United Arab Emirates Banks

UAE banks in an EM context; ADIB, ADCB, ENBD & DIB top picks

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We have written extensively about the divergent liquidity trends across the UAE and Saudi as part of the MENA capital market transformation that we have been witnessing. Moreover, we believe that this differentiation in liquidity could see the UAE banks as key beneficiaries of Vision 2030 project financing opportunities in Saudi Arabia. In this note, we delve deeper into our analysis of UAE banks in a MENA/EM context. We believe the UAE banks screen favourably on a number of metrics, against this peer set; for example on: (1) NIM trajectory through-cycle; (2) loan and deposit growth; (3) asset quality metrics such as the NPL ratio and cost of risk; (4) capital buffers; and (5) valuation and returns.

UAE banks screen favorably in an EM context

UAE banks to see the largest NIM expansion through-cycle, in our view

UAE banks have seen the largest NIM expansion (75bp on average between end-2021 and 3Q23, vs. a 525bp increase in Fed rates) through the rate-hiking cycle among our coverage, including in the Saudi banks (60bp on average excluding Rajhi) which have higher theoretical NIM sensitivity to rates. We believe that this reflects the relatively greater pressure on cost of funding in Saudi, owing to the tighter liquidity backdrop (with the loan-to-deposit ratio (LDR) in Saudi Arabia at c.100% vs. c.80% in the UAE). We believe this variance in the liquidity backdrop could play a key role in NIM trajectories over the coming years: we expect cost of funding pressure to remain a key topic for Saudi banks, the more so as we expect a funding gap of c.US$30bn to develop for these over the coming years, during which we expect loan growth to outpace natural deposit accumulation.

On the one hand, this could see the Saudi banks needing to rely on alternative forms of funding, e.g., raising further AT1/senior unsecured bonds (both in SAR and US$), which could prove expensive (relative to time deposits or indeed non-interest bearing CASA deposits) and ultimately place further pressure on NIMs. For instance, Saudi Awwal Bank has just completed its SAR4bn AT1 sukuk offering via a private placement with pricing at 3-month SAIBOR + 1.25%. On the other hand, the UAE banks are operating against a relatively more comfortable liquidity backdrop, and their funding headroom is greater (lower LDR). This could mean that their reliance on these forms of relatively expensive wholesale funding (such as issuing AT1 or senior unsecured bonds) might be low going forward, compared to the Saudi banks. On a similar note, LDRs are >100% in Qatar, owing to the Qatar Central Bank's (QCB) directive to commercial banks to reduce their reliance on non-resident funding - this has consequently led to increased competition for local time deposits and thereby exacerbated the cost of funding pressure brought about by higher rates. Overall, we expect the UAE banks to see the greatest NIM expansion through-cycle (60bp on average through 2021-25E, vs. the Saudi banks' 12bp average, and an average NIM contraction of 15bp for Qatari banks). In a broader EM context, the UAE banks screen more positively: the average c.60bp NIM expansion we forecast over 2021-25 compares to the forecast of c.15bp for the GEM (ex China & India) banks over the same period.

6.5% loan CAGR (2023E-25E) with upside potential from regional growth; ample funding headroom

While we see the biggest loan growth potential over the coming years in Saudi Arabia (c.10% on average over 2023-25E across our Saudi banks coverage), owing to progress made on Vision 2030 projects, we believe the UAE banks are likely best-placed among regional banks to capitalize on this growth. We forecast a c.6.5% CAGR in loans over 2023E-25E for the UAE banks: this does not include the upside potential from increased participation in syndicated loan activity on Saudi project financing opportunities. Our analysis suggests the loan book of the UAE banks in our coverage could increase by 9% if these banks obtain a c.7% (an average between 1%-2% for each UAE bank) share of the US$1tn of Vision 2030-related project financing (assuming a debt/equity split of 60%/40%). In terms of a sensitivity, we believe this could add a potential 1%-2% to the 6.5% UAE loan CAGR over 2023-25 that we forecast.

We believe ADCB is the best-positioned regional bank (aside from the Saudi banks) to capitalize on the regional growth opportunity that Saudi Vision 2030 projects present, given: (1) its relatively more comfortable funding headroom, with a loan-to-deposit ratio at 86% (vs. the Saudi Banks' average of close to c.100%) presenting ample liquidity to pursue growth; (2) its access to US$ funding through its longstanding EMTN (Euro Medium Term Note) program, which provides US$ funding to potentially channel towards regional growth; and (3) ADCB's existing network of operations across Saudi, which should enable it to expand its loan growth capacity within the country at limited incremental cost (set up costs, expansion costs etc.). Overall, we believe there could be potential upside risk to the bank's FY23 loan growth guidance of 10%-12%, given ytd loan growth already at c.10%.

We expect deposit growth across the UAE to be in line with nominal GDP growth, and therefore at c.6.5% pa over 2023-25E. As such, on our forecasts, we expect the loan-to-deposit ratio to be broadly flat at c.80% over this period (vs. c.100% on average over this period for Saudi banks and >100% for Qatari and Kuwaiti banks).

Asset quality is intact, with the step-up in cost of risk to be largely contained in our view

Although we see a step-up in the cost of risk for UAE banks from c.70bp on average in

2023E, given an elevated rate environment, we believe it will be largely contained (rising to c.90bp over 2024E-2025E). This compares to recent years (2020-22) in which the cost of risk, on aggregate, across the five UAE banks we cover has ranged between c.90bp and c.140bp on our calculations. We are comfortable forecasting this relatively contained increase in the cost of risk because the UAE banks have relatively strong provisioning buffers, and prudent staging of loans relative to MENA peers. As of 9M23, Stage 3 coverage stood at c.65% on aggregate (in line with the Saudi banks), while Stage 2 coverage stood at c.20% on aggregate (among the highest in our GCC banks coverage). We note that the Stage 2 loans ratio stood at c.5% on aggregate, among the lowest across our MENA banks coverage, highlighting the prudent staging of loans across the UAE banks. Overall, while the NPL ratio for UAE banks is relatively high at c.5% on aggregate, NPL coverage stood at a solid c.120% at 9M23, including the impact of collateral. In a broader EM context, the UAE banks screen positively, with provisions/assets in a 40bp-50bp range over 2023-25E on our estimates, vs c.70bp (GSe) for GEM (excluding China and India) banks over the period. We believe cost of risk will remain contained at c.90bp, ranging between 125bp and 135bp (GSe) over 2023-25E.

Capital buffers to strengthen on strong internal capital generation despite the highest dividend yield across MENA

We believe capital buffers are strong for the UAE banks, with the aggregate CET-1 ratio as of 3Q23 at c.14.5% (excl. ENDB it stands at 13.7%), well above the minimum regulatory requirement of 11%. We forecast c.90bps of CET-1 improvement over 2023E-25E for the UAE banks (vs. a similar increase for Qatari banks but vs. a c.70bp decrease for the Saudi banks) on the back of strong internal capital generation: we see the earnings profile of the UAE banks as better than in the pre rate-hiking cycle prior to 2021 (we forecast aggregate ROE of c.17% for 2023E, vs. aggregate ROE of 11.5% in 2021). Although we forecast c.20bp of average NIM contraction over 2023E-25, absolute NIMs remain higher than in 2021, and thus contribute to strong internal capital generation. This more than offsets dividend payments (c.5.5% dividend yield on average, the highest in our MENA coverage). In contrast, we forecast a decrease in the aggregate CET-1 ratio of the Saudi banks, owing to the higher RWA density of the Saudi banks at c.80% (vs. c.60% for the UAE banks) and higher loan growth driving faster RWA growth (10% for Saudi banks vs. 6.5% for the UAE banks). That said, we acknowledge that the profitability profile of the Saudi banks is better than in 2021 (we forecast an aggregate ROE of c.14% for 2023 vs. an aggregate ROE of 11.5% in 2021) and CET-1 ratios should remain well above the minimum requirements. In a broader EM context, the UAE banks screen positively with the improvement in their aggregate CET-1 ratio at 90bp over 2023-25E on our estimates, vs. c.30bp (GSe) for GEM (ex China and India) banks over the same period.

Valuation at a discount to history and peers despite similar returns profile to GEM peers

We view the UAE banks as attractive in terms of risk-reward, trading on average at 1.3x 12m-fwd P/TB for a 15.5% 2024E ROTE. The UAE banks trade, on average, at a c.10%/15% discount to their 10-year historical median consensus 12m-fwd P/B and P/E respectively. Moreover, the UAE banks offer a c.5.5% dividend yield, the highest across our MENA banks coverage. Relative to MENA and GEM (ex China and India) peers, the UAE banks trade at a c.25%/c.20% discount on 12m-fwd P/TB, on our estimates, while offering similar mid-teens 2024E ROTE. The discount is at c.25%/c.10% on 12m-fwd P/E for an ROA of c.1.6% for UAE banks vs 1.7%/1.8% for MENA / GEM (ex China and India).

Our top picks remain ADCB, ADIB, ENBD & DIB

Despite incorporating a c.10%/15% corporate tax in our FY24/25 estimates for the UAE banks, we continue to view valuations as relatively attractive, at c.8x 2024E P/E and c.1.3x 2024E P/TB on average. In addition, we believe the UAE banks offer an attractive and sustainable dividend yield of c.6% on average. Our view on each of our Buy-rated UAE banks is as follows:

- **Abu Dhabi Commercial Bank (Buy):** We believe ADCB offers an attractive risk/reward, trading at c.1.0x 12-month forward tangible book with a normalised ROTE (post tax) of 12.6%. In our view, the attractiveness of the stock is increased by the bank's focus on organic growth, which we believe reduces the potential risk of ROTE dilution from inorganic growth aspirations (something that we believe exists at some of its peers). Moreover, the bank has announced a shift to a full cash dividend this year (guiding for 50% of net profit to be paid in dividends) versus a cash + scrip payout last year. ADCB offers one of the highest dollarized dividend yields across our coverage, on our estimates, at c.6.7% on 2023E.
- **Abu Dhabi Islamic Bank (Buy):** On 12-month forward price to tangible book, ADIB trades at c.1.7x, which we acknowledge is a meaningful premium to UAE peers. However, we argue this is more than justified by the bank's higher ROTE/ROA generation, relative to domestic and regional peers (21.2%/2.2% ROTE/ROA vs. a domestic peer average of c.14%/1.4% ROTE/ROA for 2024E). Moreover, the bank's tilt towards fixed retail loans is likely to insulate it from the impact of any potential interest rate normalisation over the medium term, and, in the short term, it should benefit from the lagged impact of repricing. We also note that Islamic banks trade at a premium to conventional peers in the region, given scarcity value. In our view, ADIB also screens as attractive in an emerging market context, with the bank amongst the few EM banks which can deliver a >1.8% ROA and >16% ROTE (both post AT-1 costs) over the near-medium term (GSe). We see an attractive and sustainable dividend yield of c.6.5% for FY23E.
- **Emirates NBD (Buy):** Emirates NBD stands out as among the cheapest large-cap EM banks in our coverage. The stock trades at c.1.0x 12m forward P/TB (a c.25% discount to UAE peers) and 6.0x 12m forward P/E (a c.30% discount to UAE peers) on our estimates. We acknowledge investor concerns around the bank's Turkish and Egyptian exposures, which are subject to macro uncertainties and vulnerabilities, but note that, at Emirates NBD's current market cap, and when benchmarking the domestic business to peers' average multiples (c.9.0x 2025E P/E), our analysis implies that the international business is valued at close to zero, all else equal.
- **Dubai Islamic Bank (Buy):** The bank has underperformed both its Dubai peer

Emirates NBD and its Islamic peer Abu Dhabi Islamic Bank meaningfully on a year-to-date basis. We believe this is attributable to its relatively muted loan growth, relatively high cost of risk and muted NIM performance. Our Buy rating on DIB is predicated on the bank's discounted valuations, with the stock trading at c.1.0x 12-month forward tangible book for a 12-month forward ROTE of c.12.6%. Furthermore, we see the bank's FY23 dividend announcement in 1Q24 as a catalyst, with our expectation of AED0.35/share implying a dividend yield of c.6.5%, the highest among MENA banks.

3Q23 results roundup: Sequential NIM expansion & loan growth amid stable asset quality backdrop

3Q23 results have been positive for UAE banks with 4% sequential earnings growth in aggregate (before net monetary losses), supported by: (1) 2% sequential loan growth; (2) net interest income / assets expansion of c.10bps qoq; and (3) stable asset quality, despite the elevated rates backdrop, with cost of risk contained at c.65bp (flat qoq but down 25bp yoy). Key takeaways and trends from the results are as follows:

- **YTD loan growth came in at c.7%, with ADCB leading the way with 10% ytd loan growth** (among the highest across our GCC banks coverage). This was on the back of strong regional growth for ADCB (maintaining the strong momentum observed in 2022 where >100% of FY22 loan growth came from regional growth outside the UAE as domestic contracted).
- **Sequential NIM expansion across all four out of the five banks but underlying trends not uniform**. On our calculations, **Emirates NBD** posted the largest sequential NII/assets expansion at c.20bp, though this was largely driven by its Turkish subsidiary, Denizbank, where NIM expanded c.262bp qoq from improved loan pricing (with a favourable change in regulations), higher CPI-linked and indexation income. Looking solely at the domestic business however, margin declined c.24bp qoq, driven by competitive loan pricing and higher funding costs (as a result of a marginal decline in the percentage of CASA deposits while overall deposits increased qoq). Management highlighted that it saw pressure on corporate spreads during the quarter, given ample liquidity in the system, alongside some contraction in spreads across certain retail segments (mainly mortgages), a theme echoed by ADCB's management, which commented on the intense competition in the market across both loans and deposits. **DIB** also saw NIM contraction with the 9M23 NIM at 3.1% vs 1H23 NIM at 3.2%. That said, **ADIB, ADCB** and **FAB** posted NII/assets improvement of c.10bp on average (lower than ENBD overall, but higher than ENBD's domestic business) as backbook repricing on loans from the impact of rate hikes earlier in the year led to asset yield expansion that outweighed the increase in cost of funding. Moreover, both ADIB's and ADCB's management commented that they expect the trend of sequential NIM improvement to continue into 4Q23. ADIB added further that it expects exit NIM into 2024 to be close to c.5% (vs. 9M23 NIM of c.4.5%). While ENBD's NIM trajectory in 4Q23 should depend on Denizbank's NIM evolution, we note that 9M23 NIM stood at 4%, at the top-end of its FY23 NIM guidance range of 3.8%-4.0%. On our estimates, we expect ENBD to deliver FY23 NIM at the top-end of its FY23 guidance range. Post

its 3Q23 results, we increase our 2023E-25E EPS estimates for ENBD by 5% on average, and are c.1.5% above Visible Alpha Consensus Data for this period.

- **9M23 risk-adjusted NIM up c.5bp on average vs. 1H23 across the five banks, with the sequential NIM improvement translating into risk-adjusted NIM expansion as asset quality (and by extension cost of risk) remained stable**. We note that cost of risk came in at c.65bp in 9M23, with 3Q23 at similar levels. This was lower than recent years (2020-22), in which the average cost of risk across these banks stood between c.90bp-140bp on our calculations.

