

## National Bank of Ras Al Khaimah (RAKBANK)

Improving asset quality and rising loan book supported profitability

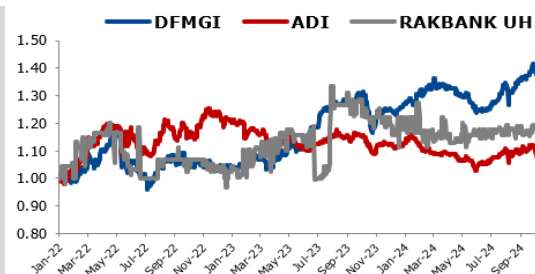
**Current Price**  
AED 5.50

**Target Price**  
AED 7.15

**Upside/Downside (%)**  
+30%

**Rating**  
BUY

- Net advances grew strongly, 19.5% YOY and 12.7% QOQ to AED 46 Bn in 3Q24, driven by strong growth across all the segments, particularly in wholesale banking segments.
- The Bank added 83,000 new customers as of 9M24.
- NPLs declined 32 bps YOY and 5 bps QOQ to 4.6% in 3Q24, while cost-to-income improved 464 bps YOY to 33.5% in 3Q24.
- NPL ratio improved to 2.2% in 3Q24 compared to 2.4% in 2Q24.
- Capitalization stood strong with a CET 1 ratio of 17.1% and a total CAR of 19.6% in 3Q24.
- The Bank also maintained a strong return with an ROE of 19.9% and a ROA of 2.7% in 3Q24.



### Stock Information

Market Cap (AED, mn)	11,063.22
Paid Up Capital (mn)	2,011.49
52 Week High	5.75
52 Week Low	5.00
3M Avg. daily value(AED)	768,854

### 3Q24 Result Review (AED, mn)

Total Assets	83,891
Total Liabilities	72,330
Total Equity	11,561
Total Deposits	57,266
Net Profit	598

### Financial Ratios

Dividend Yield (12m)	5.65
Dividend Pay-out (%)	34.95
Price-Earnings Ratio(x)	5.22
Price-to-Book Ratio (x)	0.96
Book Value (AED)	5.73
Return-on Equity (%)	19.91

### Stock Performance

5 Days	0.18%
1 Months	3.77%
3 Months	2.23%
6 Months	1.85%
1 Year	0.00%
Month to Date (MTD%)	0.00%
Quarter to Date (QTD%)	2.80%
Year to Date (YTD%)	3.77%

### 3Q24 Net Profit higher than our estimate

National Bank of Ras Al-Khaimah (RAKBANK/the Bank) net profit grew 32.6% YOY to AED 598 Mn in 3Q24, higher than our estimate of AED 529 Mn. The increase in net profit is primarily driven by growth in net funded and non-funded income coupled with lower impairments and a decline in operating expenses.

### P&L Highlights

RAKBANK's interest income from conventional loans and investments grew 14.6% YOY to AED 1,190 Mn in 3Q24, whereas interest expense on conventional deposits and borrowings grew significantly from AED 293 Mn in 3Q23 to AED 381 Mn in 3Q24. Thus, net interest income from conventional loans and advances rose 2.7% YOY to AED 810 Mn in 3Q24. Similarly, income from Islamic financing grew 5.8% YOY to AED 160 Mn in 3Q24, while Islamic financing expenses grew from AED 50 Mn in 3Q23 to AED 67 Mn in 3Q24. Resultantly, RAKBANK's funded income grew 13.8% YOY to AED 1,350 Mn in 3Q24, primarily driven by strong growth in net advances and expansion in asset yield. Funded expenses grew significantly from AED 343 Mn in 3Q23 to AED 448 Mn in 3Q24, mainly due to the higher cost of funds. Thus, net funded income rose 7.0% YOY to AED 902 Mn in 3Q24. However, NIMs declined 32 bps YOY and 5 bps QOQ to 4.6% in 3Q24. Net fee and commission income declined 4.6% YOY to AED 167 Mn in 3Q24. Foreign exchange income declined 0.4% YOY to AED 89 Mn in 3Q24. RAKBANK recorded a loss from gross insurance underwriting of AED 2 Mn in 3Q24 as compared to a profit of AED 11 Mn in 3Q23. The Bank's investment income grew from AED 3 Mn in 3Q23 to AED 17 Mn in 3Q24. Other operating income grew from AED 15 Mn in 3Q23 to AED 32 Mn in 3Q24. As a result, total non-funded income grew 2.8% YOY to AED 302 Mn in 3Q24. Thus, total operating income grew 5.9% YOY

to AED 1,204 Mn in 3Q24. Furthermore, operating expenses declined 7.0% YOY to AED 404 Mn in 3Q24. Thus, the cost-to-income ratio improved 464 bps YOY to 33.5% in 3Q24, mainly due to growth in total operating income. RAKBANK's impairments declined 43.6% YOY to AED 141 Mn in 3Q24. The Bank recorded an income tax expense of AED 59 Mn in 3Q24, owing to the introduction of the UAE corporate tax.

