Company Research Series

August 2021

First Abu Dhabi Bank

www.marmoremena.com

First Abu Dhabi Bank is the largest conventional bank in the UAE and second largest behind Qatar National Bank in the MENA region. According to Safest Bank rankings by Global Finance it is ranked #1, #4, and #16 in UAE, Emerging Markets and Worldwide respectively. The major competitors for FAB in UAE are Emirates NBD (ENBD), Abu Dhabi Commercial Bank (ABCB), and Dubai Islamic Bank (DIB).

Formed in April 2017, following a merger between First Gulf Bank and National Bank of Abu Dhabi, FAB offers financial solutions, products and services through its Corporate and Investment Banking and Personal Banking franchises. Around 80% of revenue is generated domestically. Of its total business, around 70% of its revenue is generated from corporate and investment banking divisions and the rest is from personal banking and other subsidiaries.

The majority of the shareholding is held by Mubadala Investment Company (MIC) which owns 37% of the total stake. UAE entities and HNI individuals of UAE own around 31.5%. The bank also has foreign investors who owns around 14.7%.

So, why we like ARB?

Leadership position

FAB is a leader in the banking space in UAE. Here is how it is placed among its peers in the region:

- **#1** in UAE by total assets and market capitalization.
- Strong credit rating of AA- (by Fitch and S&P) and among the most profitable AA- rated banks globally.
- Robust market share; possess **31%** & **29%** of total assets and total deposits of all the UAE banks.
- **#1** in the UAE in number of branches **(72)** and ATMs **(406)**
- Non-Performing Loan Ratio remains low at **3.8%** amidst unprecedented economic upheaval in 2020.
- It enjoys a privileged status as the preferred bank of the Abu Dhabi government.

Robust fundamentals

FAB has grown its loans and deposits at a CAGR of 5% & 11% respectively over the past four years. It has a loan to deposit ratio (LDR) of 78.6% which is amongst the best in the region and its capital adequacy ratio (CAR) of 16.9% is above the Central Bank's requirement of 10.5%. Common equity tier 1 (CET1) ratio increased to 13.7% from 12.2% last year. The Return on Equity (ROE) stood at 12.8% in 2021 and has been well above 10% for over the past 4 years. Loans and advances have grown steadily over the years which is mainly driven by core public sector and corporate clients. Healthy government lending pipeline with demand expected to pick up on rebound in economic activity and strong deposits growth augurs well for FAB outlook.

FAB made significant investments in digital infrastructure and international network especially in KSA and Egypt. Cost saving initiatives were also taken to counter the impact of economic slowdown during the lockdown. Net impairment charges were 36% lower (YoY) that reflects improving asset quality and adequate provision of buffers. Asset quality remains resilient underpinned by a conservative risk profile. The bank has a non-performing loan (NPL) ratio of 3.8% that is broadly stable.

Improving Operational Efficiency

FAB has accelerated the execution of its digital plans, adapting to new market realities, while unlocking long-term value. It continues to automate key processes, and enhance digital capabilities, with further innovation in the payments sphere including the launch of "Digital Marketplace" through Payit, which allows SME businesses to list and sell their products and services on the platform. It signed a partnership with UAE-based Fintech start-up Tabby to enable acceptance of their Buy-Now-Pay-Later solution at FAB merchant partners, and also signed another agreement with the Ministry of Human Resource and Emiratisation (MOHRE) to launch a unified payment solution for domestic workers.

Shareholder wealth

FAB is the largest constituent with 37.66% weightage on ADX and UAE's largest constituent with 0.21% weightage on MSCI Emerging Markets Index. FAB has one of the highest dividend pay-out ratios in ADX at 80%. The bank has been paying 74fils per share for the past three years, including 2020. A $1 invested in FAB stock at the start of 2016 would be worth $1.6 at the end of June 2021 compared to $1 invested in Abu Dhabi Market Index or the Abu Dhabi Bank Index which would be worth $1.5 and $1.4 respectively at the end of June 2021.

Key risks one should be mindful of

The economic environment for UAE banks has become more challenging in recent years due to the fall in oil prices, slower GDP growth and economic disruptions caused by the pandemic. FAB bank in particular has been exposed to the troubled real estate and construction sectors. Around 26% of the total gross loans are allocated to these two sectors. FAB loan book has deteriorated since the end of 2019 and it got further aggravated due to the pandemic with the NPL ratio rising from 3.0% in 2019 to 3.8% in 2020. It must be noted that the Central Bank of UAE moved swiftly to lower interest rates, capital and liquidity requirements in April 2020 to stabilise the economy. An earlier than expected rollback of these measures might impact the banking sector. Since interest rates in the UAE are also in step with that of the U.S. Federal Reserve, the looming interest rate hikes by the Fed can indirectly have negative impact on FAB.

Possible future scenarios

The economy of the UAE is poised to rebound in 2021 after contracting in 2020 due to the pandemic. The economy is projected to grow by 2.4% and 3.0% in 2021 and 2022 respectively. Oil prices have stabilised from their lows witnessed during the month of April 2020. UAE remains the top FDI destination among the GCC nations. UAE ranks 2nd globally for the number of doses administered in the country. The nation's PMI hit a 21-month high of 52.7 in April 2021 buoyed by an improving business sentiment on the back of the large-scale COVID 19 vaccine rollout. All these favourable conditions augur well for the banking industry and FAB being the leader in the region could further strengthen its position in the market.

