

National Bank of Ras Al Khaimah (RAKBANK)

Strong loan growth and healthy asset quality supported profitability

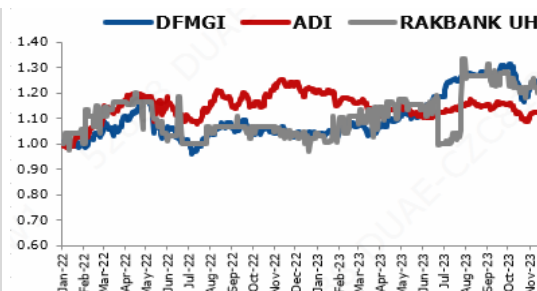
Current Price
AED 5.35

Target Price
AED 6.15

Upside/Downside (%)
+15%

Rating
BUY

- RAKBANK's net advances grew 11.4% YOY and 2.9% QOQ to AED 41 Bn driven by growth in Retail, Wholesale and Business banking segments in 1Q24.
- NIMs declined 4 bps YOY and 21 bps QOQ to 4.8% in 1Q24 mainly due to higher cost of funds. While, cost-to-income improved 236 bps YOY to 33.1% in 1Q24.
- Cost of risk improved 95 bps YOY and 105 bps QOQ to 1.5% in 1Q24 primarily due to the change in business mix and the Bank's prudent risk management strategies.
- Capitalization stood strong with a CET 1 ratio of 16.1% and CAR of 17.2% in 1Q24. The Bank also maintained a strong return with an ROAE of 18.5% and an ROAA of 2.5% in 1Q24.



1Q24 Net Profit higher than our estimate

National Bank of Ras Al-Khaimah (RAKBANK/the Bank) net profit grew 27.1% YOY to AED 573 Mn in 1Q24, higher than our estimate of AED 479 Mn. The increase in net profit is primarily driven by growth in net funded and non-funded income coupled with lower impairments partially offset by an increase in operating expenses and higher income tax expense.

P&L Highlights

RAKBANK's interest income from conventional loans and investments grew 23.1% YOY to AED 1,091 Mn in 1Q24, whereas interest expense on conventional deposits and borrowings grew significantly from AED 203 Mn in 1Q23 to AED 306 Mn in 1Q24. Thus, net interest income from conventional loans and advances rose 14.9% YOY to AED 785 Mn in 1Q24. Similarly, income from Islamic financing grew 12.8% YOY to AED 159 Mn in 1Q24 while Islamic financing expenses grew from AED 35 Mn in 1Q23 to AED 64 Mn in 1Q24. Resultantly, RAKBANK's funded income grew 21.7% YOY to AED 1,250 Mn in 1Q24 primarily driven by growth in net advances and other interest earnings assets. Funded expenses grew significantly from AED 238 Mn in 1Q23 to AED 370 Mn in 1Q24, mainly due to rise in cost of funds. Thus, net funded income rose 11.5% YOY to AED 879 Mn in 1Q24. As a result, NIMs declined 4 bps YOY and 21 bps QOQ to 4.8% in 1Q24. Net fee and commission income declined marginally 0.9% YOY to AED 161 Mn in 1Q24. Foreign exchange income grew 4.5% YOY to AED 85 Mn in 1Q24. RAKBANK's gross insurance underwriting recorded a loss of AED 14 Mn in 1Q24 as compared to a loss of AED 12 Mn in 1Q23. The Bank's investment income grew strongly from AED 26 Mn in 1Q23 to AED 43 Mn in 1Q24. Other operating income also grew from AED 12 Mn in 1Q23 to AED 20 Mn in 1Q24. As a result, total non-funded income grew 9.6% YOY to AED 295 Mn in 1Q24. Thus, total operating

Stock Information

Market Cap (AED, mn)	10,761.50
Paid Up Capital (mn)	2,011.49
52 Week High	6.15
52 Week Low	4.17
3M Avg. daily value(AED)	650,353

1Q24 Result Review (AED, mn)