### Balance Sheet Highlights

RAKBANK's total assets grew 16.5% YOY and 4.3% QOQ to AED 84 Bn in 3Q24, mainly due to growth in cash and balance with the Central Bank, due from banks, net advances and investment securities. Net advances grew 19.5% YOY and 12.7% QOQ to AED 46 Bn in 3Q24, primarily due to the strong growth in the wholesale, retail and business segments. Moreover, customer deposits grew 18.2% YOY and declined 2.1% QOQ to AED 57 Bn in 3Q24. The Bank's CASA deposits accounted for 62.4% of total deposits as of 3Q24 compared to 61.6% in 2Q24.

### Target Price and Rating

We maintain our BUY rating on RAKBANK with a revised target price of AED 7.15. RAKBANK recorded strong growth in profitability driven by solid growth in net advances and improved asset quality in 3Q24. The Bank's net advances grew 19.5% YOY and 12.7% QOQ to 46 Bn in 3Q24, mainly due to growth across all the segments. The Bank's wholesale banking segment grew 40.8% YOY to AED 16 Bn in 3Q24, mainly due to increased corporate loans and the bank's strategy to diversify its portfolio mix. Business banking loans grew 8.8% YOY to AED 11 Bn in 3Q24. The retail banking segment also grew 12.0% YOY to AED 23 Bn in 3Q24, primarily due to the growing share of mortgage loans, which rose 19.1% on a YTD basis. The Bank's strategy of increasing the share of mortgage loans is anticipated to provide a shield in a declining interest rate environment. RAKBANK added 83,000 new customers as of 9M24. The Bank's customer deposits grew 18.2% YOY but declined 2.1% QOQ to 57 Bn in 3Q24, primarily due to the maturity of high-cost time deposits during 3Q24. CASA deposits accounted for 62.4% of total deposits in 3Q24 as compared to 61.6% in 2Q24. NIMs of the Bank declined 32 bps YOY and 5 bps QOQ to 4.6% in 3Q24. Furthermore, the Bank's asset quality improved as the NPLs declined from 2.4% in 2Q24 to 2.2% in 3Q24. Provision coverage ratio declined from 240.6% in 2Q24 to 233.8% in 3Q24. However, stage 2 loans as a percentage of total gross loans declined from 2.7% in 2Q24 to 2.2% in 3Q24, indicating improved asset quality. Capitalization stood strong with a CET 1 ratio of 17.1% and a total CAR of 19.6% in 3Q24. RAKBANK also maintained a strong return with an ROE of 19.9% and an ROA of 2.7% in 3Q24. Thus, considering the above-mentioned factors, we maintain our BUY rating on the stock.

### RAKBANK - Relative valuation

(at CMP)	2019	2020	2021	2022	2023	2024F
PE	10.10	21.96	14.63	9.45	6.20	4.76
PB	1.42	1.42	1.33	1.23	1.07	1.03
Dividend yield	4.5%	2.3%	3.4%	5.2%	5.6%	7.4%

