

Ajman Bank PJSC

Higher non-core income and reversal in impairments supported profitability

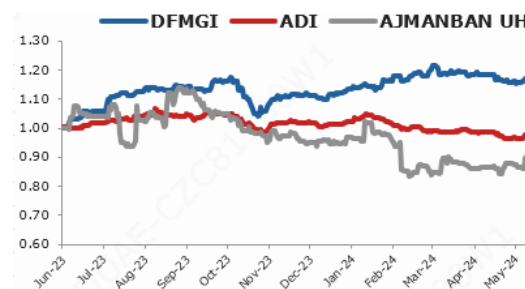
Current Price
AED 1.83

Target Price
AED 1.09

Upside/Downside (%)
-40%

Rating
SELL

- Net advances fell 0.3% YOY and 4.8% QOQ to AED 13 Bn in 1Q24, customer deposits fell 4.4% YOY and 6.6% QOQ to AED 18 Bn in 1Q24.
- NIMs declined 152 bps YOY and 11 bps QOQ to 2.2% in 1Q24 mainly due to higher cost of funds.
- Cost-to-income grew 777 bps YOY to 46.7% in 1Q24
- Asset quality deteriorated as NPLs grew from 16.1% in 4Q23 to 16.6% in 1Q24.
- The Bank's capitalization improved with a Tier 1 ratio of 15.5% and a total CAR ratio of 16.6% in 1Q24.



Stock Information

Market Cap (AED, mm)	4,984.01
Paid Up Capital (mm)	2,723.50
52 Week High	2.46
52 Week Low	1.63
3M Avg. daily value(AED)	10,892,520

1Q24 Result Review (AED, mm)

Total Assets	23,070
Total Liabilities	20,305
Total Equity	2,766
Total Deposits	18,431
Net Profit	107

Financial Ratios

Dividend Yield (12m)	N/A
Dividend Pay-out (%)	N/A
Price-Earnings Ratio(x)	N/A
Price-to-Book Ratio (x)	1.80
Book Value (AED)	1.02
Return-on Equity (%)	-12.43

Stock Performance

5 Days	-3.17%
1 Months	1.10%
3 Months	-2.66%
6 Months	-11.59%
1 Year	8.53%
Month to Date (MTD%)	-2.66%
Quarter to Date (QTD%)	-1.08%
Year to Date (YTD%)	-12.02%

1Q24 Net Profit higher than our estimate

Ajman Bank's (AJMANBANK/ the Bank) recorded an increase in net profit from AED 49 Mn in 1Q23 to AED 107 Mn in 1Q24, higher than our estimate of AED 45 Mn. The growth in net profit is mainly attributable to an increase in non-funded income and a reversal in impairments partially offset by a growth in funded expenses.

P&L Highlights

Ajman Bank's funded income grew 1.3% YOY to AED 309 Mn in 1Q24, mainly due to an expansion in asset yield. On the other hand, funded expense rose significantly from AED 142 Mn in 1Q23 to AED 205 Mn in 1Q24 due to an increase in the cost of funds. Thus, net funded income declined 36.4% YOY to AED 103 Mn in 1Q24. Moreover, fees and commission income rose 3.8% YOY to AED 46 Mn in 1Q24 whereas income from investment securities grew strongly from AED 24 Mn in 1Q23 to AED 45 Mn in 1Q24. Thus, total non-funded income grew strongly from AED 69 Mn in 1Q23 to AED 91 Mn in 1Q24. As a result, total operating income fell 15.9% YOY to AED 195 Mn in 1Q24. Furthermore, operating expenses grew marginally 0.9% YOY to AED 91 Mn in 1Q24. Thus, cost-to-income ratio grew from 39.0% in 1Q23 to 46.7% in 1Q24. The Bank recorded an impairment reversal of AED 13 Mn in 1Q24 compared to impairment charge of AED 92 Mn in 1Q23. Income tax expense amounted to AED 10 Mn in 1Q24 owing to introduction of corporate tax in the UAE.

Balance Sheet Highlights

Ajman Bank's net advances fell 0.3% YOY and 4.8% QOQ to AED 13 Bn in 1Q24. Total assets rose 1.0% YOY and declined 7.5% QOQ to AED 23 Bn in 1Q24. The Bank's customer deposits fell 4.4% YOY and 6.6% QOQ to AED 18 Bn in 1Q24. Out of the total deposits, current

account deposits declined 4.9% QOQ to AED 4.5 Bn while savings account deposits grew 16.5% QOQ to AED 445 Mn in 1Q24. Moreover, CASA deposits as a percentage of total deposits stood at 26.9% in 1Q24 compared to 26.0% in 4Q23. Loan-to-deposits ratio increased from 73.1% in 4Q23 to 74.5% in 1Q24. In addition, the Bank's total equity rose 7.3% YOY and 3.4% QOQ to AED 3 Bn in 1Q24.

