, slightly lower than 5.7% seen in FY23. The strength of UAE non-oil PMI continues to suggest a strong business growth momentum in the UAE.

We have factored in 100bps of US FED fund rate cuts by the end of FY25 and see NIMs contraction in FY25. We expect NIMs to stay stable in FY24 for most of the UAE banks as we believe the interest rates are expected to stay higher for longer, and cuts are going to be more gradual starting in 2H24 due to elevated inflationary pressure as a result of high geopolitical uncertainty.

As we see through the next two years of earnings for the UAE banks, we believe earnings are likely to stay stable over the next two years across our coverage universe in UAE, absorbing the negative impact of new corporate tax and contraction of NIMs. **UAE banks continue to trade at an attractive valuation** compared to GCC banks and their global counterparts, despite offering higher and sustainable ROEs. Higher ROE coupled with high-divided yield makes an interesting investment proposition for the UAE banks. We think the UAE banks are under-owned probably due to uncertainty around the impact of new UAE corporate tax, NIM contraction and geopolitical tension in the region. We see this as an opportunity to accumulate as we think the earnings are more likely to stabilize at current levels, which continues to support the attractive divided yields of the UAE banks.

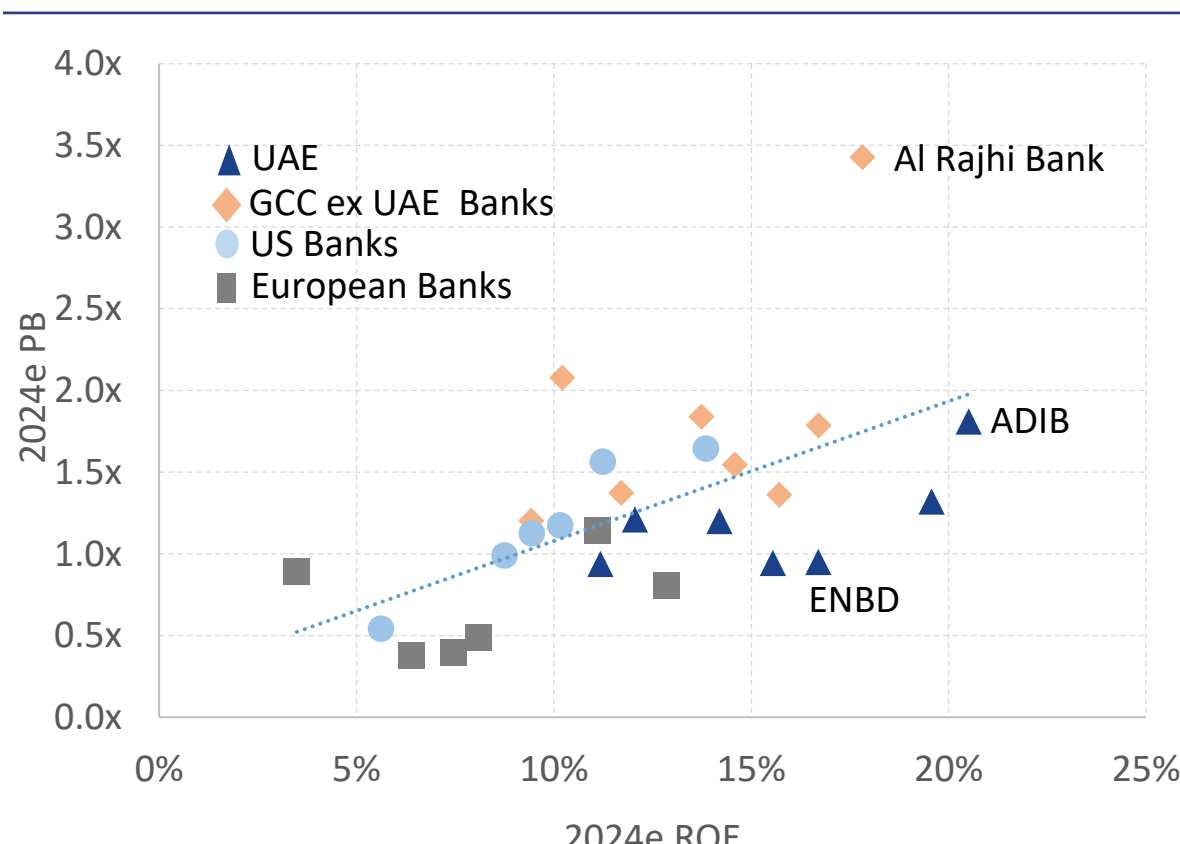
We maintain our 'Buy' recommendation on FAB, ENBD and ADCB and 'Hold' on ADIB and DIB but have revised our fair value targets across all banks as we roll our estimates forward.

UAE PMI suggests continuation of UAE credit growth



Source: Bloomberg, IS Research

UAE banks are attractively valued



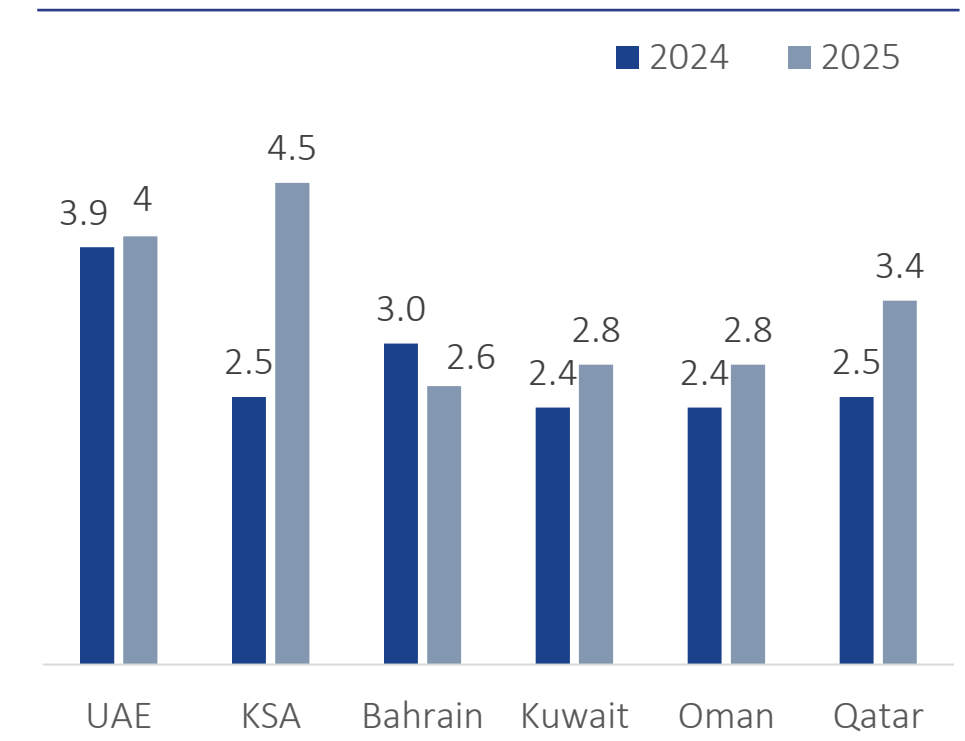
Source: Refinitiv, IS Research. Valuation details on page 4

IS Recommendations

	Recommendation		Fair Value (AED)	
	New	Old	New	Old
FAB	Buy	Buy	15.00	14.95
ADCB	Buy	Buy	10.10	10.10
ADIB	Hold	Hold	11.40	10.80
ENBD	Buy	Buy	20.20	17.30
DIB	Hold	Hold	6.40	6.30

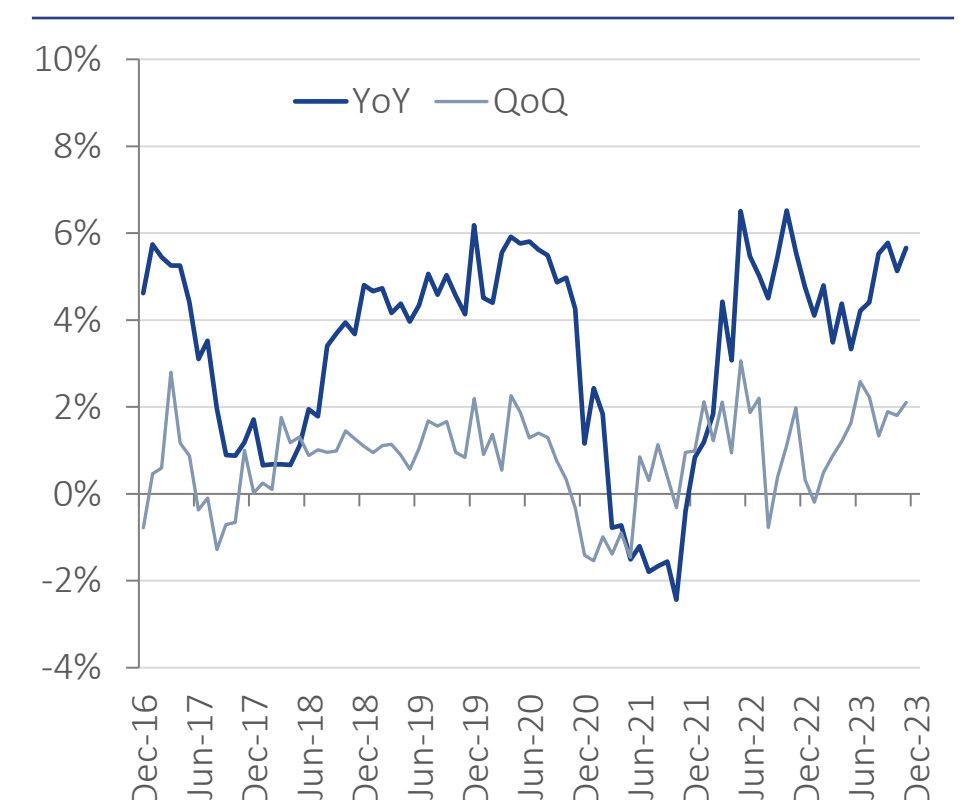
Source: IS Research.

GCC GDP Forecast (%)



Source: Bloomberg, IS Research

UAE Banks Gross Credit Growth



Source: UAE Central Bank, IS Research

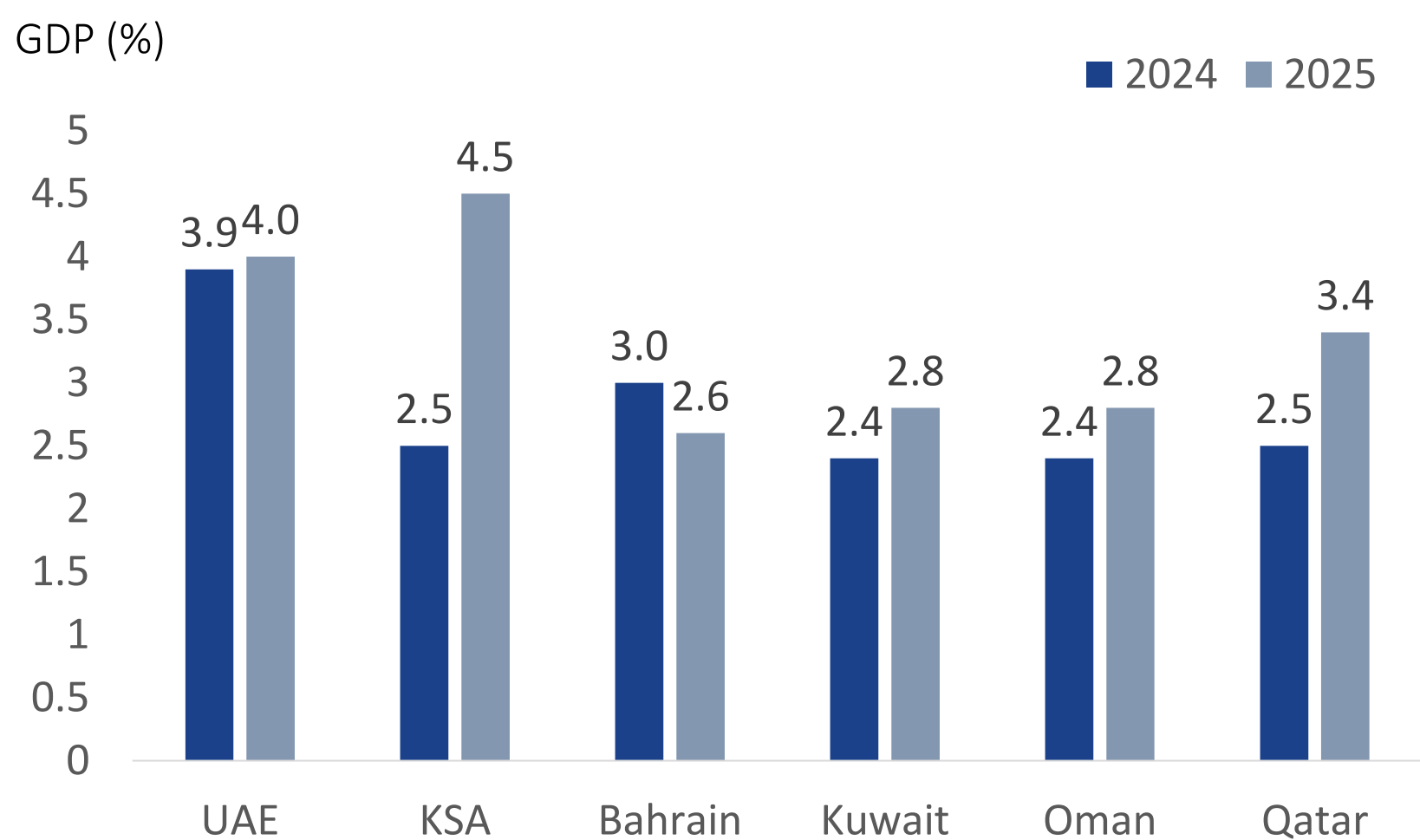
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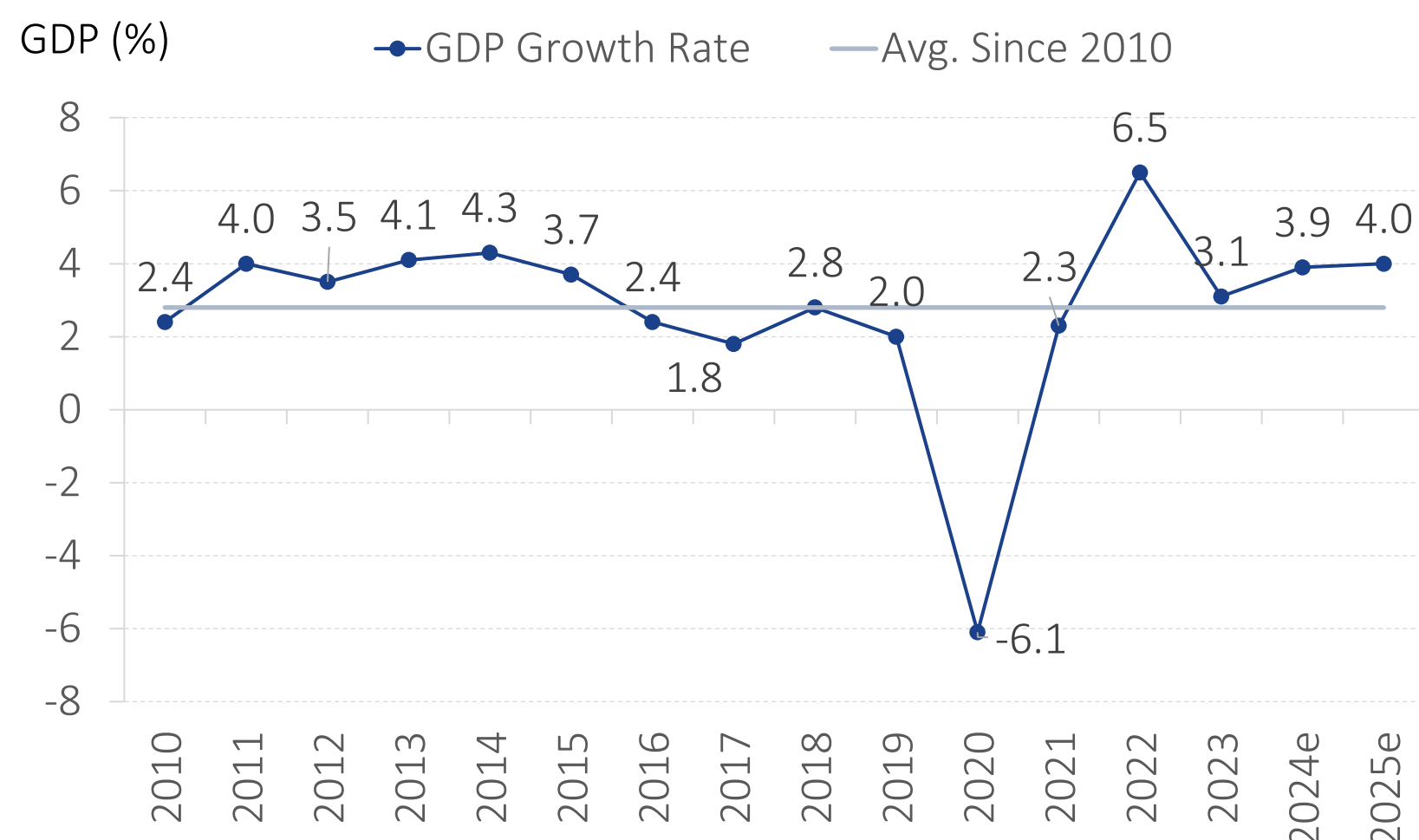
UAE Economy is expected to grow at the fastest pace amongst the GCC nations in 2024 (Bloomberg estimates) and positive growth momentum is expected to continue in 2025. In both the years, the economic growth is expected to be faster than the historical average growth rate since 2010.

UAE is expected to grow the fastest in the GCC in 2024



Source: Bloomberg, IS Research

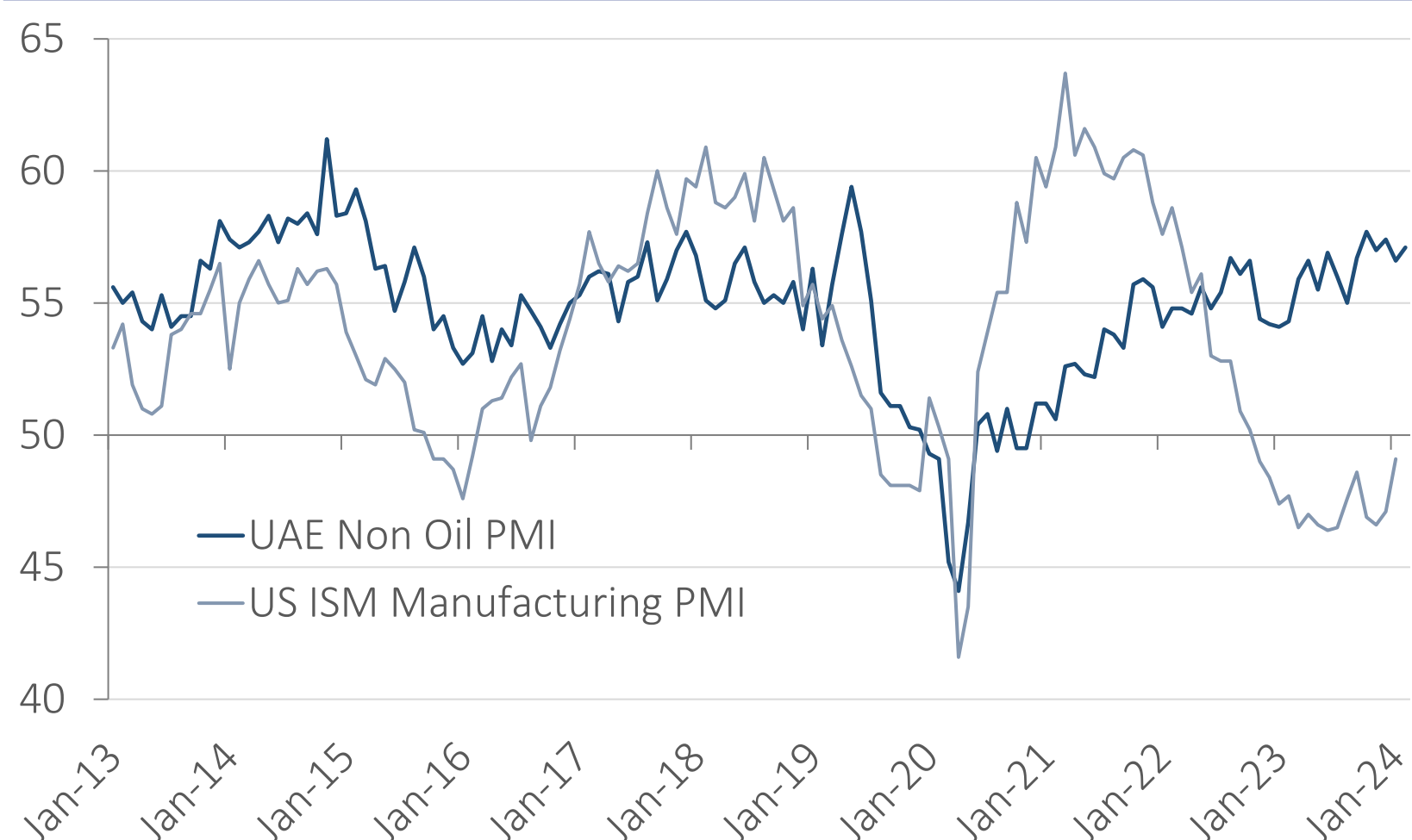
UAE is expected to grow fast than the historical average



Source: Bloomberg, IS Research.

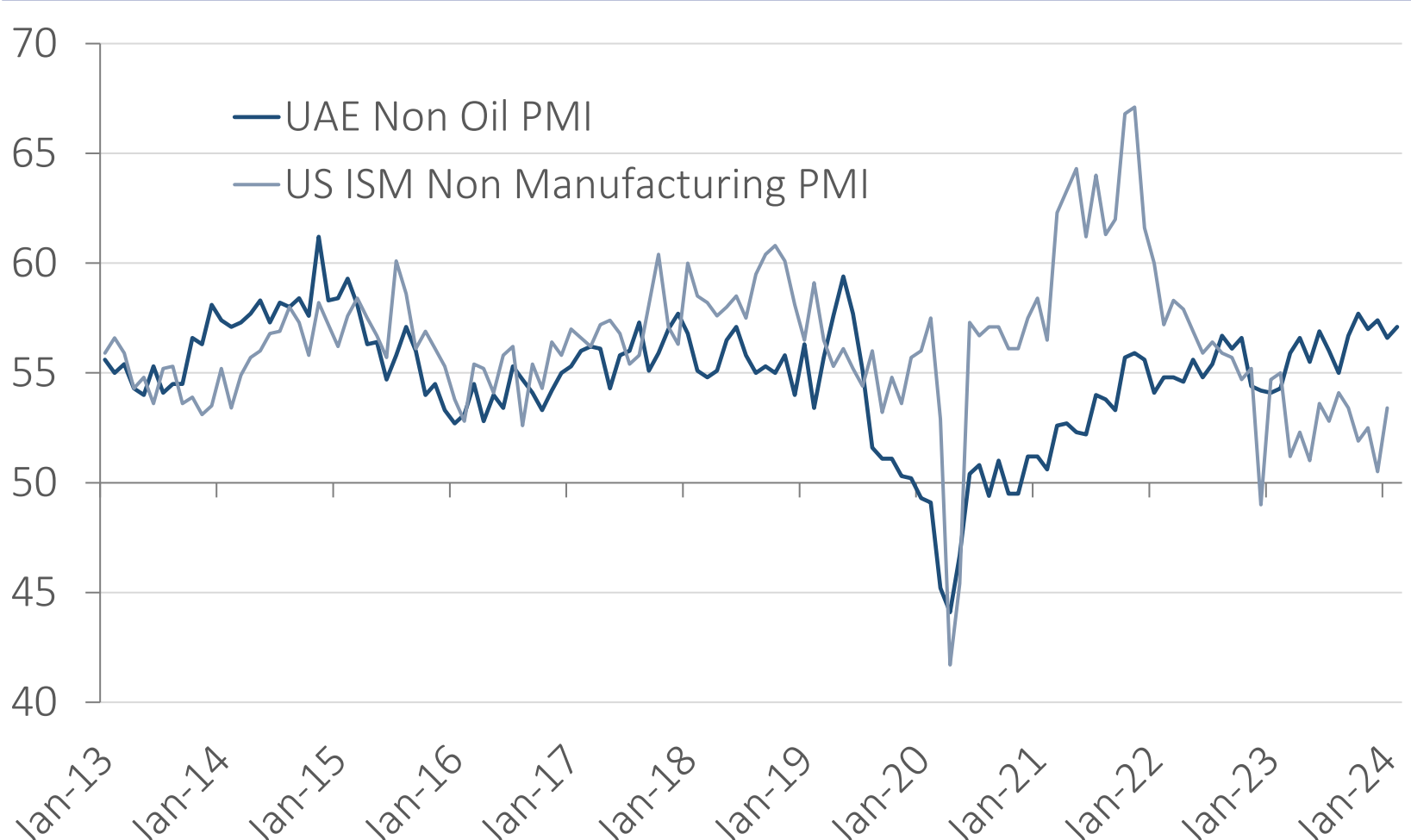
Strength in UAE non-oil PMI suggests positive business growth momentum in UAE despite elevated interest rates and the weakness in US manufacturing activities. The recent weakness in US ISM non-manufacturing PMI has also not dented the growth momentum in the UAE. Continued economic reforms and stable crude oil prices support the UAE's business growth momentum. We believe this positive growth momentum will continue in 2024 and expect UAE bank lending to grow by about 5% in 2024. The growing bank deposits will continue to support the growing balance sheet of UAE banks.

UAE non-oil PMI stays strong despite weakness in US manufacturing



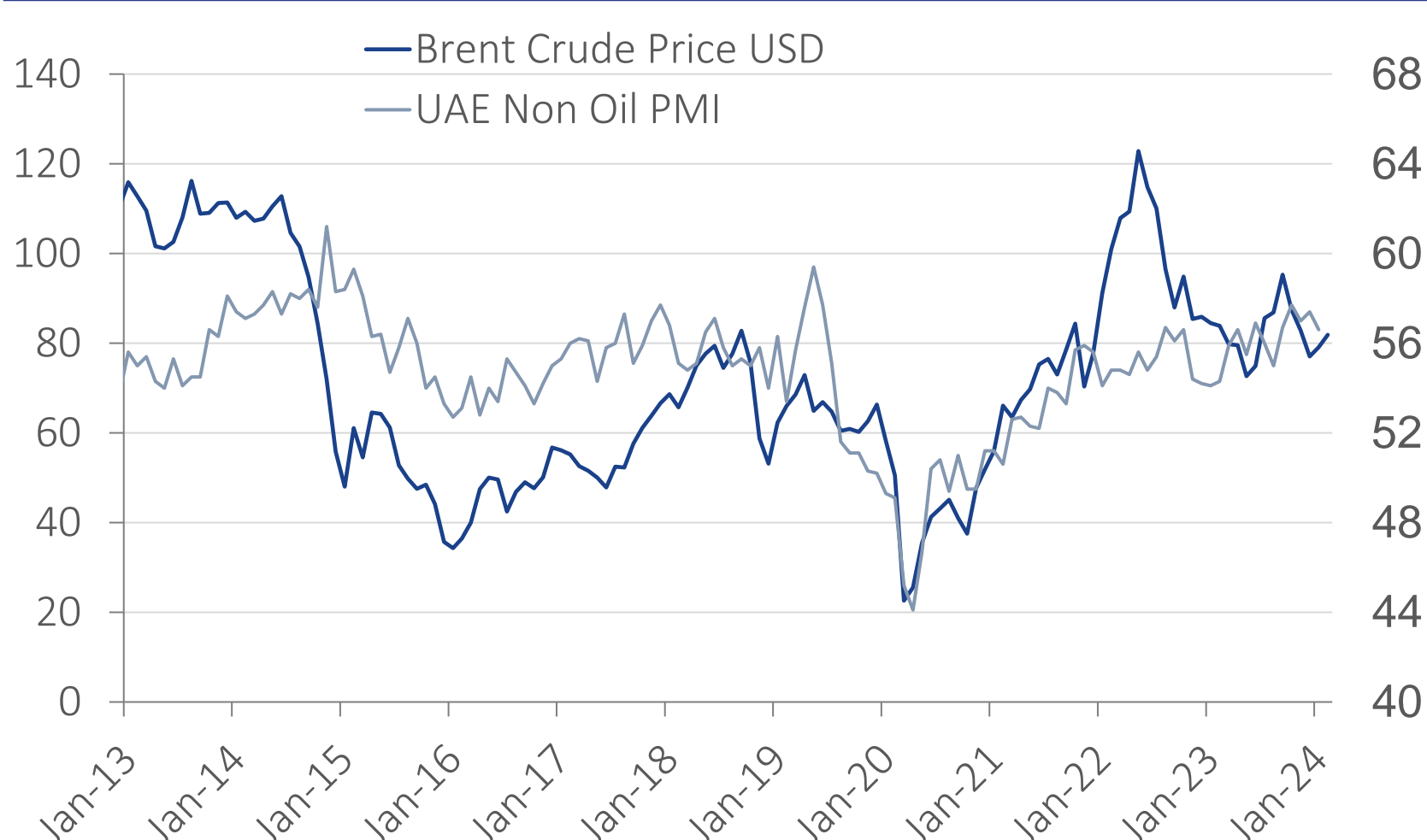
Source: Bloomberg, IS Research

Recent weakness in US non-manufacturing PMI has not impacted UAE



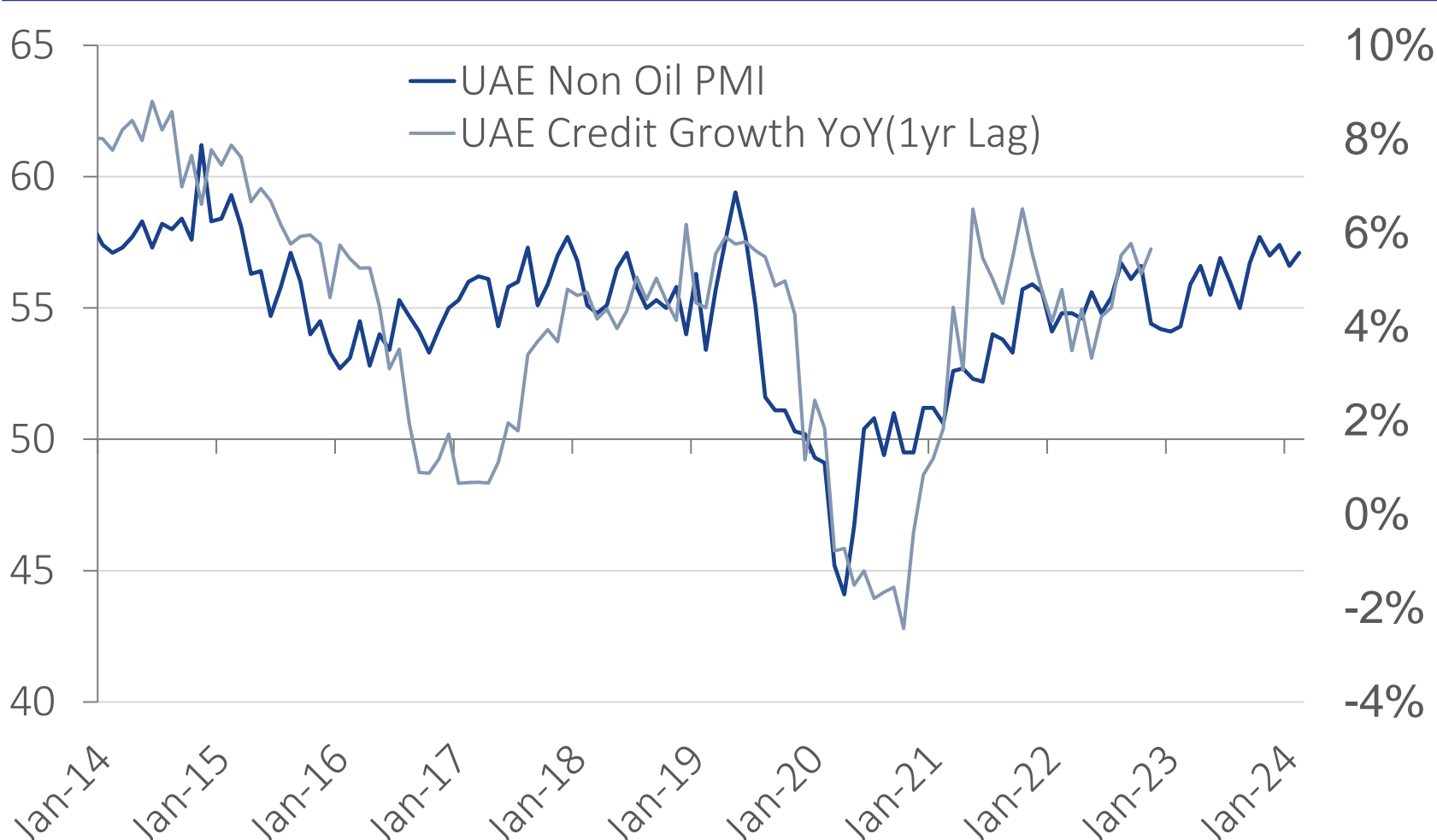
Source: Bloomberg, IS Research.