Exhibit 1: We are broadly in line with banks' guidance on loan growth and NIM for FY23

		9M23	Implied 4Q23	FY23 guidance	FY23 GSe
Loan growth (vs. FY22)	ENBD	8.0%	c.1% qoq	High-single digit	9.2%
	ADCB	10.0%	c.1% qoq	10%-12%	10.0%
	ADIB	6.0%	c.0.5% qoq	5%-8%	6.0%
	FAB	4.0%	c.1% qoq	Mid single-digit	7.0%
	DIB	11.3% (loans + Sukuk investments)	-c.3.5%	7.5% (loans + Sukuk investments)	14.4%
Net interest margins (NIMs)	ENBD	4.0% (+55bp vs. FY22)	c.3.6% (-c.40bp vs. 9M23)	3.8%-4.0% (+c.35bp to +c.55bp vs. FY22)	+c.61bp vs. FY22
	ADCB	2.79% (+c.30bp vs. FY22)	c.2.83% (+c.4bp vs. 9M23)	c.2.80% (+c.1bp vs. 9M23)	+4bp vs. 9M23
	ADIB	4.48% (+92bp vs. FY22)	c.4.6% (+c.10bp vs. 9M23)	c.4.5% (+c.95bp vs. FY22)	+c.85bp (vs. FY22)
	DIB	3.1% (+10bp vs. FY22)	c.2.7% (-c.40bp vs. 9M23)	3.0% (flat vs. FY22)	+3bp vs. FY22
Cost/ Income ratio (C/I)	ENBD	25.5%	c. <=55%	<=33%	26.3%
	ADCB	32.5%	c.<30.5%	c.29%-32%	32.7%
	ADIB	32.6%	< c.42%	<35%	32.7%
	DIB	26.5%	c.32.5%	28.0%	26.8%
ROTE	ADCB	14.3%	c. 15.1%	14%-15%	14.9%
	DIB	18.4%	c.12.8%	17.0%	18.2%
ROE	ADIB	26.4%	> c.9%	>22%	c.26%
ROA	DIB	2.2%	c.1.5%	2.0%	2.1%
Cost of Risk (CoR)	ENBD	0.42% (-68bp vs. FY22)	c.1.15% (+c.73bp vs. 9M23)	0.50%-0.70% (-c.40bp to -c.60bp vs. FY22)	c.40bp
	ADCB	73bps (-3bp vs. FY22)	c.101bp (+c.28bp vs. 9M23)	c.80bps (+4bp vs. FY22)	+7bp vs. FY22
	ADIB	0.5% (-8bp vs. FY22)	c.0.9% (+c.40bp vs. 9M23)	0.55% to 0.65% (-3bp to +7bp vs. FY22)	-c.2bp (vs.FY22)
	FAB	57bps (-5bp vs. FY22)	<c.150bp	<80bps	57bps
CET-1	ADCB	13.5%	>12%	>12%	13.3%
	FAB	14.2%	>13.5%	>13.5%	13.5%
NPL ratio	ENBD	5.5%	< 6%	< 6%	5.3%
	DIB	6.04% (-c.50bp vs. FY22)	6.25% (+c.25bp vs. 9M23)	6.25% (-c.25bp vs. FY22)	+c-50bp vs. FY22
Provision coverage ratio	FAB	97%	>90%	>90%	
	DIB	117% (incl. collateral) (+7pp vs. FY22)	112.5% (incl. collateral) (-4.5pp vs. 9M23)	112.5% (incl. collateral) (+2.5pp vs. FY22)	+5pp vs. FY22
Dividend payout	ADCB			50% of net profit	50% of net profit

Source: Company data, Goldman Sachs Global Investment Research

Reviewing 3Q23 trends: strong balance sheet fundamentals with sequential NIM expansion

UAE banks had the highest year-to-date loan and deposit growth in 9M23, particularly ADCB and ENBD

Exhibit 2: UAE banks that have exhibited sequential NIM expansion, loan growth and stable cost of risk
UAE banks aggregate results table

AED mn.	UAE banks aggregated results					3Q23 overview	
	3Q22	4Q22	1Q23	2Q23	3Q23	q/q	y/y
NII	15,726	18,601	18,246	18,437	19,650	7%	25%
Fees	2,775	3,227	3,152	3,467	3,361	-3%	21%
Core	18,500	21,828	21,398	21,904	23,010	5%	24%
Other	3,282	3,475	4,499	4,864	5,029	3%	53%
NIR	6,057	6,702	7,651	8,331	8,390	1%	39%
Revenues	21,782	25,303	25,897	26,768	28,039	5%	29%
Expenses	-6,393	-7,548	-7,029	-7,316	-7,645	4%	20%
Gross operating profit	15,389	17,755	18,868	19,452	20,394	5%	33%
Provisions / credit costs	-3,334	-5,311	-2,660	-2,586	-2,630	2%	-21%
Profit before zakat	12,055	12,444	16,208	16,865	17,764	5%	47%
Tax, minorities, and other	-840	-1,100	-1,020	-1,235	-1,465	19%	74%
Net profit	11,215	11,344	15,188	15,630	16,299	4%	45%
Net Monetary Loss Arising from Hyperinflation	-538	-687	-832	-520	-1,810	248%	236%
Profit for the Period	10,677	10,657	14,356	15,110	14,489	-4%	36%
Capital and leverage							
CET1	13.6%	13.2%	13.5%	14.0%	14.3%	0.3pp	0.7pp
LDR	82%	82%	79%	80%	79%	-1.4pp	-3.2pp
Returns and efficiency							
ROE	14.1%	13.9%	18.3%	18.9%	18.9%	0.1pp	4.8pp
NII to assets	2.32%	2.67%	2.54%	2.50%	2.61%	0.1pp	0.3pp
C/I	29.4%	29.8%	27.1%	27.3%	27.3%	-0.1pp	-2.1pp
Credit costs	0.89%	1.41%	0.70%	0.66%	0.66%	0.0pp	-0.2pp
NPL ratio	5.9%	5.9%	5.7%	5.6%	5.3%	-0.3pp	-0.6pp
NPL coverage	90%	91%	93%	94%	91%	-2.7pp	1.0pp
Key balances							
Total assets (bn)	2,775.3	2,806.6	2,933.0	2,960.4	3,056.2	3%	10%
Total equity (bn)	321.6	333.4	331.3	331.9	357.6	8%	11%
Gross loans (bn)	1,499.9	1,514.2	1,546.3	1,582.1	1,615.9	2%	8%
Deposits (bn)	1,834.2	1,849.2	1,969.0	1,977.8	2,057.1	4%	12%

Source: Company data

Exhibit 3: While the UAE banks have shown sequential NIM expansion...

	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23	3Q23
NII/Assets, %											
ADCB	2.1%	2.3%	2.1%	2.1%	1.9%	2.2%	2.1%	2.4%	2.3%	2.3%	2.4%
ENBD	2.3%	2.3%	2.6%	2.5%	2.5%	2.9%	3.4%	4.2%	3.8%	3.6%	3.8%
ADIB	3.0%	2.9%	3.3%	2.8%	2.3%	2.8%	3.4%	3.4%	3.3%	3.9%	4.0%
FAB	1.2%	1.2%	1.3%	1.2%	1.3%	1.3%	1.3%	1.5%	1.5%	1.5%	1.6%
DIB	2.2%	2.2%	2.4%	2.3%	2.5%	2.8%	3.0%	3.2%	3.0%	2.9%	2.9%
Credit costs, %											
ADCB	1.1%	1.1%	1.0%	1.1%	0.5%	1.0%	1.0%	1.8%	1.1%	1.1%	1.1%
ENBD	1.6%	0.8%	1.0%	2.0%	1.3%	0.4%	1.3%	1.8%	0.4%	0.4%	0.5%
ADIB	0.6%	1.1%	1.7%	0.9%	0.5%	0.5%	0.5%	1.5%	0.5%	0.8%	0.7%
FAB	0.5%	0.7%	0.8%	0.7%	0.4%	0.5%	0.6%	0.9%	0.7%	0.5%	0.5%
DIB	1.5%	1.5%	1.3%	0.6%	0.8%	1.1%	1.0%	1.3%	1.0%	0.9%	0.9%
Loan growth, %											
ADCB	-1.3%	0.6%	1.4%	1.2%	0.6%	-1.1%	2.0%	4.4%	2.1%	3.3%	3.9%
ENBD	-8.9%	0.5%	0.0%	-3.7%	9.7%	-0.1%	-1.2%	-0.2%	3.0%	2.1%	3.1%
ADIB	-0.2%	1.0%	1.2%	4.5%	2.2%	2.1%	6.1%	9.8%	-0.4%	2.0%	2.2%
FAB	-2.1%	5.5%	1.3%	1.7%	5.6%	5.6%	1.4%	-1.0%	3.0%	2.1%	-0.9%
DIB	-0.1%	-0.9%	-0.6%	-3.1%	2.1%	1.9%	-3.6%	-0.7%	-0.5%	2.4%	5.0%
Deposit growth, %											
ADCB	-5.0%	4.9%	2.1%	3.6%	-1.2%	11.6%	3.4%	2.2%	0.5%	1.7%	4.2%
ENBD	-1.1%	-0.3%	1.9%	-2.1%	2.7%	-0.2%	2.8%	4.6%	6.9%	3.3%	2.6%
ADIB	1.8%	2.0%	1.8%	2.4%	1.1%	4.0%	3.2%	16.3%	2.6%	6.1%	0.8%
FAB	5.1%	1.2%	5.4%	1.4%	-2.4%	8.0%	15.1%	-6.1%	11.4%	-4.6%	5.4%
DIB	3.9%	2.0%	-1.9%	-3.9%	-0.7%	-1.1%	-7.8%	6.5%	-0.2%	6.2%	4.9%

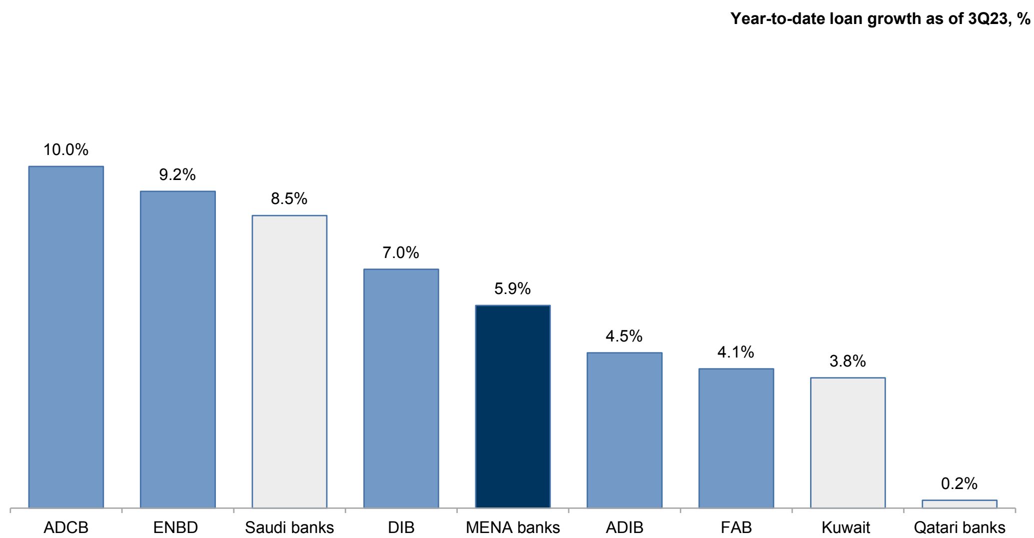
Source: Company data

Exhibit 4: ...the underlying trends have not been uniform with ENBD domestic business showing qoq contraction in NIM due to competitive loan pricing and cost of funding pressure

AED mn	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23	3Q23
NII/Assets, %											
ENBD Group	0.59%	0.58%	0.64%	0.62%	0.62%	0.73%	0.85%	1.06%	0.94%	0.91%	0.95%
International	1.15%	1.13%	1.23%	1.24%	1.24%	1.71%	1.72%	2.26%	1.16%	0.93%	1.53%
Domestic	0.46%	0.46%	0.51%	0.50%	0.50%	0.54%	0.68%	0.82%	0.90%	0.90%	0.84%
Cost of risk, %											
ENBD Group	0.43%	0.21%	0.27%	0.43%	0.31%	0.09%	0.29%	0.48%	0.04%	0.08%	0.11%
International	0.79%	0.29%	0.53%	2.04%	0.80%	-0.93%	0.85%	0.51%	-1.17%	-0.52%	-0.07%
Domestic	0.35%	0.20%	0.22%	0.13%	0.23%	0.27%	0.19%	0.48%	0.28%	0.19%	0.14%
ROE, %											
ENBD Group	3.21%	3.35%	3.33%	2.67%	2.56%	4.71%	4.85%	4.70%	7.05%	7.08%	5.64%
International	6.19%	3.73%	4.50%	2.84%	-5.66%	9.38%	6.24%	10.47%	15.23%	10.19%	-0.54%
Domestic	2.71%	3.29%	3.13%	2.66%	3.05%	4.11%	4.67%	4.35%	6.47%	6.68%	6.33%
Loan growth, %											
ENBD Group		0.5%	0.0%	-3.7%	0.7%	-0.1%	-1.4%	-0.6%	3.1%	2.4%	3.4%
International		-2.1%	-1.5%	-17.3%	1.0%	1.9%	0.2%	9.5%	5.8%	-8.2%	0.0%
Domestic		1.0%	0.3%	-0.9%	0.7%	-0.4%	-1.7%	-2.4%	2.6%	4.5%	4.1%
Deposit growth, %											
ENBD Group		-0.3%	1.9%	-2.1%	2.7%	-0.2%	2.8%	4.6%	6.9%	3.3%	2.6%
International		-1.6%	-1.3%	-11.5%	1.2%	4.6%	8.2%	3.8%	-15.9%	15.9%	7.5%
Domestic		0.0%	2.5%	-0.3%	3.0%	-1.1%	1.8%	4.8%	11.4%	1.5%	1.8%

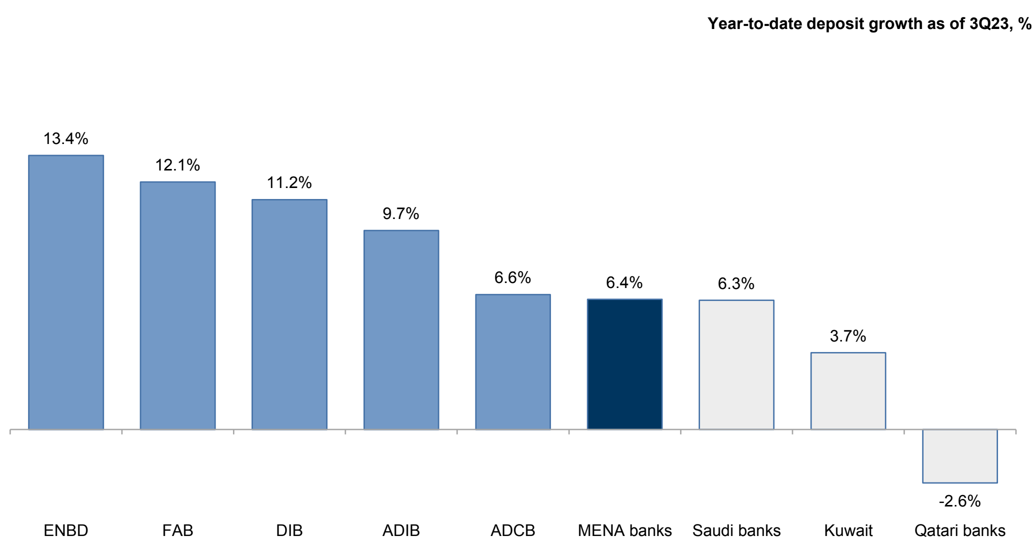
Source: Company data

Exhibit 5: ADCB and ENBD have outpaced UAE and MENA peers in terms of loan growth ytd...