Target Price and Rating

We maintain our SELL rating on AJMANBANK with a target price of AED 1.09. AJMANBANK reported a strong growth in profitability driven by higher non-core income and the reversal in impairments in 1Q24. The Bank's net advances declined 0.3% YOY and 4.8% QOQ to AED 13 Bn in 1Q24. NIMs declined 152 bps YOY and 11 bps QOQ to 2.2% in 1Q24 mainly due to higher cost of funds. Cost of funds grew 107 bps YOY and 5 bps QOQ to 4.1% in 1Q24. Customer Deposits declined 4.4% YOY and 6.6% QOQ to AED 18 Bn in 1Q24. The Bank should further focus to increase its customer base in order to support its margins. The Bank's cost-to-income grew 777 bps YOY to 46.7% in 1Q24 mainly due to the rise in operating expenses. AJMANBANK's asset quality also deteriorated as NPLs increased from 16.1% in 4Q23 to 16.6% in 1Q24. Provision coverage also declined from 27.4% in 4Q23 to 26.8% in 1Q24 which indicates that the Bank has kept aside lower reserves to provide a cushion against bad loans. However, the Bank's stage 2 loans as a percentage of gross loans declined from 13.2% in 1Q23 to 10.2% in 1Q24. The Bank's capitalization improved with a Tier 1 ratio of 15.5% and a total CAR ratio of 16.6% in 1Q24. The Bank also trades at an expensive 2024 P/B ratio of 1.8x as compared to its peer average of 1.0x. Thus, considering the abovementioned factors, we maintain our SELL rating on the stock.

AJMAN BANK - Relative valuation

(at CMP)	2019	2020	2021	2022	2023	2024F
PE	55.6	85.3	39.2	28.1	NM	24.4
PB	1.8	1.8	1.7	1.8	1.9	1.8
Dividend yield	1.7%	NM	NM	NM	NM	NM

FABS Estimates & Co Data

AJMAN BANK - P&L

AED mm	1Q23	4Q23	1Q24	1Q24F	Var.	YOY Ch	QOQ Ch	2023	2024F
Funded income	305	331	309	361	-14.5%	1.3%	-6.8%	1,210	1,270
Funded expenses	-142	-214	-205	-227	-9.5%	44.5%	-4.1%	-702	-683
Net funded income	163	117	103	134	-23.0%	-36.4%	-11.7%	508	587
Fees and commissions	45	46	46	48	-4.0%	3.8%	0.8%	180	185
Income from Invest. Securities	24	79	45	37	21.4%	86.4%	-43.3%	170	146
Share of result of associate	0	-89	0	0	NM	NM	NM	-89	0
Total non-funded income	69	37	91	85	7.0%	32.8%	NM	261	331
Total operating income	232	154	195	220	-11.3%	-15.9%	26.7%	769	918
Operating expenses	-90	-93	-91	-97	-6.5%	0.9%	-2.5%	-370	-393
Pre provision profit	141	60	104	122	-15.1%	-26.6%	71.8%	399	525
Impairment	-92	-363	13	-73	NM	NM	NM	-789	-297
Profit before tax	49	-303	117	50	NM	138.3%	NM	-390	228
Corporate tax	0	0	-10	-4	NM	NM	NM	0	-21
Profit for the period	49	-303	107	45	NM	118.5%	NM	-390	208

FABS estimate & Co Data

AJMAN BANK - KPI

	1Q23	4Q23	1Q24	YOY Ch	QOQ Ch	2023	2024F	Change
Net FI/OI	70.3%	76.1%	53.1%	-1,719	-2,303	66.0%	63.9%	-215
NIM	3.7%	2.3%	2.2%	-152	-11	2.8%	2.9%	12
NIS	4.0%	2.6%	2.5%	-146	-3	3.0%	3.1%	5
Fees & comms/OI	19.3%	29.9%	23.8%	452	-610	23.4%	20.2%	-321
Invst Securities/OI	10.4%	51.6%	23.1%	1,267	-2,853	22.1%	15.9%	-617
Cost to income	39.0%	60.7%	46.7%	777	-1,399	48.1%	42.8%	-531
Impairment/PPP	65.2%	601.5%	-12.8%	-7,805	NM	197.9%	56.5%	NM
NP/OI	21.2%	NM	55.1%	3,391	NM	NM	22.6%	NM
Cost of risk	2.7%	9.8%	-0.4%	-313	-1,018	5.7%	2.0%	-373
Loan-to-deposit	71.2%	73.1%	74.5%	332	142	73.1%	71.0%	-205
NPL	14.6%	16.1%	16.6%	204	60	16.1%	17.0%	95
Coverage excluding collateral	27.7%	27.4%	26.8%	-92	-59	27.4%	28.0%	60
CET 1	14.1%	14.5%	15.5%	139	102	14.5%	14.6%	15
Capital adequacy	15.3%	15.6%	16.6%	138	101	15.6%	15.7%	10
ROAA	0.8%	-1.6%	-1.4%	NM	NM	-1.7%	0.8%	NM
ROAE	7.0%	-13.8%	-12.2%	NM	NM	-15.0%	7.5%	NM

