

National Bank of Ras Al Khaimah (RAKBANK)

Continuation of sales momentum and healthy asset quality boosted profitability

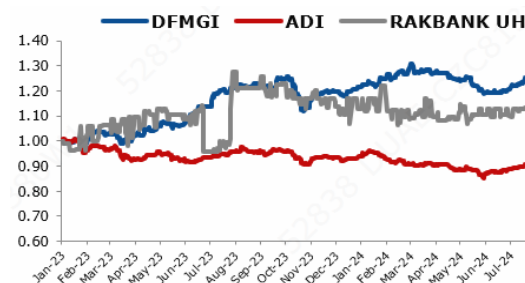
Current Price
AED 5.32

Target Price
AED 6.30

Upside/Downside (%)
+18%

Rating
BUY

- RAKBANK's net advances grew 8.9% YOY and 1.0% QOQ to AED 41.0 Bn in 2Q24 driven by growth in Retail, and Business banking segments.
- NIMs declined 27 bps YOY and 19 bps QOQ to 4.6% in 2Q24 mainly due to higher cost of funds, while the cost-to-income improved 153 bps YOY to 34.1% in 2Q24.
- Cost of risk improved from 2.6% in 1H23 to 1.7% in 1H24 owing to a healthy credit environment and a change in business mix towards secured and low risk loans.
- NPL ratio improved to 2.4% in 2Q24 compared to 2.6% in 1Q24.
- Capitalization stood strong with a CET 1 ratio of 16.9% and CAR of 18.0% in 2Q24.



2Q24 Net Profit lower than our estimate

National Bank of Ras Al-Khaimah (RAKBANK/the Bank) net profit grew 14.7% YOY to AED 516 Mn in 2Q24, lower than our estimate of AED 557 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.

P&L Highlights

RAKBANK's interest income from conventional loans and investments grew 16.0% YOY to AED 1,123 Mn in 2Q24, whereas interest expense on conventional deposits and borrowings grew significantly from AED 251 Mn in 2Q23 to AED 334 Mn in 2Q24. Thus, net interest income from conventional loans and advances rose 10.0% YOY to AED 789 Mn in 2Q24. Similarly, income from Islamic financing grew 2.45% YOY to AED 163 Mn in 2Q24 while Islamic financing expenses grew from AED 48 Mn in 2Q23 to AED 69 Mn in 2Q24. Resultantly, RAKBANK's funded income grew 14.1% YOY to AED 1,286 Mn in 2Q24 primarily driven by growth in net advances and other interest earnings assets. Funded expenses grew significantly from AED 298 Mn in 2Q23 to AED 403 Mn in 2Q24 mainly due to rise in cost of funds. Thus, net funded income rose 6.5% YOY to AED 882 Mn in 2Q24. As a result, NIMs declined 27 bps YOY and 19 bps QOQ to 4.6% in 2Q24. Net fee and commission income grew marginally 1.3% YOY to AED 176 Mn in 2Q24. Foreign exchange income expanded 19.8% YOY to AED 90 Mn in 2Q24. RAKBANK recorded a loss from gross insurance underwriting of AED 15 Mn in 2Q24 as compared to a loss of AED 2 Mn in 2Q23. The Bank's investment income grew from AED 5 Mn in 2Q23 to AED 16 Mn in 2Q24. Other operating income also grew from AED 21 Mn in 2Q23 to AED 25 Mn in 2Q24. As a result, total non-funded income grew 6.7% YOY to AED 292 Mn in 2Q24. Thus, total operating income grew 6.6% YOY to AED 1,174 Mn in 2Q24. Furthermore, operating

Stock Information

Market Cap (AED, mm)	10,701.15
Paid Up Capital (mm)	2,011.49
52 Week High	5.90
52 Week Low	5.00
3M Avg. daily value(AED)	876,670

2Q24 Result Review (AED, mm)

Total Assets	80,408
Total Liabilities	69,614
Total Equity	10,794
Total Deposits	58,472
Net Profit	516

Financial Ratios

Dividend Yield (12m)	5.85
Dividend Pay-out (%)	34.95
Price-Earnings Ratio(x)	5.43
Price-to-Book Ratio (x)	0.99
Book Value (AED)	5.35
Return-on Equity (%)	19.63

Stock Performance

5 Days	2.31%
1 Months	0.38%
3 Months	4.31%
6 Months	0.76%
1 Year	-6.67%
Month to Date (MTD%)	0.38%
Quarter to Date (QTD%)	2.70%
Year to Date (YTD%)	0.38%

expenses grew 2.0% YOY to AED 400 Mn in 2Q24, as the Bank continued to invest in technology and talent. The cost-to-income ratio improved 153 bps YOY to 34.1% in 2Q24 mainly due to growth in total operating income. RAKBANK's impairments declined 19.7% YOY to AED 208 Mn in 2Q24 mainly attributed to a shift in the business mix towards secured assets with lower risk profiles.