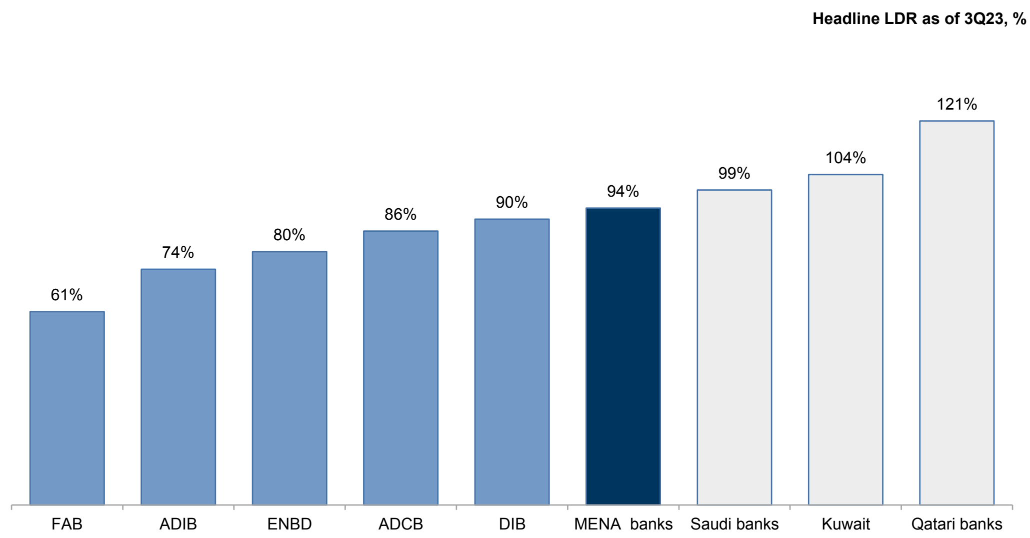
Source: Company data

Exhibit 6: ...while ENBD also saw the highest deposit growth across MENA peers over the same period



Source: Company data

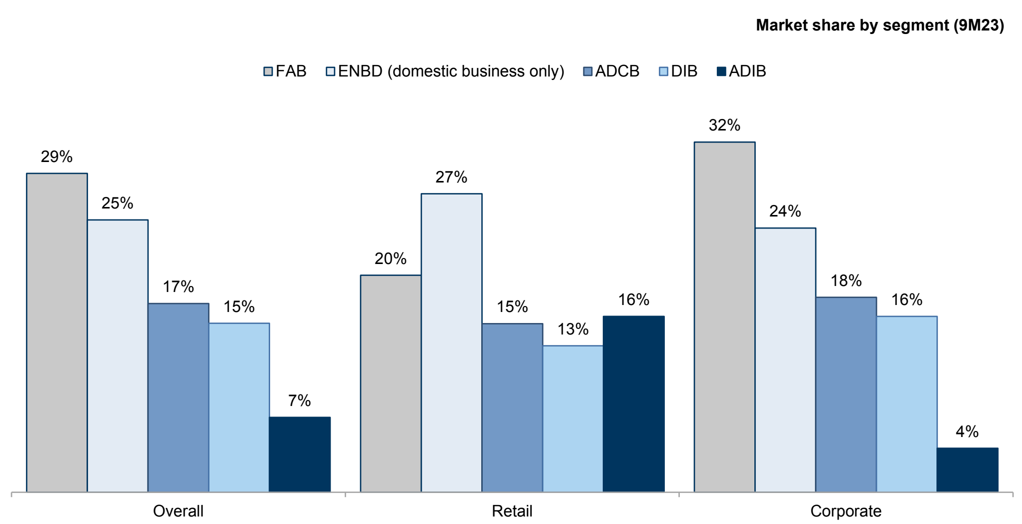
Exhibit 7: UAE banks have relatively ample funding headroom relative to regional peers



MENA, Saudi, Qatari and Kuwaiti banks based on GS coverage.

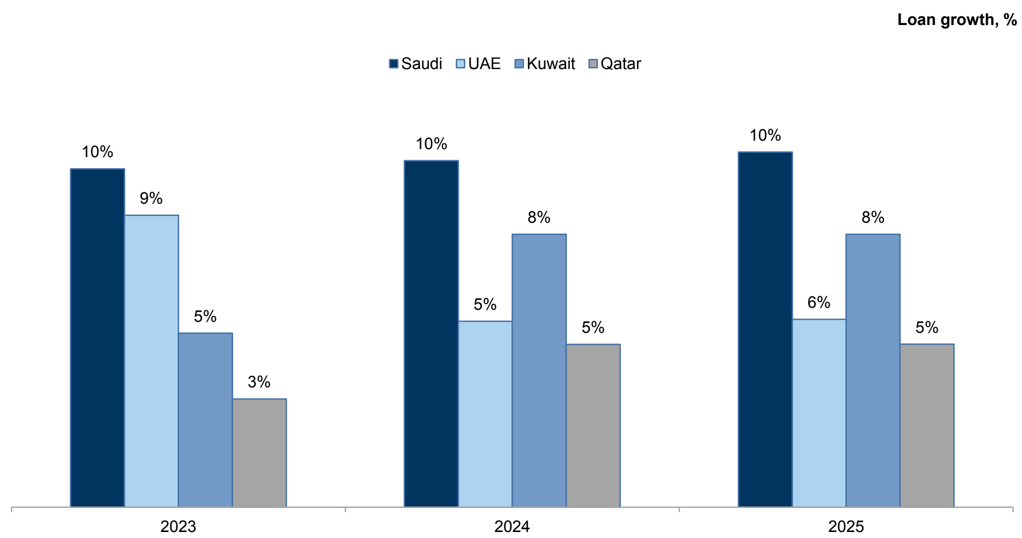
Source: Company data, SAMA

Exhibit 8: FAB has the largest market share in UAE, while ENBD has the largest retail market share as of 3Q23



Source: Company data, CBUAE

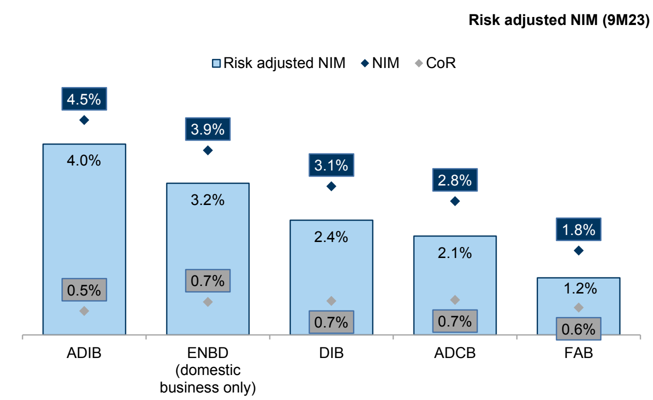
Exhibit 9: UAE banks loan growth screens the highest behind Saudi



Source: Goldman Sachs Global Investment Research

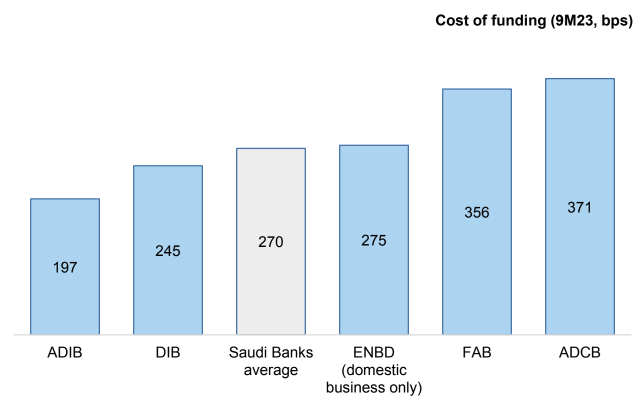
Strong risk-adjusted NIMs on sequential NIM expansion and stable asset quality

Exhibit 10: ADIB delivered best-in-class risk-adjusted NIM during 9M23 at c.400bp, followed by ENBD...



Source: Company data

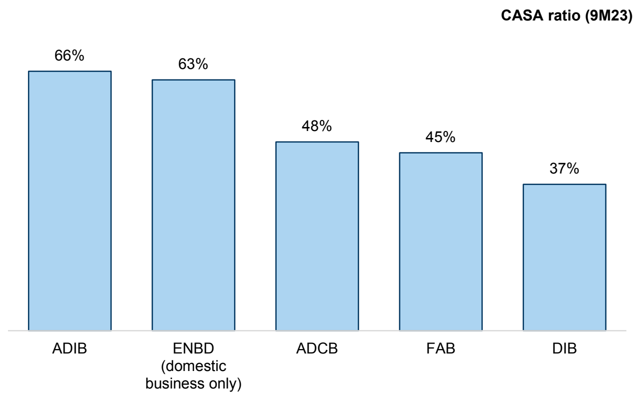
Exhibit 11: ...aided by their low cost of funding...



excl. AT-1 costs

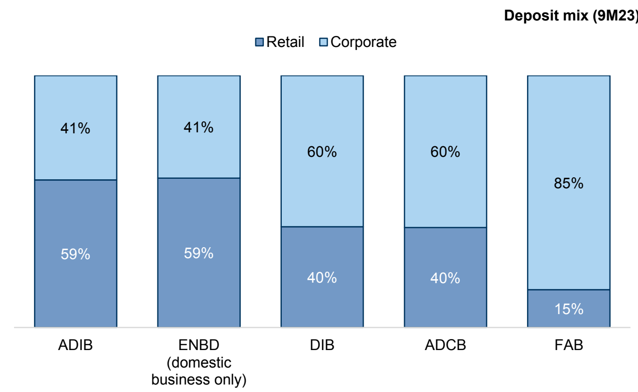
Source: Company data

Exhibit 12: ...and the strongest CASA ratio...



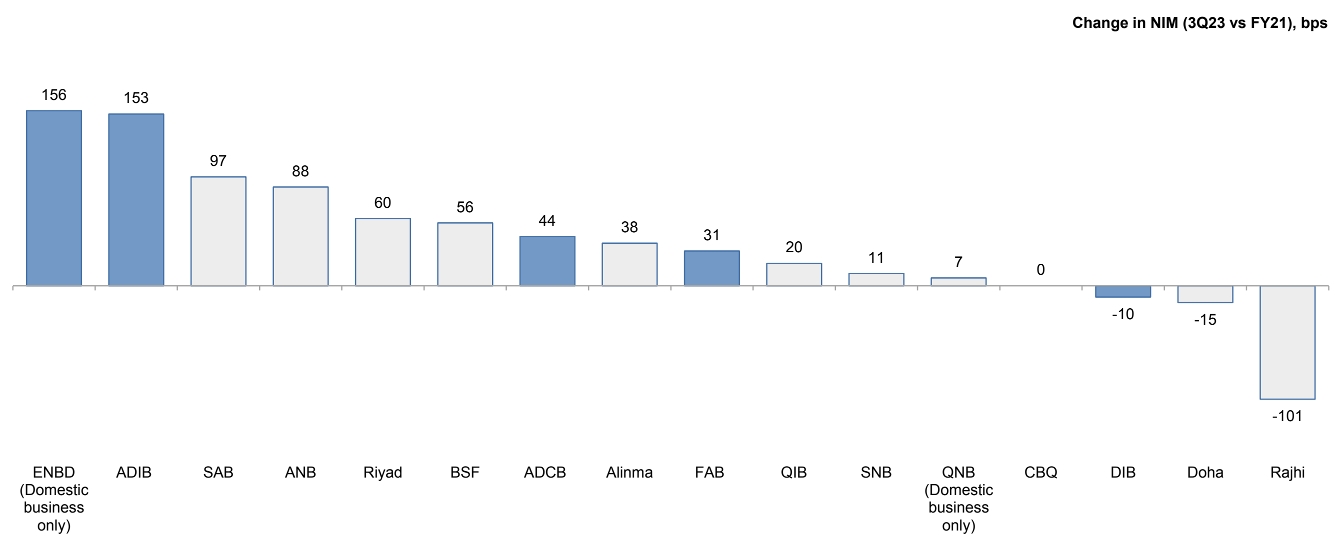
Source: Company data

Exhibit 13: ...as well as a relatively strong retail deposit franchise (sticky in nature), cushioning the rising pressure on cost of funding as rates rise



Source: Company data

Exhibit 14: UAE banks (ENBD and ADIB in particular) have shown the largest NIM expansion during the rate hiking cycle compared to MENA peers...



Saudi banks NIMs are based on NII/Assets

Source: Company data, Goldman Sachs Global Investment Research

Exhibit 15: ...which we believe could continue through-cycle owing to the relatively better liquidity backdrop in the UAE vs .Saudi

Net interest margin, %	2021	2022	2023	2024	2025
Saudi	2.84%	3.00%	3.18%	3.06%	2.96%
Change, bps		*16 bp*	*18 bp*	*-12 bp*	*-10 bp*
UAE	2.21%	2.50%	3.01%	2.93%	2.80%
Change, bps		*29 bp*	*51 bp*	*-8 bp*	*-13 bp*
Qatar	2.27%	2.32%	2.24%	2.19%	2.13%
Change, bps		*4 bp*	*-7 bp*	*-5 bp*	*-6 bp*
Kuwait	2.06%	2.12%	2.39%	2.37%	2.26%
Change, bps		*6 bp*	*27 bp*	*-2 bp*	*-11 bp*
GEM (ex. India and China)	3.31%	3.53%	3.56%	3.54%	3.47%
Change, bps		*22 bp*	*2 bp*	*-2 bp*	*-7 bp*

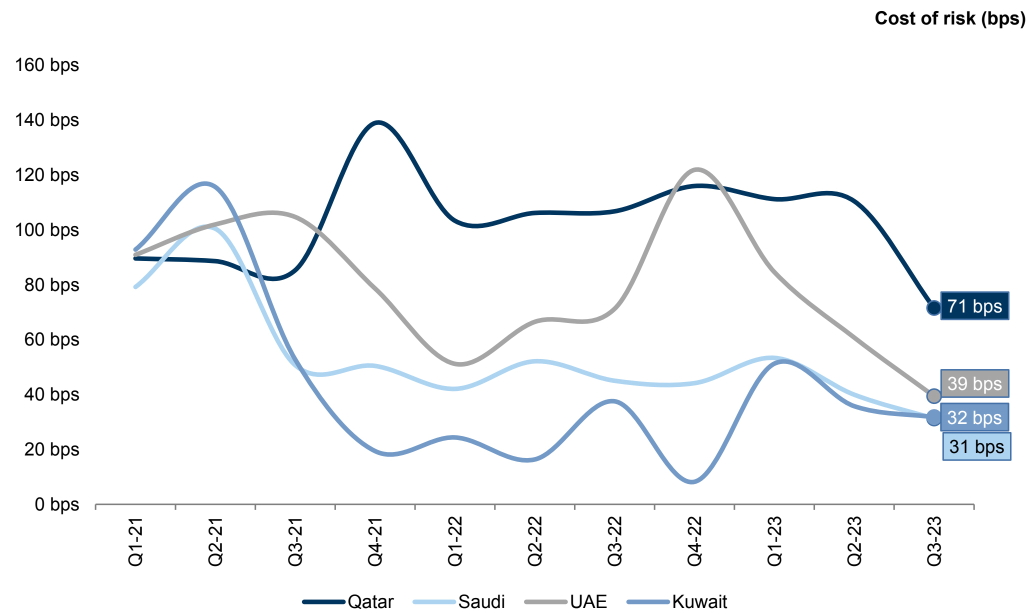
CEEMEA and GEM NIMs are based on NII/Assets

Source: Company data, Goldman Sachs Global Investment Research

Asset quality pressure largely contained, with prudent coverage buffers

UAE asset quality remains intact vs. MENA peers, with solid coverage levels

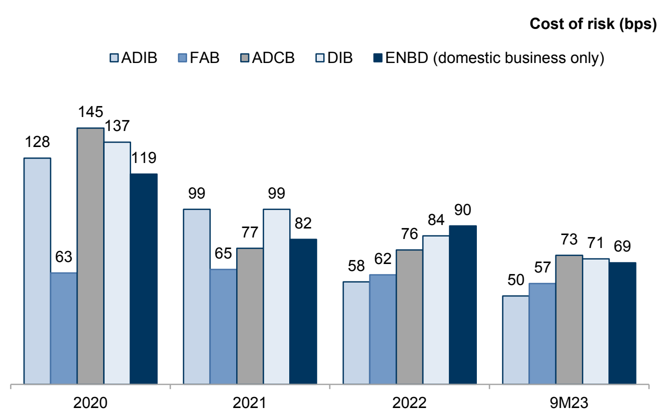
Exhibit 16: Cost of risk in the UAE has broadly trended downwards from post-COVID highs despite the higher rates backdrop…



Based on GS-calculated cost of risk, which may differ from company reported figures