Stable crude oil prices support non-oil business activities



Source: Bloomberg, IS Research

UAE PMI suggest UAE bank lending should continue to grow

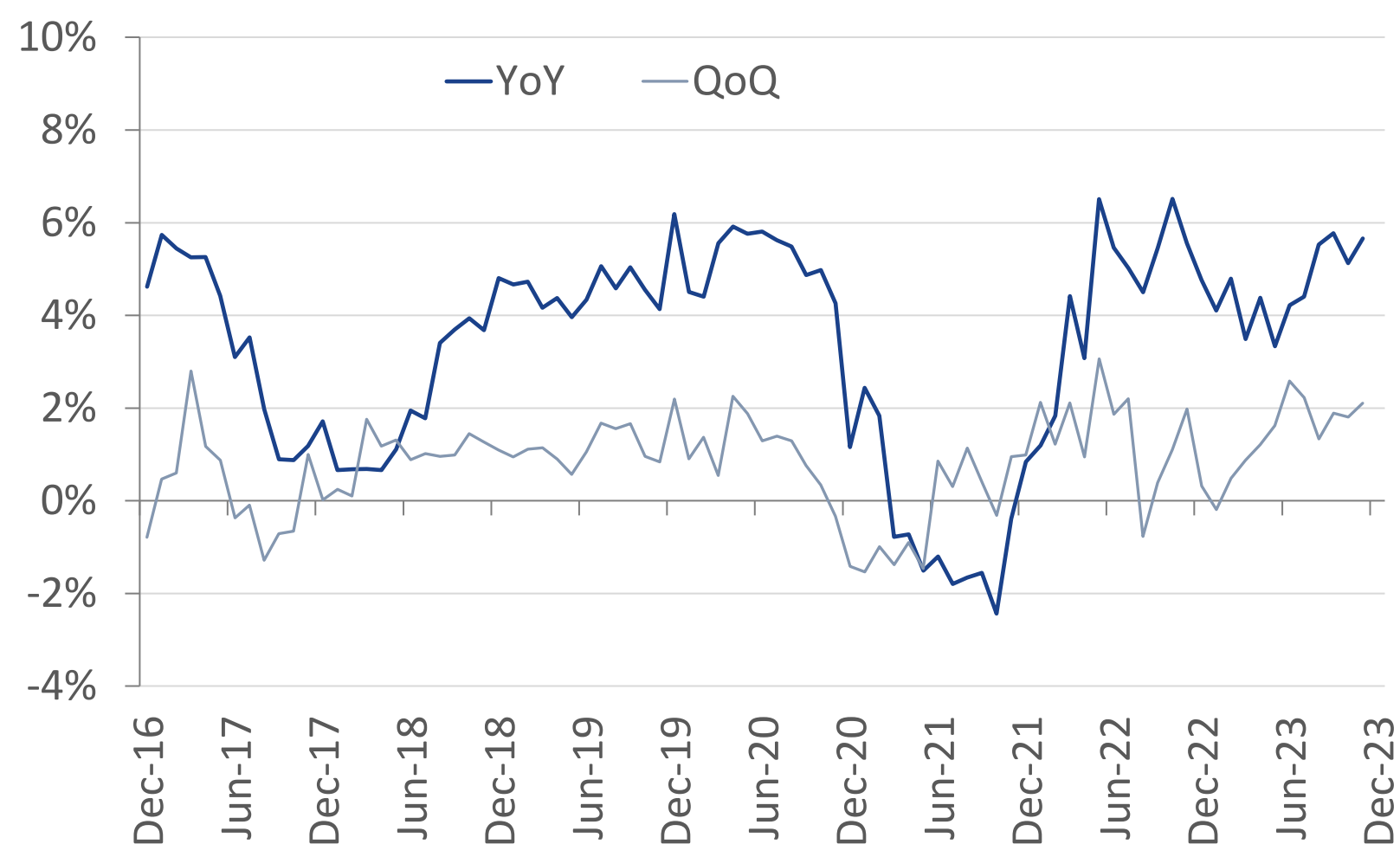


Source: Bloomberg, UAE Central Bank, IS Research.



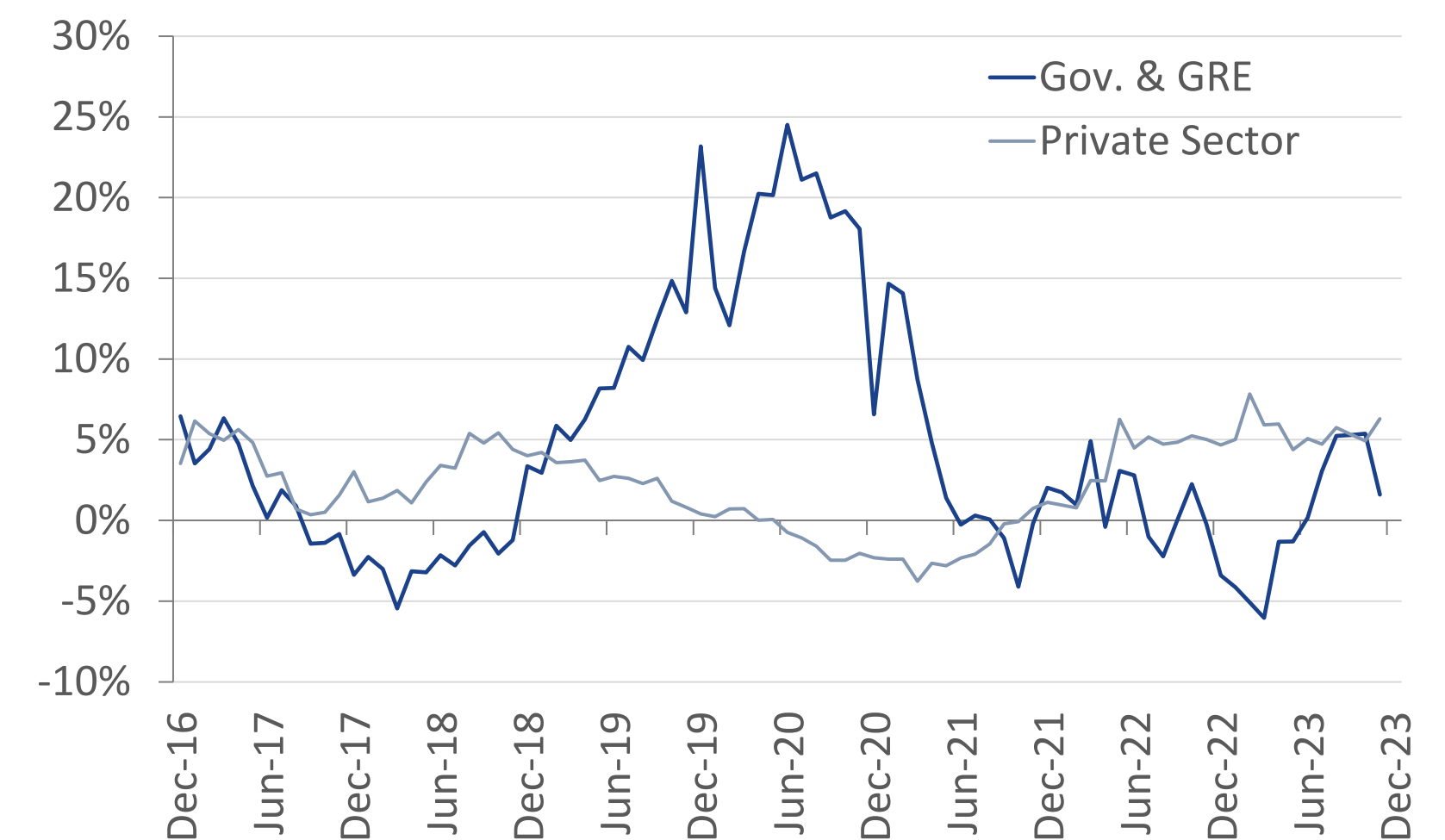
UAE bank deposit and credit growth has stayed strong, supporting positive balance sheet growth of the UAE banks. Private credit have picked up over the past two years, whilst government and GRE credit have stayed flat.

UAE Bank credit growth remains strong



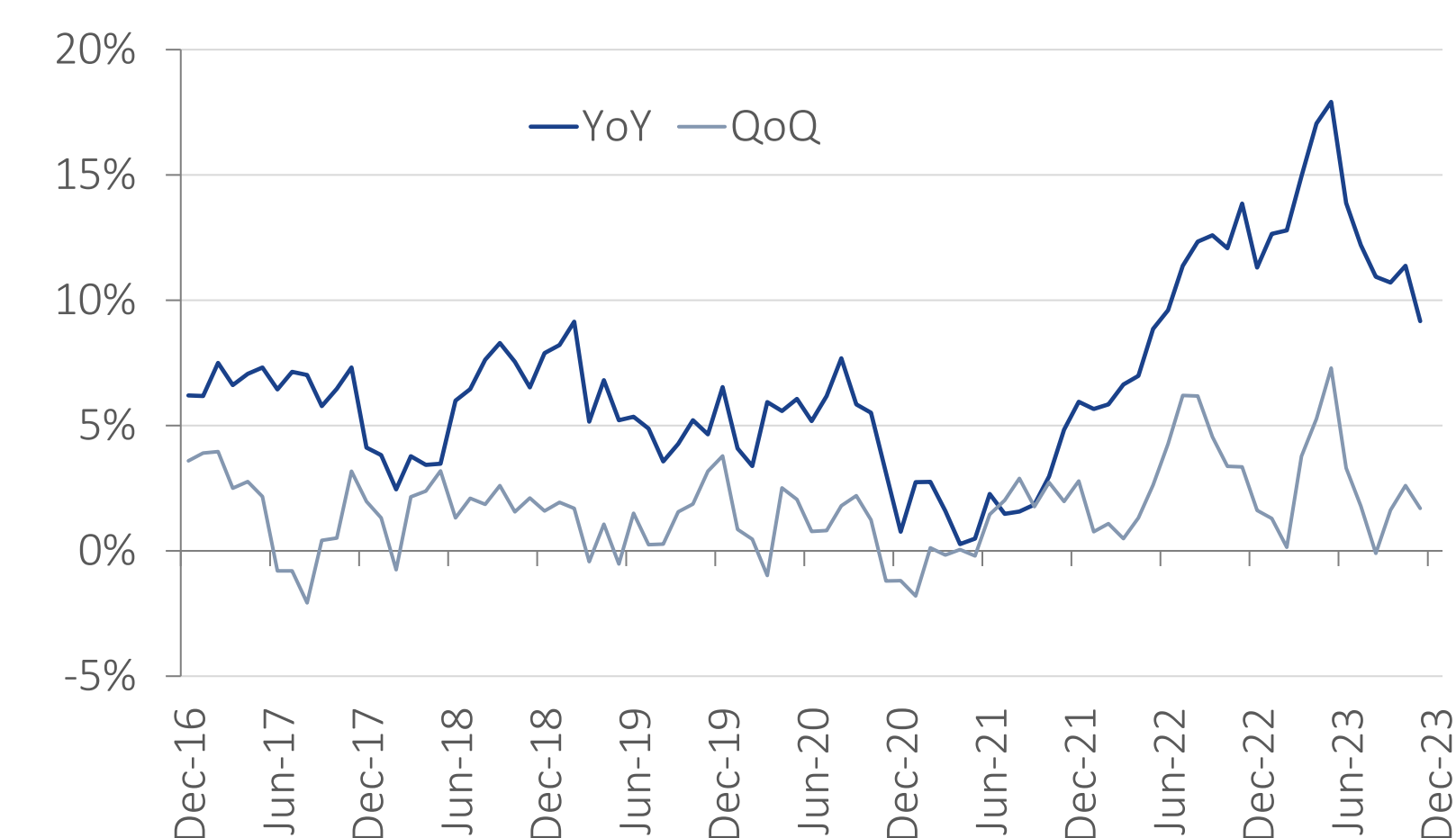
Source: UAE Central Bank, IS Research

UAE Private sector credit demand have been strong



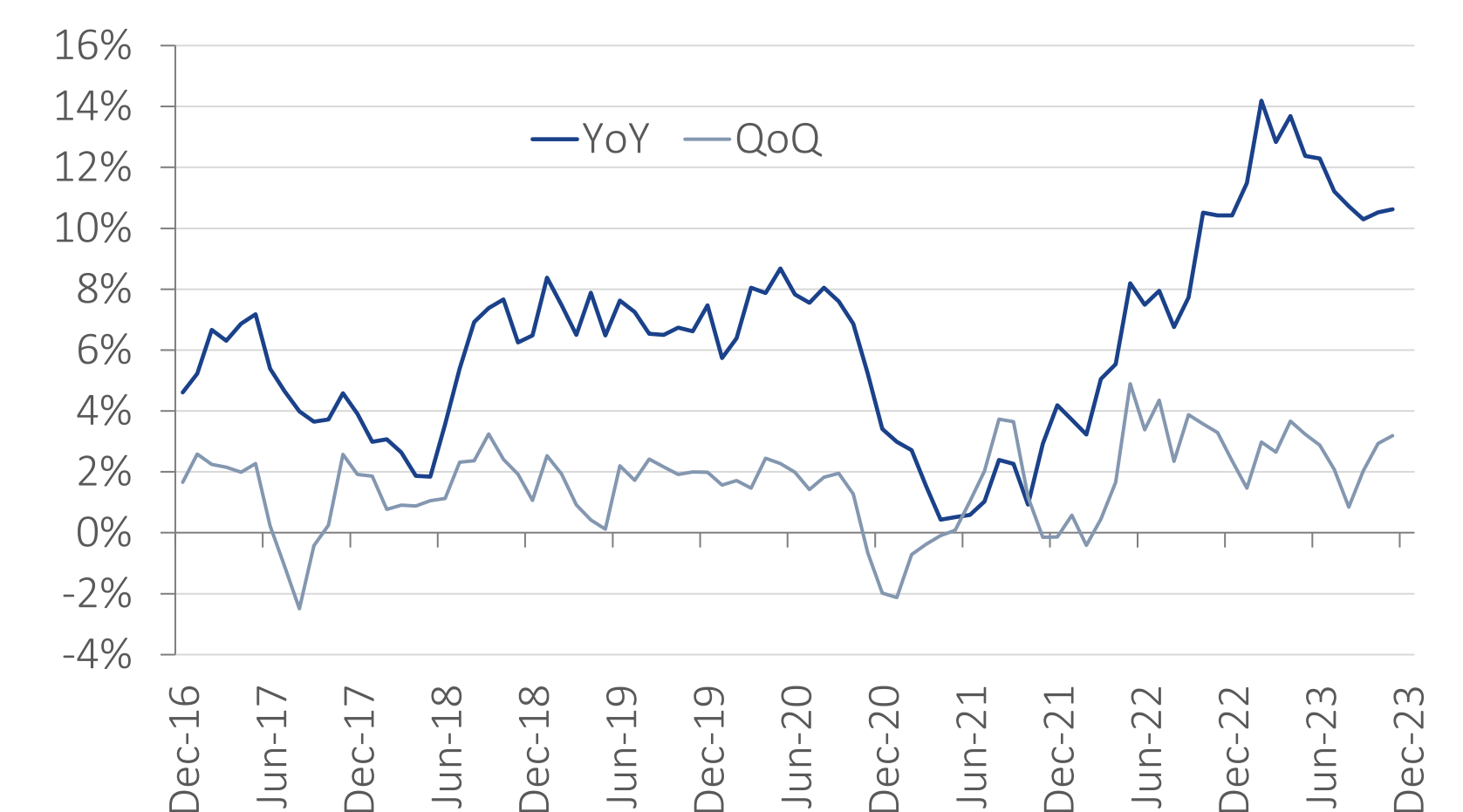
Source: UAE Central Bank, IS Research

UAE deposit growth continue to support banks balance sheet growth



Source: UAE Central Bank, IS Research

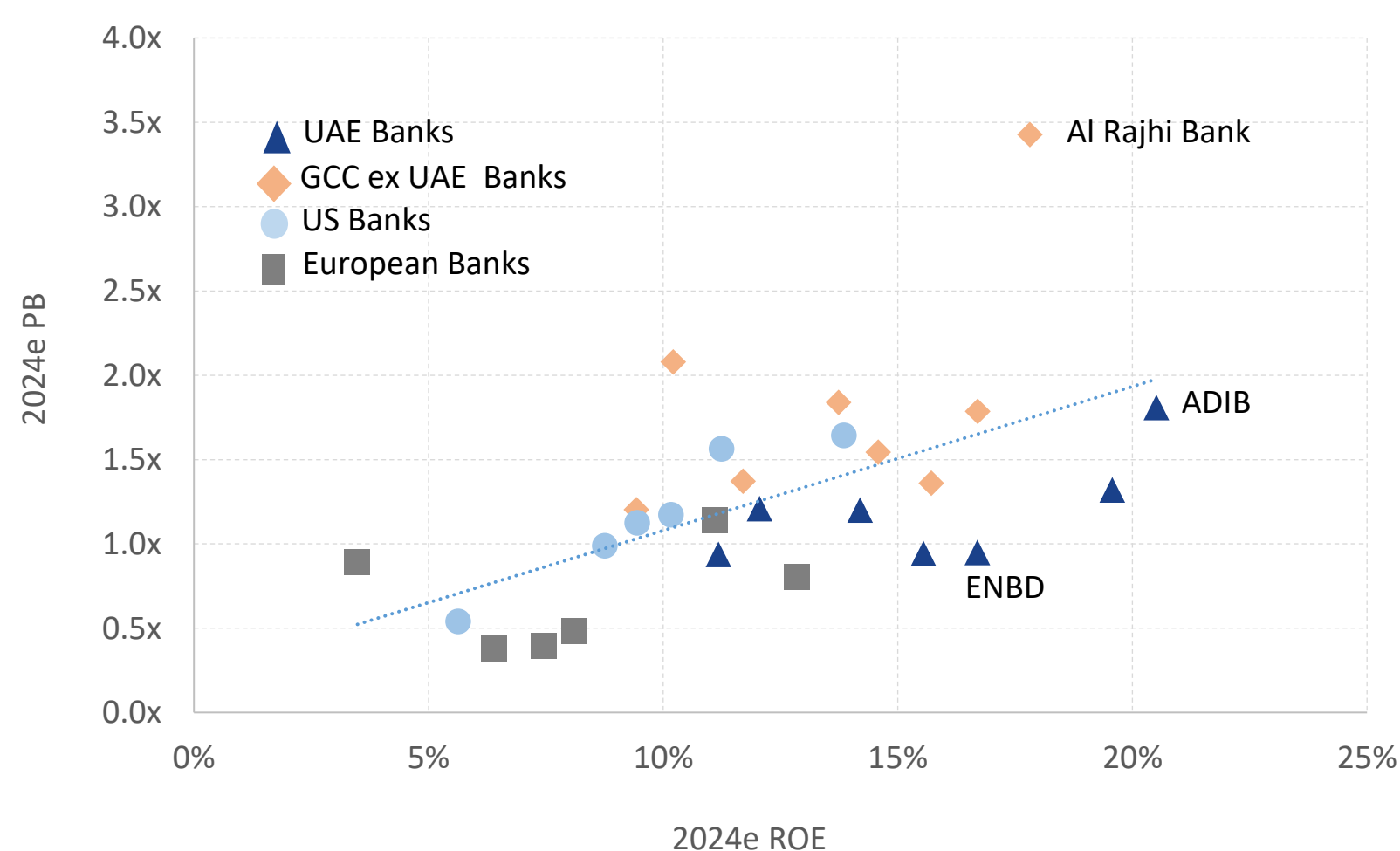
UAE bank balance sheet growth continues



Source: UAE Central Bank, IS Research

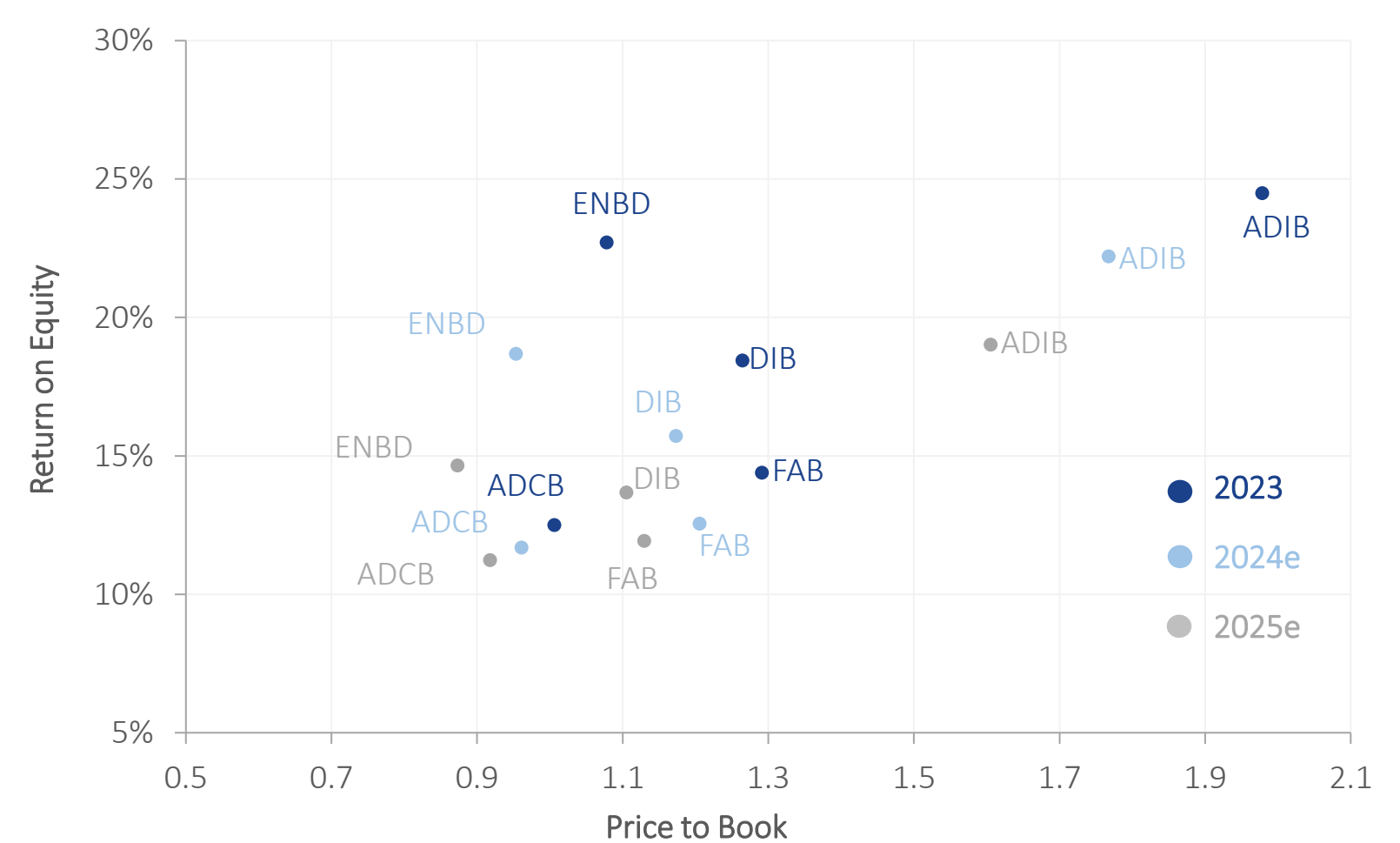
We believe the positive growth momentum in the UAE banks to continue in the near term, which should continue to support their current earnings, whilst the introduction of new UAE corporate tax in 2024 and the cut in benchmark interest rates will adversely impact the shareholders' earnings. However, with expected growth in revenues and balance sheet, we believe earnings for most of the UAE banks are likely to stay stable around the FY23 levels for the next two years, after adjusting for both the UAE corporate tax impact in FY24 and expected NIM contraction in FY25. UAE banks continue to trade at an attractive valuation within GCC and the broader global market, and we continue to maintain our buy recommendation on FAB, ENBD and ADCB.

UAE banks are attractively valued



Source: Refinitiv, IS Research

UAE bank looks attractive even after pricing in future returns



Source: IS Research Estimates.





Global and Regional Bank Valuations

Company	Country	Market Cap	PE		PB		ROE		EPS Gr		Curr. Div Yld. (%)
		USDmn	FY24e	FY25e	FY24e	FY25e	FY24e	FY25e	FY24e	FY25e	
FAB	United Arab Emirates	40,186	10.0x	10.0x	1.2x	1.1x	12.1%	11.5%	-3.6%	0.6%	5.3
ENBD	United Arab Emirates	29,323	5.7x	5.9x	0.9x	0.9x	16.7%	14.5%	-11.0%	-3.7%	7.0
ADCB	United Arab Emirates	17,120	8.4x	8.6x	0.9x	0.9x	11.2%	10.4%	-0.2%	-2.2%	6.5
DIB	United Arab Emirates	12,519	8.5x	8.5x	1.2x	1.1x	14.2%	13.4%	-2.2%	0.0%	7.1
ADIB	United Arab Emirates	10,996	8.8x	9.1x	1.8x	1.7x	20.5%	18.3%	3.2%	-2.8%	6.4
Meshraq	United Arab Emirates	10,648	6.7x	7.4x	1.3x	1.2x	19.6%	16.1%	-8.8%	-9.3%	9.5
RAK Bank	United Arab Emirates	2,809	6.1x	5.9x	0.9x	0.9x	15.5%	14.8%	-3.8%	3.1%	6.0
Median			8.4x	8.5x	1.2x	1.1x	15.5%	14.5%			6.5

Company	Country	Market Cap	PE		PB		ROE		EPS Gr		Curr. Div Yld. (%)
		USDmn	FY24e	FY25e	FY24e	FY25e	FY24e	FY25e	FY24e	FY25e	
Al Rajhi Bank	Saudi Arabia	91,622	19.2x	16.6x	3.4x	3.1x	17.8%	18.8%	11.3%	15.8%	2.7
Saudi National Bank	Saudi Arabia	63,677	11.7x	10.7x	1.4x	1.3x	11.7%	12.0%	4.8%	9.8%	4.4
Qatar National Bank	Qatar	37,346	8.6x	8.3x	1.4x	1.2x	15.7%	15.0%	8.2%	3.8%	4.4
Kuwait Finance House	Kuwait	41,079	20.3x	17.2x	2.1x	2.0x	10.2%	11.6%	0.7%	18.1%	1.2
National Bank of Kuwait	Kuwait	24,957	13.4x	13.3x	1.8x	1.7x	13.7%	12.9%	3.1%	0.5%	3.6
Riyad Bank	Saudi Arabia	23,839	10.6x	10.2x	1.5x	1.4x	14.6%	14.0%	6.3%	3.7%	4.7
Qatar Islamic Bank	Qatar	12,834	10.7x	10.8x	1.8x	1.6x	16.7%	15.2%	8.6%	-1.5%	3.7
Gulf Bank of Kuwait	Kuwait	3,438	12.7x	12.2x	1.2x	1.2x	9.4%	9.6%	4.8%	4.4%	4.1
Simple Median			12.2x	11.5x	1.7x	1.5x	14.2%	13.5%			3.9

Company	Country	Market Cap	PE		PB		ROE		EPS Gr		Curr. Div Yld. (%)
		USDmn	FY24e	FY25e	FY24e	FY25e	FY24e	FY25e	FY24e	FY25e	
JP Morgan	United States of America	543,094	11.9x	11.6x	1.6x	1.5x	13.9%	13.1%	-4.4%	1.8%	2.1
Bank of America	United States of America	278,613	11.3x	10.3x	1.0x	0.9x	8.8%	9.0%	-8.0%	9.6%	2.6
Wells Fargo	United States of America	202,483	11.9x	10.6x	1.1x	1.1x	9.4%	9.9%	-6.3%	12.1%	2.3
Morgan Stanley	United States of America	145,751	13.9x	12.1x	1.6x	1.5x	11.2%	12.4%	20.3%	14.4%	3.6
Goldman Sachs	United States of America	127,266	11.5x	10.0x	1.2x	1.1x	10.2%	10.9%	62.5%	15.0%	2.7
Citi Bank	United States of America	107,533	9.6x	7.9x	0.5x	0.5x	5.6%	6.4%	-3.3%	21.8%	3.7
Bank of Nova Scotia	Canada	60,472	10.3x	9.5x	1.1x	1.1x	11.1%	11.4%	-5.4%	7.8%	6.3
Simple Median			11.5x	10.3x	1.1x	1.1x	10.2%	10.9%			2.7

Company	Country	Market Cap	PE		PB		ROE		EPS Gr		Curr. Div Yld. (%)
		USDmn	FY24e	FY25e	FY24e	FY25e	FY24e	FY25e	FY24e	FY25e	
HSBC	United Kingdom	147,541	6.2x	6.4x	0.8x	0.7x	12.9%	11.7%	-3.1%	-2.1%	7.9
UBS	Switzerland	100,429	25.6x	12.5x	0.9x	0.8x	3.5%	6.8%	3.3%	105.1%	2.4
Barclays	United Kingdom	32,632	5.3x	4.4x	0.4x	0.4x	7.5%	8.1%	11.1%	21.1%	4.7
Deutsche	Germany	27,973	5.9x	4.9x	0.4x	0.3x	6.4%	7.0%	7.1%	19.1%	2.4
Standard Chartered	United Kingdom	23,194	6.0x	5.3x	0.5x	0.4x	8.1%	8.3%	21.9%	13.1%	3.1
Simple Median			6.0x	5.3x	0.5x	0.4x	7.5%	8.1%			3.1

Company	Country	Market Cap	PE		PB		ROE		EPS Gr		Curr. Div Yld. (%)
		USDmn	FY24e	FY25e	FY24e	FY25e	FY24e	FY25e	FY24e	FY25e	
ICBC	China	259,204	5.4x	5.3x	0.6x	0.5x	10.3%	9.8%	0.2%	2.9%	5.7
Bank of China	China	185,754	6.1x	5.9x	0.6x	0.5x	9.8%	9.4%	2.6%	3.2%	5.1
Mitsubishi UFG	Japan	132,225	13.2x	12.9x	1.0x	1.0x	7.8%	7.6%	35.1%	2.0%	2.3
Woori Financials	Korea	8,165	3.7x	3.4x	0.3x	0.3x	9.1%	9.0%	4.0%	6.1%	9.2
Simple Median			5.7x	5.6x	0.6x	0.5x	9.4%	9.2%			5.4

Source: Refinitiv, IS Research



FAB

Valuation Update

Financials

BUY

FV AED15.00
(upside 11.9%)

- FAB continues to look attractively valued at one standard deviation below the long-term average and trades at 1.2x FY24e PB and 9.9x FY24e PE with a dividend yield of 5%; maintain Buy with a fair value of AED15.0/sh
- FAB FY23 earnings grew 21% YoY to AED15.7bn (slightly better than expected), but headwinds associated with the impact of the new UAE corporate tax and NIM contraction might be an overhang in the medium-term
- We forecast an EPS of AED1.35 for FY24e and AED1.37 for FY25e, slightly lower than FY23 EPS of AED1.43 as we factor in new UAE corporate tax impact in FY24 and NIM contraction in FY25e in our estimates

We maintain our Buy recommendation on the stock with a fair value (FV) of AED15.00/sh. as we roll our estimates forward. Following a robust earnings growth of 21% in FY23, we expect FAB earnings to correct slightly in FY24e (-4% YoY) due to the adverse impact of the new UAE corporate tax and the expected fall in the benchmark interest rates. However, the stock trade at an attractive valuation of 1.2x FY24e PB and 9.9x FY24e PE, which is one standard deviation below its long-term average. A dividend yield of 5.0% is quite sustainable in our view. With the lowest NPL ratio amongst the peers and the highest credit rating, a slight valuation premium is justified for the stock.