Total Assets	78,589
Total Liabilities	68,284
Total Equity	10,304
Total Deposits	55,394
Net Profit	573

Financial Ratios

Dividend Yield (12m)	5.81
Dividend Pay-out (%)	34.95
Price-Earnings Ratio(x)	5.65
Price-to-Book Ratio (x)	1.05
Book Value (AED)	5.11
Return-on Equity (%)	19.37

Stock Performance

5 Days	2.29%
1 Months	5.31%
3 Months	1.90%
6 Months	-5.31%
1 Year	21.13%
Month to Date (MTD%)	2.29%
Quarter to Date (QTD%)	3.88%
Year to Date (YTD%)	0.94%

income grew 11.0% YOY to AED 1,174 Mn in 1Q24. Furthermore, operating expenses grew 3.6% YOY to AED 388 Mn in 1Q24 as the Bank continues to invest in technology and talent. However, cost-to-income ratio improved 236 bps YOY and 228 bps QOQ to 33.1% in 1Q24, mainly due to growth in total operating income. RAKBANK's impairments declined significantly 32.7% YOY to AED 157 Mn in 1Q24 mainly attributed to a shift in the business mix towards secured assets with lower risk profiles. Income tax expenses grew from AED 14 Mn in 4Q23 to AED 55 Mn in 1Q24.

Balance Sheet Highlights

RAKBANK's total assets grew 14.1% YOY and 6.3% QOQ to AED 79 Bn in 1Q24 mainly due to growth in cash and bank balance with Central Bank, due from banks, investment securities and net advances. Net advances grew 11.4% YOY and 2.9% QOQ to AED 41 Bn in 1Q24, primarily due to Retail, Wholesale and Business lending growth. Moreover, customer deposits grew strongly 19.5% YOY and 9.9% QOQ to AED 55 Bn in 1Q24. The Bank's CASA deposits now account for 64.0% of total deposits as of 1Q24.

Target Price and Rating

We maintain our BUY rating on RAKBANK with an unchanged target price of AED 6.15. RAKBANK's stock price grew 5.3% since our last rating. The Bank recorded strong growth in profitability primarily due to a solid rise in loans and advances and a growth in other interest-earning assets in 1Q24. Net loans and advances grew 11.4% YOY and 2.9% QOQ to AED 41 Bn in 1Q24. Wholesale banking recorded a strong 23.6% YOY growth to AED 13 Bn in 1Q24 backed by the UAE's resilient economic condition and the Bank's strategic efforts to diversify its balance sheet. Similarly, the Retail banking segment recorded a growth of 6.2% to AED 20 Bn in 1Q24 supported by strong lending across mortgages auto loans, partially offset by decline in other retail loans in 1Q24. Likewise, Business banking loans grew 9.7% to AED 10 Bn in 1Q24. The NIMs declined 4 bps YOY and 21 bps QOQ to 4.8% in 1Q24 mainly due to higher cost of funds. The Bank's cost of funds grew 66 bps YOY and declined 0.4 bps QOQ to 2.4% in 1Q24. RAKBANK's total customer deposits grew 19.5% YOY and 9.9% QOQ to AED 55 Bn in 1Q24 primarily due to an increase in time and current account deposits in 1Q24. CASA deposits accounted for 64.0% of total deposits as of 1Q24. The Bank's cost-to-income ratio improved 236 bps YOY to 33.1% in 1Q24 mainly due to Bank's operational efficiencies and growth in total operating income. Cost of risk improved 95 bps YOY and 105 bps QOQ to 1.5% in 1Q24 primarily due to the change in business mix and the Bank's prudent risk management strategies. Furthermore, the Bank's asset quality remained stable with an unchanged NPL ratio of 2.6% in 1Q24 compared to 4Q23. The coverage ratio stood strengthened from 227.0% in 4Q23 to 233.7% in 1Q24. Capitalization stood strong with a CET 1 ratio of 16.1% and total CAR of 17.2% in 1Q24. RAKBANK also maintained a strong return with an ROAE of 18.5% and an ROAA of 2.5% in 1Q24. Thus, considering the above-mentioned factors, we assign an BUY rating on the stock.