FABS estimate & Co Data

AJMAN BANK - Key B/S items

AED mm	1Q23	2Q23	3Q23	4Q23	1Q24	YOY Ch
Net advances	13,156	13,726	14,640	13,776	13,113	-0.3%
QOQ change	4.1%	4.3%	6.7%	-5.9%	-4.8%	
Total assets	22,853	23,582	25,207	24,936	23,070	1.0%
QOQ change	8.3%	3.2%	6.9%	-1.1%	-7.5%	
Customer deposits	19,270	19,213	19,576	19,725	18,431	-4.4%
QOQ change	18.0%	-0.3%	1.9%	0.8%	-6.6%	
Total equity	2,577	2,648	2,989	2,675	2,766	7.3%
QOQ change	2.5%	2.7%	12.9%	-10.5%	3.4%	

FABS estimate & Co Data

Valuation:

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

Valuation Method	Target	Weight	Weighted Value
Residual Income	1.12	70.0%	0.79
Relative Valuation (RV)	1.02	30.0%	0.30
Weighted Average Valuation (AED)			1.09
Current market price (AED)			1.83
Upside/Downside (%)			-40%

1) Residual Income Method:

We have discounted the economic profit/excess equity using the cost of equity of 8.4%. Cost of equity is calculated by using 10-year government bond yield of 5.2%, beta of 0.85 and equity risk premium of 3.8%. Government bond yield is calculated after adding Dubai 10-year spread over 10-year US risk free rate. Also, assumed a terminal growth rate of 2.0%.

Sum of PV (AED, Mn)	39
Terminal value (AED, Mn)	250
Book Value of Equity (as of Mar 2024)	2,766
FV to Common shareholders (AED, Mn)	3,054
No. of share (Mn)	2,724
Current Market Price (AED)	1.83
Fair Value per share (AED)	1.12

Residual Income Method

(All Figures in AED Mn)	FY 2024E	FY 2025E	FY 2026E	FY 2027E	FY 2028E
Net Profit	208	221	254	256	260
(-) Equity Charge	-213	-227	-232	-235	-236
Excess Equity	-6	-6	22	21	23
Discounting Factor	0.93	0.86	0.79	0.73	0.68
Present Value of Excess Equity	-5	-5	17	16	16

Source: FAB Securities

2) Relative Valuation:

We have used local peers to value AJMANBANK 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
Commercial Bank of Dubai	5,490	1.3	1.3	NM	NM	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
RAK Bank	2,820	0.9	0.8	6.1	5.9	6.6	7.6
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		1.0x	1.0x	6.4x	6.5x	7.0%	7.1%
Median		1.0x	0.9x	6.1x	5.9x	6.6%	7.0%
Max		1.1x	1.0x	6.9x	7.1x	7.5%	7.8%
Min		0.9x	0.8x	5.6x	5.9x	6.5%	6.4%

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

Sales & Execution

Abu Dhabi Head Office

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

Institutional Desk +971-4-4245765

DISCLAIMER

This report has been prepared by FAB Securities (FABS), which is authorised by the UAE Securities and Commodities Authority, licensing registration number 604002, and is a member of the Abu Dhabi Securities Exchange and Dubai Financial Market. The information, opinions and materials contained in this report are provided for information purposes only and are not to be used, construed, or considered as an offer or the solicitation of an offer or recommendation to sell or to buy or to subscribe for any investment security or other financial instrument. The information, opinions and material in this report have been obtained and derived from publicly available information and other sources considered reliable without being independently verified for their accuracy or completeness. FABS gives no representation or warranty, express or implied, as to the accuracy and completeness of information and opinions expressed in this report. Opinions expressed are current as of the original publication date appearing on the report only and the information, including the opinions contained herein, are subject to change without notice. FABS is under no obligation to update this report. The investments referred to in this report might not be suitable for all recipients. Recipients should not base their investment decisions on this report and should make their own investigations, and obtain independent advice, as appropriate. Any loss or other consequences arising from the uses of material contained in this report shall be the sole and exclusive responsibility of the recipient and FABS accepts no liability for any such loss or consequence. The value of any investment could fall as well as rise and the investor may receive less than the original amount invested. Some investments mentioned in this report might not be liquid investments, which could be difficult to realise in cash. Some investments discussed in this report could be characterised by high level of volatility, which might result in loss. FABS owns the intellectual property rights and any other material contained in this report. No part of this report may be reproduced, utilised or modified in any form either in whole or in part or by any electronic, mechanical or other means, now known or hereafter invented, including photocopying and recording, or stored in any retrieval system without the prior consent of FABS in writing. While utmost care has been taken to ensure that the information provided is accurate and correct, neither FABS, nor its employees shall, in any way, be responsible for the contents. By accepting this document, the recipient agrees he/she has read the above disclaimer and to be bound by the foregoing limitations/restrictions.