FAB reported FY23 shareholders profit of AED15.7bn, up 21% YoY, led by improvement in both core net interest income (AED18.1bn; up 27% YoY) and non-interest income (AED9.4bn; up 41% YoY). Net operating income was up 44% YoY to 20.3bn. The bank reported a one-off gain of AED284mn in FY23 by selling a stake in FAB properties to Aldar versus a gain of AED3.1bn in FY22. The cost-to-income ratio dropped by 623bps, cost of risk came and NPL ratio stayed flat YoY. Net loan grew 5% YoY, deposits grew 8% YoY whilst CASA balance grew 31% YoY. Bank maintained strong liquidity position with Liquidity Coverage Ratio (LCR) of 145% and Common Equity Tier 1 Capital (CET-1) ratio of 13.8%.

Outlook for FY24e: We believe FAB operating income will grow in the near term and see net loan growth of 5.0% in FY24 and 4.8% in FY25e, whilst the net operating income is expected to grow by 6.7% in FY24e but is expected to stay flat YoY in FY25e, as the contraction in NIMs is expected to offset the positive impact of improvement in loan book and non-interest income. We have forecasted an EPS of AED1.35/sh. for FY24e and AED1.37/sh. for FY25e with a flat NPL ratio of 3.9% and a slight drop in cost of risk.

Management FY24e guidance: Loan growth of mid-single digit, cost of risk of 65-75bps, provision coverage of above 90%, ROTC above 16% and CET ratio above 13.5%, more or less similar to FY23 and achievable in our view.

FAB: FY23 result summary

AED (mln)	4Q22	3Q23	4Q23	YoY	QoQ	4Q Est.	Vs. Est.	2022	2023	YoY
Net Interest Income	4,209	4,577	4,693	11.5%	2.5%	4,604	1.9%	14,386	18,102	27.3%
Non-Interest Income	1,703	2,399	2,240	31.5%	-6.6%	2,381	-5.9%	6,454	9,370	41.5%
Operating Income	5,911	6,976	6,933	17.3%	-0.6%	6,985	-0.7%	20,840	27,471	31.8%
Operating Exp.	(1,980)	(1,806)	(1,900)	-4.0%	5.2%	(1,781)	6.7%	(6,705)	(7,125)	6.3%
Net Operating Income	3,932	5,169	5,033	28.0%	-2.6%	5,033	-3.3%	14,135	20,346	43.9%
Impairment Charge	(1,106)	(605)	(999)	-9.7%	65.0%	(967)	3.2%	(2,839)	(3,078)	8.4%
One-off gains	-	-	284	NA	NA	-	NA	3,094	284	-90.8%
Shareholders' Profit	2,400	3,960	3,936	63.9%	-0.6%	3,743	5.1%	13,035	15,740	20.8%
Norm. Profit	2,400	3,960	3,652	52.1%	-7.8%	3,743	-2.4%	9,941	15,456	55.5%
NIMs	1.77%	1.81%	1.89%	12bps	8bps	1.85%	4bps	1.59%	1.80%	21bps
Cost to Income	25.3%	25.9%	27.4%	210bps	150bps	25.5%	190bps	32.2%	25.9%	-623bps
NPL	3.9%	3.9%	3.9%	0bps	0bps	3.9%	0bps	3.9%	3.9%	0bps

Source: Company Data, IS Research

Ticker	FAB UH
Market Cap (AED bln)	148.0
Stock Price	13.40
Target Price	15.00
Upside/(Downside) (%)	11.9
52W High	15.7
52W Low	12.4
3M ADTV (AED Mn)	45.3

FAB Financials

AED Bln	2023	2024e	2025e
NII	18.1	19.1	17.3
Non-Int. Income	9.4	9.8	11.6
Expense	(7.1)	(7.2)	(7.2)
Impairments	20.3	21.7	21.7
Net Profit	15.7	14.9	15.1
EPS (AED/sh.)	1.43	1.35	1.37
BPS (AED/sh.)	10.38	11.11	11.86
DPS (AED/sh.)	0.71	0.67	0.68

Total Assets	1,169	1,227	1,285
Loan	484	508	532
Deposits	760	802	842
Total Equity	125	134	142

P/B (x)	1.3x	1.2x	1.2x
P/E (x)	9.4x	9.9x	9.8x
Div. Yield	5.3%	5.0%	5.1%
ROE	17.6%	15.1%	14.2%
RORWA	2.8%	2.6%	2.5%

Source: Company Data, IS Research. Price as of 08 Mar 2024

FAB vs ADX



Source: Refinitiv, IS Research, *both rebased to 100 as of 01-Jan-2022



Income Statement

AEDmln	2021	2022	2023	2024e	2025e
Net Interest Income	11,658	14,217	18,102	19,103	17,332
Non Interest Income	10,023	6,623	9,370	9,841	11,555
Operating Income	21,681	20,840	27,471	28,944	28,887
Operating Expense	(5,836)	(6,705)	(7,125)	(7,236)	(7,222)
Net Operating Income	15,845	14,135	20,346	21,708	21,665
Impairment	(2,658)	(2,839)	(3,078)	(3,303)	(3,300)
Shareholders Profit	12,175	13,035	15,740	14,888	15,123
EPS (AED/sh.)	1.10	1.18	1.43	1.35	1.37
Adj. Shareholders Profit	12,175	9,941	15,456	14,888	15,123
Adj. EPS (AED/sh.)	1.10	0.90	1.40	1.35	1.37
DPS (AED/sh.)	0.70	0.52	0.71	0.67	0.68

Balance Sheet (AEDbn)

Net Loans	410	460	484	508	532
Deposits	614	701	760	802	842
Total Assets	1,000	1,110	1,169	1,227	1,285
Total Equity	113	115	125	134	142
Tier 1 Notes	11	11	11	11	11
Shareholders' Equity (Ex.Tier-1)	102	104	115	123	131
BVPS (AED/sh.)	9.24	9.44	10.38	11.11	11.86
Goodwill	19	20	20	20	20
Tangible Equity	83	84	95	103	111
Tangible BVPS (AED)	7.48	7.60	8.55	9.28	10.01

Key Ratios

Net Interest Margin	1.51%	1.59%	1.80%	1.81%	1.56%
Cost-Income ratio	-26.9%	-32.2%	-25.9%	-25.0%	-25.0%
Cost of Risk	-0.7%	-0.6%	-0.6%	-0.7%	-0.6%
NPL Ratio	3.9%	3.9%	3.9%	3.9%	3.9%
Provision Coverage	101%	98%	95%	95%	95%
Loans to Deposit	67%	66%	64%	63%	63%
CET1 ratio	12.4%	12.6%	13.8%	14.3%	14.8%
CAR	15.4%	15.6%	17.4%	17.6%	18.0%

Valuation Multiples

P/E	12.2x	11.4x	9.4x	9.9x	9.8x
P/B	1.4x	1.4x	1.3x	1.2x	1.1x
Div. Yld	5.2%	3.9%	5.3%	5.0%	5.1%
ROE	12.2%	12.6%	14.4%	12.6%	11.9%
ROTE	15.1%	15.7%	17.6%	15.1%	14.2%
RORWA	2.3%	2.3%	2.8%	2.6%	2.5%
Leverage (Asset/Equity)	8.9x	9.6x	9.3x	9.2x	9.1x

Source: Company Data, IS Research

About the company: FAB is the largest bank in the UAE and the second largest in GCC by asset size. FAB was formed by the merger of NBAD and FGB. The bank has significant exposure to Abu Dhabi in its credit portfolio and offers Investment Banking, Corporate & Commercial Banking, Consumer Banking and Global Private Banking services. FAB's international network is spread over five continents to support local, regional and international businesses. The bank is currently rated Aa3 by Moody's and AA- by S&P.

Investment case: FAB continue to enjoy the highest credit rating in UAE and is the biggest in asset size. The bank holds a conservative asset mix with a loan/ asset ratio of ~40%, of which about 30% credit exposure is to the government and public sector enterprises. Due to its conservative credit approach, the bank has the lowest NPL ratio amongst UAE banks and maintains a health coverage ratio. Implementing the new UAE corporate tax is likely to impact the earnings in FY24, but that should be short-lived as tax collection from the government should result in higher government spending supporting economic growth. FAB current valuation is one standard deviation below its long-term average and looks attractive.

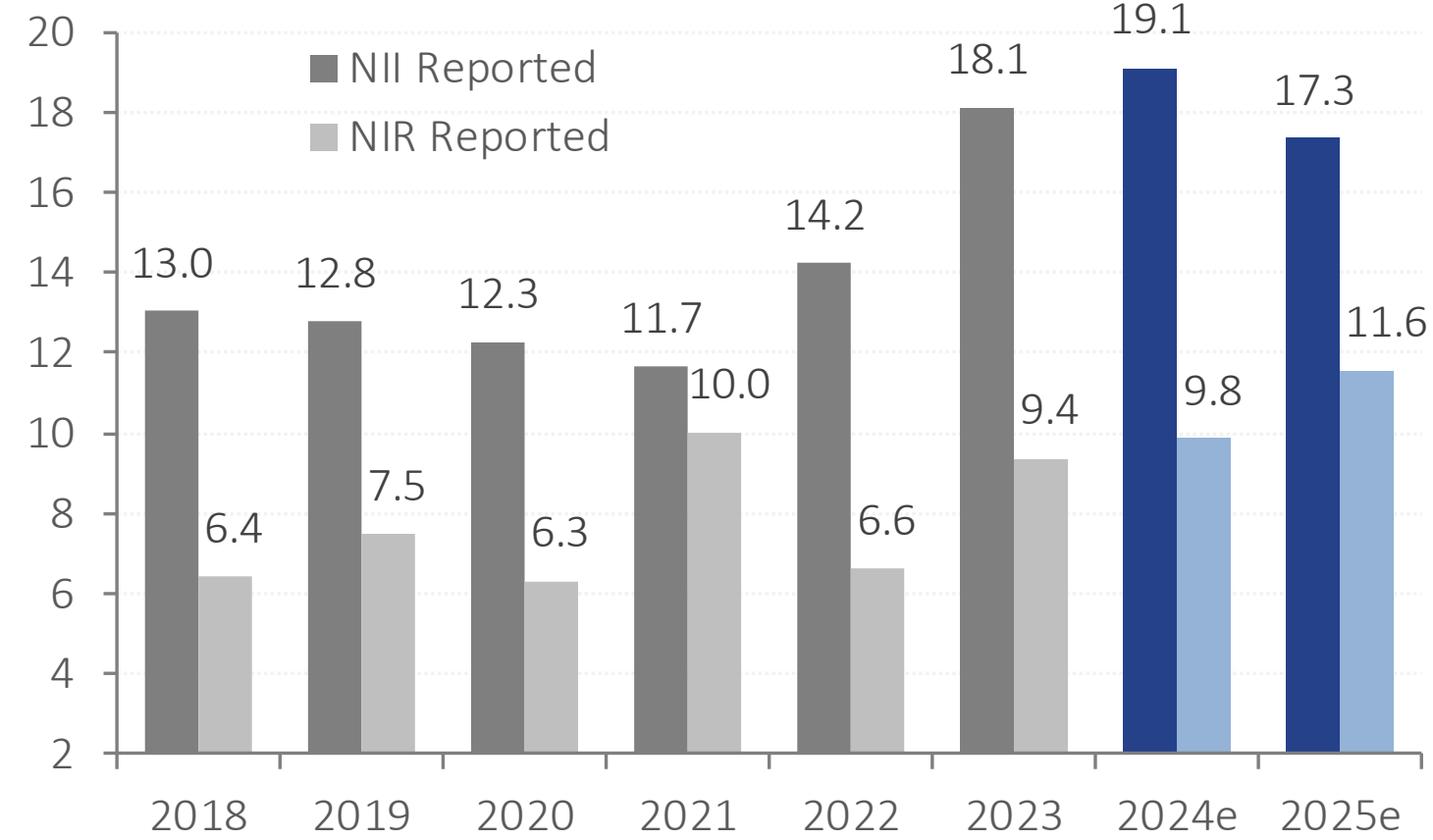
Valuation: We have valued FAB using a residual income method using a risk-free rate of 4.0%, risk premium of 6.0%, beta of 1.0 and terminal growth rate of 2.5%. Our FY24 fair value target of AED 15.00/sh. suggests a 11.3% update from current levels and value the bank at 1.3x FY24e PB and 11x FY24e PE. We expect FAB to continue to trade at a premium relative to its UAE peers, given its bigger balance sheet, superior credit rating and better asset quality.

Upside Risk: Better than expected loan growth, higher than expected NIMs, higher than expected non-interest income and lower than expected impairment charges.

Downside Risk: Increase in geopolitical uncertainty in the region, lower than expected NIMs, faster than expected cut in the interest rates, higher than expected cost of risk and higher than expected NPLs.

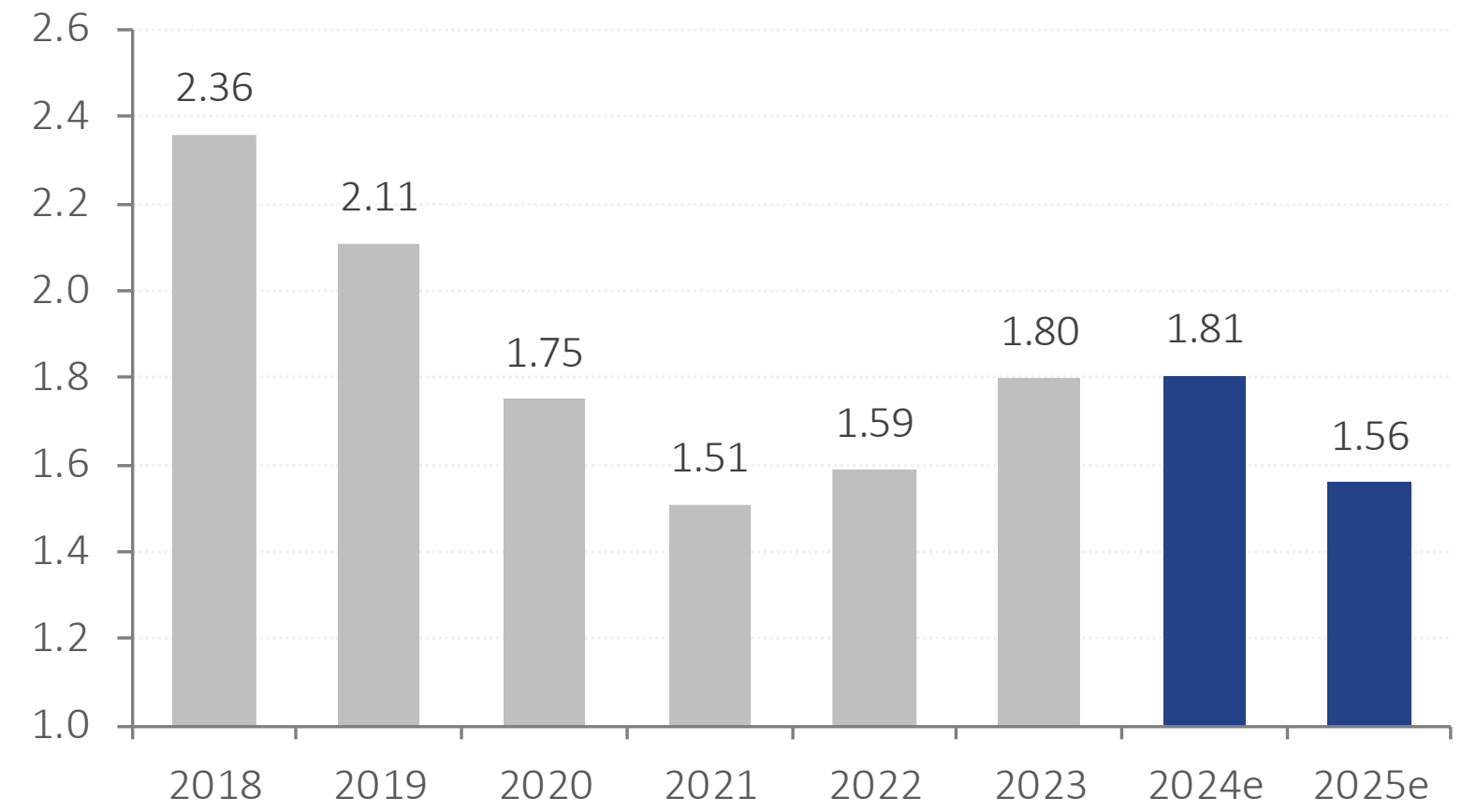


FAB Operating Income (AED bln)



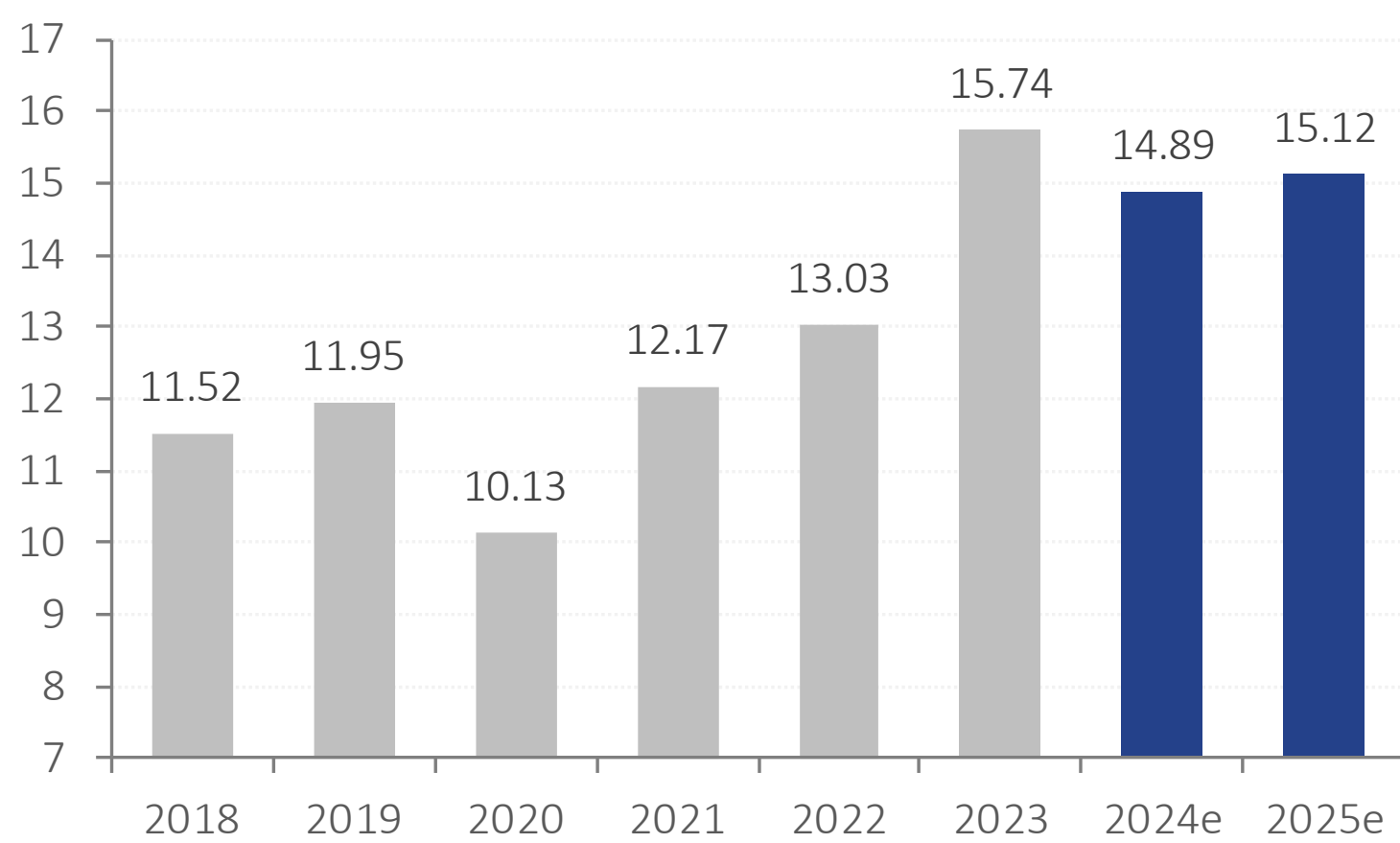
Source: Company Data, IS Research

FAB NIMs (%)



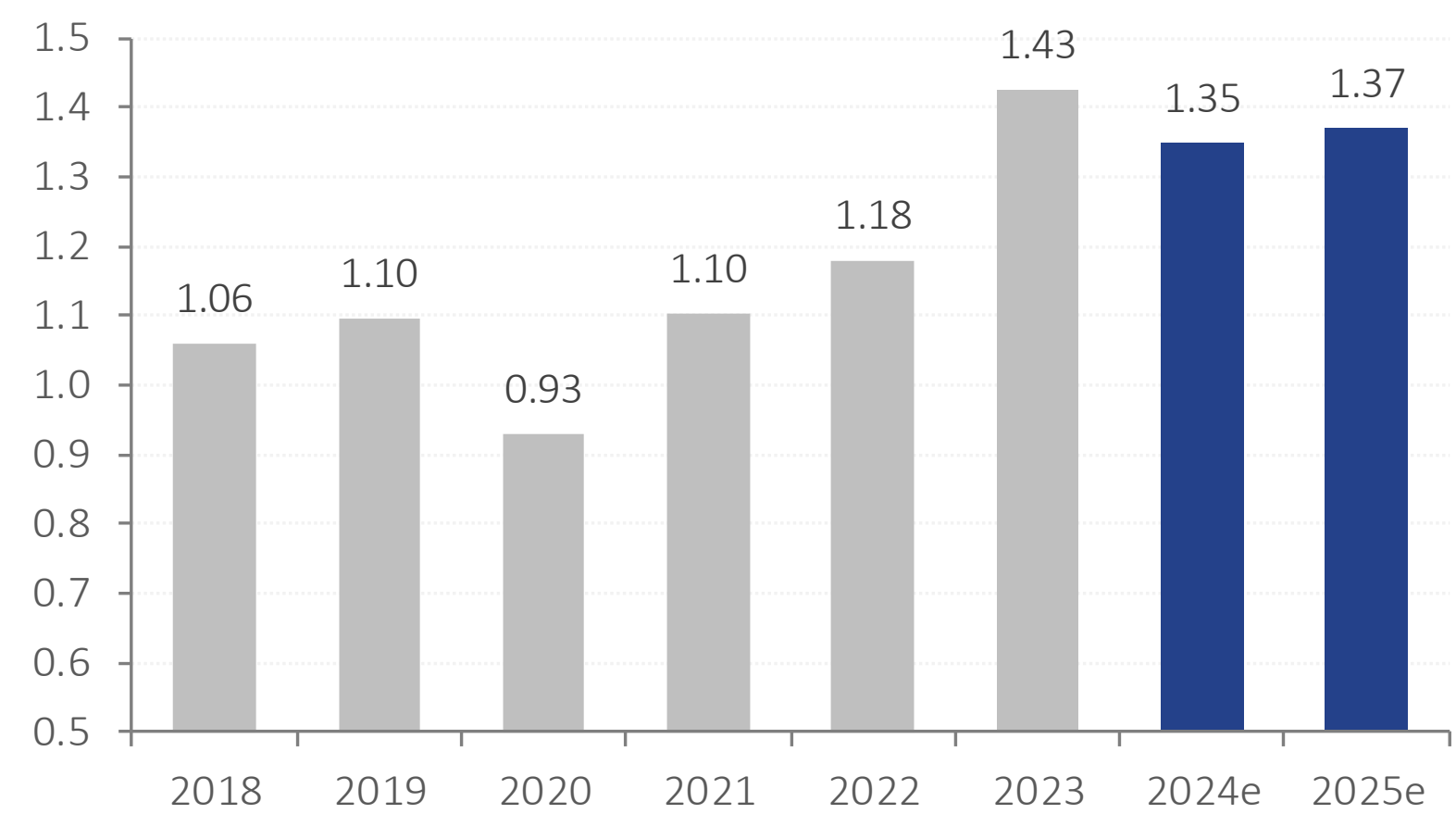
Source: Company Data, IS Research

FAB Shareholders' Profit (AED bln)



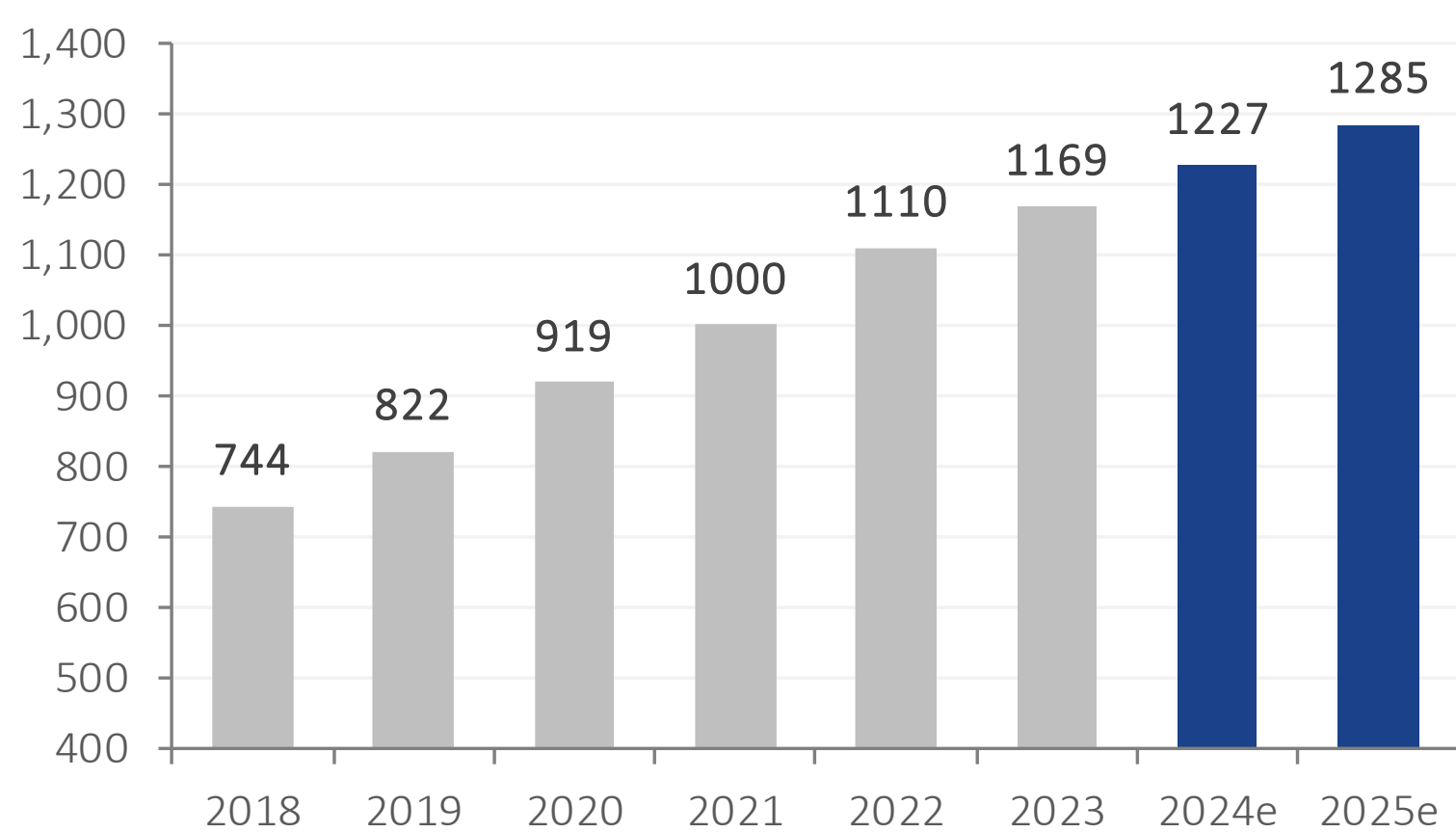
Source: Company Data, IS Research

FAB Earning Per Share (AED)



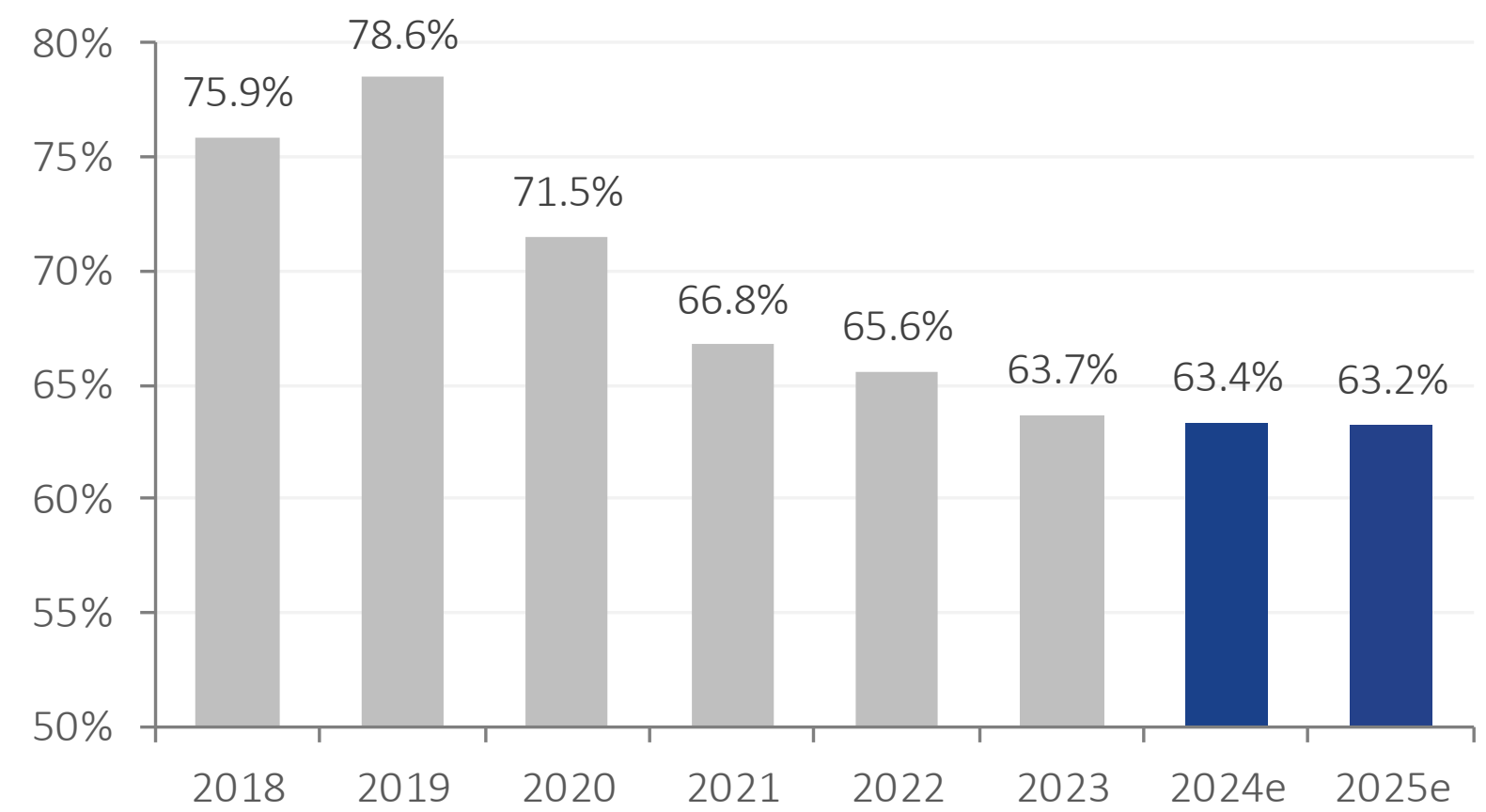
Source: Company Data, Refinitive, IS Research

FAB Total Assets (AED bln)



Source: Company Data, IS Research

FAB Net Loan to Deposit Ratio



Source: Company Data, Refinitive, IS Research

FAB LTM PE



Source: Bloomberg, IS Research

FAB LTM PB



Source: Bloomberg, IS Research

ADCB

Valuation Update

Financials

BUY

FV AED10.10

(upside 17.6%)

- We maintain our Buy recommendation on the stock with a fair value of AED10.10/sh. Improvement in asset quality, aggressive growth guidance and attractive valuations are all positive for the stock
- ADCB reported shareholders profit of AED7.8bn in FY23, +25% YoY, including one-off gain of AED490mn from stake sale in ADCP
- We continue to see earning growth for ADCB in the near term, with normalized earnings expected to grow by 4% in FY24e and 1% in FY25e, offsetting the impact of new UAE corporate tax in FY24e and NIM contraction in FY25e

We maintain our Buy recommendation on the stock with a fair value of AED10.1/sh. ADCB remains our top pick in the UAE banking space, the stock trades at an attractive FY24e PB of 1.0x, PE of 8.2x, ROE of 11.7% with a dividend yield of 5.8%. At our fair value, the stock is valued at 2024e PB of 1.1x, PE of 9.7x, ROE of 11.7% and dividend yield of 5%.