RAKBANK - Relative valuation

(at CMP)	2019	2020	2021	2022	2023	2024F
PE	9.8	21.4	14.2	9.2	6.0	6.3
PB	1.4	1.4	1.3	1.2	1.0	0.9
Dividend yield	4.7%	2.3%	3.5%	5.3%	5.8%	5.8%

FABS Estimates & Co Data

RAKBANK – P&L

AED mn	1Q23	4Q23	1Q24	1Q24F	VAR	YOY Ch	QOQ Ch	2023	2024F	Change
Interest Income	1,027	1,230	1,250	1,290	-3.1%	21.7%	1.6%	4,570	4,677	2.3%
Interest expense	-238	-353	-370	-368	0.8%	55.4%	4.8%	-1,233	-1,245	1.0%
Net funded income	789	876	879	923	-4.7%	11.5%	0.3%	3,336	3,432	2.9%
Net fees and commissions	162	149	161	157	2.8%	-0.9%	8.0%	660	674	2.0%
Foreign exchange gain	81	80	85	78	8.3%	4.5%	6.1%	326	320	-2.0%
Gross insurance underwriting Profit	-12	-52	-14	7	NM	NM	-72.9%	-41	37	NM
Investment Income	26	14	43	15	NM	65.2%	NM	49	51	4.0%
Other operating income	12	25	20	24	-17.8%	71.6%	-21.9%	74	77	4.8%
Total non-funded income	269	217	295	280	5.1%	9.6%	36.0%	1,068	1,158	8.4%
Net operating income	1,058	1,093	1,174	1,203	-2.4%	11.0%	7.4%	4,404	4,589	4.2%
Operating expenses	-375	-387	-388	-416	-6.7%	3.6%	0.5%	-1,601	-1,652	3.2%
Pre-provision profit	683	707	786	787	-0.1%	15.1%	11.2%	2,803	2,937	4.8%
Impairment	-233	-262	-157	-261	-40.0%	-32.7%	-40.3%	-1,005	-1,048	4.2%
Profit before tax	450	445	629	526	19.7%	39.7%	41.5%	1,797	1,889	5.1%
Income tax expense		-14	-55	-47	16.4%	NM	NM	-14	-170	NM
Profit after tax	450	431	574	478	20.0%	27.5%	33.3%	1,784	1,719	-3.6%
Non-controlling interest	1	1	-1	0	NM	NM	NM	0	-1	NM
Net profit attributable	451	432	573	479	19.8%	27.1%	32.8%	1,784	1,718	-3.7%

FABS estimate & Co Data

RAKBANK – KPI

	1Q23	4Q23	1Q24	YOY Ch	QOQ Ch	2023	2024F	Change
Net FI/OI	74.6%	80.2%	74.9%	33	-527	75.8%	74.8%	-98
NIM	4.9%	5.0%	4.8%	-4	-21	5.0%	4.8%	-12
NIS	4.6%	4.7%	4.5%	-14	-21	4.7%	4.2%	-42
Fees & comms/OI	15.4%	13.6%	13.7%	-164	7	15.0%	14.7%	-32
Foreign exchange gain/OI	7.7%	7.3%	7.2%	-45	-9	7.4%	7.0%	-44
Other operating income/OI	1.1%	2.3%	1.7%	60	-63	1.7%	1.7%	1
Invnt Income/OI	2.5%	1.3%	3.7%	121	237	1.1%	1.1%	0
Cost to income	35.4%	35.4%	33.1%	-236	-228	36.4%	36.0%	-36
Impairment/PPP	34.1%	37.1%	19.9%	-1,414	-1,717	35.9%	35.7%	-19
NP/OI	42.6%	39.5%	48.8%	619	934	40.5%	37.4%	-306
Cost of risk	2.4%	2.5%	1.5%	-95	-105	2.5%	2.4%	-11
Loan-to-deposit	78.6%	78.3%	73.3%	-530	-501	78.3%	81.1%	278
NPL	3.0%	2.6%	2.6%	-40	0	2.6%	2.6%	0
NPL Coverage	192.1%	227.0%	233.7%	4,160	670	227.0%	225.0%	-200
CET 1	15.7%	16.7%	16.1%	39	-61	16.7%	17.6%	83
Capital adequacy	16.8%	17.8%	17.2%	33	-63	17.8%	18.6%	77
ROAE	15.2%	17.8%	18.5%	327	74	18.5%	15.8%	-266
ROAA	2.1%	2.4%	2.5%	43	5	2.5%	2.3%	-25