Source: Company data, Goldman Sachs Global Investment Research

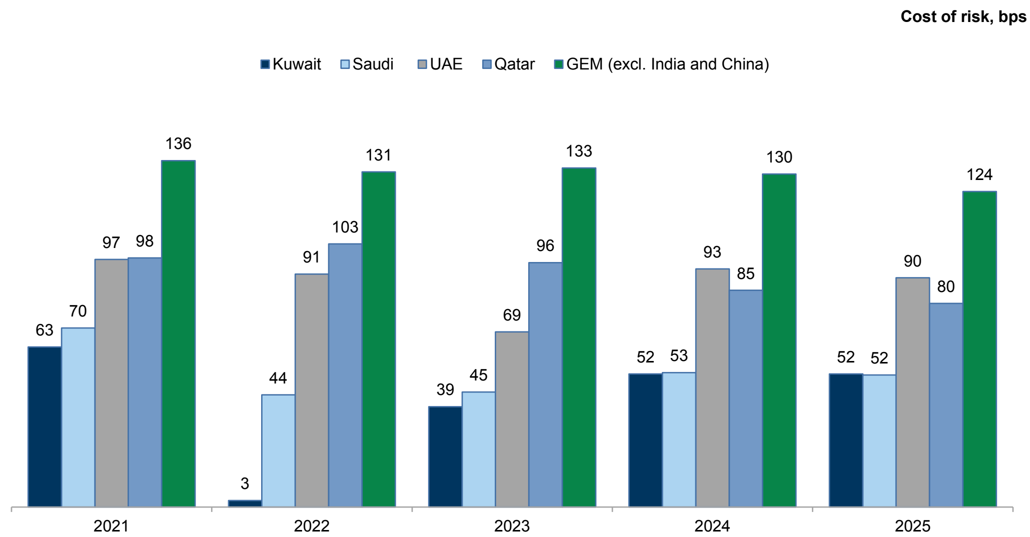
Exhibit 17: ...while at a bank by bank level cost of risk for ADIB has declined the most after it has cleaned up its legacy NPL portfolio



Cost of risk based on reported basis by company

Source: Company data

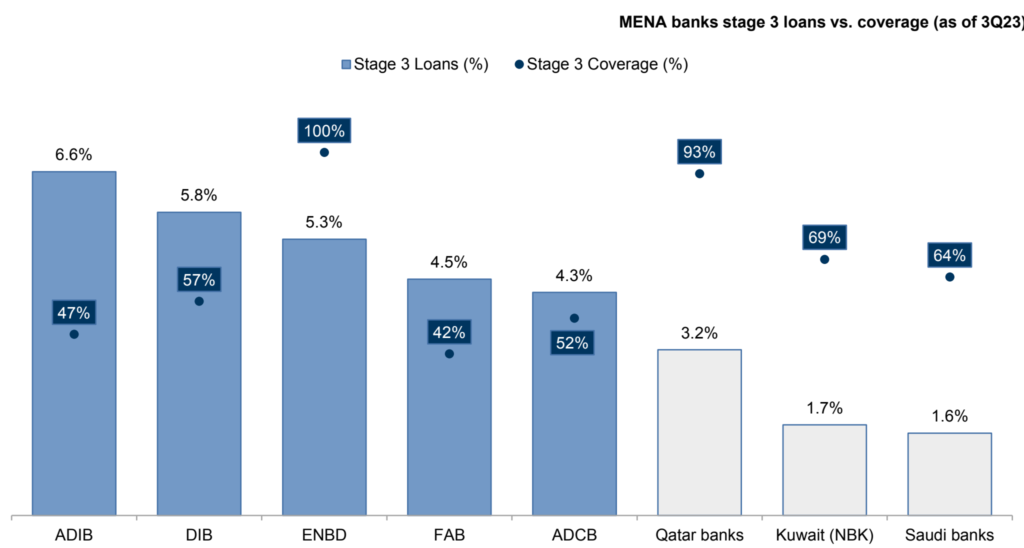
Exhibit 18: That said, we expect the UAE banks' cost of risk to track above GCC peers, but to remain well positioned in a GEM context



Based on GS-calculated cost of risk, which may differ from company reported figures

Source: Goldman Sachs Global Investment Research

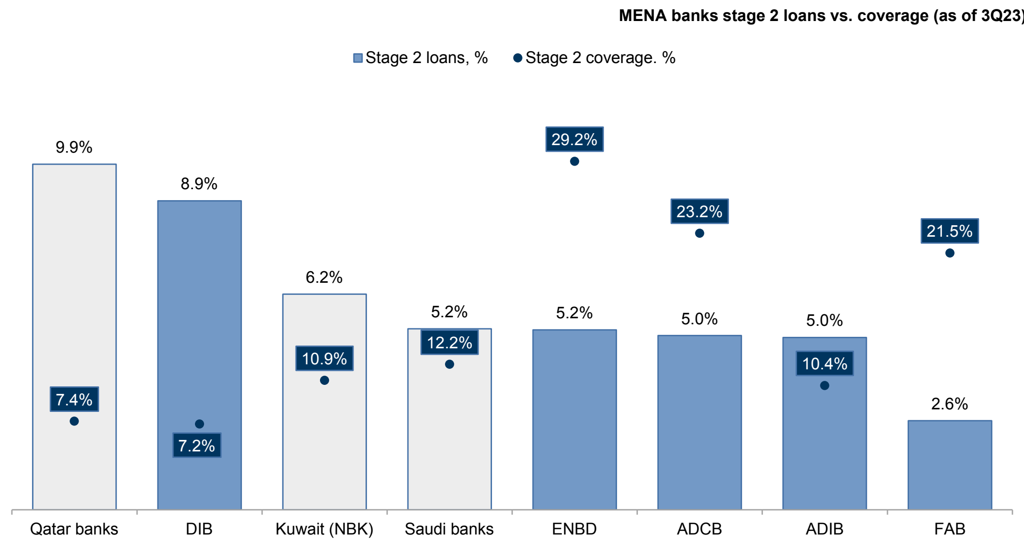
Exhibit 19: While UAE banks have relatively high Stage 3 loan ratios in a MENA context...



exc. POCI and not adjusted for interest in suspense

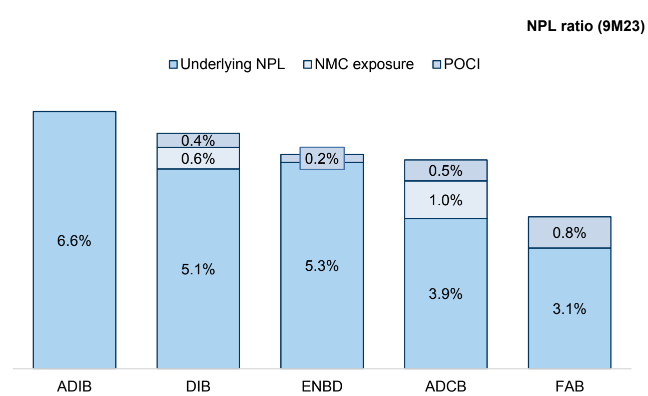
Source: Company data

Exhibit 20: ...they screen favourably in terms of Stage 2 ratios, having the lowest levels and the highest coverage buffers



Source: Company data

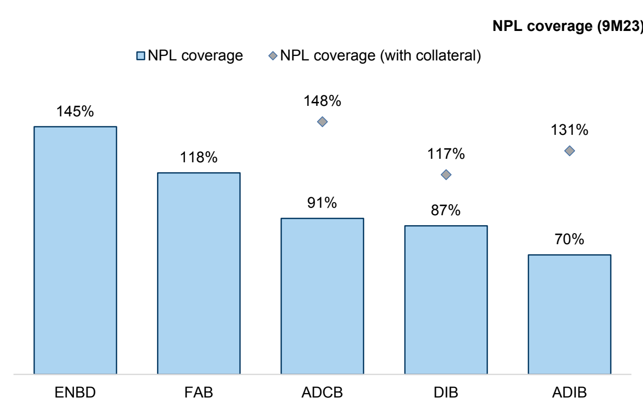
Exhibit 21: While NPL ratios are relatively high...
NMC exposure is classified as FVTPL by ADCB, implying that any potential MTM gains/losses would lead to one-off gains/charges recognized on the P&L



FAB NPL ratio is adjusted for interest in suspense (including interest in suspense the NPL ratio is 5.3%)

Source: Company data

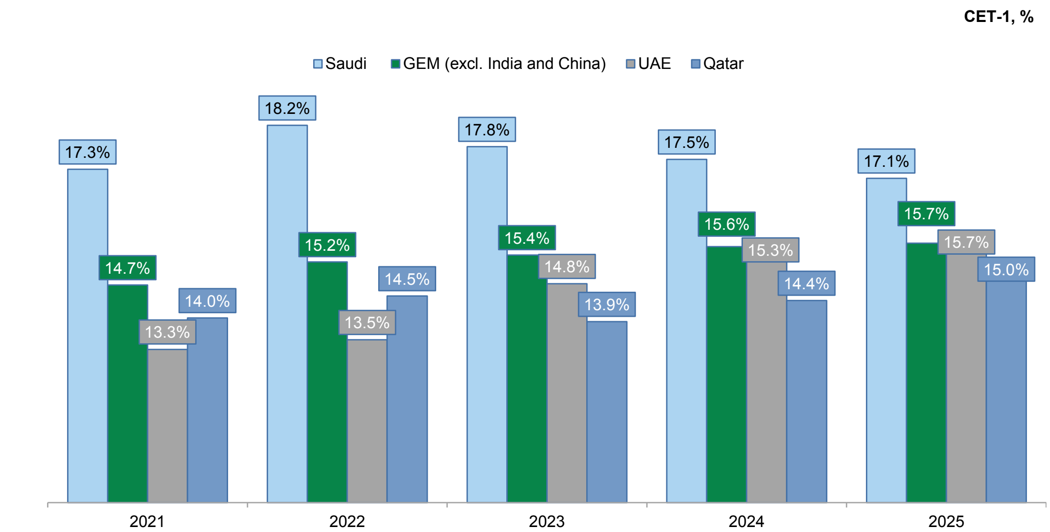
Exhibit 22: ...most UAE banks have solid NPL coverage levels
Coverage excluding POCI



FAB NPL coverage is adjusted for interest in suspense (including interest in suspense NPL coverage is 80%)

Source: Company data

Exhibit 23: We expect UAE banks capital buffers to grow the most in the medium term in a GCC and GEM context



Source: Goldman Sachs Global Investment Research

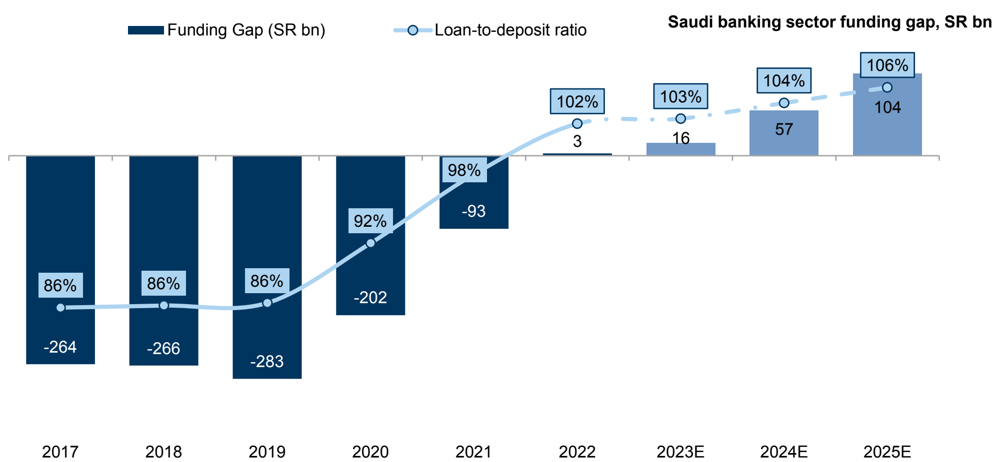
ADCB leading the way in tapping regional credit growth opportunity

Exhibit 24: We forecast a high-single-digit corporate loan CAGR in Saudi through to 2030 in our base case (c.75% of the SAR5tn Vision 2030-related project financing program being deployed over 1H23-2030 and c.30% of this spend being debt financed via local banks)
Assumption: 60%/40% debt/equity financing with debt portion split equally between local banks and international banks

Sensitivity on corporate loan CAGR between 1H23-2030E		% of total spend over 1H23-2030E financed by local banks				
		10%	20%	30%	40%	50%
% of SR5tn Shareek Program financing deployed over 1H23-2030E	50%	2%	5%	6%	8%	10%
	60%	3%	5%	7%	9%	11%
	75%	4%	6%	9%	11%	13%
	90%	4%	7%	10%	13%	15%
	100%	5%	8%	11%	13%	16%

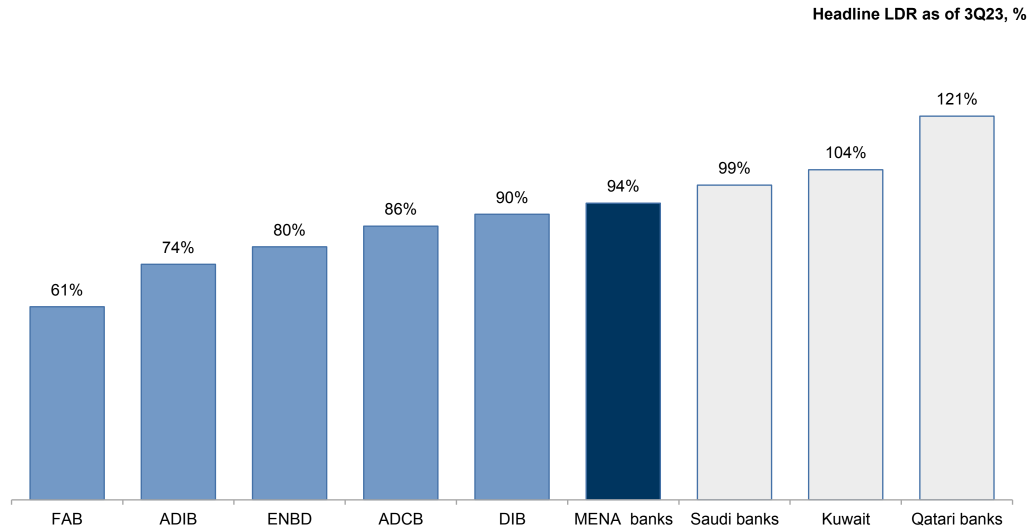
Source: Council of Economic and Development Affairs (CEDA), SAMA, Goldman Sachs Global Investment Research

Exhibit 25: We see a local funding gap that could develop in Saudi as loans outpace deposit growth....
Total loans minus total deposits balance as of the end of each period



Source: Company data, Goldman Sachs Global Investment Research, SAMA

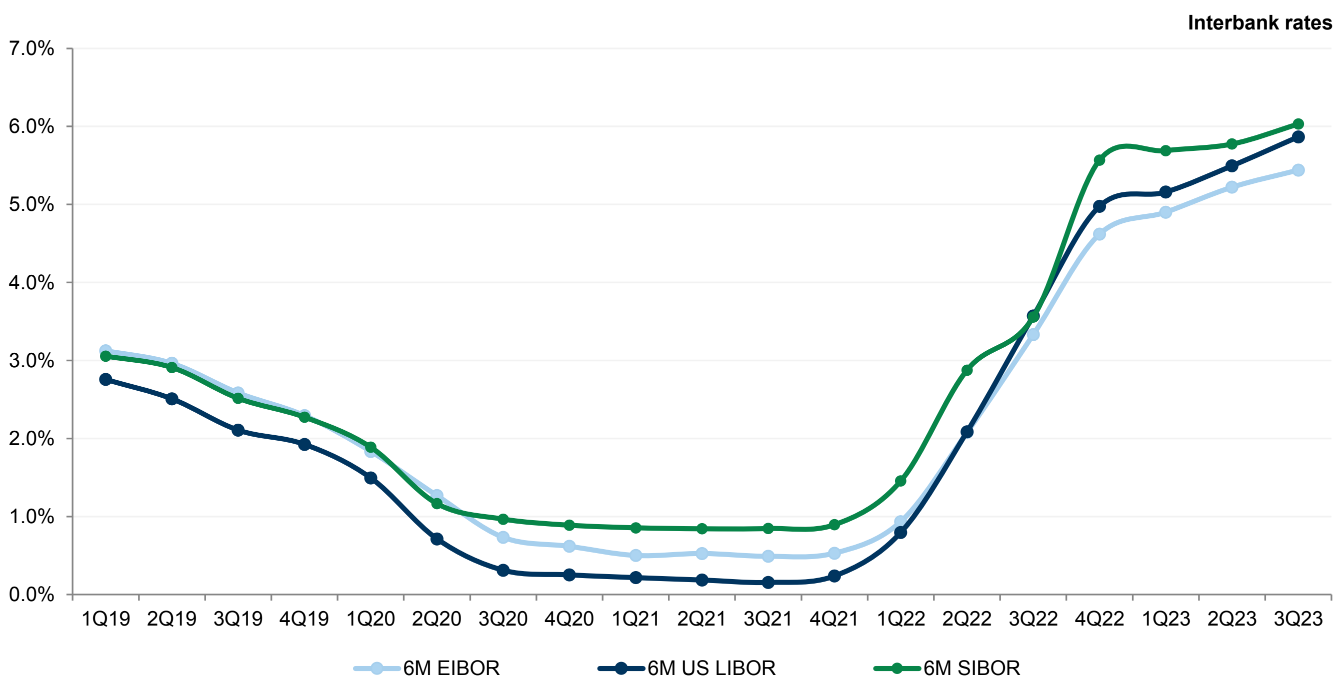
Exhibit 26: ...which could present an opportunity for UAE banks as they have relatively ample funding headroom relative to regional peers...