ADCB reported FY23 shareholders profit of AED7.8bn, up 25% YoY, and a normalised core profit of AED7.3bn (+15% YoY) after adjusting for a one-off gain of AED490mn resulting from divestment of majority stake in ADCP during the year. Both net interest and non-interest income grew, and with a drop in cost-to-income ratio, the overall net operating income of AED 11.4bn grew 21% YoY. ADCB witnessed an impressive loan growth of 17% YoY, largely concentrated in the 2H23, and a deposit growth of 17.5% in FY23. With an impressive deposit growth, the CASA ratio dropped to 46.1%, from 49.5% in FY22, however NIMs continued to expand from 2.51% in FY22 to 2.83% in FY23.

ADCB saw a significant improvement in asset quality in FY23, with the NPL ratio dropping to 4.2% (including POCI) vs. 5.36% in FY22 and the coverage ratio improving above 100% (excluding collaterals). We believe ADCB growth momentum is likely to continue in FY24 and FY25. ADCB is one amongst the few banks in UAE where we are forecasting a normalized earnings growth in FY24e, offsetting the impact of new UAE corporate tax.

Outlook for FY24e: We believe ADCB is likely to see net loan growth of 8.0% in FY24 and 7.0% in FY25e, whilst the net operating income is expected to grow by 10.0% in FY24e and 1.9% in FY25e. We have forecasted a normalized EPS of AED1.04/sh. for FY24e and AED1.05/sh. for FY25e and expect to see further improvement in asset quality, keeping the cost of risk low.

Management FY24e guidance: Loan growth of 8%-10%, ROTE of 14%-15%, NIMs ~2.60%, cost of risk <80bps and CET ratio >12%, all achievable in our view.

Ticker	ADCB UH
Market Cap (AED bln)	63.8
Stock Price	8.58
Target Price	10.10
Upside/(Downside) (%)	17.6%
52W High	9.3
52W Low	7.6
3M ADTV (AED Mn)	35.0

FAB Financials

AED Bln	2023	2024e	2025e
NII	12.4	13.7	14.0
Non-Int. Income	4.5	4.5	4.5
Expense	(5.5)	(5.6)	(5.7)
Impairments	11.4	12.5	12.8
Net Profit	7.8	7.6	7.7
EPS (AED/sh.)	1.07	1.04	1.05
BPS (AED/sh.)	8.54	8.94	9.36
DPS (AED/sh.)	0.56	0.50	0.50
Total Assets	567	607	643
Loan	302	326	349
Deposits	363	386	408
Total Equity	71	74	77
P/B (x)	1.0x	1.0x	0.9x
P/E (x)	8.0x	8.2x	8.2x
Div. Yield	6.5%	5.8%	5.8%
ROE	12.5%	11.7%	11.2%
RORWA	2.1%	1.8%	1.7%

Source: Company Data, IS Research. Price as of 08 Mar 2024

ADCB: FY23 result summary

AED (mln)	4Q22	3Q23	4Q23	YoY	QoQ	4Q Est.	Vs. Est.	2022	2023	YoY
Net Interest Income	2,918	3,179	3,413	17.0%	7.3%	3,245.0	5.2%	10,194	12,374	21.4%
Non-Interest Income	1,486	1,054	1,249	-15.9%	18.5%	1,192.0	4.8%	4,151	4,493	8.2%
Operating Income	4,403	4,233	4,662	5.9%	10.1%	4,437.0	5.1%	14,344	16,866	17.6%
Operating Exp.	(1,302)	(1,412)	(1,491)	14.5%	5.6%	-1,479.0	0.8%	(4,888)	(5,453)	11.5%
Net Operating Income	3,101	2,822	3,171	2.3%	12.4%	2,957.0	7.2%	9,456	11,414	20.7%
Impairment Charge	(1,193)	(819)	(1,162)	-2.6%	41.8%	-931.0	24.8%	(2,779)	(3,477)	25.1%
One-off gains	(90)	-	490	NA	NA	490	-	(100)	490	NM
Shareholders' Profit	1,785	1,722	2,453	37.4%	42.4%	2,450.0	0.1%	6,253	7,813	25.0%
EPS (AED/sh.)	0.26	0.24	0.34	30.6%	42.4%	0.27	0.1%	0.90	1.07	18.8%
Norm. Profit	1,875	1,722	1,963	4.7%	14.0%	1,960	0.1%	6,353	7,323	15.3%

Source: Company Data, IS Research

ADCB vs ADX



Source: Refinitiv, IS Research, *both rebased to 100 as of 01-Jan-2022



Income Statement

AEDmln	2021	2022	2023	2024e	2025e
Net Interest Income	8,864	10,194	12,374	13,740	14,038
Non Interest Income	3,396	4,151	4,493	4,446	4,446
Operating Income	12,259	14,344	16,866	18,186	18,485
Operating Expense	(4,257)	(4,888)	(5,453)	(5,638)	(5,693)
Net Operating Income	8,002	9,456	11,414	12,548	12,791
Impairment	(2,646)	(2,779)	(3,477)	(3,327)	(3,560)
Shareholders Profit	5,241	6,435	8,207	8,080	8,083
EPS (AED/sh.)	0.73	0.90	1.07	1.04	1.05
Adj. Shareholders Profit	5,084	6,353	7,323	7,643	7,690
Adj. EPS (AED/sh.)	0.73	0.91	1.00	1.04	1.05
DPS (AED/sh.)	0.37	0.18	0.56	0.50	0.50

Balance Sheet (AEDbn)

Net Loans	244	258	302	326	349
Deposits	265	309	363	386	408
Total Assets	440	498	567	607	643
Total Equity	59	61	71	74	77
Tier 1 Notes	6	6	9	9	9
Shareholders' Equity (Ex.Tier-1)	53	55	62	65	68
BVPS (AED/sh.)	7.68	7.97	8.54	8.94	9.36
Goodwill	7	7	7	7	7
Tangible Equity	46	48	55	58	61
Tangible BVPS (AED)	6.63	6.94	7.57	7.92	8.34

Key Ratios

Net Interest Margin	2.45%	2.51%	2.83%	2.80%	2.66%
Cost-Income ratio	35.2%	34.5%	33.1%	31.8%	31.5%
Cost of Risk	0.77%	0.77%	0.76%	0.76%	0.77%
NPL Ratio	5.41%	5.25%	3.73%	3.70%	3.65%
Provision Coverage	93%	93%	103%	104%	105%
Loans to Deposit	92%	84%	83%	84%	86%
CET1 ratio	12.9%	13.0%	12.9%	12.7%	13.0%
CAR	16.0%	15.8%	16.2%	15.7%	15.9%

Valuation Multiples

P/E	11.8x	9.6x	8.0x	8.2x	8.2x
P/B	1.1x	1.1x	1.0x	1.0x	0.9x
Div. Yld	4.3%	2.1%	6.5%	5.8%	5.8%
ROE	9.5%	11.3%	12.5%	11.7%	11.2%
ROTE	11.4%	13.3%	15.1%	13.5%	12.9%
RORWA	1.6%	1.8%	2.1%	1.8%	1.7%
Leverage (Asset/Equity)	7.4x	8.1x	8.0x	8.2x	8.3x

Source: Company Data, IS Research

About the company: ADCB is the 3rd largest bank in the UAE. It holds 14.6% market share in net loans and 13.4% market share in customer deposits in the UAE. ADCB has 67 branches in the UAE, and total assets worth AED567bn as of the end of 2023. The bank is currently rated A by S&P.

Investment case: We expect ADCB to focus on growth in FY24 as the past conservative policy has led to a drop in NPL ratio to 3.73%, from 5.4% in FY21, and has improved the coverage ratio ex collateral to 103% in FY23, from 93% in FY21. The Bank has guided for loan growth of 8-10% in FY24, higher than the UAE peers, as the bank wants to pursue growth with a much stronger balance sheet now. ADCB has reduced its real estate exposure to 17%, at the end 2023, from 22% as of Dec 2022, and is likely to maintain these levels of real estate exposure. However, the CASA deposits have fallen to 46% of total deposits at the end of FY23, vs 49% as of Dec 2022; we think this might start to improve as interest rates have peaked, and the growth in bank deposits will start to slow down. Drop in CASA should have adversely impacted NIMs, but despite that NIMs have improved to 2.83% in FY23 from 2.51% at the end of FY22. We expect NIMs to stay flat in FY24, and NPL ratio to drop slightly in FY24. We remain optimistic about ADCB's core business and see the bank benefiting from higher credit growth and stable NIMs in FY24. offsetting the impact of the new UAE corporate tax. Valuation looks attractive, with stock trading at 8.1x of 2024ePE and 1.0x 2024e PB.

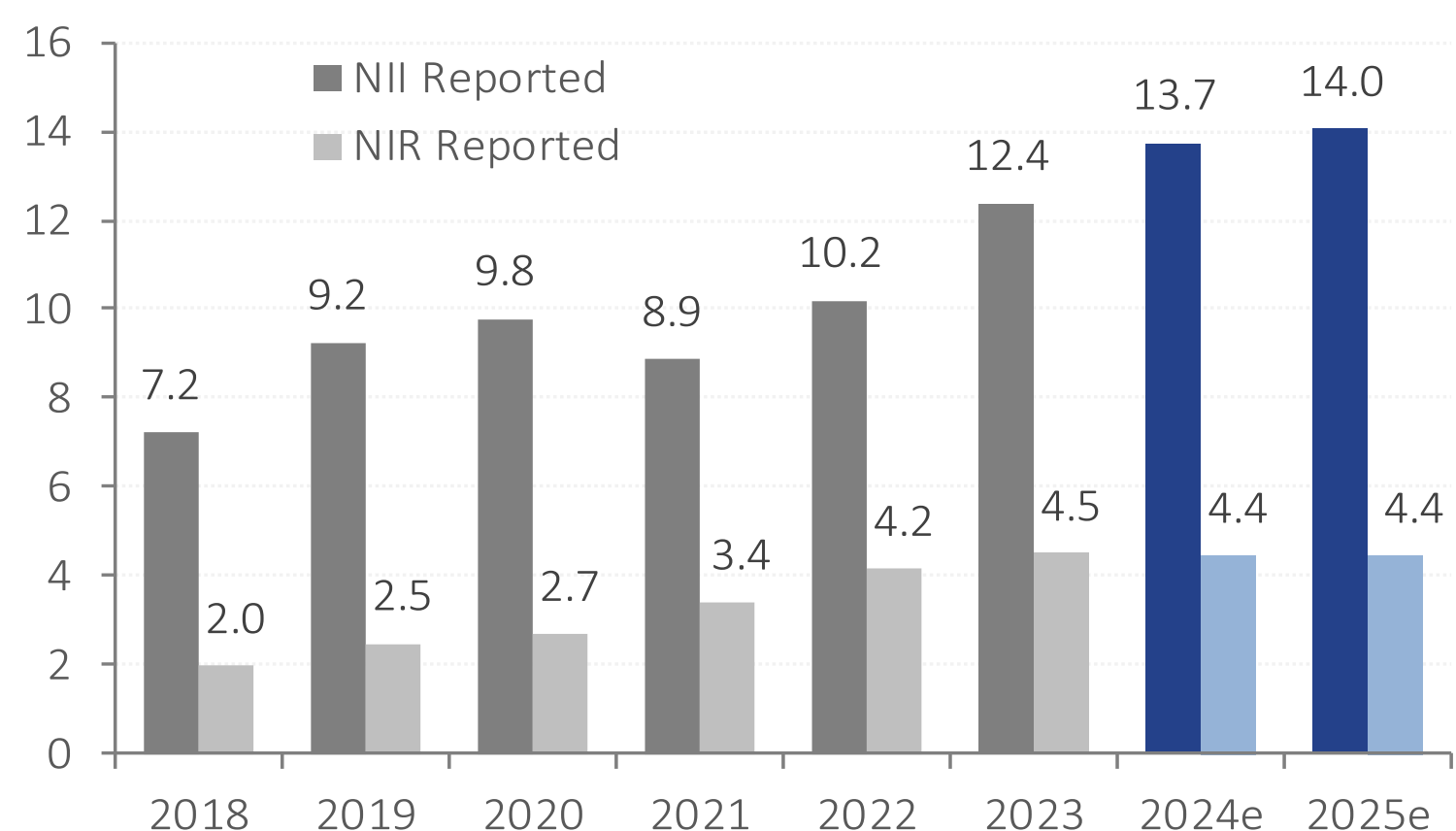
Valuation: We have valued ADCB using a residual income method using a risk-free rate of 4.0%, risk premium of 6.0%, Beta of 1.1x and a terminal growth rate of 2.5%. We got a FY24 year-end fair value target of AED 10.10/sh. valuing the bank at 1.1x FY24e PB and 9.6x FY24e PE. We expect ADCB to trade at a slight discount to its UAE peers given its lower ROEs, however, the recent improvement in asset quality and growing loan book opens up a possibility for an upward surprise.

Upside Risk: Better than expected NIMs, improvement in asset quality resulting in lower impairment charges, better than expected non-interest income.

Downside Risk: Growing geopolitical uncertainty in the region, higher than expected NIM contraction, lower than expected loan growth, higher than expected cost of risk.

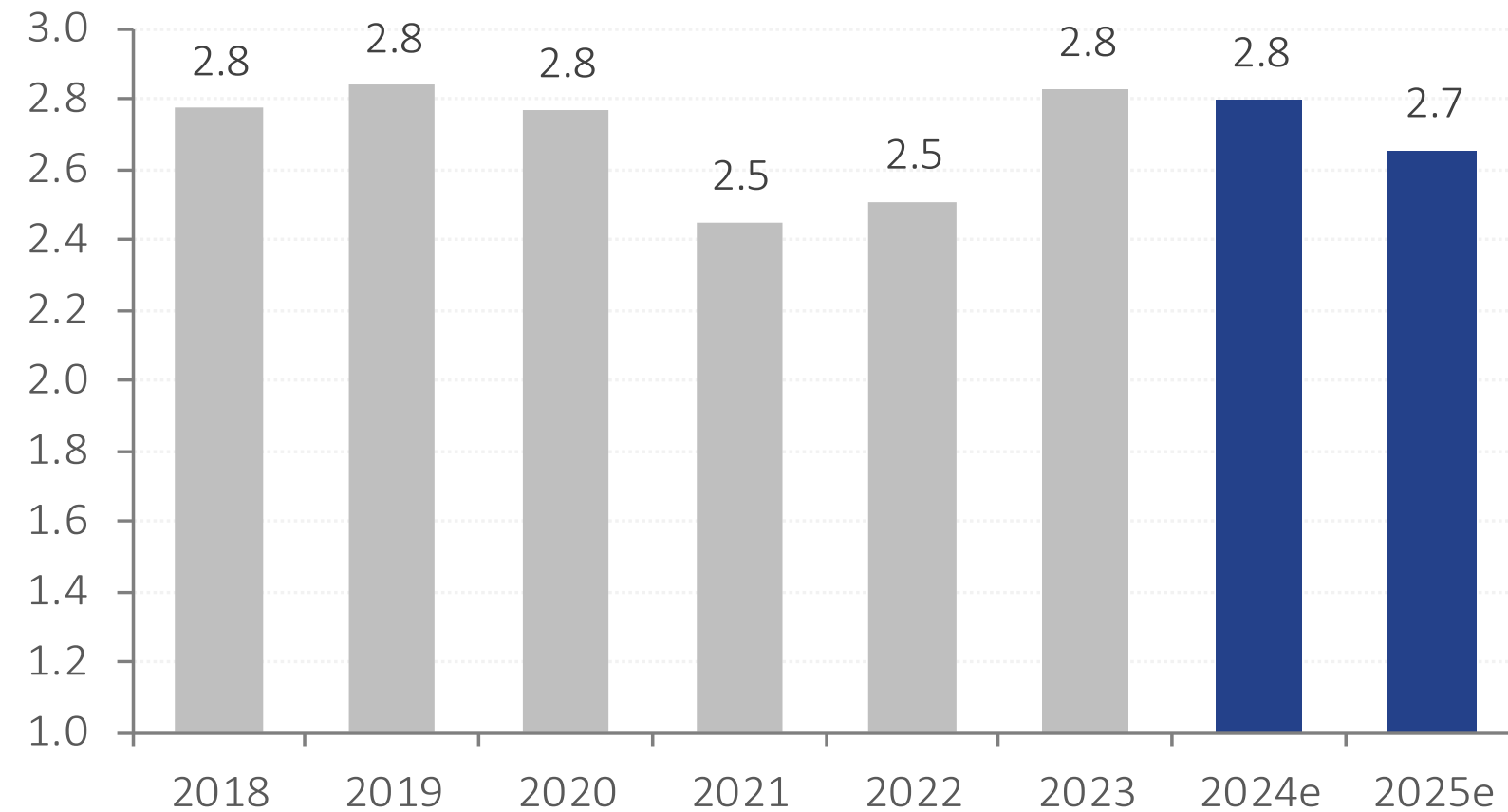


ADCB Operating Income (AED bln)



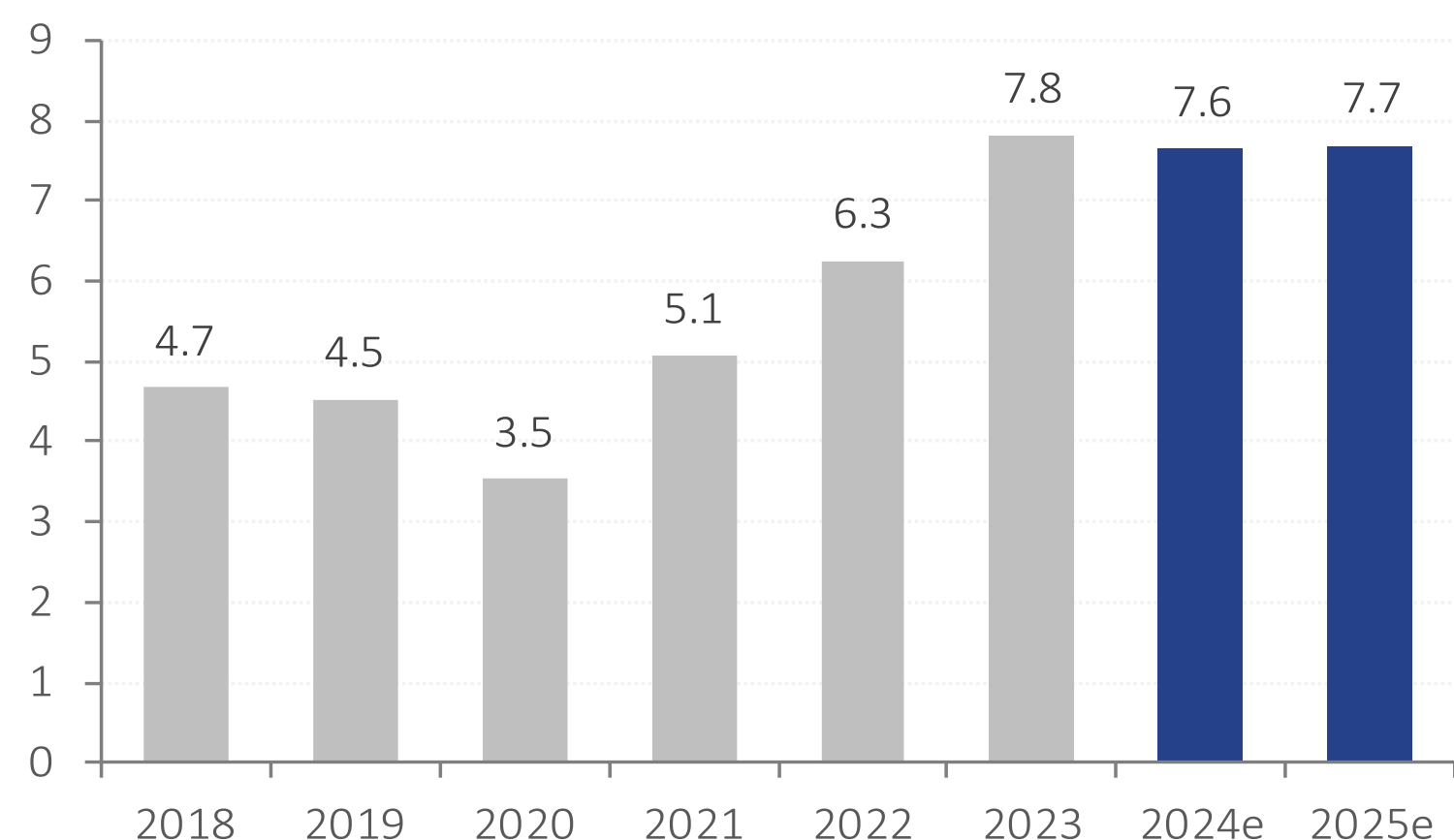
Source: Company Data, IS Research

ADCB NIMs (%)



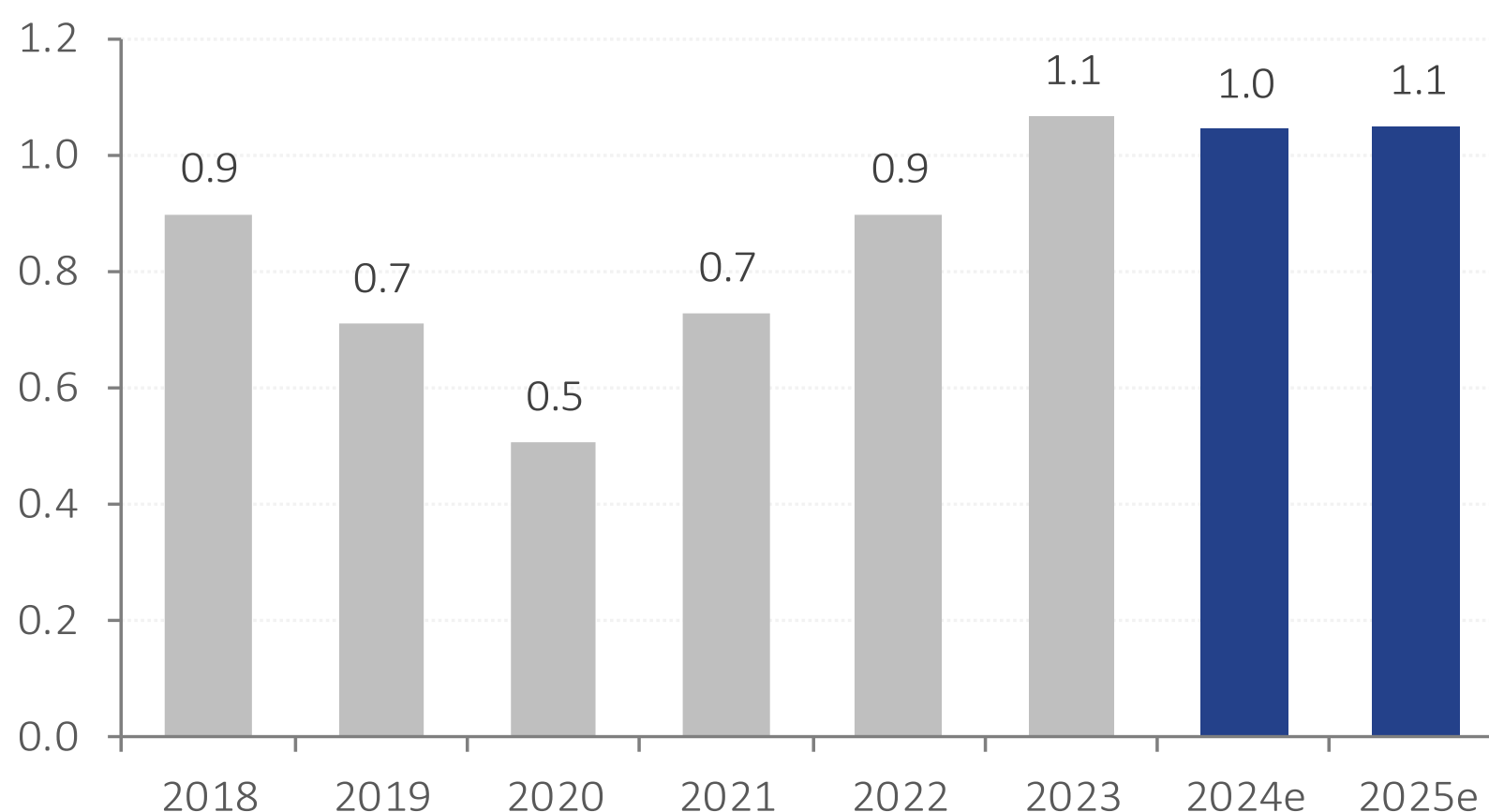
Source: Company Data, IS Research

ADCB Shareholders' Profit (AED bln)



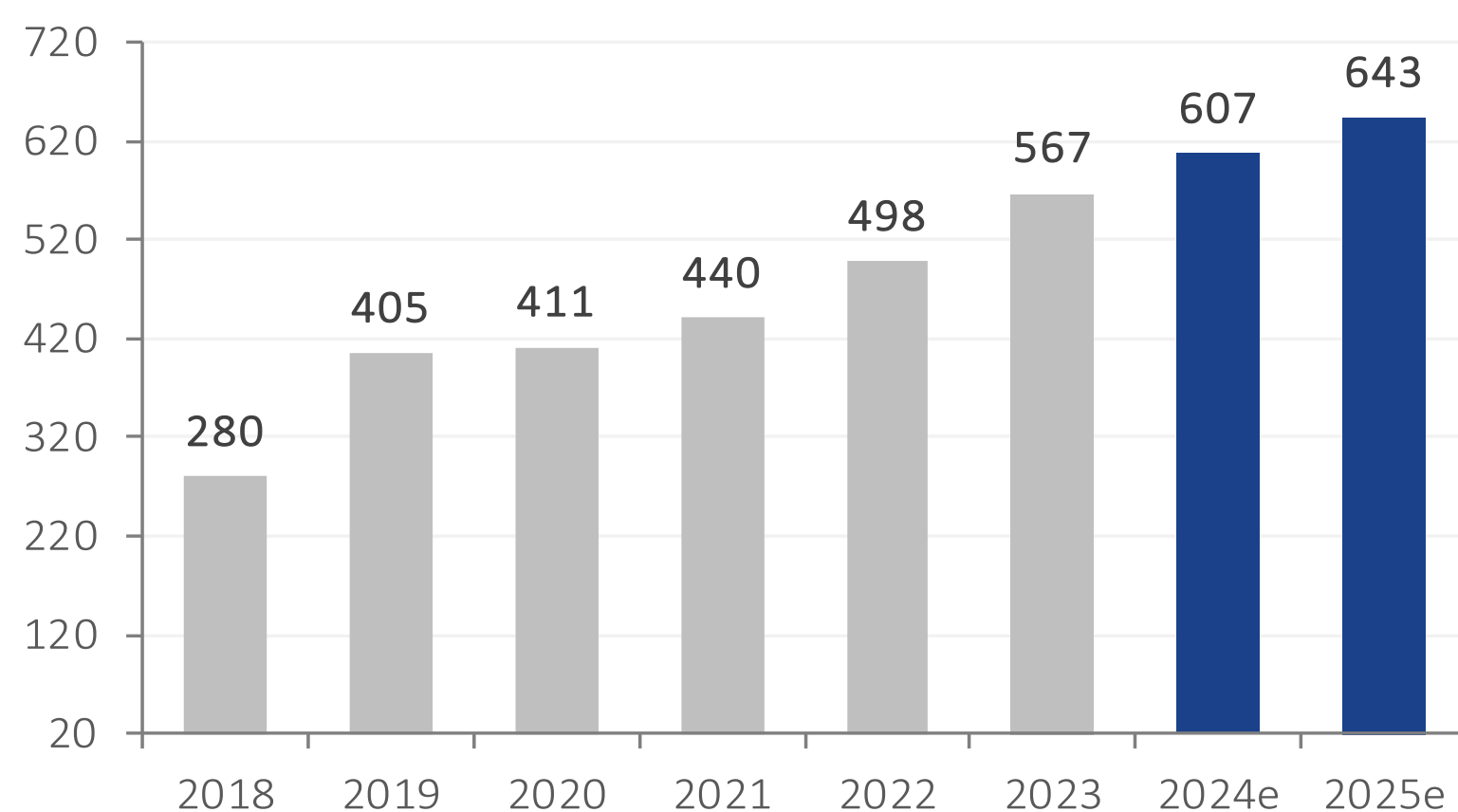
Source: Company Data, IS Research

ADCB Earning Per Share (AED)



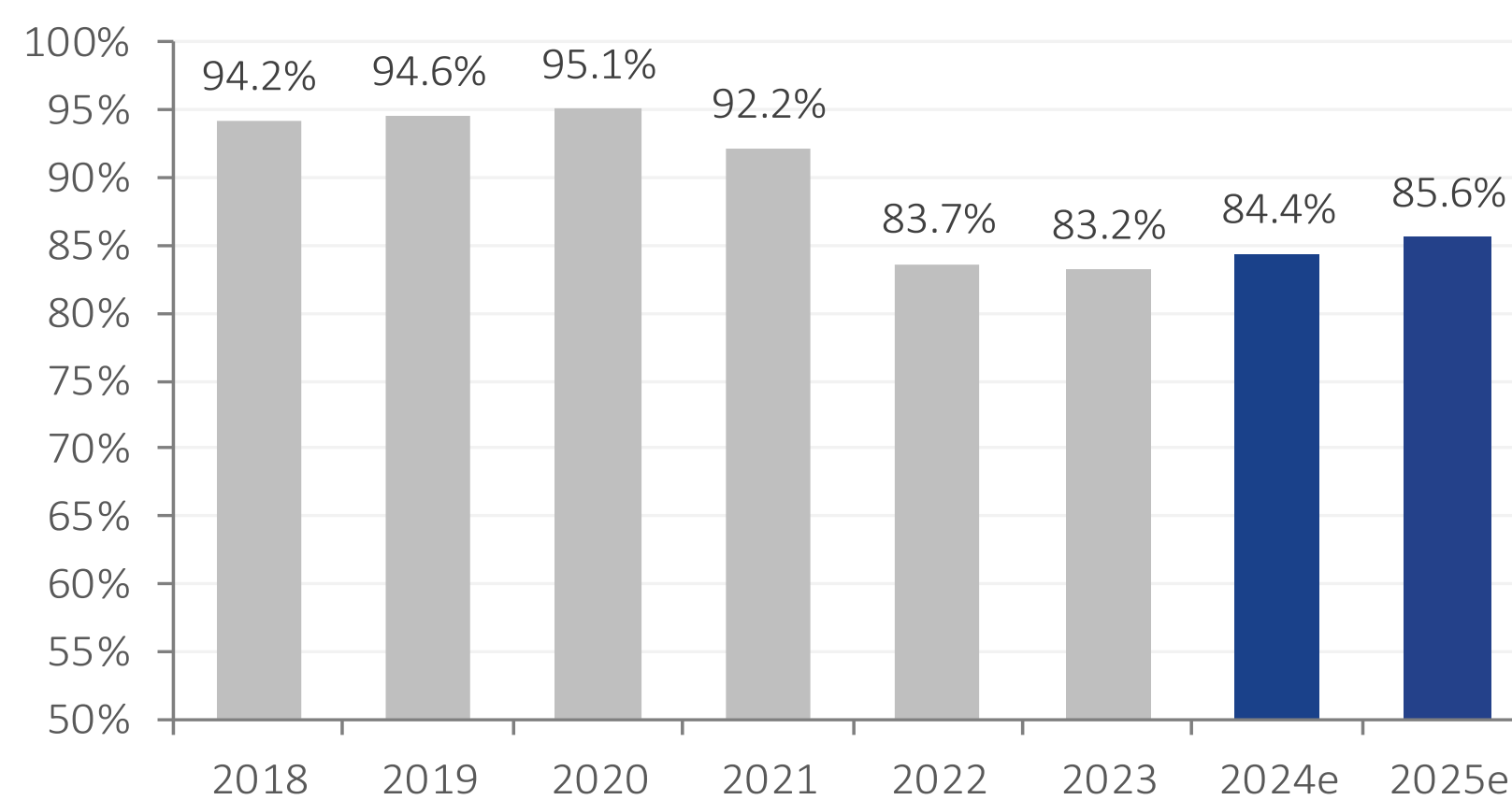
Source: Company Data, Refinitive, IS Research