FABS Estimates & Co Data

**RAKBANK – P&L**

AED mn	3Q23	2Q24	3Q24	3Q24F	VAR	YOY Ch	QOQ Ch	2023	2024F	Change
Interest Income	1,186	1,286	1,350	1,345	0.3%	13.8%	5.0%	4,570	5,276	15.5%
Interest expense	-343	-403	-448	-423	6.0%	30.5%	11.1%	-1,233	-1,589	28.9%
<b>Net funded income</b>	<b>843</b>	<b>882</b>	<b>902</b>	<b>922</b>	<b>-2.3%</b>	<b>7.0%</b>	<b>2.2%</b>	<b>3,336</b>	<b>3,687</b>	<b>10.5%</b>
Net fees and commissions	175	176	167	179	-6.7%	-4.6%	-4.8%	660	674	2.0%
Foreign exchange gain	90	90	89	91	-1.6%	-0.4%	-0.6%	326	359	10.0%
Gross insurance underwriting Profit	11	-15	-2	-15	NM	NM	NM	-41	-35	-15.0%
Investment Income	3	16	17	13	31.0%	NM	4.8%	49	96	98.0%
Other operating income	15	25	32	27	15.8%	106.0%	27.4%	74	114	55.0%
<b>Total non-funded income</b>	<b>294</b>	<b>292</b>	<b>302</b>	<b>295</b>	<b>2.5%</b>	<b>2.8%</b>	<b>3.7%</b>	<b>1,068</b>	<b>1,208</b>	<b>13.1%</b>
<b>Net operating income</b>	<b>1,137</b>	<b>1,174</b>	<b>1,204</b>	<b>1,217</b>	<b>-1.1%</b>	<b>5.9%</b>	<b>2.6%</b>	<b>4,404</b>	<b>4,895</b>	<b>11.1%</b>
Operating expenses	-434	-400	-404	-416	-3.0%	-7.0%	0.9%	-1,601	-1,596	-0.3%
<b>Pre-provision profit</b>	<b>703</b>	<b>774</b>	<b>800</b>	<b>801</b>	<b>-0.1%</b>	<b>13.9%</b>	<b>3.4%</b>	<b>2,803</b>	<b>3,299</b>	<b>17.7%</b>
Impairment	-251	-208	-141	-219	-35.6%	-43.6%	-31.9%	-1,005	-742	-26.2%
<b>Profit before tax</b>	<b>452</b>	<b>566</b>	<b>659</b>	<b>582</b>	<b>13.3%</b>	<b>45.7%</b>	<b>16.4%</b>	<b>1,797</b>	<b>2,557</b>	<b>42.3%</b>
Income tax expense		-50	-59	-52	12.8%	NM	16.9%	-14	-230	NM
<b>Profit after tax</b>	<b>452</b>	<b>515</b>	<b>600</b>	<b>529</b>	<b>13.3%</b>	<b>32.7%</b>	<b>16.3%</b>	<b>1,784</b>	<b>2,327</b>	<b>30.5%</b>
Non-controlling interest	-1	0	-2	0	NM	73.5%	NM	0	-3	NM
<b>Net profit attributable</b>	<b>451</b>	<b>516</b>	<b>598</b>	<b>529</b>	<b>12.9%</b>	<b>32.6%</b>	<b>15.9%</b>	<b>1,784</b>	<b>2,324</b>	<b>30.3%</b>

*FABS estimate & Co Data*
**RAKBANK – KPI**

	3Q23	2Q24	3Q24	YOY Ch	QOQ Ch	2023	2024F	Change
Net FI/OI	74.1%	75.2%	74.9%	76	-27	75.8%	75.3%	-43
NIM	4.9%	4.6%	4.6%	-32	-5	5.0%	5.0%	4
NIS	4.6%	4.3%	4.2%	-39	-10	4.7%	4.1%	-53
Fees & comms/OI	15.4%	15.0%	13.9%	-153	-107	15.0%	13.8%	-123
Foreign exchange gain/OI	7.9%	7.7%	7.4%	-47	-24	7.4%	7.3%	-8
Other operating income/OI	1.3%	2.1%	2.6%	127	51	1.7%	2.3%	66
Invnt Income/OI	0.2%	1.3%	1.4%	113	3	1.1%	2.0%	86
Cost to income	38.2%	34.1%	33.5%	-464	-55	36.4%	32.6%	-376
Impairment/PPP	35.7%	26.8%	17.7%	-1,800	-918	35.9%	22.5%	-1,337
NP/OI	39.7%	43.9%	49.6%	998	571	40.5%	47.5%	698
Cost of risk	2.5%	1.9%	1.2%	-125	-69	2.5%	1.6%	-91
Loan-to-deposit	79.7%	70.1%	80.7%	93	1,056	78.3%	81.5%	318
NPL - Reported	2.8%	2.4%	2.2%	-60	-20	2.6%	2.3%	-30
NPL Coverage – calculated	204.4%	240.6%	233.8%	NM	-679	217.5%	230.0%	NM
CET 1	17.4%	16.9%	17.1%	-25	25	16.7%	16.3%	-43
Capital adequacy	18.5%	18.0%	19.6%	113	165	17.8%	18.6%	80
ROAE	17.8%	19.6%	19.9%	211	28	18.5%	20.7%	220
ROAA	2.4%	2.6%	2.7%	31	13	2.5%	2.9%	34

