

Ajman Bank

Lower provision overshadowed drop in asset yield

1Q22 Net Profit higher than our estimate

Ajman Bank's net profit rose 8.3% YoY to AED 34 million in 1Q22, from AED 31 million in 1Q21, lower than our estimate of AED 26 million. This increase was mainly due to a significant reduction in impairment charge and increase in non-funded income, partially offset by decline in funded and rise in operating expenses.

P&L highlights

Ajman Bank's net funded income declined by 44.2% YOY to AED 68 million in 1Q22. It was dragged down by a 31.7% decrease in funded income to AED 124 million in 1Q22 due to significant decline in asset yield. Furthermore, funded expenses decreased by 6.0% YOY to AED 56 million in 1Q22 due to optimisation of liability and change in borrowing mix. Non-funded income rose from AED 44 Mn in 1Q21 to AED 56 million in 1Q22 mainly due to increase in fees and commission income somewhat offset by a decline in investment income. Thus, total operating income fell 25.5% YoY to AED 124 million in 1Q22, primarily due to decline in net funded income. Operating expenses rose 15.1% YOY to AED 88 million in 1Q22 primarily due to increase in staff costs. Cost-to-income ratio worsened from 46.2% in 1Q21 to 71.3% in 1Q22. Impairments reduced significantly from AED 58 Mn in 1Q21 to AED 2 Mn in 1Q22.

Balance sheet highlights

Net Advances decreased 3.9% QoQ to AED 14.5 Bn in 1Q22 due to decline in outstanding Murabahat, Ijarahs and other Islamic loans. While, customer deposits rose 9.0% QOQ to AED 16.6 Bn in 1Q22 due to increase in deposits from its leading shareholder. CASA deposits represented 30.1% of the total deposits 1Q22 compared to 26.0% in 4Q21. Total assets fell 2.5% QOQ to AED 21.8 Bn in 1Q22. Total equity decreased 1.6% QOQ to AED 2.6 Bn in 1Q22.

Target price and rating

We maintain HOLD rating on Ajman Bank with a revised target price of AED 0.85. The bank is expected to benefit from the rising interest rate scenario due to a positive interest rate gap. The banks' balance sheet is positively geared in a rising interest rate scenario. This means greater amount of assets priced at a higher rate as compared to liabilities benefitting NIMs. In addition, recent change in borrowing mix and decline in high-cost liability to further benefit NIMs. Ajman NPL declined from 11.3% in 4Q21 to 9.0% in 1Q22 mainly due to write-off of bad loans. Coverage of the bad loans remained weak at 44.8% in 1Q22, however bank held collateral worth AED 948 Mn against bad loans in 4Q21. Furthermore, increase in stage 2 loans from

Rating : HOLD

First Look Note – 1Q22

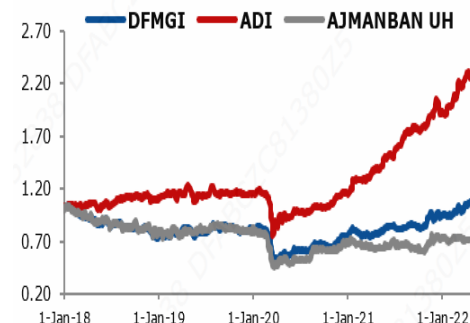
Sector: Banking

Recommendation

Current Price (25-Apr-22)	0.80
Target Price	0.85
Upside/Downside (%)	+6%

Stock Information

Market Cap (mm)	1,680.00
Paid Up Capital (mm)	2,100.00
52 Week High	0.91
52 Week Low	0.64
3M Avg. daily value (AED)	3,703,868



Financial Ratios

Dividend Yield (12m)	NA
Dividend Pay-out (%)	0.00
Price-Earnings Ratio (x)	14.44
Price-to-Book Ratio (x)	0.65
Book Value (AED)	1.23
Return-on Equity (%)	4.61
Earning Per Share (AED)	0.06
Beta	0.78

Stock Performance

5 Days	0.63%
1 Months	-1.11%
3 Months	4.44%
6 Months	18.52%
1 Year	12.52%
Month to Date (MTD)	0.00%
Quarter to Date (QTD)	0.00%
Year to Date (YTD)	-2.91%

20.5% in 4Q21 to 24.4% in 1Q22 might create pressure on profitability in case, loan turn non-performing. We look for more granular information on decline in Ajman asset yield in 1Q22 after that, we might revise our rating going forward.