ADCB Total Assets (AED bln)



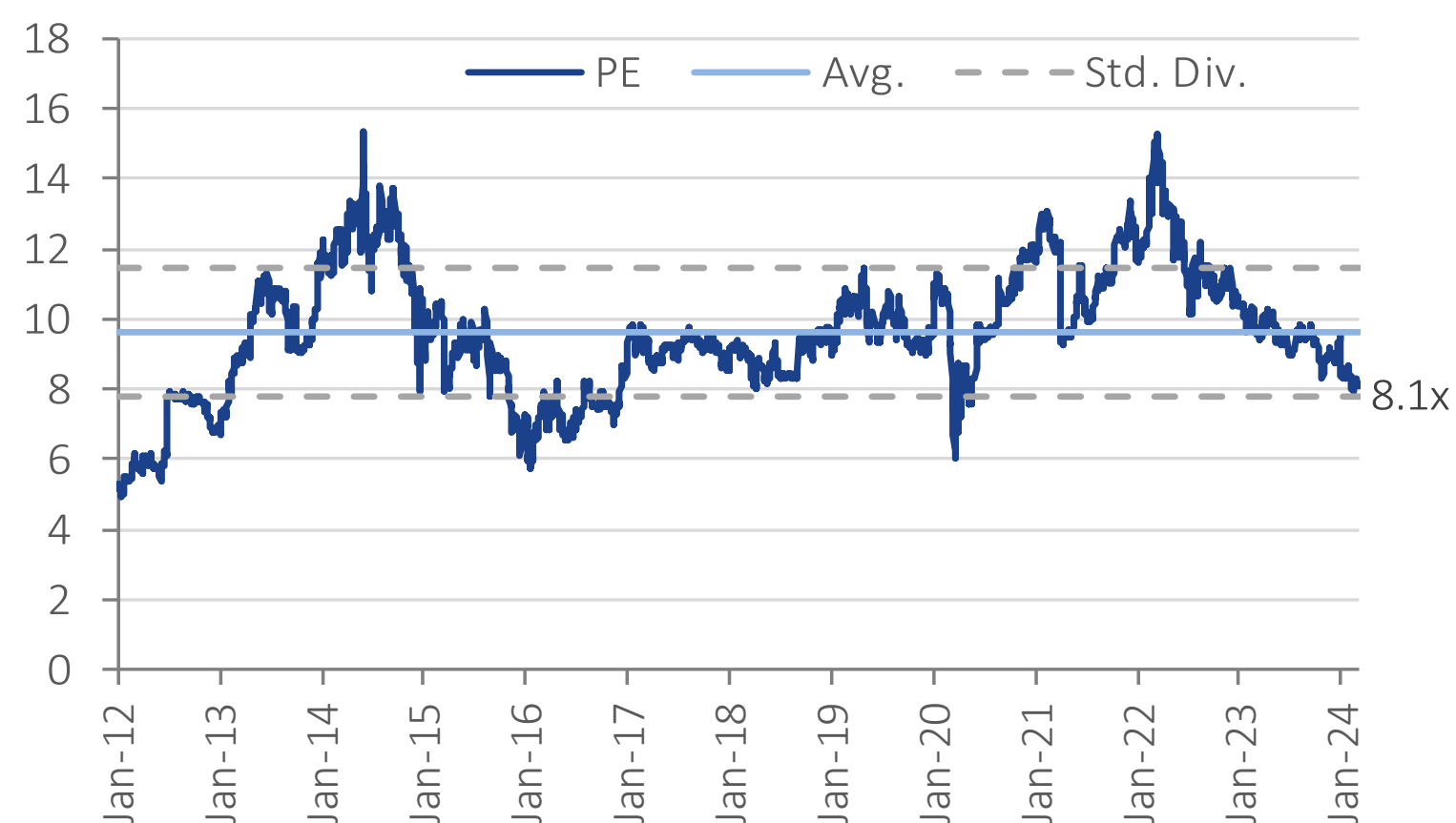
Source: Company Data, IS Research

ADCB Net Loan to Deposit Ratio



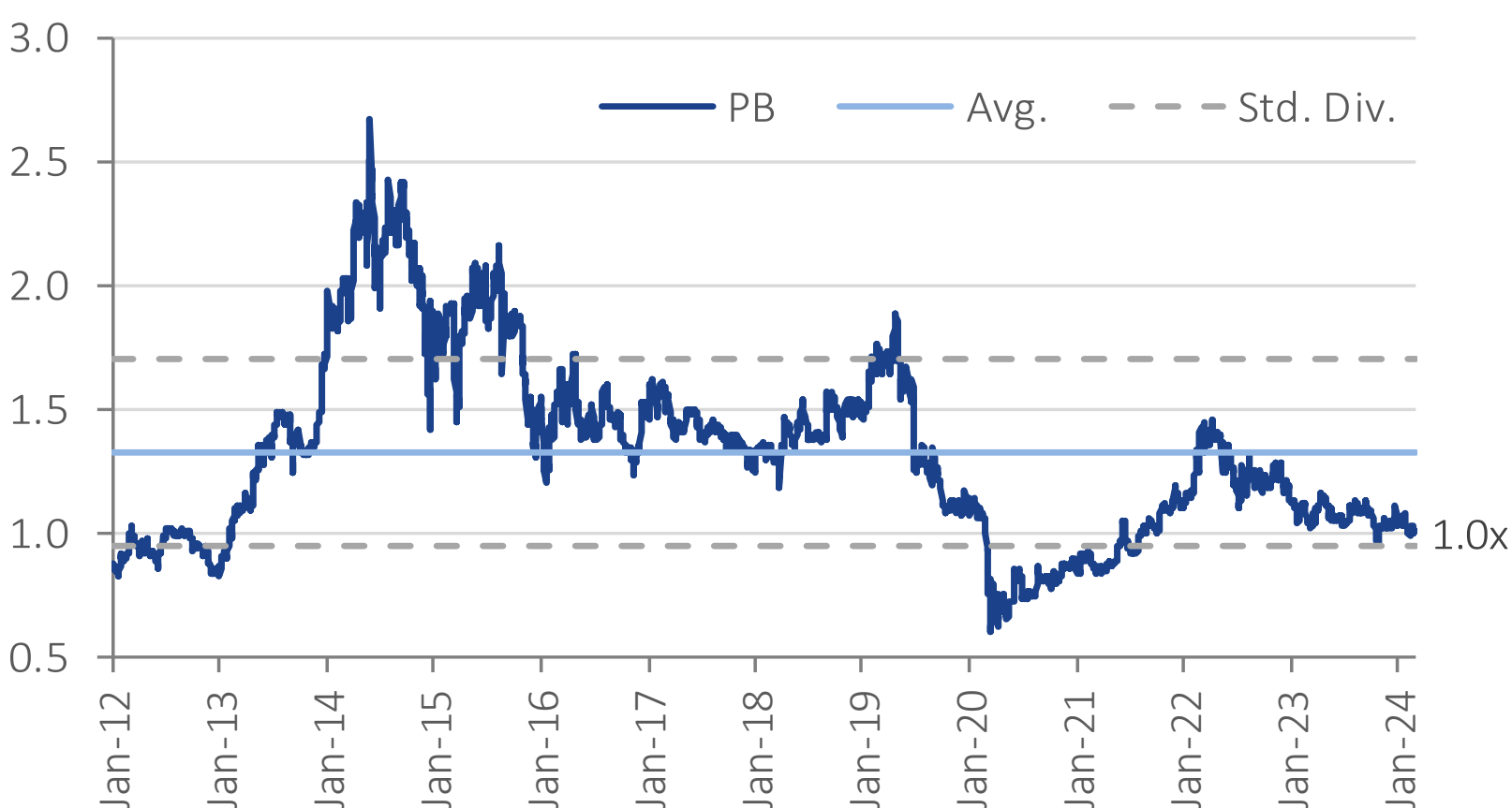
Source: Company Data, Refinitive, IS Research

ADCB LTM PE



Source: Bloomberg, IS Research

ADCB LTM PB



Source: Bloomberg, IS Research

ADIB

Financials

HOLD

FV AED11.40

(upside 2.5%)

Valuation Update

- We raised our stock fair value (FV) to AED 11.40/sh. but maintain our hold recommendation. Higher ROE justifies valuation premium; however, we see interest rate cuts in the near term as a risk to higher NIMs and higher valuation
- ADIB have surprised positively with better-than-expected FY23 results, shareholders' profit of AED4.7bn grew 40% YoY led by higher net operating income (+74% YoY)
- We see earnings growth momentum to continue in FY24e despite the introduction of the new UAE corporate tax, and forecast an EPS growth of 2.8% in FY24e after adjusting for 9% new UAE corporate tax

We revised our fair value for the stock to AED11.40/sh, as we roll over our estimates forward and incorporate better-than-expected FY23e results in our model. With the stock already trading at a valuation premium to its peers, due to its superior ROE profile, we see limited upside in the stock from current levels and **maintain our Hold recommendation**. ADIB posted better-than-expected FY23 results with higher net operating income and better NIMs. Loan book and Investment in Sukuk grew by 10% in FY23 and deposits grew by 13.7% YoY. We think the positive growth momentum is likely to continue in FY24e, and see ADIB earnings to grow 2.8% despite the negative impact of new UAE corporate tax on shareholders' profit. However, the fall in benchmark interest rates could adversely affect the higher NIMs in FY25e and is likely to impact profitability.

ADIB reported FY23 shareholders profit of AED4.7bn, up 40% YoY with both net interest and non-interest income growing by 47% YoY and 75% YoY, respectively. The cost-to-income ratio dropped to 33% in FY23, from 40% in FY22, as a result of growing operating income and several digitalisation initiatives resulting in cost savings. ADIB met its full-year guidance with a loan growth of 6.8%, higher NIMs, lower cost of risk and higher ROEs. The CASA stayed healthy at 65.3%, despite falling from 67.9% in FY22. The NPA ratio dropped to 6.1% from 7.7%, whilst the NPA coverage ratio improved to 74% from 72% at the end of FY22. The Growth momentum is likely to continue in FY24 as the UAE economy stays buoyant.

Outlook for FY24e: We believe ADIB will see net loan growth of 6.0% in FY24e and 5.5% in FY25e, whilst the net operating income is expected to grow by 12.6% in FY24e but fall by 3.9% in FY25e, as NIMs start to contract with a cut in interest rates. We forecast a normalized EPS of AED1.32/sh. for FY24e and AED1.25/sh. for FY25e, and expect asset quality to remain stable with an NPL ratio of about 6.0% in the near term.

Management FY24e guidance: Loan growth of 5%-7%, NIMs of ~4.5%, cost of risk of 0.50%-0.70%, a cost-to-income ratio below 32% and ROE of more than 25%, all achievable in our view, except for ROEs which we might start to fall with the cut in interest rates staring 2H24.

ADIB: FY23 result summary

AED (mln)	4Q22	3Q23	4Q23	YoY	QoQ	4Q Est.	Vs. Est.	2022	2023	YoY
Net Interest Income	1,349	1,577	1,616	19.8%	2.5%	1,627	-0.7%	4,151	6,122	47.5%
Non-Interest Income	270	834	967	257.8%	16.0%	767	26.1%	1,769	3,095	75.0%
Operating Income	1,620	2,410	2,583	59.5%	7.2%	2,394	7.9%	5,920	9,217	55.7%
Operating Exp.	(688)	(740)	(876)	27.3%	18.4%	(728)	20.2%	(2,387)	(3,061)	28.3%
Net Operating income	932	1,670	1,707	83.2%	2.2%	1,665	2.5%	3,533	6,156	74.3%
Impairment Charge	(416)	(202)	(189)	-54.5%	-6.2%	(350)	-45.9%	(769)	(760)	-1.1%
One-off gains	-	-	-	NA		-	NA	-	-	NA
Shareholders' Profit	1,095	1,256	1,344	22.7%	7.0%	1,139	18.0%	3,322	4,663	40.4%
EPS (AED/sh.)	0.30	0.35	0.37	22.7%	7.0%	0.32	18.0%	0.91	1.28	40.4%
Norm. Profit	1,095	1,256	1,344	22.7%	7.0%	1,139	18.0%	3,322	4,663	40.4%

Source: Company Data, IS Research

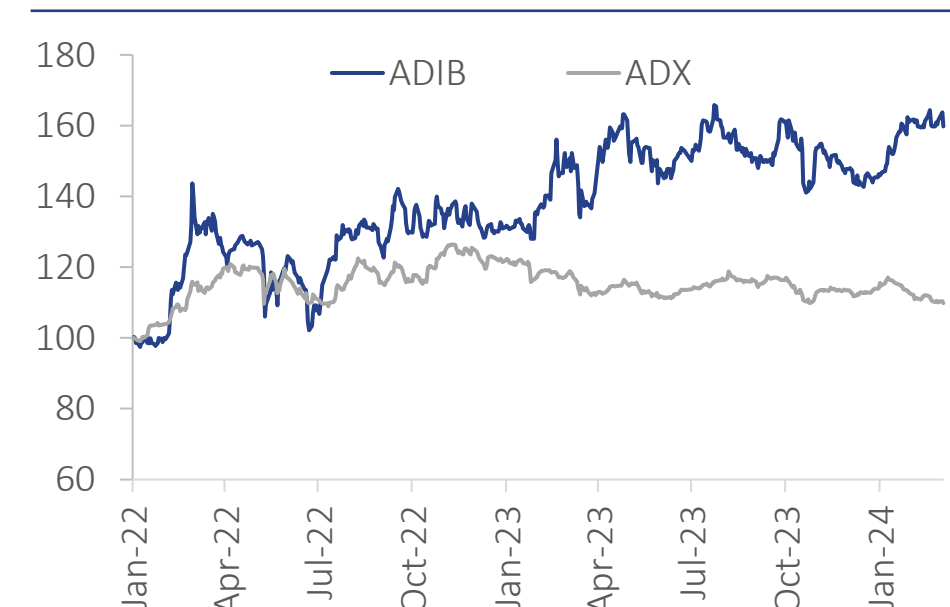
Ticker	ADIB UH
Market Cap (AED bln)	40.2
Stock Price	11.12
Target Price	11.40
Upside/(Downside) (%)	2.5%
52W High	11.9
52W Low	9.3
3M ADTV (AED Mn)	25.6

ADIB Financials

AED Bln	2023	2024e	2025e
NII	6.1	6.7	6.5
Non-Int. Income	3.1	3.5	3.3
Expense	(3.1)	(3.3)	(3.1)
Impairments	6.2	6.9	6.7
Net Profit	4.7	4.8	4.6
EPS (AED/sh.)	1.28	1.32	1.25
BPS (AED/sh.)	5.61	6.28	6.91
DPS (AED/sh.)	0.71	0.65	0.62
Total Assets	193	211	229
Loan	115	122	129
Deposits	157	170	184
Total Equity	26	29	31
P/B (x)	2.0x	1.8x	1.6x
P/E (x)	8.6x	8.4x	8.9x
Div. Yield	6.4%	5.9%	5.6%
ROE	24.5%	22.2%	19.0%
RORWA	3.6%	3.3%	2.9%

Source: Company Data, IS Research. Price as of 08 Mar 2024

ADIB vs ADX



Source: Refinitiv, IS Research, *both rebased to 100 as of 01-Jan-2022



Income Statement

AEDmln	2021	2022	2023	2024e	2025e
Net Interest Income	3,345	4,151	6,122	6,729	6,499
Non Interest Income	1,899	1,769	3,095	3,467	3,274
Operating Income	5,244	5,920	9,217	10,196	9,773
Operating Expense	(2,260)	(2,387)	(3,061)	(3,263)	(3,108)
Net Operating Income	2,984	3,533	6,156	6,933	6,665
Impairment	(954)	(769)	(760)	(942)	(1,010)
Shareholders Profit	2,074	3,322	4,663	4,793	4,555
EPS (AED/sh.)	2,074	3,322	4,663	4,793	4,555
Adj. Shareholders Profit	0.57	0.91	1.28	1.32	1.25
Adj. EPS (AED/sh.)	0.57	0.91	1.28	1.32	1.25
DPS (AED/sh.)	0.31	0.49	0.71	0.65	0.62

Balance Sheet (AEDbn)

Net Loans	88.3	107.7	115.0	121.9	128.6
Deposits	109.6	138.1	157.1	170.4	183.5
Total Assets	136.9	168.5	192.8	211.1	229.1
Total Equity	20.6	23.5	26.2	28.7	31.0
Tier 1 Notes	4.8	4.8	4.8	4.8	4.8
Shareholders' Equity (Ex.Tier-1)	15.8	18.7	21.5	23.9	26.2
BVPS (AED/sh.)	4.35	4.88	5.61	6.28	6.91
Goodwill	0.1	0.8	0.6	0.6	0.6
Tangible Equity	15.7	17.9	20.9	23.3	25.6
Tangible BVPS (AED)	4.31	4.68	5.44	6.11	6.75

Key Ratios

Net Interest Margin	3.3%	3.6%	4.5%	4.5%	4.0%
Cost-Income ratio	43.1%	40.3%	33.2%	32.0%	31.8%
Cost of Risk	1.0%	0.58%	0.49%	0.55%	0.54%
NPL Ratio	8.9%	7.70%	6.10%	6.10%	6.00%
Provision Coverage	66.8%	72.0%	74.0%	75.0%	74.0%
Loans to Deposit	80.5%	78.0%	73.2%	71.5%	70.1%
CET1 ratio	13.5%	12.1%	12.2%	12.5%	12.6%
CAR	18.3%	17.2%	16.8%	16.8%	16.6%

Valuation Multiples

P/E	19.4x	12.1x	8.6x	8.4x	8.9x
P/B	2.6x	2.3x	2.0x	1.8x	1.6x
Div. Yld	2.8%	4.4%	6.4%	5.9%	5.6%
ROE	13.7%	19.8%	24.5%	22.2%	19.0%
ROTE	13.9%	20.4%	25.4%	22.9%	19.5%
RORWA	2.0%	3.0%	3.6%	3.3%	2.9%
Leverage (Asset/Equity)	6.7x	7.2x	7.3x	7.4x	7.4x

Source: Company Data, IS Research

About the company: ADIB is the leading Islamic bank in the UAE (amongst the top 5 largest Islamic banks in the world) with AED 193bln in assets, 1mln+ customers, and a regional presence. ADIB has a presence in five strategic markets apart from the UAE: Egypt, where it has more than 70 branches, the Kingdom of Saudi Arabia, the United Kingdom, Sudan, and Iraq. The bank is currently rated A2 by Moody's and A+ by Fitch.

Investment case: ADIB holds one of the best Islamic franchises in the retail segment, with CASA balance of 65% of the total deposits, one of the highest among UAE banks. Driven by lower funding costs, ADIB NIMs grew from 3.56% in FY22 to 4.5% in FY23. Credit growth remains strong for the bank, with a loan book growth of 6.5% in FY23, in-line with the guidance. We think the asset quality still remains a concern with NPA ratio still high at 6.1%, but there has been a mark improvement over the past two years. Loan growth guidance of 5%-7% in 2024e is achievable in our view, given the expected economic growth momentum. We think the NIMs are likely to stabilise in FY24, but will contract in FY25e. We expect EPS to grow 6.7% in FY24e, other one after ADCB to see earnings growth in FY24e, after adjusting for the impact of the new UAE corporate tax. ADIB has a strong penetration in the retail segment and will continue to increase its corporate exposure.

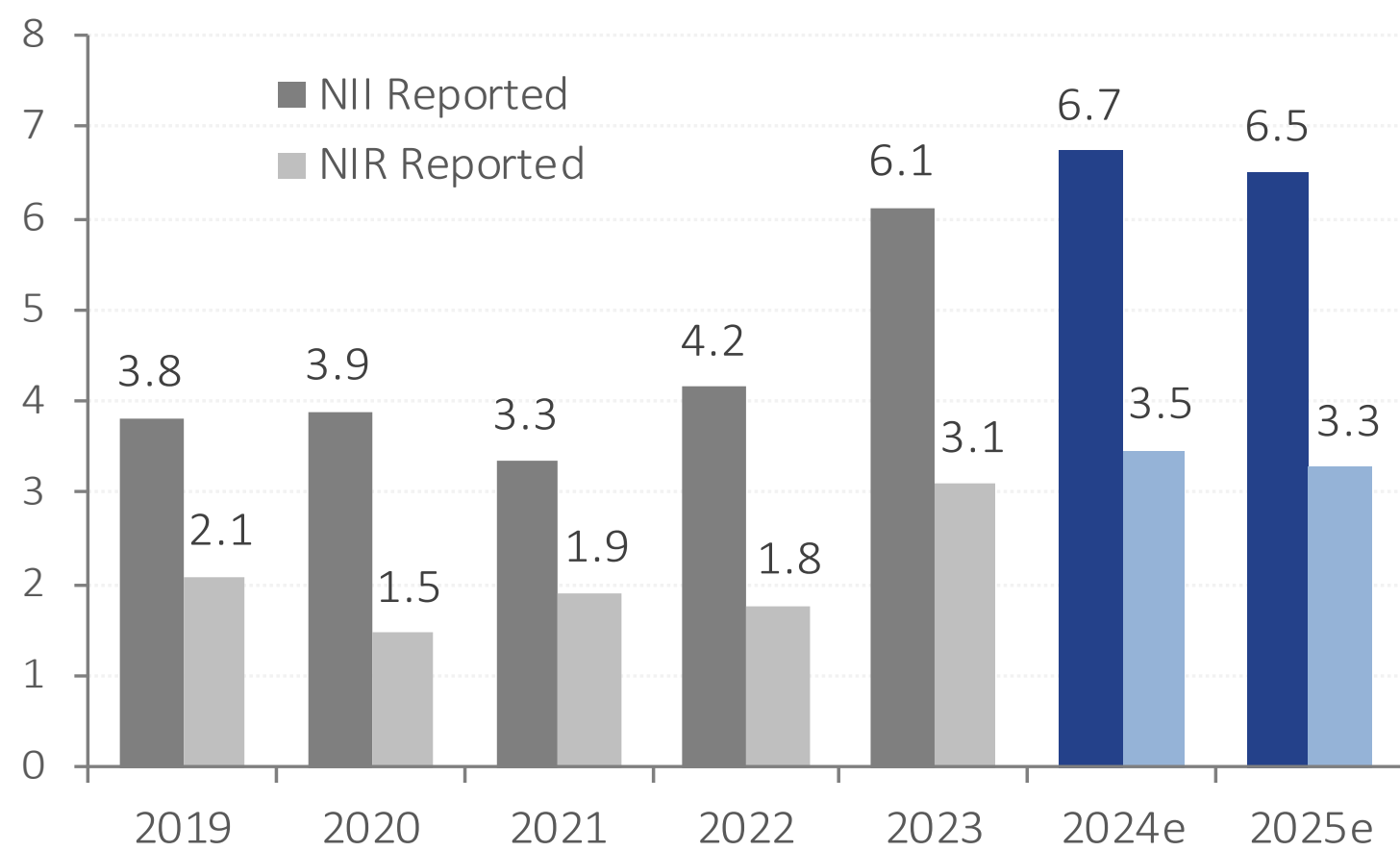
Valuation: We have valued ADIB using a residual income method with a risk-free rate of 4.0%, risk premium of 6.0%, beta of 1.2 and terminal growth rate of 2.0%. Our FY24 year-end fair value target of AED 11.40/sh. suggests an upside 2.4% from current levels and value the bank at 1.8x FY24e PB and 8.6x FY24e PE. We expect ADIB to continue to offer superior ROE compared to peers due to its higher NIMs and trade at a valuation premium to its peers.

Upside Risk: Better than expected loan growth, higher than expected NIMs, higher growth in non-interest income and improvement in asset quality resulting in lower impairments.

Downside Risk: Growing geopolitical uncertainty in the region, faster than expected cut in interest rates impacting NIMs, higher than expected cost of risk and higher than expected NPLs.

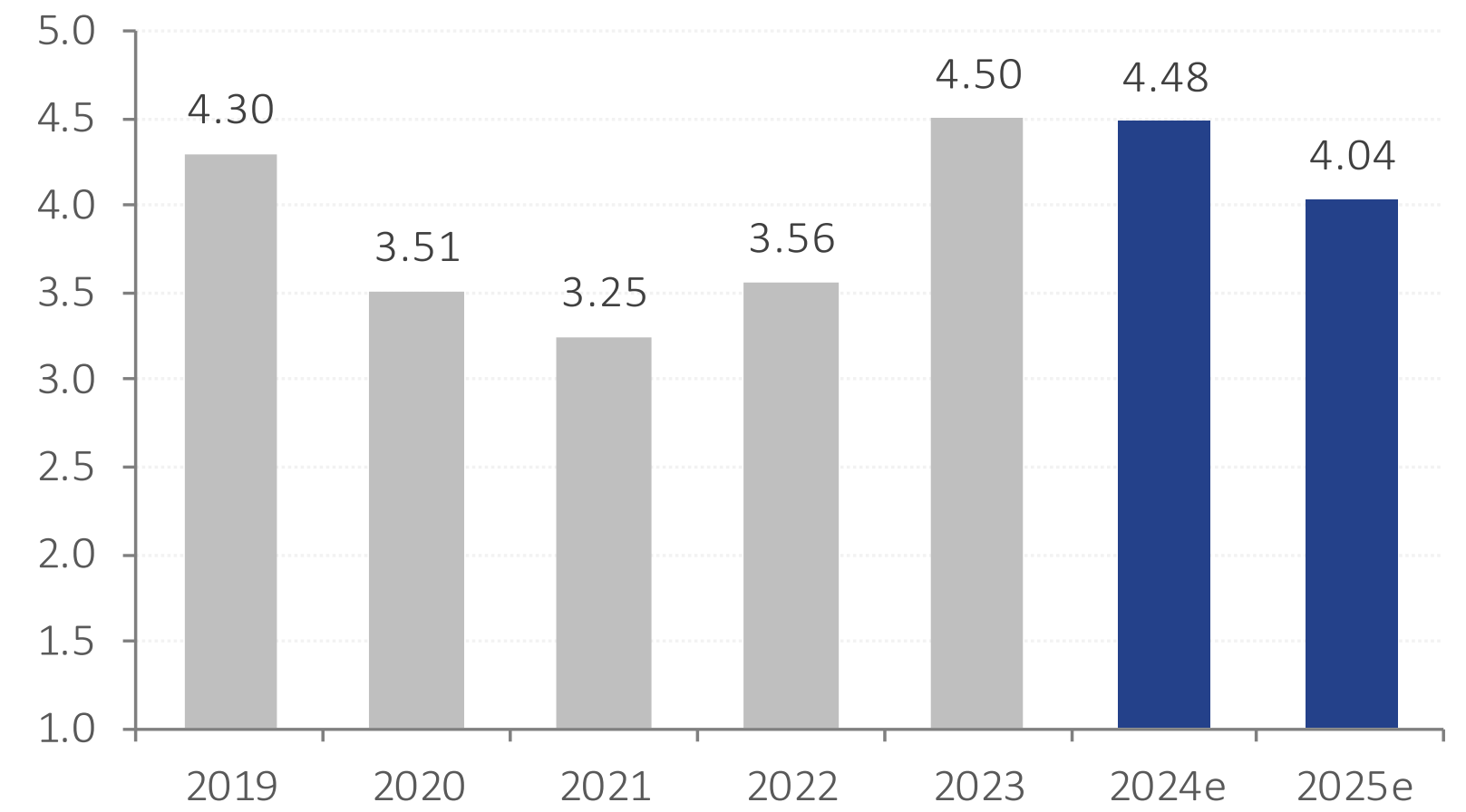


ADIB Operating Income (AED bln)



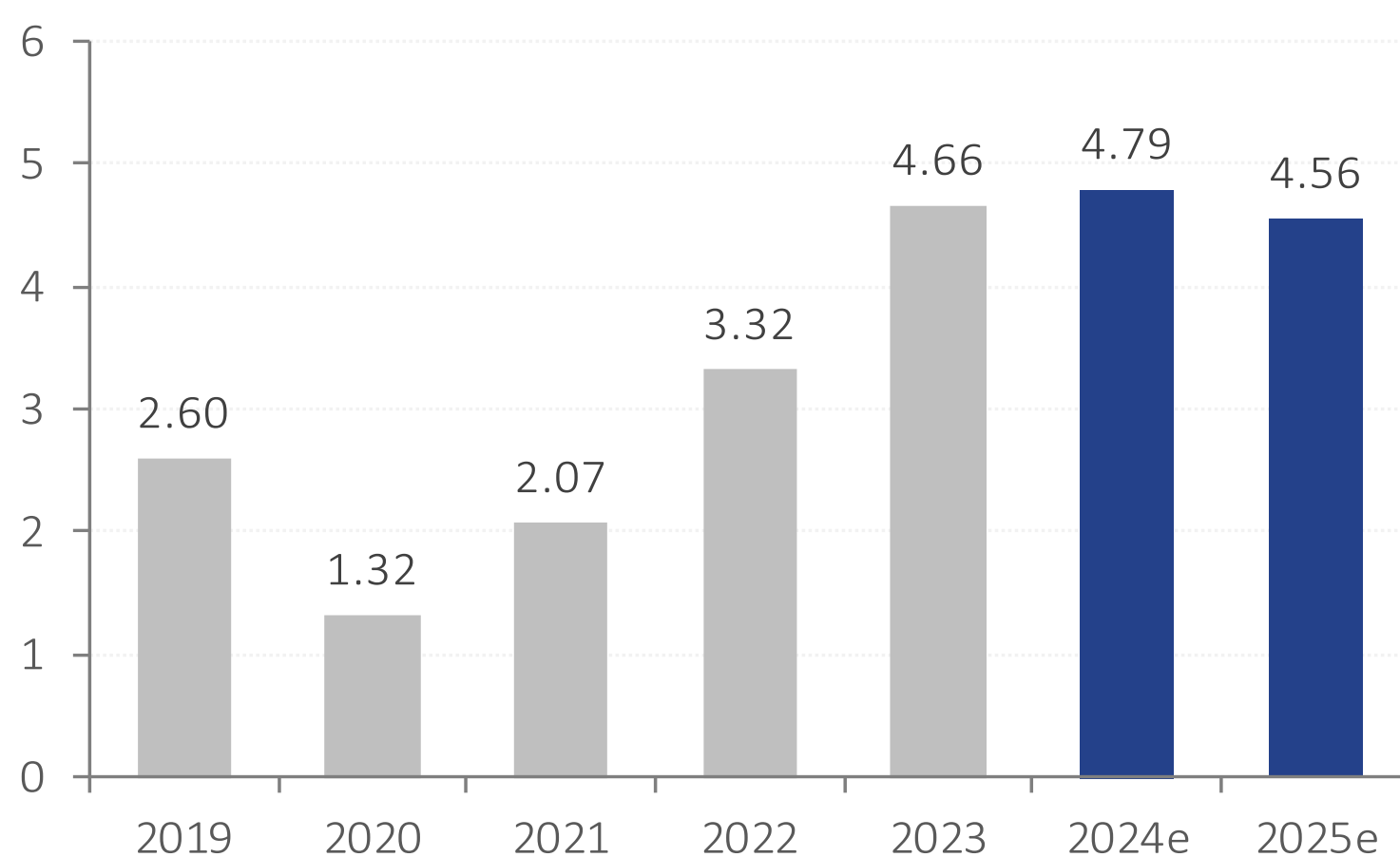
Source: Company Data, IS Research

ADIB NIMs (%)



