

National Bank of Ras Al Khaimah (RAKBANK)

Strong non-core income and lower impairments boosted the bottom line

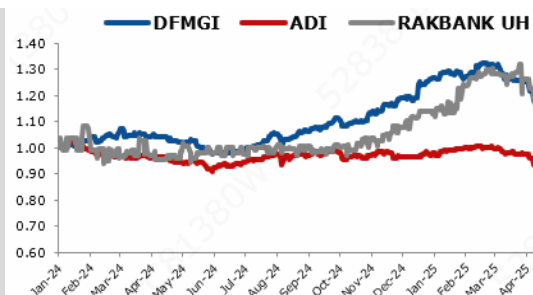
Current Price
AED 6.60

Target Price
AED 7.15

Upside/Downside (%)
+8%

Rating
HOLD

- Net advances grew 17.2% YOY and 0.8% QOQ to AED 47.6 Bn, supported by solid performance across all business segments.
- RAKBANK opened more than 5,000 accounts for entrepreneurs and small businesses and disbursed over AED 1.2 Bn in loans during 1Q25.
- Asset quality remained stable, with the NPL ratio holding at 2.1% in 1Q25 compared to 4Q24. While provision coverage ratio declined from 253.2% in 4Q24 to 231.8% in 1Q25.
- The Bank's capitalization remained strong with a CET 1 ratio of 16.2% and total CAR of 18.6% in 1Q25.
- RAKBANK delivered strong returns, posting a reported ROE of 22.4% and reported ROA of 3.2% in 1Q25.



1Q25 Net Profit higher than our estimate

National Bank of Ras Al-Khaimah (RAKBANK/the Bank) recorded a 22.4% YOY growth in net profit to AED 702 Mn in 1Q25, higher than our estimate of AED 519 Mn. The rise in net profit was primarily driven by a strong growth in non-funded income and lower impairment charges, partially offset by a decline in net funded income and growth in operating and tax expenses.

P&L Highlights

RAKBANK's interest income from conventional loans and investments grew 2.4% YOY to AED 1,117 Mn in 1Q25, whereas interest expense on conventional deposits and borrowings grew significantly from AED 306 Mn in 1Q24 to AED 370 Mn in 1Q25. Thus, net interest income from conventional loans and advances steadily declined 4.8% YOY to AED 747 Mn in 1Q25. Income from Islamic financing grew 16.0% YOY to AED 184 Mn in 1Q25, while Islamic financing expenses remained largely flat, rising 0.3% YOY to AED 64 Mn in 1Q25. As a result, funded income increased 4.1% YOY to AED 1,301 Mn in 1Q25. Funded expenses grew from AED 370 Mn in 1Q24 to AED 434 Mn in 1Q25. Thus, net funded income declined 1.4% YOY to AED 867 Mn in 1Q25. Net interest margins contracted 79 bps YOY and 32 bps QOQ to 4.0% in 1Q25. Net fee and commission income increased strongly 16.8% YOY to AED 188 Mn in 1Q25, while foreign exchange income also rose 15.0% YOY to AED 98 Mn in 1Q25. RAKBANK recorded a lower loss from gross insurance underwriting of AED 3 Mn in 1Q25 compared to a loss of AED 14 Mn in 1Q24. Additionally, the Bank recorded substantial growth in investment income from AED 43 Mn in 1Q24 to AED 126 Mn in 1Q25, primarily driven by gains from the disposal of investments. Other operating income grew 22.2% YOY to AED 24 Mn in 1Q25. Consequently, total non-funded income surged 47.0% YOY

Stock Information

Market Cap (AED, mn)	13,074.71
Paid Up Capital (mn)	2,011.49
52 Week High	7.00
52 Week Low	5.00
3M Avg. daily value(AED)	821,920

1Q25 Result Review (AED, Mn)

Total Assets	90,804
Total Liabilities	79,224
Total Equity	11,579
Total Deposits	61,038
Net Profit	702

