

## Ajman Bank PJSC

Higher fee and commission income boosted the bottom-line

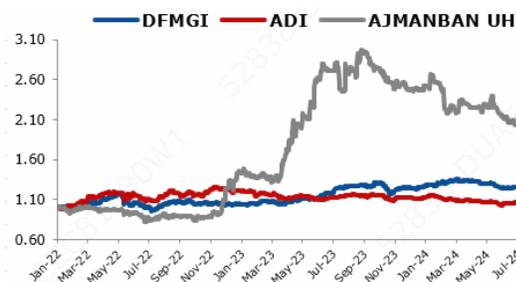
**Current Price**  
AED 1.91

**Target Price**  
AED 1.09

**Upside/Downside (%)**  
-43%

**Rating**  
**SELL**

- Net advances grew 1.3% YOY and 6.1% QOQ to AED 14 Bn in 2Q24, while customer deposits rose 0.5% YOY and 4.7% QOQ to AED 19 Bn in 2Q24.
- NIMs improved 22 bps YOY and 40 bps QOQ to 2.6% in 2Q24, while cost-to-income also improved 875 bps YOY to 41.2% in 2Q24.
- NPL declined from 16.6% in 1Q24 to 12.3% in 2Q24, with an increase in coverage from 26.8% in 1Q24 to 35.1% in 2Q24.
- Capitalization improved with a Tier 1 ratio of 16.4% and a total CAR ratio of 17.5% in 2Q24.



### Stock Information

Market Cap (AED, mn)	5,201.89
Paid Up Capital (mn)	2,723.50
52 Week High	2.46
52 Week Low	1.66
3M Avg. daily value(AED)	8,637,115

### 2Q24 Result Review (AED, mn)

Total Assets	24,235
Total Liabilities	21,354
Total Equity	2,881
Total Deposits	19,306
Net Profit	108

### Financial Ratios

Dividend Yield (12m)	N/A
Dividend Pay-out (%)	N/A
Price-Earnings Ratio(x)	N/A
Price-to-Book Ratio (x)	1.81
Book Value (AED)	1.06
Return-on Equity (%)	-10.02

### Stock Performance

5 Days	6.11%
1 Months	11.05%
3 Months	2.69%
6 Months	-9.05%
1 Year	-5.45%
Month to Date (MTD%)	11.70%
Quarter to Date (QTD%)	11.70%
Year to Date (YTD%)	-8.17%

### 2Q24 Net Profit higher than our estimate

Ajman Bank (AJMANBANK/ the Bank) recorded a significant increase in net profit from AED 53 Mn in 2Q23 to AED 108 Mn in 2Q24, higher than our estimate of AED 86 Mn. The growth in net profit is mainly attributable to an increase in funded and non-funded income coupled with lower impairments charges partially offset by a growth in funded expenses.

### P&L Highlights

Ajman Bank's funded income grew 8.0% YOY to AED 298 Mn in 2Q24, mainly due to an increase in net advances and other interest-earnings assets. On the other hand, funded expenses rose significantly from AED 166 Mn in 2Q23 to AED 179 Mn in 2Q24. Thus, net funded income grew 7.6% YOY to AED 119 Mn in 2Q24. Moreover, fees and commission income rose strongly from AED 45 Mn in 2Q23 to AED 79 Mn in 2Q24, whereas income from investment securities grew 3.2% YOY to AED 35 Mn in 2Q24. Thus, total non-funded income grew strongly from AED 79 Mn in 2Q23 to AED 115 Mn in 2Q24. As a result, total operating income grew 23.0% YOY to AED 233 Mn in 2Q24. Furthermore, operating expenses grew 1.4% YOY to AED 96 Mn in 2Q24. However, the cost-to-income ratio declined from 49.9% in 2Q23 to 41.2% in 2Q24. Impairment charges declined from AED 42 Mn in 2Q23 to AED 22 Mn in 2Q24. Income tax expense amounted to AED 7 Mn in 2Q24 owing to the introduction of corporate tax in the UAE.

### Balance Sheet Highlights

Ajman Bank's net advances rose 1.3% YOY and 6.1% QOQ to AED 14 Bn in 2Q24. Total assets grew 2.8% YOY and 5.0% QOQ to AED 24 Bn in 2Q24. The Bank's customer deposits grew 0.5% YOY and 4.7%

QOQ to AED 19 Bn in 2Q24. Out of the total deposits, current account deposits declined 4.5% QOQ to AED 4.3 Bn, while savings account deposits grew 1.2% QOQ to AED 450 Mn in 2Q24. Moreover, CASA deposits as a percentage of total deposits stood at 24.7% in 2Q24 compared to 26.9% in 1Q24. Loan-to-deposits ratio increased from 74.5% in 1Q24 to 75.3% in 2Q24. In addition, the Bank's total equity rose 8.8% YOY and 4.2% QOQ to AED 2.9 Bn in 2Q24.