MENA, Saudi, Qatari and Kuwaiti banks based on GS coverage.

Source: Company data, SAMA

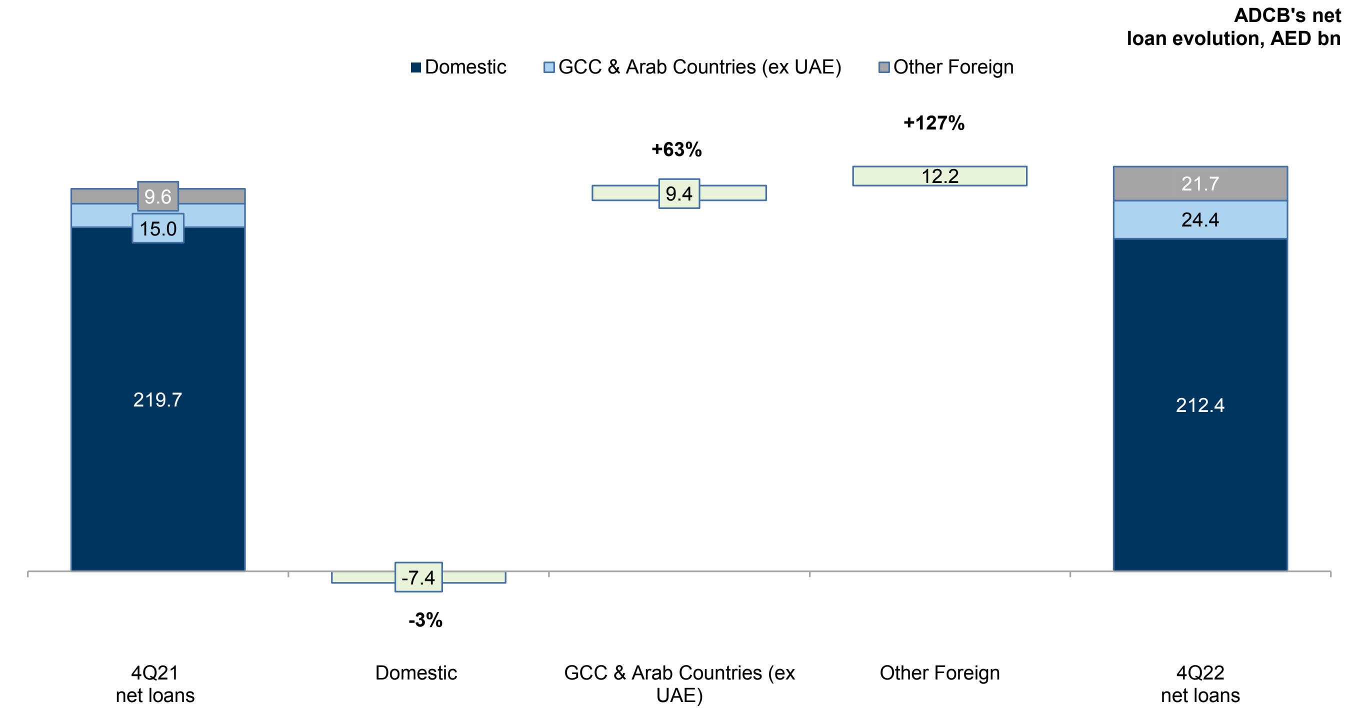
Exhibit 27: ...while a better liquidity backdrop in UAE is also reflected in the interbank rates



Source: Datastream

Exhibit 28: We think ADCB could be a key beneficiary of the regional growth opportunity in Saudi

The Middle East (ex. UAE) has been a key driver of loan growth recently for ADCB, up c.63% over FY22



Source: Company data

Exhibit 29: Our analysis suggests ADCB's loan book could increase by c.7% if it obtains a c.1% share of the c.US$1tn corporate sector project financing under Vision 2030 goals...

Sensitivity analysis on the incremental impact on ADCB's total loans (as of 3Q23) based on potential share within the Vision 2030 related project financing and debt/equity split of project financing

Incremental impact on ADCB's total loan		Debt/equity split				
		50%	55%	60%	65%	70%
% of US$1tn Vision 2030 related project financing	0.50%	3%	3%	4%	4%	4%
	1.00%	6%	7%	7%	8%	9%
	1.50%	9%	10%	11%	12%	13%
	2.00%	12%	14%	15%	16%	17%

Source: Company data, Goldman Sachs Global Investment Research

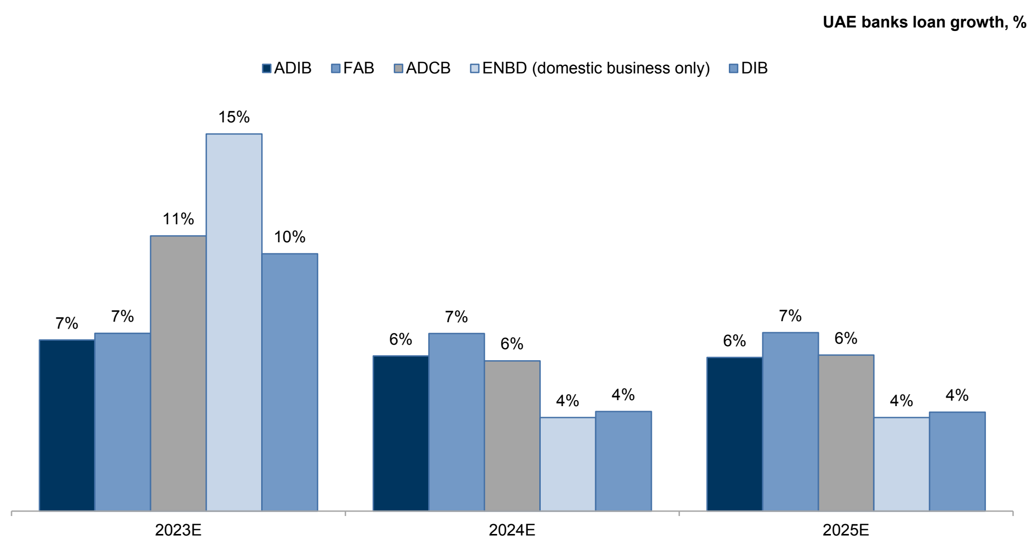
Exhibit 30: Our analysis suggests the UAE banks' loan book (GS coverage) could increase by 9% if the banks obtain a c.7% share of the c.US$1tn corporate sector project financing under Vision 2030 goals

Incremental impact on UAE banks sector total loans		Debt/equity split				
		50%	55%	60%	65%	70%
% of US$1tn Vision 2030 related project financing	5.50%	6%	7%	7%	8%	9%
	6.00%	7%	7%	8%	9%	10%
	6.50%	7%	8%	9%	10%	10%
	7.00%	8%	9%	10%	10%	11%
	7.50%	9%	9%	10%	11%	12%

UAE sector refers to the 5 GS-covered UAE banks.

Source: Company data, Goldman Sachs Global Investment Research

Exhibit 31: We believe large funding headroom and active participation in Saudi loan growth will contribute to a c.6% loan growth CAGR on average for UAE banks in the medium-term...



Source: Company data, Goldman Sachs Global Investment Research

ENBD 3Q23 conference call takeaways

Management hosted a conference call post its 3Q23 results. Key takeaways included:

- 3Q23 **NIM** came in at 4.08%, up 21bp qoq, mainly due to DenizBank NIM improvement (of c.262bps qoq to 6.16%), partially offset by lower domestic ENBD margin, which declined c.24bp qoq.
  - **Guidance for the group:** Management maintained its NIM guidance for the group for FY23 at 3.8%-4.0%, while adding that the margin for DenizBank will be a key variable impacting the group NIM for the year.
  - **Update on domestic NIMs:**
    - Management also added that domestic margins declined c.24bp qoq driven by competitive loan pricing and higher funding costs (as a result of a marginal decline in the percentage of CASA deposits, while overall deposits increased qoq).
    - It further highlighted that it saw pressure on corporate spreads during the quarter given plentiful liquidity in the system, along with some contraction in spreads in certain retail segments (mainly mortgages as per the management).
  - **Update on DenizBank NIMs:** Management mentioned that DenizBank NIMs improved c.262bps qoq from improved loan pricing (with a favourable change in regulations), higher CPI-linked and indexation income. It added that the sustainability of these margins will depend on many variables including inflation levels in Turkey, which would impact CPI-linker income.
- **Fees** were up 14% qoq and 20% yoy, with the sequential increase supported by higher card spend volumes at DenizBank. **Total non-interest income** was broadly flat qoq and up 49% yoy, with the yoy increase driven by higher FX and derivative income, and property and other income. This is while the FX and derivatives income decreased qoq on tighter FX transactions spreads in Turkey.
  - **FX and derivative income:** FX and derivative income decreased c.16% qoq in 3Q23 to AED1.8bn. Management noted that c.70% of the FX and derivative income in 3Q23 was client driven with the balance driven by non-client flows, which as per management are potentially non-recurring in nature.
- **Opex** increased 3% qoq and 24% yoy. The increase in opex qoq was driven by higher staff costs (+c.11% qoq), higher IT and communication costs (+27% qoq) and higher depreciation and amortisation costs (+22% qoq), thus supporting business growth.
  - The 3Q23 **cost-to-income ratio** came in at 25.3%, down 70bps qoq and 210bps yoy. While management maintained its guidance for the C/I ratio in FY23 to be <=33%, it expects it to be <30% for the year.
- **Loans** grew 3% qoq, driven by 3% retail growth (with strong demand across the product suite) and 7% corporate lending on strong origination. This was while Denizbank's loan book was up c.1% qoq.

- YTD loan growth came in at 8% and management maintained loan growth **guidance** for the year at high-single digit.
- **Sector growth:** Management further noted that on a sector basis, ytd loan growth was mainly driven by: (1) transport and communication (+ c.42% ytd); (2) management of companies and enterprises which are mainly holding companies (+ c.40% ytd); (3) financial institutions and investment companies (+c. 17%); and (4) personal lending (+c. 10% ytd).
- Management noted that the **Retail Banking & Wealth Management (RBWM)** segment saw lending up c.16% yoy, while deposits grew by AED29bn in 9M23.

- **Deposits** grew 3% qoq while CASA balances decreased c.1% qoq. This translated into an absolute decrease of AED4bn in CASA balances on a qoq basis with the CASA ratio declining 2pp qoq to 59%.
- **Cost of risk** for the quarter came in at 45bp, up 5bp qoq. Management added that it maintained its FY23 cost of risk guidance at 50-70bp.
- **Asset quality:**
  - **NPL ratio** decreased c.10bp qoq and c.50bp ytd to 5.5% driven by strong recoveries (mainly in the UAE operations). Management revised its FY23 NPL guidance to <6% from c.6% previously, on lower 3Q23 levels and expectation of NPL flows.
  - **NPL coverage** decreased c.2pp qoq to 145%.
  - Management also added that while it saw strong recoveries on the corporate side, it has been building provisions on the retail side, driving up **impairment charges** qoq.
- **Capital**: CET 1 ratio up c.30bp sequentially to 16.9%, well above minimum requirements. Excluding the regulatory add-back, the CET-1 ratio stood at 16.4%.
- **Tax:** Management mentioned that it expects the effective tax rate in 2024 to be 9%, which could increase to 15% in 2025. It further highlighted that interest income and capital gains on local bonds would be taxable.
- **DenizBank:** DenizBank broke even at the bottom line in 3Q23, with AED2.6bn of profit before tax fully offset by net monetary loss and taxes. This compares to AED1bn of net profit in 2Q23. Profit before tax was up 17% qoq driven by: (1) higher net interest income (+73% qoq) driven by higher NIM owing to improved loan pricing, higher CPI-linked and indexation income; and (2) lower credit costs (-81% qoq) which came in close to zero (vs. a AED0.2bn credit cost in 2Q23) on the impact of net write-backs/ recoveries.
  - Total **loans** were up 1% qoq and **deposits** were up 8% qoq in AED.
  - **Asset quality:**
    - Management further highlighted that DenizBank has a strong level of stage 3 coverage.
    - It added that the cost of risk is gradually declining for the bank since it was acquired by ENBD; a c.400bps of CoR at the time of acquisition

(2019) had fallen to c.250bps at end-FY22.

DIB 3Q23 conference call takeaways

On October 31, Dubai Islamic Bank's management hosted a conference call post its 3Q23 results. Key takeaways include:

- **Net interest income** was up 5% qoq and yoy during the quarter. **Reported NIM** came in at 3.1%, down 10bp vs. 1H23 but up 10bp vs. FY22. Management noted that it expects a higher-for-longer rates environment, which could be challenging for NIM, but highlighted that on an the asset side the bank is continuing to benefit as the book is predominantly floating in nature and continues to reprice, driving an uptick in yields across all books. Management expects to maintain a 3.1% NIM if not higher. Management also noted that it does not expect rate cuts in 1H24, which could drive better income on the asset side.
- **Expenses** were up 8% qoq and 15% yoy, while 9M23 opex was up c.11% yoy, mainly owing to general & administrative expenses and staff costs.
    - Reported **cost-to-income ratio** came in at 26.5% for 9M23, up c.10bp vs. 1H23 and 40bp vs. FY22, which was well within management's FY23 guidance of 28%.
- **Asset quality:** Reported NPL ratio decreased c.35bp ytd to 6%, while NPL coverage increased 3pp qoq to 84%. Reported **cost of risk** for 9M23 came in at 71bps (down 13bps vs. FY22 and 3bps vs. 1H23). Management noted that it expects FY23 cost of risk to be c.80bps.
- **Net loans and sukuk investments** were up 11.3% ytd. Management noted that it had revised up growth guidance for its net loans and sukuk investments from 5% previously to 7.5% on a strong underwriting pipeline.
    - **Consumer portfolio** stood at AED54bn, up 4% YTD, with revenues up 24% yoy to AED3.68bn in 9M23. Yields for the segment grew to 6.71% vs. 6.6% in 1H23.
        - CASA deposits for the segment declined c.3% qoq to AED30bn, driving a c.80bp qoq decline in the CASA ratio. Management further noted that CASA balances remain sticky for the segment.
    - **Corporate portfolio** stood at AED145bn, up 8.2% ytd, with revenue up 29% yoy in 9M23 reaching AED3.4bn driven by the floating rate nature of the book. Yields expanded to 6.38% from 6.21% in 1H23. Management noted that early settlements have slowed in 9M23 vs. 9M22, and it anticipates total repayments for FY22 to be lower yoy.
    - **Treasury portfolio** reached c.AED66bn, up c.27% vs. end-FY22. Yields expanded c.5bps qoq to 4.61%.
    - Management added that exposure to real estate stood at 19%, broadly in line with FY23 guidance of 20%.
    - Management also highlighted that it sees strong demand coming from outside the UAE, particularly from Saudi.

- **Deposits** were up 11% ytd, driven by a broad base increase in both corporate and retail deposits.
  - GS calculated **loan to deposit ratio** for the quarter remained broadly flat qoq at 94%.
  - **CASA** deposits stood at AED82bn, with the CASA ratio at 37% (down vs. 39% at the end of 2Q23, but up c.AED1bn in absolute terms). Management expects to bring CASA closer to 40% in FY24.
- **Strong liquidity:** Management mentioned that liquidity remained strong with the LCR at 166% vs. 159% in 2Q23.
- Management also added that the **CET1 ratio** stood at 13.6%, up 20bps vs. 2Q23, with the **capital adequacy ratio** at 18.1%, up 20bps qoq, both well above minimum regulatory requirement levels.
- **ROTE** and **ROA** stood at 18.4%/2.2% as of 9M23 vs. 18.2%/2.1% as of 1H23 (and above FY23 management guidance of 17.0%/2.0%).