Financial Ratios

Dividend Yield (12m)	7.73
Dividend Pay-out (%)	48.52
Price-Earnings Ratio(x)	5.94
Price-to-Book Ratio (x)	1.13
Book Value (AED)	5.74
Return-on Equity (%)	20.17

Stock Performance

5 Days	5.18%
1 Months	-4.97%
3 Months	6.73%
6 Months	18.61%
1 Year	26.21%
Month to Date (MTD%)	-2.99%
Quarter to Date (QTD%)	-2.99%
Year to Date (YTD%)	7.44%

to AED 433 Mn in 1Q25, contributing to a 10.7% YOY increase in total operating income to AED 1,300 Mn in 1Q25. Operating expenses rose 11.8% YOY to AED 434 Mn in 1Q25, with the cost-to-income ratio inching up to 33.4% in 1Q25 from 33.1% in 1Q24. Impairment charges declined significantly 40.1% YOY to AED 94 Mn in 1Q25, while income tax expense rose to AED 68 Mn in 1Q25 from AED 55 Mn in 1Q24 due to the introduction of UAE corporate tax.

Balance Sheet Highlights

RAKBANK's total assets rose 15.5% YOY and 2.8% QOQ to AED 90.8 Bn, primarily driven by an increase in gross loans and advances of AED 7.2 Bn, investments of AED 1.9 Bn, and cash and balances with the CBUAE by AED 4.1 Bn during 1Q25. Net advances grew 17.2% YOY and 0.8% QOQ to reach AED 47.6 Bn in 1Q25. Customer deposits climbed 10.2% YOY and 2.3% QOQ to AED 61 Bn, supported by a rise in both CASA deposits, which increased by AED 4.3 Bn, and Time deposits, which grew by AED 1.3 Bn in 1Q25. The Bank maintained a strong CASA ratio of 65.1% in 1Q25 compared to 62.6% in 4Q24, reflecting its solid funding base and strong deposit franchise.

Target Price and Rating

We maintain our HOLD rating on RAKBANK with a target price of AED 7.15. The Bank's stock price declined 9.2% since our last rating (March 2025). RAKBANK posted a robust 22.4% YOY growth in profit, driven by strong increase in non-funded income and lower impairments during 1Q25. The Bank's net advances grew 17.2% YOY and 0.8% QOQ to AED 47.6 Bn in 1Q25 supported by solid performance across all business segments. The Bank's wholesale lending grew 30.0% YOY to AED 16.5 Bn in 1Q25, driven by increased lending to corporates and financial institutions and a strategic diversification of its portfolio mix. Business banking segment reported a 5.8% YOY growth to AED 10.8 Bn in 1Q25, attributed to higher SME and commercial loan volumes. RAKBANK opened more than 5,000 accounts for entrepreneurs and small businesses and disbursed over AED 1.2 Bn in loans during 1Q25. Personal banking loans and advances grew 14.0% YOY to AED 23.1 Bn in 1Q25, primarily supported by mortgage loans and leveraged lending, contributing AED 2.0 Bn and AED 728 Mn YOY growth, respectively. RAKBANK's customer deposits increased 10.2% YOY and 2.3% QOQ to AED 61 Bn in 1Q25, with CASA deposits rising to 65.1% of total deposits in 1Q25, up from 62.6% in 4Q24. However, the Bank's NIMs declined 79 bps YOY and 32 bps QOQ to 4.0% in 1Q25. Cost-to-income grew 33 bps YOY to 33.4% in 1Q25, owing to Bank's ongoing investments in people, technology and data. Furthermore, asset quality remained stable, with the NPL ratio holding at 2.1% in 1Q25 compared to 4Q24. Provision coverage ratio declined from 253.2% in 4Q24 to 231.8% in 1Q25. However, bank's stage 2 loan as a percentage of gross loans declined from 3.4% in 4Q24 to 2.8% in 1Q25 indicating improving asset quality. The Bank's capitalization remained strong with a CET 1 ratio of 16.2% and total CAR of 18.6% in 1Q25. RAKBANK also delivered strong returns, posting a reported ROE of 22.4% and reported ROA of 3.2% in 1Q25. Thus, based on our assumptions, we maintain our HOLD rating on the stock.