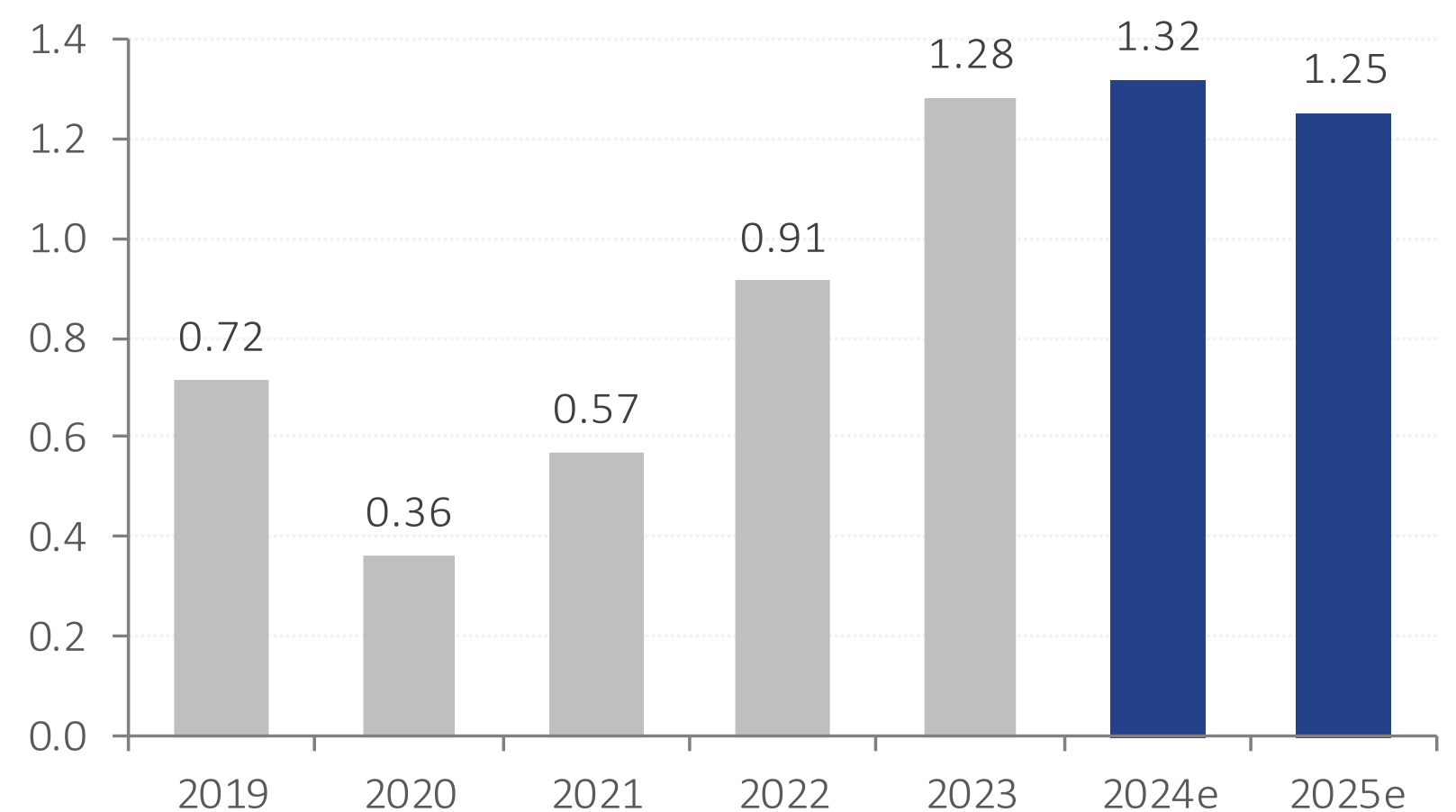
Source: Company Data, IS Research

ADIB Shareholders' Profit (AED bln)



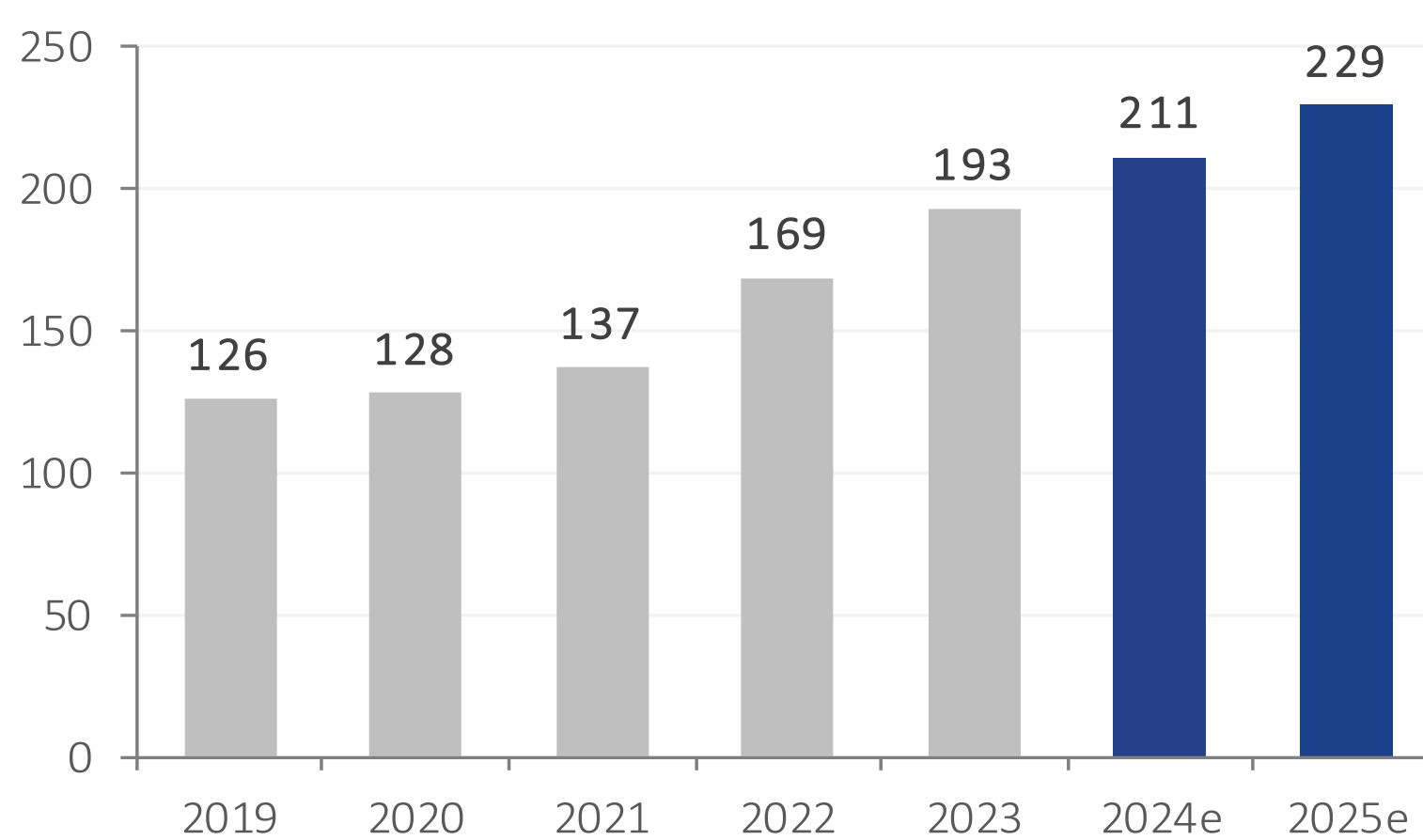
Source: Company Data, IS Research

ADIB Earning Per Share (AED)



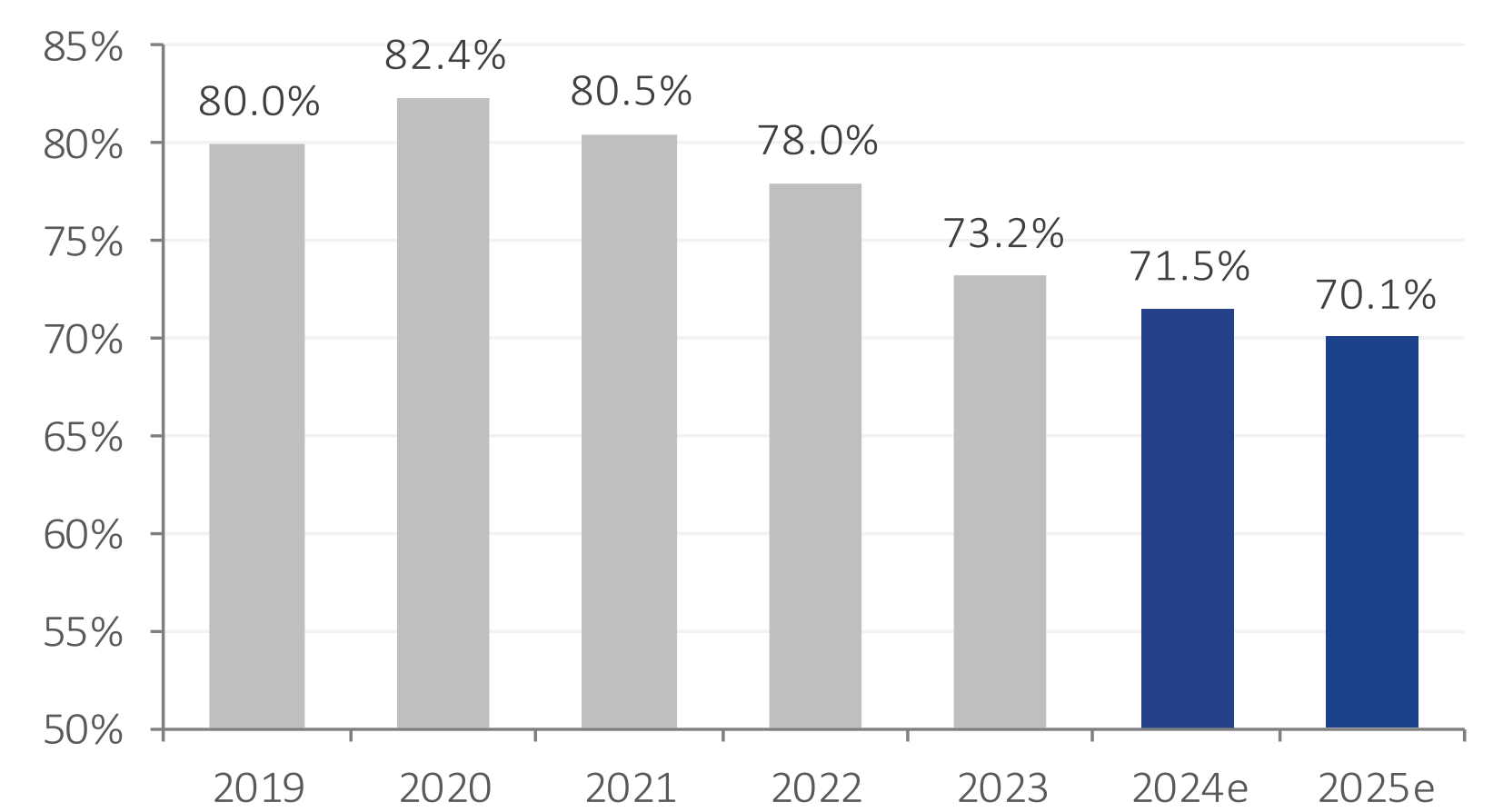
Source: Company Data, Refinitive, IS Research

ADIB Total Assets (AED bln)



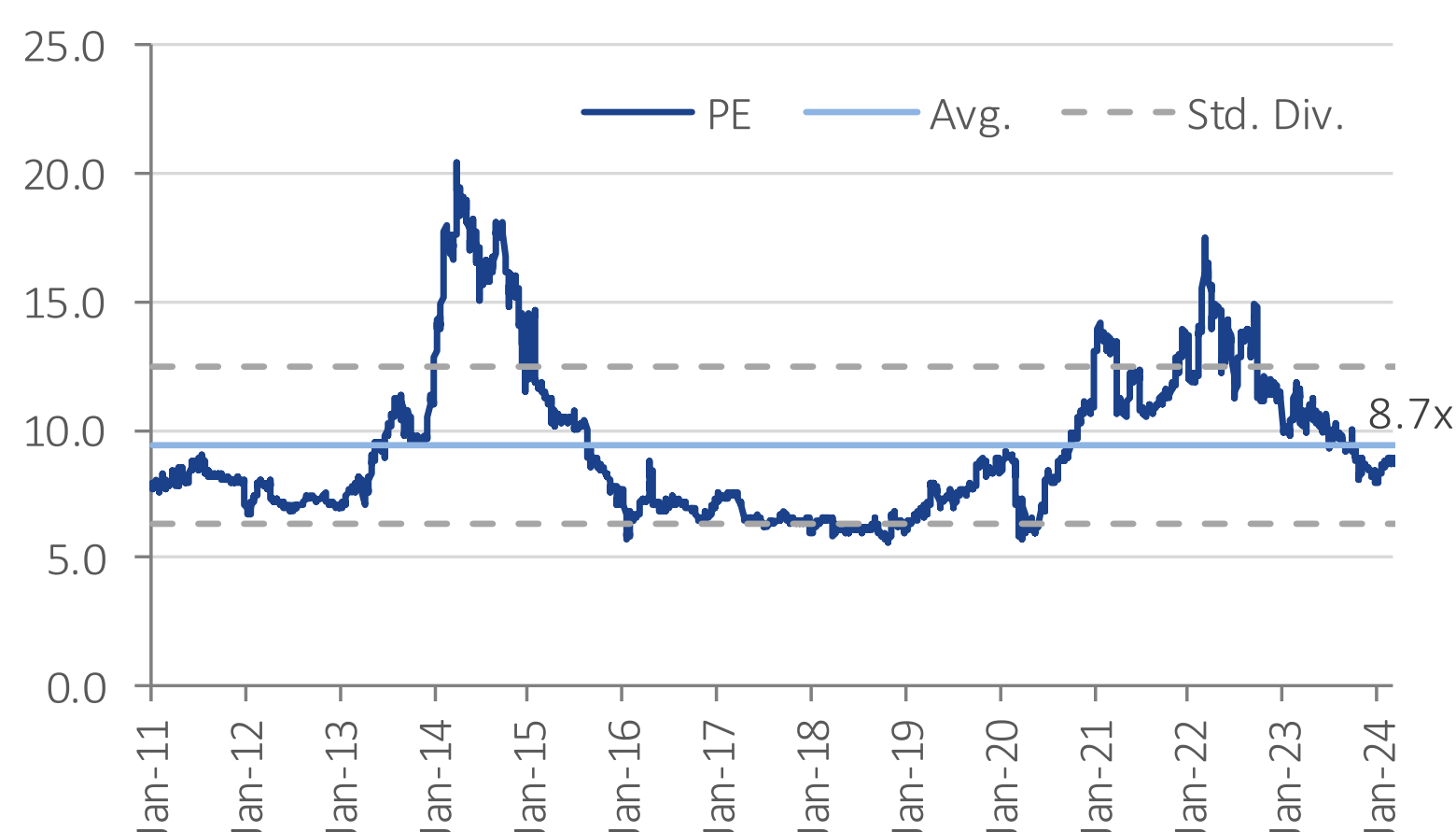
Source: Company Data, IS Research

ADIB Net Loan to Deposit Ratio



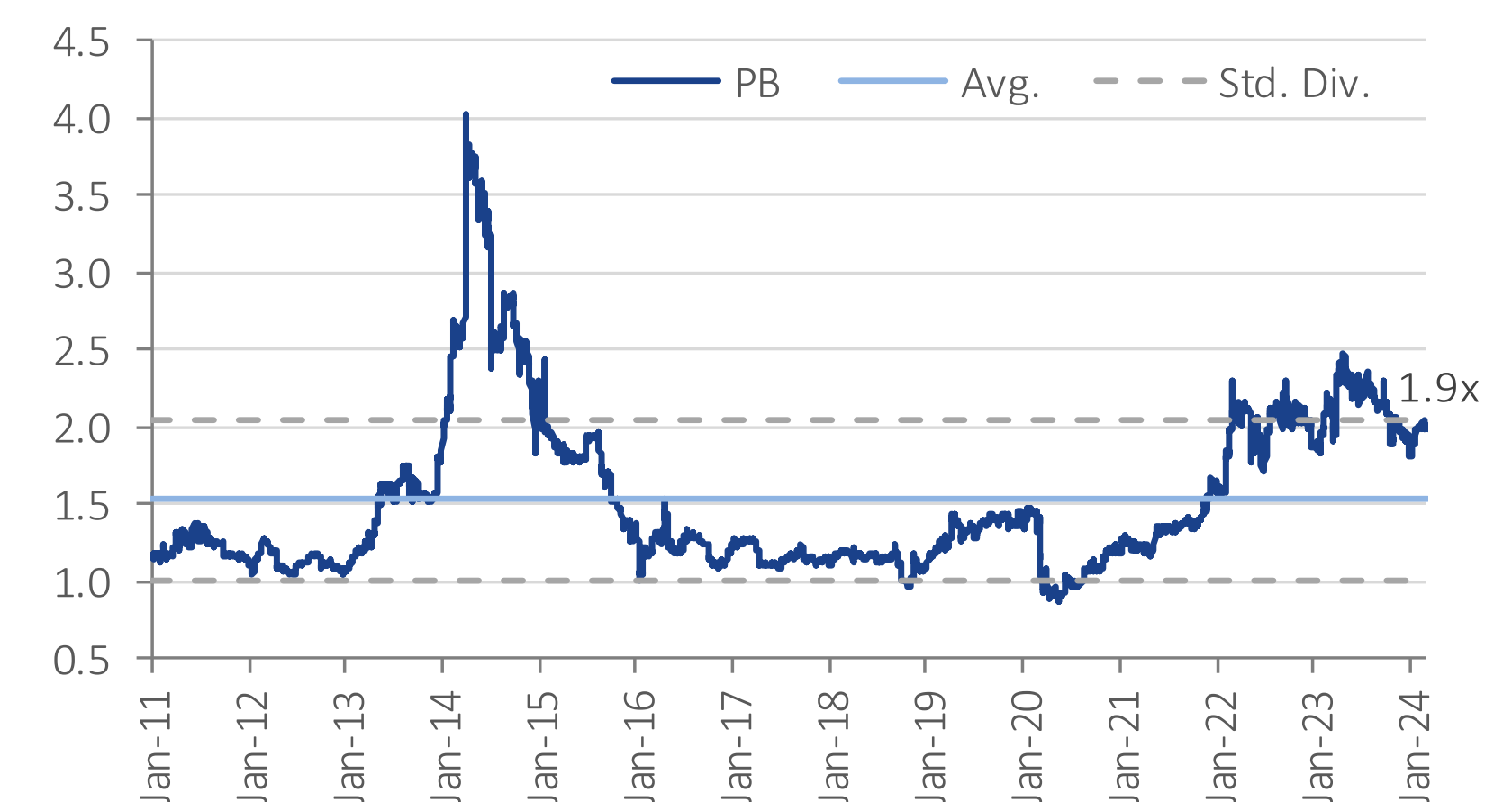
Source: Company Data, Refinitive, IS Research

ADIB LTM PE



Source: Bloomberg, IS Research

ADIB LTM PB



Source: Bloomberg, IS Research

ENBD

Financials

Valuation Update

BUY

FV AED20.20

(upside 18.5%)

- Maintain Buy and raise our fair value to AED20.20/sh as the stock looks the most attractive valued GCC name at 1.0x FY24e PB, 5.4x FY24 PE, 18.7% FY24e ROE, and a dividend yield of about 5.8%
- ENBD ended FY23 with a record profit and shareholders' earnings of AED21bn (+68% YoY), which led to a record dividend distribution of AED7.6bn equivalent to AED1.2/sh.
- The introduction of the new UAE corporate tax and the expected cut in interest rates are both likely to impact the earnings in the near term, but valuations look too compelling to ignore

We raise our FV to AED20.20/sh. and maintain our Buy recommendation. ENBD FY23 results were much better than forecasted; earnings grew by 68% YoY, whilst dividends grew 100% YoY. However, we think ENBD earnings are more likely peaked in FY23 for the near term as the new UAE corporate tax and expected cut in benchmark interest rates will adversely impact the bank's earnings in the near term, before starting to recover from FY26e. However, valuations look attractive as the stock trades at FY24e PB of 1.0x, FY24e PE of 5.4x and FY24e ROE of 18.7%, with a dividend yield of 5.8%.

ENBD reported FY23 shareholders profit of AED20.9bn, up 68% YoY, led by operating income growth of 32% and a 33% drop in cost of risk. Operating expenses jumped 26% YoY to AED11.7bn, however, cost-to-income ratio improved to 27.2% from 28.5% thanks to higher operating income. Net operating income jumped 35% YoY to AED31.3bn. Improvement in NIMs of 101bps in FY23 led to a 30% jump in net interest income to AED30bn, whilst non-interest income grew by 39% to AED13.9bn as the business environment remains robust. Net loan book grew 6.8% YoY. Better operating performance led to a higher payout by the bank with a dividend of AED7.6bn amounting to AED1.2/sh for FY23, a 100% jump over FY22 dividend of AED0.60/sh.

Outlook for FY24e: We expect ENBD to see a net loan growth of 5.5% in FY24e and 5.0% in FY25e, whilst the net operating income is expected to grow by 1.2% in FY24e and could fall 9.4% in FY25e. ENBD bottom line is likely to be impacted by the implementation of the new UAE corporate tax in FY24 and by the cut in benchmark interest rates, which could impact NIMs in FY25e. We believe ENDB shareholder earnings will contract by 4.5% in FY24e and 13% in FY25e. We forecast a normalised EPS of AED3.2/sh. for FY24e and AED2.8/sh. for FY25e, vs an EPS of AED3.2 in FY23. We expect the asset quality to stay stable in the near term while cost of risk is expected to say low as the books are adequately provided with a coverage ratio of 163%.

Management FY24e guidance: Loan growth of mid-single digit, NIMs of 3.8%-4.0%, cost of risk of 0.50%-0.70%, a cost-to-income ratio of less or equal to 33% and ROE of more than 25%, all achievable in our view as UAE economic growth momentum continues to drive the demand for credit growth.

ENBD: FY23 result summary

AED (mIn)	4Q22	3Q23	4Q23	YoY	QoQ	4Q Est.	Vs. Est	2022	2023	YoY
Net Interest Income	7,698	7,840	7,814	1.5%	-0.3%	7,540	3.6%	23,222	30,080	29.5%
Non-Interest Income	2,116	3,592	2,495	17.9%	-30.5%	3,524	-29.2%	9,285	12,948	39.4%
Operating Income	9,814	11,432	10,309	5.0%	-9.8%	11,065	-6.8%	32,507	43,028	32.4%
Operating Exp.	(2,858)	(2,896)	(3,341)	16.9%	15.4%	(2,822)	18.4%	(9,255)	(11,696)	26.4%
Impairment Charge	(1,926)	(553)	(1,946)	1.0%	251.7%	(900)	116.2%	(5,184)	(3,448)	-33.5%
Hyper Inflation	(687)	(1,810)	(1,067)	55.2%	-41.1%	(1,300)	-17.9%	(3,095)	(4,229)	36.6%
Shareholders' Profit	3,801	5,093	3,893	2.4%	-23.6%	5,078	-23.3%	12,492	20,969	67.9%
Norm. Profit	3,801	5,093	3,893	2.4%	-23.6%	5,078	-23.3%	12,492	20,969	67.9%
NIMs	4.40%	4.00%	3.81%	-59bps	-19bps	3.90%	-9BPS	3.95%	3.43%	52bps
Cost to Income	29.1%	25.3%	32.4%	330bps	710bps	25.5%	690bps	28.5%	27.2%	-130bps
NPL	6.0%	5.5%	4.6%	-140bps	-90bps	5.0%	-40bps	6.0%	4.6%	-140bps

Source: Company Data, IS Research

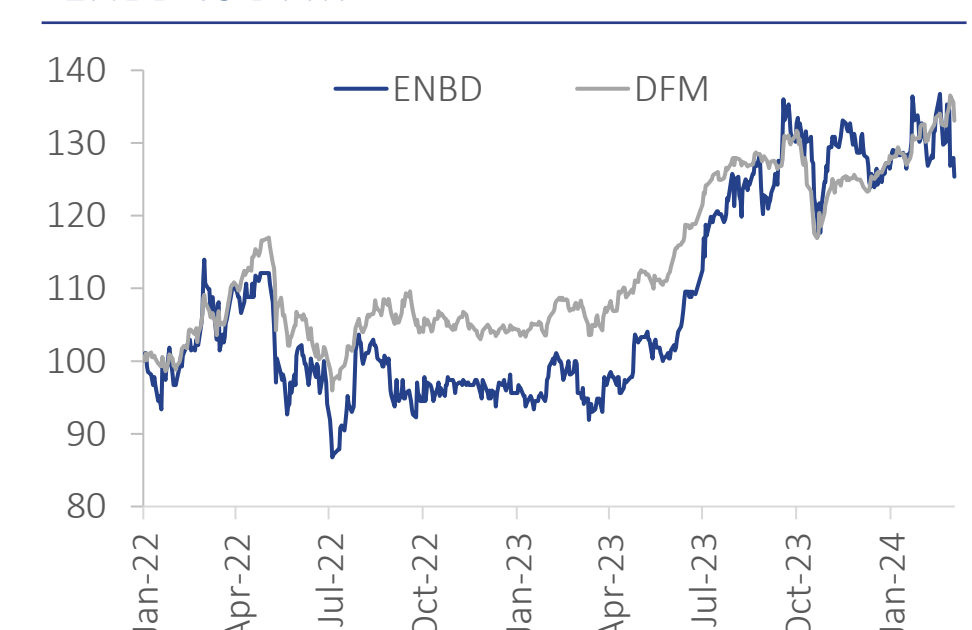
Ticker	EMIRATES UH
Market Cap (AED bln)	107.7
Stock Price	17.05
Target Price	20.20
Upside/(Downside) (%)	18.5%
52W High	19.5
52W Low	12.5
3M ADTV (AED Mn)	46.4

ENBD Financials

AED Bln	2023	2024e	2025e
NII	30.1	32.0	30.2
Non-Int. Income	12.9	12.5	11.7
Expense	(11.7)	(12.7)	(13.2)
Impairments	31.3	31.7	28.7
Net Profit	21.0	20.0	17.4
EPS (AED/sh.)	3.32	3.17	2.76
BPS (AED/sh.)	15.95	18.04	19.70
DPS (AED/sh.)	1.20	1.00	1.00
Total Assets	863	923	977
Loan	445	470	493
Deposits	585	623	654
Total Equity	110	123	134
P/B (x)	1.1x	1.0x	0.9x
P/E (x)	5.2x	5.4x	6.2x
Div. Yield	7.0%	5.8%	5.8%
ROE	22.7%	18.7%	14.6%
RORWA	3.9%	3.3%	2.7%

Source: Company Data, IS Research. Price as of 08 Mar 2024

ENBD vs DFM



Source: Refinitiv, IS Research, *both rebased to 100 as of 01-Jan-2022

Income Statement

AEDmln	2021	2022	2023	2024e	2025e
Net Interest Income	16,925	23,222	30,080	32,014	30,205
Non Interest Income	6,897	9,285	12,948	12,450	11,747
Operating Income	23,822	32,507	43,028	44,464	41,952
Operating Expense	(7,992)	(9,255)	(11,696)	(12,747)	(13,220)
Net Operating Income	15,830	23,252	31,332	31,718	28,732
Impairment	(5,899)	(5,184)	(3,448)	(3,638)	(4,201)
Shareholders Profit	8,705	12,492	20,969	20,033	17,439
EPS (AED/sh.)	1.38	1.98	3.32	3.17	2.76
Adj. Shareholders Profit	8,705	12,492	20,969	20,033	17,439
Adj. EPS (AED/sh.)	1.38	1.98	3.32	3.17	2.76
DPS (AED/sh.)	0.50	0.60	1.20	1.00	1.00

Balance Sheet (AEDbn)

Net Loans	422	417	445	470	493
Deposits	456	503	585	623	654
Total Assets	687	742	863	923	977
Total Equity	84	93	110	123	134
Tier 1 Notes	9	9	9	9	9
Shareholders' Equity (Ex.Tier-1)	74	84	101	114	124
BVPS (AED/sh.)	11.8	13.3	16.0	18.0	19.7
Goodwill	6	6	6	6	6
Tangible Equity	68	78	95	108	118
Tangible BVPS (AED)	10.8	12.4	15.1	17.1	18.7

Key Ratios

Net Interest Margin	2.53%	3.58%	3.95%	3.78%	3.36%
Cost-Income ratio	33.5%	28.5%	27.2%	29.0%	31.9%
Cost of Risk	1.4%	1.2%	0.8%	0.8%	0.9%
NPL Ratio	6.3%	6.0%	4.6%	4.5%	4.8%
Provision Coverage	127.5%	145.0%	163.0%	165.0%	160.0%
Loans to Deposit	93%	83%	76%	75%	75%
CET1 ratio	15.1%	15.4%	14.9%	15.6%	16.3%
CAR	18.3%	18.3%	17.6%	18.1%	18.6%

Valuation Multiples

P/E	12.5x	8.7x	5.2x	5.4x	6.2x
P/B	1.5x	1.3x	1.1x	1.0x	0.9x
Div. Yld.	2.9%	3.5%	7.0%	5.8%	5.8%
ROE	11.7%	15.8%	22.7%	18.7%	14.6%
ROTE	12.8%	17.0%	24.2%	19.8%	15.5%
RORWA	2.0%	2.6%	3.9%	3.3%	2.7%
Leverage (Asset/Equity)	8.2x	8.0x	7.8x	7.5x	7.3x

Source: Company Data, IS Research

About the company: ENBD is the 2nd largest bank in the UAE by asset size and market capitalization. ENBD holds a 22% market share in net loans and 20% market share in customer deposits in the UAE. The bank has operations in 13 counties with 900+ branches and 17+ million customers. The bank is rated A3 by Moody's and A+ by Fitch.

Investment case: We expect ENBD to benefit from the ongoing economic strength of the UAE market and pick-up in credit demand. With 1/3 exposure to the government & GRE sector, the bank should benefit from any pick-up in government sector borrowing after a muted loan growth since 2021. CASA deposits have fallen to 55% at the end of FY23, from 58% at the start of the year, whilst NIMs have still improved. We expect a loan growth of 5.5%, NIMs of 3.8% and cost of risk of 0.8% in FY24e. High coverage ratio of more than 160% is likely to keep the cost of risk lower in the near term.