ADCB 3Q23 conference call takeaways

ADCB management hosted a conference call post its 3Q23 results. Key takeaways include:

- **Net interest income** was up 8% qoq and 24% yoy. **Reported NIM** for the quarter came in at 2.87%, up 15bps qoq and 41bps yoy. Management highlighted that asset yields increased 41bp qoq to 6.67% (driven by higher benchmark rates), while cost of funding increased only 28bp qoq to 4.01% as a result of a favourable funding mix. Management noted that risk-adjusted NIM improved c.11bps qoq and 38bps yoy to 2.17% in 3Q23. It further added that it expects the trend of marginal NIM improvement to continue in 4Q23. Management announced FY23 NIM guidance of c.2.8% vs. 9M23 NIM of 2.79%. Management also noted that there is intense competition in the market for both loans and deposits, which pressures NIM through cost of funding.
- **NIR** was down 7% qoq but up 11% yoy. The qoq decrease was primarily driven by a fall in net fees and commission income, as well as net trading income.
  - **Fees** were down 16% qoq but up 22% yoy. The sequential decline in fee income was due to receipt of significant volume-related incentive fees in the previous quarter, related to a card network partnership. The yoy increase was driven by the increase in gross card and loan-related fees. Management noted that the card business achieved a quarterly record of more than 67k new primary cards issued. Management also highlighted that going forward, the 3Q23 fee income level should be viewed as the normalised base which will continue to grow with growth in volumes.
  - **Other NIR** was up 9% qoq but down 2% yoy. Net trading income was down sequentially (-7%) due to lower gains from derivatives.
- **Operating expenses** were up 7% qoq and up 14% yoy, with the increase mainly

driven by staff costs and general and administrative expenses both, qoq and yoy.

- The reported **cost-to-income ratio** came in at 33.3%, up c.80bp qoq but down c.2.1pp yoy. Management reiterated its medium-term guidance for C/I of 29%-32%.
- Management noted that it expects growth in absolute opex to continue as the bank will continue to invest in sales, marketing and digital infrastructure.

- **Credit costs** came in at AED819mn**,** up c.9.5% qoq and 29% yoy. The qoq increase was mainly on account of lower recoveries. Reported cost of risk for the quarter came in at 73bp, up c.2bp qoq and flat yoy. Management noted that 9M23 provisions were higher yoy (+c.45%) due to provisioning on a few corporate accounts. Management announced FY23 guidance of c.80bps, in line with medium-term guidance (2021-23), and vs. 9M23 of 13.46%.
- **Asset quality:** NPL ratio decreased from 5.1% at the end of 2Q23 to 4.82% with NPL coverage (incl. collateral) declining 2pp from 150% in 2Q23 to 148% in 3Q23. Excluding collateral, NPL coverage decreased c.7pp to 91.4%.
- **Balance sheet buffers:** Management mentioned that it has a strong balance sheet with a liquidity coverage ratio of 130.4% (vs. 138.9% in 4Q22, flat qoq). It further highlighted that it has a capital adequacy ratio of 16.16% (vs. 15.77% in 4Q22, up 5bps qoq) and CET1 ratio of 13.46% (vs. 12.96% in 4Q22 and up 7bps qoq). The CET1 ratio was above the FY23 guidance of >12%.
- **Gross loans** were up 4% qoq and 10% ytd. The ytd growth was mainly driven by corporate loans, which were up c.AED16bn ytd (+9%), while retail loans were up c.AED7bn ytd (+16%).
  - Exposure to real estate declined c.1pp qoq and c.3pp ytd to 19%, while government and public sector entities made up c.24% of the loan book.
  - In terms of geography, Abu Dhabi accounted for 50% of gross loans (vs. 51% as of 2Q23), Dubai 25% (vs. 23% as of 2Q23), international 19% (vs. 18% as of 2Q23) and other Emirates 7%. The company also mentioned that c.75% of the loan book comprised floating interest rate loans (vs. 74% as of 2Q23).
  - Management upgraded FY23 loan growth guidance to 10%-12%, vs. medium-term guidance (2021-23) of mid-single digit. It further added that current loan pipeline is strong enough to maintain growth momentum in 4Q23 and FY24, partially driven by a strong pipeline of commitments to extend credit, as well as participation in loans outside the UAE.
  - Management noted tapping loan demand in Saudi Arabia remains a key growth opportunity for the bank (for more details please our note: Banking on regional growth).
- **Deposits** were up 4% qoq and 7% ytd, with qoq growth mainly driven by growth in private banking deposits (+AED5.4bn) and corporate and investment banking group deposits (+AED4.3bn).
  - **CASA ratio** remained broadly flat sequentially at 48% as time deposits increased c.AED6.6bn, more than offset by a CASA deposits increase of

c.AED6.8bn.

- Management further highlighted that it does not expect any significant CASA deposit ratio deterioration, while noting that the trend of a slight shift to time deposits will continue for as long as rates remain elevated.
- Management also noted that it expects the deposit growth momentum of FY23 to continue in FY24.

- **Update on major subsidiaries:**
  - **ADCB Egypt:** 3Q23 profit was up 323% yoy, but down c.3% qoq in EGP terms with the company reporting ROE of 21.2% (vs. 23.7% as of 2Q23). Further, net loans increased 9.7% ytd to EGP32.7bn, while deposits increased 0.3% ytd to EGP75.6bn with the net loan-to-deposit ratio at 43.3%. Management further added that 3Q23 digital subscribers increased 48% yoy with digital transactions up 273% yoy.
  - **Al Hilal Bank:** Total customers stood at c.223k at the end of the period (vs. 190k as of 2Q23) with strong customer engagement highlighted by c.8.8k daily transactions during the quarter (vs. 8k in 2Q23).

ADIB 3Q23 conference call takeaways

Abu Dhabi Islamic Bank management hosted a conference call post its 3Q23 results. Key takeaways include:

- **Net interest margin:** On a company-reported basis, 9M23 NIM came in at 4.48% (with 3Q23 NIM at c.4.6% according to management) vs. 1H23 NIM of 4.41%, with gross margin increasing from 6.36% in 1H23 to 6.61% in 9M23. Cost of funding rose from 1.82% in 1H23 to 1.97% in 9M23. Management also highlighted that gross margin for 3Q23 was > 6.61% (cumulative as of 9M23).
  - Management reiterated FY23 NIM **guidance** of c.4.5% while adding that it expects 4Q23 NIM to be higher sequentially, which could pose upside risk to guidance.
  - It further added that it expects to enter FY24 with NIM at c.5% as it remains optimistic on its resilient funding mix (c.66% of deposits as CASA in 3Q23) and its ability to reprice assets.
  - **Asset repricing:** Management further mentioned that c.45%-50% of its customer financing book reprices within 12 months, with c.68%-69% of the total book being repriced by year two, and the remaining beyond these two years.
  - **Cost of funding:** Management mentioned that while cost of funding stood at 1.97% for 9M23 at the group level, it was only c.1.1% for the UAE, implying the increase in cost of funding came from higher levels at its Egyptian operations (vs. the UAE).
- **Fees** were broadly flat qoq in 3Q23, while **other NIR** came in 65% higher sequentially, taking total NIR to +18% qoq. Management mentioned that there was a one-off gain of c.AED45mn recorded in 3Q23 under 'Other income', on the back of the divestiture of an investment entity.
- **Operating costs** increased 3% qoq. 3Q23 cost-to-income ratio came in at 30.5%, down c.1.8pp qoq. Company reported cost/income for 9M23 came in at 32.6%, down c.5pp yoy. Management also reiterated FY23 C/I guidance at <35%.
- **Asset quality**:
  - Reported **cost of risk** for 9M23 came in at 50bp, vs. 48bp in 1H23 and 38bp in 9M22. Management reiterated FY23 CoR guidance at 55bp-65bp.
  - **Provisions** decreased 9% qoq for 3Q23. This is while 9M23 provisions increased c.62% yoy, driven by an increase in retail, wholesale, treasury and associates impairments.
  - Reported **NPL ratio** declined c.90bps qoq to 6.6% in 3Q23, driven partly by write-offs, as per management. It added that it expects the NPL ratio to continue to trend downward going forward, on improved NPL management by the bank, with an expectation of further recoveries.
  - **Cash coverage** for 3Q23 stood at 70% (down 2pp qoq), while coverage

including collateral was at c.131% (up c.3pp qoq). Management noted that cash coverage declined as it made some recoveries on its legacy NMC (link) exposure, which was highly provisioned relative to newer exposures.

- **Loans** were up c.6% ytd excluding the FX impact, driven by a 9% increase in retail loans, 7% growth in government loans and 10% growth in corporate loans. Management further added that the growth in retail loans mainly came from growth in auto finance and cards. Management reiterated its FY23 loan growth guidance of 5%-8%.
- **Deposits** were up c.0.8% qoq and 10% ytd, with the ytd growth mainly driven by wholesale deposits (+33% ytd) and retail deposits (+9% ytd).
  - While the **CASA** ratio remained broadly flat qoq at c.66% of total deposits, the absolute CASA balance was up 6% ytd, driven by active campaigns and the success of the mobile app.
- **Capital:** CET-1 ratio improved c.60bp qoq to 13.4%, while Tier-1 and CAR ratios improved by 30bp qoq.
- **ROE:** Company reported ROE for 9M23 came in at 26.4% vs. 1H23 ROE of 24.9%. This implies c.29% company-reported ROE for 3Q23. Management reiterated its FY23 ROE guidance of >22%.

Changes to estimates and price target

Emirates NBD

Changes and implications

We make changes to our estimates for ENBD post its 3Q23 results. Our 2023-25 EPS estimates are up c.5% on average, on higher NIMs and higher fee income on average with lower credits costs (for 2023E), partially offset by higher opex on average and higher credit costs (for 2024-2025E). We do not view these changes as material, and there is no change to our investment thesis or rating.

Valuation and key risks

We are Buy-rated on ENBD. Our new 12-month ROTE/COE-based price target is AED21.0 (up from AED20.2 previously) on higher EPS estimates, and as we roll-forward our valuation to October 2025E. Key risks to our view and price target include: (1) a worse-than-expected macro backdrop, which would imply downside risk to our asset growth and credit quality assumptions; (2) lower US and local rates, which would have implications for margins given ENBD's positive net asset repricing; (3) delays in foreign ownership limit adjustment; and (4) value-dilutive M&A.

Dubai Islamic Bank

Changes and implications

We make changes to our estimates for DIB post its 3Q23 results. Our 2023-25E EPS estimates are up c.6% on average mainly driven by higher NIMs and lower credit costs for 2023E partially offset by higher operating expenses. We do not view these changes as material, and there is no change to our investment thesis or rating.

Valuation and key risks

We are Buy-rated on DIB. Our 12-month ROTE/COE-based price target is AED7.10 (up from AED6.80 previously) on higher EPS estimates, and as we roll-forward our valuation to October 2025E. Key downside risks are: (1) weaker-than-expected macro impacting revenue and profitability; (2) weaker-than-expected asset quality (particularly in the real estate, aviation and hospitality sectors) impacting credit costs; (3) weaker-than-expected capital generation and capital buffers (which could weigh on dividends); (4) regulatory changes impacting profitability and dividends, (5) material market share losses due to intensifying competition; and (6) value-dilutive M&A and investments.

First Abu Dhabi Bank

Changes and implications

We make changes to our estimates for FAB to reflect recent sector trends. Our 2023-24E EPS estimates remain unchanged. Our 2025E estimates go down by c.4% driven by lower non-interest income and higher operating expenses. We do not view these changes as material, and there is no change to our investment thesis or rating.

Valuation and key risks

We are Neutral-rated on First Abu Dhabi Bank. Our 12-month ROTE/COE-based price target is AED15.50 (down from AED16.20 previously). Key upside/downside risks to our view include: (1) better/worse-than-expected UAE macro conditions translating into stronger/weaker loan growth and asset quality impacting net interest income, fee income and credit costs; (2) stronger/weaker oil prices impacting liquidity, public sector loan and deposit growth and asset quality; and (3) higher/lower rates impacting net interest margin.

Exhibit 32: 12-month price target and estimate changes for ENBD, DIB, FAB

	Ccy	Rating	Price	PT	PT (old)	Δ (%)	Upside	EPS 23E	EPS 23E (old)	Δ (%)	EPS 24E	EPS 24E (old)	Δ (%)	EPS 25E	EPS 25E (old)	Δ (%)	Average 23-25E EPS Δ
ENBD	AED	Buy	17.60	21.00	20.20	4%	19%	3.49	3.28	6%	2.65	2.53	5%	2.55	2.48	3%	5%
DIB	AED	Buy	5.42	7.10	6.80	4%	31%	0.74	0.68	8%	0.68	0.63	7%	0.68	0.66	3%	6%
FAB	AED	Neutral	13.22	15.50	16.20	-4%	17%	1.35	1.35	0%	1.26	1.26	0%	1.20	1.25	-4%	-1%

Priced as of the close of November 3.

Source: Goldman Sachs Global Investment Research, FactSet

Valuation methodology and key risks

ADCB

We are Buy-rated on ADCB. Our unchanged 12-month ROTE/COE-based price target is AED10.70. Key downside risks to our view and price target include: (1) a weaker-than-expected macro backdrop, (2) worse funding/liquidity conditions, (3) worse-than-expected asset quality particularly emanating from the existing NPL/deferred loan book, (4) regulatory changes, and (5) value-dilutive M&A.

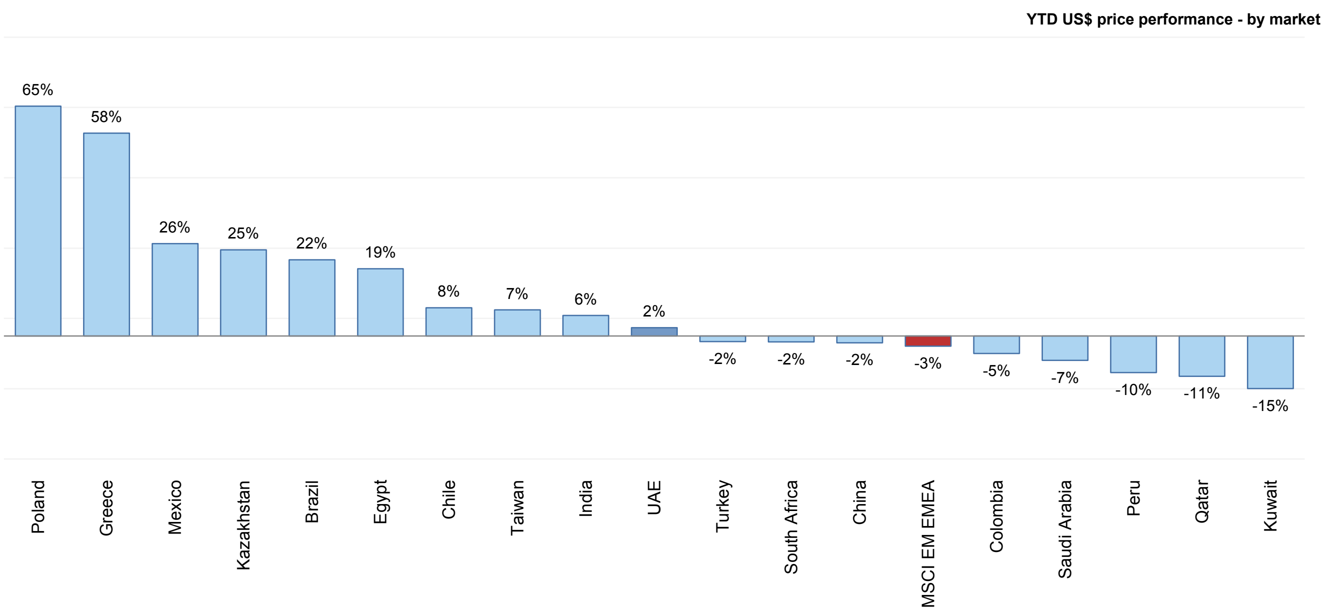
ADIB

We are Buy-rated on ADIB. Our unchanged ROTE/COE-based 12-month price target is AED13.40. Key downside risks are: (1) slippage on 2025 targets; (2) regulatory changes that impact exposures, provisions, pricing and capital calculations, thereby impacting return and dividend profile; (3) higher-than-expected pass-through from expected rate cuts in 2024 resulting in downward pricing pressure on asset yields and asset mix deterioration and thereby impacting NIMs; (4) asset quality pressures arising from a worsening banking sector backdrop, impacting legacy exposures and the effective value of underlying collateral, leading to higher provisioning costs, and/or an increase in potential new inflows of NPLs within such a backdrop; and (5) value-dilutive capital deployment and/or lower capital distribution.