Balance Sheet Highlights

RAKBANK's total assets grew 11.9% YOY and 2.3% QOQ to AED 80.4 Bn in 2Q24 mainly due to growth in due from banks, advances and investment securities. Net advances grew 8.9% YOY and 1.0% QOQ to AED 40.9 Bn in 2Q24 primarily due to the growth in loan portfolio of mortgages, other business banking, wholesale business banking and credit card lending. Moreover, customer deposits grew strongly 19.4% YOY and 5.6% QOQ to AED 58.5 Bn in 2Q24. The Bank's CASA deposits now account for 61.6% of total deposits as of 2Q24.

Target Price and Rating

We maintain our BUY rating on RAKBANK with a revised target price of AED 6.30. RAKBANK continued to diversify its loan book by growing the share of mortgage loans which rose from 17.1% in 4Q23 to 20.8% in 2Q24. The share of wholesale banking loans also rose from 26.0% in 4Q23 to 26.6% in 2Q24. The growing share of mortgage loans will shield in a declining interest rate environment. The shift in credit strategy is also supporting non-performing loans which declined from 2.6% in 1Q24 to 2.4% in 2Q24. The coverage ratio also strengthened from 220.9% in 1Q24 to 240.6% in 2Q24 providing a solid buffer against loan losses in the forthcoming period. 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 2Q24. It is also supported by a growth in non-funded income and a decline in impairment charges. NIMs declined 27 bps YOY and 19 bps QOQ to 4.6% in 2Q24 mainly due to higher cost of funds and change in asset mix. RAKBANK's total customer deposits grew 19.4% YOY and 5.6% QOQ primarily due to an increase in time and current account deposits in 2Q24. CASA deposits accounted for 61.6% of total deposits as of 2Q24. Capitalization stood strong with a CET 1 ratio of 16.9% and a total CAR of 18.0% in 2Q24. RAKBANK also maintained a strong return with an ROAE of 18.7% and a ROAA of 2.5% in 2Q24. Thus, considering the above-mentioned factors, we assign a BUY rating on the stock.

RAKBANK - Relative valuation

(at CMP)	2019	2020	2021	2022	2023	2024F
PE	9.72	21.12	14.07	9.09	5.97	5.31
PB	1.36	1.36	1.28	1.18	1.03	0.99
Dividend yield	4.7%	2.4%	3.5%	5.4%	5.9%	6.6%

FABS Estimates & Co Data

RAKBANK – P&L

AED mm	2Q23	1Q24	2Q24	2Q24F	VAR	YOY Ch	QOQ Ch	2023	2024F	Change
Interest Income	1,127	1,250	1,286	1,264	1.7%	14.1%	2.9%	4,570	4,726	3.4%
Interest expense	-298	-370	-403	-381	5.9%	35.1%	8.9%	-1,233	-1,347	9.2%
Net funded income	828	879	882	883	-0.1%	6.5%	0.3%	3,336	3,379	1.3%
Net fees and commissions	174	161	176	164	7.1%	1.3%	9.2%	660	674	2.0%
Foreign exchange gain	75	85	90	83	8.1%	19.8%	6.0%	326	320	-2.0%
Gross insurance underwriting Profit	-2	-14	-15	-13	14.8%	NM	3.3%	-41	37	NM
Investment Income	5	43	16	35	-54.5%	NM	-63.6%	49	51	4.0%
Other operating income	21	20	25	20	22.4%	16.2%	24.8%	74	77	4.8%
Total non-funded income	273	295	292	290	0.7%	6.7%	-1.1%	1,068	1,158	8.4%
Total operating income	1,102	1,174	1,174	1,173	0.1%	6.6%	0.0%	4,404	4,537	3.0%
Operating expenses	-393	-388	-400	-396	1.0%	2.0%	3.1%	-1,601	-1,633	2.0%
Pre-provision profit	709	786	774	777	-0.4%	9.1%	-1.6%	2,803	2,904	3.6%
Impairment	-259	-157	-208	-164	26.9%	-19.7%	32.6%	-1,005	-699	-30.5%
Profit before tax	450	629	566	613	-7.7%	25.6%	-10.1%	1,797	2,205	22.7%
Income tax expense	0	-55	-50	-55	-8.5%	NM	-8.4%	-14	-198	NM
Profit after tax	450	574	515	558	-7.6%	14.4%	-10.2%	1,784	2,007	12.5%
Non-controlling interest	-1	-1	0	0	NM	NM	NM	0	-1	NM
Net profit attributable	450	573	516	557	-7.5%	14.7%	-10.1%	1,784	2,005	12.4%