### Target Price and Rating

We maintain our SELL rating on AJMANBANK with a target price of AED 1.09. AJMANBANK reported strong growth in profitability driven by higher non-core income, with a substantial rise in fees and commissions in 2Q24. The Bank's net advances grew 1.3% YOY and 6.1% QOQ to AED 14 Bn in 2Q24. NIMs rose 22 bps YOY and 40 bps QOQ to 2.6% in 2Q24 despite the higher cost of funds. Cost of funds grew 31 bps YOY and declined 41 bps QOQ to 3.6% in 2Q24. Customer deposits grew 0.5% YOY and 4.7% QOQ to AED 19 Bn in 2Q24. The Bank's cost-to-income improved 875 bps YOY to 41.2% in 2Q24, mainly due to the rise in operating income. AJMANBANK's asset quality improved as NPLs declined from 16.6% in 1Q24 to 12.3% in 2Q24. Provision coverage rose from 26.8% in 1Q24 to 35.1% in 2Q24. However, the Bank's stage 2 loans as a percentage of gross loans grew from 10.2% in 1Q24 to 12.1% in 2Q24. AJMANBANK's capitalization improved with a Tier 1 ratio of 16.4% and a total CAR ratio of 17.5% in 2Q24. Despite all the positives, the Bank trades at an expensive 2024 P/B ratio of 1.6x as compared to its peer average of 1.1x. Thus, we maintain our SELL rating on the stock.

### AJMAN BANK - Relative valuation

(at CMP)	2019	2020	2021	2022	2023	2024F
PE	56.22	86.22	39.64	28.41	NM	12.57
PB	1.83	1.84	1.75	1.83	1.91	1.66
Dividend yield	1.7%	NM	NM	NM	NM	NM

FABS Estimates & Co Data

### AJMAN BANK - P&L

AED mn	2Q23	1Q24	2Q24A	2Q24F	VAR	YOY Ch	QOQ Ch	2023	2024F	Change
Funded income	276	309	298	306	-2.7%	8.0%	-3.5%	1,210	1,327	9.7%
Funded expenses	-166	-205	-179	-196	-8.5%	8.3%	-12.7%	-702	-875	24.6%
<b>Net funded income</b>	<b>110</b>	<b>103</b>	<b>119</b>	<b>110</b>	<b>7.7%</b>	<b>7.6%</b>	<b>14.7%</b>	<b>508</b>	<b>453</b>	<b>-10.9%</b>
Fees and commissions	45	46	79	48	65.7%	75.9%	70.6%	180	254	41.0%
Income from Invest. Securities	34	45	35	42	-15.7%	3.2%	-21.2%	170	186	9.3%
Share of result of associate	0	0	0	0	NM	NM	NM	-89	0	NM
<b>Total non-funded income</b>	<b>79</b>	<b>91</b>	<b>115</b>	<b>90</b>	<b>27.6%</b>	<b>44.4%</b>	<b>25.4%</b>	<b>261</b>	<b>439</b>	<b>68.3%</b>
<b>Total operating income</b>	<b>190</b>	<b>195</b>	<b>233</b>	<b>200</b>	<b>16.6%</b>	<b>23.0%</b>	<b>19.7%</b>	<b>769</b>	<b>892</b>	<b>16.0%</b>
Operating expenses	-95	-91	-96	-95	0.9%	1.4%	5.6%	-370	-378	2.3%
<b>Pre provision profit</b>	<b>95</b>	<b>104</b>	<b>137</b>	<b>105</b>	<b>30.9%</b>	<b>44.5%</b>	<b>32.2%</b>	<b>399</b>	<b>513</b>	<b>28.7%</b>
Impairment	-42	13	-22	-10	107.8%	-48.3%	NM	-789	-66	-91.7%
<b>Profit before tax</b>	<b>53</b>	<b>117</b>	<b>116</b>	<b>94</b>	<b>22.4%</b>	<b>117.3%</b>	<b>-1.3%</b>	<b>-390</b>	<b>448</b>	NM
Corporate tax		-10	-7	-8	-12.4%	NM	-23.1%	0	-40	NM
<b>Profit for the period</b>	<b>53</b>	<b>107</b>	<b>108</b>	<b>86</b>	<b>25.8%</b>	<b>103.3%</b>	<b>0.7%</b>	<b>-390</b>	<b>407</b>	<b>NM</b>

FABS estimate & Co Data

**AJMAN BANK - KPI**

	2Q23	1Q24	2Q24	YOY Ch	QOQ Ch	2023	2024F	Change
Net FI/OI	58.2%	53.1%	50.9%	-730	-223	66.0%	50.7%	-1,530
NIM	2.4%	2.2%	2.6%	22	40	2.8%	2.2%	-52
NIS	2.6%	2.5%	2.9%	27	38	3.0%	2.5%	-55
Fees & comms/OI	23.7%	23.8%	33.9%	1,021	1,013	23.4%	28.5%	505
Invst Securities/OI	18.1%	23.1%	15.2%	-291	-790	22.1%	20.8%	-128
Cost to income	49.9%	46.7%	41.2%	-875	-553	48.1%	42.4%	-569
Impairment/PPP	44.0%	-12.8%	15.8%	-2,824	NM	197.9%	12.8%	NM
NP/OI	28.0%	55.1%	46.4%	1,832	-879	NM	45.7%	NM
Cost of risk	1.2%	-0.4%	0.6%	-58	NM	5.7%	0.5%	-528
Loan-to-deposit	74.3%	74.5%	75.3%	103	81	73.1%	71.0%	-205
NPL	13.5%	16.6%	12.3%	-121	-436	16.1%	17.0%	95
Coverage excluding collateral	28.1%	26.8%	35.1%	705	832	27.4%	28.0%	60
Tier 1	13.9%	15.5%	16.4%	252	91	14.5%	15.6%	114
Capital adequacy	15.0%	16.6%	17.5%	251	91	15.6%	16.7%	109
ROAA	0.8%	-1.4%	-1.2%	NM	21	-1.7%	1.6%	NM
ROAE	7.3%	-12.2%	-9.8%	NM	239	-15.0%	14.1%	NM