Price performance and Valuation

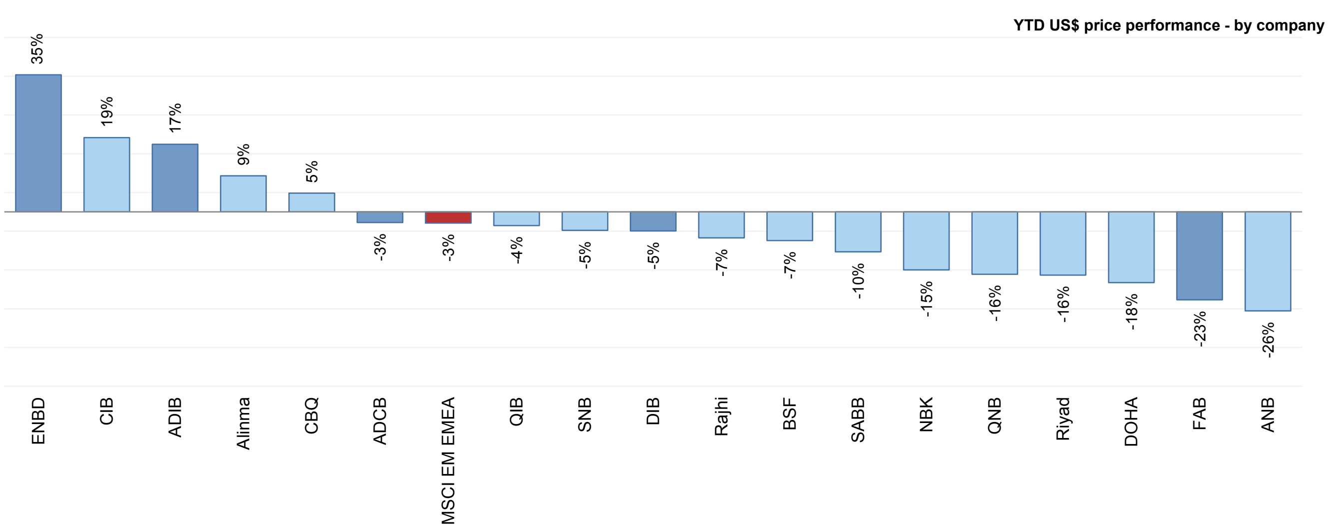
Pricing in this note is as of the close November 2nd for Saudi, Qatar, Kuwait and Egypt and November 3rd for the rest, close unless stated otherwise.

Exhibit 33: UAE Banks have outperformed MSCI EM EMEA ytd on average...



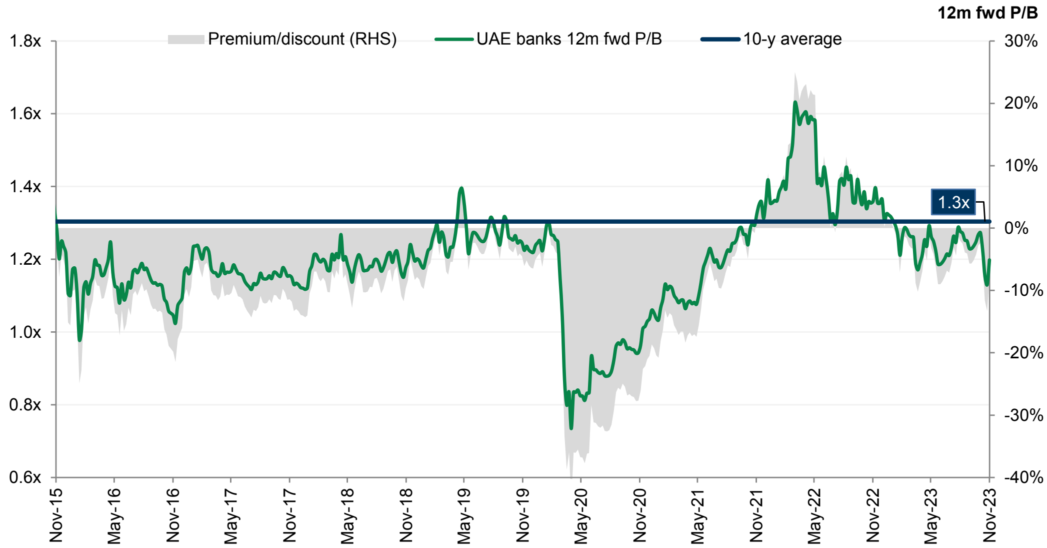
Source: FactSet, Datastream

Exhibit 34: ...with ENBD the best-performing among MENA banks



Source: FactSet, Datastream

Exhibit 35: UAE banks trades at a c.10% discount to their 10y history on 12m fwd P/B on an aggregate basis....



Source: Datastream

Exhibit 36: ...and c.15% discount on 12m fwd P/E

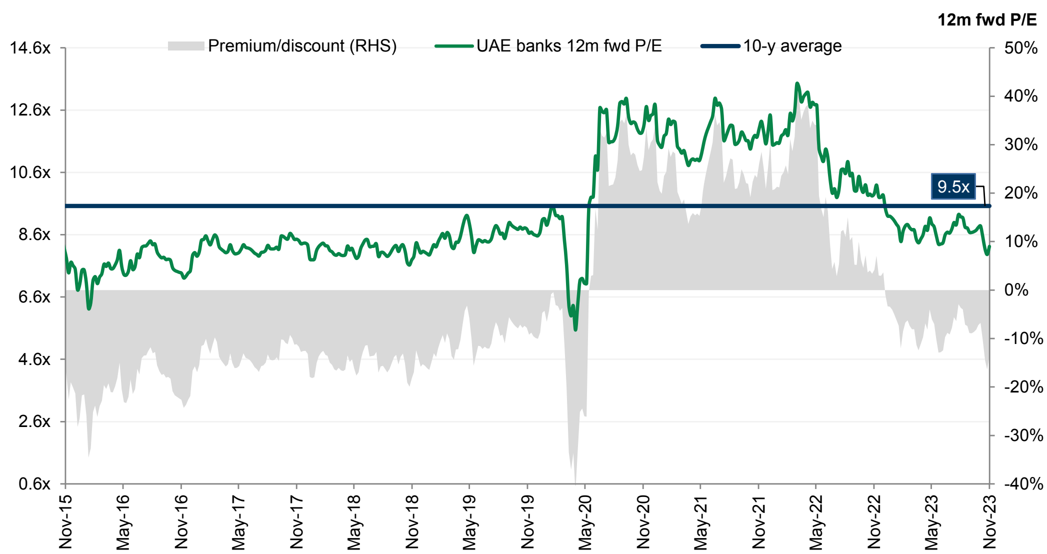
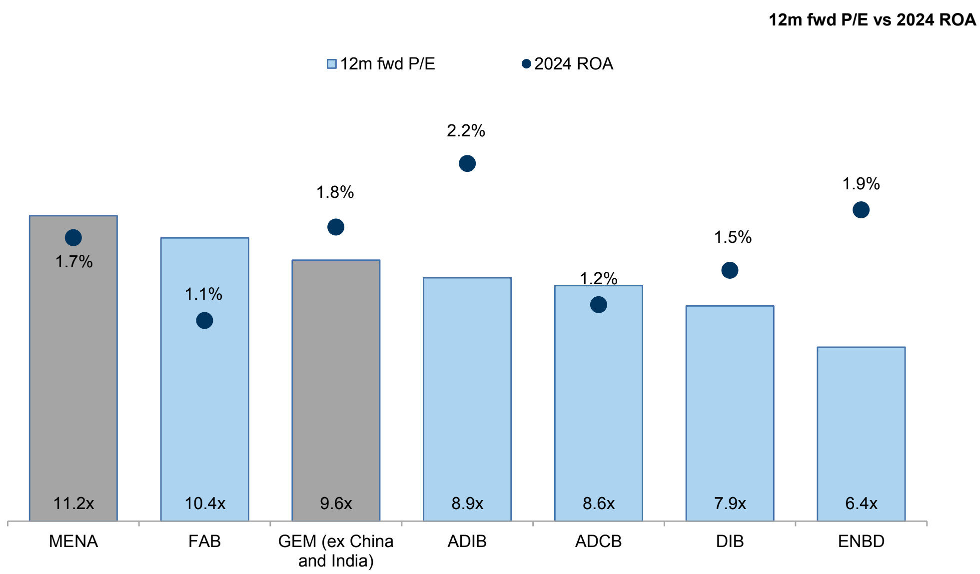


Exhibit 37: On a stock level, ADCB trades at the biggest discount to its history on 12m fwd P/B

	UAE valuation vs history (10y)				
	ADIB	ADCB	DIB	ENBD	FAB
Price	**10.7**	**8.3**	**5.4**	**17.6**	**13.2**
Current P/B	1.8x	0.9x	1.0x	1.0x	1.2x
Max 12m fwd P/B (10y)	2.8x	2.2x	2.8x	1.5x	2.4x
Median 12m fwd P/B (10y)	1.3x	1.2x	1.3x	0.9x	1.5x
Min 12m fwd P/B (10y)	0.8x	0.5x	0.7x	0.5x	0.8x
Discount to max	-34%	-56%	-62%	-34%	-50%
Premium/discount to median	**40%**	**-20%**	**-19%**	**8%**	**-20%**
Premium to minimum	129%	92%	49%	104%	43%
Current P/E	8.8x	8.3x	7.6x	6.1x	10.3x
Max 12m fwd P/E (10y)	17.6x	17.8x	15.5x	13.8x	20.3x
Median 12m fwd P/E (10y)	9.1x	9.1x	8.4x	6.8x	11.8x
Min 12m fwd P/E (10y)	5.4x	4.9x	4.2x	3.7x	6.7x
Discount to max	-50%	-53%	-51%	-55%	-50%
Premium/discount to median	**-3%**	**-8%**	**-10%**	**-10%**	**-13%**
Premium to minimum	65%	69%	82%	65%	53%

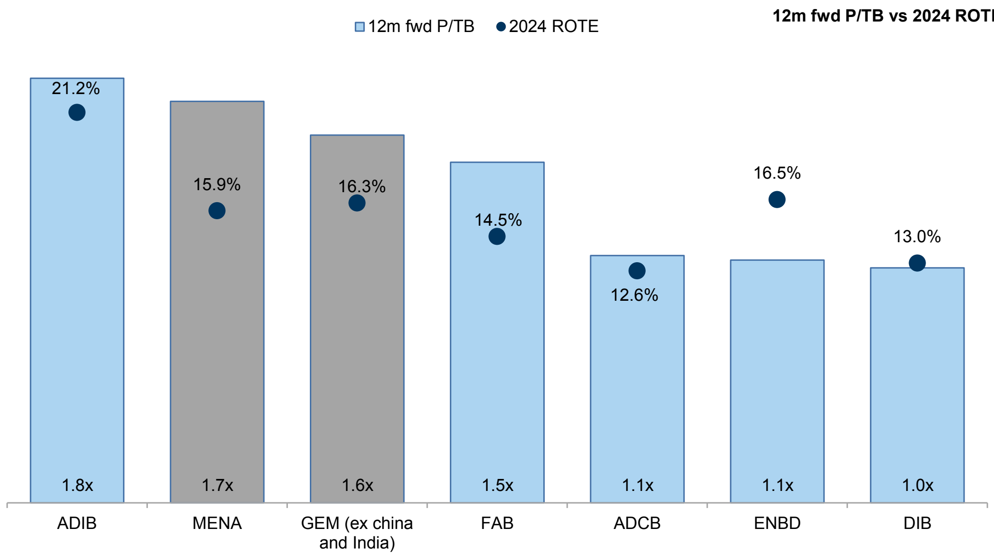
Source: Datastream

Exhibit 38: Despite recent outperformance, ENBD still screens as the cheapest at c.6x 2024E EPS...



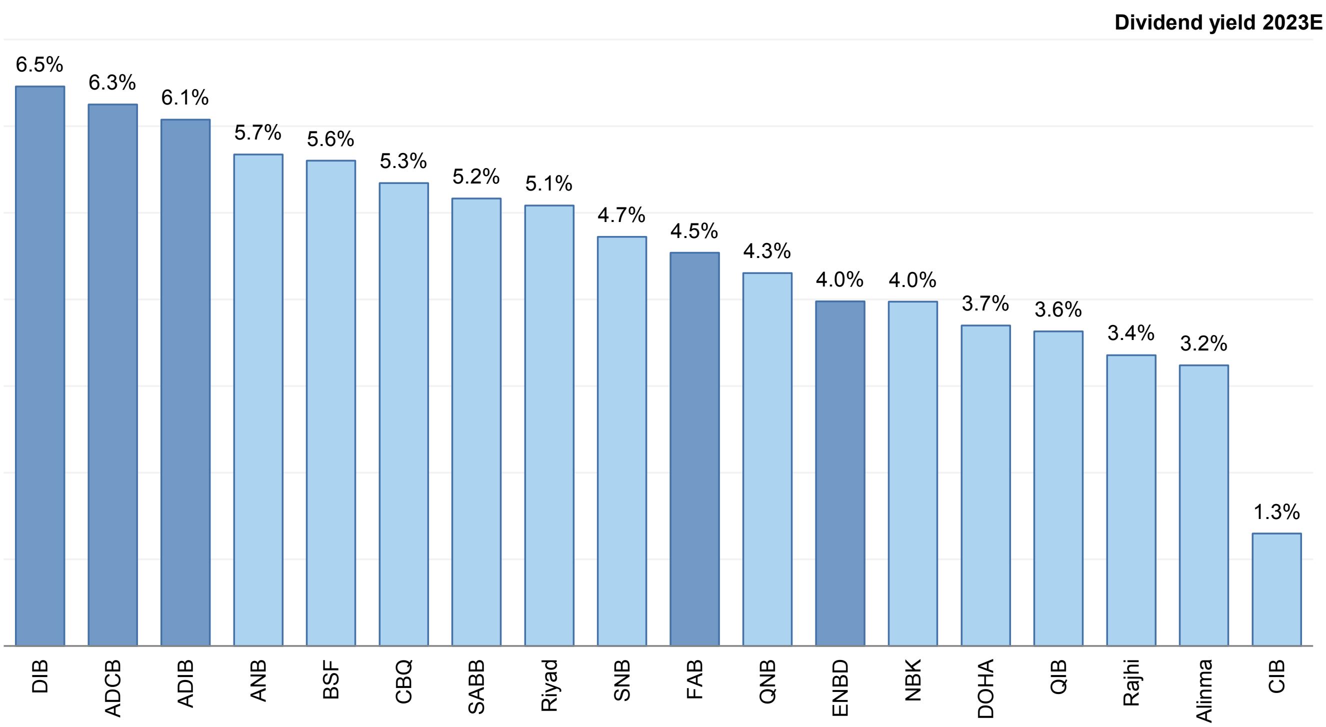
Source: Company data, Goldman Sachs Global Investment Research, FactSet

Exhibit 39: ...while also attractive on a returns-adjusted basis



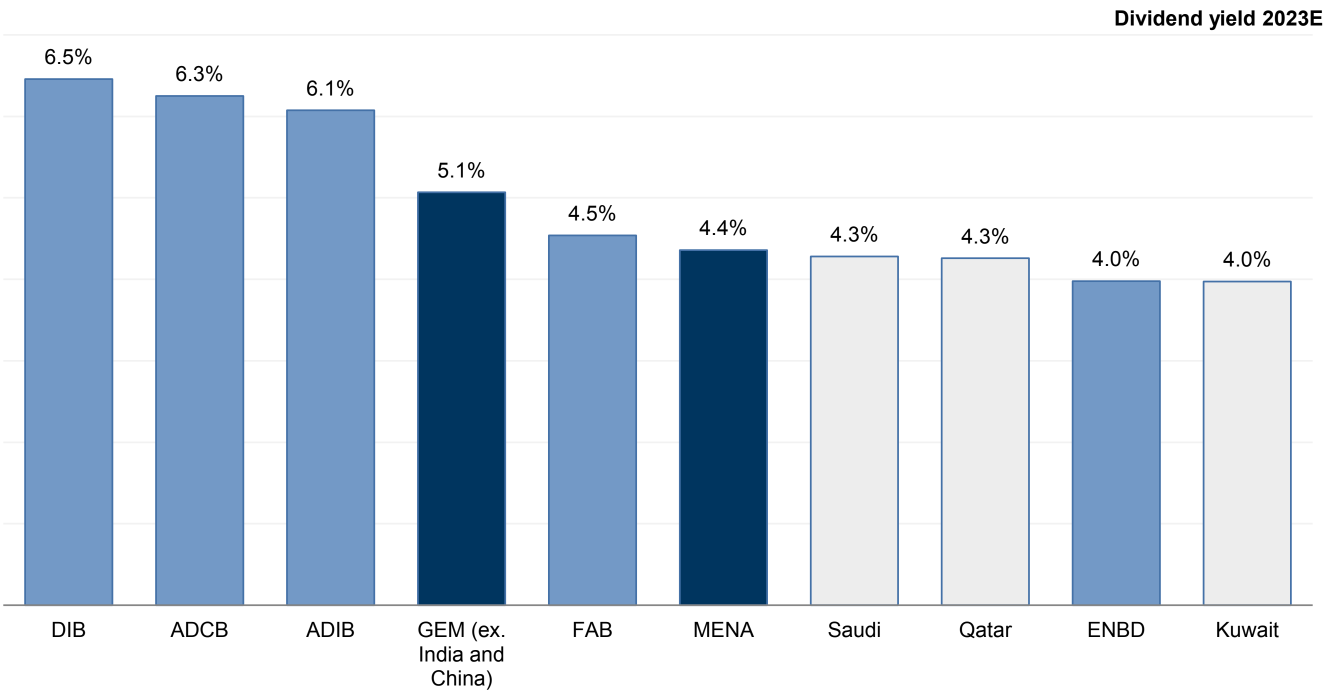
Source: Company data, Goldman Sachs Global Investment Research, FactSet

Exhibit 40: DIB, ADCB and ADIB offer amongst the highest dollarized dividend yields in our MENA coverage...