*FABS estimate & Co Data*
**RAKBANK – Key B/S items**

AED mn	3Q23	4Q23	1Q24	2Q24	3Q24	YOY Ch
Net advances	38,647	39,468	40,605	40,994	46,198	19.5%
QOQ change	2.7%	2.1%	2.9%	1.0%	12.7%	
Total assets	72,004	73,955	78,589	80,408	83,891	16.5%
QOQ change	0.2%	2.7%	6.3%	2.3%	4.3%	
Customer deposits	48,464	50,395	55,394	58,472	57,266	18.2%
QOQ change	-1.0%	4.0%	9.9%	5.6%	-2.1%	
Total equity	9,785	10,355	10,304	10,794	11,561	18.2%
QOQ change	4.6%	5.8%	-0.5%	4.7%	7.1%	

*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	7.23	70.0%	5.06
Relative Valuation (RV)	6.96	30.0%	2.09
<b>Weighted Average Valuation (AED)</b>			<b>7.15</b>
Current market price (AED)			5.50
Upside/Downside (%)			+30%

### 1) Residual Income Method:

We have discounted the economic profit/excess equity using the cost of equity of 9.5%. Cost of equity is calculated by using 10-year government bond yield of 4.8%, a beta of 1.00 and equity risk premium of 4.7%. 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)	1,801
Terminal value (AED, Mn)	1,205
Book Value of Equity (as of Sept 2024)	11,530
<b>FV to Common shareholders (AED, Mn)</b>	<b>14,536</b>
No. of share (Mn)	2,011
Current Market Price (AED)	5.50
<b>Fair Value per share (AED)</b>	<b>7.23</b>

### Residual Income Method

(All Figures in AED Mn)	FY 2024E	FY 2025E	FY 2026E	FY 2027E	FY 2028E
Net Profit	2,324	2,091	1,926	1,716	1,642
(-) Equity Charge	-1,156	-1,262	-1,353	-1,435	-1,513
<b>Excess Equity</b>	<b>1,168</b>	<b>829</b>	<b>573</b>	<b>281</b>	<b>130</b>
Discounting Factor	0.98	0.90	0.82	0.75	0.68
<b>Present Value of Excess Equity</b>	<b>287<sup>1</sup></b>	<b>745</b>	<b>470</b>	<b>211</b>	<b>89</b>

Source: FAB Securities, <sup>1</sup>Adjusted for partial year

### 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 1.2x 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	2,017	1.1	1.1	9.5	8.8	5.2	5.7
Commercial Bank of Dubai	5,543	1.4	1.3	7.5	7.9	7.1	6.5
Emirates NBD	34,200	1.1	1.0	5.5	6.2	5.9	6.1
Mashreq Bank	13,490	1.5	1.4	7.7	8.1	7.2	7.2
Abu Dhabi Commercial Bank	16,735	0.9	0.9	7.7	8.0	6.4	6.5
Dubai Islamic Bank	12,258	1.2	1.1	7.5	8.0	7.3	7.4
<b>Average</b>		<b>1.2x</b>	<b>1.1x</b>	<b>7.6x</b>	<b>7.8x</b>	<b>6.5%</b>	<b>6.6%</b>
<b>Median</b>		<b>1.2x</b>	<b>1.1x</b>	<b>7.6x</b>	<b>8.0x</b>	<b>6.8%</b>	<b>6.5%</b>
<b>Max</b>		<b>1.4x</b>	<b>1.3x</b>	<b>7.7x</b>	<b>8.1x</b>	<b>7.2%</b>	<b>7.0%</b>
<b>Min</b>		<b>1.1x</b>	<b>1.0x</b>	<b>7.5x</b>	<b>7.9x</b>	<b>6.0%</b>	<b>6.2%</b>

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%

### FAB Securities Contacts:

#### Research Analyst

Ahmad Banihani +971-2-6161629 [ahmad.banihani@Bankfab.com](mailto:ahmad.banihani@Bankfab.com)

#### Sales & Execution

Abu Dhabi Head Office

Trading Desk +971-2-6161700/1 Online Trading Link  
+971-2-6161777

Institutional Desk +971-4-4245765

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