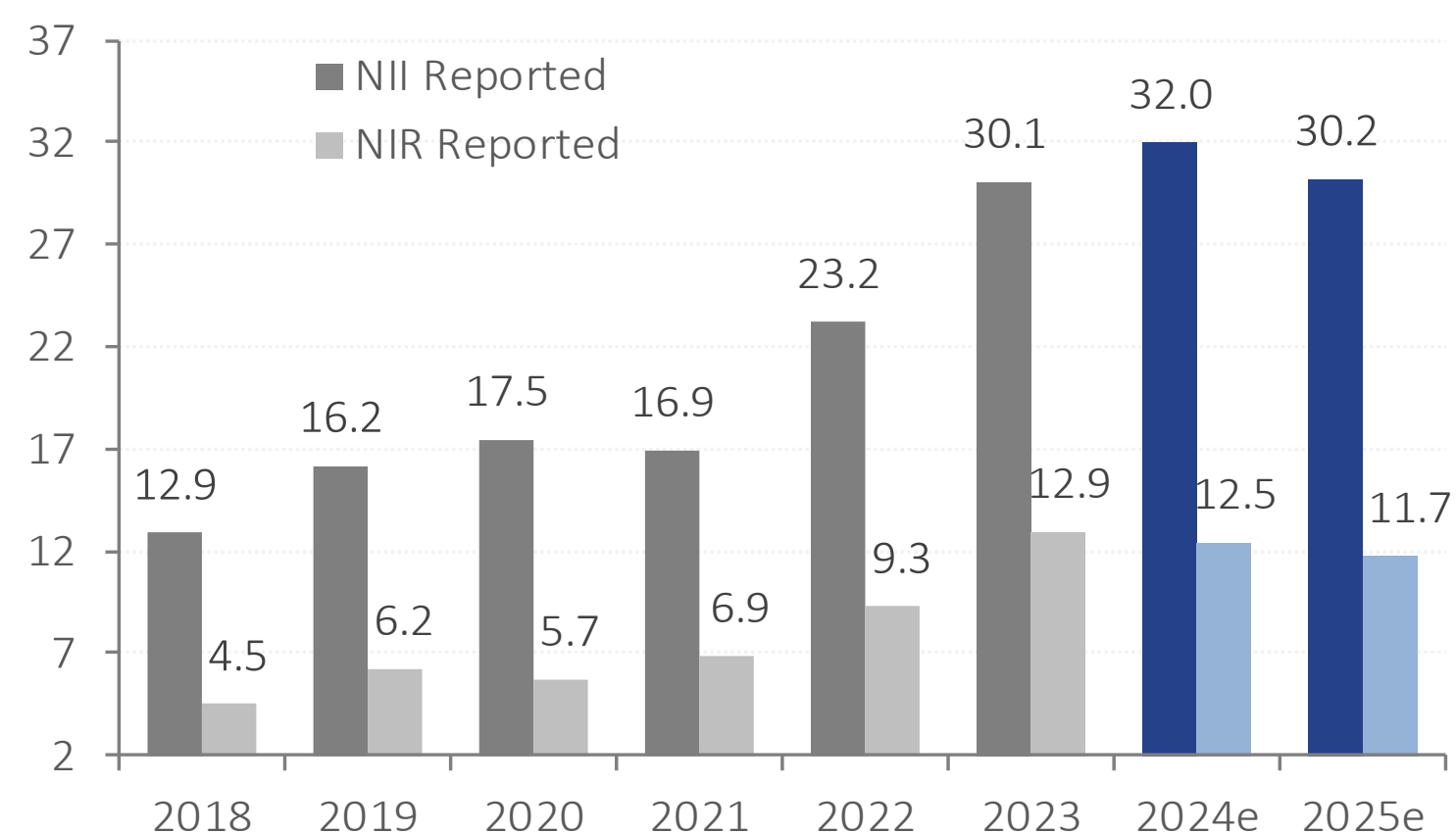
Valuation: We value ENBD using a residual income method using a risk-free rate of 4.0%, risk premium of 7.0%, Beta of 1.1 and terminal growth rate of 2.0%. We got a FY24 year-end fair value target of AED 20.20/sh. valuing the bank at 1.0x FY24e PB and 7.3x FY24e PE. We expect ENBD to continue to outperform given its attractive valuation, however, current high NIMs will contract with the fall in interest rate.

Upside Risk: Better than expected loan growth, lower than expected NIM contraction, higher than expected non-interest income and lower than expected impairment charges.

Downside Risk: Increase in geopolitical uncertainty, slower than expected GDP growth, higher than expected contraction in NIMs, faster than expected cut in benchmark interest rates, higher than expected cost of risk and higher than expected NPLs.

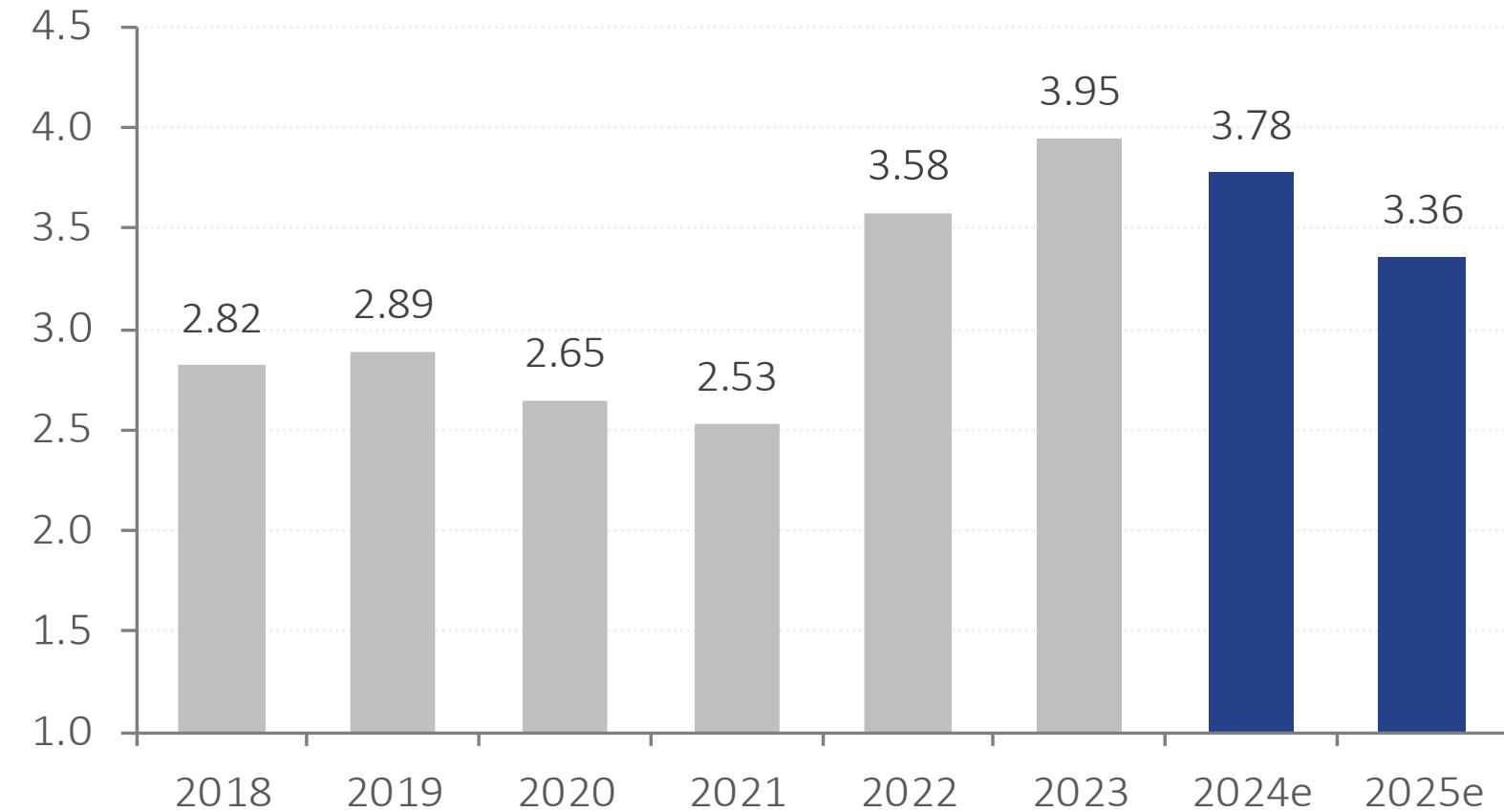


ENBD Operating Income (AED bln)



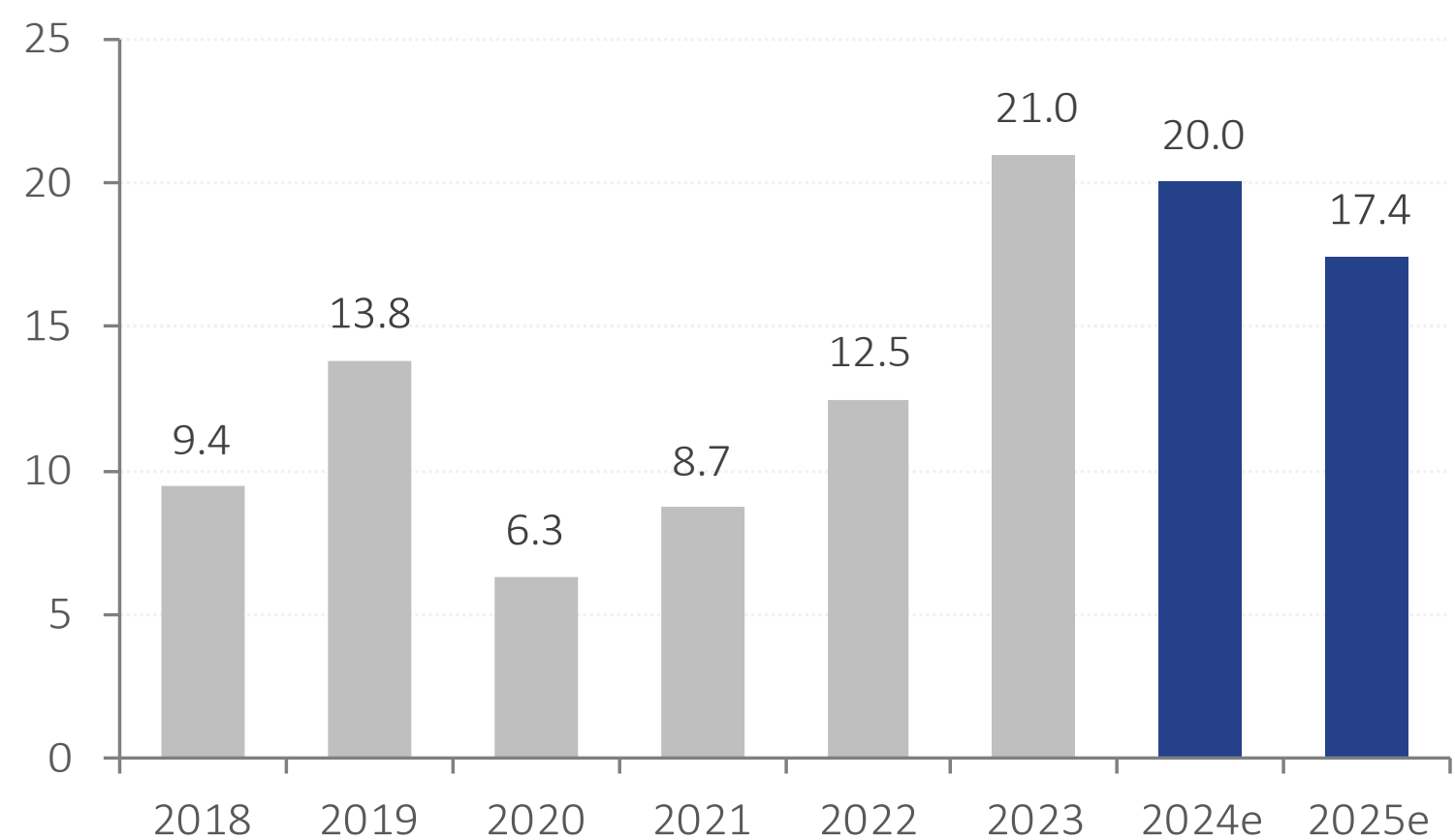
Source: Company Data, IS Research

ENBD NIMs (%)



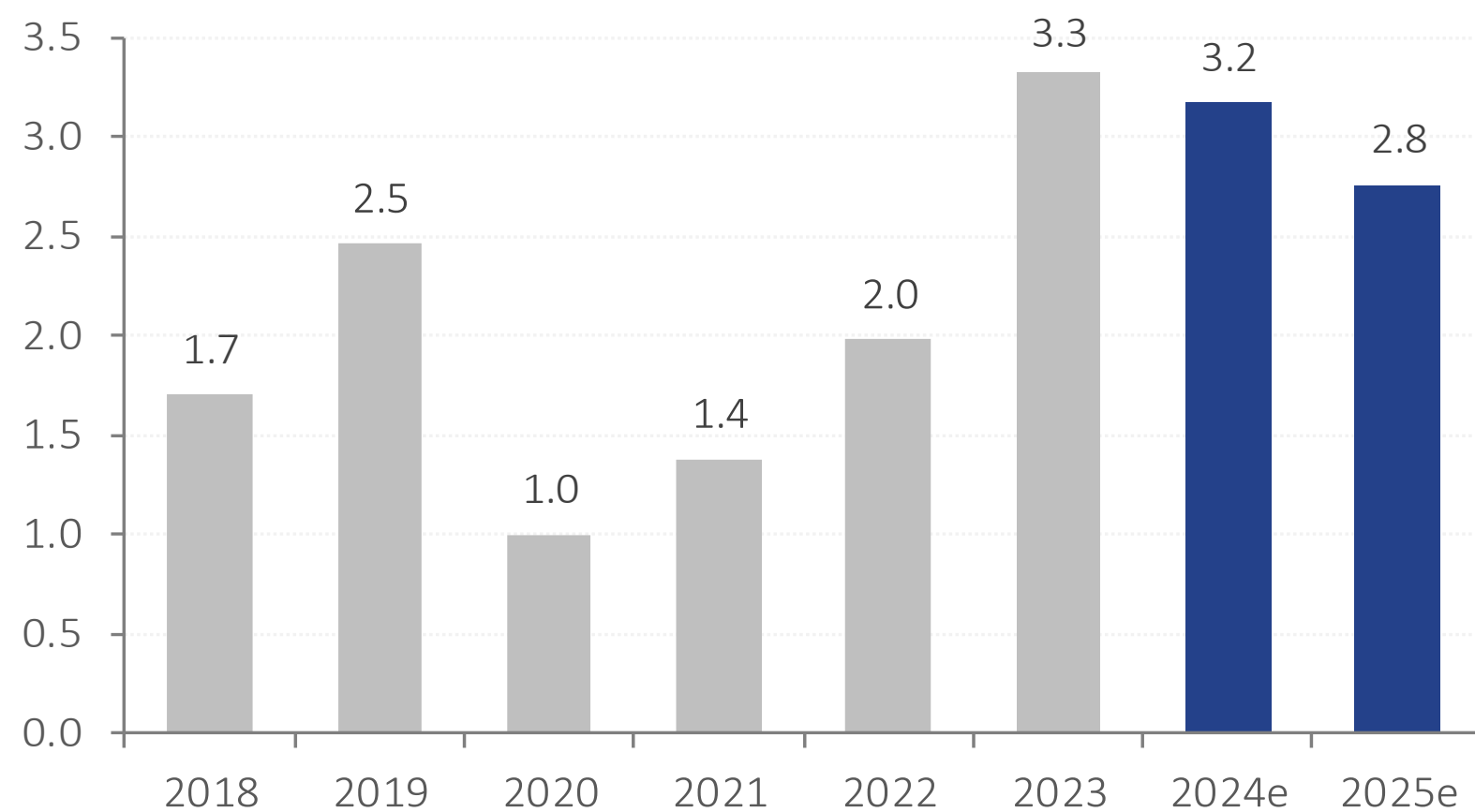
Source: Company Data, IS Research

ENBD Shareholders' Profit (AED bln)



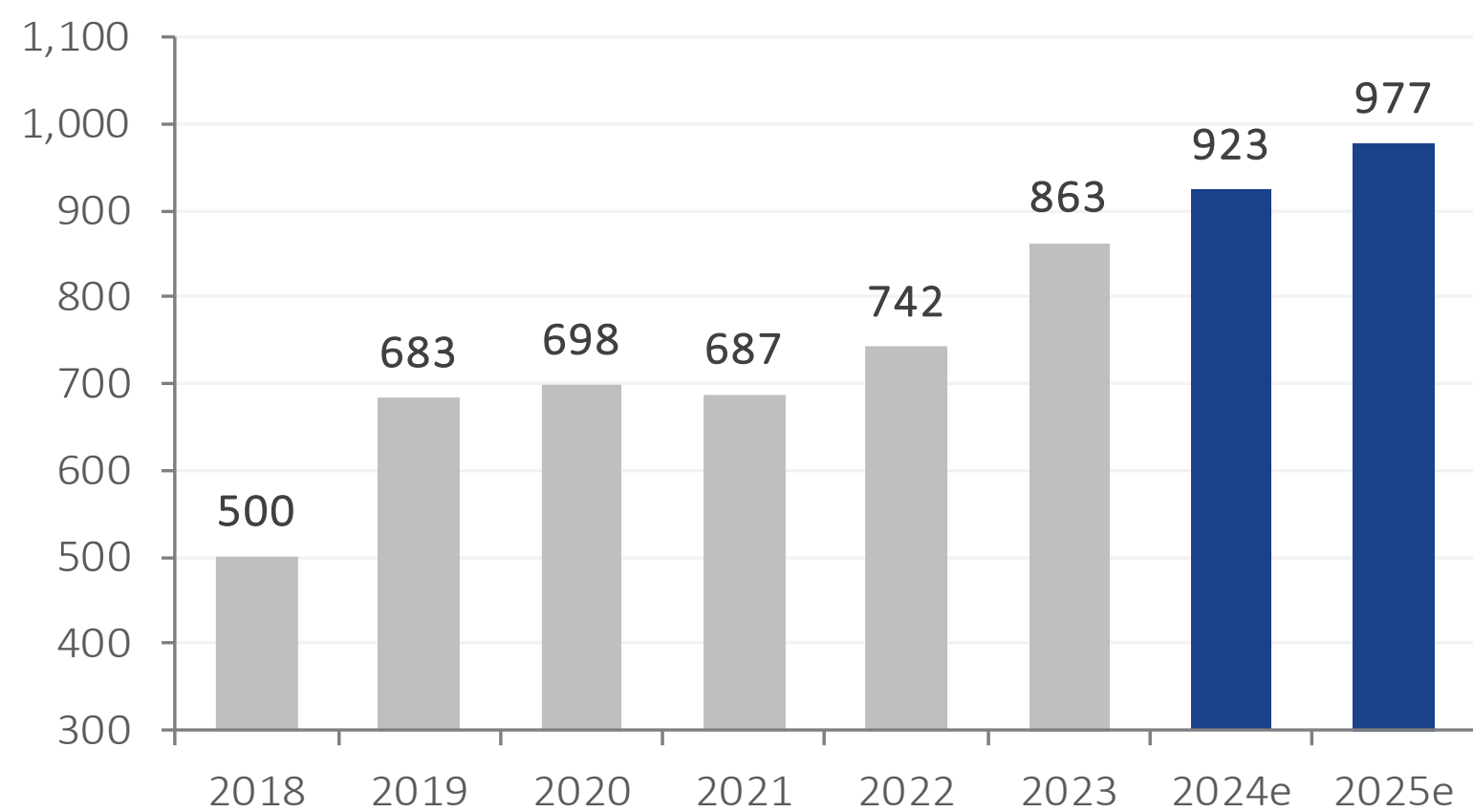
Source: Company Data, IS Research

ENBD Earning Per Share (AED)



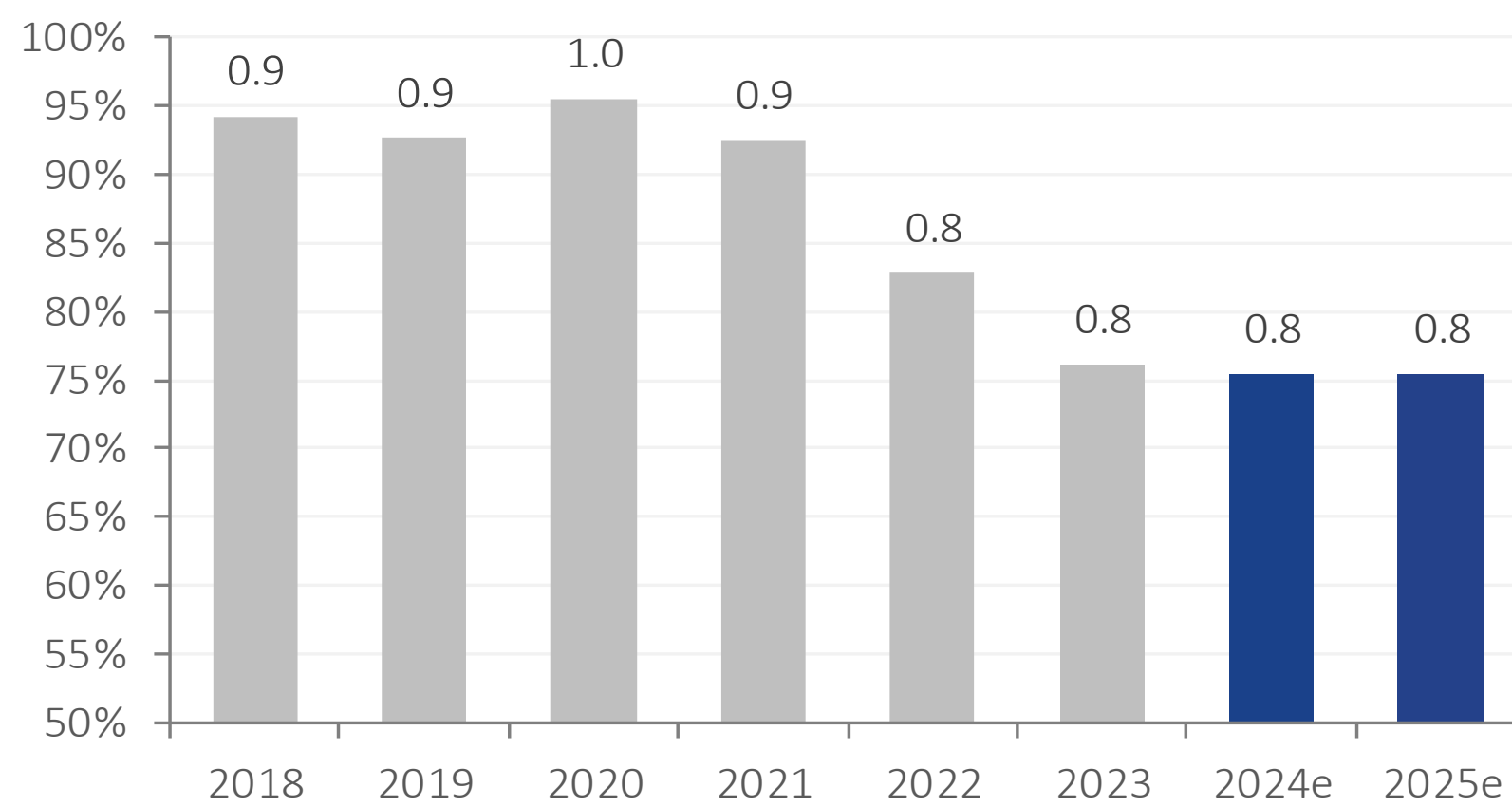
Source: Company Data, Refinitive, IS Research

ENBD Total Assets (AED bln)



Source: Company Data, IS Research

ENBD Net Loan to Deposit Ratio



Source: Company Data, Refinitive, IS Research

ENBD LTM PE



Source: Bloomberg, IS Research

ENBD LTM PB



Source: Bloomberg, IS Research

DIB

Financials

HOLD

FV AED6.40

(upside 10.7%)

Valuation Update

- We raise our FV for DIB to AED6.40/sh. but maintain our Hold recommendation, as the stock looks fairly valued with a relatively higher NPL ratio and lower RORWA
- DIB FY23 shareholders' profit of AED6.4bn was up 26% YoY, better than our estimates, as cost of risk dropped and credit growth started to pick up in 2H23
- Relatively slower growth profile, higher NPLs and lower NIMs are likely to keep the valuation under check; higher dividend payout is behind us whilst earnings are likely to contract in the near term

We raise our FV to AED6.40/sh. to reflect better than expected FY23 results and as we roll our estimates forward. FY23 results were better than expected, driven primarily by higher non-interest income and lower provisioning due to improvement in asset quality. Net operating income grew 9% YoY whilst NIMs improved only 10bps YoY. High dividend payout of 51% (45fils/sh., +7% div yield) was a positive surprise, but sustaining these dividends could be difficult, in our view. We expect earnings to contract in FY24e and FY25e. **We maintain Hold recommendation**, as the stock looks fairly valued at 1.1x FY24e PB, at 7.1x FY24e PE with 15.7% FY24e ROE.

DIB reported FY23 shareholders profit of AED6.4bn, up 26% YoY, led by higher non-interest income, up 21% YoY to AED2.7bn, whilst net interest income grew 8% YoY to AED8.7bn with loan book growth of 7.2% YoY (weaker than peers). The cost-to-income ratio jumped from 26.4% in FY22 to 27.6% in FY23 as operating expenses grew 15.6% YoY whilst operating income grew 10.7% YoY. The net operating income of AED8.3bn was up 8.9% YoY. The lower cost of risk because of recoveries from old legacy accounts was the key driver of 26% YoY growth in earnings and higher payouts. The business will continue to grow gradually, whilst the positive levers of 2023 will be hard to come by. Deposits have grown strongly by 11.8% YoY but at the cost of lower CASA. The CASA ratio for DIB stands at 37% at the end of FY23, down from 43% in FY22 and one of the lowest in the UAE banks.

Outlook for FY24e: We expect DIB to see a net loan growth of 4.3% in FY24e and 3.2% in FY25e, whilst the net operating income is expected to grow by 5.9% in FY24e but fall by 4.2% in FY25e. DIB earnings are likely to fall by 7% in both FY24e and in FY25e, as a result of the introduction of new UAE corporate tax in FY24 and due to NIM contraction in FY25e. We forecast a normalized EPS of AED0.82/sh. for FY24e and AED0.76/sh. for FY25e, vs an EPS of AED0.88 in FY23. We expect asset quality to stay stable in the near term, but we expect the cost of risk to increase slightly in both FY24e and FY25e. With an NPL coverage ratio of 90%, the books are sufficiently covered, while a prudent provisioning policy could result in further improvement.

Management FY24 guidance: 5% net funding and sukuk growth, 5% NPL ratio, 2% ROA, 3% NPMs, 130% total coverage ratio, 27% cost-to-income ratio and 18% ROTE.

Ticker	DIB UH
Market Cap (AED bln)	45.0
Stock Price	5.78
Target Price	6.40
Upside/(Downside) (%)	10.7%
52W High	6.55
52W Low	5.1
3M ADTV (AED Mn)	31.8

ENBD Financials

AED Bln	2023	2024e	2025e
NII	8.7	9.1	8.4
Non-Int. Income	2.7	2.9	3.1
Expense	(3.2)	(3.2)	(3.1)
Impairments	8.3	8.8	8.4
Net Profit	6.4	5.9	5.5
EPS (AED/sh.)	0.88	0.82	0.76
BPS (AED/sh.)	5.02	5.44	5.82
DPS (AED/sh.)	0.45	0.40	0.38
Total Assets	314	327	341
Loan	199	208	215
Deposits	222	232	242
Total Equity	47	50	53
P/B (x)	1.2x	1.1x	1.0x
P/E (x)	6.5x	7.1x	7.6x
Div. Yield	7.8%	6.9%	6.6%
ROE	18.4%	15.7%	13.5%
RORWA	2.7%	2.3%	2.1%

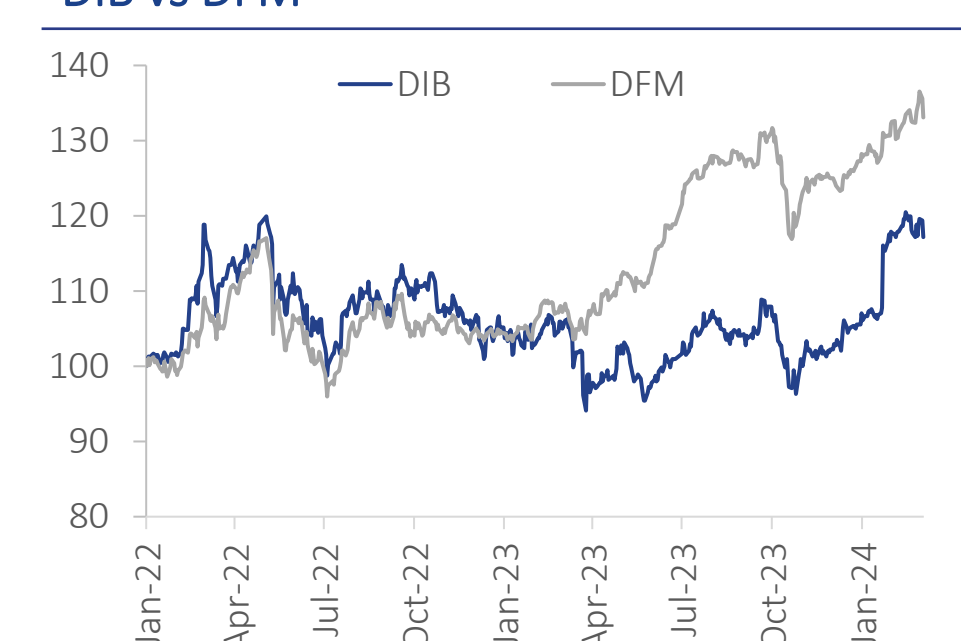
Source: Company Data, IS Research. Price as of 08 Mar 2024

DIB: FY23 result summary

AED (mln)	4Q22	3Q23	4Q23	YoY	QoQ	4Q Est.	Vs. Est.	2022	2023	YoY
Net Interest Income	2,220	2,230	2,237	0.7%	0.3%	2,375	-5.8%	8,105	8,749	8.0%
Non-Interest Income	552	698	777	40.8%	11.3%	640	21.4%	2,234	2,701	20.9%
Operating Income	2,772	2,929	3,014	8.7%	2.9%	3,015	0.0%	10,339	11,450	10.7%
Operating Exp.	(693)	(791)	(900)	29.9%	13.8%	(774)	16.3%	(2,733)	(3,162)	15.7%
Net Operating income	2,079	2,138	2,114	1.7%	-1.1%	2,241	-5.7%	7,606	8,289	9.0%
Impairment Charge	(653)	(450)	13	-101.9%	-102.8%	(540)	-102.3%	(2,103)	(1,396)	-33.6%
One-off gains	-	-	-	-	-	-	-	-	-	-
Shareholders' Profit	1,313	1,562	1,985	51.2%	27.1%	1,511	31.3%	5,070	6,394	26.1%
EPS (AED/sh.)	0.18	0.22	0.27	51.2%	27.1%	0.21	31.3%	0.70	0.88	26.1%
Norm. Profit	1,392	1,562	1,985	51.2%	27.1%	1,511	31.3%	5,070	6,394	26.1%

Source: Company Data, IS Research

DIB vs DFM



Source: Refinitiv, IS Research, *both rebased to 100 as of 01-Jan-2022

Income Statement

AEDmln	2021	2022	2023	2024e	2025e
Net Interest Income	6,639	8,105	8,749	9,139	8,400
Non Interest Income	2,666	2,234	2,701	2,889	3,097
Operating Income	9,306	10,339	11,450	12,029	11,497
Operating Expense	(2,529)	(2,733)	(3,162)	(3,248)	(3,081)
Net Operating Income	6,776	7,606	8,289	8,781	8,416
Impairment	(2,448)	(2,103)	(1,396)	(1,675)	(1,843)
Shareholders Profit	3,812	5,070	6,394	5,924	5,512
EPS (AED/sh.)	0.53	0.70	0.88	0.82	0.76
Adj. Shareholders Profit	3,812	5,070	6,394	5,924	5,512
Adj. EPS (AED/sh.)	0.53	0.70	0.88	0.82	0.76
DPS (AED/sh.)	0.25	0.30	0.45	0.40	0.38

Balance Sheet (AEDbn)

Net Loans	187	186	199	208	215
Deposits	206	199	222	232	242
Total Assets	279	288	314	327	341
Total Equity	41	44	47	50	53
Tier 1 Notes	8	8	8	8	8
Shareholders' Equity (Ex.Tier-1)	33	36	39	42	44
BVPS (AED/sh.)	4.2	4.6	5.0	5.4	5.7
Goodwill	0	0	0	0	0
Tangible Equity	33	36	39	42	44
Tangible BVPS (AED)	4.2	4.6	5.0	5.4	5.7

Key Ratios

Net Interest Margin	2.6%	3.0%	3.1%	3.0%	2.7%
Cost-Income ratio	27.2%	26.4%	27.6%	27.0%	26.8%
Cost of Risk	1.0%	0.9%	0.6%	0.7%	0.7%
NPL Ratio	5.7%	6.5%	5.4%	5.4%	5.4%
Provision Coverage	72.0%	78.0%	90.0%	92.0%	92.0%
Loans to Deposit	90.7%	93.7%	89.8%	89.5%	88.5%
CET1 ratio	12.4%	12.9%	12.8%	13.1%	13.4%
CAR	17.1%	17.4%	17.3%	17.3%	17.5%

Valuation Multiples

P/E	11.0x	8.2x	6.5x	7.1x	7.6x
P/B	1.4x	1.3x	1.2x	1.1x	1.0x
Div. Yld.	4.3%	5.2%	7.8%	6.9%	6.6%
ROE	12.9%	15.9%	18.4%	15.7%	13.5%
ROTE	12.9%	15.9%	18.4%	15.7%	13.5%
RORWA	1.7%	2.2%	2.7%	2.3%	2.1%
Leverage (Asset/Equity)	6.7x	6.6x	6.6x	6.5x	6.4x

Source: Company Data, IS Research

About the company: DIB is the largest Islamic bank in the UAE operating through four broad segments i.e. consumer financing, corporate financing, treasury and real estate investments, with a total asset size of AED 314bln.