FABS estimate & Co Data
RAKBANK - KPI

	2Q23	1Q24	2Q24	YOY Ch	QOQ Ch	2023	2024	Change
Net FI/OI	75.2%	74.9%	75.2%	-3	27	75.8%	74.5%	-127
NIM	4.9%	4.8%	4.6%	-27	-19	5.0%	4.7%	-30
NIS	4.6%	4.5%	4.3%	-34	-20	4.7%	3.9%	-72
Fees & comms/OI	15.8%	13.7%	15.0%	-78	126	15.0%	14.8%	-15
Foreign exchange gain/OI	6.8%	7.2%	7.7%	85	43	7.4%	7.0%	-36
Other operating income/OI	1.9%	1.7%	2.1%	18	42	1.7%	1.7%	3
Invnt Income/OI	0.5%	3.7%	1.3%	86	-234	1.1%	1.1%	1
Cost to income	35.6%	33.1%	34.1%	-153	102	36.4%	36.0%	-36
Impairment/PPP	36.5%	19.9%	26.8%	-963	692	35.9%	24.1%	-1,181
NP/OI	40.8%	48.8%	43.9%	313	-490	40.5%	44.2%	371
Cost of risk	2.6%	1.5%	1.9%	-72	44	2.5%	1.6%	-91
Loan-to-deposit	76.9%	73.3%	70.1%	-674	-319	78.3%	74.3%	-402
NPL	2.5%	2.6%	2.4%	-10	-20	2.6%	2.6%	0
NPL Coverage	221.3%	220.9%	240.6%	1,929	1,969	217.5%	225.0%	749
CET 1	16.6%	16.1%	16.9%	26	76	16.7%	16.7%	-4
Capital adequacy	17.7%	17.2%	18.0%	23	78	17.8%	17.6%	-18
ROAE	16.4%	18.5%	18.7%	230	24	18.5%	18.2%	-26
ROAA	2.2%	2.5%	2.5%	29	-2	2.5%	2.6%	2

FABS estimate & Co Data
RAKBANK - Key B/S items

AED mm	2Q23	3Q23	4Q23	1Q24	2Q24	YOY Ch
Net advances	37,631	38,647	39,468	40,605	40,994	8.9%
QOQ change	3.3%	2.7%	2.1%	2.9%	1.0%	
Total assets	71,865	72,004	73,955	78,589	80,408	11.9%
QOQ change	4.3%	0.2%	2.7%	6.3%	2.3%	
Customer deposits	48,965	48,464	50,395	55,394	58,472	19.4%
QOQ change	5.6%	-1.0%	4.0%	9.9%	5.6%	
Total equity	9,355	9,785	10,355	10,304	10,794	15.4%
QOQ change	-0.8%	4.6%	5.8%	-0.5%	4.7%	

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	6.31	70.0%	4.42
Relative Valuation (RV)	5.26	30.0%	1.88
Weighted Average Valuation (AED)			6.30
Current market price (AED)			5.32
Upside/Downside (%)			+18%

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 5.0%, a beta of 1.00 and equity risk premium of 4.0%. 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)	1,460
Terminal value (AED, Mn)	468
Book Value of Equity (as of Dec 2023)	10,766
FV to Common shareholders (AED, Mn)	12,695
No. of share (Mn)	2,011
Current Market Price (AED)	5.32
Fair Value per share (AED)	6.31

Residual Income Method

(All Figures in AED Mn)	FY 2024E	FY 2025E	FY 2026E	FY 2027E	FY 2028E
Net Profit	2,005	1,679	1,629	1,484	1,392
(-) Equity Charge	-1,057	-1,138	-1,213	-1,281	-1,345
Excess Equity	948	541	416	203	47
Discounting Factor	0.97	0.89	0.81	0.75	0.68
Present Value of Excess Equity	458	480	338	152	32

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 1.1x 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	1,980	9.4	8.7	1.1	1.0	5.3	5.8
Commercial Bank of Dubai	5,040	NA	NA	1.2	1.2	7.1	6.5
Emirates NBD	29,580	5.2	5.8	1.0	0.9	6.3	6.2
Mashreq Bank	11,420	6.5	6.8	1.3	1.2	7.2	7.2
Abu Dhabi Commercial Bank	16,480	8.0	8.1	0.9	0.9	6.4	6.5
Dubai Islamic Bank	11,570	7.3	7.4	1.1	1.0	7.3	7.4
Average		7.3x	7.4x	1.1x	1.0x	6.6%	6.6%
Median		7.3x	7.4x	1.1x	1.0x	6.7%	6.5%
Max		8.0x	8.1x	1.2x	1.1x	7.2%	7.0%
Min		6.5x	6.8x	1.0x	0.9x	6.3%	6.3%

Source: FAB Securities

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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