RAKBANK - Relative valuation

(at CMP)	2020	2021	2022	2023	2024	2025F
PE	25.35	16.89	10.91	7.16	6.16	6.19
PB	1.64	1.53	1.42	1.24	1.19	1.00
Dividend yield	2.0%	3.0%	4.4%	4.8%	7.7%	8.0%

FABS Estimates & Co Data

RAKBANK P&L

AED Mn	1Q24	4Q24	1Q25	1Q25F	VAR	YOY Ch	QOQ Ch	2024	2025F	Change
Interest Income	1,250	1,349	1,301	1,374	-5.3%	4.1%	-3.6%	5,234	5,105	-2.5%
Interest expense	-370	-451	-434	-464	-6.3%	17.3%	-3.6%	-1,672	-1,638	-2.1%
Net funded income	879	899	867	910	-4.7%	-1.4%	-3.5%	3,562	3,467	-2.7%
Net fees and commissions	161	140	188	162	15.9%	16.8%	34.4%	644	760	18.0%
Foreign exchange gain	85	87	98	86	13.9%	15.0%	11.6%	352	380	8.0%
Gross insurance underwriting Profit	-14	-14	-3	-8	-61.9%	NM	NM	-45	-22	-50.0%
Investment Income	43	12	126	27	NM	NM	NM	88	194	NM
Other operating income	20	36	24	39	-38.3%	22.2%	-32.1%	112	113	1.0%
Total non-funded income	295	262	433	307	41.2%	47.0%	65.7%	1,150	1,424	23.8%
Net operating income	1,174	1,160	1,300	1,217	6.8%	10.7%	12.1%	4,713	4,891	3.8%
Operating expenses	-388	-466	-434	-420	3.4%	11.8%	-6.7%	-1,658	-1,731	4.4%
Pre-provision profit	786	694	866	797	8.6%	10.2%	24.7%	3,054	3,160	3.5%
Impairment	-157	-270	-94	-226	-58.5%	-40.1%	-65.3%	-776	-752	-3.2%
Profit before tax	629	424	772	572	35.1%	22.7%	82.1%	2,278	2,409	5.7%
Income tax expense	-55	-38	-68	-51	31.6%	22.8%	78.9%	-202	-217	7.1%
Profit After Tax & before NCI	574	386	704	520	35.4%	22.7%	82.4%	2,076	2,192	5.6%
Non-controlling interest	-1	-1	-2	-1	NM	NM	NM	-3	-3	0.3%
Net profit attributable	573	385	702	519	35.4%	22.4%	82.2%	2,072	2,189	5.6%

FABS estimate & Co Data
RAKBANK - KPI

	1Q24	4Q24	1Q25	YOY Ch	QOQ Ch	2024	2025F	Change
Net FI/OI	74.9%	77.5%	66.7%	-822	-1,078	75.6%	70.9%	-470
NIM	4.8%	4.3%	4.0%	-79	-32	4.8%	4.3%	-54
NIS	4.5%	4.0%	3.7%	-80	-29	4.5%	3.6%	-95
Fees & comms/OI	13.7%	12.1%	14.5%	75	240	13.7%	15.5%	187
Foreign exchange gain/OI	7.2%	7.5%	7.5%	28	-3	7.5%	7.8%	30
Invt Income/OI	3.7%	1.1%	9.7%	604	865	1.9%	4.0%	209
Cost to income	33.1%	40.1%	33.4%	33	-673	35.2%	35.4%	20
Impairment/PPP	19.9%	38.9%	10.8%	-910	-2,812	25.4%	23.8%	-163
NP/OI	48.8%	33.2%	54.0%	517	2,079	44.0%	44.7%	77
Cost of risk- calculated	1.5%	2.2%	0.7%	-72	-144	1.7%	1.4%	-25
Loan-to-deposit	73.3%	79.2%	78.0%	467	-120	79.2%	78.0%	-117
NPL - Reported	2.6%	2.1%	2.1%	-50	0	2.1%	2.5%	35
NPL Coverage - calculated	220.9%	253.2%	231.8%	1,089	-2,145	253.2%	240.0%	-1,322
CET 1	16.1%	15.7%	16.2%	5	49	15.7%	15.5%	-21
Capital adequacy	17.2%	18.1%	18.6%	141	49	18.1%	17.6%	-46
ROAE - Calculated	19.4%	18.8%	20.2%	81	141	18.8%	17.8%	-100
ROAA - Calculated	2.6%	2.6%	2.6%	1	4	2.6%	2.4%	-18