FABS estimate & Co Data

RAKBANK – Key B/S items

AED mn	1Q23	2Q23	3Q23	4Q23	1Q24	YOY Ch
Net advances	36,444	37,631	38,647	39,468	40,605	11.4%
QOQ change	1.0%	3.3%	2.7%	2.1%	2.9%	
Total assets	68,878	71,865	72,004	73,955	78,589	14.1%
QOQ change	3.8%	4.3%	0.2%	2.7%	6.3%	
Customer deposits	46,366	48,965	48,464	50,395	55,394	19.5%
QOQ change	3.3%	5.6%	-1.0%	4.0%	9.9%	
Total equity	9,432	9,355	9,785	10,355	10,304	9.3%
QOQ change	4.6%	-0.8%	4.6%	5.8%	-0.5%	

FABS estimate & Co Data

Valuation:

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

Valuation Method	Target	Weight	Weighted Value
Residual Income	6.25	70.0%	4.38
Relative Valuation (RV)	5.91	30.0%	1.77
Weighted Average Valuation (AED)			6.15
Current market price (AED)			5.35
Upside/Downside (%)			+15%

1) Residual Income Method:

We have discounted the economic profit/excess equity using the cost of equity of 9.0%. Cost of equity is calculated by using 10-year government bond yield of 5.3%, beta of 1.00 and equity risk premium of 3.7%. Government bond yield is calculated after adding Abu Dhabi 10-year CDS spread over 10-year US risk-free rate. Also, assumed a terminal growth rate of 2.0%.

Sum of PV (AED, Mn)	1,409
Terminal value (AED, Mn)	888
Book Value of Equity (as of Dec 2023)	10,276
FV to Common shareholders (AED, Mn)	12,574
No. of share (Mn)	2,011
Current Market Price (AED)	5.35
Fair Value per share (AED)	6.25

Residual Income Method

(All Figures in AED Mn)	FY 2024E	FY 2025E	FY 2026E	FY 2027E	FY 2028E
Net Profit	1,718	1,648	1,552	1,447	1,398
(-) Equity Charge	-1,028	-1,105	-1,176	-1,243	-1,307
Excess Equity	456	543	375	204	91
Discounting Factor	0.94	0.87	0.80	0.73	0.67
Present Value of Excess Equity	431	470	298	149	61

Source: FAB Securities

2) Relative Valuation:

We have used local peers to value RAKBANK 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
Sharjah Islamic Bank	1,940	1.1	1.0	9.2	8.5	5.5	5.9
Commercial Bank of Dubai	5,490	1.3	1.3	NA	NA	6.5	6.0
Emirates NBD	26,920	0.9	0.8	5.3	5.6	6.4	6.4
Mashreq Bank	9,830	1.1	1.0	5.6	5.9	8.3	8.3
Abu Dhabi Commercial Bank	18,060	0.9	0.9	8.0	8.2	6.6	6.5
Dubai Islamic Bank	10,820	1.0	1.0	6.9	7.1	7.8	7.9
Average		1.1x	1.0x	7.0x	7.0x	6.8x	6.8x
Median		1.0x	1.0x	6.9x	7.1x	6.6x	6.5x
Max		1.1x	1.0x	8.0x	8.2x	7.5x	7.5x
Min		0.9x	0.9x	5.6x	5.9x	6.4x	6.1x

Source: FAB Securities