FAB is venturing into new opportunities for growth. The bank has realigned its business structure to strengthen the capabilities and enhance future income generating opportunities. The bank has invested in technology including data analytics and AI offer a distinct customer experience. Given FAB's privileged status as the preferred bank of the Abu Dhabi government, it will continue to enjoy steady flows of lending opportunities and deposit placements from the government and government-related entities (GREs). Due to this reason, the company is unlikely to be impacted from competition within the UAE as the company did not lose market share despite the merger of Abu Dhabi Commercial Bank, the Union National Bank and the Islamic finance institution Al Hilal Bank in 2019.

FAB Key Financials & Ratios

Balance Sheet (in UAE Dirhams million)	2014	2015	2016	2017	2018	2019	2020
Cash & Due from Banks	79,561	99,720	28,079	154,705	212,561	172,346	220,728
Other Earning Assets, Total	119,903	116,569	61,163	171,182	149,407	229,826	286,461
Net Loans	170,171	182,576	130,121	309,367	324,494	383,222	377,719
Total Assets	**376,099**	**406,564**	**223,980**	**668,968**	**743,886**	**821,968**	**919,061**
Total Deposits	279,514	276,623	137,368	426,420	505,504	555,170	598,515
Total Liabilities	338,135	363,345	186,756	567,246	642,275	714,361	810,386
Total Equity	37,963	43,219	37,224	101,722	101,611	107,607	108,675
Total Liabilities & Shareholders' Equity	**376,099**	**406,564**	**223,980**	**668,968**	**743,886**	**821,968**	**919,061**

Income Statement (Dirhams million)	2014	2015	2016	2017	2018	2019	2020
Interest Income, Bank	8,972	9,351	8,514	16,332	21,841	24,369	20,100
Non-Interest Income, Bank	4,167	4,522	3,515	6,112	8,040	9,036	7,803
Non-Interest Expense, Bank	(4,467)	(5,356)	(2,305)	(6,052)	(6,875)	(7,506)	(6,778)
Net Income	**5,579**	**5,232**	**6,026**	**9,133**	**12,011**	**12,520**	**10,555**
Basic EPS (AED)	1.08	0.97	1.04	0.91	1.06	1.10	0.93
DPS - Common Stock (AED)	0.36	0.45	0.45	0.70	0.74	0.74	0.74

Key Ratios	2014	2015	2016	2017	2018	2019	2020
Net Interest Margin	1.95%	2.01%	1.92%	2.49%	2.35%	1.75%	1.75%
Efficiency Ratio	39.9%	45.3%	23.4%	34.6%	32.6%	34.4%	33.8%
Loan Growth	10.3%	7.3%	(28.7%)	137.8%	4.9%	18.1%	(1.4%)
Deposit Growth	14.2%	(1.0%)	(50.3%)	210.4%	18.5%	9.8%	7.8%
Loan Loss Provision (% of Avg. Loans)	0.54%	0.53%	0.93%	0.94%	0.57%	0.39%	0.63%
Nonperforming Loans (% of Total Loans)	5.02%	4.59%	6.47%	8.98%	7.92%	2.96%	3.85%
Tier 1 Risk-Adjusted Capital Ratio	15.0%	15.7%	17.1%	15.5%	14.6%	15.7%	15.4%
EOP Loans / EOP Deposits	0.61	0.66	0.95	0.73	0.64	0.69	0.63
Pretax ROA	1.7%	1.4%	1.9%	2.1%	1.8%	1.6%	1.3%
x Leverage (Assets/Equity)	9.91	9.41	6.02	6.58	7.32	7.64	8.46
Pretax ROE	16.1%	13.6%	15.2%	13.5%	12.2%	12.3%	10.1%

Source: Refinitiv

About Marmore

OUR VISION

To be the first choice for obtaining strategic intelligence on the Middle East and North Africa region

OUR MISSION

Serving businesses and institutions with reliable information and intelligence about Middle East and North Africa needed to catalyze growth, understand the larger environment   economies, businesses and financial markets and provide customized, actionable solutions

OUR FOUNDATION

A subsidiary of Markaz: Investment bank and asset management firm with 40+ years of history

Markaz commenced its research activities in 2006, which led to establishment of Marmore in 2010 as research focused firm

Marmore publishes research reports, provides customized research to suit clients unique requirements and consulting services Primarily focusses on the GCC region

Business Verticals

CUSTOMIZED RESEARCH

Our customized research department caters to unique requirements of the clients

CONSULTING SERVICES

Our GCC focus enables us to provide bespoke consulting services based on clients requirements

PUBLISHED RESEARCH

We provide GCC focused research on demand or subscription

In case of any queries reach out to **Enquiry@e-marmore.com**

Disclaimer

For further information, please contact 'Marmore' at **Email: enquiry@e-marmore.com**; Tel: 0091-44-42316217.