Ajman Bank - Relative valuation

(at CMP)	2018	2019	2020	2021	2022F
P/E (x)	8.35	20.77	32.40	14.73	11.47
P/B (x)	0.70	0.68	0.68	0.65	0.61
Dividend Yield (%)	4.3%	4.3%	0.0%	0.0%	0.0%

FABS Estimates & Co Data

Ajman Bank - P&L

AED mm	1Q21	4Q21	1Q22A	1Q22F	Var.	YOY Ch	QOQ Ch	2021	2022F	Change
AED mm										
Funded income	182	185	124	184	-32.5%	-31.7%	-32.7%	706	768	8.7%
Funded expenses	-60	-56	-56	-59	-5.2%	-6.1%	-0.4%	-232	-263	13.3%
Net funded income	122	128	68	125	-45.3%	-44.2%	-46.8%	474	505	6.5%
Fees and commissions	26	40	37	22	69.0%	40.9%	-7.1%	106	65	-38.7%
Income from Investment Securities	20	25	18	21	-10.0%	-7.5%	-24.8%	96	108	12.5%
Share of result of associate	-2	-2	0	-2	NM	NM	NM	-8	-8	NM
Total non-funded income	44	63	56	41	37.4%	26.7%	-11.6%	194	165	-15.0%
Total operating income	166	191	124	166	-25.1%	-25.5%	-35.2%	668	670	0.2%
Operating expenses	-77	-73	-88	-75	17.8%	15.1%	21.9%	-285	-295	3.7%
Pre provision profit	90	119	36	91	-60.7%	-60.3%	-70.0%	384	375	-2.3%
Impairment	-58	-93	-2	-65	-97.5%	-97.2%	-98.2%	-267	-260	-2.8%
Net profit attributable	31	26	34	26	33.0%	8.3%	30.3%	116	115	-1.2%

Ajman Bank - P&L KPI

AED mm	1Q21	4Q21	1Q22A	QOQ Ch	YOY Ch	2021	2022F	Change
Net FI/OI	73.6%	67.1%	55.1%	-1199	-1848	71.0%	75.4%	441
NIM	3.0%	3.3%	1.9%	-140	-104	3.1%	2.8%	-26
NIS	3.0%	3.4%	2.0%	-137	-94	3.1%	2.8%	-29
Fees & comms/OI	15.9%	20.9%	30.0%	908	1413	15.9%	9.7%	-616
Invst Securities/OI	12.0%	12.8%	14.9%	206	289	14.4%	16.1%	175
Cost to income	46.2%	37.9%	71.3%	3339	2515	42.6%	44.0%	146
Impairment/PPP	65.0%	78.1%	4.7%	-7343	-6037	69.7%	69.4%	-33
NP/OI	18.8%	13.6%	27.4%	1376	853	17.4%	17.1%	-26
ROAA	0.4%	0.5%	0.5%	1	17	0.5%	0.5%	-1
ROAE	3.2%	4.4%	4.5%	10	135	4.5%	4.5%	-6

FABS Estimates & Co Data

Ajman Bank- Key BS Items

AED mm	1Q21	2Q21	3Q21	4Q21	1Q22A	YOY Ch
Net advances	16,982	16,001	15,814	14,924	14,346	-15.5%
<i>QOQ Change</i>	0.1%	-5.8%	-1.2%	-5.6%	-3.9%	
Total assets	21,967	21,316	21,505	22,342	21,792	-0.8%
<i>QOQ Change</i>	2.1%	-3.0%	0.9%	3.9%	-2.5%	
Customer deposits	13,895	13,876	14,010	15,263	16,633	19.7%
<i>QOQ Change</i>	-2.3%	-0.1%	1.0%	8.9%	9.0%	
Total equity	2,511	2,575	2,598	2,635	2,592	3.2%
<i>QOQ Change</i>	0.4%	2.5%	0.9%	1.4%	-1.6%	

FABS estimate & Co Data

Research Rating Methodology:

Rating	Upside/Downside potential
BUY	Higher than +15%
ACCUMULATE	Between +10% to +15%
HOLD	Lower than +10% to -5%
REDUCE	Between -5% to -15%
SELL	Lower than -15%

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