FABS estimate & Co data

RAKBANK - Key B/S items

AED Mn	1Q24	2Q24	3Q24	4Q24	1Q25	YOY Ch
Net advances	40,605	40,994	46,198	47,224	47,590	17.2%
QOQ change	2.9%	1.0%	12.7%	2.2%	0.8%	
Total assets	78,589	80,408	83,891	88,325	90,804	15.5%
QOQ change	6.3%	2.3%	4.3%	5.3%	2.8%	
Customer deposits	55,394	58,472	57,266	59,650	61,038	10.2%
QOQ change	9.9%	5.6%	-2.1%	4.2%	2.3%	
Total Equity	10,304	10,794	11,561	11,797	11,579	12.4%
QOQ change	-0.5%	4.7%	7.1%	2.0%	-1.8%	

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	6.99	70.0%	4.89
Relative Valuation (RV)	7.52	30.0%	2.26
Weighted Average Valuation (AED)			7.15
Current market price (AED)			6.60
Upside/Downside (%)			+8%

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 5.1%, a beta of 1.0 and equity risk premium of 4.2%. 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)	1,940
Terminal value (AED, Mn)	571
Book Value of Equity (as of March 2025)	11,545
FV to Common shareholders (AED, Mn)	14,057
No. of share (Mn)	2,011
Current Market Price (AED)	6.60
Fair Value per share (AED)	6.99

Residual Income Method

(All Figures in AED Mn)	FY 2025E	FY 2026E	FY 2027E	FY 2028E	FY 2029E
Net Profit	2,189	2,075	1,915	1,778	1,648
(-) Equity Charge	-1,229	-1,328	-1,420	-1,505	-1,583
Excess Equity	719	746	496	273	65
Discounting Factor	0.94	0.86	0.78	0.71	0.65
Present Value of Excess Equity	675	640	388	195	43

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 2025 PB multiple of 1.2x in line with peers.

Company	Market (USD Mn)	P/B (x)		P/E (x)		Dividend Yield (%)	
		2025F	2026F	2025F	2026F	2025F	2026F
Sharjah Islamic Bank	2,053	1.0	1.0	8.6	8.0	5.2	5.6
Commercial Bank of Dubai	6,258	1.4	1.3	7.5	7.9	6.2	5.8
Emirates NBD	33,448	0.9	0.8	5.9	5.6	5.4	5.9
Mashreq Bank	13,217	1.3	1.2	6.5	6.8	8.3	8.3
Abu Dhabi Commercial Bank	21,119	1.1	1.0	8.8	8.2	5.7	5.9
Dubai Islamic Bank	14,737	1.3	1.2	8.7	8.8	6.1	6.1
Average		1.2x	1.1x	7.7x	7.6x	6.1%	6.3%
Median		1.2x	1.1x	8.1x	8.0x	5.9%	5.9%
Max		1.3x	1.2x	8.7x	8.2x	6.2%	6.1%
Min		1.0x	1.0x	6.8x	7.1x	5.4%	5.8%

Source: FAB Securities