FABS estimate & Co Data

**AJMAN BANK - Key B/S items**

AED mn	2Q23	3Q23	4Q23	1Q24	2Q24	YOY Ch
Net advances	13,726	14,640	13,776	13,113	13,906	1.3%
QOQ change	4.3%	6.7%	-5.9%	-4.8%	6.1%	
Total assets	23,582	25,207	24,936	23,070	24,235	2.8%
QOQ change	3.2%	6.9%	-1.1%	-7.5%	5.0%	
Customer deposits	19,213	19,576	19,725	18,431	19,306	0.5%
QOQ change	-0.3%	1.9%	0.8%	-6.6%	4.7%	
Total equity	2,648	2,989	2,675	2,766	2,881	8.8%
QOQ change	2.7%	12.9%	-10.5%	3.4%	4.2%	

FABS estimate & Co Data

## Valuation:

We use the Residual Income and Relative Valuation (RV) method to value AJMANBANK. We have assigned 70% weight to Residual Income and 30% to RV method.

Valuation Method	Target	Weight	Weighted Value
Residual Income	1.06	70.0%	0.74
Relative Valuation (RV)	1.17	30.0%	0.35
<b>Weighted Average Valuation (AED)</b>			<b>1.09</b>
Current market price (AED)			1.91
Upside/Downside (%)			-42%

### 1) Residual Income Method:

We have discounted the economic profit/excess equity using the cost of equity of 8.7%. Cost of equity is calculated by using 10-year government bond yield of 5.4%, beta of 0.70 and equity risk premium of 4.7%. Government bond yield is calculated after adding Dubai 10-year spread over 10-year US risk free rate. Also, assumed a terminal growth rate of 2.0%.

Sum of PV (AED, Mn)	183
Terminal value (AED, Mn)	-177
Book Value of Equity (as of Mar 2024)	2,881
<b>FV to Common shareholders (AED, Mn)</b>	<b>2,887</b>
No. of share (Mn)	2,724
Current Market Price (AED)	1.91
<b>Fair Value per share (AED)</b>	<b>1.06</b>

### Residual Income Method

(All Figures in AED Mn)	FY 2024E	FY 2025E	FY 2026E	FY 2027E	FY 2028E
Net Profit	407	336	307	259	247
(-) Equity Charge	-232	-252	-259	-263	-264
<b>Excess Equity</b>	<b>88</b>	<b>85</b>	<b>48</b>	<b>-4</b>	<b>-17</b>
Discounting Factor	0.96	0.88	0.81	0.75	0.69
<b>Present Value of Excess Equity</b>	<b>84</b>	<b>75</b>	<b>39</b>	<b>-3</b>	<b>-12</b>

Source: FAB Securities

## 2) Relative Valuation:

We have used local peers to value AJMANBANK and it is valued using the PB multiple. It is valued at a 2024 PB multiple of 1.0x in line with peers.

Company	Market (USD Mn)	P/B (x)		P/E (x)		Dividend Yield (%)	
		2024F	2025F	2024F	2025F	2024F	2025F
Commercial Bank of Dubai	5,040	1.2	1.2	NA	NA	7.1	6.5
Emirates NBD	29,580	1.0	0.9	5.2	5.8	6.3	6.2
Mashreq Bank	11,420	1.3	1.2	6.5	6.8	7.2	7.2
RAK Bank	2,900	0.9	0.9	5.6	6.1	6.9	7.5
Abu Dhabi Commercial Bank	16,480	0.9	0.9	8.0	8.1	6.4	6.5
Dubai Islamic Bank	11,570	1.1	1.0	7.3	7.4	7.3	7.4
<b>Average</b>		<b>1.1x</b>	<b>1.0x</b>	<b>6.5x</b>	<b>6.9x</b>	<b>6.9x</b>	<b>6.9x</b>
<b>Median</b>		<b>1.0x</b>	<b>0.9x</b>	<b>6.5x</b>	<b>6.8x</b>	<b>7.0x</b>	<b>6.9x</b>
<b>Max</b>		<b>1.2x</b>	<b>1.1x</b>	<b>7.3x</b>	<b>7.4x</b>	<b>7.2x</b>	<b>7.3x</b>
<b>Min</b>		<b>0.9x</b>	<b>0.9x</b>	<b>5.6x</b>	<b>6.1x</b>	<b>6.5x</b>	<b>6.5x</b>

Source: FAB Securities