Investment case: DIB's operating performance has improved significantly over the past two years, but predominantly due to improvement in NIMs and a drop in the cost of risk. The net loan book has grown by 6.8% over the past two years, one of the slowest in the UAE. As a result, the shareholders' profit grew 33% in FY22 and 26% in FY23 to AED6.4bn. We believe the stock is likely to trade at a discount to ADIB due to its lower ROE and slower growth profile. We maintain our Hold recommendation on the stock with a fair value of AED6.50/sh valuing the company at 1.2x FY24e PB, 7.9x FY24e PE and 15.7% FY24e ROE, with a dividend yield of 6.6%.

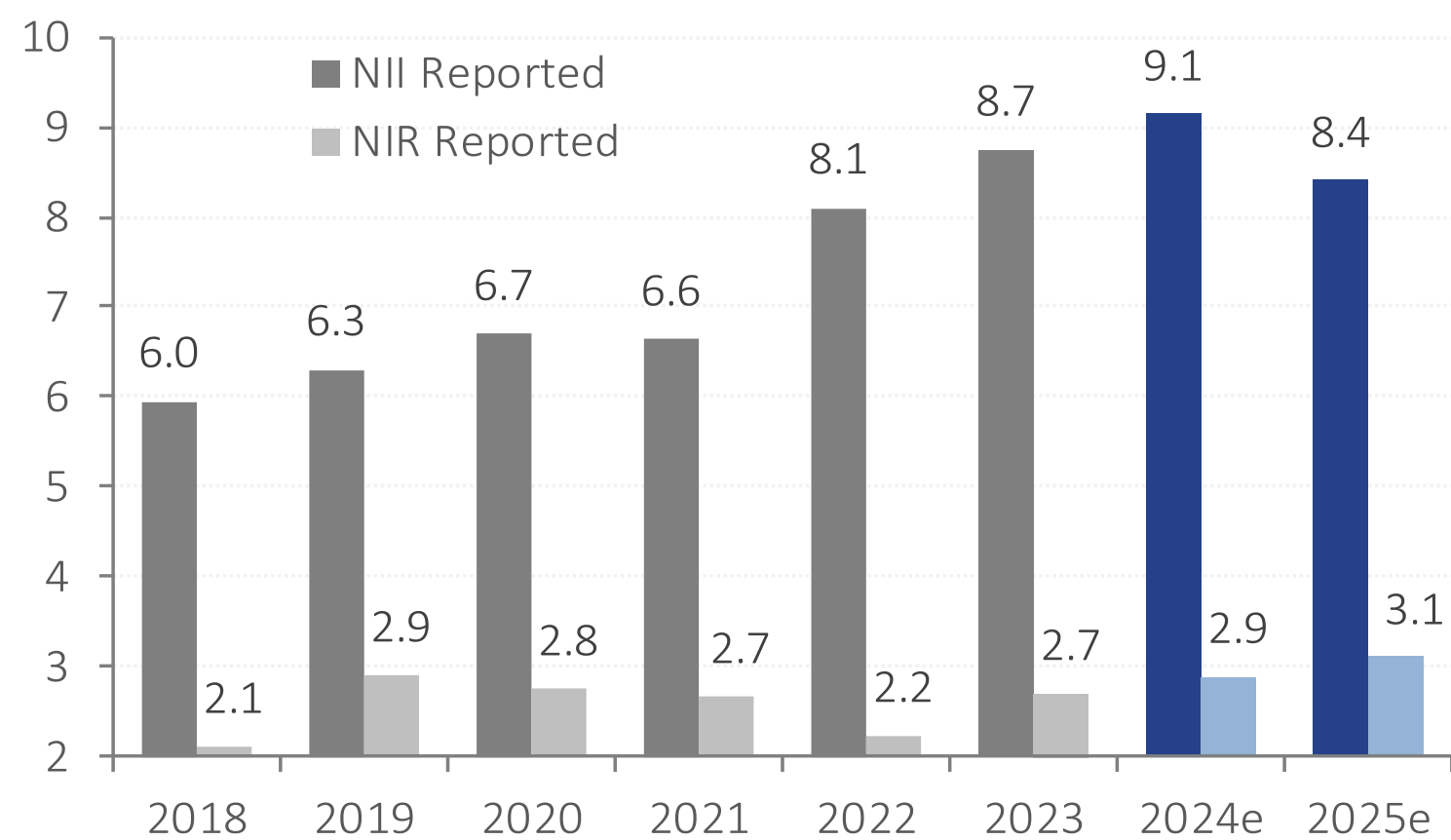
Valuation: We value DIB using a residual income method using a risk-free rate of 4.0%, risk premium of 7.5%, beta of 1.0 and terminal growth rate of 2.0%. We got FY24 year-end fair value target of AED 6.5/sh. valuing the bank at 1.2x FY24e PB and 7.9x FY24e PE. We expect DIB to trade at a discount to other pure Islamic banks in UAE due to its lower NIMs and slower growth profile.

Upside Risk: Better than expected loan growth, higher than expected NIMs, higher than expected non-interest income and lower than expected impairment charges.

Downside Risk: Increase in geopolitical uncertainty in the region, lower than expected NIMs, faster than expected cut in the interest rates, higher than expected cost of risk and higher than expected increase in NPLs.

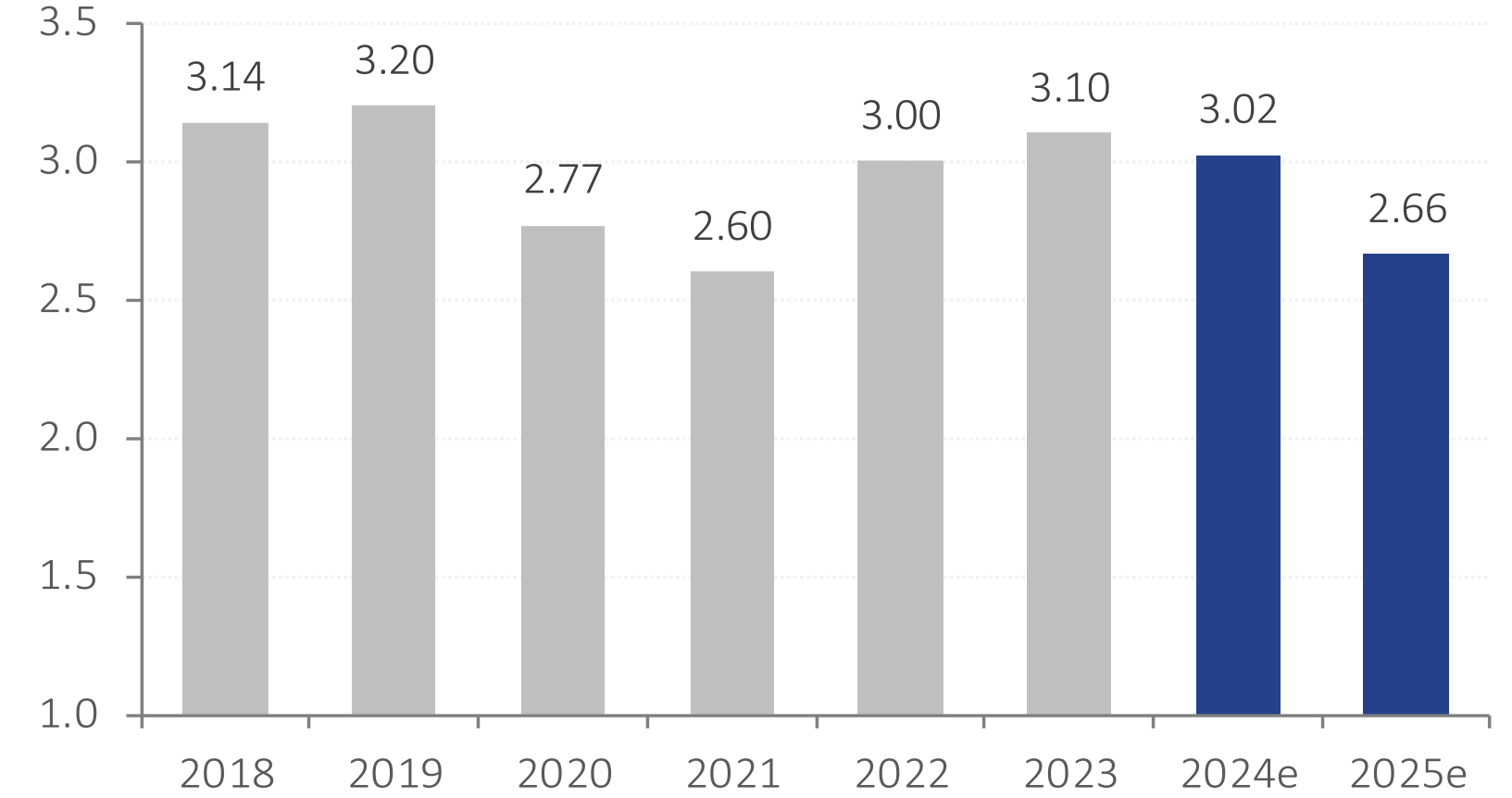


DIB Operating Income (AED bln)



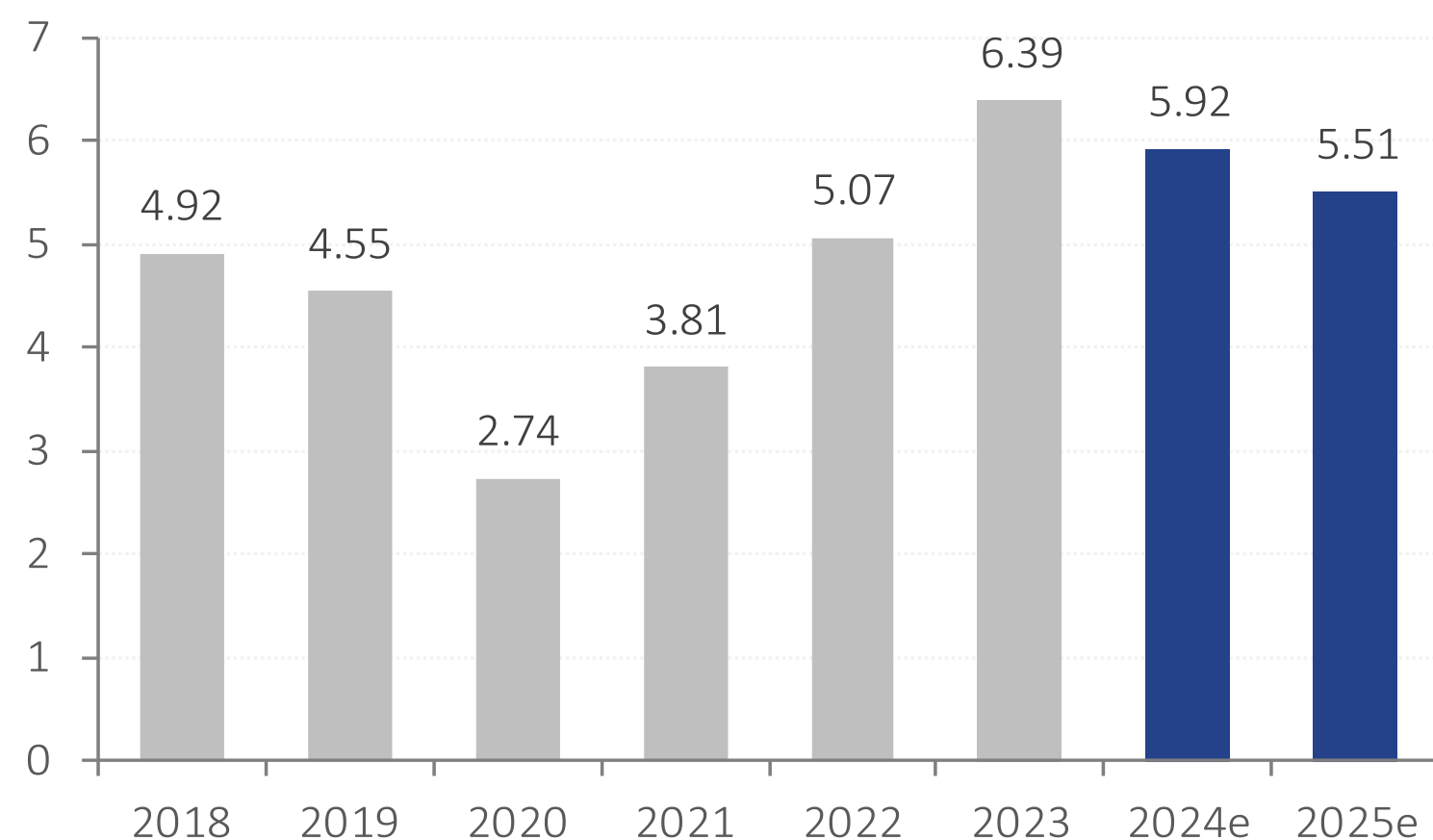
Source: Company Data, IS Research

DIB NIMs (%)



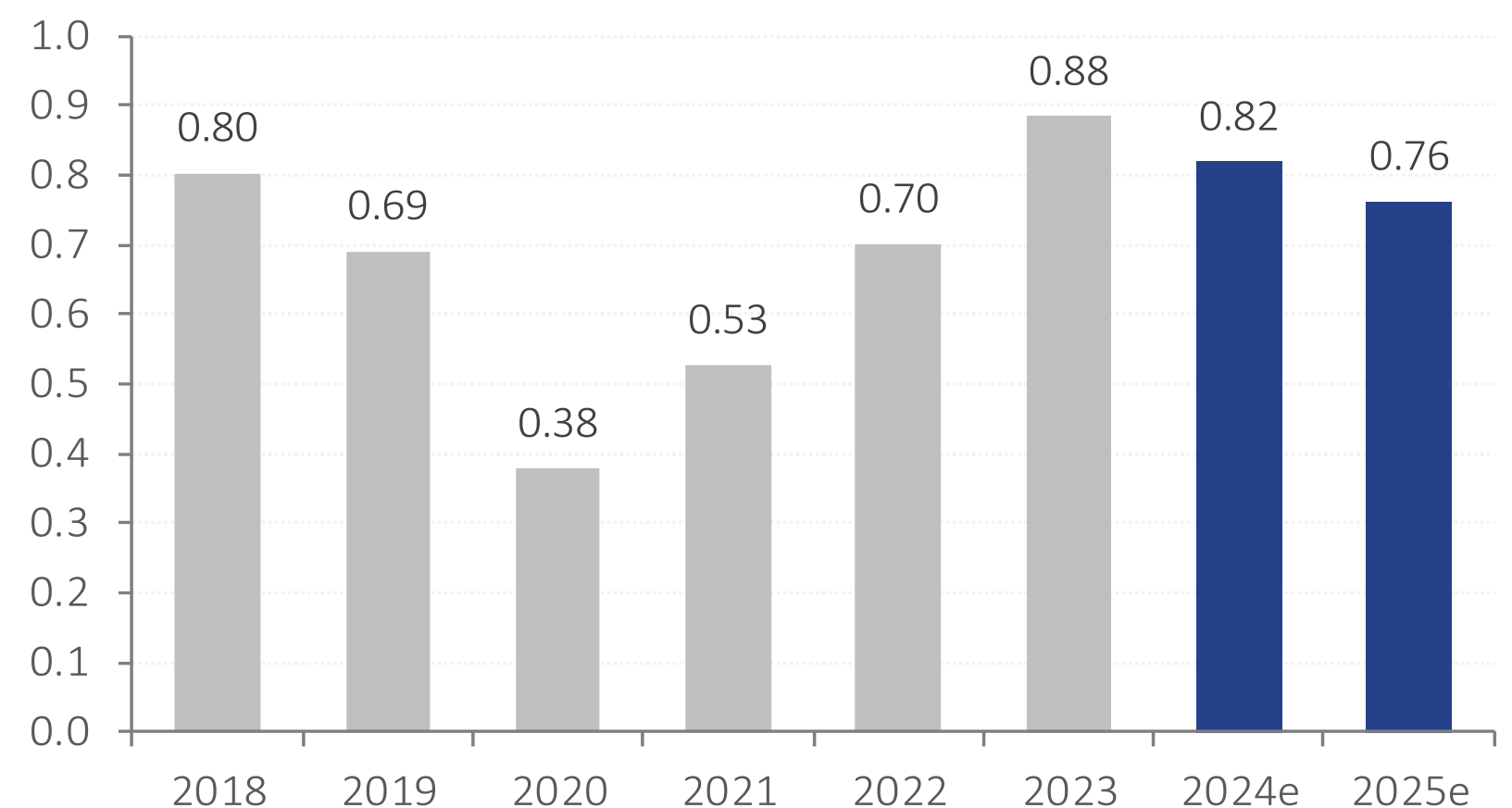
Source: Company Data, IS Research

DIB Shareholders' Profit (AED bln)



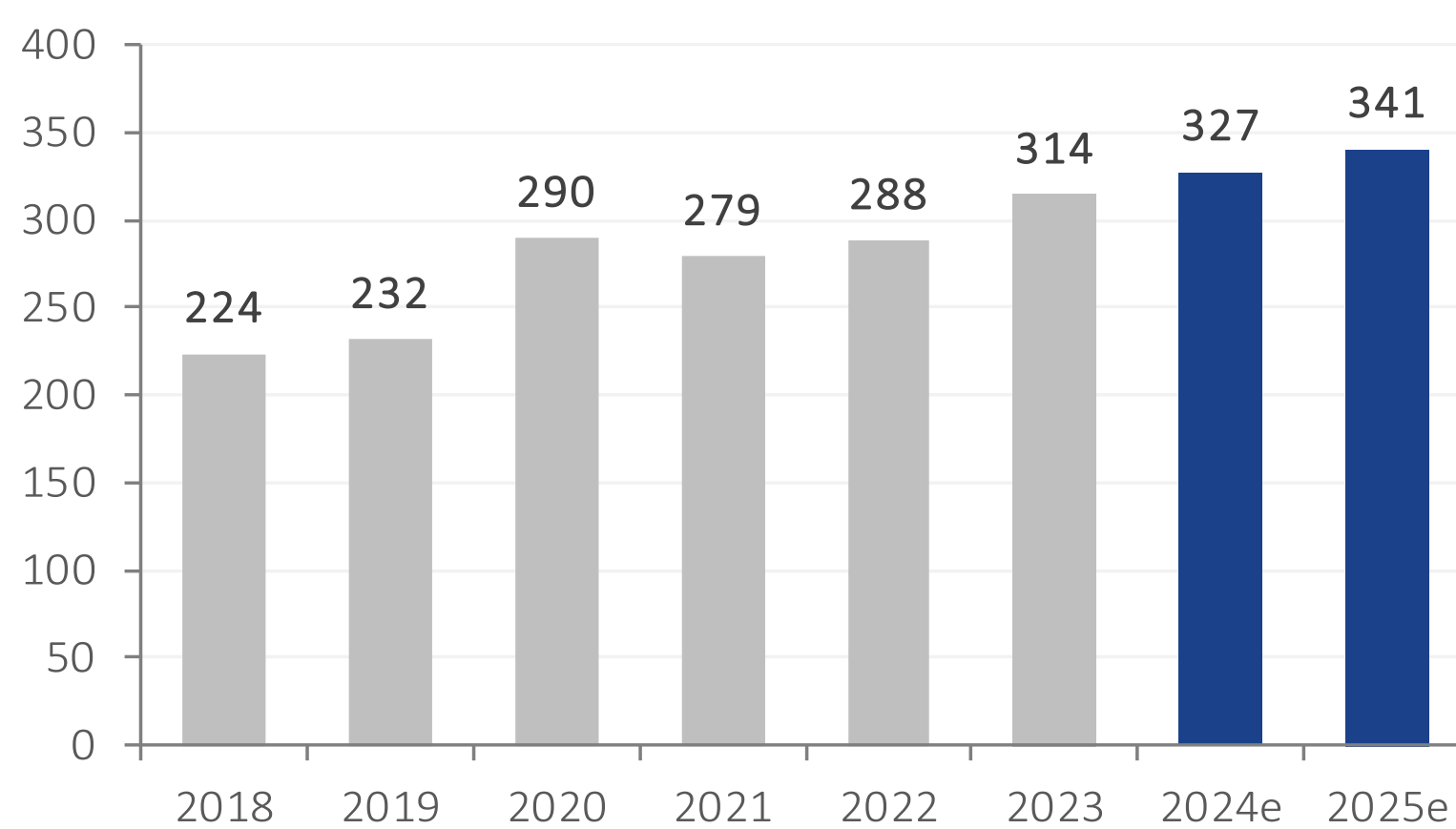
Source: Company Data, IS Research

DIB Earning Per Share (AED)



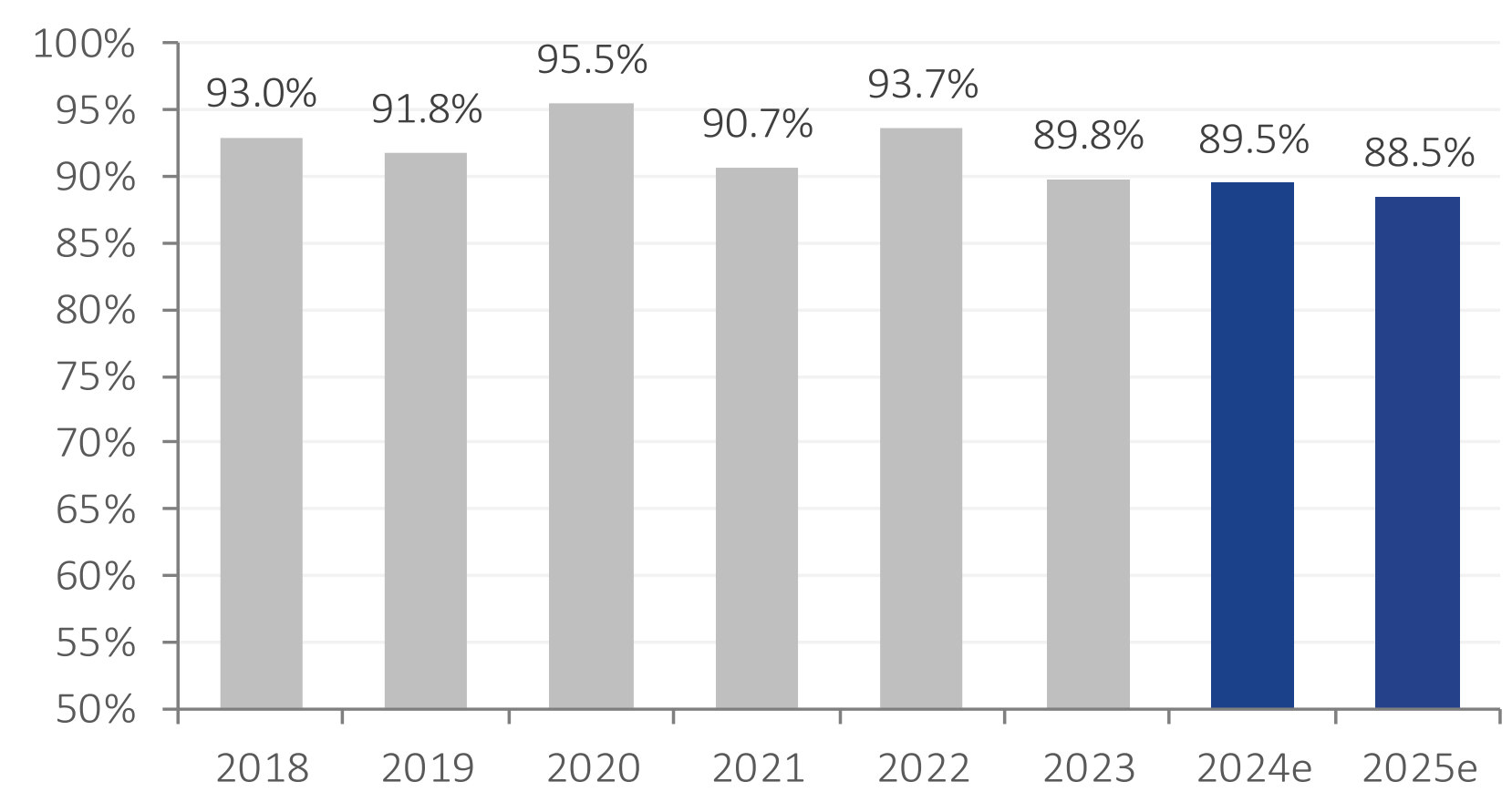
Source: Company Data, Refinitive, IS Research

DIB Total Assets (AED bln)



Source: Company Data, IS Research

DIB Net Loan to Deposit Ratio



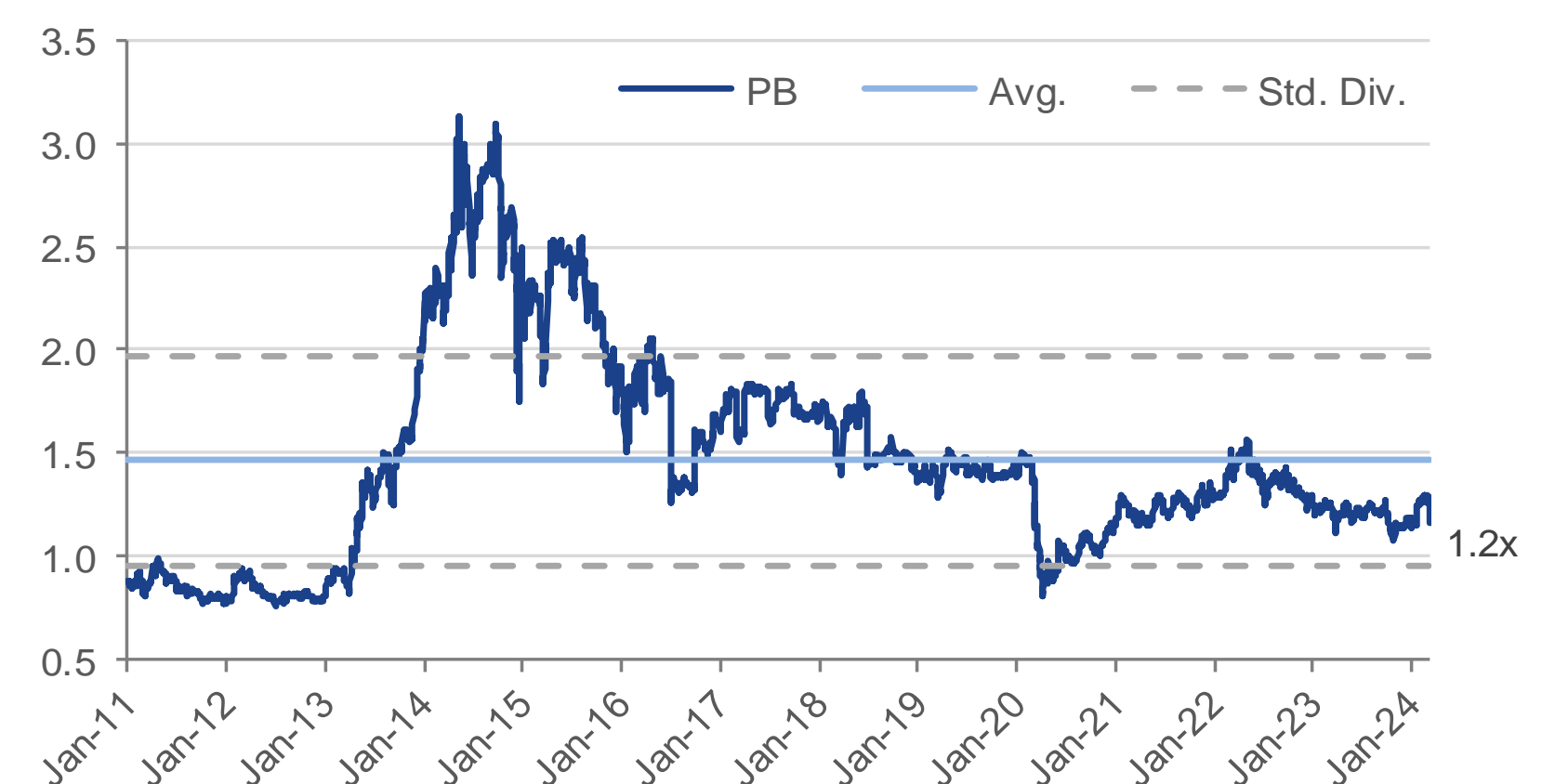
Source: Company Data, Refinitive, IS Research

DIB LTM PE



Source: Bloomberg, IS Research

DIB LTM PB



Source: Bloomberg, IS Research

Recommendation History

Company Name	Date	Recommendation	Target Price - AED
FAB	12-Jan-2021	Buy	14.20
FAB	28-Jan-2021	Buy	15.20
FAB	01-Nov-2021	Hold	17.20
FAB	01-Nov-2021	Hold	17.20
FAB	06-Jan-2022	Hold	17.20
FAB	14-Mar-2022	Hold	18.90
FAB	27-Apr-2022	Hold	19.80
FAB	27-Oct-2022	Hold	19.80
FAB	29-Mar-2023	BUY	14.95
FAB	12-Mar-2023	BUY	15.00
ADCB	03-Feb-2021	Buy	6.92
ADCB	28-Apr-2021	Buy	6.92
ADCB	01-Feb-2022	Buy	9.40
ADCB	14-Mar-2022	Buy	11.40
ADCB	29-Jul-2022	Buy	11.40
ADCB	19-Apr-2023	Buy	10.10
ADCB	20-Jul-2023	Buy	10.10
ADCB	12-Mar-2024	Buy	10.10
ADIB	08-Mar-2021	Buy	5.40
ADIB	04-May-2021	Buy	5.40
ADIB	09-Feb-2022	Buy	8.10
ADIB	14-Mar-2022	Buy	9.70
ADIB	22-Jul-2022	Buy	9.70
ADIB	02-Nov-2022	Buy	10.80
ADIB	03-Feb-2022	Buy	10.80
ADIB	01-May-2023	Hold	10.80
ADIB	27-Jul-2023	Hold	10.80
ADIB	12-Mar-2024	Hold	11.40
ENBD	17 Jan 2022	Buy	15.70
ENBD	26 Jan 2022	Buy	15.70
ENBD	17 Mar 2022	Buy	17.30
ENBD	22 Apr 2022	Buy	17.30
ENBD	12-Mar-2024	Buy	20.20
DIB	31-Jan-2022	Hold	5.70
DIB	01-Feb-2022	Hold	5.70
DIB	14-Mar-2022	Hold	6.30
DIB	28-Jul-2022	Hold	6.30
DIB	12-Mar-2024	Hold	6.40

International Securities Research team	Designation	Sectors under coverage
Tarek El Shawarby	Head of research	-
Raj Purswani	Deputy head of research	Banks, Telecom, Consumers
Afaq Nasir Nathani, CFA	Senior research analyst	Energy, Materials, Industrials, Utilities
Asjad Hussain, CFA	Analyst	Healthcare, Consumers

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