Source: Company data, Goldman Sachs Global Investment Research, FactSet

Exhibit 41: ...which also screens attractive in the GEM context



Source: Company data, Goldman Sachs Global Investment Research

GEM banks valuation table

Exhibit 42: GEM banks valuation table

Valuation Summary	Market Cap	Price LC	Rating	PT	U/D	P/E			P/B			ROE			ROA			Dividend Yield	
03-Nov-23	US$ mn.					2023E	2024E	2025E	2023E	2024E	2025E	2023E	2024E	2025E	2023E	2024E	2025E	2023E	2024E
CEEMEA	583,565				18%	10.4x	10.0x	9.3x	1.8x	1.6x	1.5x	19%	18%	17%	2.3%	2.1%	2.1%	4.7%	5.0%
Egypt	6,010				-21%	6.6x	6.5x	6.5x	2.5x	1.9x	1.6x	40%	33%	26%	3.9%	3.4%	3.1%	1.3%	1.5%
Greece	18,989				40%	4.7x	5.2x	5.3x	0.6x	0.6x	0.5x	14%	11%	10%	1.2%	1.1%	1.0%		
Kazakhstan	20,775				21%	8.6x	7.2x	6.0x	5.8x	4.7x	3.8x	71%	67%	66%	12.2%	11.9%	12.1%	9.1%	11.2%
Kuwait	22,606				2%	12.5x	12.7x	12.5x	1.8x	1.5x	1.4x	15%	13%	12%	1.5%	1.4%	1.3%	4.0%	4.3%
Poland	32,539				-1%	9.5x	9.1x	8.7x	1.4x	1.2x	1.1x	18%	15%	13%	1.5%	1.5%	1.4%	6.3%	7.3%
Qatar	57,107				40%	9.7x	8.8x	7.9x	1.5x	1.3x	1.2x	16%	16%	16%	1.4%	1.5%	1.6%	4.3%	4.8%
Saudi Arabia	213,021				21%	13.5x	12.9x	11.7x	2.0x	1.9x	1.8x	15%	15%	15%	2.0%	1.9%	1.9%	4.3%	4.4%
South Africa	70,138				13%	10.7x	9.4x	8.4x	2.2x	2.0x	1.8x	20%	20%	21%	2.1%	2.2%	2.3%	6.2%	6.8%
Turkey	34,504				-2%	4.6x	3.7x	3.1x	1.0x	0.8x	0.6x	29%	24%	23%	4.0%	2.9%	2.9%	3.9%	3.6%
UAE	107,877				25%	7.9x	8.7x	9.0x	1.2x	1.1x	1.1x	17%	14%	12%	1.9%	1.5%	1.4%	5.0%	5.0%
Abu Dhabi	*66,925*				*25%*	*9.3x*	*9.8x*	*10.2x*	*1.3x*	*1.2x*	*1.2x*	*15%*	*13%*	*12%*	*1.5%*	*1.3%*	*1.2%*	*5.2%*	*4.9%*
Abu Dhabi Commercial Bank	16,581	8.3	Buy	10.7	29%	8.5x	8.7x	8.6x	1.0x	0.9x	0.9x	12%	11%	11%	1.4%	1.2%	1.2%	6.3%	6.1%
First Abu Dhabi Bank	39,763	13.2	Neutral	15.5	17%	9.8x	10.5x	11.0x	1.3x	1.2x	1.1x	14%	12%	11%	1.3%	1.1%	1.0%	4.5%	4.2%
Abu Dhabi Islamic Bank	10,581	10.7	Buy	13.4	25%	8.7x	9.0x	10.0x	1.9x	1.8x	1.6x	24%	21%	17%	2.5%	2.2%	1.9%	6.1%	6.0%
Dubai	*40,952*				*25%*	*5.6x*	*7.0x*	*7.2x*	*1.1x*	*1.0x*	*0.9x*	*22%*	*15%*	*13%*	*2.5%*	*1.8%*	*1.7%*	*4.6%*	*5.0%*
Dubai Islamic Bank	10,685	5.4	Buy	7.1	31%	7.3x	8.0x	8.0x	1.1x	1.0x	1.0x	15%	13%	12%	1.8%	1.5%	1.4%	6.5%	6.5%
Emirates NBD	30,267	17.6	Buy	21.0	19%	5.0x	6.6x	6.9x	1.1x	1.0x	0.9x	24%	16%	14%	2.8%	1.9%	1.8%	4.0%	4.5%
Latin America	205,658				2%	7.9x	6.9x	6.2x	1.3x	1.2x	1.1x	18%	18%	18%	1.4%	1.5%	1.5%	6.8%	6.9%
Brazil	138,836				11%	7.5x	6.3x	5.7x	1.2x	1.1x	1.0x	17%	18%	18%	1.2%	1.3%	1.3%	6.2%	6.7%
Chile	24,486				-14%	11.1x	9.7x	8.1x	1.6x	1.5x	1.3x	16%	15%	16%	1.3%	1.2%	1.3%	6.9%	5.3%
Colombia	6,521				3%	4.0x	4.4x	4.6x	0.7x	0.6x	0.6x	17%	15%	13%	1.8%	1.6%	1.4%	13.1%	10.2%
Mexico	26,146				27%	8.7x	7.9x	7.4x	1.8x	1.7x	1.5x	22%	22%	22%	2.4%	2.3%	2.3%	8.3%	9.1%
Peru	9,669				0%	7.7x	7.5x	6.5x	1.1x	1.1x	1.0x	15%	15%	15%	2.0%	2.0%	2.2%	6.5%	6.5%
Asia	2,305,622				-3%	6.8x	6.3x	5.9x	0.9x	0.8x	0.7x	12%	11%	11%	1.1%	1.0%	1.0%	5.8%	5.7%
China (A-shares)	1,112,288				-8%	4.8x	4.8x	4.7x	0.6x	0.5x	0.5x	11%	10%	10%	0.9%	0.8%	0.7%	5.9%	5.8%
China (H-shares)	746,598				-6%	3.7x	3.7x	3.6x	0.4x	0.4x	0.4x	11%	10%	10%	0.9%	0.8%	0.7%	8.0%	7.8%
India	322,104				11%	18.9x	15.8x	13.5x	3.2x	2.7x	2.3x	17%	17%	18%	2.3%	2.3%	2.3%	0.9%	1.0%
Taiwan	124,632				0%	11.7x	11.3x	10.9x	1.3x	1.2x	1.1x	12%	11%	11%	0.9%	0.9%	0.9%	3.9%	4.0%
MENA	406,620				21%	11.4x	11.2x	10.4x	1.7x	1.6x	1.5x	16%	15%	14%	1.9%	1.7%	1.7%	4.4%	4.5%
CEEMEA	583,565				18%	10.4x	10.0x	9.3x	1.8x	1.6x	1.5x	19%	18%	17%	2.3%	2.1%	2.1%	4.7%	5.0%
GEM	3,094,845				10%	7.5x	7.0x	6.5x	1.1x	1.0x	0.9x	13%	13%	12%	1.3%	1.2%	1.2%	5.6%	5.6%
GEM (ex China and India)	913,855				12%	10.0x	9.5x	8.8x	1.6x	1.5x	1.3x	18%	17%	17%	1.9%	1.8%	1.8%	5.1%	5.3%

Source: Company data, Goldman Sachs Global Investment Research, FactSet

Disclosure Appendix

Reg AC

We, Waleed Mohsin, Ashwath P T, CFA, Ankita Sarna and Mikhail Butkov, hereby certify that all of the views expressed in this report accurately reflect our personal views about the subject company or companies and its or their securities. We also certify that no part of our compensation was, is or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

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Growth is based on a stock's forward-looking sales growth, EBITDA growth and EPS growth (for financial stocks, only EPS and sales growth), with a higher percentile indicating a higher growth company. **Financial Returns** is based on a stock's forward-looking ROE, ROCE and CROCI (for financial stocks, only ROE), with a higher percentile indicating a company with higher financial returns. **Multiple** is based on a stock's forward-looking P/E, P/B, price/dividend (P/D), EV/EBITDA, EV/FCF and EV/Debt Adjusted Cash Flow (DACF) (for financial stocks, only P/E, P/B and P/D), with a higher percentile indicating a stock trading at a higher multiple. The **Integrated** percentile is calculated as the average of the Growth percentile, Financial Returns percentile and (100% - Multiple percentile).

Financial Returns and Multiple use the Goldman Sachs analyst forecasts at the fiscal year-end at least three quarters in the future. Growth uses inputs for the fiscal year at least seven quarters in the future compared with the year at least three quarters in the future (on a per-share basis for all metrics).

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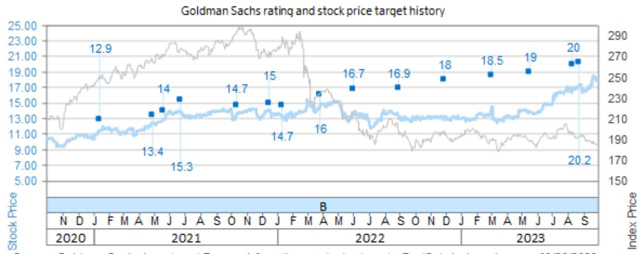
Goldman Sachs Investment Research global Equity coverage universe

	Rating Distribution			Investment Banking Relationships		
	Buy	Hold	Sell	Buy	Hold	Sell
Global	48%	36%	16%	62%	56%	44%

As of October 1, 2023, Goldman Sachs Global Investment Research had investment ratings on 2,960 equity securities. Goldman Sachs assigns stocks as Buys and Sells on various regional Investment Lists; stocks not so assigned are deemed Neutral. Such assignments equate to Buy, Hold and Sell for the purposes of the above disclosure required by the FINRA Rules. See 'Ratings, Coverage universe and related definitions' below. The Investment Banking Relationships chart reflects the percentage of subject companies within each rating category for whom Goldman Sachs has provided investment banking services within the previous twelve months.

Price target and rating history chart(s)

Emirates NBD (ENBD.DU) Stock Price Currency : UAE Dirham

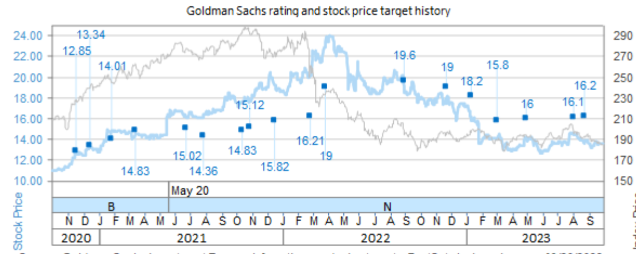


Source: Goldman Sachs Investment Research for ratings and price targets; FactSet closing prices as of 9/30/2023.

Rating — Covered by Waleed Mohsin
Price target
Price target at removal — Not covered by current analyst
MSCI EM EMEA

The price targets shown should be considered in the context of all prior published Goldman Sachs research, which may or may not have included price targets, as well as developments relating to the company, its industry and financial markets.

First Abu Dhabi Bank (FAB.AD) Stock Price Currency : UAE Dirham



Source: Goldman Sachs Investment Research for ratings and price targets; FactSet closing prices as of 9/30/2023.

Rating — Covered by Waleed Mohsin
Price target
Price target at removal — Not covered by current analyst
MSCI EM EMEA

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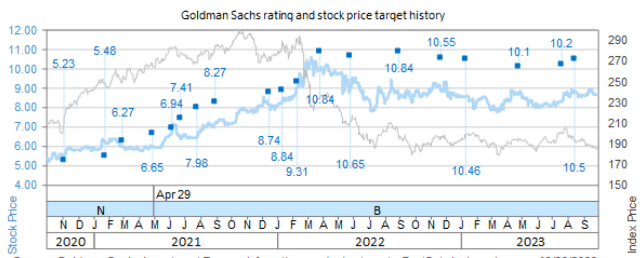
Abu Dhabi Commercial Bank (ADCB.AD) Stock Price Currency : UAE Dirham



Source: Goldman Sachs Investment Research for ratings and price targets; FactSet closing prices as of 9/30/2023.

Rating — Covered by Waleed Mohsin
Price target
Price target at removal — Not covered by current analyst
MSCI EM EMEA

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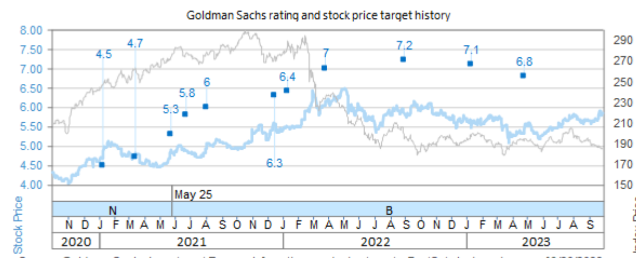
Dubai Islamic Bank (DISB.DU) Stock Price Currency : UAE Dirham



Source: Goldman Sachs Investment Research for ratings and price targets; FactSet closing prices as of 9/30/2023.

Rating — Covered by Waleed Mohsin
Price target
Price target at removal — Not covered by current analyst
MSCI EM EMEA

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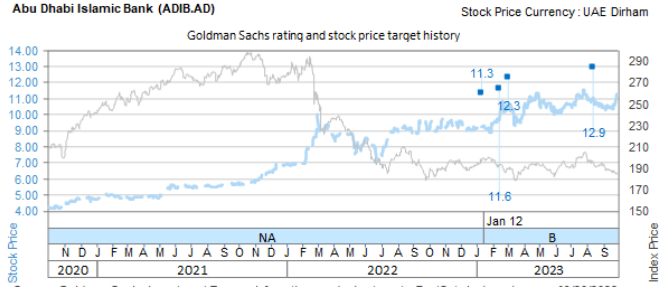
Abu Dhabi Islamic Bank (ADIB.AD) Stock Price Currency : UAE Dirham



Source: Goldman Sachs Investment Research for ratings and price targets; FactSet closing prices as of 9/30/2023.

Rating — Covered by Waleed Mohsin, as of Jan 12, 2023
Price target
Price target at removal — Not covered by current analyst
MSCI EM EMEA

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